

# New Discovery projects slow earnings

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18 Feb 2016

Insurer Discovery expects to unveil its lowest growth in earnings yet when it reports its results for the half-year to end December next week. Shares in the group fell more than 5% yesterday after the group said it expected to report normalised earnings growth of 5%-10% for the period, a steep deceleration from the previous comparable period's 20%.



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It blamed the slowdown on investments in new initiatives, including a contract it clinched to administer and offer managed care services to the Bankmed medical scheme; its move into retail banking at a cost of at least R800m; and higher costs from its international partners.

Moving its UK health insurer VitalityHealth (formerly PruHealth) onto its own platform had also taken a toll. It recently bought Prudential's 25% stake in the joint venture. A spokesman said Discovery was unable to comment as it was in a closed period until the release of its results.

## Below expectation

"Discovery's trading update was below the sell-side analysts' expectations for normalised headline earnings per share growth of around 15%, as the trading update indicated growth of only 0%-5%," said PSG Wealth analyst Adrian Cloete.

Cloete said Discovery was investing in Ping An, its Chinese health insurer. Discovery is in the process of entering the retail banking market, using the First National Bank-backed DiscoveryCard as a springboard. It started providing services to Bankmed - a scheme for financial services and medical professionals - last month.

Bankmed CEO Teddy Mosomothane said Discovery was more efficient, "complemented by economies of scale and the benefits of an integrated and innovative approach", which led it to reconsider its prior contracts with five other managed care service providers.

Bankmed's average monthly administration costs were R188 per member in 2014, and average managed care fees were R80.23 per member. During the same year, Discovery Health Medical Scheme paid Discovery R247.18 in monthly administration and R28.80 in managed care fees for each member. It is unclear whether Discovery lost money bringing down costs for Bankmed.

"Discovery will reap the benefits of the investment into future opportunities it is making now," said Cloete.

*Source: Business Day*

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