



BANKMED MEDICAL SCHEME

ANNUAL FINANCIAL STATEMENTS

31 December 2020

ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2020

The reports and statements set out below comprise the annual financial statements presented to members:

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The Board of Trustees hereby presents its annual report for the year ended 31 December 2020.

1 DESCRIPTION OF THE MEDICAL SCHEME

1.1 Terms of registration

Bankmed Medical Scheme (the Scheme) is a restricted membership medical scheme registered in terms of the Medical Schemes Act No. 131 of 1998 (the Act) and the Regulations thereto, as amended.

1.2 Benefit options within the Scheme

In terms of its rules, the Scheme offered six benefit options during 2020:

Bankmed Essential Plan
Bankmed Basic Plan
Bankmed Core Saver Plan
Bankmed Traditional Plan
Bankmed Comprehensive Plan
Bankmed Plus Plan

1.3 Personal Medical Savings accounts

In order to provide a facility for members to set funds aside to meet future healthcare costs not covered in the benefit options, the Trustees have made the option of a savings plan available to meet this objective. The savings plan is available on the Bankmed Core Saver Plan, Bankmed Comprehensive Plan and Bankmed Plus Plan.

Unexpended savings amounts are accumulated for the long-term benefit of members and 50% of the interest earned on these funds is allocated to members.

The liability to the members in respect of the Personal Medical Savings account monies is reflected as a financial liability in the annual financial statements, repayable in terms of Regulation 10 of the Act.

1.4 Risk transfer arrangements

The Scheme had the following capitation agreements in place during the year under review:

- Discovery Health (Pty) Ltd - To cover primary healthcare for members on the Bankmed Basic Plan and Bankmed Essential Plan as well as emergency evacuation for members on all benefit options; and
- Centre for Diabetes and Endocrinology (Pty) Ltd - To cover diabetes claims for members on the Bankmed Comprehensive Plan, Bankmed Plus Plan, Bankmed Core Saver Plan and Bankmed Traditional Plan



2 MANAGEMENT

2.1 Board of Trustees in office during the year under review:

The Board of Trustees comprises 12 members constituted as follows:

- Six members are appointed by the three largest employer groups.
- Six members are elected on a rotation basis at the Annual General Meeting. Two of the elected Board members retire at each Annual General Meeting and the vacancies thus created are filled.

Appointed by employer groups

Mr D Armstrong	FirstRand Limited
Mr DW Bolt	FirstRand Limited
Mr D Mkhonza	Absa Bank Limited
Dr L Rametsi	Absa Bank Limited
Mr N Naidoo (Nevan)	The Standard Bank of South Africa Limited
Ms G Noemdoe	The Standard Bank of South Africa Limited

Elected by members

Mr EA Schaffrath (Chairman)
 Mr J Cresswell
 Mr G de Lange
 Mr RP Gush
 Mr J Henning
 Ms D Mantle

The Board of Trustees met seven times during 2020 on the following dates:

26 February to 28 February 2020 (Annual Strategic Planning Session)
 23 April 2020
 24 June 2020
 23 July 2020
 03 September 2020
 30 September 2020
 26 November 2020

2.2 Principal Officer

Mr T Mosomothane
 Office 302B
 34 Whiteley Road
 Melrose Arch
 2076

2 MANAGEMENT (continued)

2.3 Registered office address and postal address

Office 302B	Private Bag X2
34 Whiteley Road	Rivonia
Melrose Arch	2128
2076	

2.4 Medical scheme administrator

Discovery Health (Pty) Ltd	
1 Discovery Place	PO Box 786722
Sandton	Sandton
2196	2146

2.5 Managed care and wellness providers

Discovery Health (Pty) Ltd	
1 Discovery Place	PO Box 786722
Sandton	Sandton
2196	2146

MediKredit Integrated Healthcare Solutions (Pty) Ltd	
10 Kikuyu Road	PO Box 521058
Sunninghill	Saxonwold
Sandton	2132
2157	

2.6 Capitation providers

Discovery Health (Pty) Ltd	
1 Discovery Place	PO Box 786722
Sandton	Sandton
2196	2146

Centre for Diabetes and Endocrinology (Pty) Ltd	
81 Central Street	P.O. Box 2900
Houghton	Saxonwold
2198	2132

2.7 Investment managers

Ninety One SA (Pty) Ltd
Investec Building
Cnr Bree and Hans Strijdom Avenue
Foreshore
8001

P.O. Box 1655
Cape Town
8000

Taquanta Asset Managers (Pty) Ltd
7th Floor
Newlands Terraces
8 Boundary Road
Newlands
7700

P.O. Box 23540
Claremont
Cape Town
7708

Prudential Investment Managers (Pty) Ltd
7th Floor
Protea Place
40 Dreyer Street
Claremont
7735

P.O. Box 44813
Claremont
Cape Town
7708

Allan Gray South Africa (Pty) Ltd
1 Silo Square
V&A Waterfront
Cape Town
8001

P.O. Box 51318
V&A Waterfront
Cape Town
8002

Abax Investments (Pty) Ltd
The Oval
1 Oakdale Road
Newlands
7700

P.O. Box 23851
Claremont
Cape Town
7708

2.8 Investment consultant

Willis Towers Watson
1st Floor
Illovo Edge
1 Harries Road
Illovo
2196

Postnet Suite 154
Private Bag X1
Melrose Arch
2076

2.9 Actuary

NMG Consultants and Actuaries (Pty) Ltd
 NMG House
 411 Main Avenue
 Randburg
 2125

P.O. Box 3075
 Randburg
 2194

2.10 External auditor

PricewaterhouseCoopers Inc
 4 Lisbon Lane
 Waterfall City
 Jukskei View
 2090

Private Bag X36
 Sunninghill
 2157

2.11 Internal auditor

BDO South Africa
 Wanderers Office Park
 52 Corlett Drive
 Illovo
 2196

Private Bag X60500
 Houghton
 2041

2.12 Attorney

Edward Nathan Sonnenbergs Inc.
 150 West Street
 Sandton
 2196

PO Box 783347
 Sandton
 2146

3 INVESTMENT STRATEGY OF THE SCHEME

The overall objective is that the return on the assets should be such that:

- The highest rate of return is achieved within the determined risk tolerance level; in order to
- Maximise the fair value of the portfolios by buying, selling and holding investment assets such as equity, bonds and money market instruments;
- Assets are broadly selected to obtain real growth relative to the Consumer Price Index (CPI);
- Equity volatility may result in negative returns at times, and this is permissible, except in the money market portfolio where there are no equity holdings; and
- The Scheme's Statement of Investment Policy includes several risk mitigating provisions.

This means that the multi-asset portfolios are expected to provide real rates of return over a three-year period at the lowest possible rates of volatility, whilst the money market portfolio aims to ensure capital preservation and will be limited to investing in cash and fixed interest instruments.

Asset managers have been appointed to manage the assets invested by the Scheme. The Trustees will not undertake any investment decisions in respect of these allocated assets without consulting a professional asset manager. An investment consultant has been appointed to assist with design and implementation of the investment policy, appointment and termination of asset managers, periodic review of each asset manager's performance against an agreed benchmark and assistance with all other investment consulting issues.

The Trustees will not encumber asset managers with restrictions or pre-determinations, other than limitations documented in the Statement of Investment Policy or applicable to the Regulations of the Act. The asset managers will be free to invest assets under their control according to a specified mandate on the understanding that their performance will be assessed according to the benchmarks set by the Scheme.

The Scheme utilises a current account and a liquid money market portfolio to manage its working capital cash requirements. Temporarily unused funds are kept in the higher interest yielding money market portfolio to maximise investment returns. When the funds are required for monthly operational purposes, they are transferred to the Scheme's transactional current account.

The Trustees have appointed an Investment Committee to recommend an appropriate investment policy to the Board of Trustees, and to oversee the implementation thereof.

4 REVIEW OF THE ACCOUNTING PERIOD’S ACTIVITIES

4.1 Operational statistics

	Essential Plan		Basic Plan		Core Saver Plan		Traditional Plan		Comprehensive Plan		Plus Plan		Consolidated	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Number of members at year end	3,552	3,658	22,140	22,939	29,517	28,507	12,292	12,574	35,791	37,727	3,175	3,365	106,467	108,770
Number of beneficiaries at year end	4,862	4,924	41,697	41,982	60,435	56,738	27,249	27,770	78,793	82,972	5,894	6,360	218,930	220,746
Average number of members for the year	3,527	3,342	22,359	22,635	29,637	28,410	12,441	12,893	36,366	38,680	3,233	3,431	107,563	109,391
Average number of beneficiaries for the year	4,789	4,518	41,687	41,328	59,967	56,019	27,493	28,454	79,840	85,001	6,033	6,524	219,809	221,844
Dependant ratio to members at year end	0.37	0.35	0.88	0.83	1.05	0.99	1.22	1.21	1.20	1.20	0.86	0.89	1.06	1.03
Pensioner ratio (65 Years +)	0.95%	0.79%	1.94%	1.77%	2.92%	2.80%	10.07%	9.63%	14.38%	13.68%	40.57%	38.38%	8.72%	8.53%
Average age of beneficiaries	28.58	27.82	25.55	25.21	26.34	26.10	34.44	34.01	37.53	36.85	55.28	54.17	32.05	31.81
Average net contributions per member per month (R)	1,554	1,451	2,626	2,418	2,901	2,658	5,013	4,246	4,840	4,484	7,397	6,903	3,835	3,589
Average net contributions per beneficiary per month (R)	1,144	1,073	1,409	1,325	1,434	1,348	2,269	1,924	2,205	2,040	3,964	3,630	1,877	1,769
Relevant healthcare expenditure as a percentage of net contributions	39.10%	41.52%	63.82%	74.11%	65.53%	77.94%	92.55%	74.11%	94.03%	107.59%	99.53%	116.18%	83.15%	95.53%
Average administration costs per member per month (R)	198	205	203	205	198	193	202	193	201	193	198	193	201	196
Average administration costs per beneficiary per month (R)	146	152	109	112	98	98	91	88	92	88	106	102	98	97
Amounts paid to administrator (R'000)	7,292	6,573	46,224	44,542	56,693	51,729	23,798	23,475	69,566	70,393	6,185	6,248	209,758	202,960
Non-health expenses as a percentage of gross contributions	12.86%	13.32%	7.81%	8.21%	5.88%	6.24%	4.07%	4.25%	3.46%	3.65%	2.08%	2.17%	4.62%	4.80%
Average accumulated funds per member at 31 December (R)													27,305	20,584
Average healthcare management expense per member per month (R)	102	97	102	97	103	97	99	99	103	98	103	99	103	98
Average healthcare management expense per beneficiary per month (R)	75	72	55	53	51	49	45	45	47	45	47	52	50	48
Return on investments as per an independent review by the Scheme’s investment consultants.													3.80%	7.80%

4 REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES (continued)

4.2 Results of operations

The financial results of the Scheme are clearly set out in the annual financial statements accompanying this report.

The Trustees would, however, like to draw the members attention to the unusually low level cost of claims paid during 2020. The claims experience was a direct result of the Covid-19 lock-down restrictions limiting the movement of the Scheme's beneficiaries, along with the rest of the population. This resulted in many non-essential doctors' visits, and elective medical procedures, being cancelled or postponed.

The above resulted in excess net healthcare surpluses accumulating as Scheme reserves, and the accumulated funds ratio increasing from 40.46% at the end of 2019, to 50.72% at the end of 2020. The Scheme's strategic accumulated funds ratio range is between 35% and 40%. The budget for 2020, aimed for an accumulated funds ratio equal to the upper end of the strategic target range of 40%.

The Scheme will incur additional costs in 2021, related to the treatment of Covid-19, further testing, and the cost of the vaccine. There also may be the cost of 2020 postponed claims materialising in 2021. The funds accumulated in 2020 though, have put Bankmed in a strong financial position in order to deal with the challenges facing the Scheme in 2021.

4.3 Accumulated funds ratio

	2020 R'000	2019 R'000
Total members' funds per the statement of financial position	2,907,114	2,238,964
Less: Cumulative unrealised net gain on remeasurement of investments to fair value	(32,984)	(54,967)
Accumulated funds per Regulation 29	<u>2,874,130</u>	<u>2,183,997</u>
Gross contribution income	5,666,578	5,398,529
Accumulated funds ratio	50.72%	40.46%

The Scheme's reserve ratio exceeds the statutory reserve requirement of 25% of gross contribution income.

4.4 Outstanding risk claims provision

Movements on the outstanding risk claims provision are set out in Note 5 to the annual financial statements. There have been no unusual movements that the Trustees believe should be brought to the attention of the members of the Scheme.

5 ACTUARIAL SERVICES

The Scheme's actuary has been consulted in determining the contribution increases and the viability of benefit levels.

6 INVESTMENTS IN PARTICIPATING EMPLOYERS OF MEMBERS OF THE SCHEME

The Scheme holds the following investments in employer groups:

	2020	2019
	R'000	R'000
Financial assets at fair value through profit or loss	1,474,743	861,942
Cash and cash equivalents	25,749	77,408
Total	<u>1,500,492</u>	<u>939,350</u>

Refer to Note 17 for detailed disclosure in terms of related parties. The Scheme obtained an exemption from Section 35(8)(a) of the Act and is therefore permitted to hold investments in the participating employers of members.

7 AUDIT COMMITTEE

The Audit Committee operated in accordance with the provisions of the Act. The primary responsibility of the Committee is to assist the Board of Trustees in carrying out its duties relating to the Scheme's accounting policies, internal control systems, IT governance and financial reporting practices. The internal and external auditors formally report to the Committee on significant findings arising from audit activities.

The Committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties, which have been complied with during the year under review. At all times the majority of the Committee is independent.

The Audit Committee has adopted a Combined Assurance Model to facilitate a coordinated approach to all assurance activities. The Combined Assurance Model aims to optimise the assurance coverage obtained from Scheme management, auditors, service providers and other assurance providers.

The Committee comprised of:

Ms F Petersen-Cook - Chairman (Independent)
 Ms R Gani (Independent)
 Ms F Levy-Hassen (Independent)
 Mr B Phillips (Independent)
 Mr J Henning (Trustee)
 Mr D Mkhonza (Trustee)

The Committee met four times during 2020 on the following dates:

21 February 2020
 07 April 2020
 06 August 2020
 12 November 2020

The Chairman of the Board of Trustees, the Principal Officer, the Finance Executive of the Scheme, the administrator, the internal auditor as well as the external auditor are invited to attend all Audit Committee meetings and have unrestricted access to the Chairman of the Committee. The Chairman of the Audit Committee is also a member of the Risk Management Committee.

8 REMUNERATION COMMITTEE

The Remuneration Committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. Membership of the Remuneration Committee comprises four Trustees. The Remuneration Committee meetings are attended by an independent advisor to provide expert advice and guidance to the Committee.

The Committee comprised of:

Mr DW Bolt (Chairman)
Mr EA Schaffrath (Chairman of the Board of Trustees)
Mr D Armstrong (Chairman of the Investment Committee)
Mr J Cresswell (Chairman of the Risk Management Committee)

The Committee met three times during 2020 on the following dates:

06 February 2020
04 September 2020
05 November 2020

9 RISK MANAGEMENT COMMITTEE

The Risk Management Committee enabled the Board to oversee the risks against which the Scheme should be protected. The Committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties, which have been complied with during the year under review.

The Committee comprised of:

Mr J Cresswell (Chairman)(Trustee)
Mr N Coghlan (Executive: Finance and Risk)
Ms D Mantle (Trustee)
Mr T Mosomothane (Principal Officer)
Dr N Naidoo (Executive: Clinical and Operations)
Mr N Naidoo (Nevan)(Trustee)
Ms G Noemdoe (Trustee)
Dr L Rametsi (Trustee)
Ms F Petersen-Cook (Independent Audit Committee Chairman)

The Committee met four times during 2020 on the following dates:

24 March 2020
13 May 2020
27 August 2020
28 October 2020

10 INVESTMENT COMMITTEE

The Investment Committee ensures that the investment process is operated within the parameters of the Scheme's investment strategy. The Committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties, which have been complied with during the year under review.

The Committee comprised of:

Mr D Armstrong - Chairman (Trustee)
Mr G de Lange (Trustee)
Mr RP Gush (Trustee)
Mr J Henning (Trustee)
Mr EA Schaffrath (Trustee)

The Committee met four times during 2020 on the following dates:

17 April 2020
11 June 2020
21 August 2020
05 November 2020

11 NOMINATIONS COMMITTEE

The Nominations Committee ensures that the process of assessing the suitability of potential trustee candidates is thorough, fair and complete. The Committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties, which have been complied with during the year under review.

The Committee comprised of:

Mr D Armstrong (Chairman)
Mr J Cresswell (Trustee)
Mr D Mkhonza (Trustee)

The Committee met once during 2020 on the following date:

17 April 2020

12 MEETING ATTENDANCE

The following schedule sets out trustee meeting attendances where column A indicates the total number of meetings that could have been attended and B the actual number of meetings attended.

Trustee	Board of Trustees meetings		Remuneration Committee meetings		Audit Committee meetings		Risk Management Committee Meeting		Nominations Committee meetings		Investment Committee meetings	
	A	B	A	B	A	B	A	B	A	B	A	B
Mr D Armstrong	7	7	3	3	-	-	-	-	1	1	4	4
Mr DW Bolt	7	7	3	3	-	-	-	-	-	-	-	-
Mr J Cresswell	7	7	3	3	-	-	4	4	1	1	-	-
Mr G de Lange	7	7	-	-	-	-	-	-	-	-	4	4
Mr RP Gush	7	7	-	-	-	-	-	-	-	-	4	4
Mr J Henning	7	6	-	-	4	3	-	-	-	-	4	4
Mrs D Mantle	7	7	-	-	-	-	4	4	-	-	-	-
Mr D Mkhonza	7	7	-	-	4	4	-	-	1	1	-	-
Mr N Naidoo (Nevan)	7	6	-	-	-	-	4	4	-	-	-	-
Ms G Noemdoe	7	7	-	-	-	-	4	4	-	-	-	-
Dr L Rametsi	7	7	-	-	-	-	-	-	-	-	-	-
Mr EA Schaffrath	7	7	3	3	-	-	-	-	-	-	4	4

13 NON-COMPLIANCE MATTERS

13.1 Non-compliance with Section 33(2)(b) and Section 33(2)(c) - Financial performance and soundness of the Bankmed benefit options

Nature and impact

In terms of Sections 33(2)(b) and 33(2)(c) of the Act, each benefit option shall be self-supporting in terms of membership and financial performance and be financially sound. The Bankmed Plus Plan incurred net healthcare deficits for the year ended 31 December 2020, thereby contravening Section 33(2)(b) and Section 33(2)(c) of the Act.

Causes for the failure

The Scheme's benefit design process always includes considerations which look at the Scheme as a whole, needing to provide a full range of benefit options to cater for the target population, and takes into account the Scheme's financial stability and current reserve levels. Similar losses were anticipated in the budget, which were approved by the Council for Medical Schemes (CMS).

Corrective action

The benefits and contributions proposal approved by the CMS for 2020 included a budgeted loss. As required by the CMS, the Scheme continues to submit monthly management accounts reflecting the performance of the benefit options.

13 NON-COMPLIANCE MATTERS (continued)

13.2 Non-compliance with Section 26(7) – Late payment of contributions

Nature and impact

Contributions due from a number of participating employers were received more than three days after becoming due in certain months during 2020, which is in contravention of Section 26(7) of the Act.

Causes for the failure

Due to internal process delays in some participating employers, the contributions paid on behalf of members were not paid within three days of becoming due. As a result the Scheme is in contravention of Section 26(7) of the Act.

Corrective action

Scheme management continues to engage any employer group that pays late, and appropriate action is taken as and when necessary. The administrator's robust follow-up processes have been instrumental in ensuring continuous improvement in timeous payment of contributions by employer groups.

13.3 Non-compliance with Section 35(8)(a) – Investments in participating employers

Nature and impact

The Scheme holds investments, via various instruments, with Absa Bank Ltd, FirstRand Bank Ltd, Landbank SOC Ltd and The Standard Bank of South Africa Ltd who are participating employers of the Scheme. The Scheme also banks with FirstRand Bank Ltd and therefore has various current accounts with this employer. This is in contravention of Section 35(8)(a) of the Act, as the Scheme is not allowed to hold investments in any participating employer.

Causes for the failure

As these institutions are major banks, an investment portfolio excluding these employers would fail to perform optimally in the South African investment markets. Funds are therefore invested in various instruments issued by these participating employers. Investments in publicly traded instruments of participating employers are made and managed via external investment managers and are managed in terms of the agreed mandates.

Corrective action

The Scheme applied to the Council for Medical Schemes (CMS) for an exemption from this section of the Act and is awaiting a response from CMS.

13 NON-COMPLIANCE MATTERS (continued)

13.4 Non-compliance with Section 35(8)(c) – Investments in any administrator

Nature and impact

The Scheme has investments in other administrators via unitised fund holdings within the Investec Absolute Opportunity and Prudential Global Real Return portfolios.

Causes for the failure

The Scheme invests in pooled investment products with independent third party asset managers who have full discretionary mandates in terms of asset purchases. All such investment decisions are made by these third party asset managers based on their own investment theses. The Scheme is not involved in this investment decision making process as the asset manager is solely responsible for the asset selection and investment performance of the portfolio.

Corrective action

The Scheme applied to the Council for Medical Schemes (CMS) for an exemption from this section of the Act and is awaiting a response from CMS.

13.5 Non-compliance with Section 59(2) – Payment of claims within 30 days

Nature and impact

A medical scheme shall, in the case where an account has been rendered, subject to the provisions of this Act and the rules of the medical scheme concerned, pay to a member or a supplier of service, any benefit owing to that member or supplier of service within 30 days after the day on which the claim in respect of such benefit was received by the medical scheme.

Causes for the failure

A small value of claims were paid later than 30 days of receipt. Delays occur when accounts are referred for clinical audit or other investigations. These are however exceptions and claims are generally paid within the prescribed time.

Corrective action

The Scheme is aware of the requirements and complies as far as possible. It is however an inherent part of the industry that a limited number of problematic claims may exceed the payment requirement of 30 days.

13 NON-COMPLIANCE MATTERS (continued)

13.6 Prescribed minimum benefits

Nature and impact

Section 29(1)(o) and Regulation 8 provide the scope and level of minimum benefits that the Scheme must provide to members and dependants.

Causes for the failure

During the year under review there were isolated instances where the Scheme did not pay claims in accordance with the scope and level of minimum benefits.

Corrective action

The Scheme has aligned its interpretation of prescribed minimum benefits with CMS's interpretation, and affected claims have been reprocessed to ensure correct payment.

14 MEMBERSHIP

The membership of the Scheme decreased by 2.12% to 106 467 at the end of 2020 when compared to the total membership at the end of 2019 of 108 770. The Board of Trustees is aware of the decline in membership over the previous two years, and the matter is receiving the necessary attention in terms of both risk management and future strategic options. At the end of 2020, the Scheme's average beneficiary age was 32.05 years (2019: 31.81 years). The pensioner ratio increased from 8.53% at the end of 2019 to 8.72% at the end of 2020.

15 BENEFIT OPTIONS

Benefit design is a dynamic process and aimed at fulfilling the needs and healthcare benefit requirements of the Bankmed member and employer base. For this reason, the Scheme offers six benefit options which are reviewed on an on-going basis in terms of affordability, financial viability, membership choice and legislative compliance.

16 SERVICE AND ADMINISTRATION

The Scheme's administration is outsourced to Discovery Health (Pty) Ltd. The Scheme regularly reviews its service level agreements. The Scheme also ensures that effective service delivery and service levels are monitored and evaluated on an on-going basis.

17 FINANCIAL OVERVIEW

The financial position of the Scheme and its robust risk management approach resulted in a reaffirmation of the AA+ rating from the Global Credit Ratings Agency indicating its strong ability to pay claims.

17.1 Review of underwriting results

The overall claims experience for 2020 was 12.85% lower than that budgeted for the year. With this the Scheme achieved a gross healthcare surplus of R833.9 million.

Relevant healthcare expenditure, expressed as a percentage of risk contribution income, was 83.15% for 2020 (2019: 95.53%). The gross healthcare (underwriting) result for 2020, amounted to 14.72% of gross contributions (2019: 3.90%).

The net healthcare surplus, after deducting non-healthcare expenditure, amounted to R572.3 million (before investment and other income) in 2020, compared to a deficit of R48.5 million in the previous year. In the budget it was anticipated that a net healthcare deficit of R26.5 million would be incurred, compared to a budgeted net healthcare surplus of R34.7 million in 2019.

The Scheme generated a net surplus for the year under review of R668.1 million (2019: R135.1 million).

17.2 Administration expenditure

Administration expenditure remained stable at 4.57% of gross contribution income in 2020 (2019: 4.80%). The overall administration expenditure figure compares favourably with the average administration expenditure of medical schemes in the healthcare industry.

17.3 Investments

The Scheme has a clearly documented investment policy and employs the services of independent investment managers in order to manage its various investment portfolios. Net investment income (including fair value gains after deducting asset management fees) during 2020 amounted to R93.1 million, which is 49.30% less than the R183.6 million generated in 2019. The performance of the Scheme's managers was in line with market performance. All of the Scheme's investment managers operate in terms of strict mandates that have been delegated to them by the Board, which comply with the requirements of the Act and Regulations, and which are closely monitored.

The Board has appointed an Investment Committee that in turn utilises the services of independent investment experts with the objective of advising the Board regarding the implementation, benchmarking and monitoring of appropriate investment mandates. The investment mandates incorporate strategies which aim to outperform medical inflation.

17 FINANCIAL OVERVIEW (continued)

17.3 Investments (continued)

Restatement of the statement of financial position

The Scheme has reassessed the classification of money market instruments held in various Collective Investment Schemes, in line with the requirements of International Accounting Standard 7: Statement of Cash Flows (IAS 7). The reassessment was conducted in order to assess whether these holdings meet the definition of cash and cash equivalents, and the short-term nature thereof. This has resulted in certain disclosure reclassifications, the effect of which is set out in Note 1 of the Annual Financial Statements. There is no impact on the investment strategy, solvency or liquidity of the Scheme.

17.4 Covid-19

The Covid-19 pandemic caused large-scale uncertainty worldwide, increasing both country and business risk in an unprecedented manner. The Scheme's Covid-19 risk poses a threat to the solvency of the Scheme because of the potential increase in members' healthcare needs and associated costs, the sharp decline seen in the financial markets and the potential loss of members due to Covid.

As it happens, the level of claims in 2020 reduced from R4,4 billion in 2019 to R4,0 billion in 2020 largely due to the lock-down and the delay in elective procedures. The investment income however was R82,4 million less than seen in 2019 due to the negative impact the pandemic had on the financial markets. The stable contribution income together with all other factors resulted in the Scheme's accumulated funds increasing substantially.

The total direct Covid-19 cost for 2020 amounted to R236,9 million. As at 31 March 2021, the Scheme had 13,792 members confirmed positive for Covid-19. Tragically 343 members lost their lives to the virus during the same period.

Vaccine rollout and associated risks

The Scheme is leveraging its partnership with its administrator, Discovery Health (Pty) Ltd (DH), who has been involved in supporting the vaccine acquisition task team established by the Minister of Health as well as the B4SA vaccine rollout project. The Scheme, together with DH and other industry stakeholders, has also been playing an active role in ongoing engagements with the CMS (through the Health Funders Association) on the vaccine rollout for medical schemes. The Scheme has stayed close to this matter through these engagements, and has reliable indications of costs associated with the vaccine funding as well as the timing and other implications of the vaccine rollout. The Trustees have assessed various scenarios in this regard. On the basis of these scenarios we are satisfied that the budget provision for vaccines is adequate. DH has a project focusing on vaccine implementation with the aim of optimizing access and risk mitigation for the Scheme while being consistent with, and supportive of, the national vaccine rollout plan.

18 COMMUNICATION

Scheme communications continue to be aimed at the education and empowerment of members and elevating the profile of the Bankmed brand in order to retain the current membership and attract new members. Ongoing evaluation of communication tools and channels has ensured continuous improvement of the impact of the marketing and communication messages and strategies.

19 MANAGED CARE

The Scheme constantly reviews the manner in which it mitigates its clinical and financial risks while at the same time ensuring the provision of the highest quality of care to members. The Managed Care programmes will continue to undergo improvement and development in order to cater for the prevailing conditions in the industry, and the interest of the members.

20 EVENTS AFTER THE REPORTING DATE

There have been no events that have occurred subsequent to the end of the accounting period that affect the annual financial statements, and that the Trustees consider should be brought to the attention of the members of the Scheme. The Scheme continues to closely monitor the developments of Covid-19.

21 GOING CONCERN

The Trustees have no reason to believe that the Scheme will not be a going concern in the year ahead.

22 BOARD OF TRUSTEES

There were no change to the Board of Trustees during 2020, as a result of the two member elected Trustees being re-elected.

23 VOTE OF APPRECIATION

On behalf of Bankmed the Board would like to express its thanks to:

- All members of Bankmed and their employers.
- Independent members of the Board committees for their support.
- The Executive team and staff for the diligent manner in which they have managed the affairs of the Scheme.
- The Registrar of Medical Schemes and his staff for their co-operation and assistance.
- Our contracted service suppliers, industry associations and healthcare service providers.

24 CONCLUSION

The Scheme is well positioned to meet the current industry challenges, as well as future changes in the legislative framework. The Scheme continues to be financially strong and its products are competitive in terms of pricing, benefits and service levels.



EA SCHAFFRATH
CHAIRMAN



D ARMSTRONG
VICE CHAIRMAN



T MOSOMOTHANE
PRINCIPAL OFFICER

22 April 2021

DATE

TRUSTEES' RESPONSIBILITY AND APPROVAL

The Trustees are responsible for the preparation of the annual financial statements, which fairly present the state of affairs of Bankmed, comprising the statement of financial position at 31 December 2020, and the statements of comprehensive income, changes in funds and reserve and cash flows for the year then ended, and the notes to the financial statements. These include a summary of significant accounting policies and other explanatory notes in accordance with International Financial Reporting Standards, and in the manner required by the Medical Schemes Act of South Africa, as amended. In addition, the Trustees are responsible for preparing the Board of Trustees report and the Statement of Corporate Governance.

The Trustees are responsible for such internal controls as they deem necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error. The Trustees ensure the use of appropriate accounting policies and prudent judgements and estimates. The Trustees are also responsible for maintaining adequate accounting records and an effective system of risk management.

The Trustees have made an assessment of the ability of the Scheme to continue as a going concern and have no reason to believe that the Scheme will not be a going concern in the year ahead.

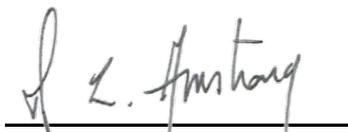
The external auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the annual financial statements

The annual financial statements, as identified in the first paragraph, were approved by the Board of Trustees on 22 April 2021 and are signed on its behalf by:



EA SCHAFFRATH
CHAIRMAN



D ARMSTRONG
VICE CHAIRMAN



T MOSOMOTHANE
PRINCIPAL OFFICER

22 April 2021

DATE

STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES

Bankmed is committed to the principles and practice of responsibility, fairness, transparency, integrity and accountability in all dealings with its stakeholders. The Scheme conducts its affairs according to ethical values, and in compliance with a governance framework.

BOARD OF TRUSTEES

The Trustees meet regularly and monitor the performance of the Scheme. They address a range of key issues and ensure that discussion of items of the policy, strategy and performance is critical, informed and constructive. The performance of third party service providers is monitored against contracted service level agreements. The Trustees have adopted, and maintain, a process of risk identification, assessment and management.

All Trustees have access to the advice and services of the Principal Officer and, where appropriate, may seek independent professional advice at the expense of the Scheme.

The Board of Trustees have appointed an Audit Committee, a Remuneration Committee, a Risk Management Committee, an Investment Committee and a Nominations Committee to assist it in executing its duties. The performance of the Board of Trustees, and the appointed sub-committees, is assessed annually against agreed upon terms of reference for each committee.

INTERNAL CONTROL

The Scheme maintains internal controls and systems designed to provide reasonable assurance as to the integrity and reliability of the annual financial statements and to safeguard, verify and maintain accountability for its assets adequately. Such controls are based on established policies and procedures and are implemented by trained personnel with the appropriate segregation of duties. The adequacy and effectiveness of the systems are assessed by the appointment of internal and external auditors.

No event or item has come to the attention of the Board of Trustees that indicates any material breakdown in the functioning of the key internal controls and systems during the year under review.



EA SCHAFFRATH
CHAIRMAN



D ARMSTRONG
VICE CHAIRMAN



T MOSOMOTHANE
PRINCIPAL OFFICER

22 April 2021
DATE



Independent Auditor's Report

To the Members of Bankmed

Report on the financial statements

Opinion

We have audited the financial statements of Bankmed (the Scheme), set out on pages 27 to 80, which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, the statement of changes in funds and reserves and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Scheme as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Scheme in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards).

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Outstanding risk claims provision The outstanding risk claims provision of R134 507 000 at year-end as described in Note 5 to the financial statements, is a provision recognised for the estimated cost of healthcare benefits that have been incurred prior to year-end but that were only reported to the Scheme after year-end.	We obtained an understanding from the Scheme's actuaries regarding the process to calculate the outstanding claims provision, which included the design and implementation of controls within the process. The actuarial method applied by the Scheme is one that is

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Chief Executive Officer: L S Machaba

The Company's principal place of business is at 4 Lisbon Lane, Waterfall City, Jukskei View, where a list of directors' names is available for inspection.
Reg. no. 1998/012055/21, VAT reg.no. 4950174682.

The outstanding claims provision is calculated by the Scheme’s actuaries which is reviewed by management and the Audit Committee and recommended to the Board of Trustees for approval.

The Scheme’s actuaries use an actuarial model, based on the Scheme’s actual claim development patterns throughout the year, to project the year-end provision. This model applies the Basic Chain Ladder (“BCL”) method. The claim service date, processing date and amount are used to derive claim development patterns. These historical patterns are then used to estimate the outstanding claims provision.

We identified this to be a matter of most significance to the audit because of the uncertainty in the projected claims pattern. A change in the projected claims pattern can cause a material change to the amount of the provision.

generally applied within the medical scheme industry.

We obtained the actual claims data from the member administration system covering the year ended 31 December 2020. The actual claims data includes the impact of COVID-19 and therefore the impact has been taken into account in the claims patterns in the outstanding claims provision.

For a sample of actual claims received by the Scheme in the 31 December 2020 financial year, we tested the accuracy of the service and process dates. No material inconsistencies were noted.

We substantively tested a sample of claims against the relevant Scheme rules and assessed completeness of the claims data.

The claims data that was included in the Scheme’s actuarial model was agreed to the above actual claims data with no material inconsistencies¹ noted.

To assess the reasonableness of the Scheme actuaries’ estimation process, we compared the actual claim results in the current year to the prior year provision. Based on our assessment, the estimation process was considered reasonable.

We have evaluated management’s experts by assessing their competence, capability, and objectivity and noted no aspects requiring further consideration. We also obtained the outstanding claims provision report from the Scheme’s actuaries and assessed whether the inputs, assumptions, methodology and findings per the report were consistent with our testing above. Based on the results of our assessment we accepted the inputs, assumptions, methodology and findings as reasonable.

We obtained the actual claims run-off report up to 31 March 2021 from the Scheme’s administrator. For a sample of claims from the report, we tested the occurrence and accuracy of the claims as well as the accuracy of the related service dates and we identified no material inconsistencies.

We enquired from the Scheme’s administrator whether there were delays in processing claims at year-end that could possibly impact the claims run-off pattern subsequent to year-end. The Scheme’s administrator confirmed that there were no such delays.



	<p>We obtained the treatment pre-authorisations approved prior to year-end from the administrator and selected a sample to assess if any of the selected claims related to a health insurance event before year end were included in the actual claims run-off report up to 31 March 2021. No material inconsistencies were noted.</p>
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Other Information

The Scheme’s trustees are responsible for the other information. The other information comprises the information included in the document titled “Bankmed Medical Scheme Annual Financial Statements 31 December 2020”. The other information does not include the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Scheme’s Trustees for the Financial Statements

The Scheme’s trustees are responsible for the preparation and fair presentation of the financial statements, in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa, and for such internal control as the Scheme’s trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Scheme’s trustees are responsible for assessing the Scheme’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Scheme’s trustees either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Scheme's trustees.
- Conclude on the appropriateness of the Scheme's trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Scheme's trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the Scheme's trustees, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Non-compliance with the Medical Schemes Act of South Africa

As required by the Council for Medical Schemes, we report the following material instance of non-compliance with the requirements of the Medical Schemes Act of South Africa, as amended, that have come to our attention during the course of our audit:

1. Section 29(1)(o) and Regulation 8 of the Medical Schemes Act of South Africa:
During the financial year, there were instances where the Scheme did not pay claims in accordance with the scope and level of minimum benefits.

This material non-compliance finding is disclosed in Note 23 of the financial statements.

Audit Tenure

As required by the Council for Medical Schemes' Circular 38 of 2018, Audit Tenure, we report that PricewaterhouseCoopers Inc. has been the auditor of Bankmed for 2 years.

The engagement partner, Linda Pieterse, has been responsible for Bankmed's audit for 2 years.

PricewaterhouseCoopers Inc.
PricewaterhouseCoopers Inc.
Director: Linda Pieterse
Registered Auditor
Johannesburg
6 May 2021

STATEMENT OF FINANCIAL POSITION
as at 31 December 2020

	Notes	2020 R'000	31 December 2019 R'000 Restated	1 January 2019 R'000 Restated
ASSETS				
Non-current assets		3,676,454	2,826,089	2,660,422
Equipment		913	950	1,018
Financial assets at fair value through profit or loss	2	3,675,541	2,825,139	2,659,404
Current assets		375,050	426,924	379,099
Financial assets at fair value through profit or loss	2	230,395	115,387	52,926
Trade and other receivables	3	71,430	83,562	69,615
Cash and cash equivalents	4	73,225	227,975	256,558
Total assets		4,051,504	3,253,013	3,039,521
FUNDS AND LIABILITIES				
Members' funds		2,907,114	2,238,964	2,103,276
Accumulated funds		2,907,114	2,238,964	2,103,276
Non-current liability		5,853	6,214	6,877
Post-retirement medical aid benefit liability		5,853	6,214	6,877
Current liabilities		1,138,537	1,007,835	929,368
Post-retirement medical aid benefit liability		959	961	973
Outstanding risk claims provision	5	134,507	151,645	123,169
Personal Medical Savings Account monies	6	893,322	784,411	715,517
Trade and other payables	7	109,749	70,818	89,709
Total funds and liabilities		4,051,504	3,253,013	3,039,521

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2020

	Notes	2020 R'000	2019 R'000
Risk contribution income	8	4,949,944	4,710,619
Relevant healthcare expenditure		(4,116,079)	(4,500,068)
Net claims incurred		(3,974,040)	(4,392,681)
Risk claims incurred	9	(3,987,893)	(4,404,905)
Third party claim recoveries	9	13,853	12,224
Accredited managed healthcare services (no risk transfer)	10	(132,672)	(128,410)
Net (expense)/income on risk transfer arrangements		(9,367)	21,023
Risk transfer arrangements premiums paid	11	(168,058)	(166,816)
Risk transfer arrangements recoveries	11	158,691	187,839
Gross healthcare surplus		833,865	210,551
Administration expenditure	12	(258,800)	(257,367)
Net impairment losses	14	(2,728)	(1,682)
Net healthcare surplus/(deficit)		572,337	(48,498)
Other income		150,652	230,423
Investment income	15	148,002	230,421
Sundry income	16	2,650	2
Other expenditure		(54,900)	(46,776)
Asset management fees		(13,193)	(11,735)
Interest paid on Personal Medical Savings Account monies		(41,707)	(35,041)
Net surplus for the year		668,089	135,149
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Actuarial gain on post retirement liability		61	539
Total comprehensive income for the year		668,150	135,688

STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 December 2020

	2020 R'000	2019 R'000
Opening balance at the beginning of the year	2,238,964	2,103,276
Net surplus for the year	668,089	135,149
Other comprehensive income	61	539
Closing balance at the end of the year	<u>2,907,114</u>	<u>2,238,964</u>

	Notes	2020 R'000	2019 R'000 Restated
Cashflows generated/(utilised) from operations before working capital changes			
Net surplus for the year		668,089	135,149
Adjustments for:			
- Depreciation		187	427
- Increase in outstanding risk claims provision		(17,138)	28,476
- Dividend income		(38,570)	(27,228)
- Interest income		(159,673)	(161,144)
- Net return on Personal Medical Savings Account monies invested		41,707	35,041
- Net fair value losses/(gains) on investments at fair value through profit or loss		50,241	(42,049)
- Asset management fees		13,193	11,735
- Decrease in post retirement medical aid benefit liability - staff cost		(302)	(136)
Cash generated/(utilised) in operations before working capital changes		557,734	(19,729)
Working capital changes			
- Decrease/(increase) in insurance and other receivables		8,216	(10,529)
- Increase/(decrease) in insurance and other payables		38,931	(18,891)
- Increase in Personal Medical Savings Account monies		108,911	68,894
Cash generated by operations		713,792	19,745
Interest received		21,075	15,825
Interest paid on Personal Medical Savings Account monies		(41,707)	(35,041)
Net cash generated/(utilised) in operating activities		693,160	529
Cash flows from investing activities			
Purchase of equipment		(150)	(360)
Proceeds on disposal of Financial assets at fair value through profit or loss	2	4,990,392	5,000,181
Acquisition of Financial assets at fair value through profit or loss	2	(5,838,152)	(5,028,933)
Net cash utilised in investing activities		(847,910)	(29,112)
Net decrease in cash and cash equivalents		(154,750)	(28,583)
Cash and cash equivalents at the beginning of the year		227,975	256,558
Cash and cash equivalents at the end of the year	4	73,225	227,975

GENERAL INFORMATION

Bankmed Medical Scheme (the Scheme) is a health insurance provider that offers the insurance of hospital, chronic illness and day-to-day benefits and is administered by Discovery Health (Pty) Ltd, a wholly owned subsidiary of Discovery Limited, listed in the insurance sector of the Johannesburg Stock Exchange (JSE).

The Scheme is a restricted membership medical scheme registered in terms of the Medical Schemes Act No. 131 of 1998, as amended (the Act), and is domiciled in the Republic of South Africa.

BASIS OF PREPARATION

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), which are set by the International Accounting Standards Board (IASB). The Financial Statements are also prepared in accordance with the Act, which requires additional disclosures for registered medical schemes.

The detailed accounting policies have been set out in the respective note to the Financial Statements, with the general accounting policies applied in the preparation of these Financial Statements set out below. These policies have been consistently applied to all years presented, except for changes required by the mandatory adoption of new and revised IFRS.

The preparation of the Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Scheme's accounting policies. The areas involving a higher degree of judgement, or areas where estimates are significant to the Financial Statements, are disclosed in Note 22.

The Financial Statements are prepared in accordance with the going concern principle using the historical cost basis except for certain financial assets and liabilities, which include:

- Financial instruments at fair value through profit or loss

All monetary information and figures presented in these Financial Statements are stated in rand thousand (R'000), unless otherwise indicated.

IMPLEMENTATION OF NEW STANDARDS

New standards, amendments and interpretations effective and relevant to the Scheme:

The following new standards, amendments and interpretations to the existing standards have been published and are effective for the current financial year.

Standard	Scope	Effective date
IAS 1: Presentation of Financial Statements	Disclosure Initiative: The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. This amendment had no significant impact on the Annual Financial Statements of the Scheme.	1 January 2020
IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors	Disclosure Initiative: The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. This amendment had no significant impact on the Annual Financial Statements of the Scheme.	1 January 2020

New standards, amendments and interpretations not yet effective and relevant to the Scheme:

The following new standards, amendments and interpretations to the existing standards have been published and are not yet effective for the current financial year. The Scheme has not early adopted them and it is not expected that they will have any material impact on the Scheme's assets, liabilities and results but may result in additional disclosure in the Financial Statements.

Standard	Scope	Effective date
IFRS 17: Insurance contracts	<p>The Standard was issued in May 2017 and supersedes IFRS 4 Insurance Contracts.</p> <p>The Standard creates one accounting model for all insurance contracts and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. The Standard requires insurance contracts to be measured using updated estimates and assumptions that reflect the timing of cash flows and takes into account any uncertainty relating to insurance contracts.</p> <p>The Standard provides for a simplified approach ("premium allocation approach") for the measurement of a group of insurance contracts only if, at the inception of the group, the entity reasonably expects that the simplification will produce measurement of the liability for remaining coverage that would not differ materially from that produced using the general measurement model and if the coverage period is one year or less.</p>	1 January 2023

IMPLEMENTATION OF NEW STANDARDS (continued)

Standard	Scope	Effective date
IFRS 17: Insurance contracts (continued)	Potential impact: The Scheme has assessed the requirements of the standard and agreed a project plan to implement the standard. The coverage period for the Scheme's contracts is one year or less allowing for the premium allocation approach to be applied, resulting in similar treatment to the current accounting. The most notable exceptions relate to the accounting for Personal Medical Savings Accounts, the treatment of onerous contracts and changes to disclosures in the financial statements.	1 January 2023

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the Financial Statements are measured using the currency of the primary economic environment in which the entity operates (functional currency). The functional and presentation currency of the Scheme is the South African Rand (R).

EQUIPMENT

Equipment is measured at cost less accumulated depreciation and impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised when it is reliably measurable and will result in probable future economic benefits. Expenditure incurred to replace a separate component of an item of equipment is capitalised to the cost of the item and the component replaced is derecognised. All other expenditure is recognised in profit or loss as an expense when incurred.

Disposal or retirement

On disposal or retirement of an item of equipment, any gain or loss, determined as the difference between the net disposal or retirement proceeds and the carrying amount of the asset, is included in profit or loss in the period of disposal or retirement.

Depreciation

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of items of equipment that are accounted for separately.

The estimated maximum useful lives of items of equipment are:

Computer equipment	3 years
Office equipment, furniture and fittings	5 years

CLASSIFICATION, RECOGNITION, PRESENTATION AND DERECOGNITION OF FINANCIAL INSTRUMENTS

The Scheme recognises a financial instrument when, and only when, it becomes a party to the contractual provisions of the instrument. The Scheme classifies its financial instruments into the following categories: financial assets or financial liabilities at fair value through profit or loss, derivatives, and other receivables. Other receivables are receivables other than those arising from insurance contracts and include sundry accounts receivable and interest receivable. Other receivables are disclosed under Trade and other receivables.

The classification depends on the purpose for which the financial instruments are acquired. Management determines the classification of financial instruments at initial recognition. All purchases and sales of financial instruments are recognised on the trade date, which is the date on which the Scheme commits to purchase the financial asset or assume financial liability.

Offsetting financial instruments

This applies where a legally enforceable right to set off exists for recognised financial assets and financial liabilities, and there is an intention to realise the asset, and settle the liability simultaneously or to settle on a net basis.

The Scheme will disclose the net asset or liability in the Statement of Financial Position and on a gross basis in the accompanying notes if the above conditions are met.

Derecognition of financial assets and liabilities

The Scheme derecognises a financial asset or part of a financial asset when:

- The contractual right to the cash flows from the asset expires.
- The Scheme retains the contractual right to receive cash flows of the asset, but assumes the obligation to pay one or more third parties the cash flow without material delay.
- The Scheme transfers the asset, while transferring substantially all the risks and rewards of ownership.
- The Scheme neither transfers the financial asset nor retains significant risk and reward of ownership, but has transferred control of the financial asset.

The Scheme derecognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

MEMBERS' FUNDS

The funds represent the accumulated funds of the Scheme. The funds are mainly held as statutory reserves in lieu of the solvency requirement as required by the Act.

FINANCIAL LIABILITIES

Financial liabilities are initially recognised at fair value, net of transaction costs incurred. After initial recognition the financial liabilities are measured at amortised cost, using the effective interest rate method. In addition, the Scheme is not permitted to borrow, in terms of Section 35 (6)(c) of the Act. The Scheme therefore has no long-term financial liabilities.

PROVISIONS

The Scheme recognises a provision once the following conditions are met:

- It has a present legal or constructive obligation as a result of past events.
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
- A reliable estimate of the amount of the obligation can be made.

Provisions are measured as the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money.

CONTINGENT LIABILITY

The Scheme will disclose a contingent liability if one of the following conditions are met:

- A possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Scheme.
- A present obligation that arises from past events but not recognised because:
 - It is not probable that an outflow of resources will be required to settle an obligation.
 - The amount of the obligation cannot be measured with sufficient reliability.

MEMBER INSURANCE CONTRACTS

Contracts under which the Scheme accepts significant insurance risk from another party (the member) by agreeing to compensate the member or other beneficiary if a specified uncertain future event (the insured event) adversely affects the member or other beneficiary are classified as insurance contracts.

RELEVANT HEALTHCARE EXPENDITURE

Relevant healthcare expenditure consists of net claims incurred, accredited managed healthcare services (no risk transfer) and net income or expense from risk transfer arrangements.

LIABILITY ADEQUACY TEST

Liability adequacy tests are performed to ensure the adequacy of the member insurance contract liabilities as at the reporting date. In performing these tests, current estimates of future cash flows under the Scheme's insurance contracts are used. Any deficiency is immediately recognised in the Scheme's surplus or deficit for the year.

INCOME TAX

In terms of Section 10 (1)(d) of the Income Tax Act 58 of 1962, as amended, receipts and accruals of a benefit fund are exempt from normal tax. A medical scheme is included in the definition of a benefit fund and consequently the Scheme is exempt from income tax.

ALLOCATION OF INCOME AND EXPENDITURE TO BENEFIT PLANS

The following items are directly allocated to benefit plans:

- Contribution income
- Claims incurred
- Risk transfer arrangement fees
- Accredited managed healthcare service fees
- Expenses for administration
- Interest paid on Personal Medical Savings Accounts

The following items are apportioned based on the number of members per benefit plan:

- Other operating expenditure
- Investment income, excluding interest income on Personal Medical Savings Account monies
- Net fair value gains/(losses) on Financial assets at fair value through profit or loss
- Other income; and
- Expenses for asset management services rendered.

STRUCTURED ENTITIES

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual agreements. A structured entity often has some or all of the following features or attributes:

- Restricted activities
- A narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors
- Insufficient equity to permit the structured entity to finance its activities without subordinated financial support
- Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches)

The Scheme has determined that some of its investments in pooled funds and in collective investments ("funds") are investments in unconsolidated structured entities. Disclosure of these investments has been made in Note 21 to the Financial Statements. The objectives include achieving medium to long-term capital growth. The investment strategy does not include the use of leverage.

These funds are managed by independent asset managers who apply various investment strategies to accomplish their respective investment objectives.

The change in fair value of each fund is included in the Statement of Comprehensive Income in 'Net fair value gains/(losses) on Financial assets at fair value through profit or loss'.

1. RESTATEMENT OF COMPARATIVE FIGURES

The Scheme's investment portfolio consists of numerous classes of investments with different investment managers. Included in the portfolios are money market type instruments which are owned through pooled funds in the form of collective investment schemes. In this instance the Scheme holds units in the pooled fund instead of the underlying instruments in the fund. In the prior year, the Scheme disclosed in its Financial Statements the fair value of the underlying instruments in the pooled vehicles by applying a look through principle. This resulted in the underlying money market type Instruments of the collective investment schemes being classified as cash and cash equivalents by considering the maturity dates thereof. This reclassification has also resulted in an additional adjustment to the interest received in the Statement of Cashflows.

The Scheme has reassessed the classification of these money market instruments in line with the requirements of International Accounting Standard 7: Statement of Cash Flows (IAS 7) to confirm if these meet the definition of cash and cash equivalents. This involved assessing whether the Units held in the funds qualify as cash and cash equivalents. This has resulted in reclassification and the effect of the restatement set out below;

	As previously reported	Effect of restatement	As restated
Year ended 31 December 2019			
Statement of comprehensive income (R'000)			
Net surplus for the year	34,719	-	34,719
As at 1 January 2019			
Statement of financial position (R'000)			
Financial assets at fair value through profit or loss (Non-current)	2,357,935	301,469	2,659,404
Financial assets at fair value through profit or loss (Current)	48,535	4,391	52,926
Cash and cash equivalents	562,418	(305,860)	256,558
As at 31 December 2019			
Financial assets at fair value through profit or loss (Non-current)	2,549,019	276,120	2,825,139
Financial assets at fair value through profit or loss (Current)	65,100	50,287	115,387
Cash and cash equivalents	554,382	(326,407)	227,975
As at 31 December 2019			
Statement of cash flows (R'000)			
Cash and cash equivalents at the beginning of the year	562,418	(305,860)	256,558
Interest received	7,620	8,205	15,825
Proceeds on disposal of Financial assets at fair value through profit or loss	1,382,949	3,617,232	5,000,181
Acquisition of Financial assets at fair value through profit or loss	(1,382,949)	(3,645,984)	(5,028,933)

Comparative changes have been made to support the necessary amendments to reflect the restatement in Notes 2, 4, 15 and 21.

2. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Accounting policy

The Scheme's investment strategy ("business model objective") is determined by means of an allocation across different asset classes and grouping of Financial assets into specific portfolios. Independent asset managers manage these portfolios under fully discretionary, active mandates with performance evaluated at portfolio level on a fair value basis. All asset managers are remunerated based on the fair value of the portfolios under management. The business model objective is achieved through the selling of assets per the documented strategy for realisation of gains with the collection of contractual cash flows being incidental to the primary business model objective. The Financial assets are managed together and grouped into specific portfolios. Based on the business model objective the Financial assets are measured at fair value through profit or loss.

Financial assets at fair value through profit or loss are initially recognised at fair value and the transaction costs are expensed in the surplus or deficit section of the Statement of Comprehensive Income.

The fair value of the financial instruments traded in an active market is determined by using quoted market prices or dealer quotes. The fair value of financial instruments not traded in an active market is determined by using valuation techniques that maximise the use of observable market data and rely as little as possible on entity specific estimates.

Gains or losses arising from subsequent changes in fair value are recognised under Other income in the Statement of Comprehensive Income within the period in which they arise.

Note

The Scheme's Financial assets at fair value through profit or loss are summarised by measurement classes as follows:

	2020	2019
	R'000	R'000
Listed equities	875,123	851,324
Commodity linked instruments	50,763	43,704
Collective investment schemes	604,609	236,618
Offshore collective investment schemes	97,941	107,666
Money market instruments	1,035,103	745,013
Bonds	880,401	610,510
Rand denominated offshore bonds	-	9,788
Linked Insurance Policies	361,996	335,903
	<u>3,905,936</u>	<u>2,940,526</u>

2. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

<i>Note</i>	R'000	R'000
Fair value at the beginning of the year	2,940,526	2,712,330
Dividends recapitalised	38,570	27,229
Interest recapitalised	142,514	141,901
Realised (losses)/gains on disposal	(28,258)	140,244
Management fees	(13,193)	(11,735)
Acquisition of Financial assets at fair value through profit or loss	5,838,152	5,028,933
Proceeds on disposal of Financial assets at fair value through profit or loss	(4,990,392)	(5,000,181)
Net movement on revaluation of Financial assets at fair value through profit or loss	<u>(21,983)</u>	<u>(98,195)</u>
Fair value at the end of the year	3,905,936	2,940,526
Less: Short-term portion shown in current assets	(230,395)	(115,387)
	<u><u>3,675,541</u></u>	<u><u>2,825,139</u></u>

A register of investments is available for inspection at the registered office of the Scheme.

The weighted average effective interest rate on bonds for the year was 8.70% (2019: 8.40%).

3. TRADE AND OTHER RECEIVABLES

Accounting policy

Receivables are non-derivative Financial assets with fixed or determinable payments that are not quoted in an active market, other than those the Scheme intends to sell in the short term.

Receivables are initially recognised at fair value, plus transaction costs. The Scheme holds its insurance receivables and other receivables with the objective to collect the contractual cash flows and measures them subsequently at amortised cost using the effective interest method, less provision for impairment.

Trade and other receivables comprise insurance receivables, arising from the Scheme's insurance contracts with its members and other receivables.

Impairment of insurance receivables

The Scheme assesses at each reporting date whether there is objective evidence that an insurance receivable is impaired. An insurance receivable, or group of insurance receivables is impaired, and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the insurance receivable (a "loss event") and that loss event (or events) has an adverse impact on the estimated future cash flows of the insurance receivable that can be reliably estimated.

3. TRADE AND OTHER RECEIVABLES (continued)

Impairment of insurance receivables (continued)

Objective evidence that an insurance receivable is or group of insurance receivables are impaired includes observable data that comes to the attention of the Scheme regarding the following loss events:

- Significant financial difficulty of service provider or member debtors.
- Breach of contract, such as non-payment of member contributions when due, and if these remain unpaid for extended periods.
- Default or delinquency in payments due by service providers and other debtors.
- Adverse changes in the payment status of members of the Scheme.
- National or local economic conditions that correlate with non-payment of debtor contributions.

The Scheme first assesses whether objective evidence of impairment exists, individually for insurance receivables that are individually significant, such as service provider debtors. In the case of insurance receivables which are not individually significant, such as contribution debtors, receivables are grouped on the basis of similar credit characteristics, such as type of receivable and past due status. These characteristics are used in the estimation of future recoverable cash flows.

If there is objective evidence that an impairment loss on an insurance receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows. The carrying amount of the receivable is reduced and the amount of the loss is recognised in the Statement of Comprehensive Income.

When a receivable is uncollectable, it is written off against the related provision for impairment. Such receivables are written off after all the necessary collection procedures have been completed and the amount of the loss has been determined. Where a provision for impairment has not been raised, the receivable is written off directly to the Statement of Comprehensive Income. Subsequent recoveries of amounts previously written off decrease the amount of the provision for impairment in the Statement of Comprehensive Income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the Statement of Comprehensive Income.

Impairment of other receivables

The Scheme applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for other receivables. To measure the expected credit losses, other receivables are grouped based on shared credit risk characteristics and days past due. There are no impairments of other receivables.

3. TRADE AND OTHER RECEIVABLES (continued)

<i>Note</i>	2020 R'000	2019 R'000
Insurance receivables		
Contribution receivables	37,597	37,283
Member and service provider claims receivables	3,015	4,223
Amount due	16,404	16,261
Less: Provision for impairment	(13,389)	(12,038)
Risk transfer arrangements - share of outstanding risk claims provision (note 5)	3,110	11,898
Forensic receivables	3,954	3,187
Total receivables arising from insurance contracts	47,676	56,591
Other receivables		
Interest receivable	21,364	25,280
Prepayments	1,785	1,084
Sundry accounts receivable	605	607
Total receivables arising from other receivables	23,754	26,971
	71,430	83,562

At 31 December 2020, the carrying amounts of trade and other receivables approximate their fair values due to the short-term maturities of these assets. Interest is not charged on overdue balances. The estimated future cash flow receipts have not been discounted as the effect would be immaterial.

4. CASH AND CASH EQUIVALENTS

Accounting policy

Cash and cash equivalents are short-term, highly liquid instruments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

In the Statement of Cash Flows, cash and cash equivalents comprise:

- Money on call and short notice; and
- Balances with banks

Cash and cash equivalents only include items held for the purpose of meeting short-term cash commitments rather than for investing or other purposes and are carried at cost, which, due to their short-term nature, approximates fair value.

4. CASH AND CASH EQUIVALENTS (continued)

<i>Note</i>	2020 R'000	2019 R'000
Current accounts	2,396	213,344
Money market instruments	70,829	14,631
	<u>73,225</u>	<u>227,975</u>

The weighted average effective interest rate earned on money market instruments for the year was 5.40% (2019: 7.74%). Money market instruments have a weighted average maturity of 1 day (2019: 1 day).

The carrying amounts of cash and cash equivalents approximate their fair values due to the short-term maturities of these assets.

5. OUTSTANDING RISK CLAIMS PROVISION

Accounting policy

Claims outstanding comprise provisions for the Scheme's best estimate of the ultimate cost of settling all claims incurred but not yet reported at the reporting date. Claims outstanding are determined as accurately as possible based on a number of factors. These include previous experience in claims patterns, claims settlement patterns, trends in claims frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim.

Claims handling expenses are not separately accounted for as this service is provided by the Administrator and a fixed fee is paid for the full administration service, including claims handling. No provision for claims handling expenses is required as the Scheme has no further liability to the Administrator at year end.

Estimated co-payments and payments from members' Personal Medical Savings Account monies are deducted in calculating the outstanding claims provision. The Scheme does not discount its provision for outstanding claims since the effect of the time value of money is not considered material.

5. **OUTSTANDING RISK CLAIMS PROVISION** (continued)

<i>Note</i>	2020 R'000	2019 R'000
Outstanding claims provision - not covered by risk transfer arrangements	131,397	139,747
Outstanding claims provision - covered by risk transfer arrangements (note 3)	3,110	11,898
	134,507	151,645
<i>Analysis of movement in outstanding claims</i>		
Balance at the beginning of the year	151,645	123,169
Payments in respect of prior year	(157,591)	(135,634)
Under provision	(5,946)	(12,465)
Outstanding claims provision raised in current year		
Not covered by risk transfer arrangements	137,343	152,212
Covered by risk transfer arrangements (note 3)	3,110	11,898
Balance at the end of the year	134,507	151,645
<i>Analysis of outstanding claims provision</i>		
Estimated gross claims	138,255	157,813
Less: estimated recoveries from savings plan accounts (note 6)	(3,748)	(6,168)
Balance at the end of the year	134,507	151,645

6. **PERSONAL MEDICAL SAVINGS ACCOUNT MONIES**

Accounting policy

Members' PMSAs represent savings contributions (which are a deposit component of the insurance contracts), and accrued interest thereon, net of any savings claims paid on behalf of members in terms of the Scheme's registered Rules. The deposit component has been unbundled since the Scheme can measure the deposit component separately and the Scheme's accounting policies do not otherwise require recognition of all obligations and rights arising from the deposit component.

The deposit component is recognised in accordance with IAS 39/IFRS 9 and is initially measured at fair value and subsequently at amortised cost using the effective interest rate method. The insurance component is recognised in accordance with IFRS 4.

The savings accounts contain a demand feature and are initially measured at fair value plus transaction costs, which is the amount payable to a member on demand, discounted from the first date that the amount could be required to be paid. Subsequent to initial measurement, the liability is measured at amortised cost using the effective interest rate method.

6. **PERSONAL MEDICAL SAVINGS ACCOUNT MONIES** (continued)

Accounting policy (continued)

Unspent savings at year end are carried forward to meet future expenses for which the members are responsible. In terms of the Act, balances standing to the credit of members are refundable only in terms of Regulation 10 of the Act.

Advances on savings contributions are funded from the Scheme's funds and the risk of impairment is carried by the Scheme.

Interest payable on members' PMSAs is expensed when incurred.

Note	2020 R'000	2019 R'000
Balance of PMSAs at the beginning of the year	784,411	715,517
Add:		
PMSA contributions received or receivable (note 8)	716,634	687,910
Interest received on PMSAs	41,707	35,041
Transfers received from other medical schemes	2,376	3,062
Less:		
Claims paid to or on behalf of members (note 9)	(599,846)	(610,958)
Refunds paid on death or resignation	(51,960)	(46,161)
	893,322	784,411

It is estimated that claims to be paid out of members' PMSAs in respect of claims incurred in 2020 but not reported will amount to approximately R3.7 million (2019: R6.2 million).

As at 31 December 2020 the carrying amount of the members' PMSAs were deemed to be equal to their fair values, which is the amount payable on demand.

Interest is determined from time to time by the Scheme at its discretion and added to the funds allocated to the member's PMSA in terms of the Scheme Rules. The Scheme does not charge interest on negative (overdrawn) PMSA balances.

7. TRADE AND OTHER PAYABLES

Accounting policy

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Unallocated funds

Unallocated funds arise on the receipt of unidentified deposits in favour of the Scheme.

Unallocated funds that have legally prescribed, that is funds older than three years, are written back and included under Sundry income on the face of the Statement of Comprehensive Income.

A liability for unallocated funds that have not legally prescribed is recognised and disclosed under Trade and other payables. The liability is measured at amortised cost using the effective interest rate method.

Note

	2020 R'000	2019 R'000
<i>Insurance payables</i>		
Contributions received in advance	1,155	3,925
Reported claims not yet paid	77,318	44,238
Total liabilities arising from insurance contracts	78,473	48,163
<i>Financial liabilities</i>		
Accruals	7,282	8,804
Balances due to related parties	23,680	13,851
Discovery Health (Pty) Ltd	23,680	13,851
Unallocated funds	314	-
Total arising from financial liabilities	31,276	22,655
	109,749	70,818

At 31 December 2020 the carrying amounts of insurance and other payables approximate their fair values due to the short-term maturities of these liabilities.

8. RISK CONTRIBUTION INCOME

Accounting policy

Gross contributions comprise risk contributions and Personal Medical Savings Account contributions. Contributions on member insurance contracts are accounted for monthly when their collection in terms of the insurance contract is reasonably assured. Risk contributions represent gross contributions after the deduction of Personal Medical Savings Account contributions. Risk contributions are earned from the date of attachment of risk, over the indemnity period on a straight-line basis. The earned portion of risk contributions received is recognised as revenue.

Note

	2020	2019
	R'000	R'000
Gross contributions per registered Scheme Rules	5,666,578	5,398,529
Less: Personal Medical Savings Account contributions (Note 6)	(716,634)	(687,910)
	<u>4,949,944</u>	<u>4,710,619</u>

9. NET CLAIMS INCURRED

Accounting policy

Claims incurred

Gross claims incurred comprise the total estimated cost of all claims arising from healthcare events that have occurred in the year and for which the Scheme is responsible, whether or not reported by the end of the year.

Risk claims incurred comprise:

- Claims submitted and accrued for services rendered during the year
- Payments under provider contracts for services rendered to members
- Over or under provisions relating to prior year claims estimates
- Claims incurred but not yet reported
- Claims settled in terms of risk transfer arrangements

Net of:

- Claims from members' Personal Medical Savings Account monies
- Recoveries from members for co-payments
- Recoveries from third parties
- Discount received from service providers

Anticipated recoveries under risk transfer arrangements are disclosed separately as assets, and are assessed in a manner similar to the assessment of the outstanding claims provision and claims reported not yet paid.

9. NET CLAIMS INCURRED (continued)

Accounting policy (continued)

Reimbursements from Road Accident Fund

The Scheme grants assistance to its members in defraying expenditure incurred in connection with the rendering of any relevant health service. Such expenditure may be in connection with a claim that is also made against the Road Accident Fund, administered in terms of the Road Accident Fund Act No 56 of 1996. If the member is reimbursed by the Road Accident Fund, they are obliged, contractually, to cede that payment to the Scheme to the extent that they have already been compensated.

Due to the uncertainty around the confirmation and measurability of the Road Accident Fund amounts, the Scheme accounts for these amounts on a cash basis. These amounts are recognised as a reduction of net claims incurred.

Note

	2020 R'000	2019 R'000
Current year claims per registered Scheme Rules	4,453,232	4,851,753
Claims not covered by risk transfer arrangements	4,297,651	4,675,811
Claims covered by risk transfer arrangements (note 11)	155,581	175,942
Movement in outstanding risk claims provision	134,507	164,110
Under provision in prior year (note 5)	5,946	12,465
Adjustment for the current year	128,561	151,645
	4,587,739	5,015,863
Less: claims charged to members' Personal Medical Savings Accounts (note 6)	(599,846)	(610,958)
Risk claims incurred	3,987,893	4,404,905
Less: Third party claims recoveries	(13,853)	(12,224)
	3,974,040	4,392,681

10. ACCREDITED MANAGED HEALTHCARE SERVICES (NO RISK TRANSFER)

Accounting policy

Accredited managed healthcare services (no risk transfer) fees comprise amounts paid or payable to a third party for managing the utilisation, costs and quality of healthcare services to the members of the Scheme and are expensed as incurred.

Accredited managed healthcare services are part of healthcare expenditure as they directly impact on the delivery of cost-effective and appropriate healthcare benefits to beneficiaries of the Scheme.

Note

	2020 R'000	2019 R'000
Clinical risk management	37,589	36,358
Hospital referrals and pre-authorisations	34,892	33,753
Medical provider network management	32,451	31,393
Pharmacy benefit management	27,740	26,906
	<u><u>132,672</u></u>	<u><u>128,410</u></u>

11. NET (EXPENSE)/INCOME ON RISK TRANSFER ARRANGEMENTS

Accounting policy

Risk transfer arrangements are contractual arrangements entered into by the Scheme and third parties who undertake to indemnify the Scheme against all or part of the loss that the Scheme may incur as a result of carrying on the business of a medical scheme. Risk transfer arrangements do not reduce the Scheme's primary obligations to its members and their dependants. The arrangements only decrease the loss the Scheme may incur as a result of carrying on the business of a medical scheme.

Risk transfer arrangement fees are recognised as an expense over the indemnity period on a straight-line basis.

The claims incurred under member insurance contracts and the equivalent claims recoveries are presented in the Statement of Comprehensive Income on a gross basis. Amounts recoverable under such contracts are therefore recognised in the same year as related claims. The claims incurred liability under risk transfer arrangements and the equivalent receivable are also presented in the Statement of Financial Position on a gross basis.

Assets relating to risk transfer arrangements include balances due under risk transfer arrangements for outstanding claims provisions, and claims reported not yet paid. Amounts recoverable under risk transfer arrangements are estimated in a manner consistent with the outstanding claims provision, claims reported not yet paid and settled claims associated with the risk transfer arrangement.

11. NET (EXPENSE)/INCOME ON RISK TRANSFER ARRANGEMENTS (continued)

Accounting policy (continued)

Amounts recoverable under risk transfer arrangements are assessed for impairment at each reporting date. These assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Scheme may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Scheme will receive under the risk transfer arrangement. The Scheme gathers the objective evidence that a risk transfer arrangement asset is impaired using the same process adopted for insurance receivables. The impairment loss is also calculated following the same method used for these receivables.

Note

	2020 R'000	2019 R'000
The Scheme operated the following risk transfer arrangements during the year:		
Recoveries received from risk transfer arrangements	158,691	187,839
Discovery Health (Pty) Ltd	149,755	179,572
Centre for Diabetes and Endocrinology (Pty) Ltd	8,936	8,267
Less: Premiums paid on risk transfer arrangements	(168,058)	(166,816)
Discovery Health (Pty) Ltd	(160,730)	(159,834)
Centre for Diabetes and Endocrinology (Pty) Ltd	(7,328)	(6,982)
	(9,367)	21,023

The Scheme renewed three existing risk transfer arrangements during 2020.

Discovery Health (Pty) Ltd - primary healthcare

Primary healthcare for the Basic and Essential Plans are covered by the risk transfer arrangement with Discovery Health (Pty) Ltd. The risk transfer agreement is in accordance with instructions given by the Scheme. The risk transfer premiums are charged on a per beneficiary basis.

Discovery Health (Pty) Ltd - emergency evacuation

Discovery Health (Pty) Ltd also provides emergency evacuation services to members of all benefit options of the Scheme. The risk transfer agreement is in accordance with instructions given by the Scheme. The risk transfer premiums are charged on a per beneficiary basis.

Centre for Diabetes and Endocrinology (Pty) Ltd

The Centre for Diabetes and Endocrinology (Pty) Ltd provides diabetes benefits to members of all benefit options of the Scheme, except for the Bankmed Basic Plan and Bankmed Essential Plan. The risk transfer agreement is in accordance with instructions given by the Scheme. The risk transfer premiums are charged on a per enrollee basis.

The estimated claims incurred under these arrangements are determined using the similar claims experience for members not on the relevant plans and calculating a Per Life Per Month (PLPM) rate. The value of claims under these arrangements are determined by multiplying the PLPM rate by the lives exposure for the relevant plan members.

12. ADMINISTRATION EXPENDITURE

Accounting policy

Administration fees paid to the Scheme Administrator are expensed as incurred. Other operating expenses include expenses, other than administration fees, and are expensed as incurred.

Note	2020 R'000	2019 R'000
Administration fees	209,758	202,960
Actuarial fees	2,730	2,357
Association fees	657	626
Communication expenses	4,124	8,880
Consulting fees	1,442	1,924
Depreciation	187	427
External audit fees	1,347	982
Fidelity guarantee and professional indemnity insurance premium	220	213
Internal audit fees	607	351
Legal fees	228	387
Levies - Council for Medical Schemes	4,236	4,217
Office lease and other rental charges	2,741	2,730
Other expenses	7,256	9,019
Principal Officer's remuneration	4,009	3,544
Staff costs	16,202	16,055
Trustee remuneration (note 13)	3,056	2,695
	258,800	257,367

13. TRUSTEE REMUNERATION

	Fees for meeting attendance		Fees for attendance of training session		Travel costs		Accommodation costs		Total	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000	2020 R'000	2019 R'000	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Schaffrath, EA (Chairman)	356	374	16	12	-	1	30	26	402	413
Armstrong, D	337	255	16	12	11	9	30	26	394	302
Bolt, DW*	200	169	-	12	-	-	30	26	230	207
Cresswell, J	258	177	16	-	7	5	30	35	311	217
De Lange, G	180	159	16	12	-	16	30	26	226	213
Gush, RP	180	159	16	12	10	48	30	35	236	254
Henning, J	163	214	16	12	-	4	-	26	179	256
Mantle, D	180	149	16	12	-	-	30	26	226	187
Mkhonza, D*	190	196	16	12	1	1	30	26	237	235
Naidoo, N (Noah)	-	139	-	12	-	-	-	26	-	177
Naidoo, N (Nevan)*	164	31	16	-	-	-	30	-	210	31
Noemdoe, G	180	129	8	-	-	7	30	36	218	172
Rametsi, L*	141	31	16	-	-	-	30	-	187	31
	2,529	2,182	168	108	29	91	330	314	3,056	2,695

* Attendance fees are paid to employers

14. NET IMPAIRMENT LOSSES

<i>Note</i>	2020	2019
	R'000	R'000
Insurance receivables		
Contributions that are not collectable		
Impairment losses recognised directly in profit or loss	482	123
Members' and service providers' portions that are not recoverable		
Impairment losses recognised directly in profit or loss	895	-
Movement in provision	1,351	1,559
	2,728	1,682

15. INVESTMENT INCOME

Accounting policy

Investment income comprises dividends and interest received and accrued on Financial assets at fair value through profit or loss and interest on cash and cash equivalents.

Interest income is recognised using the effective interest rate method, taking into account the principal amount outstanding and the effective interest rate over the period to maturity, when it is determined that such income will accrue to the Scheme.

Dividend income from investments is recognised when the right to receive payment is established - this is on the "last day to trade" for listed shares and on the "date of declaration" for unlisted shares.

Note

	2020	2019
	R'000	R'000
Financial assets at fair value through profit or loss	181,084	169,129
Dividend income	38,570	27,228
Interest income	142,514	141,901
Cash and cash equivalents interest income	17,159	19,243
Net fair value (losses)/gains on Financial assets at fair value through profit or loss	(50,241)	42,049
	148,002	230,421

16. SUNDRY INCOME

<i>Note</i>	2020 R'000	2019 R'000
Prescribed amounts written back	<u>2,650</u>	<u>2</u>

17. RELATED PARTY TRANSACTIONS

The Scheme is governed by the Board of Trustees which is constituted of 12 Trustees, six whom are employer appointed and six being member elected.

Key management personnel and their close family members

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Scheme. Key management personnel include the non-executive Board of Trustees and the Executive Officers of the Scheme. The disclosure deals with full-time Executive Officers who are compensated on a salary basis, and non-executive Board of Trustees who are compensated on a fee basis.

Close family members include close family members of the Board of Trustees and Executive Officers of the Scheme.

Parties with significant influence over the Scheme

Absa Bank Ltd, FirstRand Bank Ltd and The Standard Bank of South Africa Ltd have significant influence over the Scheme, as they participate in the Scheme's financial and operating policy decisions through representation on the Board of Trustees, but do not control the Scheme.

NMG Consultants and Actuaries (Pty) Ltd has significant influence over the Scheme, as it consults and advises on various strategic issues which guide the Scheme's operations, but does not control the Scheme.

Discovery Health (Pty) Ltd has significant influence over the Scheme, as Discovery Health (Pty) Ltd participates in the Scheme's financial and operating policy decisions, but does not control the Scheme. Discovery Health (Pty) Ltd provides administration and managed care services. The Scheme furthermore has a risk transfer arrangement for the Basic and Essential Plans with Discovery Health (Pty) Ltd. As Discovery Health (Pty) Ltd is a related party, its subsidiaries and fellow subsidiaries within the Discovery Ltd group are related parties to the Scheme. Discovery Ltd's Annual Report provides detail of its group structure.

The Scheme contracted with Discovery Third Party Recovery Services (Pty) Ltd (DTPRS), a wholly owned subsidiary of Discovery Health (Pty) Ltd, to manage the identification and collection of third party recoveries from the Road Accident Fund.

17. RELATED PARTY TRANSACTIONS (continued)

Transactions with related parties

The following provides the total amount in respect of transactions, which have been entered into with related parties for the relevant financial year.

Transactions with key management personnel and their close family members which includes Trustees and Executive Officers:

	2020	2019
	R'000	R'000
Statement of Comprehensive Income		
Compensation		
Short-term employee benefits	13,140	11,462
Trustee remuneration (note 13)	3,056	2,695
Contributions and claims		
Gross contributions received	909	930
Gross claims paid	1,436	993
Interest paid on Personal Medical Savings Accounts	1	5
Statement of Financial Position		
Personal Medical Savings Accounts balances	54	38

The terms and conditions of the related party transactions were as follows:

Transactions	Nature of transactions and their terms and conditions
Compensation	This constitutes remuneration and consideration paid to Trustees and Executive Officers short-term employee benefits
Contributions received	This constitutes the contributions paid by the related party as a member of the Scheme, in their individual capacity. All contributions were on the same terms as applicable to other members.
Claims incurred	This constitutes amounts claimed by the related parties, in their individual capacity as members of the Scheme. All claims were paid out in terms of the rules of the Scheme, as applicable to other members.
Personal Medical Savings Account balances	The amounts owing to the related parties relate to Personal Medical Savings Account balances to which the parties have a right. In line with the terms applied to other members, the balances earn monthly interest on an accrual basis, at interest rates determined by the Scheme from time to time at its discretion. The amounts are all current and would need to be payable on demand as applicable to other members.

17. RELATED PARTY TRANSACTIONS (continued)

Transactions with entities that have significant influence over the Scheme

	2020 R'000	2019 R'000
Statement of Comprehensive Income		
Actuarial fees	2,730	2,357
Administration fees	209,758	202,960
Road Accident Fund recoveries	4,875	4,384
Risk transfer premiums paid	160,730	159,834
Managed care: management services	116,728	112,911
Statement of financial position		
Financial assets at fair value through profit or loss: Participating employers	1,474,743	861,942
Cash and cash equivalents: Participating employers	25,749	77,408
Insurance and other payables	23,680	13,851
Share of outstanding claims provision	3,110	11,898

The terms and conditions of the transactions with entities with significant influence over the Scheme were as follows:

Terms and conditions of the actuarial contract

The actuarial agreement is in accordance with instructions given by the Trustees of the Scheme. The agreement is reviewed annually and is renewable depending on fee negotiations, unless notification of termination is received. The Scheme has the right to terminate the agreement on 90 days notice.

Terms and conditions of the administration agreement

The administration agreement is in accordance with instructions given by the Trustees of the Scheme. The agreement is reviewed annually and is renewable depending on fee negotiations. The Scheme has the right to terminate the agreement on 6 months notice.

Terms and conditions of the risk transfer agreements

The risk transfer agreements are in accordance with instructions given by the Trustees of the Scheme. The agreements are reviewed annually and are renewable depending on fee negotiations.

Terms and conditions of the managed care agreements

The managed care agreements are in accordance with instructions given by the Trustees of the Scheme. The agreements are reviewed annually and are renewable depending on fee negotiations. The Scheme has the right to terminate the agreement on 6 months notice.

Terms and conditions of investments in participating employers

All investments in participating employers are made and managed via external investment managers and are managed in terms of the agreed mandates.

18. SURPLUS/(DEFICIT) AFTER INVESTMENT INCOME, OTHER INCOME AND OTHER EXPENDITURE PER BENEFIT OPTION

2020	Bankmed Essential Plan R'000	Bankmed Basic Plan R'000	Bankmed Core Saver Plan R'000	Bankmed Traditional Plan R'000	Bankmed Comprehen- sive Plan R'000	Bankmed Plus Plan R'000	Consolidated R'000
Risk contribution income	65,770	704,595	1,031,897	748,454	2,112,237	286,991	4,949,944
Relevant healthcare expenditure	(25,717)	(449,673)	(676,202)	(692,690)	(1,986,165)	(285,632)	(4,116,079)
Net claims incurred	(20,380)	(413,158)	(639,572)	(678,013)	(1,941,816)	(281,101)	(3,974,040)
Risk claims incurred	(20,447)	(414,593)	(641,788)	(680,372)	(1,948,613)	(282,080)	(3,987,893)
Third party claim recoveries	67	1,435	2,216	2,359	6,797	979	13,853
Managed care: management services	(4,323)	(27,401)	(36,492)	(14,815)	(45,035)	(4,606)	(132,672)
Net income on risk transfer arrangements	(1,014)	(9,114)	(138)	138	686	75	(9,367)
Risk transfer arrangements premiums paid	(4,756)	(142,452)	(5,675)	(3,279)	(10,867)	(1,029)	(168,058)
Risk transfer arrangement recoveries	3,742	133,338	5,537	3,417	11,553	1,104	158,691
Gross healthcare surplus	40,053	254,922	355,695	55,764	126,072	1,359	833,865
Administration expenditure	(8,395)	(54,546)	(70,294)	(30,120)	(87,753)	(7,692)	(258,800)
Net impairment loss on insurance receivables	(63)	(477)	(788)	(335)	(978)	(87)	(2,728)
Net healthcare surplus/(deficit)	31,595	199,899	284,613	25,309	37,341	(6,420)	572,337
Other income	5,026	31,328	41,767	17,393	50,645	4,493	150,652
Investment income	4,938	30,777	41,032	17,087	49,754	4,414	148,002
Sundry income	88	551	735	306	891	79	2,650
Other expenditure	(440)	(2,743)	(21,634)	(1,523)	(26,233)	(2,327)	(54,900)
Asset management fees	(440)	(2,743)	(3,658)	(1,523)	(4,436)	(393)	(13,193)
Interest paid on Personal Medical Savings Account monies	-	-	(17,976)	-	(21,797)	(1,934)	(41,707)
Net surplus/(deficit) for the year	36,181	228,484	304,746	41,179	61,753	(4,254)	668,089

18. SURPLUS/(DEFICIT) AFTER INVESTMENT INCOME, OTHER INCOME AND OTHER EXPENDITURE PER BENEFIT OPTION (continued)

2019	Bankmed Essential Plan R'000	Bankmed Basic Plan R'000	Bankmed Core Saver Plan R'000	Bankmed Traditional Plan R'000	Bankmed Comprehen- sive Plan R'000	Bankmed Plus Plan R'000	Consolidated R'000
Risk contribution income	58,180	656,903	906,149	723,873	2,081,321	284,193	4,710,619
Relevant healthcare expenditure	(24,156)	(486,836)	(706,252)	(713,257)	(2,239,395)	(330,172)	(4,500,068)
Net claims incurred	(21,337)	(476,824)	(674,155)	(698,471)	(2,195,614)	(326,280)	(4,392,681)
Risk claims incurred	(21,382)	(477,726)	(676,085)	(700,485)	(2,202,003)	(327,224)	(4,404,905)
Third party claim recoveries	45	902	1,930	2,014	6,389	944	12,224
Managed care: management services	(3,897)	(26,403)	(32,966)	(15,343)	(45,708)	(4,093)	(128,410)
Net income on risk transfer arrangements	1,078	16,391	869	557	1,927	201	21,023
Risk transfer arrangements premiums paid	(4,448)	(142,171)	(5,026)	(3,162)	(10,882)	(1,127)	(166,816)
Risk transfer arrangement recoveries	5,526	158,562	5,895	3,719	12,809	1,328	187,839
Gross healthcare surplus/(deficit)	34,024	170,067	199,897	10,616	(158,074)	(45,979)	210,551
Administration expenditure	(7,713)	(53,680)	(65,825)	(30,590)	(91,563)	(7,996)	(257,367)
Net impairment loss on insurance receivables	(35)	(281)	(433)	(203)	(675)	(54)	(1,681)
Net healthcare surplus/(deficit)	26,276	116,106	133,639	(20,177)	(250,312)	(54,029)	(48,497)
Other income	7,040	47,678	59,843	27,158	81,476	7,227	230,422
Investment income	7,040	47,678	59,843	27,158	81,475	7,227	230,421
Sundry income	-	-	-	-	1	-	1
Other expenditure	(359)	(2,428)	(17,164)	(1,383)	(23,369)	(2,073)	(46,776)
Asset management fees	(359)	(2,428)	(3,048)	(1,383)	(4,149)	(368)	(11,735)
Interest paid on Personal Medical Savings Account monies	-	-	(14,116)	-	(19,220)	(1,705)	(35,041)
Net surplus/(deficit) for the year	32,957	161,356	176,318	5,598	(192,205)	(48,875)	135,149

19. EVENTS AFTER THE REPORTING PERIOD

No significant events occurred between the reporting date and the date the Financial Statements were authorised for issue.

20. INSURANCE RISK MANAGEMENT REPORT

Nature and extent of risks arising from insurance contracts

The Scheme issues contracts that transfer insurance risk. The primary insurance activity carried out by the Scheme indemnifies covered members and their dependants against the risk of loss arising as a result of the occurrence of a health event, in accordance with the Scheme Rules and the requirements of legislation.

This note summarises these risks and the way in which they are managed.

Insurance risk

The risk under any insurance contract can be expressed as the probability that an insured event occurs multiplied by the expected amount of the resulting claim. Insurance events are random and therefore the actual number and size of events during any year are unknown and vary from those estimated. The principal risk that the Scheme faces under its insurance contracts is that the actual claim payments exceed the projected amount of the insurance liabilities. This could occur because the frequency and severity of claims are greater than estimated. A larger number of members will result in smaller variability of the actual claims experience relative to expected levels. This is because an adverse experience is diluted by a larger group of members whose claims are stable and thus predictable.

Factors that aggravate insurance risk include unanticipated demographic movements, adverse experience due to an unexpected epidemic, changes in members' disease profiles, unexpected price increases, prevalence of fraud, supplier induced demand and the cost of new technologies or drugs.

The risks that the Scheme faces can be discussed for the different benefits offered. The three main types of benefits offered by the Scheme in return for monthly contributions are indicated below:

Hospital benefits

The hospital benefit covers medical expenses incurred arising from admission to hospital. This includes accommodation, theatre, professional fees, medication, equipment and consumables.

Day-to-day benefits

Day-to-day benefits cover the cost of out-of-hospital healthcare services, such as visits to general practitioners and dentists as well as prescribed non-chronic medicines. The day-to-day benefits include both the Personal Medical Savings Account (PMSA) and an insurance risk element. This includes the Above Threshold Benefit (ATB). The Scheme does not carry risk for PMSA benefits.

20. INSURANCE RISK MANAGEMENT REPORT (continued)

Insurance risk (continued)

Chronic benefits

The Chronic Illness Benefit (CIB) covers approved medication and treatment for up to 44 listed conditions (Plan dependent), including the 27 Prescribed Minimum Benefit chronic conditions. These include conditions such as HIV / AIDS, high blood pressure, cholesterol and asthma.

The risks associated to the Scheme with the types of benefits offered to members are addressed below:

Hospital benefit risk

The main factors impacting the frequency and severity of hospital claims are the number of admissions and the cost per event. An increase in the frequency and severity of claims result in an increase in the cost of claims.

An increase in the admission rate is often linked to increases in the number of beneficiaries at older ages or with chronic conditions. The increase in cost per event is driven by annual tariff and other cost increases. An increased cost per event can also be caused by an increased case-mix, severity of admissions and the introduction of new hospital-based technologies.

Day-to-day benefits risk

The frequency and severity of claims are driven by the number and disease burden of claimants. The mix of members between the different benefit options as well as an increase in the number of claims categorised as prescribed minimum benefit (PMB) claims will also have an impact on the claims. The frequency of the ATB claims increases throughout the year as an increased number of members run out of their medical savings.

Chronic benefits risk

The main factors impacting the frequency and severity of chronic claims are the number of claimants and the cost per claimant respectively.

Higher increases in chronic claimants are linked to increases in the number of beneficiaries at older ages. In addition, changes relating to the eligibility for chronic benefits will also impact costs. An increase in the number of items per claimant will drive up the costs of chronic claims per claimant. Increases in the regulated prices for chronic medication, the Single Exit Price, and increases in dispensing fees will also result in an increase in costs per claim. The mix between the various chronic conditions will also have an impact on the frequency and the presence of multiple chronic conditions per person will have an impact on the severity of the claims.

20. INSURANCE RISK MANAGEMENT REPORT (continued)

Risk management

The Scheme has various initiatives that are used to manage the risk associated with claims experience. These include:

- Members have to be referred by a doctor prior to an elective admission.
- All hospital admissions have to be pre-authorised.
- Case managers monitor members with hospital stays that are longer than expected to ensure that members are discharged at appropriate times.
- The work of the Centre for Clinical Excellence, which evaluates the effectiveness of new technologies and recommends whether the Scheme should cover these.
- The development of protocols around various high cost conditions, such as lower back surgery.
- A dedicated unit to focus on reducing surgical consumable spend.
- The profiling of statistically significant outlier doctors on admission rate and generated costs as well as peer reviewing them.
- A Coordinated Care Programme (CCP). This is a dedicated unit to ensure direct coordination of care from medical providers to high risk beneficiaries that are exposed to conditions that would generate multiple admissions if not managed.
- An Advanced Illness Benefit Programme dedicated to managing care during the end of life stage for patients who are terminally ill.
- A disease management unit dedicated to managing high risk beneficiaries with complex diseases.
- Alternative reimbursement contracts exist with hospitals to mitigate the risk of additional utilisation above that which is expected for the demographics of the Scheme and severity of admissions.
- The Scheme manages and mitigates the risks associated with chronic illness benefits through an extensive managed care programme, involving detailed drug policy interventions, medicine protocols and benefit rules, all of which comply with the Regulations on Prescribed Minimum Benefits. In addition, the Centre for Clinical Excellence is involved in evaluating the effectiveness of new drugs and recommends whether the Scheme should cover these drugs or not.

Concentration of insurance risk

The Scheme is not subjected to a significant degree of concentration risk due to the various employers being located throughout the country. The Scheme also offers a wide range of benefit plans which meet a variety of members' needs. This results in the Scheme being representative of the medical scheme market and, as such, it experiences limited variability of the outcome.

An annual actuarial valuation is performed, which specifies the contributions to be charged in return for the benefits to be provided given the expected demographic profile of each benefit option.

Risk transfer arrangements

The Scheme has risk transfer agreements in which suppliers are paid to provide certain minimum benefits to Scheme members, as and when it is required by the members. These arrangements are also known as capitation arrangements and fix the cost to the Scheme of providing these benefits.

20. INSURANCE RISK MANAGEMENT REPORT (continued)

Risk transfer arrangements (continued)

The Scheme does, however, remain liable to its members to provide the benefits. If any supplier fails to meet the obligations of the risk transfer arrangement, the Scheme will cover the cost of the benefit.

When selecting a supplier, the Scheme assesses their ability to provide the relevant service. This is to mitigate against the reputational and operational risks that the Scheme faces should a supplier not meet its obligations. The Scheme also monitors the performance of the suppliers, checks the quality of care provided and has access to data on the underlying fee-for-service claims which are included in the arrangement.

Claims development

Detailed claims development tables are not presented as the uncertainty regarding the amount and timing of claim payments are typically resolved within one year, with the majority of cases being resolved within three months. At year end, a provision is made for those claims outstanding that are not yet reported at that date.

The methodology followed in setting the outstanding claims provision is the generally accepted actuarial methodology of chain ladder estimation. This methodology is the most objective, but the accuracy of the estimate is sensitive to changes in the average time from treatment to payment of claims. For hospital claims in the latest service month, a blend of the chainladder method and another method using the estimated cost per event and pre-authorised admissions is also followed.

The estimation of the December 2020 outstanding claims provision was made in accordance with Advisory Practice Note 304 of the Actuarial Society. In accordance with this guidance note, the following factors are considered to determine whether they would have any impact on the outstanding claims provision estimate:

- The homogeneity of claims data.
- The credibility of claims data.
- Changes in emergence and settlement patterns.
- The impact of seasonality.
- The impact of re-opened or adjusted claims.
- The impact of benefit limits and changes.
- External influences.
- The demographic profile of the Scheme.

Based on the processing patterns and claims development up to the end of December 2020 in respect of treatment dates during 2020, the recommended provision for outstanding claims as at December 2020 is R134,5 million (2019: R151,6 million).

20. INSURANCE RISK MANAGEMENT REPORT (continued)

Claims development (continued)

An analysis of sensitivity around various scenarios for the general medical insurance business provides an indication of the adequacy of the estimation process. The Trustees believe that the liability for risk claims reported in the statement of financial position is adequate. However, they recognise that the process of estimation is based upon certain variables and assumptions which could differ when claims arise. Consequently, if for example the estimates of the unreceived portion of risk claims costs for the year was 5% inaccurate, the impact on the net result of the Scheme would be as follows:

	2020	2019
	R'000	R'000
Impact on outstanding claims provision		
In-hospital claims incurred	4,323	4,867
Chronic claims incurred	1,849	1,932
Out-of-hospital risk claims incurred	553	554
	<u>553</u>	<u>554</u>

Liquidity risk

The main component of the Scheme's insurance liabilities is the outstanding claims provision. These are generally settled in a short period of time, approximately 95% of this provision is settled within three months after the claim was incurred and the balance is settled within six months. The remaining insurance liabilities are generally settled within 30 days.

Liquidity risk can also arise when the Scheme's investment mix does not match the nature of the liabilities. However, investments are managed by professional asset managers and finance professionals who ensure that investments, including cash and cash equivalents, are always sufficiently liquid to meet current liabilities while excess reserves are invested to maximise investment return within the scope of Regulations to the Act.

Assumption risk

The Scheme's reserves and therefore solvency are sensitive to changes in claims development patterns. Another relevant assumption is medical inflation. Other assumptions that are considered include utilisation trends, the impact of new technology and the expected demographic profile of the Scheme membership.

21. FINANCIAL RISK MANAGEMENT REPORT

Overview

The Scheme is exposed to financial risk through its financial assets, insurance assets, financial liabilities and insurance liabilities. In particular, the financial risk is that the proceeds, for any reason, from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of financial risk include market risk, interest rate risk, investment risk, credit risk and liquidity risk.

The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Scheme's statutory solvency requirement.

The Board of Trustees has overall responsibility for the establishment and oversight of the Scheme's risk management framework.

The Scheme manages these risks through various risk management processes. These processes have been developed to ensure that the long-term investment return on assets supporting the insurance liabilities is sufficient to contribute towards funding members' reasonable benefit expectations.

The Scheme manages the financial risks as follows:

- The Investment Committee, a Committee of the Board of Trustees, recommends the Scheme's investment policy to the Board of Trustees for approval. The Investment Committee meets at least quarterly and reports back to the Board of Trustees on the matters included in its terms of reference.
- The Scheme has appointed reputable external asset managers to manage its investments and their performance is monitored regularly.
- An external asset consulting company has been appointed to assist in formulating the investment strategy and to provide ongoing reporting and monitoring of the asset managers.

Market risk

Market risk is the risk that changes in market variables, such as foreign exchange rates, interest rates and equity prices will affect the Scheme's income or the value of its holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Scheme's insurance liabilities are settled within one year and the Scheme does not discount insurance liabilities. Consequently, changes in market interest rates would not affect the Scheme's surplus or deficit arising from changes in the insurance liability.

21. FINANCIAL RISK MANAGEMENT REPORT (continued)

Market risk (continued)

The table below summarised the primary risks affecting the Scheme's financial assets at fair value through profit or loss exposure to market risk.

As at 31 December 2020	Currency risk R'000	Price risk R'000	Interest rate risk R'000	Total R'000
Financial assets at fair value through profit or loss	97,941	1,003,819	2,804,176	3,905,936
Listed equities	-	875,123	-	875,123
Commodity linked instruments	-	50,763	-	50,763
Collective investment schemes	-	8,977	595,632	604,609
Offshore collective investment schemes	97,941	-	-	97,941
Money market instruments	-	-	1,035,103	1,035,103
Bonds	-	-	880,401	880,401
Linked Insurance Policies	-	68,956	293,040	361,996
As at 31 December 2019	Currency risk R'000	Price risk R'000	Interest rate risk R'000	Total R'000
Financial assets at fair value through profit or loss	107,666	969,089	1,863,771	2,940,526
Listed equities	-	851,324	-	851,324
Commodity linked instruments	-	43,704	-	43,704
Collective investment schemes	-	5,105	231,513	236,618
Offshore collective investment schemes	107,666	-	-	107,666
Money market instruments	-	-	745,013	745,013
Bonds	-	-	610,510	610,510
Rand denominated offshore bonds	-	-	9,788	9,788
Linked Insurance Policies	-	68,956	266,947	335,903

21. FINANCIAL RISK MANAGEMENT REPORT (continued)

Market risk (continued)

Currency risk

The Scheme operates in the Republic of South Africa and therefore its cash flows are denominated in South African Rand. In terms of the diversified investment strategy operated by the Investment Committee, the Scheme has offshore investments.

The Scheme is exposed to foreign exchange risk arising from its investment in offshore collective investment schemes denominated in US Dollars.

At 31 December 2020 R97.9 million was invested in offshore collective investment schemes (2019: R107.7 million) which accounted for 2.46% of total investments, including cash and cash equivalents (2019: 3.40%).

The sensitivity of the Rand depreciating against the US Dollar is presented below.

	2020	2019
<i>Market risk sensitivity analysis</i>	R'000	R'000
Financial assets at fair value through profit or loss	3,905,936	2,940,526
Change in members funds due to 20% depreciation in Rand	<u>20,532</u>	<u>13,654</u>

Price risk

The Scheme is exposed to equity price risk as it invests funds in South African equities, managed by the Scheme's asset managers. The Scheme's equity portfolio is a long-term investment, and the funds invested in this portfolio are not needed in the short or medium-term. This mitigates the risk associated with short-term fluctuations in the equity market. The Scheme has appointed reputable asset managers with good track records in terms of performance.

At 31 December 2020 R1,003.8 million was invested in listed equities (2019: R969.1 million) which accounted for 25.70% (2019: 32.96%) of total investments.

The sensitivity of equity prices is presented below.

	2020	2019
<i>Price risk sensitivity analysis</i>	R'000	R'000
Financial assets at fair value through profit or loss	3,905,936	2,940,526
Change in members funds due to 10% decrease in JSE All Share Index	<u>124,522</u>	<u>101,230</u>

21. FINANCIAL RISK MANAGEMENT REPORT (continued)

Market risk (continued)

Interest rate risk

The Scheme is exposed to interest rate risk as it places funds in short-term investments, money market accounts and bonds. The risk is managed by maintaining an appropriate mix between fixed and floating rate investments within the Scheme's money market investment portfolio as well as additional fixed and call deposit investments. The bond managers have made use of bond futures and other derivative instruments within these portfolios to manage duration risk.

The Scheme holds 70.47% (2019: 58.82%) of its cash and cash equivalents and Financial assets at fair value through profit or loss in interest bearing instruments. This constitutes a significant portion of the Scheme's investments being exposed to changes in market interest rates, as the majority of the Scheme's interest bearing assets are held at variable rates.

The table below summarises the Scheme's exposure to interest rate risks. Included in the table are the Scheme's investments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates:

	0 - 3 months R'000	> 3 - 12 months R'000	> 12 months R'000	Total R'000
As at 31 December 2020				
Cash and cash equivalents	73,225	-	-	73,225
Financial assets at fair value through profit or loss	17,160	225,341	2,561,675	2,804,176
	<u>90,385</u>	<u>225,341</u>	<u>2,561,675</u>	<u>2,877,401</u>
As at 31 December 2019				
Cash and cash equivalents	227,975	-	-	227,975
Financial assets at fair value through profit or loss	11,405	149,771	1,702,595	1,863,771
	<u>239,380</u>	<u>149,771</u>	<u>1,702,595</u>	<u>2,091,746</u>

The sensitivity of interest rate change is presented below.

	2020 R'000	2019 R'000
<i>Interest rate risk sensitivity analysis</i>		
Cash and cash equivalents	73,225	227,975
Financial assets at fair value through profit or loss	3,905,936	2,940,526
	<u>3,979,161</u>	<u>3,168,501</u>
Decrease in members funds due to 2% increase in prime lending interest rate	<u>128,229</u>	<u>28,819</u>

21. FINANCIAL RISK MANAGEMENT REPORT (continued)

Legal risk

Legal risk is the risk that the Scheme will be exposed to contractual obligations which have not been provided for. At 31 December 2020, the Scheme did not consider there to be any significant concentration of legal risk and no provision has been raised.

Investment risk

Investment risk is the risk that the investment returns on accumulated assets will not be sufficient to cover future liabilities.

The Scheme's Investment Committee oversees that the funds are invested in line with the Act.

The investment philosophy is to hold a diversified pool of assets. The assets are selected as being most appropriate given the liquidity and solvency requirements of the Scheme. In contemplating solvency, the return goals of the Scheme, as well as the risk associated with all assets and asset classes are considered. Diversification is across securities, issuers, asset classes, geographic regions as well as managers within asset classes where practical. The Scheme diversifies its investment portfolio by investing in short-term deposits, money market, bonds, listed property and equity portfolios managed by reputable asset managers.

The Investment Committee monitors the performance of the Scheme's asset managers to ensure performance in accordance with the agreed mandates.

The following table compares the fair value and carrying amounts of assets and liabilities per class of assets and liabilities. The carrying amounts approximate the fair value amounts.

31 December 2020	Financial assets at fair value through profit and loss R'000	Financial assets at amortised cost R'000	Insurance receivables and (payables) R'000	Financial liabilities at amortised cost R'000
Investments	3,905,936	-	-	-
Cash and cash equivalents	-	73,225	-	-
Insurance and other receivables				
Insurance receivables	-	-	47,676	-
Other receivables	-	23,754	-	-
Post-retirement medical aid liability	-	-	(6,812)	-
Personal Medical Savings Account monies	-	-	-	(893,322)
Insurance and other payables				
Insurance payables	-	-	(78,473)	-
Other payables	-	-	-	(31,276)
Outstanding risk claims provision	-	-	(134,507)	-

21. FINANCIAL RISK MANAGEMENT REPORT (continued)

Investment risk (continued)

31 December 2019	Financial assets at fair value through profit and loss R'000	Financial assets at amortised cost R'000	Insurance receivables and (payables) R'000	Financial liabilities at amortised cost R'000
Investments	2,940,526	-	-	-
Cash and cash equivalents	-	227,975	-	-
Insurance and other receivables				
Insurance receivables	-	-	56,591	-
Other receivables	-	26,971	-	-
Post-retirement medical aid liability	-	-	(7,175)	-
Personal Medical Savings Account monies	-	-	-	(784,411)
Insurance and other payables				
Insurance payables	-	-	(48,163)	-
Other payables	-	-	-	(22,655)
Outstanding risk claims provision	-	-	(151,645)	-

Credit risk

Credit risk is the risk of financial loss to the Scheme, if a counterparty to a financial instrument fails to meet its contractual obligation.

The Scheme's principle Financial assets are cash and cash equivalents, trade and other receivables and Financial assets at fair value through profit or loss.

Trade and other receivables

Trade and other receivables comprise of insurance receivables and other receivables. The main components of insurance receivables are in respect of contributions due from members and amounts recoverable from members in respect of claims debt.

Exposure to credit risk

The carrying amount of trade and other receivables represents the maximum credit exposure.

The Scheme ages and pursues unpaid accounts on a monthly basis. The tables below highlights Trade and other receivables which are due and past due (by number of days).

Based on past experience, the Scheme believes that no provision for impairment is required in respect of contribution debtors. For withdrawn member and service provider claims debtors that are past due and outstanding for less than 90 days, past experience has indicated that no provision is required. The Scheme has not renegotiated the terms of receivables and does not hold any collateral or guarantees as security.

21. FINANCIAL RISK MANAGEMENT REPORT (continued)

Credit risk (continued)

Trade and other receivables (continued)

The table below illustrates the quality of the Scheme's receivables to assess the credit risk:

	Neither past due, nor impaired R'000	Past due, not impaired R'000	Impaired R'000	Total carrying amount R'000
31 December 2020				
Trade and other receivables	66,945	4,485	-	71,430
Insurance receivables	43,191	4,485	13,389	61,065
- Contributions outstanding	35,451	2,146	-	37,597
- Amounts recoverable from members and service providers	676	2,339	13,389	16,404
- Share of outstanding claims provision	3,110	-	-	3,110
- Forensic receivables	3,954	-	-	3,954
Accumulated impairment losses	-	-	(13,389)	(13,389)
Other receivables	23,754	-	-	23,754
Cash and cash equivalents	73,225	-	-	73,225
	140,170	4,485	-	144,655
	Neither past due, nor impaired R'000	Past due, not impaired R'000	Impaired R'000	Total carrying amount R'000
31 December 2019				
Trade and other receivables	79,931	3,631	-	83,562
Insurance receivables	52,960	3,631	12,038	68,629
- Contributions outstanding	36,067	1,216	-	37,283
- Amounts recoverable from members and service providers	1,808	2,415	12,038	16,261
- Share of outstanding claims provision	11,898	-	-	11,898
- Forensic receivables	3,187	-	-	3,187
Accumulated impairment losses	-	-	(12,038)	(12,038)
Other receivables	26,971	-	-	26,971
Cash and cash equivalents	227,975	-	-	227,975
	307,906	3,631	-	311,537

21. FINANCIAL RISK MANAGEMENT REPORT (continued)

Credit risk (continued)

Trade and other receivables (continued)

The table below provides an age analysis of the credit that is past due, but not yet impaired.

31 December 2020	30 days R'000	60 days R'000	90 days + R'000	Total R'000
Insurance receivables				
- Contributions outstanding	802	232	1,112	2,146
Amounts recoverable from				
- members and service providers	769	354	1,216	2,339
Past due total	1,571	586	2,328	4,485

31 December 2019	30 days R'000	60 days R'000	90 days + R'000	Total R'000
Insurance receivables				
- Contributions outstanding	150	87	979	1,216
Amounts recoverable from				
- members and service providers	1,915	306	194	2,415
Past due total	2,065	393	1,173	3,631

Provision for impairment

Insurance receivables

For insurance receivables, the Scheme establishes an allowance for impairment that represents its estimate of incurred losses. The provision is based on the expected difference between the current carrying amount and the amount recoverable from the counterparty.

The main components of this provision are:

- A specific loss component that relates to individually significant exposures; and
- A collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

The collective loss allowance is determined based on historical data of payment statistics for similar Financial assets.

Other receivables

The Scheme applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for other receivables.

21. FINANCIAL RISK MANAGEMENT REPORT (continued)

Credit risk (continued)

Provision for impairment (continued)

Other receivables (continued)

To measure the expected credit losses associated with other receivables, these have been grouped based on shared credit risk characteristics and the days past due. Other receivables comprise sundry accounts receivable and interest receivable and are all current and not in a past due status. No expected loss rate is assigned to receivables that are not past due. Any loss associated to these receivables is negligible and no provision raised. No further analysis is presented.

The movement in the provision for impairment, for each component of Insurance receivables has been presented below:

	Contribution receivables R'000	Claims receivables R'000	Total R'000
Balance as at 1 January 2019	-	10,479	10,479
Increase in provision for impairment	123	1,559	1,682
Amounts utilised during the year	(123)	-	(123)
Balance as at 31 December 2019	-	12,038	12,038
Increase in provision for impairment	482	2,246	2,728
Amounts utilised during the year	(482)	(895)	(1,377)
Balance as at 31 December 2020	-	13,389	13,389

Credit quality

The credit quality of trade and other receivables that are neither past due nor impaired as presented above can be assessed by reference to historical information about counterparty default.

Contributions debtors

The Scheme collects over 98% of outstanding contributions in the month following the contributions being due. Therefore, we can establish that the credit quality of contribution debtors is high and no additional disclosure of the credit quality is provided.

Withdrawn member claims debtors

These amounts are due from members that have withdrawn from the Scheme. A provision for impairment covering 94% (2019: 91%) of the total amount due has been raised and the Trustees are satisfied that this is adequate.

Service provider claims debtors

These amounts are due from service providers. As agreed with the providers, the majority of these receivables are recovered by reducing future provider payments thereby providing a high certainty of recoverability, thus no further analysis has been performed on these receivables.

21. FINANCIAL RISK MANAGEMENT REPORT (continued)

Credit risk (continued)

Financial assets held at fair value through profit or loss and cash and cash equivalents

The Scheme manages credit risk on its investment portfolios through the appointment of reputable and appropriate asset managers, extensive diversification and ongoing monitoring and management of credit risk exposures and portfolio holdings.

At 31 December 2020 and 2019, the Scheme only held instruments subject to credit risk with credit ratings between AAA and BBB+ (Standard and Poor's or equivalent).

These investments are included in Financial assets at fair value through profit or loss in the Statement of Financial Position and no other material risks relating to these investments have been identified other than those already disclosed.

Cash and cash equivalents are only placed with reputable financial institutions with a high credit quality. The Scheme has a policy of limiting the amount of credit exposure to any one financial institution.

Unconsolidated investment structures

The Scheme has involvement with investment funds in which it invests but it does not consolidate. The investment funds meet the definition of structured entities because:

- The voting rights in the funds are not dominant rights in deciding who controls them because they relate to the administrative tasks only;
- each fund's activities are restricted by prospectus; and
- the funds have narrow and well-defined objectives to provide investment opportunities.

The asset managers invest the Scheme's monies in reputable funds which generate returns for the Scheme. The Scheme views these funds as unconsolidated structured entities. The Scheme monitors the performance of the funds closely to ensure the Scheme earns high returns without unnecessary exposure to risk.

The Scheme has investments in certain pooled portfolios and collective investment schemes (the Funds) as listed in the table below. The exposure the Scheme has to these Funds is also listed in the table. The Scheme's maximum exposure is limited to the total fair value of its investments in the Funds.

21. FINANCIAL RISK MANAGEMENT REPORT (continued)

Credit risk (continued)

Unconsolidated investment structures (continued)

Fund	2020		2019	
	Fair value of fund assets held R'000	% Fund exposure attributable to Scheme	Fair value of fund assets held R'000	% Fund exposure attributable to Scheme
Abax SA Income Prescient Fund	5,567	2.25%	-	-
Nedgroup Investments Core Income Fund Class C1	446,893	0.76%	25,203	0.06%
Nedgroup Investments Money Market Fund Class C4	19,045	0.11%	116,136	11.14%
Nedgroup Structured Life Enhanced Income Fund	361,996	12.96%	335,903	8.36%
Ninety One GSF US Dollar Money Fund D USD	47,594	0.04%	45,239	0.20%
Ninety One Internal Bond	-	-	136	0.00%
Ninety One Internal Money Market Fund	70,966	1.79%	68,274	1.28%
Ninety One Stefi Plus Fund Z	19,659	0.15%	18,491	0.26%
Prudential Corporate Bond Fund	17,074	0.27%	8,379	0.09%
Prudential Global Fixed Income Fund	50,347	6.23%	62,428	7.04%
Prudential High Interest Fund	25,406	0.28%	8,379	0.09%

Liquidity risk

Liquidity risk is the risk that the Scheme will not have sufficient liquid funds available to settle financial obligations as they fall due.

The Scheme's approach to managing liquidity is to ensure, with significant conservative margin, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Scheme's reputation. In order to meet the conflicting objective of enhancing returns while also providing high liquidity, the combined Scheme portfolios have explicit constraints that guarantee liquidity of at least 20% of the Scheme's assets within a period of one week.

The Scheme has complied with the requirements regarding the nature and categories of assets as prescribed by Section 35 and Regulation 30 of the Act.

Approximately 95% (R127,8 million) (2019: R132,5m) of the Scheme's insurance claim liabilities are settled within three months after the claim was incurred and the balance of the claims liability is settled within six months. The Scheme's remaining insurance liabilities are generally settled within 30 days.

21. FINANCIAL RISK MANAGEMENT REPORT (continued)

Liquidity risk (continued)

The tables below illustrates the liquidity position of the Scheme:

	Up to 1 month R'000	1 - 3 months R'000	> 3 - 12 months R'000	Total R'000
31 December 2020				
Current liabilities	214,497	55,551	868,489	1,138,537
Post retirement medical aid benefit liability	80	160	719	959
Insurance liabilities	78,473	-	-	78,473
Financial liabilities	31,276	-	-	31,276
Personal Medical Savings Account monies	8,941	23,336	861,045	893,322
Outstanding risk claims provision	95,727	32,055	6,725	134,507
Current assets	375,050	-	-	375,050
Liquidity shortfall				<u>(763,487)</u>
	Up to 1 month R'000	1 - 3 months R'000	> 3 - 12 months R'000	Total R'000
31 December 2019				
Current liabilities	189,618	47,502	770,715	1,007,835
Post retirement medical aid benefit liability	80	160	721	961
Insurance liabilities	48,163	-	-	48,163
Financial liabilities	22,655	-	-	22,655
Personal Medical Savings Account monies	11,095	28,960	744,356	784,411
Outstanding risk claims provision	107,625	18,382	25,638	151,645
Current assets	426,924	-	-	426,924
Liquidity shortfall				<u>(580,911)</u>

Money market related funds disclosed as non-current Financial assets at fair value through profit or loss are easily convertible into cash and cash equivalents to ensure the Scheme has sufficient liquidity to meet its obligations.

21. FINANCIAL RISK MANAGEMENT REPORT (continued)

Fair value estimation

Financial instruments

The fair value of Financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for Financial assets held by the Scheme is the current closing price.

The fair value of Financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. Specific valuation techniques used to value Financial instruments include quoted market prices or dealer quotes for similar instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

Personal Medical Savings Account monies

Each members' Personal Medical Savings Account monies contain a demand feature. In terms of Regulation 10 of the Act, any credit balance on a member's Personal Medical Savings Account monies must be taken as a cash benefit when the member terminates his or her membership of the Scheme or benefit plan, and enrolls in another benefit plan or medical scheme without a savings account or does not enrol in another medical scheme. Therefore the carrying value of the members' Personal Medical Savings Account monies are deemed to be equal to their fair values, which is the amount payable on demand.

Valuation of financial instruments by hierarchy level

The Scheme measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1:

Quoted prices (unadjusted) in active markets for identical assets or liabilities. These are readily available in the market and normally obtainable from multiple sources.

Level 2:

Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3:

Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation techniques include inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between instruments.

21. FINANCIAL RISK MANAGEMENT REPORT (continued)

Fair value estimation (continued)

	Level 1 R'000	Level 2 R'000	Total R'000
2020			
Investments at fair value through profit or loss			
Listed equities	875,123	-	875,123
Commodity linked instruments	50,763	-	50,763
Collective investment schemes	-	604,609	604,609
Offshore collective investment schemes	-	97,941	97,941
Money market instruments	-	1,035,103	1,035,103
Bonds	880,401	-	880,401
Rand denominated offshore bonds	-	-	-
Linked Insurance Policies	-	361,996	361,996
	1,806,287	2,099,649	3,905,936
2019			
Investments at fair value through profit or loss			
Listed equities	851,324	-	851,324
Commodity linked instruments	43,704	-	43,704
Collective investment schemes	-	236,618	236,618
Offshore collective investment schemes	-	107,666	107,666
Money market instruments	-	745,013	745,013
Bonds	610,510	-	610,510
Rand denominated offshore bonds	9,788	-	9,788
Linked Insurance Policies	-	335,903	335,903
	1,515,326	1,425,200	2,940,526

Capital risk management

Capital adequacy risk is the risk that there may be insufficient reserves to provide for adverse variations on actual or expected future experience.

The Scheme's objective is to manage its capital in such a way that the annual contribution increase to members is as low as possible, or at least in line with the participating employer's salary increases, and to remain a going concern. The Scheme therefore uses investment income to fund any possible deficit that might occur as a result of operational losses.

21. FINANCIAL RISK MANAGEMENT REPORT (continued)

Capital risk management (continued)

The calculation of the regulatory capital requirement is set out below.

	2020 R'000	2019 R'000
Total members' funds per Statement of Financial Position	2,907,114	2,238,964
Less: cumulative unrealised net gain on remeasurement of investments to fair value	(32,984)	(54,967)
Accumulated funds per Regulation 29	<u>2,874,130</u>	<u>2,183,997</u>
Gross annual contribution income	<u>5,666,578</u>	<u>5,398,529</u>
Solvency margin	50.72%	40.46%

The accumulated funds ratio above compares favourably to the minimum prescribed accumulated funds ratio of 25%.

22. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical accounting estimates and assumptions

The Scheme makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Outstanding claims provision

The critical estimates and judgements relating to the outstanding claims provision are set out under Note 20.

Other risk transfer arrangements

The critical estimates and judgements relating to other risk transfer arrangements are set out under Note 11.

Impairment of assets

The critical estimates made by the Scheme are set out under Note 21 and judgements relating to the impairment of assets are set out under Note 3.

23. NON-COMPLIANCE MATTERS

Circular 11 of 2006 (the Circular) issued by the CMS deals with issues to be addressed in the audited financial statements of medical schemes. This includes the requirement that all instances of non-compliance be disclosed in the audited financial statements, irrespective of whether the auditor considers them to be material or not.

During 2020, the Scheme did not comply with the following Sections and Regulations of the Act.

Sustainability of benefit plans

Nature and impact

In terms of Sections 33(2)(b) and 33(2)(c) of the Act, each benefit option shall be self-supporting in terms of membership and financial performance and be financially sound. The Bankmed Plus Plan incurred net healthcare deficits for the year ended 31 December 2020, thereby contravening Section 33(2)(b) and Section 33(2)(c) of the Act.

Causes of failure

The Scheme's benefit design process always includes considerations which look at the Scheme as a whole, needing to provide a full range of benefit options to cater for the target population, and takes into account the Scheme's financial stability and current reserve levels. Similar losses were anticipated in the budget, which were approved by the Council for Medical Schemes (CMS).

Corrective action

The benefits and contributions proposal approved by the CMS for 2020 included a budgeted loss. As required by the CMS, the Scheme continues to submit monthly management accounts reflecting the performance of the benefit options.

Contributions received after due date

Nature and impact

Contributions due from a number of participating employers were received more than three days after becoming due in certain months during 2020, which is in contravention of Section 26(7) of the Act.

Causes of failure

Due to internal process delays in some participating employers, the contributions paid on behalf of members were not paid within three days of becoming due. As a result the Scheme is in contravention of Section 26(7) of the Act.

Corrective action

Scheme management continues to engage any employer group that pays late, and appropriate action is taken as and when necessary. The administrator's robust follow-up processes have been instrumental in ensuring continuous improvement in timeous payment of contributions by employer groups.

23. NON-COMPLIANCE MATTERS (continued)

Investments in participating employers

Nature and impact

The Scheme holds investments, via various instruments, with Absa Bank Ltd, FirstRand Bank Ltd, Landbank SOC Ltd and The Standard Bank of South Africa Ltd who are participating employers of the Scheme. The Scheme also banks with FirstRand Bank Ltd and therefore has various current accounts with this employer. This is in contravention of Section 35(8)(a) of the Act, as the Scheme is not allowed to hold investments in any participating employer.

Causes of failure

As these institutions are major commercial banks an investment portfolio excluding these employers would fail to perform optimally in the South African investment markets. Funds are therefore invested in various instruments issued by these participating employers. Investments in publicly traded instruments of participating employers are made and managed via external investment managers and are managed in terms of the agreed mandates.

Corrective action

The Scheme applied to the Council for Medical Schemes (CMS) for an exemption from this section of the Act and is awaiting a response from CMS.

Investments in any administrator

Nature and impact

The Scheme has investments in other administrators via unitised fund holdings within the Investec Absolute Opportunity and Prudential Global Real Return portfolios.

Causes of failure

The Scheme invests in pooled investment products with independent third party asset managers who have full discretionary mandates in terms of asset purchases. All such investment decisions are made by these third party asset managers based on their own investment theses. The Scheme is not involved in this investment decision making process as the asset manager is solely responsible for the asset selection and investment performance of the portfolio.

Corrective action

The Scheme applied to the Council for Medical Schemes and received an exemption from this section of the Act. The exemption granted is effective 1 December 2019 to 30 November 2022.

23. NON-COMPLIANCE MATTERS (continued)

Claims paid in excess of 30 days

Nature and impact

A medical scheme shall, in the case where an account has been rendered, subject to the provisions of this Act and the rules of the medical scheme concerned, pay to a member or a supplier of service, any benefit owing to that member or supplier of service within 30 days after the day on which the claim in respect of such benefit was received by the medical scheme.

Causes of failure

A small number of claims were paid later than 30 days of receipt. Delays occur when accounts are referred for clinical audit or other investigations. These are however exceptions and claims are generally paid within the prescribed time.

Corrective action

The Scheme is aware of the requirements and complies as far as possible. It is however an inherent part of the industry that a limited number of problematic claims may exceed the payment requirement of 30 days.

Prescribed minimum benefits

Nature and impact

Section 29(1)(o) and Regulation 8 provide the scope and level of minimum benefits that the Scheme must provide to members and dependants.

Causes of failure

During the year under review there were isolated instances where the Scheme did not pay claims in accordance with the scope and level of minimum benefits.

Corrective action

The Scheme has aligned its interpretation of prescribed minimum benefits with CMS's interpretation, and affected claims have been reprocessed to ensure correct payment.