

Ensuring high-value, affordable healthcare cover in 2023 and beyond

In 2023, Discovery Health Medical Scheme has maintained its strong financial position and continues to deliver exceptional value for members, amidst challenging economic circumstances.

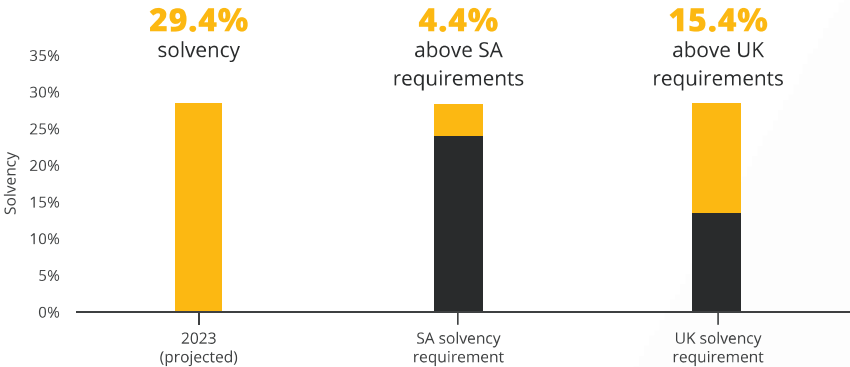
STRONG FINANCIAL POSITION

Financial strength and stability are necessary to ensure peace of mind for members.

Discovery Health Medical Scheme is projected to end the year with a solvency ratio of 29.4% (R26.1 billion).

The Scheme's reserves lie in excess of both the South African and international risk-based solvency requirements, offering members assurance that the Scheme is well-positioned to withstand any shocks to meet their future healthcare needs.

SOLVENCY OF DISCOVERY HEALTH MEDICAL SCHEME



EXCEPTIONAL VALUE FOR MEMBERS

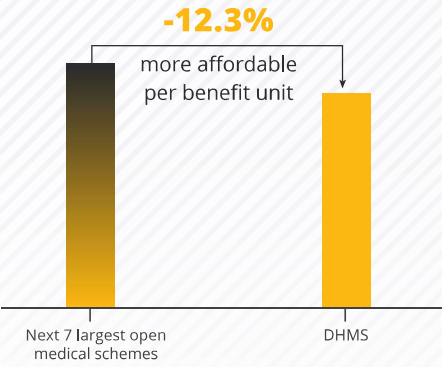
Members have enjoyed high-value, affordable healthcare with substantial flexibility across the plan range to meet changing medical and financial needs.

On average, member contributions on Discovery Health Medical Scheme are estimated to be 12.3% lower than the next seven largest medical schemes.

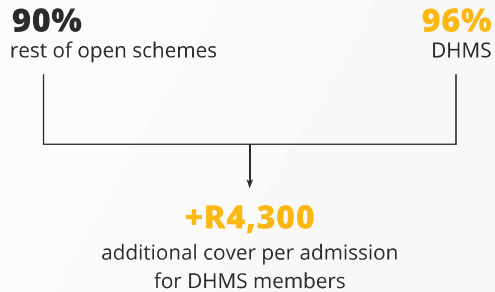
The Scheme continues to offer its members excellent value through innovative benefits, including the introduction of the WELLTH Fund in 2023.

Standardised industry analysis indicates that Discovery Health Medical Scheme members have also enjoyed higher levels of in-hospital cover when compared to the rest of the industry.

AVERAGE PRINCIPAL MEMBER CONTRIBUTIONS IN 2023



IN-HOSPITAL COVER RATIOS

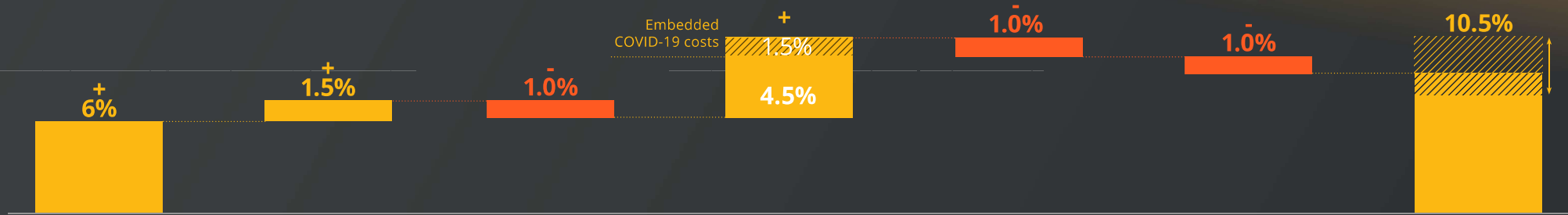


CMS Industry Analysis 2021



Medical inflation for 2024

Every year, member claims increase in line with medical inflation. Member contributions should increase accordingly, to ensure that contributions continue to match claims and the Scheme remains financially viable for the future. Member claims increase as a result of tariff inflation and utilisation changes, while risk management initiatives, Vitality engagement and reduced non-healthcare expenses help to curb medical inflation. Medical inflation for Discovery Health Medical Scheme is expected to range between 9% and 13%, in 2024.



| Tariff inflation | Supply-side utilisation | Risk management | Demand-side utilisation | Vitality | Non-healthcare expenses | Medical inflation 2024 |
|---|--|---|---|--|--|---|
| The cost of healthcare services in 2024 is expected to increase in-line with Consumer Price Inflation (CPI), based on agreements with healthcare providers. Average CPI is currently forecast at 6% for 2023. | Increases in healthcare costs occur due to a greater supply of healthcare services, driven by new hospitals in oversupplied regions and advances in medicine, medical procedures and medical technology. New medical technology in healthcare typically comes at a much higher cost than the technology it replaces. | Risk management interventions reduce supply-side inflation. These interventions include fraud, waste and abuse management, tariff negotiations and Value-Based Contracting amongst others. The net supply-side utilisation effect on medical inflation reduces to 0.5% after taking into account risk management initiatives. | Demand-side utilisation is driven by an increasing burden of chronic illness, plan-specific trends, adverse selection as well as embedded COVID-19 costs. For 2024, variable utilisation levels are expected across the Discovery Health Medical Scheme plan range. See page 18 for a detailed view of the key drivers of demand-side utilisation. | Vitality helps to reduce demand-side inflation. The Vitality programme supports the Scheme in attracting and retaining younger members and encourages all members to live healthier lives. This reduces the healthcare claims for members who engage on the programme. | Managing non-healthcare expenses for the Discovery Health Medical Scheme results in a 1% reduction in overall Scheme costs for 2024. | Medical inflation for 2024 is expected to be 10.5% with a range between 9% and 13% allowing for variable plan experience. This informs the required contribution increase for 2024 to ensure the Scheme's contributions keep pace with expected increases in healthcare claims. |



Key drivers of demand-side utilisation

In 2024, demand-side utilisation is expected to increase healthcare claims by 6.0%.

Demand-side utilisation typically reflects the change in the underlying health of the Scheme's membership. During this period, the following two factors contribute more than usual to overall medical inflation:

- adverse selection as a result of financial pressure on consumers
- ongoing expected costs of COVID-19 related healthcare.

PERIOD-SPECIFIC DEMAND-SIDE UTILISATION FACTORS



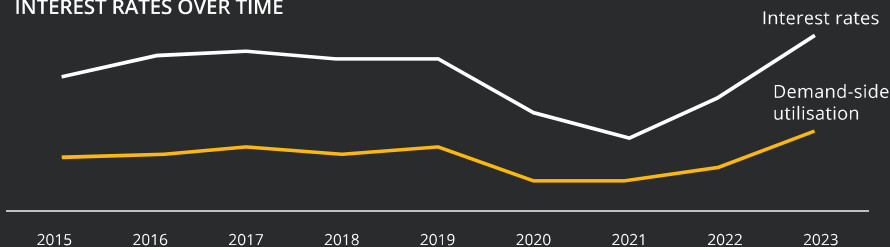
Adverse selection increases during difficult economic periods

Challenging economic climates are typically represented by higher interest rates and lower disposable income for households.

During times of financial strain, members who have an immediate need for healthcare prioritise their medical scheme membership. Healthier members facing the same financial strain choose to prioritise other necessities or remain uncovered.

This often leads to higher levels of adverse selection and greater demand-side inflation during periods of economic strain, as experienced in 2023.

DHMS DEMAND SIDE UTILISATION VERSUS SOUTH AFRICAN INTEREST RATES OVER TIME



RECURRING DEMAND-SIDE UTILISATION FACTORS



Ongoing cost of COVID-19 expected to continue

Despite the reduction in the number of COVID-19 infections in 2023, the Scheme continues to cover substantial costs relating to COVID-19. The total projected COVID-19 claims cost for 2023 is R700 million, compared to years prior to 2020 where no COVID-19 claims would be funded by the Scheme. Between 2020 and 2023, lower non-COVID-19 healthcare utilisation and excess reserves were used to fund COVID-19 healthcare demand. These costs are expected to continue, and the Scheme must provide for these expected costs in the anticipated medical inflation that informs contribution increases for 2024.

EMBEDDED COVID-19 DEMAND COST FOR 2023

For year-to-date August 2023:



67,000
tests



15,000
infections



3,500
hospital admissions



200
mortalities

~R700m projected cost to the Scheme for 2023



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PERIOD-SPECIFIC DEMAND-SIDE UTILISATION FACTORS

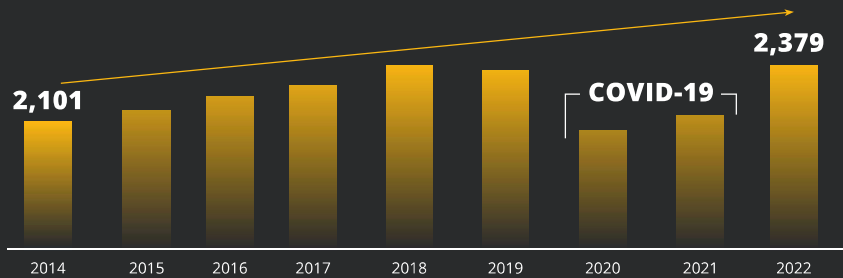


Increasing chronic disease burden

Rising chronic prevalence is a worldwide healthcare concern. Discovery Health Medical Scheme deploys various efforts to partially offset the impact of new chronic diagnoses on healthcare claims. These include ensuring young and healthy lives continue to join the Scheme and supporting members with early identification, prevention and chronic care management benefits.

Despite its efforts, the number of new chronic diagnoses for Discovery Health Medical Scheme members has continued in an upward trend, after accounting for the outlying experience of the COVID-19 pandemic.

DISCOVERY HEALTH MEDICAL SCHEME CHRONIC DISEASE INCIDENCE (PER 100,000 LIVES)



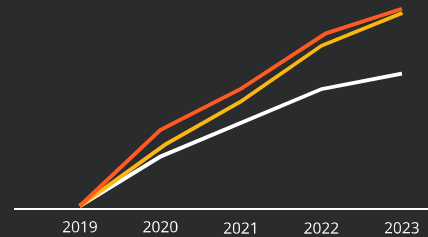
RECURRING DEMAND-SIDE UTILISATION FACTORS



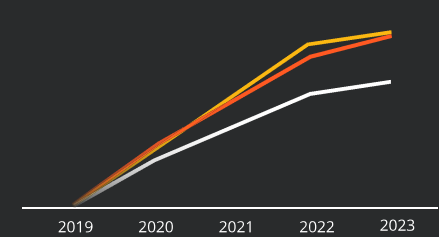
Increased selection across Coastal and Comprehensive benefit options

The average age and chronic ratio of the Comprehensive and Coastal plan options have increased at a higher rate than other plan options on the Scheme. These plan options offer rich, high-value benefits to members, often attracting a greater degree of selection. These plans subsequently have demonstrated higher demand-side inflation over this period.

CUMULATIVE CHANGE IN AVERAGE AGE



CUMULATIVE CHANGE IN CHRONIC RATIO



— Comprehensive — Coastal — Rest of DHMS



Balancing affordability and sustainability in 2024

Medical Inflation for 2023

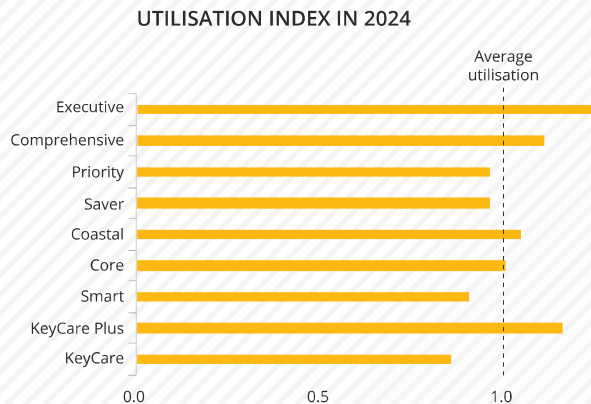
Every year, contributions increase in line with medical inflation to ensure that contributions received match the claims demand of members on the Scheme. Medical inflation for 2024 is higher than prior years, due to unique period-specific adjustments and is estimated at 10.5%.

Varying levels of utilisation on specific DHMS benefit options

Utilisation experience has varied across different benefit options on Discovery Health Medical Scheme in 2023. As a result, projected medical inflation is plan-specific for 2024, ranging between 9% and 13%.

The utilisation index illustrates varying claims experience across the Discovery Health Medical Scheme plan range. A higher utilisation index, indicates higher demand-driven utilisation and higher medical inflation.

2024 contribution increases are informed by the unique utilisation experience per plan option.



The 2024 contribution increase on Discovery Health Medical Scheme is informed by three factors: medical inflation, variable demand-side utilisation and the optimisation of day-to-day benefits to improve affordability for members.

Optimisation of day-to-day benefits

Economic pressures from rising interest rates, stagnant growth and high levels of consumer price inflation have placed substantial financial strain on affordability for members in 2024.

After careful consideration of the current economic climate, Discovery Health Medical Scheme aims to optimise affordability for its members by reducing the Medical Savings Account (MSA) contributions on the Saver series in 2024:

- Classic Saver and Classic Delta Saver MSA contributions will reduce from 25% to 20%.
- Coastal Saver MSA contributions will reduce from 20% to 15%.
- Essential Saver and Essential Delta Saver MSA contributions will reduce from 15% to 10%.

To maximise value for members, the Scheme will be enhancing the risk-funded day-to-day benefit offering in 2024 for key categories of healthcare where members would typically utilise MSA funds. These enhancements include:

- Mental health preventative screening and access to the Cognitive Behavioural Therapy (iCBT).
- Emergency cover through the virtual urgent care platform.

In 2023, 7.3% of MSA funds were used to pay for mental health and casualty care. The allowance for these risk funded benefits will help members extend the life of their MSA balances and increase the value of DHMS' day-to-day benefit offering.

In addition, all new and existing members can continue to access valuable day-to-day benefits through the funds available in their WELLTH Fund, which continues over 2024.



Discovery Health Medical Scheme

contribution increase for 2024

The weighted average contribution increase for Discovery Health Medical Scheme in 2024 is 7.5%.

39% of Discovery Health Medical Scheme members will experience a gross contribution increase of under 5% in 2024 with a total of 73% of members experiencing a gross contribution increase under 10%.

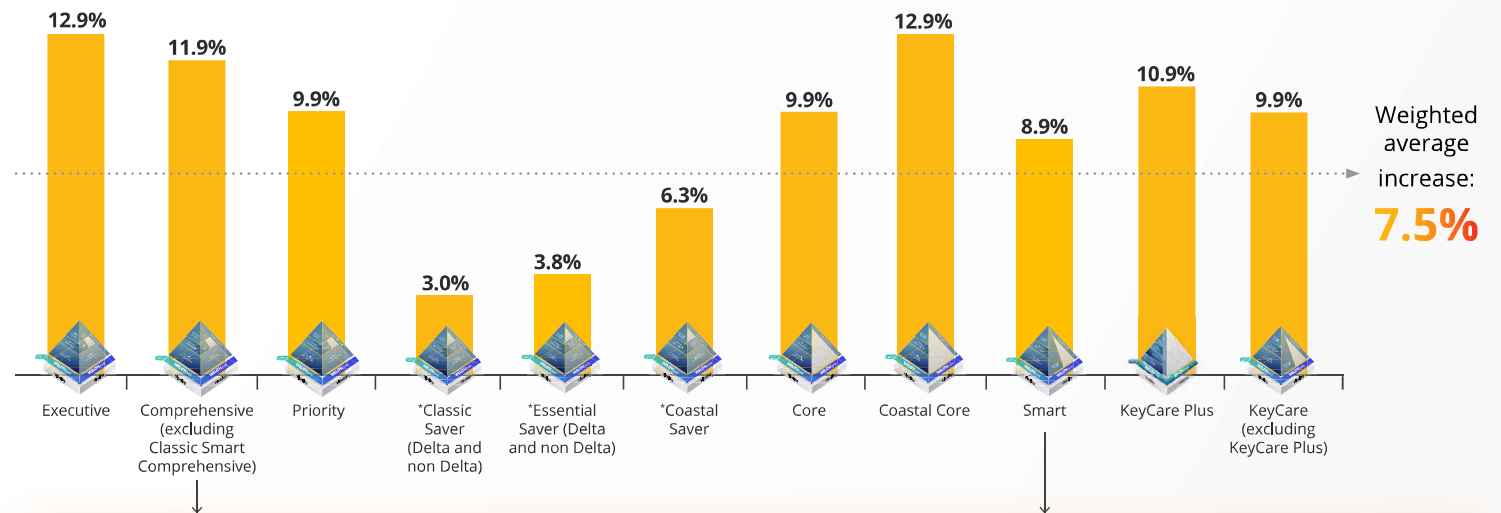
27% of Discovery Health Medical Scheme members will have a contribution increase higher than 10% for 2024, to account for higher utilisation levels.



The 2024 increase in Scheme contributions is aimed at supporting members with improved affordability, ensuring they continue to enjoy high-value cover, while strengthening the long-term sustainability of the Scheme.

DISCOVERY HEALTH MEDICAL SCHEME CONTRIBUTION INCREASES FOR 2024

| Contribution increase range | Proportion of DHMS members |
|-----------------------------|----------------------------|
| 0%-5% | 39% |
| 5%-10% | 34% |
| 10%+ | 27% |



Classic Smart Comprehensive will be enhanced in 2024, see more details on **page 22**. Risk contributions for this plan will increase by 11.9% in 2024. Essential Dynamic Smart will have no contribution increase for 2024.

* The contribution increases represented above reflect the increase in gross contributions for Discovery Health Medical Scheme members. This allows for the reduction in Medical Savings Account contributions in 2024. Risk contributions on Classic Saver and Essential Saver plans will increase by 9.9% in 2024. Risk contributions on Coastal Saver plans will increase by 12.9% in 2024.

