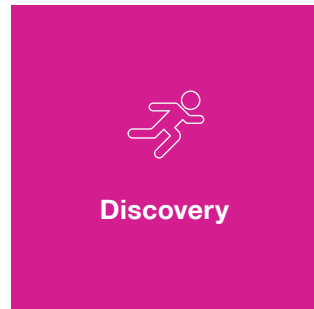


Discovery

Shared value insurance

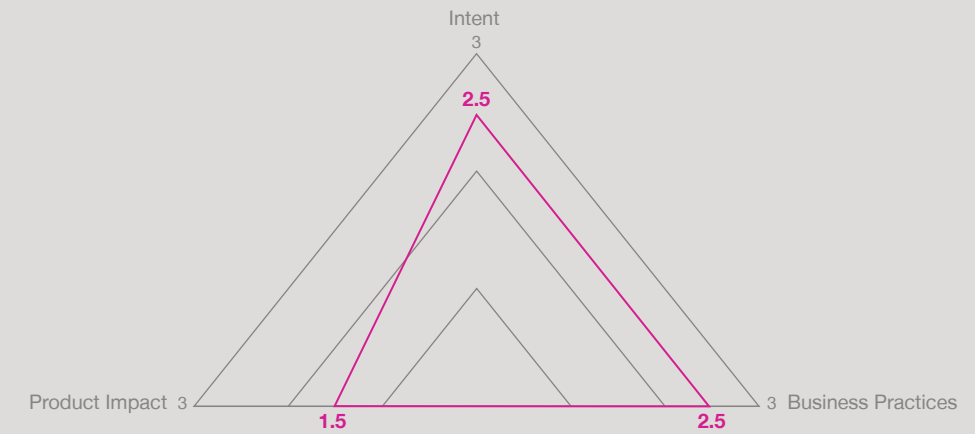


Discovery is a shared value insurance company. Under the Vitality brand, the company provides scientifically-based wellness programme to encourage customers adopt better lifestyles to improve their health and well-being.

Investment Case

What challenge is the Company tackling?	A significant proportion of healthcare spending worldwide is directed toward preventable diseases connected to human lifestyle decisions; poor nutrition and/or over eating, smoking, a lack of exercise. The main driver of insurance risk is member behaviour, which is inherently irrational; for example, the average consumer tends to underinvest in insurance and over invest in healthcare. As a consequence, Discovery have developed a pioneering business model that incentivises healthy behaviours through the Vitality programme.
Is the Company's offering sufficiently different and better than the status quo?	Discovery seems the only company offering this model. In theory a shared value insurance model delivers better health and value for clients, superior actuarial dynamics for the insurer and a healthier society. The vitality approach has stretched beyond health insurance to cover life insurance, where positive lifestyle choices can reduce premiums; VitalityDrive tracks customers, to reward them for good driving with a lower premium and a discount on fuel, and to provide real-time emergency assistance. A newly launched credit card with FirstRand offers rewards for positive behaviours.
Is there a committed management team? What have they done before?	Current CEO, Adrian Gore founded the company in 1992 and remains CEO of the company. Under his leadership, Discovery has evolved from an insurer focused on enhancing lives, to a diversified and multinational financial services group but arguably with the same raison d'etre. The company listed on the Johannesburg Stock Exchange in 1997, and under Gore's leadership has expanded its international reach, through partnerships, into the UK, USA and China. The company now serves over 10 million customers worldwide. In February 2012, Gore described Discovery's goal as 'I see us as a social disruptor, by which I mean that we disrupt a market in a positive sense. We look for places where the markets can be improved and attempt to make a substantial difference to that market, which I believe we do.' In 2014, the company set itself an objective to be 'the best insurer in the world and a powerful force for social good' by 2018, as measured by market position (top 2 in every market), making members healthier and this feeding into superior actuarial dynamics.
How does the Company treat stakeholders?	What separates Discovery from the average insurer is its shared-value approach to insurance. The company is offering a more personalised approach to insurance, using customers life choices and behaviours to price premiums. Customers are viewed as an individual rather than a cohort or demographic. Discovery is also the largest provider of health insurance to low-income population in South Africa and provides funding for the training of doctors.
Is there a potential to create a profitable and defensible business?	Large insurers such as AIA and Ping An partner with Discovery rather than copying its model, suggesting getting the algorithm for the right rewards (type, amount, frequency, etc) is difficult to replicate. Overtime, Discovery has collected a wealth of data about customer behaviour which is a large barrier to entry. The long-term opportunity for the Vitality business should be attractive given rising awareness of lifestyle diseases and pressure of healthcare spending.
Is the business attractively valued?	The core insurance business is well-run and we probably do not have a differentiated view compared to the market. Where we could have an edge in valuation is looking at Discovery's stake in Ping An Health and the Vitality Group. Ping An Health is a provider of health insurance in China. China's healthcare market is expected to grow at a low-teen pace over the next decade and the health insurance market could be worth RMB 3 trillion by 2028. Vitality Group partners with other global insurers on Vitality and there is potential for gross premiums to double over the next 10 years through organic growth of existing partners and signing up new partners. Both Ping An Health and Vitality Group have the potential to become very valuable businesses on their own right and we think the market has not priced in the possibility of their success.

Impact Analysis



Product Impact

Discovery is addressing some very hard to reach aspects of health and addressing them from a prevention perspective which is extremely valuable. At the individual level the impact is there but it is difficult to determine whether it is significant at a societal level. They have a decent reach, close to 10 million, but the depth of impact across that group is difficult to determine based on existing data and there is a question whether their target audience takes them away from the people that need it most.

Intent

Discovery sets it their core purpose as one that makes people healthier and enhances and protects their lives. Their drive for innovation, commitment to the shared value business model, and to health impacts more broadly are all positive. Yet there is concern that the bank could be a distraction.

Business Practices

Customers are by definition at the heart of a shared value approach such as that operated at Discovery through Vitality. The company are doing some great work in their value chain; areas for improvement are largely focused on governance structures which need to be better understood in a sectoral and geographical context.

	Relevant Targets	Relevant Products
	<p>Target 3.4 By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well being.</p> <p>Target 3.8 Achieve universal health coverage, including financial risk protection, access to quality essential healthcare services and access to safe, effective, quality and affordable essential medicines and vaccines for all.</p>	<p>Discovery's share-valued insurance policies rewards policyholders for healthier behaviours such as regular exercising. This promotes better lifestyles and reduces the chances of non-communicable diseases.</p> <p>Discovery provides health and life insurances to people living in many countries, enabling people to access healthcare services and medicines when in need.</p>

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