



ANNUAL  
FINANCIAL  
REPORT  
2020



Fedhealth. We let you be YOU.

## CONTENTS

<b>3 – 32</b>	Report of the Board of Trustees
<b>33</b>	Statement of Responsibility by the Board of Trustees
<b>34</b>	Statement of Corporate Governance by the Board of Trustees
<b>35 – 38</b>	Independent Auditor’s Report
<b>39</b>	Statement of Financial Position
<b>40</b>	Statement of Comprehensive Income
<b>41</b>	Statement of Changes in Funds and Reserve
<b>42</b>	Statement of Cash Flows
<b>43 – 103</b>	Notes to the Financial Statements

REPORT OF THE BOARD OF TRUSTEES

The Board of Trustees has pleasure in presenting its report for the year ended 31 December 2020

1 Description of Fedhealth Medical Scheme

1.1 Terms of registration

Fedhealth Medical Scheme (the Scheme/Fedhealth) is a not-for-profit open medical scheme registered in terms of the Medical Schemes Act no. 131 of 1998, as amended (the Act). It is registered (Registration number: 1202) with and regulated by the Council for Medical Schemes (the Council).

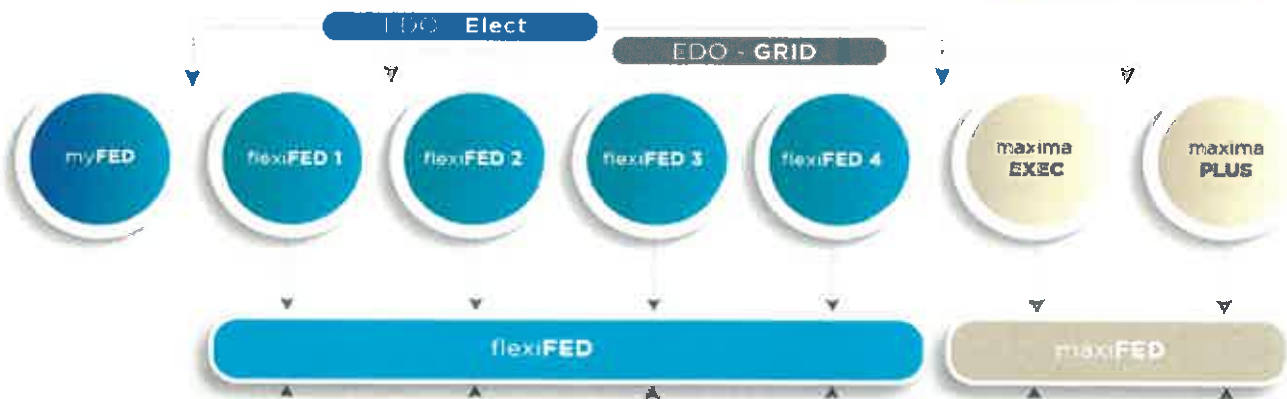
The Scheme exists for the benefit of its members. The Board of Trustees of the Scheme (the Board) oversees and governs the business of the Scheme on behalf of its members.

1.2 Benefit options within Fedhealth Medical Scheme

The Scheme provides three product ranges which includes a low cost option, MyFed. The product ranges cater for market segments at different life stages from comprehensive options, MaxiFed (Maxima Plus, Maxima Exec and Maxima Exec GRID (discontinued in 2021) for conservative and sicker members to affordable options, such as FlexiFed, for young and healthy members. The more comprehensive options have higher benefit limits, lower co-payments and better day-to-day benefits.

At every life stage a member can select an option that meets their needs with regard to affordability and the freedom of provider choice. The more limited the choice the higher the contribution discount compared to unrestricted options. In addition to the risk benefits covered in the options above, FlexiFed options give members access to an interest-free loan facility for funding of day-to-day healthcare expenses. The ELECT and GRID options are efficiency discount options (EDO), which contain the same level of benefits as the main options at a discounted contribution rate. For these options, medical services should be obtained from the Scheme Networks. Note 16 to the financial statements provides further detail.

2020 Product Range



REPORT OF THE BOARD OF TRUSTEES (continued)

1 Description of Fedhealth Medical Scheme (continued)

1.3 Personal medical savings accounts (PMSA)

The Scheme offers members a savings account on the **MaxiFed** and **FlexiFed** options as set out above. The **FlexiFed** options' savings are significantly lower to give members access to an interest-free loan facility. These accounts assist members in managing cash flows for the payment of healthcare services for which they are responsible. PMSA monies are managed on behalf of the members in terms of the Scheme's rules.

The full annual amount is available immediately, although the members only contribute towards this monthly in arrears. In the event that a member's PMSA is exhausted before the member has paid all of the monthly contributions, the Scheme will recognise a receivable for the advance.

The savings may only be used for healthcare services and are only refundable as provided in Regulation 10 of the Act. These savings accounts may not be utilised to provide for benefits and co-payments relating to Prescribed Minimum Benefits (PMBs).

Active members earn 4% interest (2019: 4%) on their accumulated savings. In terms of the rules of the Scheme, the PMSA liability is underwritten by the Scheme.

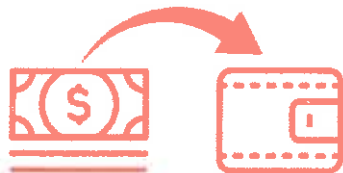
PMSA balances are refundable when a member leaves the Scheme or transfers to a medical scheme option which does not have a PMSA. All refunds and transfers are paid in terms of the Scheme's rules.

1.4 Loans to Members – MediVault transferred to Wallet

The **FlexiFed** options give members access to an interest-free loan facility called the **MediVault** Benefit. The amount allocated can be used to pay for day-to-day medical expenses. This amount is based on the member's selected option and family composition. These funds are not pro-rated based on the member's join date and can be accessed at any time during the year. To access these funds, the member is required to accept the terms and conditions before transferring an amount to their **Wallet**. The transfer can be in full upfront, or in part as needed. The member only has to pay back the money transferred from the **MediVault** to the **Wallet**. The member has an interest free cover over a period of twelve months for the funds transferred to their **Wallet**. Day-to-day benefit claims are first funded from available savings and thereafter if activated the member's **Wallet** account.



An allocated amount based on your option and family composition will be available in your MediVault. If you don't use it, you don't pay for it



Transfer funds from the MediVault to your Wallet as and when required. Claims for day-to-day expenses will be paid from your Wallet.



Only pay back amounts transferred from the MediVault to Wallet over a rolling 12-month or shorter period.

1.5 Risk transfer arrangement

The Iso Leso Optics Ltd (Iso Leso) contract is disclosed in these financial statements as the only risk transfer arrangement.

Iso Leso Optics Ltd

Iso Leso's primary objective is to manage eye care for **MyFed** members and their dependants. The benefits are designed to meet the basic clinical needs of **MyFed** members.



REPORT OF THE BOARD OF TRUSTEES *(continued)*

**1 Description of Fedhealth Medical Scheme *(continued)***

**1.5 Risk transfer arrangement *(continued)***

**Iso Leso Optics Ltd *(continued)***

Iso Leso also advises the Scheme on future optical benefits, clinical issues, trends and more particularly, ensures functional vision is achieved within the framework of the optical benefits available to MyFed members.

Iso Leso receives a capitation fee in respect of all MyFed members for visits to optometrists for their comprehensive eye examination, single vision and bifocal spectacles.

**1.6 Insurance risk management**

The primary insurance activity carried out by the Scheme is to assume the risk of loss from members and their dependants that are directly subject to the risk. This risk relates to the health of the Scheme's members. As such the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under each member's medical insurance contract.

The Scheme manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation and case management, service provider profiling and monitoring of emerging issues.

The Scheme uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analysis, scenario analysis and stress testing. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected.

Insurance events are, by their nature, random and the actual number and size of the events during any one year may vary from those estimated with established statistical techniques. There are no changes to the assumptions used to measure insurance assets and liabilities that have a material effect on the financial statements and there are no terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the Scheme's cash flows.



REPORT OF THE BOARD OF TRUSTEES (continued)

1 Description of Fedhealth Medical Scheme (continued)

1.7 COVID-19

In terms of Circular 28 of 2020 and Circular 52 of 2020, in order to “insulate members facing financial hardship induced by the COVID-19 crisis, the Council recommends that medical schemes that are in a strong financial position, must consider freezing contribution rate increases for the 2021 benefit year. The Board’s decision to freeze the contribution rate must, however be substantiated by an independent actuarial evaluation, clearly demonstrating that there is no risk to the long-term financial sustainability of the Scheme, despite the risk posed by the current devastating COVID-19 pandemic.”

Based on the Scheme’s independent actuarial evaluation, considering the financial performance of the Scheme pre-COVID-19, including Q1 2020, and projections for 2021, Fedhealth is not in financial distress but is not in a strong enough financial position to enable the freezing of 2021 contributions, or to limit increases to 3.9%, without seriously compromising the long-term financial sustainability of the Scheme.

Circular 28 of 2020: COVID-19 Medical Schemes Industry Guidelines, granted medical schemes the option to apply for exemption from certain regulations of the Act or from each scheme’s registered rules in terms of Section 8(h). The Scheme received exemption in terms of Section 8(h) from complying with said Section 26(7) (Contributions not received within the time stipulated by the Act) and Regulation 10(3) (PMSA prohibits the medical savings funds to be used to offset contributions). The Scheme reported the following financial information to CMS as at 31 December 2020.

COVID relief granted via PMSA utilisation		
Total members utilising PMSA for COVID-19 relief (n)		6
Total Rand amount of PMSA COVID-19 relief utilised (R'000)	R	27
Total of the PMSA liability of the scheme (before relief granted)	R	163 229
COVID relief granted via contribution deferrals		
Total members granted contribution deferrals (n)		1 071
Total Rand amount of contribution deferrals granted (R'000)	R	3 843
Total Rand amount of deferrals recovered / paid back (R'000)	R	1 057
Total remaining Rand balance of contribution deferrals (R'000)	R	1 344
COVID relief granted via rule amendments Option Downgrades		
Total members impacted by relief via rule amendments (n)		711
Total Rand amount of relief via rule amendments (R'000)	R	1 393

**REPORT OF THE BOARD OF TRUSTEES (continued)**
**2 Management**
**2.1 Board of Trustees**

Board of Trustees in office during the year under review and at the date of this report are as follows:

T Jackson	Chairperson (Trustee) (1 January – 30 July 2020)	Retired 30 July 2020
M Govender	Chairperson (Trustee) (Elected 27 August 2020)	
J Cloete	Vice Chairman (Elected 27 August 2020)	
N Byrne	Trustee	Retired 30 July 2020
M Duly	Trustee	Retired and re-elected 30 July 2020 Resigned 2 December 2020
G Eloff	Trustee	
K Elliott	Trustee	Elected 30 July 2020
A Fourie	Trustee	
P Hemus	Trustee	
Dr M Mojapelo-Mokotedi	Trustee	Retired and re-elected 30 July 2020
C Norton	Trustee	
N Parker	Trustee	
D Tretheway	Trustee	Retired 30 July 2020
J Viljoen	Trustee	

**2.2 Principal Officer**

J Yatt

**2.3 Registered office address and postal address of the Scheme**

C/o Medscheme Holdings (Pty) Ltd  
Medscheme Office Park  
37 Conrad Street  
Florida North  
Roodepoort  
1709

Private Bag X3045  
Randburg  
2125

[www.fedhealth.co.za](http://www.fedhealth.co.za)

**2.4 Employees**

Principal Officer: J Yatt  
Scheme Operational Executive: T Endersby  
Commercial Executive: M Morton

C/o Medscheme Holdings (Pty) Ltd  
Medscheme Office Park  
37 Conrad Street  
Florida North  
Roodepoort  
1709

Private Bag X3045  
Randburg  
2125

**REPORT OF THE BOARD OF TRUSTEES** *(continued)*

**2 Management** *(continued)*

**2.5 Scheme administrator during the year**

Medscheme Holdings (Pty) Ltd (Medscheme)  
 Medscheme Office Park  
 37 Conrad Street  
 Florida North  
 Roodepoort  
 1709

Private Bag X3045  
 Randburg  
 2125

Administrator accreditation number: 21

**Topmed winddown to January 2020**

Private Health Administrators (Pty) Ltd (PHA)  
 70 Buckingham Terrace  
 Westville  
 3629

P O Box 343  
 Westville  
 3630

Administrator accreditation number: 11

**2.6 Scheme managed care administrators during the year**

Medscheme Holdings (Pty) Ltd  
 Medscheme Office Park  
 37 Conrad Street  
 Florida North  
 Roodepoort  
 1709

P O Box 1101  
 Florida Glen  
 1708

Managed care accreditation number: 53

Aid for Aids Management (Pty) Ltd  
 Medscheme Office Park  
 37 Conrad Street  
 Florida North  
 Roodepoort  
 1709

P O Box 1101  
 Florida Glen  
 1708

Managed care accreditation number: 94

**Topmed winddown to January 2020**

Private Health Administrators (Pty) Ltd  
 70 Buckingham Terrace  
 Westville  
 3629

P O Box 343  
 Westville  
 3630

Managed care accreditation number: 39



**REPORT OF THE BOARD OF TRUSTEES** *(continued)*

**2 Management** *(continued)*

**2.7 Investment managers during the year**

<p>Old Mutual Wealth Trust Company (Pty) Ltd 2nd Floor, 1 Mutual Place 107 Rivonia Road Sandton 2196</p> <p>Financial service provider number (FSP): 18427</p> <p>Taquanta Asset Management (Pty) Ltd 7th Floor, Newlands Terraces Boundary Road, Newlands Cape Town 7700</p> <p>FSP: 618</p> <p>Sanlam Investment Management (Pty) Ltd 55 Willie van Schoor Avenue Bellville 7536</p> <p>FSP: 579</p> <p>Sanlam Private Wealth (Pty) Ltd 55 Willie van Schoor Avenue Bellville 7536</p> <p>FSP: 37473</p> <p>Truffle Asset Management (Pty) Ltd Ground Floor, Lancaster Building Hyde Park Lane Business Complex Corner William Nicol Drive and Jan Smuts Avenue Hyde Park 2196</p> <p>FSP: 36584</p> <p>Prudential Investment Managers (SA) (Pty) Ltd 7th Floor, Protea Place 40 Dreyer Street Claremont 7708</p> <p>FSP: 45199</p>	<p>P O Box 2444 Saxonwold 2132</p> <p>P O Box 23540 Claremont 7708</p> <p>Private Bag X8 Tyger Valley 7530</p> <p>Private Bag X8 Tyger Valley 7530</p> <p>P O Box 535 Pinetown 2123</p> <p>P O Box 23167 Claremont 7735</p>
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**REPORT OF THE BOARD OF TRUSTEES** *(continued)*

**2 Management** *(continued)*

**2.7 Investment managers during the year** *(continued)*

Allan Gray (Pty) Ltd (Disinvested in July 2020)  
1 Silo Square  
V&A Waterfront  
Cape Town  
8001

P O Box 51318  
V&A Waterfront  
Cape Town  
8002

FSP: 6663

**2.8 Asset consultant during the year**

Simeka Consultants & Actuaries (Pty) Ltd  
Simeka House  
The Vineyards Office Estate  
99 Jip de Jager Street  
Bellville  
7532

P O Box 350  
Sanlamhof  
7530

FSP: 13900

**2.9 Actuary**

Medscheme Holdings (Pty) Ltd  
The Boulevard, Buildings F & G  
Searle Street  
Woodstock  
7925

P O Box 38632  
Pinelands  
7430

Accreditation number: 53

**REPORT OF THE BOARD OF TRUSTEES** *(continued)*

**3 External Auditor**

KPMG Inc.  
85 Empire Road  
Parktown  
Johannesburg  
2193

Private Bag 9  
Parkview  
2122

**4 Internal Auditor**

AfroCentric Health Ltd  
Medscheme Office Park  
37 Conrad Street  
Florida North  
Roodepoort  
2193

Private Bag X3045  
Randburg  
2125

**5 Scheme Committees**

The Scheme's governance structure comprises seven committees. Each Committee of the Board has terms of reference which set out the structures and functions of that Committee. The terms of reference are reviewed by each committee and approved by the Board annually.

**5.1 Investment Committee**

The membership, authority and duties of the Investment Committee are governed by terms of reference set by the Board. The Scheme's investment strategy takes into consideration both constraints imposed by legislation and those set by the Board.

The Investment Committee comprises:

Chairperson: P Hemus	Trustee: J Cloete
Trustee: G Eloff	Trustee: M Duly (Resigned 2 December 2020)
Advisor: W le Roux (From Simeka Consultants and Actuaries (Pty) Ltd)	

The mandate of the Investment Committee is to:

- review the investment strategy and policy documents annually and recommend changes to the Board as necessary;
- review the effectiveness and the achievement of the objectives of the investment policy/strategy;
- oversee the criteria and process for the selection of external investment managers;
- recommend the contractual arrangements for the investment managers and investment consultants;
- monitor investment and fund manager performance;
- review performance of the investment portfolio against targeted benchmarks and, if performance results are unacceptable, consider what changes that may be required;
- recommend all investment transactions;
- ensure compliance with applicable legislation; and
- report regularly to the Board on committee activities, issues and related recommendations.



**REPORT OF THE BOARD OF TRUSTEES** *(continued)*
**5 Scheme Committees** *(continued)*
**5.1 Investment Committee** *(continued)*

The Trustees are confident that the Scheme's investment strategy is well set up to benefit from long-term growth and absorb short-term shocks.

The Scheme achieved a return of 6.7% (2019: 10.6%) over the year of 2020 for the invested funds (including assets that were transferred from Topmed), against the inflation rate of 3.2% (2019: 3.6%) and the Scheme's internal benchmark (CPI +3.5%) of 6.7% (2019: 7.1%). The Scheme's assets are split into two investment strategies. The "Solvency" assets represent the main investment strategy (invested between Sanlam Investment Management (Pty) Ltd (SIM), Taquanta Asset Management (Pty) Ltd (Taquanta) and Truffle Asset Management (Pty) Ltd (Truffle), whereas the "Surplus" assets originate from the Topmed transfer and are invested in legacy portfolios (Prudential Investment Managers (SA) (Pty) Ltd and Sanlam Private Wealth (Pty) Ltd.

The return on the Solvency assets of 9.2% (2019: 13.0%) was higher than that of the Surplus assets of 3.1%. The returns achieved by the Scheme's Solvency investment strategy were exceptional in light of the economic challenges experienced during the year. The Taquanta and SIM portfolios did particularly well, driven by very good asset selection within the interest-bearing investment market (bonds and cash). The Scheme's Solvency assets therefore met the internal target of CPI +3.5% quite comfortably during 2020. The return over the last 3 years (2018 - 2020) was 7.7% (2019: 8.9%, 2018: 7.1%) against a benchmark of 7.5% (2019: 8.1%, 2018: 9.0%).

The Surplus assets' investment strategy performed significantly worse than the Solvency assets, due to the former taking much more investment risk, which was not rewarded in the troublesome economic year of 2020, as well as due to some underperformance of the managers relative to peers and the respective benchmarks. The Scheme will continually reassess the appropriateness of these asset managers, as well as the strategy.

The Scheme had an effective equity asset exposure (excluding property) of 34.1% at 31 December 2020 (2019: 28.5%). The weighted average interest earned on cash and cash equivalents was 4.6% (2019: 6.9%).

Section 35(8)(a), (c) and (d) of the Act sets out the prohibition of investments in an employer who participates in the medical scheme or in any medical scheme administrators. The Scheme has been provisionally granted an exemption for a period of three years, effective 1 December 2019 until 30 November 2022, subject to renewal. The exemption is granted subject to the following conditions:

- the Scheme continues to take steps to avoid conflicts of interest;
- the investments, which constitute the subject matter of this exemption application continue to be managed by an independent investment manager with no influence from the Scheme or its officers. The Scheme will be required on an annual basis to submit declarations from investment managers stating that no conflict of interest exists between themselves and the prohibited investment entities; and
- the Scheme conducts a comprehensive quarterly analysis on total assets to ensure that the investments do not exceed the limitations set out in Annexure B.

There is a formal process that is being managed by Old Mutual Wealth and the Scheme to ensure that the above conditions are met.

In 2020, the FTSE/JSE All Share Index produced 7.0% (2019: 12.1%) and other indices also performed positively apart from listed property. Nonetheless, it was a very volatile environment for investing in equities. Truffle is an aggressive balanced portfolio and is expected to have 50% or more of its assets invested in shares over time. Over this particular calendar year, Truffle posted a return of 11.1% (2019: 16.0%).

Bond yields offered investment opportunities over the year, which were exploited efficiently by Taquanta, which does not invest in equities, but in cash and bonds and other interest bearing instruments. Taquanta delivered 8.20% (2019: 11.8%) return for the year.

The SIM portfolio is a low risk absolute return portfolio, with the aim not to erode capital over any 12 months. Its risk level falls between that of the Truffle and Taquanta portfolios. 2020 was a year where the imperative was to try and protect the

## REPORT OF THE BOARD OF TRUSTEES *(continued)*

### 5 Scheme Committees *(continued)*

#### 5.1 Investment Committee *(continued)*

Scheme from any losses over the calendar year, which SIM was able to do, delivering 7.0% (2019: 10.1%) – also comparing very favourably to peers in the low risk absolute return space.

The Sanlam Private Wealth (SPW) portfolio on the other hand having a higher risk profile delivered -2.2% (2019: 9.7%), which represents a disappointing underperformance of the general equity market in a volatile year.

Prudential's absolute return portfolio, aiming to avoid capital loss in any 12-month period managed to deliver 0.6% (2019: 6.3%), but underperformed peers (such as the SIM portfolio employed in the Solvency asset strategy) and benchmark alike, and substantially so.

The Board monitors the Committee's performance against the related terms of reference. No deficiencies were noted relating to the 2020 financial year.

#### 5.2 Risk and Legal Committee

The membership, authority and duties of the Risk and Legal Committee are governed by terms of reference set by the Board.

The Risk and Legal Committee comprises:

Chairperson: G Eloff

Trustee: K Elliott

Trustee: N Parker

Trustee: N Byrne (Retired 30 July 2020)

Trustee: D Tretheway (Retired 30 July 2020)

Trustee: J Viljoen

The mandate of the Risk Committee is to:

- consider the level of governance in the various aspects of the functioning and activities of the Board;
- review policy, draft policy proposals and monitor good governance in respect of procedures by the Board and the Scheme in general and make recommendations to the Board;
- develop and maintain a risk control framework in line with best practice to ensure that risk management efforts are integrated and optimised throughout the Scheme;
- ensure that risk policies and strategies are aligned to key Scheme objectives and effectively managed;
- develop reporting guidelines which focus on stakeholder expectations and provide assurances on the adequacy and effectiveness of the risk management function within the Scheme;
- ensure that risk awareness activities are put into practice at Scheme operational levels;
- ensure that risk identification, measurement and control methodologies result in effective mitigation of risks facing the Scheme;
- entrench a risk control framework into everyday operations which focuses on automated systems and human capital;
- develop guidelines within the risk and control framework for the identification and exploitation of opportunities;
- ensure that the risk and control framework is inclusive of operational legal implications;
- manage contractual risks, statutory legal process and litigation to the benefit of the Scheme; and
- regularly review the relevant literature from appropriate sources applicable to compliance, legal and governance.

The Board considers legislation in the establishment of governance and risk structures and processes, with appropriate checks and balances that enable the Board to discharge its legal responsibilities based on the principles of effective leadership, sustainability, innovation, fairness, fair treatment of members, collaboration and social transformation.

The Board has subscribed to the Governance and Compliance Instrument (GCI Tool), which was developed by the Institute of Directors of Southern Africa and the Council, in collaboration with The Global Platform for Intellectual Property. The GCI Tool

## REPORT OF THE BOARD OF TRUSTEES *(continued)*

### 5 Scheme Committees *(continued)*

#### 5.2 Risk and Legal Committee *(continued)*

is a web based assurance framework that allows medical schemes to assess their level of compliance in respect of the requirements of the King Reports and general governance. Having already completed the Council Compliance Questionnaire and self-assessment against the 16 principles of King IV during 2018, the Board is satisfied that the governance of the Scheme is aligned with the principles of King IV and that it is overseeing the application of the relevant practices.

The Board monitors the Committee's performance against the related terms of reference. No deficiencies were noted relating to the 2020 financial year.

#### 5.3 Remuneration Committee

The membership, authority and duties of the Remuneration Committee are governed by terms of reference set by the Board.

The Remuneration Committee comprises:

Chairperson: N Parker

Trustee: P Hemus

Trustee: M Govender

Trustee: T Jackson (Retired 30 July 2020)

Trustee: N Byrne (Retired 30 July 2020)

Trustee: J Viljoen

The mandate of the Remuneration Committee is to:

- review the on-going appropriateness and relevance of the remuneration policies and procedures;
- oversee the implementation of the remuneration policy within the Scheme;
- recommend the overall policy for remuneration packages of the Board and its committees;
- recommend the overall policy for remuneration packages for all senior staff members directly employed by the Scheme, in a form and amount which will attract, retain, motivate and reward high calibre individuals;
- determine and review the remuneration packages of the Board and senior staff members directly employed by the Scheme;
- review policies for the retention and recruitment of senior staff directly employed by the Scheme, on professional and equivalent grades;
- disclose any payments or considerations made to Trustees in the particular year at the Annual General Meeting;
- review the performance of the Trustees and senior staff members directly employed by the Scheme, annually, to ensure that performance is linked to the priorities of the Scheme for the forthcoming year;
- assist the Board in developing and implementing a systematic, open and proactive performance evaluation programme for the Board and senior staff;
- recommend the annual remuneration for Trustees and the Chairperson of the Board;
- advise on the terms and conditions of contracts or renewal thereof of senior staff directly employed by the Scheme; and
- evaluate the balance of skills, knowledge and experience of the Board and prepare a description of the roles and capabilities required by the Board.

The Board assumes significant responsibilities and fiduciary risks throughout the year and has independent professions to consider. It commits a sizeable amount of time to serve the needs of the Scheme and its members. It is therefore important that the Scheme remunerates its Trustees and Committee members adequately to ensure that persons with appropriate skills and knowledge are attracted and retained by the Scheme. Remuneration and considerations paid to Board members are disclosed in [Note 11.1](#) to the financial statements.

The Board monitors the Committee's performance against the related terms of reference. No deficiencies were noted relating to the 2020 financial year.

## REPORT OF THE BOARD OF TRUSTEES *(continued)*

### 5 Scheme Committees *(continued)*

#### 5.4 Finance Committee

The membership, authority and duties of the Finance Committee are governed by terms of reference set by the Board. The Finance Committee comprises:

Chairperson: K Elliott (Appointed 1 September 2020)	Chairperson: M Govender (Resigned 27 August 2020)
Trustee: J Cloete	Trustee: D Tretheway (Retired 30 July 2020)
Trustee: C Norton	Trustee: T Jackson (Retired 30 July 2020)
Trustee: N Parker	

The Finance Committee is mandated to take steps on behalf of the Board as necessary in fulfilling its oversight responsibilities. The Committee is further mandated to receive and review the management accounts as prepared by the administrator of the Scheme and to ensure that all financial processes are carried out properly. The Committee may consider any other issues relevant to its mandate that it deems necessary.

The mandate of the Finance Committee is to:

- analyse the monthly management accounts and report thereon to the Board;
- report regularly to the Board on the activities of the Committee and identify and make recommendations to the Board on relevant financial issues;
- prepare and monitor financial policies;
- review and assess financial performance;
- make recommendations to the Board on financial matters;
- ensure compliance with all relevant legislation; and
- perform any additional duties that may from time to time be delegated to the Committee by the Board.

The Board monitors the Committee's performance against the related terms of reference. No deficiencies were noted relating to the 2020 financial year.

#### 5.5 Audit Committee

The membership, authority and duties of the Audit Committee are governed by terms of reference set by the Board.

The Audit Committee comprises:

Independent Chairperson: P Brink	Trustee: G Eloff
Independent member: H Kajie	Trustee: K Elliott (Appointed 27 August 2020)
Independent member: B Phillips	Trustee: M Govender (Resigned 27 August 2020)

The Committee consists of at least five members of whom the majority, including the Chairperson, are independent of the Scheme. Two Trustees are appointed as members of the Committee.

The Principal Officer of the Scheme, the financial manager of the administrator, the external auditor and internal auditor are invited to all Audit Committee meetings and have unrestricted access to the Chairperson of the Committee. All other Trustees may attend the meetings in an observer capacity.

The Audit Committee carries out the following functions in accordance with its terms of reference:

- assists the Board in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied by the Scheme or its administrator in the day to day management of its business;
- facilitates and promotes communication and liaises regarding the matters referred to above or related matters between the Board, Principal Officer, administrator, external auditor and internal auditor of the Scheme;

## REPORT OF THE BOARD OF TRUSTEES *(continued)*

### 5 Scheme Committees *(continued)*

#### 5.5 Audit Committee *(continued)*

The Audit Committee carries out the following functions in accordance with its terms of reference: *(continued)*

- satisfies itself with the independence of the administrator's internal audit department, reviews the internal audit function, the internal audit plan and audit findings;
- satisfies itself with the independence of the external auditor and reviews its audit plan, audit management letter, audit report and audit fees;
- reviews the annual performance of the external auditor and makes recommendation to the Board for its further consideration and recommendation to the members at the Annual General Meeting;
- satisfies itself with the financial statements in terms of the accounting policies and drafted on the going concern basis and recommends their acceptance to the Board;
- oversees the Scheme's governance processes and risk management and satisfies itself that the Scheme implements an effective policy and plan for risk management;
- satisfies itself that the financial function of the Scheme and the administrator are appropriate, adequately resourced and effective;
- advises the Board on matters referred to the Committee by them; and
- makes recommendations to the Board that arise from carrying out the above functions.

The Board monitors the Committee's performance against the related terms of reference. No deficiencies were noted relating to the 2020 financial year.

#### 5.6 Marketing Committee

The membership, authority and duties of the Marketing Committee are governed by terms of reference set by the Board.

The Marketing Committee comprises:

Chairperson: J Cloete

Trustee: M Govender

Trustee: C Norton

Trustee: Dr M Mojapelo-Mokotedi

Trustee: M Duly (Resigned 2 December 2020)

Trustee: A Fourie

Trustee: J Viljoen

In terms of the mandate set out below, the Committee will make recommendations to the Board on key issues impacting the direction of the Scheme from a commercial, sales channel, public relations and marketing perspective.

The mandate of the Marketing Committee is to:

- review the marketing strategy in line with the overall strategy of the Scheme;
- ensure that the marketing strategy is designed to meet the evolving needs of the Scheme and the macro environment it operates in;
- review performance of the various sales channels to market and the consideration of strategic issues that will ensure optimisation of these sales channels;
- consider strategic new sales channels that will contribute to membership growth;
- review annually the marketing budget in line with the identified strategic marketing imperatives and activities as required;
- review biannually the budget expenditure and activities;



**REPORT OF THE BOARD OF TRUSTEES** *(continued)*

**5 Scheme Committees** *(continued)*

**5.6 Marketing Committee** *(continued)*

- review the implementation of the marketing strategy including creative execution and media placement in order to ensure alignment to the strategy;
- review strategic market opportunities identified by the technical/marketing consultants in relation to core product, complimentary products and services;
- review the Public Relations strategy of the Scheme annually in the light of the marketing strategy;
- oversee any agreement that pertains to marketing; and
- review the performance of the Marketing and Media agency to contract regularly.

The Board monitors the Committee’s performance against the related terms of reference. No deficiencies were noted relating to the 2020 financial year.



**REPORT OF THE BOARD OF TRUSTEES** *(continued)*

**5 Scheme Committees** *(continued)*

**5.7 Managed Healthcare Committee**

The Managed Healthcare Committee comprises:

Chairman: Dr M Mojapelo-Mokotedi

Trustee: C Norton

Trustee: N Parker

Trustee: M Duly (Resigned 2 December 2020)

Trustee: T Jackson (Retired 30 July 2020)

Trustee: D Tretheway (Retired 30 July 2020)

Trustee: A Fourie

In terms of the mandate set out below, the committee will make recommendations to the Board on the development and implementation of a Clinical Governance Strategy for the Scheme.

The mandate of the Managed Healthcare Committee is to:

- develop, implement, assess and evaluate the execution of the Clinical Governance Strategy and principles of the Scheme;
- review and amend clinical and funding guidelines for the Scheme;
- participate in the option design to ensure that the clinical guidelines are comprehended;
- identify best practices in attending to and resolving disputes;
- participate in option design and provide input into the preparation of member literature to ensure that the rules of the Scheme are clear and unambiguous;
- monitor the quality of healthcare delivered to members of the Scheme;
- monitor the changing healthcare environment and proactively advise the Board on strategic implications for the Scheme; and
- Identify and manage any areas of clinical risk.

The Board monitors the Committee's performance against the related terms of reference. No deficiencies were noted relating to the 2020 financial year.



REPORT OF THE BOARD OF TRUSTEES (continued)

5 Scheme Committees (continued)

5.8 Board and committee meeting attendance

The following schedule sets out attendance at Board and committee meetings. Related remuneration is disclosed in Note 11.1 to the financial statements.

Board and Committee Members	Committee Meetings																			
	Board Meetings		Finance Committee		Audit Committee		Investment Committee		Marketing Committee		Managed Care Committee		Remuneration Committee		Operations Committee		Risk and Legal Committee		Total	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
T Jackson (Chairman) (Retired 30 July 2020)	5	5	5	5			1	1			2	2	1	1			1	1	15	15
M Govender (Chairman) (Elected 27 August 2020)	9	9	9	9	2	2			4	4			2	2					26	26
N Byrne (Retired 30 July 2020)	5	4											1	1					6	5
J Cloete (Vice Chairperson Elected 27 August 2020)	9	9	9	9					4	4					4	4			26	26
M Duly (Resigned 2 December 2020)	9	9					2	2	4	3	4	4			4	4			23	22
K Elliott (Elected 1 August 2020)	4	4			1	1			2	2	2	2							9	9
G Eloff	9	9			4	2	3	3									2	2	18	16
A Fourie	9	9							4	4					2	1			15	14
P Hemus	9	9					3	3					2	2					14	14
Dr M Mojapelo-Mokotedi	9	9							4	1	4	4							17	14
C Norton	9	9	3	2					4	4	4	3			4	4			24	22
N Parker	9	9	3	3							4	4	2	2			2	2	20	20
D Tretheway (Retired 30 July 2020)	5	5	5	5	1	1	1	1							2	2	1	1	15	15
J Viljoen	9	7							4	2			2	1					15	10
Independent: P Brink					4	3													4	3
Independent: H Kaje					4	4													4	4
Independent: B Phillips					4	4													4	4

A: Total meetings convened that could be attended B: Actual number of meetings attended



REPORT OF THE BOARD OF TRUSTEES (continued)

6 Scheme Activities at the end of the accounting year

6.1 Operational statistics

	Maxima Plus	Maxima Exec	Maxima Exec Grid	FlexiFed 1	FlexiFed 1 Elect	FlexiFed 2	FlexiFed 2 Grid	FlexiFed 2 Elect	FlexiFed 3	FlexiFed 3 Grid	FlexiFed 3 Elect	Subtotal
<b>2020</b>												
Number of members (n)	1 187	3 485	293	20 107	2 547	5 204	4 440	265	13 189	1 759	229	52 705
Number of beneficiaries (n)	1 765	5 724	480	41 070	4 887	11 383	9 752	575	25 378	3 619	517	105 150
Number of dependants (n)	578	2 239	187	20 963	2 340	6 179	5 312	310	12 189	1 860	288	52 445
Average number of members (n)	1 250	3 643	296	20 472	2 120	5 312	4 495	252	13 751	1 799	222	53 612
Average number of beneficiaries (n)	1 864	6 056	489	42 104	4 105	11 611	9 874	568	26 623	3 713	504	107 511
Dependant ratio to members (n)	0.49	0.64	0.64	1.04	0.92	1.19	1.20	1.17	0.92	1.06	1.26	1.00
Risk contribution *pan of beneficiaries **pm (R)	8 139	4 599	4 178	1 254	961	1 621	1 510	1 213	2 104	1 817	1 508	2 628
Average age of beneficiaries (yrs)	65.0	60.3	62.3	31.8	30.2	33.6	38.9	34.6	45.9	46.0	46.4	
Pensioner ratio (%)	62.4%	50.9%	54.4%	5.9%	3.9%	9.4%	16.2%	6.1%	25.9%	24.8%	23.1%	
Average managed care *pan of members **pm (R)	116	115	115	104	104	108	107	106	107	109	111	
Average managed care *pan of beneficiaries **pm (R)	78	69	69	51	54	49	49	47	56	53	49	
Net claims as a percentage of net contributions (%)	86.9%	94.2%	125.7%	63.4%	34.9%	85.2%	80.3%	84.5%	82.1%	91.5%	80.7%	
Relevant healthcare expenditure *pan of beneficiaries **pm (R)	7 038	4 425	5 618	812	416	1 419	1 243	1 063	1 759	1 691	1 227	
Relevant healthcare expenditure as a percentage of gross contributions - Claims ratio (%)	82.0%	83.7%	116.7%	63.3%	42.0%	86.2%	81.0%	86.1%	82.4%	91.7%	80.0%	
Non-healthcare expenditure *pan of beneficiaries **pm (R)	322	290	291	232	235	223	223	212	251	234	211	
Non-healthcare expenditure as a percentage of gross contributions (%)	3.8%	5.5%	6.1%	18.2%	24.1%	13.6%	14.6%	17.3%	11.8%	12.8%	13.9%	
Average chronic profile (%)	57.3%	52.3%	54.0%	10.2%	6.4%	14.5%	17.7%	14.0%	25.2%	28.4%	22.4%	

\*pan - per average number \*\* pm - per month

REPORT OF THE BOARD OF TRUSTEES (continued)

6 Scheme Activities at the end of the accounting year (continued)

6.1 Operational statistics (continued)

	Subtotal Brought Forward	FlexiFed 4	FlexiFed 4 Grid	FlexiFed 4 Elect	MyFed	Grand Total
<b>2020</b>						
Number of members (n)	52 705	16 337	979	475	3 998	74 494
Number of beneficiaries (n)	105 150	30 137	2 033	969	5 681	143 970
Number of dependants (n)	52 445	13 800	1 054	494	1 683	69 476
Average number of members (n)	53 612	17 132	997	492	3 982	76 215
Average number of beneficiaries (n)	107 511	31 886	2 079	1 012	5 704	148 192
Dependant ratio to members (n)	1.00	0.84	1.08	1.04	0.42	0.93
Risk contribution *pan of beneficiaries **pm (R)	2 628	2 747	2 382	2 023	1 220	2 485
Average age of beneficiaries (yrs)		49.3	52.0	50.1	39.2	41.1
Pensioner ratio (%)		28.4%	31.3%	28.0%	16.8%	19.3%
Average managed care *pan of members **pm (R)		111	113	107	58	97.2
Average managed care *pan of beneficiaries **pm (R)		60	54	52	40	51.5
Net claims as a percentage of net contributions (%)		83.4%	93.4%	57.7%	87.5%	80.5%
Relevant healthcare expenditure *pan of beneficiaries **pm (R)		2 333	2 266	1 176	1 086	2 238
Relevant healthcare expenditure as a percentage of gross contributions - Claims ratio (%)		80.0%	94.1%	56.1%	88.1%	79.5%
Risk contribution *pan of beneficiaries **pm (R)		265	233	232	164	241
Non-healthcare expenditure as a percentage of gross contributions (%)		9.6%	9.7%	11.4%	13.4%	11.0%
Average chronic profile (%)		36.6%	43.2%	36.2%	16.9%	33.0%

\*pan - per average number \*\* pm - per month

REPORT OF THE BOARD OF TRUSTEES (continued)

6 Scheme Activities at the end of the accounting year

6.1 Operational statistics

	Maxima Plus	Maxima Exec	Maxima Exec Grid	FlexiFed 1	FlexiFed 1 Elect	FlexiFed 2	FlexiFed 2 Grid	FlexiFed 2 Elect	FlexiFed 3	FlexiFed 3 Grid	FlexiFed 3 Elect	Subtotal
<b>2019</b>												
Number of members (n)	1 484	4 146	193	21 400	1 123	5 288	4 711	189	14 962	1 636	140	55 272
Number of beneficiaries (n)	2 241	7 069	309	44 534	2 228	11 588	10 285	471	29 428	3 382	309	111 844
Number of dependants (n)	757	2 923	116	23 134	1 105	6 300	5 574	282	14 466	1 746	169	56 572
Average number of members (n)	1 342	3 791	171	19 055	884	5 145	3 546	169	13 320	1 543	133	49 099
Average number of beneficiaries (n)	2 050	6 522	268	40 042	1 795	11 310	7 935	427	26 002	3 178	290	99 819
Dependant ratio to members (n)	0.51	0.71	0.60	1.08	0.98	1.19	1.18	1.49	0.97	1.07	1.21	1.02
Risk contribution *pan of beneficiaries **pm (R)	7 109	3 979	3 676	1 130	853	1 476	1 359	1 079	1 874	1 643	1 342	2 320
Average age of beneficiaries (yrs)	64.4	58.2	29.2	30.4	29.2	32.3	39.0	32.4	44.7	42.8	41.0	40.3
Pensioner ratio (%)	68.7%	58.3%	57.5%	6.7%	4.5%	12.0%	24.9%	7.4%	32.2%	31.1%	25.7%	29.9%
Risk contribution *pan of beneficiaries **pm (R)	119	116	114	103	102	105	105	104	106	106	106	
Average managed care *pan of beneficiaries** pm (R)	78	67	73	49	50	48	47	41	54	51	49	
Net claims as a percentage of net contributions (%)	106.7%	98.7%	181.6%	72.3%	60.3%	92.9%	82.5%	77.2%	89.8%	101.4%	94.5%	
Relevant healthcare expenditure *pan of beneficiaries **pm (R)	7 171	3 699	6 409	798	477	1 406	942	872	1 558	1 670	1 563	
Relevant healthcare expenditure as a percentage of gross contributions - Claims ratio (%)	104.2%	86.6%	172.9%	77.4%	68.3%	96.5%	88.8%	88.0%	93.1%	107.0%	122.8%	
Non-healthcare expenditure *pan of beneficiaries **pm (R)	318	284	309	231	229	225	222	193	251	238	223	
Non-healthcare expenditure as a percentage of gross contributions (%)	4.2%	6.1%	7.2%	20.1%	26.4%	15.1%	16.1%	17.7%	13.3%	14.3%	16.4%	
Average chronic profile (%)	59.0%	52.8%	57.0%	8.7%	7.5%	13.2%	17.3%	12.5%	23.5%	26.4%	22.0%	

\*pan - per average number \*\* pm - per month



REPORT OF THE BOARD OF TRUSTEES (continued)

6 Scheme Activities at the end of the accounting year (continued)

6.1 Operational statistics (continued)

	Subtotal Brought Forward	FlexiFed 4	FlexiFed 4 Grid	FlexiFed 4 Elect	MyFed	Grand Total
<b>2019</b>						
Number of members (n)	55 272	18 967	837	500	4 239	79 815
Number of beneficiaries (n)	111 844	36 057	1 796	1 044	6 163	156 904
Number of dependants (n)	56 572	17 090	959	544	1 924	77 089
Average number of members (n)	49 099	19 503	829	524	4 660	74 615
Average number of beneficiaries (n)	99 819	37 487	1 800	1 101	6 755	146 962
Dependant ratio to members (n)	1.02	0.90	1.15	1.09	0.45	0.97
Risk contribution *pan of beneficiaries **pm (R)	2 320	2 412	2 101	1 760	1 048	1 863
Average age of beneficiaries (yrs)		47.1	46.5	43.1	36.4	43.3
Pensioner ratio (%)		34.0%	37.3%	29.2%	15.9%	29.1%
Average managed care *pan of members **pm (R)		110	109	106	59	96.0
Average managed care *pan of beneficiaries **pm (R)		57	50	50	41	46.0
Net claims as a percentage of net contributions (%)		89.1%	89.1%	130.1%	84.7%	86.0%
Relevant healthcare expenditure *pan of beneficiaries **pm (R)		2 346	2 009	1 702	1 035	1 308
Relevant healthcare expenditure as a percentage of gross contributions - Claims ratio (%)		92.8%	94.6%	91.0%	90.1%	81.0%
Non-healthcare expenditure *pan of beneficiaries **pm (R)		261	243	225	175	233
Non-healthcare expenditure as a percentage of gross contributions (%)		10.7%	13.7%	10.6%	16.7%	14.5%
Average chronic profile (%)		34.7%	40.2%	31.4%	14.0%	20.4%

\*pan - per average number \*\* pm - per month

**REPORT OF THE BOARD OF TRUSTEES** *(continued)*

**7 Review of the accounting year's activities**

**7.1 Operational statistics**

	2020	2019
Accumulated funds per member at 31 December (R)	R 22 226	R 18 375
Amount paid to administrators (R'000)		
- Medscheme administration fees	280 461	261 870
- PHA administration fees (wind down fees)	308	8 621
- Medscheme managed care programme	85 158	79 787
- PHA managed care programme (wind down fees)	100	2 788
Broker service fees (R'000)	72 131	66 509
Number of principal members joining the Scheme (n) (2019: Include Topmed amalgamation)	12 162	28 479
Number of principal members leaving the Scheme (n)	17 483	21 470
Return on investments as a percentage of investments (%) *	6.70	10.60

\*The returns on investments are calculated monthly and compounded to formulate an annual return.

**7.2 Results of operations**

The results of the Scheme are set out in the financial statements and the Board believes that no further clarification is required.

	2020	2019
	R'000	R'000
Members' funds per statement of financial position	1 687 004	1 487 135
Less:		
Available-for-sale revaluation reserve (Cumulative net unrealised gains on re-measurement to fair value of financial instruments included in members' funds)	(31 279)	(20 567)
<b>Accumulated funds per Regulation 29</b>	<b>1 655 725</b>	<b>1 466 568</b>
Gross contributions	3 707 164	3 376 529
Accumulated funds ratio (%)	44.66	43.43



## REPORT OF THE BOARD OF TRUSTEES *(continued)*

### 7 Review of the accounting year's activities *(continued)*

#### 7.3 Revaluation reserve

Movements in the revaluation reserve are set out in the statement of change in funds and reserve on [page 41](#) of the financial statements. There have been no unusual movements that the Board believes should be brought to the attention of the members of the Scheme.

#### 7.4 Outstanding risk claims provision

The basis of calculation and movements on the outstanding risk claims provision and impact of COVID-19 are set out in [Note 5](#) to the financial statements and are consistent with the previous year. There have been no unusual movements that the Board believes should be brought to the attention of the members of the Scheme.

#### 7.5 Deferral of the implementation of IFRS 9 Financial Instruments

IFRS 9 Financial Instruments is effective for annual periods beginning on or after 1 January 2018.

IFRS 4 Insurance Contracts provides a temporary exemption that permits, but does not require, the Scheme to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2021, the original effective date of the new IFRS 17 Insurance Contracts.

A scheme may apply the temporary exemption from IFRS 9 if, and only if:

- it has not previously applied any version of IFRS 9
- activities are predominantly connected with insurance, at its reporting date.

In June 2020, the IASB issued an extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) which defers the implementation date of the amendment to annual periods beginning on or after 1 January 2023. The Scheme meets both the criteria and has elected to apply the exemption to defer the application of IFRS 9 to 1 January 2023.

### 8 Actuarial services

The Scheme Actuary, employed by Medscheme Holdings (Pty) Ltd, during the year is C Manikai, FASSA.

The Actuary was consulted in the determination of the contribution and benefit levels for 2020 and for 2021 as well as the outstanding risk claims provision calculation at year-end.

### 9 Investments in and loans to participating employers of the members or other related parties of the Scheme

The Scheme has investments through portfolios managed by the underlying investment managers in Sanlam, which employs members of the Scheme. The Council has granted the Scheme an exemption in terms of Section 35(8) of the Act. The Scheme holds no other direct investments in, nor has it made loans to, participating employers of the members, or other related parties of the Scheme.

### 10 Fidelity Insurance

The Scheme has taken out insurance cover as required by the Act, to protect the Scheme against fidelity losses and the Trustees and independent committee members against any professional indemnity claims.

### 11 Related party transactions

Full details of remuneration and related party transactions are disclosed in [Note 11.1](#) and [Note 18](#) respectively to the financial statements.

**REPORT OF THE BOARD OF TRUSTEES** *(continued)***12 Internal audit**

A formal internal audit function exists, with regular reporting to the Audit Committee. A structured internal audit plan is provided to the Audit Committee for input and suggestions during the course of the year. This audit plan is also reviewed by the external auditor for reliance on their audit work.

The Scheme receives scheme specific internal audit reports performed by AfroCentric Health Ltd Internal Audit department which are reviewed to ensure sound and accurate administration.

**13 Events after the reporting date**

**The Scheme is aware of the following events after the reporting date:**

**New COVID-19 variants**

The new COVID-19 variant is believed to have acquired 23 mutations. The changes to the spike protein of the new variants have enhanced its binding ability with human cells, allowing easier infection and greater replication within the host. The new variant caused the second wave, which resulted in much higher number of infections, a higher peak (approximate 65% higher), more hospital admissions and a higher number of deaths in the country compared to the first wave.

New research shows that the new variant identified in South Africa may escape antibodies generated from previous infection and vaccines designed for the earlier variants. For example, initial results showed that the AstraZeneca vaccine was less effective in preventing the new variant. There is ongoing research to establish if the new variants cause more severe diseases but prevention, symptoms and clinical management appear to remain the same. Further new variants have been identified in the UK and Brazil. This may result in a third wave with more cases than the second wave. The view of the Minister of Health, as well as members of the Ministerial Advisory Committee, is that a third wave is almost inevitable, and likely to occur during winter (June or July).

The strength of the third wave will be influenced by, among other things:

- Vaccinations
- New variants
- Number of people who have had COVID-19
- Government lockdown measures

The Scheme strategy will be guided by lessons learnt from the first and second waves. South Africa (and the Scheme) are better prepared for any new waves. Fedhealth is on alert for any further emerging risks of this pandemic and will constantly review and align its internal processes and procedures to ensure that Fedhealth members are educated and supported to receive the care they need. The Scheme is in close communication with our network facilities and practitioners and all role-players know how to deal with the various scenarios, in line with the Department of Health guidelines. There are designated hospitals in both the public and private sector where Fedhealth patients can be admitted in line with clearly defined protocols in the event of being faced with identified or potential cases. The Scheme is in further negotiations with pathology and radiology laboratories to ensure that standard operating procedures are clearly defined and that the best rates are negotiated.

The administrator has a task team that is tracking events as they happen and updating operations. Fedhealth can confirm that a positive diagnosis of COVID-19 is a notifiable condition, and that the Scheme will cover costs for supportive diagnosis, treatment and hospitalisation as Prescribed Minimum Benefits (PMBs), subject to scheme rules (formularies etc.) per option. Fedhealth will be educating and encouraging its membership to take the COVID-19 vaccinations, and funding the cost of vaccinating all of its members from risk.

REPORT OF THE BOARD OF TRUSTEES (continued)

13 Events after the reporting date (continued)

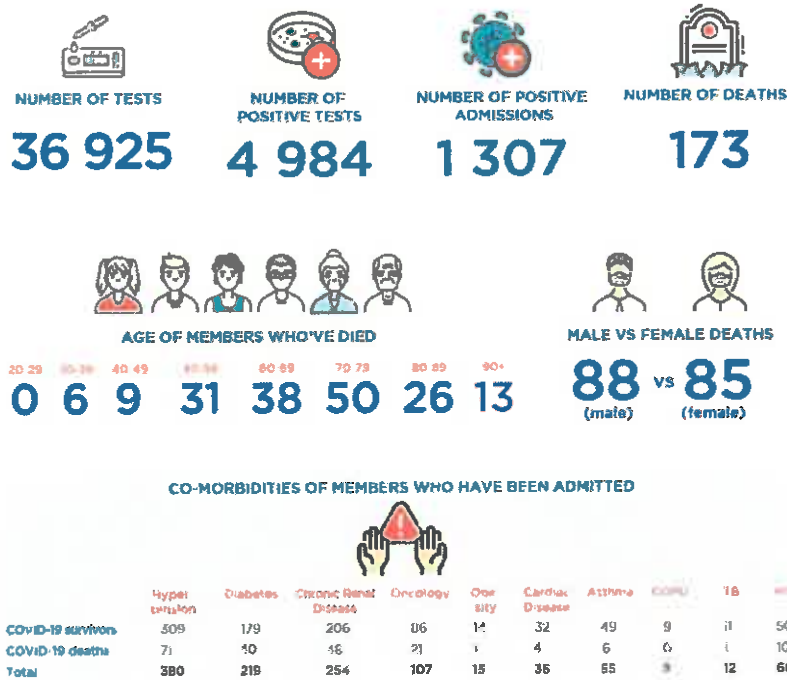
It is not clear if medical schemes will be forced to subsidise non-members vaccination costs by way of a higher Single Exit Price as previously suggested during discussions with National Department of Health, BHF and HFA. In this scenario, the expected cost of vaccinations is projected to be between R38 million and R67 million for 2021. Fedhealth is in a strong financial position to afford the cost of vaccinating its members, and a similar number of non-members, should this be made compulsory by the Government. It should be noted that the costs of COVID-19 vaccinations will most likely not be a once off cost, but possibly an annual additional cost as vaccines are updated and might only offer protection for a limited period.

14 Business strategy

The issue dominating 2020 was the advent of the COVID-19 pandemic. For the first quarter of 2020 claims were considerably higher than those anticipated and budgeted for, and with the first cases arriving in the country in March, the Scheme was facing a potential claims increase. However, as hospitals braced for an anticipated rush of COVID-19 admissions, a halt was called on non-essential or elective procedures. Elective procedures are those in which the treatment is clinically appropriate but need not be done immediately, or at all. The reduction in elective procedures also took place to help curb the spread of the virus in a high-risk setting like a hospital and the consequent impact it had on the claims cost on the Scheme was advantageous. From projecting a deficit of R160m in March 2020, the Scheme eventually realised a surplus of R189m by year end.

From a Scheme perspective, the expected flood of COVID-19 related claims did not materialise. Mostly we believe this is because our members had the ability and good sense to take the necessary precautions, and even the second wave which ravaged the country had a lesser effect on the Scheme than it could have had. Which is not to say that the Scheme is unconcerned about the effect of the pandemic on its finances; there are many unknowns about the potential cost impact, from the costs of the COVID-19 vaccine to the effects of third and subsequent waves in terms of hospital admissions or as yet undiscovered treatment options. As a result, and notwithstanding the far better than expected financial results, the Board has adopted a cautious and prudent approach to the contribution rate increase for 2021.

A summary of Fedhealth-specific COVID-19 statistics as at 31 December 2020 is contained below:



REPORT OF THE BOARD OF TRUSTEES (continued)

14 Business strategy (continued)

It is apparent that the decrease in claims costs in 2020 demonstrates the amounts of over-servicing that takes place in private sector healthcare in South Africa. This indicates that it is not that unnecessary treatment was previously being provided, but rather that the extent of treatment was not commensurate with the circumstances. Various scopes such as gastroscopies and colonoscopies were being performed with little necessity other than to ensure certainty. While this conservative approach to medical management may seem innocuous, it is now clear that the cost impact is significant. The Scheme has embarked on a programme to identify areas where unnecessary healthcare costs can be avoided without impacting the level and quality of care received by our members.

The focus right now is on the rollout of the COVID-19 vaccine, which the Scheme will fund in full for its members. There was a suggestion from the Department of Health that schemes should contribute to the funding of the vaccine rollout for non-medical scheme members, but that seems to have been taken off the table. What is apparent is that schemes have a role to play in the creation of herd immunity, and Fedhealth has planned and budgeted for the cost of the administration of the vaccine to Fedhealth beneficiaries and the cost will not have a disadvantageous impact on the Scheme.

In the light of the pandemic and the changing world, the Board considered that it was necessary to revisit the Scheme strategy and short- to medium-term goals to ascertain whether the current strategy was still appropriate. Lockdown helped change mindsets and potentially accelerated many healthcare trends in a number of ways: patients and doctors alike are more open to the idea of telehealth, while the rapid development of measuring devices linked via the internet has meant that physical presence is no longer a prerequisite for a proper and thorough consultation. Sharing of diagnostic and investigative data can reduce the incidence of duplicative pathology and radiology examinations, while at the same time ensuring that different healthcare providers are aware of each other's treatment regimes. This reduces the likelihood of contra-indicated treatment as well as allowing providers to optimise the treatment.

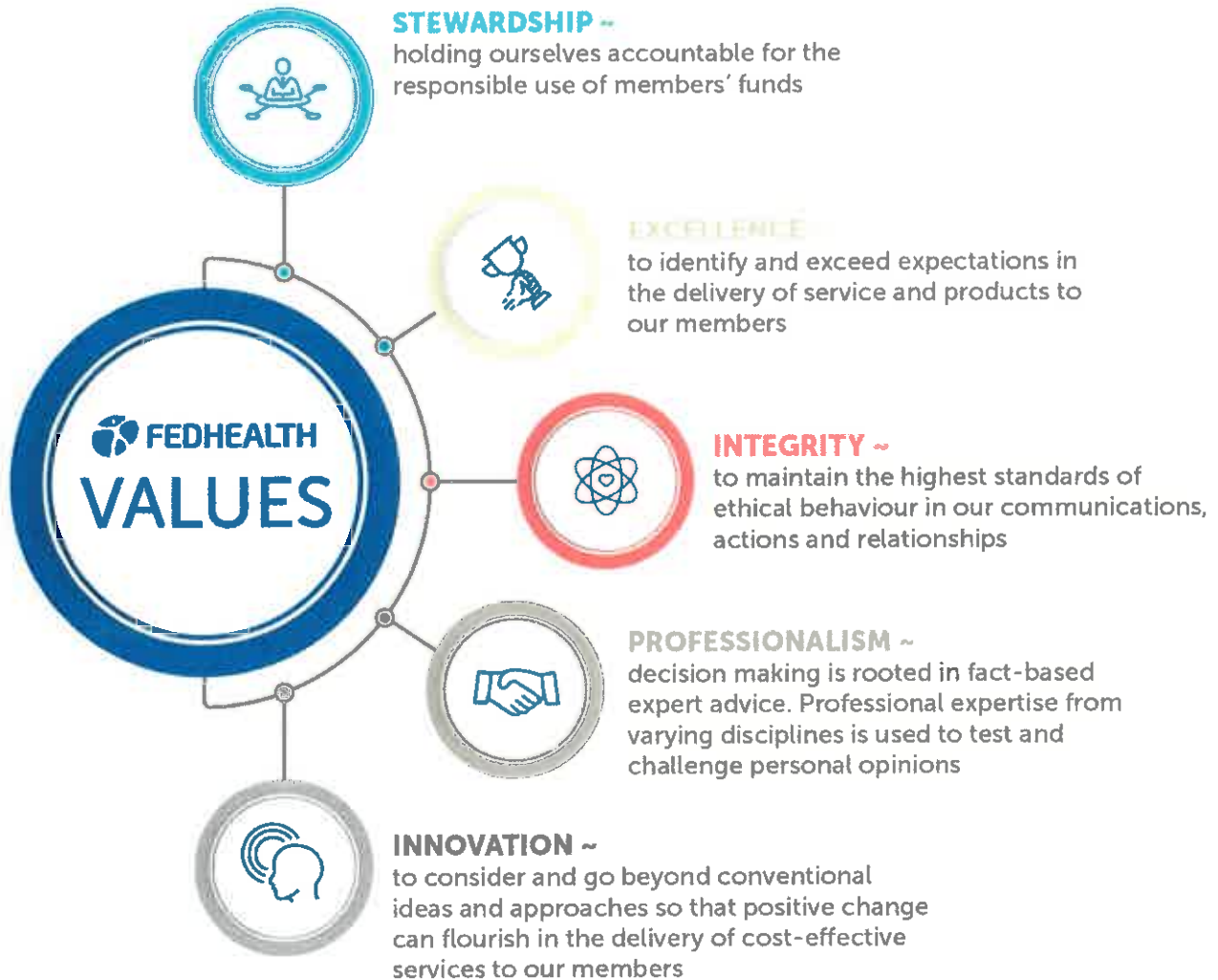
At the same time, the challenges of understanding medical aid products and processes can be alleviated by wireless applications ("Apps") that allow members and providers a way to access and understand the different requirements for a claim to be paid. Similarly the enhancements to digital technology can make it easier for members to adopt self-care practices that will result in better health outcomes.



REPORT OF THE BOARD OF TRUSTEES (continued)

14 Business strategy (continued)

With all of this in mind the Board adopted a strategic framework to guide the thinking and approach over the next three years. Starting with the purpose statement: "To provide funding for the health and wellbeing and healthcare needs of our members, creating peace of mind", the Board identified five values that would guide it in decision making. These values are:



## REPORT OF THE BOARD OF TRUSTEES (continued)

## 14 Business strategy (continued)

The strategic focuses of the Board are as follows:

1. **Next-generation value add healthcare products and services:** This process started with the adoption of the MediVault and EDO structure but will continue as the Scheme explores ways to reduce costs, simplify interaction with the Scheme and providers, and enhance member understanding of the benefit structures.
2. **Next-generation managed care initiatives:** Reducing unnecessary spend is an important objective, but of more importance is keeping our members healthy and reducing their need for medical interventions. The Scheme will look for ways to encourage and incentivise members to adhere to their medication, adopt healthy lifestyles and avoid risky behaviours.
3. **Next-generation administration contracting:** The Scheme's administrator is currently managed by a contract that does not incentivise the administrator for superior performance and innovation. By structuring the agreement in such a way that poor service is punished but great service is rewarded, the Scheme aims to ensure that the member experience of any interaction with the Scheme is easy and pleasurable.
4. **Next-generation contracting for the sales channel:** In order for the Scheme to thrive, it needs to ensure a steady stream of new members with the correct profile. Members leave the Scheme for a number of reasons, such as new employment, so it is essential to create channels and opportunities for new members to join.
5. **Next-generation broker contracting:** The services of healthcare intermediaries are vital, not just in attracting new membership to the Scheme but also to help members, new and existing, to be on the right option and understand how best to access their benefits. Intermediaries play a vital role in educating our members and ensuring that they have adequate cover for their healthcare needs and life stage.
6. **Membership growth through acquisition:** Consolidation of schemes through amalgamation is a long-established trend. While it brings with it levels of complications in joining two different cultures and systems together, it does allow for the creation of bigger risk pools which has positive advantages. The Scheme is not actively looking for amalgamation partners, but is open to any possible matches.

**In conclusion**

While the past year has been challenging, the Scheme is confident that it can meet these challenges and enhance the relationship it has with members, healthcare providers and other stakeholders.

Dealing with the fallouts from a seemingly never-ending pandemic was never going to be easy by anyone's standards, but the Fedhealth Board has continuously been inspired and energised by the tenacity of the human spirit in finding innovative solutions, embracing new technologies and adjusting to the new normal we are now living through. Appreciation must be made of the absolute dedication of our frontline healthcare workers who have been taking care of the sick in these unprecedented times.

As a Scheme, we look towards tomorrow with gratitude, greater wisdom and renewed hope for a healthier world.

REPORT OF THE BOARD OF TRUSTEES (continued)

15 Non-compliance matters

Nature and cause of non-compliance	Possible impact of the non-compliance	Corrective course
<b>15.1 Contributions not received within the time stipulated by the Act</b>		
<p>Section 26(7) of the Act states that: "All subscriptions or contributions shall be paid directly to a medical scheme not later than three days after payment thereof becoming due." Exceptions were found and credit control procedures were applied.</p>	<p>Late payment may result in a loss of interest on these amounts to the Scheme for the number of days that payment is late. This is not significant due to the short duration of the contributions outstanding. Members and employer groups are continuously instructed to submit payment on time.</p>	<p>The Board addresses the issue on an ongoing basis in accordance with the Scheme's credit control policy.</p> <p>The Board received exemption in terms of section 8(h) from complying with said section 26(7) as per Circular 28 of 2020: COVID-19.</p>
<b>15.2 Claim payments in excess of 30 days</b>		
<p>Section 59(2) of the Act states that: "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."</p> <p>Exceptions were found at the beginning of the financial year when claims are put on hold, to ensure that the approved tariff and benefit limits are loaded correctly on the administration platform. This process results in a delay in the processing of payments due to the backlog in claims, but only for a few days.</p>	<p>The delay only occurs at the beginning of the financial year when new tariffs and benefit limits are loaded; claims are paid within the first week of tariff and benefit limit approval.</p> <p>The Scheme is not compliant with the Act and/or its rules when certain valid claims are rejected or amounts due on valid claims are short paid.</p>	<p>The year-end process is not considered to be significant due to the members and providers conforming to the annual practice. The practice ensures accurate claims processing for the new benefit year and is in the interest of the risk management process for the Scheme.</p>
<b>15.3 Loss making options</b>		
<p>Section 33(2) of the Act states that: "The Registrar shall not approve any benefit option under this section unless the Council is satisfied that such benefit options (b) shall be self-supporting in terms of membership and financial performance and (c) is financially sound." Various options made net healthcare deficits as disclosed in Note 16 to the financial statements.</p>	<p>The Council may withdraw benefit options, directly affecting the members on these options.</p>	<p>The Scheme was specifically costed to incur net healthcare deficits on certain options. The Scheme's actuary has taken this into account in costing the benefits for the 2020 financial year.</p>



REPORT OF THE BOARD OF TRUSTEES (continued)

15 Non-compliance matters (continued)

Nature and cause of non-compliance	Possible impact of the non-compliance	Corrective course
<b>15.4 Prohibition of Investments in an employer who participates in the medical scheme or in any administrators</b>		
<p>Section 35(8)(a), (c) and (d) of the Act sets out the prohibition of investments in participating employer and administrators. The Scheme is currently invested in Discovery Holdings Ltd, MMI Holdings Ltd, Sanlam Life Insurance Ltd, Sanlam Ltd and Sanlam Capital Markets Ltd through portfolios managed by underlying investment managers.</p>	<p>The Scheme is non-compliant with Section 35(8). The Council may require the Scheme to disinvest from these companies.</p>	<p>The Council renewed the exemption, as none of these companies have any influence over the Scheme and the Scheme does not have any influence over these entities in which it holds investments.</p>
<b>15.5 Prohibition the medical savings funds to be used to offset contributions unless to settle the scheme upon terminations of membership</b>		
<p>Regulation 10(3) personal medical savings account prohibits the medical savings funds to be used to offset contributions unless to settle the scheme upon termination of membership. Funds deposited in a member's PMSA shall be available for the exclusive benefit of the member and his or her dependants but may not be used to offset contributions, provided that the medical scheme may use funds in a member's PMSA to offset debt owed by the member to the medical scheme following that member's termination of membership of the medical scheme.</p>	<p>The Scheme is non-compliant with Section 10(3). The Council may require the Scheme to reverse contribution recovery from PMSA.</p>	<p>The Board received exemption in terms of section 8(h) from complying with said section 26(7) as per Circular 28 of 2020: COVID-19.</p> <p>Only six members' contribution debts were recovered from their PMSA to the value of R27 300.</p>



M Govender – Chairperson

30 March 2021





## STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

The Board of Trustees (the Board) is responsible for the preparation, integrity, and fair presentation of the annual financial statements of Fedhealth Medical Scheme (the Scheme). The financial statements presented on [pages 39 to 103](#) have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Medical Schemes Act no. 131 of 1998, as amended (the Act). In addition, the Trustees are responsible for preparing the Report of the Board presented on [pages 3 to 32](#).

The Board:

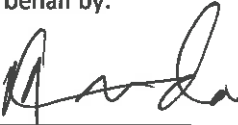
- considers that in preparing the financial statements it has used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates;
- is satisfied that the information contained in the financial statements fairly presents the results of operations and cash flows for the year and the financial position of the Scheme at year-end;
- is responsible for ensuring that accounting records are kept. The accounting records disclose with reasonable accuracy the financial position of the Scheme which enables the Board to ensure that the financial statements comply with the reporting framework;
- is responsible for such internal controls as the Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management;
- with the assistance of the administrators, ensures that the Scheme operates in a well-established control environment, which is well documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and the risks facing the business are being controlled.

The going concern basis has been adopted in preparing the financial statements. The Board has no reason to believe the Scheme will not be a going concern in the foreseeable future, based on forecasts and available cash resources. These financial statements support the viability of the Scheme.

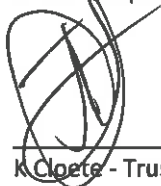
The Scheme's external auditor, KPMG Inc. is responsible for auditing the financial statements in terms of International Standards on Auditing and their report is presented on [pages 35 to 38](#). KPMG Inc. have unrestricted access to all financial records and related data, including minutes of all meetings of members, the Board and committees of the Board. The Board believes that all its representations made to the external auditor during its audit were accurate and appropriate.

The Scheme is committed to the principles and practices of fairness, responsibility, transparency and accountability in all dealings with its stakeholders. The Board members are elected in terms of the rules of the Scheme.


These financial statements, as identified in the first paragraph, were approved by the Board on 30 March 2021 and are signed on its behalf by:



M Govender - Chairperson



K Cloete - Trustee



J Yätt - Principal Officer

30 March 2021

## STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES

### Board of Trustees

The Board of Trustees (the Board) meets regularly and monitors the performance of the administrators and addresses a range of key issues and ensures that discussion of items of policy, strategy and performance is critical, informed and constructive.

All Board members 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.

### Risk management and internal controls

The Board is accountable for the process of risk management and internal controls. Risks are reviewed and identified annually and appropriate strategies are implemented. These actions are monitored monthly.

The administrator of the Scheme maintains internal controls and systems designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain accountability for the Scheme's assets adequately. Such controls are based on established policies and procedures and are implemented by trained personnel with the appropriate segregation of duties.

A formal internal audit function exists within the administrator, with regular reporting to the Audit Committee. The administrator of the Scheme has documented and tested the business continuity plan and disaster recovery procedures. The Board is satisfied that the procedures are in place and have been tested.

The Board has established a Risk Committee, mandated under a terms of reference, to oversee all legal, risk and governance issues pertaining to the Scheme in accordance with accepted corporate governance practice.

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

### Performance monitoring of budgets

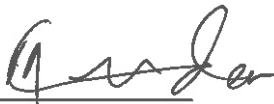
The budget for the Scheme is set annually and approved by the Board. The performance against budget is monitored monthly by the Finance Committee and any corrective action requiring the Board approval is recommended to the Board for appropriate action.

### Performance monitoring of terms of reference

Each Committee of the Board has terms of reference which set out the structures and functions of that Committee and are reviewed by the Committee and approved by Board annually.

### Performance monitoring of third party Service Level Agreements (SLAs)

The monitoring of SLAs occurs on a monthly basis and is conducted at a Committee level. All SLAs are measured and reported on by the respective committees and any adherence failures are addressed and reported to the Board to implement appropriate action. Should the service level continue to fall below the required SLA, action is taken with the third party and terms are set to ensure that compliance is achieved.



M Govender – Chairperson



K Cloete – Trustee



J Yatt – Principal Officer

30 March 2021



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## Independent Auditor's Report

To the Members of Fedhealth Medical Scheme

### Report on the Financial Statements

#### *Opinion*

We have audited the financial statements of Fedhealth Medical Scheme ("the Scheme") set out on pages 39 to 103, 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 reserve 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, the financial statements present fairly, in all material respects, the financial position of Fedhealth Medical 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 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). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *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.



### Risk Claims Incurred

Refer to the significant accounting policy in note 1.9 and risk claims incurred in note 9 to the financial statements.

The key audit matter	How the matter was addressed in our audit
<p>Risk 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, consequently the most significant expense for the Scheme relates to risk claims incurred. Risk claims incurred is a key driver in determining the sustainability of the Scheme.</p> <p>The payment of the significant volume of valid risk claims is dependent on the integrity of the Scheme's administration system, as well as the automated claim assessment controls.</p> <p>Risk claims incurred was considered a key audit matter due to the significant volume of claims processed during the year and the work effort required to be performed by the audit team.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>• We evaluated the accuracy of benefit limits and rules captured onto the administration system by comparing the approved benefit limits and rules of the Scheme, to those captured onto the administration system.</li> <li>• We tested the IT controls in place to prevent unauthorised access to or changes to the administration system.</li> <li>• We tested, through the assistance of our own IT specialists, the automated claim assessment controls of the administration system to ensure that only valid claims were being processed and paid.</li> <li>• We assessed the reconciliation, performed by the Scheme administrator, between the administration system and the general ledger to assess whether the risk claims paid were accurately captured into the Scheme's accounting system.</li> </ul>

### Outstanding Risk Claims Provision

Refer to the significant accounting policy in note 1.4 and the outstanding risk claims provision in note 5 to the financial statements.

The key audit matter	How the matter was addressed in our audit
<p>The outstanding risk claims provision (the provision) is the Scheme's estimate of the ultimate cost of settling all risk claims incurred but not yet reported (IBNR) at the reporting date.</p> <p>The provision is determined by the Scheme's actuary as described in note 5 and is estimated using a blend of statistical methods. Determining the provision requires judgement with regard to the assumptions applied in respect of measuring the outstanding risk claims provision which could materially affect the financial statements.</p> <p>Outstanding risk claims provision was considered a key audit matter due to the involvement of the actuary and the significant estimation involved in determining the provision.</p>	<p>Our audit procedures performed included the following:</p> <ul style="list-style-type: none"> <li>• With the involvement of our own actuarial specialists we: <ul style="list-style-type: none"> <li>• Evaluated the appropriateness of the methodology used in determining the provision against best practice.</li> <li>• challenged the appropriateness of the assumptions used in the Scheme's methodology for measuring the provision by evaluating the assumptions against best practice and the current economic environment.</li> <li>• assessed whether the data used in the provision is complete and accurate.</li> <li>• evaluated the qualification, competence, independence and integrity of the Scheme's actuary.</li> </ul> </li> </ul>



The key audit matter	How the matter was addressed in our audit
	<ul style="list-style-type: none"> <li>• We calculated our own estimation of the provision to confirm the reasonability of the Scheme's provision.</li> <li>• We assessed the adequacy of the provision by comparing actual claims paid after year-end that related to the current year to the provision at year-end.</li> <li>• We evaluated whether the disclosures in the financial statements were appropriate in accordance with IAS 37 Provisions, contingent liabilities and contingent assets.</li> </ul>

*Other Information*

The Scheme's trustees are responsible for the other information. The other information comprises the Report of the Board of Trustees, the Statement of Responsibility by the Board of Trustees and the Statement of Corporate Governance by the Board of Trustees. 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 skepticism 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 that there are no material instances of non-compliance with the requirements of the Medical Schemes Act of South Africa, that have come to our attention during the course of our audit.

#### *Audit tenure*

As required by the Council for Medical Schemes' Circular 38 of 2018, Audit Tenure, we report that KPMG has been the auditor of Fedhealth Medical Scheme for 18 years.

The engagement partner, LW Grobler, has been responsible for Fedhealth Medical Scheme's audit for 5 years.

### **KPMG Inc.**

Per LW Grobler  
Chartered Accountant (SA)  
Registered Auditor  
Associate Director  
31 March 2021

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Note	2020 R'000	2019 R'000
<b>Assets</b>			
<b>Non-current assets</b>			
Available-for-sale investments	2	1 373 075	1 159 508
<b>Current assets</b>			
Trade and other receivables	3	293 629	292 352
Cash and cash equivalents	4	537 912	506 997
<b>Total assets</b>		<b>2 204 616</b>	<b>1 958 857</b>
<b>Funds and liabilities</b>			
<b>Members' funds</b>			
Accumulated funds		1 655 725	1 466 568
Available-for-sale revaluation reserve		31 279	20 567
<b>Current liabilities</b>			
Outstanding risk claims provision	5	245 093	209 237
PMSA liability*	6	163 229	195 428
Trade and other payables	7	109 290	67 057
<b>Total funds and liabilities</b>		<b>2 204 616</b>	<b>1 958 857</b>

\* PMSA: Personal medical savings accounts

**STATEMENT OF COMPREHENSIVE INCOME**

	Note	2020 R'000	2019 R'000
<b>Risk contribution income</b>	8	3 615 219	3 285 572
<b>Relevant healthcare expenditure</b>		(3 047 329)	(3 066 403)
Net claims incurred		(3 047 569)	(3 066 813)
Risk claims incurred	9	(3 056 428)	(3 075 229)
Third party claim recoveries		8 859	8 416
Net income on risk transfer arrangement	10	240	410
Risk transfer arrangement premiums paid		(897)	(975)
Recoveries from risk transfer arrangement		1 137	1 385
<b>Gross healthcare result</b>		567 890	219 169
Broker service fees		(72 131)	(66 509)
Administration expenditure	11	(358 774)	(361 013)
Net impairment loss on healthcare receivables	12	(25 749)	(17 045)
<b>Net healthcare result</b>		111 236	(225 398)
<b>Other income</b>		93 570	155 134
Investment income	13	90 660	146 474
Sundry income	14	2 910	8 660
<b>Other expenditure</b>		(15 649)	(14 806)
Asset management fees	15	(9 586)	(7 747)
Interest on PMSA liability		(6 063)	(7 059)
<b>Net surplus/(deficit) for the year</b>		189 157	(85 070)

	Note	R'000	R'000
<b>Other comprehensive income</b>			
Net fair value adjustment on available-for-sale investments	2	8 416	49 046
Reclassification adjustment of losses/(gains) on disposal of available-for-sale investments*	13	2 296	(37 671)
<b>Total other comprehensive income for the year</b>		10 712	11 375
<b>Total comprehensive income for the year</b>		199 869	(73 695)

\* The reclassification adjustment of losses/(gains) on disposal of the available-for-sale investments relates to the sale of investments during the year, which losses/(gains) are taken to the Statement of Comprehensive Income within "Investment income".



**STATEMENT OF CHANGES IN FUNDS AND RESERVE**

	Available for-sale- revaluation reserve R'000	Accumulated funds R'000	Members' funds R'000
Balance as at 1 January 2019	9 192	1 116 763	1 125 955
<b>Total comprehensive income for the year</b>			
Net deficit for the year	-	(85 070)	(85 070)
Transfer of reserves from other medical schemes	-	434 875	434 875
<b>Other comprehensive income</b>			
<b>Fair value reserve available-for-sale financial assets</b>			
Net unrealised gains for the year (Note 2)	49 046	-	49 046
Fair value realised on disposal (Note 13)	(37 671)	-	(37 671)
<b>Total other comprehensive income</b>	<b>11 375</b>	<b>-</b>	<b>11 375</b>
<b>Total comprehensive income for the year</b>	<b>11 375</b>	<b>349 805</b>	<b>361 180</b>
Balance as at 31 December 2019	20 567	1 466 568	1 487 135
Balance as at 1 January 2020	20 567	1 466 568	1 487 135
<b>Total comprehensive income for the year</b>			
Net surplus for the year	-	189 157	189 157
<b>Other comprehensive income</b>			
<b>Fair value reserve available-for-sale financial assets</b>			
Net unrealised gains for the year (Note 2)	8 416	-	8 416
Fair value realised on disposal (Note 13)	2 296	-	2 296
<b>Total other comprehensive income</b>	<b>10 712</b>	<b>-</b>	<b>10 712</b>
<b>Total comprehensive income for the year</b>	<b>10 712</b>	<b>189 157</b>	<b>199 869</b>
Balance as at 31 December 2020	31 279	1 655 725	1 687 004

**STATEMENT OF CASH FLOWS**

		2020	2019
	Note	R'000	R'000
<b>Cash flows generated from/(utilised in) operating activities</b>			
Cash flows generated from/(utilised in) operations before working capital changes	17	129 285	(213 572)
<b>Working capital changes</b>			
Increase in trade and other receivables		(26 002)	(42 029)
Increase/(decrease) in trade and other payables		42 233	(5 417)
Increase in outstanding risk claims provision		35 856	16 736
Decrease in PMSA liability		(32 199)	(81 938)
<b>Cash utilised in operations</b>		<b>149 173</b>	<b>(326 220)</b>
Interest paid on PMSA liability	6	(6 063)	(7 059)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>143 110</b>	<b>(333 279)</b>
<b>Cash flows from investing activities</b>			
Additions to available-for-sale investments	2	(547 496)	(671 923)
Proceeds on disposal of available-for-sale investments	2	342 345	791 138
Interest received	13	61 122	79 836
Dividends received	13	31 834	28 967
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(112 195)</b>	<b>228 018</b>
<b>Net Increase/(decrease) in cash and cash equivalents</b>		<b>30 915</b>	<b>(105 261)</b>
Cash and cash equivalents due to amalgamation		-	32 622
Cash and cash equivalents at the beginning of the year		506 997	579 636
<b>Cash and cash equivalents at the end of the year</b>	4	<b>537 912</b>	<b>506 997</b>

## 1 Significant accounting policies

The following are the significant accounting policies applied by the Scheme, which are consistent with those of the previous year, except for the adoption of the standards, amendments and interpretations in [Note 1.1.1](#).

### 1.1 Basis of preparation

The financial statements have been prepared in accordance with the manner required by the Medical Schemes Act no. 131 of 1998, as amended (the Act) and with International Financial Reporting Standards (IFRS). The financial statements are prepared on the going concern principle and using the historical cost basis, except as otherwise stated below in [Note 1.2](#). The financial statement information is presented in South African Rand (Rand), which also represents the Scheme’s functional currency. All financial information presented in Rand has been rounded to the nearest thousand except where otherwise indicated.

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 judgment in the process of applying the Scheme’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in [Note 20](#). The financial statements were approved by the Board of Trustees (the Board) on 30 March 2021.

1.1.1 There were no new standards, amendments and interpretations effective in the 2020 financial year and relevant to the Scheme.

Standard	Summary of requirements
Amendments to the definition of Material (Amendments to IAS 1 and IAS 8) 30	<p>The IASB refined its definition of material to make it easier to understand. It is now aligned across IFRS Standards and the Conceptual Framework.</p> <p>The changes in the Definition of Material (Amendments to IAS 1 and IAS 8) all relate to a revised definition of 'material' which is quoted below from the final amendments:</p> <p>“Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”</p> <p>The IASB has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.</p> <p>The amendments were effective from 1 January 2020. There were no significant changes to the Scheme as a result of these amendments.</p>
Amendments to References to Conceptual Framework in IFRS Standards	<p>The IASB decided to revise the Conceptual Framework because certain important issues were not covered and certain guidance was unclear or out of date. The revised Conceptual Framework, issued by the International Accounting Standards Board (IASB) in March 2018, includes:</p> <ul style="list-style-type: none"> <li>● a new chapter on measurement;</li> <li>● guidance on reporting financial performance;</li> <li>● improved definitions of an asset and a liability, and guidance supporting these definitions;</li> <li>● updated recognition criteria for assets and liabilities; and</li> <li>● clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.</li> </ul>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

**1 Significant accounting policies *(continued)***

**1.1 Basis of preparation *(continued)***

1.1.1 There were no new standards, amendments and interpretations effective in the 2020 financial year and relevant to the Scheme.

Standard	Summary of requirements
<p>Amendments to References to Conceptual Framework in IFRS Standards</p>	<p>The IASB also updated references to the Conceptual Framework in IFRS Standards by issuing a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which outlines the consequential amendments made to affected IFRS standards.</p> <p>This was done to support transition to the revised Conceptual Framework for entities that develop and apply accounting policies using the Conceptual Framework when no IFRS standard or interpretation applies to a particular transaction.</p> <p>The revised Conceptual Framework will form the basis of new IFRS standards set by the IASB as well as future amendments to existing IFRS standards.</p> <p>The amendments were effective from 1 January 2020. There were no significant changes to the Scheme as a result of these amendments.</p>



NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Significant accounting policies (continued)

1.1 Basis of preparation (continued)

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

Standard	Summary of requirements
<p>IFRS 9 Financial Instruments</p>	<p>On 24 July 2014, the International Accounting Standards Board (IASB) issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB’s project to replace IAS 39 Financial Instruments: Recognition and Measurement.</p> <p>This standard will have an impact on the Scheme, which will include changes in the measurement bases of financial assets at amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an “incurred loss” model from IAS 39 to an “expected credit loss” model, which is expected to increase the provision for bad debts recognised in the Scheme. The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.</p> <p>However, IFRS 4 provides a temporary exemption that permits, but does not require, the Scheme to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2021.</p> <p>A scheme may apply the temporary exemption from IFRS 9 if, and only if:</p> <ul style="list-style-type: none"> <li>• it has not previously applied any version of IFRS 9</li> <li>• activities are predominantly connected with insurance, at its reporting date.</li> </ul> <p>In June 2020, the IASB issued an extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) which defers the implementation date of the amendment to annual periods beginning on or after 1 January 2023.</p>
<p>IFRS 17 Insurance Contracts</p>	<p>IFRS 17 supersedes IFRS 4 Insurance Contracts and aims to increase comparability and transparency regarding profitability. The new standard introduces a new comprehensive model (“general model”) for the recognition and measurement of liabilities arising from insurance contracts. In addition, it includes a simplified approach and modifications to the general measurement model that can be applied in certain circumstances and to specific contracts, such as:</p> <ul style="list-style-type: none"> <li>• Reinsurance contracts held;</li> <li>• Direct participating contracts; and</li> <li>• Investment contracts with discretionary participation features.</li> </ul> <p>Under the new standard, investment components are excluded from insurance revenue and service expenses. Entities can also choose to present the effect of changes in discount rates and other financial risks in profit or loss or other comprehensive income.</p> <p>The new standard includes various new disclosures and requires additional granularity in disclosures to assist users to assess the effects of insurance contracts on the Scheme’s financial statements.</p> <p>The Scheme is in the process of determining the impact of IFRS 17 and will provide more detailed disclosure on the impact in future financial statements. The standard is effective for annual periods beginning on or after 1 January 2023. Early adoption is permitted only if the entity applied IFRS 9.</p>



**NOTES TO THE FINANCIAL STATEMENTS** *(continued)*

**1 Significant accounting policies** *(continued)*

**1.1 Basis of preparation** *(continued)*

**1.1.2 New standards, amendments and interpretations not yet effective and relevant to the Scheme:** *(continued)*

Standard	Summary of requirements
<p>Classification of liabilities as current or non-current (Amendments to IAS1)</p>	<p>Under existing IAS1 requirements, entities classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the IASB has removed the requirement for a right to be unconditional and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period.</p> <p>There is limited guidance on how to determine whether a right has substance and the assessment may require management to exercise interpretive judgement.</p> <p>The existing requirement to ignore management’s intentions or expectations for settling a liability when determining its classification is unchanged.</p> <p>The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2023.</p>



## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 1 Significant accounting policies *(continued)*

#### 1.2 Financial instruments

Financial assets and liabilities are recognised on the Scheme's statement of financial position when it becomes a party to the contractual provisions of the instrument. The Scheme classifies its financial instruments into the following categories: available-for-sale financial assets, loans and receivables and other liabilities. The classification depends on the nature and the purpose of the financial instruments and is determined at the time of initial recognition.

##### *Measurement*

Financial instruments are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these instruments are measured as set out below.

##### *Available-for-sale investments*

Investments intended to be held for an indefinite period of time, which may be sold in response to needs in liquidity or changes in market conditions, are classified as available-for-sale. These are included in non-current assets unless the Trustees have the express intention of holding the investment for less than 12 months from reporting date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

All purchases and sales of investments are recognised on the trade date, which is the date that the Scheme commits to purchase or sell the asset. Available-for-sale investments are subsequently measured at fair value. Unrealised gains and losses arising from changes in the fair value of the available-for-sale investments are recognised in other comprehensive income and included in the available-for-sale revaluation reserve in members' funds. These are not taken to profit or loss. When securities categorised as available-for-sale are sold or impaired, the fair value adjustments previously accumulated in members' funds, are recognised in profit or loss as net realised gains or losses on disposal or impairments of investments. The fair values of listed investments are based on current closing prices.

##### *Loans and other receivables*

The Scheme's loans and other receivables comprise trade and other receivables and cash and cash equivalents.

##### *Trade and other receivables*

Trade and other receivables are subsequently measured at amortised cost, using the effective interest method less impairment. An appropriate impairment for estimated irrecoverable amounts is recognised in profit or loss when there is objective evidence that the asset is impaired. This impairment is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate computed at initial recognition.

##### *Impairments are written off to profit or loss as follows:*

- An impairment account is used when the carrying amount of impaired assets is not reduced directly. The impairment loss is recognised in profit or loss.
- In other instances, the carrying value of the asset is reduced where the amounts are proved to be irrecoverable.

##### *Insurance receivables*

Insurance receivables are carried at cost less accumulated impairment losses. Impairment losses on insurance receivables are recognised and determined in a similar manner to impairment on financial assets carried at amortised cost. Refer to [Note 1.15](#).

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 1 Significant accounting policies *(continued)*

#### 1.2 Financial instruments *(continued)*

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Cash and cash equivalents are carried at amortised cost.

##### *Financial liabilities*

Financial liabilities consist of trade and other payables.

##### *Trade and other payables*

Trade and other payables are subsequently measured at amortised cost using the effective interest method.

##### *Insurance payables*

Insurance payables are subsequently measured at amortised cost using the effective interest method.

##### *Offsetting financial instruments*

Where a legally enforceable right to offset exists for the recognised financial assets and financial liabilities and there is a current intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset.

##### *Derecognition of financial assets and liabilities*

The Scheme derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Scheme neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Scheme recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

Where the risks and rewards of ownership of the financial asset are substantially retained, the financial asset continues to be recognised.

The Scheme derecognises a financial liability when the contractual obligation is discharged or expires.

#### 1.3 Personal medical savings accounts (PMSA) liability

The PMSA liability is managed by the Scheme on behalf of its members. It represents PMSA contributions, which are a deposit component of the medical insurance contracts and accrued interest thereon, net of any PMSA claims paid on behalf of members in terms of the Scheme's rules. The deposit component has been unbundled since the Scheme can measure the deposit component separately and its accounting policies do not otherwise require it to recognise all obligations and rights arising from the deposit component. The insurance component is recognised as an insurance liability.

Member unused savings at year-end are retained in the members' PMSA. 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 PMSA contributions are funded from the Scheme's funds, and the risk of impairment is carried by the Scheme.



**NOTES TO THE FINANCIAL STATEMENTS** *(continued)*

**1 Significant accounting policies** *(continued)*

**1.3 Personal medical savings accounts (PMSA) liability** *(continued)*

The PMSA liability, i.e. deposit component, is recognised in accordance with IAS 39 Financial Instruments: Recognition and Measurement and is initially measured at fair value (i.e. the amount payable on demand) as it has a demand feature and subsequently is measured at amortised cost.

PMSA contributions are credited on the accrual basis and withdrawals on a cash basis, i.e. no provision is made for outstanding claims at year-end.

**1.4 Provisions**

Provisions are recognised when the Scheme has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money. The expected future cash flows are discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

*Outstanding risk claims provision*

The outstanding risk claims provision is a provision made for the estimated cost of healthcare benefits that have been incurred before the end of the accounting period but that have not been reported to the medical scheme by that date. Risk claims outstanding are determined as accurately as possible based on a number of factors, which include previous experience in claims patterns, claims settlement patterns, changes in the nature and number of members according to gender and age, trends in claims frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim.

Estimated payments from PMSA are deducted in calculating the outstanding risk claims provision. The Scheme does not discount its provision for outstanding risk claims, as the effect of the time value of money is not considered material.

**1.5 Medical insurance contracts**

Contracts under which the Scheme accepts significant medical insurance risk from another party (the member) by agreeing to compensate the member or other beneficiary if a specified uncertain future health event (the insured event) adversely affects the member or other beneficiary are classified as medical insurance contracts. The contracts issued compensate the Scheme's members for healthcare expenses incurred.

**1.6 Risk contribution income**

Contributions on member insurance contracts are accounted for monthly when their collection in terms of the insurance contract is reasonably certain. Risk contributions represent gross contributions after deduction of PMSA contributions. The earned portion of risk contributions received is recognised as revenue. Risk contributions are earned from the date of attachment of risk, over the indemnity period on a straight-line basis. Risk contributions are shown before the deduction of broker fees and other similar costs.



## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 1 Significant accounting policies *(continued)*

#### 1.7 Reimbursements from the Road Accident Fund (the RAF)

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 to the RAF, administered in terms of the Road Accident Fund Act No. 56 of 1996. If the members are reimbursed by the RAF, they are contractually obliged to cede that payment to the Scheme to the extent that they have already been compensated.

A reimbursement from the RAF is a possible asset that arises from claims submitted to the RAF and whose existence 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. The contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the contingent asset and the related income are recognised in the financial statements in the period in which the virtual certainty occurs.

#### 1.8 Relevant healthcare expenditure

Relevant healthcare expenditure consists of net risk claims incurred, net income or expense from risk transfer arrangements and accredited managed care services as per Circular 56 of 2015.

#### 1.9 Risk claims incurred

Risk claims incurred comprise the total estimated cost of all claims arising (excluding claims paid out of PMSA) 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.

Net risk claims incurred are risk claims paid and reported adjusted by the outstanding risk claims provision at the beginning and end of the accounting period (excluding claims paid out of PMSA and Wallet). Net risk claims incurred include recoveries from third parties such as the RAF. Circular 56 of 2015 issued by the Council for Medical Schemes on 9 September 2015 concluded that all accredited managed care services are included as part of relevant healthcare expenditure as they directly impact on the delivery of cost-effective and appropriate healthcare management services to beneficiaries of medical schemes.

#### 1.10 Risk transfer arrangement

A risk transfer arrangement is a contractual agreement whereby a third party undertakes 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 premiums/fees are recognised as an expense over the indemnity period on a straight-line basis. If applicable, a portion of risk transfer premiums/fees are treated as prepayments.

Risk transfer benefits are presented in the statement of comprehensive income and statement of financial position on a gross basis.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as re-insurance contracts. Amounts recoverable under such contracts are recognised in the same year as the related claim.

Claims recoveries relating to risk transfer arrangement is calculated on the basis as defined in [Note 10](#).

NOTES TO THE FINANCIAL STATEMENTS (continued)

**1 Significant accounting policies (continued)**

**1.10 Risk transfer arrangement (continued)**

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

**1.11 Managed care: management services**

These expenses represent the amounts paid or payable to non-accredited third party administrators, related parties and other third parties for managing the utilisation, costs and quality of healthcare services to the Scheme. These fees are expensed as incurred and are reported in [Note 9](#) of the administration expenditure as defined in Circular 56 of 2015.

**1.12 Liabilities and related assets under liability adequacy test**

At the reporting date liability adequacy tests are performed to ensure the adequacy of the member insurance contract liabilities. The liability for insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of any related assets. Where a shortfall is identified, an additional provision is made and the Scheme recognises the deficiency in profit or loss for the year.

**1.13 Investment income**

Investment income comprises dividends, interest on cash and cash equivalents, interest on fixed interest securities and realised gains or losses on available-for-sale investments.

Dividend income from investments is recognised when the right to receive payment is established.

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

Realised gains or losses on disposal of available-for-sale investments are recognised in profit or loss as investment income.

**1.14 Interest paid on PMSA**

The interest paid on PMSA is recognised in profit or loss according to the effective interest method, net of related costs.

**1.15 Impairment losses**

*Financial assets*

The carrying amounts of the Scheme's assets are reviewed at each reporting date to determine whether there is any indication of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset. If any such indication exists, the asset's recoverable amount is estimated.

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

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 1 Significant accounting policies *(continued)*

#### 1.15 Impairment losses *(continued)*

An impairment loss in respect of an available-for-sale investment is calculated by reference to its fair value. When a decline in the fair value of an available-for-sale investment has been recognised in other comprehensive income and accumulated in the available-for-sale revaluation reserve and there is objective evidence that the asset is impaired, the cumulative loss that had been accumulated in the available-for-sale revaluation reserve is reclassified to profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is reclassified to profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that investment previously recognised in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an impairment account against loans and receivables. Interest on the impaired asset continues to be recognised.

#### *Reversals of impairments*

Impairment losses in respect of financial assets are reversed if the subsequent decrease in an impairment loss can be related objectively to an event occurring after an impairment loss was recognised or as a result of a change in the estimates used to determine the recoverable amount.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. The impairment loss is reversed, with the amount of the reversal recognised in other comprehensive income. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after an impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

An impairment reversal in respect of a receivable carried at amortised cost is recognised in profit or loss.

#### 1.16 Amalgamation with other medical schemes by acquisition

Scheme amalgamations are accounted for by applying the acquisition method.

The cost of an amalgamation is measured as the fair value of the assets transferred and liabilities incurred or assumed at the date of exchange.

When an entity is amalgamated into the Scheme, all identifiable assets, liabilities and members' funds are accounted for at their fair values at the acquisition date. No consideration is paid for these transactions and they are recognised as from the transaction date.

The Scheme recognises the net assets from amalgamated schemes as a direct addition to reserves in its Statement of Change in Funds and Reserve.

Section 63(14) of the Act prescribes that relevant assets and liabilities of the party effecting the transfer shall vest in and become binding upon the party to which transfer is affected.

No goodwill is recognised on the amalgamation of other schemes by acquisition.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*1 Significant accounting policies *(continued)*

## 1.17 Allocation of income and expenditure to benefit options

The following items of income and expenditure are directly incurred by the Scheme's benefit options:

- Risk contribution income;
- Risk claims incurred;
- Risk transfer arrangement fees;
- Managed care: management services;
- Administration fees;
- Broker fees; and
- Impairment and recoveries on receivables.

The remaining items are apportioned based on the number of members on each option:

- Other administration expenditure;
- Investment income;
- Winddown costs;
- Sundry income; and
- Asset management fees.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2	Available-for-sale investments	2020 R'000	2019 R'000
	Acquisition cost	1 138 941	716 674
	Net unrealised gains on revaluation	20 567	9 192
	<b>Fair value at the beginning of the year</b>	<b>1 159 508</b>	725 866
	Additions to investments	547 496	671 923
	Additions from amalgamation	-	503 811
	Disposal at fair value at date of sale	(342 345)	(791 138)
	Net unrealised gains for the year	8 416	49 046
	<b>Fair value at the end of the year</b>	<b>1 373 075</b>	1 159 508
The investments included above represent investments in:			
	Unlisted debentures	13 446	10 231
	Listed equities	660 940	589 957
	Listed fixed interest bonds	606 940	462 754
	Listed investment property funds	91 749	96 566
		<b>1 373 075</b>	1 159 508

The fair values of the publicly traded financial instruments are based on listed closing prices as at the reporting date. A register of investments is available for inspection at the registered office of the Scheme. Information regarding the exposure to credit and market risks, and fair value measurement, is included in [Note 22](#).

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 Trade and other receivables	2020 R'000	2019 R'000
<b>Insurance receivables</b>		
Contributions receivable	196 439	200 135
Members co-payments receivable	20 262	13 383
Provider debts receivable	2 413	2 931
<b>Financial receivables</b>		
Advances on PMSA (Note 6)	4 170	9 577
<b>Loans and receivables</b>		
Aid for Aids	4	8
Hospital Discount	17 606	19 805
Investment income receivable	399	551
Loans to members (other)	7	27
Loans to members (MediVault)	101 625	70 459
RAF recovery	117	130
Sundry debtors	-	34
	343 042	317 040
<b>Insurance receivables</b>		
Less: Impairment losses	(49 413)	(24 688)
Balance at the beginning of the year	(24 688)	(13 875)
Amounts utilised during the year	1 739	8 098
Net movement in impairment (Note 12)	(26 464)	(18 911)
<b>Balance at the end of the year</b>	293 629	292 352

The carrying amounts of financial receivables approximate their fair values due to the short-term maturities of these assets. The estimated future cash flow receipts have not been discounted as the effect would be immaterial.

**Loans to Members – MediVault (Debtor) transferred to Wallet (Creditor)**

The FlexiFed options give members access to an interest-free loan facility called the MediVault Benefit. The amount allocated can be used to pay for day-to-day medical expenses. This amount is based on the member's selected option and family composition. These funds are not pro-rated based on the member's join date and can be accessed at any time during the year. To access these funds, the member is required to accept the terms and conditions before transferring an amount to their Wallet. The transfer can be in full upfront, or in part as needed. The member only has to pay back the money transferred from the MediVault to the Wallet. The member has an interest free cover over a period of twelve months for the funds transferred to their Wallet. Day-to-day benefit claims are first funded from available savings and thereafter if activated the member's Wallet account.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4	Cash and cash equivalents - Medical Scheme assets	2020 R'000	2019 R'000
	Call accounts	106 728	85 878
	Current accounts	24 566	14 081
	Money market investments	406 618	407 038
	<b>Balance at the end of the year</b>	<b>537 912</b>	<b>506 997</b>

The weighted average effective interest rate on cash and cash equivalents was 4.6% (2019: 6.9%). Call accounts have an average maturity of one day (2019: one day). The return on money market investments is benchmarked against the STeFi. Refer to [Note 22](#) for performance comparison.

The fair values of cash and cash equivalents approximate the carrying amount as these are short-term in nature.

5	Outstanding risk claims provision	2020 R'000	2019 R'000
	<b>Not covered by risk transfer arrangements</b>		
	<b>Provision for outstanding risk claims - Incurred but not reported (IBNR)</b>	<b>245 093</b>	<b>209 237</b>
	<b>Analysis of movement in outstanding risk claims</b>		
	Balance at beginning of the year	209 237	161 183
	Payments in respect of the previous year	(208 721)	(158 059)
	Over provision in the previous year ( <a href="#">Note 9</a> )	516	3 124
	Adjustment for the current year ( <a href="#">Note 9</a> )	244 577	206 113
	<b>Balance at the end of the year</b>	<b>245 093</b>	<b>209 237</b>
	<b>Analysis of outstanding risk claims provision</b>		
	Estimated gross claims	255 548	220 427
	Less: Estimated recoveries from PMSA	(10 455)	(11 190)
	<b>Balance at the end of the year</b>	<b>245 093</b>	<b>209 237</b>



## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 5 Outstanding risk claims provision (continued)

**Process used to determine the assumptions**

The provision is calculated as expected ultimate claims less the actual claims paid and accrued as at the year-end. For year-end purposes, the expected ultimate claims are estimated by considering the actual risk claims paid as at 20 March 2021 in respect of the 2020 financial year, and extrapolating these paid claims to 30 April 2021 (four months after the end of the financial year, corresponding to the maximum period of time, of four months, during which claims have to be notified to the Scheme as per the Scheme's rules). The percentage of the estimated total risk claims in respect of the 2020 financial year paid by 24 March 2021 was 81% (2019: 26 March 2020: 82.6%).

The cost of outstanding risk claims is estimated using a range of statistical methods. Such methods extrapolate the trends of paid and incurred claims, average cost per risk claims and ultimate risk claim numbers for each benefit year based upon observed trends of earlier years and expected risk claims ratios. Run-off triangles are used in situations where it takes time after the treatment date until the full extent of the risk claims to be paid is known. It is assumed that payments will be made in a similar pattern for each service month.

The actual method or blend of methods used varies by benefit year considered, categories of risk claims and observed historical risk claims trends. To the extent that these methods use historical risk claims trends information they assume that the historical risk claims trends pattern will occur again in the future. There are reasons why this may not be the case which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in processes that affect the pattern/recording of risk claims paid and incurred;
- economic, legal, political and social trends (resulting in different than expected levels of inflation and/or minimum medical benefits to be provided);
- changes in composition of membership and their dependants' profiles; and
- random fluctuations, including the impact of large losses.

**Assumptions**

The assumptions that have the greatest effect on the measurement of the outstanding risk claims provision are the previous years' experience in claims processing patterns and the average risk claims paid in the run-off period each year based on historical trends. These are used for assessing the outstanding risk claims provision.

**COVID-19 impact**

The COVID-19 pandemic had an impact on the Scheme's claims experience. The additional direct COVID-19 expenditure went hand-in-hand with a reduction in general utilisation of "non-Covid-19" claims. The impact of COVID-19 claims has been included in the outstanding claims provision as at 31 December 2020.

Most of the COVID-19 claims relating to the first wave (which peaked in July 2020) are expected to be mostly paid by year-end. However, a large portion of the COVID-19 claims in respect of the second wave (which peaked during the week leading to and after year-end) were still outstanding at year-end.

Hospitals were overwhelmed with many COVID-19 admissions during the second wave peak period. In addition, staff (medical and non-medical) took leave during December holidays. As a result, some of the hospital pre-authorisations typically submitted and authorised daily were delayed and only submitted and processed in January 2021. This appeared to be an industry-wide issue.

Hospital pre-authorisation data is now up-to-date. In addition, claims paid data to the end of February 2021 have been included, which allows for sufficient run-off claims.

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 Outstanding risk claims provision (continued)

**Changes in assumptions and sensitivities to changes in key variables**

The Scheme believes that the liability for risk claims reported in the statement of financial position is adequate. However, it recognises that the process of estimation is based upon certain variables which could differ when the risk claims arise.

Where variables are considered to be immaterial, no impact has been assessed for insignificant changes to these variables. Particular variables may not be considered material at present. However, should the materiality level of an individual variable change, assessment of changes of that variable may be required in the future.

The table below outlines the sensitivity of the provision for outstanding risk claims to movement in the significant key variables and assumptions.

	Increase in variable %	Change in liability 2020 R'000	Change in liability 2019 R'000
Risk claims processing patterns	10	24 509	20 924

**Effect on accumulated funds ratio and accumulated funds:**

Accumulated funds ratio	%	%
Accumulated funds ratio as at 31 December	44.66	43.43
Movement due to 10% increase in claims processing pattern	0.66	0.62

Accumulated funds	R'000	R'000
Accumulated funds as at 31 December	1 655 725	1 466 568
Movement due to 10% increase in claims processing pattern	24 509	20 924

**Liability adequacy test**

The test is required to ensure that the measurement of the Scheme's insurance liabilities considers all contractual cash flows, using current estimates.

The Scheme has no deferred acquisition costs or related intangible assets. In determining the insurance liability, the Scheme has determined, using current estimates, contractual cash flows arising from claims with a service date prior to year-end (reporting date) that will only be presented for payment after date of signature. The considerations for this calculation have been considered under this provision. There are no embedded options or guarantees in the Scheme. The Scheme has also not entered into reinsurance contracts. Having regard for the above, no shortfall has been identified when considering the measurement of the Scheme's insurance liabilities.



NOTES TO THE FINANCIAL STATEMENTS (continued)

6 Personal medical savings accounts (PMSA)

PMSA liability	2020 R'000	2019 R'000
Balance of PMSA liability at the beginning of the year	205 005	215 220
Advances on PMSA	(9 577)	(1 065)
<b>Net balance on PMSA liability at the beginning of the year</b>	<b>195 428</b>	<b>214 155</b>
PMSA contributions received (Note 8)	91 945	90 957
PMSA liability from amalgamation	-	41 632
Interest on PMSA monies (Note 17)	6 063	7 059
Net transfer from other schemes in terms of Regulation 10(4)	2 833	1 610
Claims paid on behalf of members (Note 9)	(126 271)	(159 482)
Refunds on death or resignation in terms of Regulation 10(4)	(1 511)	(6 395)
Prescribed credit reversal/(write back) of unclaimed savings (Note 14)	149	(2 620)
Prior year advances recovered during the year	(9 577)	(1 065)
Advances on PMSA (Note 3)	4 170	9 577
<b>Balance at the end of the year</b>	<b>163 229</b>	<b>195 428</b>
<b>Balance of PMSA liability:</b>		
- for active members	138 213	176 659
- due to ex-members	25 016	18 769
<b>Balance at the end of the year</b>	<b>163 229</b>	<b>195 428</b>

The PMSA liability contains a demand feature in terms of Regulation 10(4) of the Act that any credit balance on a member's PMSA must be refunded to the member when the member's membership is terminated, only if the member does not belong to another medical scheme with a PMSA benefit option, in which case the funds are paid over to the savings benefit option of that scheme.

The carrying amount of the members' PMSA trust liability approximates its fair value as it is of a short-term nature.

Interest is paid on the PMSA monthly. The fixed interest rate for 2020 was 4% (2019: 4%). No interest is charged on advances for PMSA.

Prescribed unclaimed credit balances of R149k was reversed in 2020 (R26m written back in 2019).

It is estimated that the claims to be paid out of the members' PMSA monies in respect of claims incurred in 2020 but not refunded by 31 December 2020 amounted to R10.5m (2019: R18.8m). Advance PMSA liability claims are funded by the Scheme and are included in trade and other receivables.

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 Trade and other payables	2020 R'000	2019 R'000
<i>Insurance liabilities</i>		
Reported risk claims not yet paid	34 142	18 487
Risk contributions received in advance	6 793	6 274
<b>Total arising from insurance liabilities</b>	<b>40 935</b>	<b>24 761</b>
<i>Financial liabilities</i>		
Accrual for investment management fee	46	31
Unknown deposits	338	174
Amounts owing to administrator	1 190	625
Provision for Topmed audit fees	-	1 047
Other payables and accrued expenses	3 497	3 880
Member loan creditor (Wallet)	63 284	36 539
<b>Total arising from financial liabilities</b>	<b>68 355</b>	<b>42 297</b>
<b>Balance at the end of the year</b>	<b>109 290</b>	<b>67 057</b>

The carrying amounts of financial liabilities approximate their fair value due to the short-term maturities of these liabilities.

**Reported risk claims not yet paid:**

Balance at the beginning of the year	18 487	26 201
Movement during the year	15 655	(7 714)
<b>Balance at the end of the year</b>	<b>34 142</b>	<b>18 487</b>

Reported risk claims not yet paid constitute risk claims that have been received and processed for payment. These risk claims have been accounted for in the relevant healthcare expenditure for the current financial period. Payment of these risk claims will only occur in subsequent periods.

The Scheme's exposure to liquidity risk related to trade and other payables is disclosed in [Note 22](#).

**NOTES TO THE FINANCIAL STATEMENTS** (continued)

<b>8 Risk contribution income</b>	<b>2020</b> R'000	<b>2019</b> R'000
Gross contributions	<b>3 707 164</b>	3 376 529
Less: PMSA contributions received (Note 6)	<b>(91 945)</b>	(90 957)
<b>Risk contribution income</b>	<b>3 615 219</b>	3 285 572

The PMSA contributions are received by the Scheme in terms of Regulation 10(1) of the Act and the Scheme's rules.

<b>9 Risk claims incurred</b>	<b>2020</b> R'000	<b>2019</b> R'000
Current year claims	<b>2 841 274</b>	2 932 401
Claims not covered by risk transfer arrangement	<b>2 840 137</b>	2 931 016
Claims covered by risk transfer arrangement	<b>1 137</b>	1 385
Outstanding risk claims provision	<b>245 093</b>	209 237
Over provision in the previous year (Note 5)	<b>516</b>	3 124
Adjustment for the current year (Note 5)	<b>244 577</b>	206 113
Managed care: accredited management services	<b>96 332</b>	93 073
Claims paid from PMSA on behalf of members (Note 6)	<b>(126 271)</b>	(159 482)
<b>Risk claims incurred</b>	<b>3 056 428</b>	3 075 229
<b>Managed care: accredited management services</b>		
Hospital benefit management	<b>41 879</b>	39 714
Pharmaceutical benefit management	<b>16 740</b>	15 772
Healthcare professional risk management (networks)	<b>11 391</b>	10 560
Disease management	<b>15 346</b>	16 892
<b>Managed care programme</b>	<b>85 356</b>	82 938
Managed care programme: Aid for Aids Management (Pty) Ltd	<b>10 874</b>	10 135
Managed care programme: Palliative Care program	<b>23</b>	-
Managed care programme: Case Management - GCMS	<b>79</b>	-
	<b>96 332</b>	93 073
<b>Managed care services paid to administrators</b>		
Managed care programme: Medscheme (Note 18)	<b>85 158</b>	79 787
Managed care programme: *PHA (winddown fees) (Note 18)	<b>100</b>	2 788
<b>*Private Health Administrators</b>	<b>85 258</b>	82 575

The managed care fee is charged as a composite fee based on an estimated allocation by the managed care organisation and the above allocation is based on that organisation's estimated cost of the services provided.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10	Net income on risk transfer arrangement	2020 R'000	2019 R'000
	<b>Iso Leso Optics Ltd (Iso Leso)</b>		
	Risk transfer arrangement premiums paid	(897)	(975)
	Recovery from risk transfer arrangement	<b>1 137</b>	1 385
		<b>240</b>	<b>410</b>

The Scheme has a capitation agreement with Iso Leso. Its primary objective is to manage eye care so that medical scheme benefits are well designed and sufficient to meet the clinical needs of the patient. Iso Leso provides comprehensive eye examinations screening for glaucoma and single vision and bifocal spectacles for MyFed beneficiaries.

These costs are estimates only and are calculated as follows:

- Iso Leso provides the Scheme with a report reflecting underlying claims information relating to optometry services covered by the risk transfer arrangement.
- Iso Leso provides the average number of visits per annum to an optometrist. The Scheme has applied the Scheme tariff to these to determine the total cost.
- The contract is renewable bi-annually and the capitation fee is based on the number of enrolled beneficiaries in the MyFed option.



NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Administration expenditure	2020 R'000	2019 R'000
Administration fees	280 769	270 491
Advertising	48 515	59 916
Amalgamation (over accruals)/expenses	(228)	176
Audit Committee costs (Note 11.1)	174	156
Audit fees	1 385	1 159
– in respect of the current year	968	307
– in respect of the previous year	417	852
Bank charges	1 920	1 897
Board of Healthcare Funders: Practice Code Numbering System (PCNS)	184	159
Conference fees	158	140
Consulting fees	2 443	2 307
Debt collection fee	23	150
Fidelity guarantee premium	315	300
Insurance Fraud Management	2 432	2 919
Health Funders Association	298	259
Legal fees	129	970
Maternity Programme	1 487	370
Meeting expenses	15	99
Metrofile	8	6
Principal Officer's fees	3 039	3 309
Principal Officer's remuneration	2 996	3 166
Principal Officer's expenses	43	143
Printing and photocopying	860	1 959
RAF recovery fees	4 796	4 493
Registrar's levies	3 130	2 818
Salaries and reimbursements	1 608	1 693
Strategic projects	–	287
Total Board Members' remuneration	5 314	4 980
– fees for holding of office (Note 11.1)	5 174	4 544
– travel and accommodation (Note 11.1)	140	436
<b>Balance at the end of the year</b>	<b>358 774</b>	<b>361 013</b>

NOTES TO THE FINANCIAL STATEMENTS (continued)

5.1.1 Administration expenditure (continued)

Remuneration and expenses of the Board Members and Audit Committee	2020			2019				
	Fees for holding office R'000	Travel and Accommodation R'000	Audit Committee meeting fees R'000	Total fees and Expenses R'000	Fees for holding office R'000	Travel and Accommodation R'000	Audit Committee meeting fees R'000	Total fees and Expenses R'000
N Byrne	232	11	-	243	166	40	-	206
J Cloete	398	-	-	398	388	-	-	388
M Duly	365	-	-	365	388	13	-	401
G Eloff	398	6	-	404	388	46	-	434
A Fourie	398	23	-	421	166	28	-	194
M Govender	531	-	-	531	388	-	-	388
P Hemus	398	23	-	421	388	73	-	461
T Jackson	464	14	-	478	776	73	-	849
K Elliott	166	-	-	166	-	-	-	-
Dr M Mojapelo-Mokotedi	398	7	-	405	388	32	-	420
C Norton	398	10	-	408	388	40	-	428
N Parker	398	26	-	424	388	48	-	436
D Tretheway	232	17	-	249	166	33	-	199
J Viljoen	398	3	-	401	166	10	-	176
<b>Board Member Costs</b>	<b>5 174</b>	<b>140</b>	<b>-</b>	<b>5 314</b>	<b>4 544</b>	<b>436</b>	<b>-</b>	<b>4 980</b>
Independent: P Brink	-	-	70	70	-	-	67	67
Independent: H Kajle	-	-	34	34	-	11	33	44
Independent: B Phillips	-	-	70	70	-	-	45	45
<b>Audit Committee Costs</b>	<b>-</b>	<b>-</b>	<b>174</b>	<b>174</b>	<b>-</b>	<b>11</b>	<b>145</b>	<b>156</b>
<b>Total</b>	<b>5 174</b>	<b>140</b>	<b>174</b>	<b>5 488</b>	<b>4 544</b>	<b>447</b>	<b>145</b>	<b>5 136</b>



NOTES TO THE FINANCIAL STATEMENTS *(continued)*

12 Net impairment loss on healthcare receivables	2020 R'000	2019 R'000
Trade and other receivables		
Contributions not recoverable	(2 107)	(1 118)
- Increase in impairment	(1 245)	(701)
- Impairment recognised directly in profit or loss	(862)	(417)
Members' and service providers' portions not recoverable	(7 914)	(12 659)
- Increase in impairment	(7 037)	(5 079)
- Impairment recognised directly in profit or loss	(877)	(7 580)
PMSA advances not recoverable	1 613	(2 405)
- Decrease/(Increase) in impairment	1 613	(2 405)
Loans to members (MediVault) not recoverable	(18 056)	(2 729)
- Increase in impairment	(18 056)	(2 729)
Net movement in impairment <i>(Note 3)</i>	(26 464)	(18 911)
Previous impairment losses recovered	715	1 866
<b>Balance as at the end of the year</b>	<b>(25 749)</b>	<b>(17 045)</b>

13 Investment income	2020 R'000	2019 R'000
Net fair value realised on disposal <i>(Note 17)</i>	(2 296)	37 671
Realised gains from available-for-sale investments	114 269	114 743
Realised losses from available-for-sale investments	(116 565)	(77 072)
Dividends received	31 834	28 967
Interest received	61 122	79 836
Interest received on investments: Medical Scheme	48 358	66 848
Interest income from cash and cash equivalents: Medical Scheme	12 764	12 988
<b>Balance at the end of the year</b>	<b>90 660</b>	<b>146 474</b>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

	2020	2019
	R'000	R'000
<b>14 Sundry income</b>		
Sundry income	-	12
Prescribed credit (reversal)/write back of unclaimed savings (Note 6)	(149)	2 620
Administration penalty	-	2 895
Fraud recoveries	3 059	3 133
<b>Balance at the end of the year</b>	<b>2 910</b>	<b>8 660</b>

	2020	2019
	R'000	R'000
<b>15 Asset management fees</b>		
Investment management fees	8 382	6 876
Investment expenses	307	271
Cash management fees	897	600
<b>Balance at the end of the year</b>	<b>9 586</b>	<b>7 747</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 16 Operations per benefit option

#### Benefit design of the Scheme

The Scheme provides three product ranges which include a low cost option, **MyFed**. The product ranges cater for market segments at different life stages from comprehensive options, **MaxiFed** (Maxima Plus, Maxima Exec and Maxima Exec **GRID** for conservative and sicker members to cheaper options, **FlexiFed** (11 options), for young/healthy members, young couples and families. The more comprehensive options have higher benefit limits, lower co-payments and better day-to-day benefits. The **ELECT** and **GRID** options are efficiency discount options (EDO), which contain the same level of benefits as the main options at a discounted contribution rate. For these options medical services should be obtained from the Scheme Networks.

#### MaxiFED Options

The **MaxiFED** options generally provide more comprehensive in-hospital benefits than the **FlexiFED** options, with virtually no deductibles and more generous limits on certain procedures. The **MaxiFED** options also cover more chronic diseases than the **FlexiFED** options.

**Maxima PLUS** provides for the richest benefits in this range. This option has a medical savings account (savings), as well as a safety net (threshold) benefit. It also provides for day-to-day benefits from OHEB (out-of-hospital expense benefit) risk pool after members have used up their savings.

#### FlexiFED options

All the options in the **FlexiFED** options have co-payments on a number of in-hospital procedures. In-hospital limits differ by option, with the limits reducing across the options. These plans offer access to funding for day-to-day benefits via the innovative MediVault and Wallet system. This system allows members to select the ideal level of day-to-day benefits that best fits their needs and budget. This is superior to conventional savings plans where members are forced to accept the level of savings that is predetermined on the plan of their choice (e.g. 15% Medical Savings Account (MSA) or 25% MSA). The amount of funds that is available for day-to-day funds via the MediVault varies across each **FlexiFED** plan. All **FlexiFED** plans offer a threshold benefit which pays for unlimited (nominated) network GP consults as well as a basic/preventative dental benefit on **FlexiFED1, 2 & 3**. **FlexiFED4** offers a comprehensive, unlimited threshold benefit which covers a number of out-of-hospital benefit categories such as GP and specialist consultations, pathology and radiology, optical and dental, etc. The same also applies to the MediVault benefits. Chronic medicine is limited to Chronic Disease List (CDL) only for **FlexiFED1** and **FlexiFED2** (including EDOs). These options provide for a small medical savings account and a MediVault account that can be activated by the member. The **ELECT** and **GRID** options have hospital networks.

#### MyFed

The **MyFed** option is structured differently from the options in the **MaxiFED** and **FlexiFED** options. It does not provide for any OHEB, savings or threshold benefits. Rather, day-to-day benefits are specified with individual limits on benefits. All day-to-day benefits, except dental benefits, can only be accessed after referral by a contracted General Practitioner (GP). The GP is used as the gatekeeper and coordinator of all care, with the exception of dental benefits. All in-hospital limits are also significantly lower than on the **MaxiFED** or **FlexiFED** options and the option has a hospital network.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 Operations per benefit option (continued)	FlexiFed 1		FlexiFed 2		Subtotal carried forward R'000	
	R'000	Elect R'000	R'000	Grid R'000		Elect R'000
Net risk contribution income	633 452	47 346	225 879	178 866	8 261	1 093 804
Relevant healthcare expenditure	(429 400)	(22 488)	(202 842)	(151 515)	(7 475)	(813 720)
<b>Net claims incurred</b>	<b>(429 400)</b>	<b>(22 488)</b>	<b>(202 842)</b>	<b>(151 515)</b>	<b>(7 475)</b>	<b>(813 720)</b>
Risk claims incurred	(419 552)	(21 985)	(199 426)	(149 717)	(7 362)	(798 042)
Claims paid from PMSA on behalf of the member	(11 728)	(676)	(3 913)	(2 223)	(137)	(18 677)
Third party claims recoveries	1 880	173	497	425	24	2 999
<b>Net income on risk transfer arrangements</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Risk transfer arrangement fees/premiums paid	-	-	-	-	-	-
Recoveries from risk transfer arrangements	-	-	-	-	-	-
<b>Gross healthcare result</b>	<b>204 052</b>	<b>24 858</b>	<b>23 037</b>	<b>27 351</b>	<b>786</b>	<b>280 084</b>
Broker service fees	(17 982)	(1 405)	(5 327)	(4 643)	(227)	(29 584)
Administration expenses	(99 178)	(10 169)	(25 743)	(21 781)	(1 218)	(158 089)
Net impairment losses on healthcare receivables	(6 874)	(704)	(1 789)	(1 489)	(82)	(10 938)
<b>Net healthcare result</b>	<b>80 018</b>	<b>12 580</b>	<b>(9 822)</b>	<b>(562)</b>	<b>(741)</b>	<b>81 473</b>
<b>Other income</b>	<b>25 230</b>	<b>2 681</b>	<b>6 529</b>	<b>5 525</b>	<b>314</b>	<b>40 279</b>
Fraud Recovery	822	86	213	180	10	1 311
Investment income: Medical Scheme	24 408	2 595	6 316	5 345	304	38 968
Prescribed credit write back of unclaimed savings	-	-	-	-	-	-
<b>Other expenditure</b>	<b>(2 941)</b>	<b>(286)</b>	<b>(800)</b>	<b>(606)</b>	<b>(36)</b>	<b>(4 669)</b>
Asset management fees	(2 576)	(268)	(668)	(565)	(32)	(4 109)
Interest on PMSA	(365)	(18)	(132)	(41)	(4)	(560)
<b>Net surplus/(deficit) for the year</b>	<b>102 307</b>	<b>14 975</b>	<b>(4 093)</b>	<b>4 357</b>	<b>(463)</b>	<b>117 083</b>
<b>Number of members per option</b>	<b>20 107</b>	<b>2 547</b>	<b>5 204</b>	<b>4 440</b>	<b>265</b>	<b>32 563</b>

NOTES TO THE FINANCIAL STATEMENTS (continued)

16	Operations per benefit option (continued) 2020	Subtotal brought forward		FlexiFed 3		FlexiFed 4		Maxima Plus R'000	Maxima Elect R'000	Subtotal carried forward R'000	
		R'000	R'000	Grid R'000	Elect R'000	Grid R'000	Elect R'000				
	Net risk contribution income	1 093 804	672 207	80 943	9 125	1 050 991	59 423	24 563	182 005	334 163	3 507 224
	Relevant healthcare expenditure	(813 720)	(575 083)	(77 051)	(7 634)	(907 074)	(57 545)	(14 435)	(158 703)	(325 322)	(2 936 567)
	<b>Net claims incurred</b>	<b>(813 720)</b>	<b>(575 083)</b>	<b>(77 051)</b>	<b>(7 634)</b>	<b>(907 074)</b>	<b>(57 545)</b>	<b>(14 435)</b>	<b>(158 703)</b>	<b>(325 322)</b>	<b>(2 936 567)</b>
	Risk claims incurred	(798 042)	(563 888)	(76 020)	(7 479)	(880 951)	(56 635)	(14 133)	(148 808)	(276 404)	(2 822 360)
	Claims paid from PMSA on behalf of the member	(18 677)	(12 557)	(1 229)	(182)	(29 196)	(1 002)	(503)	(10 019)	(49 281)	(122 646)
	Third party claims recoveries	2 999	1 362	198	27	3 073	92	201	124	363	8 439
	<b>Net income on risk transfer arrangements</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	Risk transfer arrangement fees/premiums paid	-	-	-	-	-	-	-	-	-	-
	Recoveries from risk transfer arrangements	-	-	-	-	-	-	-	-	-	-
	<b>Gross healthcare result</b>	<b>280 084</b>	<b>97 124</b>	<b>3 892</b>	<b>1 491</b>	<b>143 917</b>	<b>1 878</b>	<b>10 128</b>	<b>23 302</b>	<b>8 841</b>	<b>570 657</b>
	Broker service fees	(29 584)	(13 433)	(1 718)	(202)	(18 413)	(991)	(429)	(1 131)	(3 398)	(69 299)
	Administration expenses	(158 089)	(66 705)	(8 720)	(1 075)	(83 126)	(4 831)	(2 383)	(6 067)	(17 678)	(348 674)
	Net impairment losses on healthcare receivables	(10 938)	(4 556)	(596)	(72)	(5 687)	(340)	(171)	(538)	(1 321)	(24 219)
	<b>Net healthcare result</b>	<b>81 473</b>	<b>12 430</b>	<b>(7 142)</b>	<b>142</b>	<b>36 691</b>	<b>(4 284)</b>	<b>7 145</b>	<b>15 566</b>	<b>(13 556)</b>	<b>128 465</b>
	<b>Other income</b>	<b>40 279</b>	<b>16 854</b>	<b>2 214</b>	<b>276</b>	<b>20 880</b>	<b>1 228</b>	<b>598</b>	<b>1 511</b>	<b>4 451</b>	<b>88 291</b>
	Fraud Recovery	1 311	552	72	9	687	40	20	50	146	2 887
	Investment income: Medical Scheme	38 968	16 309	2 142	267	20 299	1 188	586	1 481	4 313	85 553
	Prescribed credit write back of unclaimed savings	-	(7)	-	-	(106)	-	(8)	(20)	(8)	(149)
	<b>Other expenditure</b>	<b>(4 669)</b>	<b>(2 453)</b>	<b>(265)</b>	<b>(40)</b>	<b>(5 354)</b>	<b>(172)</b>	<b>(103)</b>	<b>(312)</b>	<b>(1 685)</b>	<b>(15 053)</b>
	Asset management fees	(4 109)	(1 729)	(226)	(28)	(2 153)	(125)	(62)	(157)	(458)	(9 047)
	Interest on PMSA	(560)	(724)	(39)	(12)	(3 201)	(47)	(41)	(155)	(1 227)	(6 006)
	<b>Net surplus/(deficit) for the year</b>	<b>117 083</b>	<b>26 831</b>	<b>(5 193)</b>	<b>378</b>	<b>52 217</b>	<b>(3 228)</b>	<b>7 640</b>	<b>16 765</b>	<b>(10 790)</b>	<b>201 703</b>
	<b>Number of members per option</b>	<b>32 563</b>	<b>13 189</b>	<b>1 759</b>	<b>229</b>	<b>16 337</b>	<b>979</b>	<b>475</b>	<b>1 187</b>	<b>3 485</b>	<b>70 203</b>

NOTES TO THE FINANCIAL STATEMENTS (continued)

16	Operations per benefit option (continued)	2020	Subtotal brought forward R'000	Maxima Exec Grid R'000	MyFed R'000	Grand Total R'000
	Net risk contribution income	3 507 224	24 494	83 501	3 615 219	
	Relevant healthcare expenditure	(2 936 567)	(33 181)	(77 581)	(3 047 329)	
	<b>Net claims incurred</b>	<b>(2 936 567)</b>	<b>(33 181)</b>	<b>(77 821)</b>	<b>(3 047 569)</b>	
	Risk claims incurred	(2 822 360)	(29 612)	(78 184)	(2 930 156)	
	Claims paid from PMSA on behalf of the member	(122 646)	(3 626)	-	(126 272)	
	Third party claims recoveries	8 439	57	363	8 859	
	<b>Net income on risk transfer arrangements</b>	<b>-</b>	<b>-</b>	<b>240</b>	<b>240</b>	
	Risk transfer arrangement fees/premiums paid	-	-	(897)	(897)	
	Recoveries from risk transfer arrangements	-	-	1 137	1 137	
	<b>Gross healthcare result</b>	<b>570 657</b>	<b>(8 687)</b>	<b>5 920</b>	<b>567 890</b>	
	Broker service fees	(69 299)	(273)	(2 559)	(72 131)	
	Administration expenses	(348 674)	(1 434)	(8 666)	(358 774)	
	Net impairment losses on healthcare receivables	(24 219)	(103)	(1 427)	(25 749)	
	<b>Net healthcare result</b>	<b>128 465</b>	<b>(10 497)</b>	<b>(6 732)</b>	<b>111 236</b>	
	<b>Other income</b>	<b>88 291</b>	<b>364</b>	<b>4 915</b>	<b>93 570</b>	
	Fraud Recovery	2 887	12	160	3 059	
	Investment income: Medical Scheme	85 553	352	4 755	90 660	
	Prescribed credit write back of unclaimed savings	(149)	-	-	(149)	
	<b>Other expenditure</b>	<b>(15 053)</b>	<b>(95)</b>	<b>(501)</b>	<b>(15 649)</b>	
	Asset management fees	(9 047)	(38)	(501)	(9 586)	
	Interest on PMSA	(6 006)	(57)	-	(6 063)	
	<b>Net surplus/(deficit) for the year</b>	<b>201 703</b>	<b>(10 228)</b>	<b>(2 318)</b>	<b>189 157</b>	
	<b>Number of members per option</b>	<b>70 203</b>	<b>293</b>	<b>3 998</b>	<b>74 494</b>	

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 Operations per benefit option (continued)	FlexiFed I		FlexiFed 2		Subtotal carried forward R'000
	R'000	Elect R'000	R'000	Grid R'000	
Net risk contribution income	542 909	18 378	200 263	129 397	5 530
Relevant healthcare expenditure	(426 463)	(12 753)	(195 475)	(116 290)	(4 928)
<b>Net claims incurred</b>	<b>(426 463)</b>	<b>(12 753)</b>	<b>(195 475)</b>	<b>(116 290)</b>	<b>(4 928)</b>
Risk claims incurred	(412 368)	(12 410)	(189 599)	(113 857)	(4 823)
Claims paid from PMSA on behalf of the member	(16 054)	(434)	(6 473)	(2 790)	(122)
Third party claims recoveries	1 959	91	597	357	17
<b>Net income on risk transfer arrangements</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Risk transfer arrangement fees/premiums paid	-	-	-	-	-
Recoveries from risk transfer arrangements	-	-	-	-	-
<b>Gross healthcare result</b>	<b>116 446</b>	<b>5 625</b>	<b>4 788</b>	<b>13 107</b>	<b>602</b>
Broker service fees	(15 716)	(520)	(4 866)	(3 389)	(148)
Administration expenses	(95 133)	(4 417)	(25 681)	(17 719)	(841)
Net impairment losses on healthcare receivables	(5 830)	(70)	(952)	(436)	(12)
<b>Net healthcare result</b>	<b>(233)</b>	<b>618</b>	<b>(26 711)</b>	<b>(8 437)</b>	<b>(399)</b>
<b>Other income</b>	<b>38 953</b>	<b>1 774</b>	<b>10 430</b>	<b>7 335</b>	<b>334</b>
Fraud Recovery	801	38	216	150	7
Investment income: Medical Scheme	37 672	1 736	10 012	7 172	327
Prescribed credit write back of unclaimed savings	121	-	69	-	-
Administration penalty	356	-	132	12	-
Sundry income	3	-	1	1	5
<b>Other expenditure</b>	<b>(2 356)</b>	<b>(101)</b>	<b>(737)</b>	<b>(431)</b>	<b>(20)</b>
Asset management fees	(1 992)	(93)	(531)	(379)	(17)
Interest on PMSA	(364)	(8)	(206)	(52)	(3)
<b>Net surplus/(deficit) for the year</b>	<b>36 364</b>	<b>2 291</b>	<b>(17 018)</b>	<b>(1 533)</b>	<b>(85)</b>
<b>Number of members per option</b>	<b>21 400</b>	<b>1 123</b>	<b>5 288</b>	<b>4 711</b>	<b>189</b>
					<b>32 711</b>

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 Operations per benefit option (continued) 2018	Subtotal brought forward		FlexiFed 3		FlexiFed 4		Maxima Plus		Maxima Elect		Subtotal carried forward	
	R'000	R'000	Grid	Elect	R'000	R'000	Grid	Elect	R'000	R'000	R'000	R'000
Net risk contribution income	896 477	584 864	62 638	4 669	1 085 166	45 378	23 258	174 897	311 457	3 188 804		
Relevant healthcare expenditure	(755 909)	(550 309)	(67 762)	(4 819)	(1 015 116)	(43 302)	(21 327)	(192 832)	(313 756)	(2 965 132)		
<b>Net claims incurred</b>	<b>(755 909)</b>	<b>(550 309)</b>	<b>(67 762)</b>	<b>(4 819)</b>	<b>(1 015 116)</b>	<b>(43 302)</b>	<b>(21 327)</b>	<b>(192 832)</b>	<b>(313 756)</b>	<b>(2 965 132)</b>		
Risk claims incurred	(733 057)	(536 043)	(66 281)	(4 737)	(965 538)	(41 792)	(20 092)	(182 109)	(265 751)	(2 815 400)		
Claims paid from PMSA on behalf of the member	(25 873)	(15 634)	(1 641)	(96)	(52 253)	(1 596)	(1 290)	(10 861)	(48 396)	(157 640)		
Third party claims recoveries	3 021	1 368	160	14	2 675	86	55	138	391	7 908		
<b>Net income on risk transfer arrangements</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>		
Risk transfer arrangement fees/premiums paid	-	-	-	-	-	-	-	-	-	-		
Recoveries from risk transfer arrangements	-	-	-	-	-	-	-	-	-	-		
<b>Gross healthcare result</b>	<b>140 568</b>	<b>34 555</b>	<b>(5 124)</b>	<b>(150)</b>	<b>70 050</b>	<b>2 076</b>	<b>1 931</b>	<b>(17 935)</b>	<b>(2 299)</b>	<b>223 672</b>		
Broker service fees	(24 639)	(11 896)	(1 356)	(113)	(19 901)	(726)	(597)	(1 132)	(3 275)	(63 635)		
Administration expenses	(143 791)	(66 500)	(7 702)	(663)	(97 685)	(4 139)	(2 613)	(6 698)	(18 927)	(348 718)		
Net impairment losses on healthcare receivables	(7 300)	(4 070)	(126)	(9)	(3 860)	(67)	(71)	(258)	(925)	(16 686)		
<b>Net healthcare result</b>	<b>(35 162)</b>	<b>(47 911)</b>	<b>(14 308)</b>	<b>(935)</b>	<b>(51 396)</b>	<b>(2 856)</b>	<b>(1 350)</b>	<b>(26 023)</b>	<b>(25 426)</b>	<b>(205 367)</b>		
<b>Other income</b>	<b>58 826</b>	<b>27 398</b>	<b>3 071</b>	<b>264</b>	<b>41 830</b>	<b>1 644</b>	<b>1 161</b>	<b>3 294</b>	<b>7 940</b>	<b>145 428</b>		
Fraud Recovery	1 212	560	65	6	818	35	22	56	159	2 933		
Investment income: Medical Scheme	56 919	26 303	3 005	258	37 767	1 609	1 011	2 654	7 451	136 977		
Prescribed credit write back of unclaimed savings	190	272	-	-	1 424	-	31	472	226	2 615		
Administration penalty	500	261	1	-	1 818	-	97	112	103	2 892		
Sundry income	5	2	-	-	3	-	-	-	1	11		
<b>Other expenditure</b>	<b>(3 645)</b>	<b>(1 993)</b>	<b>(196)</b>	<b>(18)</b>	<b>(6 748)</b>	<b>(147)</b>	<b>(110)</b>	<b>(318)</b>	<b>(1 122)</b>	<b>(14 297)</b>		
Asset management fees	(3 012)	(1 391)	(159)	(14)	(2 000)	(85)	(54)	(140)	(393)	(7 248)		
Interest on PMSA	(633)	(602)	(37)	(4)	(4 748)	(62)	(56)	(178)	(729)	(7 049)		
<b>Net surplus/(deficit) for the year</b>	<b>20 018</b>	<b>(22 506)</b>	<b>(11 433)</b>	<b>(689)</b>	<b>(16 314)</b>	<b>(1 359)</b>	<b>(299)</b>	<b>(23 047)</b>	<b>(18 608)</b>	<b>(74 256)</b>		
<b>Number of members per option</b>	<b>32 711</b>	<b>14 962</b>	<b>1 636</b>	<b>140</b>	<b>18 967</b>	<b>837</b>	<b>500</b>	<b>1 484</b>	<b>4 146</b>	<b>75 383</b>		



NOTES TO THE FINANCIAL STATEMENTS (continued)

16 Operations per benefit option (continued)	2019	Subtotal brought forward R'000	Maxima Exec Grid R'000	MyFed R'000	Grand Total R'000
Net risk contribution income		3 188 804	11 812	84 956	3 285 572
Relevant healthcare expenditure		(2 965 132)	(23 763)	(77 508)	(3 066 403)
<b>Net claims incurred</b>		<b>(2 965 132)</b>	<b>(23 763)</b>	<b>(77 918)</b>	<b>(3 066 813)</b>
Risk claims incurred		(2 815 400)	(21 939)	(78 408)	(2 915 747)
Claims paid from PMSA on behalf of the member		(157 640)	(1 842)	-	(159 482)
Third party claims recoveries		7 908	18	490	8 416
<b>Net income on risk transfer arrangements</b>		<b>-</b>	<b>-</b>	<b>410</b>	<b>410</b>
Risk transfer arrangement fees/premiums paid		-	-	(975)	(975)
Recoveries from risk transfer arrangements		-	-	1 385	1 385
<b>Gross healthcare result</b>		<b>223 672</b>	<b>(11 951)</b>	<b>7 448</b>	<b>219 169</b>
Broker service fees		(63 635)	(141)	(2 733)	(66 509)
Administration expenses		(348 718)	(852)	(11 443)	(361 013)
Net impairment losses on healthcare receivables		(16 686)	(45)	(314)	(17 045)
<b>Net healthcare result</b>		<b>(205 367)</b>	<b>(12 989)</b>	<b>(7 042)</b>	<b>(225 398)</b>
<b>Other income</b>		<b>145 428</b>	<b>340</b>	<b>9 366</b>	<b>155 134</b>
Fraud Recovery		2 933	7	193	3 133
Investment income: Medical Scheme		136 977	333	9 164	146 474
Prescribed credit write back of unclaimed savings		2 615	-	5	2 620
Administration penalty		2 892	-	3	2 895
Sundry income		11	-	1	12
<b>Other expenditure</b>		<b>(14 297)</b>	<b>(29)</b>	<b>(480)</b>	<b>(14 806)</b>
Asset management fees		(7 248)	(19)	(480)	(7 747)
Interest on PMSA		(7 049)	(10)	-	(7 059)
<b>Net surplus/(deficit) for the year</b>		<b>(74 236)</b>	<b>(12 678)</b>	<b>1 844</b>	<b>(85 070)</b>
<b>Number of members per option</b>		<b>75 383</b>	<b>193</b>	<b>4 239</b>	<b>79 815</b>

**NOTES TO THE FINANCIAL STATEMENTS** *(continued)*

	2020	2019
<b>17 Cash flows utilised in operations before working capital changes</b>	R'000	R'000
Net surplus/(deficit) for the year	189 157	(85 070)
Adjustments for:		
– net movement in allowance for impaired receivables	24 725	10 913
– investment income: Medical Scheme	(92 956)	(108 803)
– interest paid on PMSA liability (Note 6)	6 063	7 059
– net fair value realised on disposal (Note 13)	2 296	(37 671)
<b>Balance as at the end of the year</b>	<b>129 285</b>	<b>(213 572)</b>

	2020	2019
<b>18 Related party transactions</b>	R'000	R'000

**The administrator and its associates**

Medscheme Holdings (Pty) Ltd, the administrator, Aid for Aids Management (Pty) Ltd, AfroCentric Technologies (Pty) Ltd, Klinikka (Pty) Ltd, Pharmacy Direct (Pty) Ltd, The Cheese Has Moved (Pty) Ltd and Wellworx (Pty) Ltd are subsidiaries of AfroCentric Health (Pty) Ltd and provide key management services to the Scheme. Wellworx is an authorised Financial Services Provider (FSP: 46017), mandated by the Scheme to sell Fedhealth and other complimentary financial service products. PHA managed the Topmed winddown after amalgamation. These entities participate in the financial and operational activities of the Scheme, but do not control the Scheme. The administrator and its associates have been included due to the significance of the outsourcing relationship.

**Statement of comprehensive income**

Medscheme Holdings (Pty) Ltd	371 813	345 487
– Actuarial fees	2 072	1 974
– Administration fees	280 461	261 870
– Administration penalty	-	(2 620)
– Insurance Fraud Management (IFM)	2 432	2 919
– Managed care: management services	85 158	79 787
– Third party collection administration services	1 690	1 557
<b>AfroCentric Health (Pty) Ltd</b>	<b>84 069</b>	<b>94 775</b>
– Aid for Aids Management	10 874	10 135
– AfroCentric Technologies	-	(1 755)
– Klinikka	1 753	2 128
– Pharmacy Direct	22 580	21 198
– PHA		
– Administration winddown fee	308	8 621
– Managed care winddown fee	100	2 788
– The Cheese Has Moved	37 454	41 696
– Wellworx	11 000	9 964

**Statement of financial position**

Medscheme Holdings (Pty) Ltd	1 323	755
– Administration fees	674	194
– Aid for Aids Management	(4)	(8)
– Managed care: management services	515	431
– Third party collection administration services	138	138

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 Related party transactions (continued)	2020 R'000	2019 R'000
<b>Statement of financial position (continued)</b>		
AfroCentric Health (Pty) Ltd		
– AfroCentric Technologies	-	(1 454)
<b>Terms and conditions of administration and managed care agreements</b>		
<p>The administration and managed care agreements comply with the rules of the Scheme and are in accordance with instructions given by the Board. The agreements comply with the Act and are automatically renewed each year unless notification of termination is received. The outstanding balances are due within 30 days.</p>		
<b>Key management personnel of the Scheme</b>		
<b>The Board Members, Principal Officer, Scheme employees, their dependants and close family members</b>		
<p>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 Board Members, Principal Officer and Scheme employees. Close family members are members and dependants of the Board Members, Principal Officer and Scheme employees and are therefore also related parties.</p>		
<b>Statement of comprehensive income</b>		
Board Members' fees for holding of office and related expenses and Principal Officer's remuneration and expenses	8 367	8 309
– Risk contributions received in terms of the Scheme's rules	775	531
– Risk claims incurred in terms of the Scheme's rules	(598)	(247)
<b>Statement of financial position</b>		
– PMSA liability	(6)	(6)
– Loan to member (Wallet) liability	(5)	(15)
– Loan to member (MediVault) debtors	252	9
– Risk contribution debtors	71	57

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 Related party transactions (continued)

Terms and conditions of the related party transactions were as follows:

*Remuneration and expenses*

This constitutes remuneration and disbursements paid to the Principal Officer and Board Members for services rendered.

*Risk Contributions received*

This constitutes the risk contributions paid by the related parties as members of the Scheme, in their individual capacities. All contributions are on the same terms as applicable to Scheme members.

*Risk claims incurred*

This constitutes risk claims from related parties, in their individual capacities as members of the Scheme. All risk claims are paid out in terms of the rules of the Scheme, as applicable to Scheme members.

*Risk Contribution debtors*

This constitutes risk contributions that are payable in arrears as stipulated in the rules of the Scheme. None of these debts are doubtful and thus no impairment for doubtful debts has been raised on these amounts.

*Loans to members*

This constitutes an interest-free loan transferred from the MediVault benefit to the member's Wallet account. The member only pays back the money transferred from the MediVault to the Wallet - interest free over a maximum period of twelve months. The instalments are payable in arrears, none of these debts are doubtful and thus no impairment for doubtful debt has been raised on these amounts.



NOTES TO THE FINANCIAL STATEMENTS (continued)

19 Non-compliance matters

Nature and cause of non-compliance	Possible impact of the non-compliance	Corrective course
<p><b>19.1 Contributions not received within the time stipulated by the Act</b></p> <p>Section 26(7) of the Act states that: "All subscriptions or contributions shall be paid directly to a medical scheme not later than three days after payment thereof becoming due." Exceptions were found and credit control procedures were applied.</p>	<p>Late payment may result in a loss of interest on these amounts to the Scheme for the number of days that payment is late. This is not significant due to the short duration of the contributions outstanding. Members and employer groups are continuously instructed to submit payment on time.</p>	<p>The Board addresses the issue on an ongoing basis in accordance with the Scheme's credit control policy.</p> <p>The Board received exemption in terms of section 8(h) from complying with said section 26(7) as per Circular 28 of 2020: COVID-19.</p>
<p><b>19.2 Claim payments in excess of 30 days</b></p> <p>Section 59(2) of the Act states that: "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."</p> <p>Exceptions were found at the beginning of the financial year when claims are put on hold, to ensure that the approved tariff and benefit limits are loaded correctly on the administration platform. This process results in a delay in the processing of payments due to the backlog in claims, but only for a few days.</p>	<p>The delay only occurs at the beginning of the financial year when new tariffs and benefit limits are loaded; claims are paid within the first week of tariff and benefit limit approval.</p> <p>The Scheme is not compliant with the Act and/or its rules when certain valid claims are rejected or amounts due on valid claims are short paid.</p>	<p>The year-end process is not considered to be significant due to the members and providers conforming to the annual practice. The practice ensures accurate claims processing for the new benefit year and is in the interest of the risk management process for the Scheme.</p>
<p><b>19.3 Loss making options</b></p> <p>Section 33(2) of the Act states that: "The Registrar shall not approve any benefit option under this section unless the Council is satisfied that such benefit options (b) shall be self-supporting in terms of membership and financial performance and (c) is financially sound." Various options made net healthcare deficits as disclosed in <a href="#">Note 16</a> to the financial statements.</p>	<p>The Council may withdraw benefit options, directly affecting the members on these options.</p>	<p>The Scheme was specifically costed to incur net healthcare deficits on certain options. The Scheme actuary has taken this into account in costing the benefits for the 2020 financial year.</p>

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 Non-compliance matters (continued)

Nature and cause of non-compliance	Possible impact of the non-compliance	Corrective course
<p><b>19.4 Prohibition of investments in an employer who participates in the medical scheme or in any administrators</b></p> <p>Section 35(8)(a), (c) and (d) of the Act sets out the prohibition of investments in participating employer and administrators. The Scheme is currently invested in Discovery Holdings Ltd, MMI Holdings Ltd, Sanlam Life Insurance Ltd, Sanlam Ltd and Sanlam Capital Markets Ltd through portfolios managed by underlying investment managers.</p>	<p>The Scheme is non-compliant with Section 35(8). The Council may require the Scheme to disinvest from these companies.</p>	<p>The Council renewed the exemption, as none of these companies have any influence over the Scheme and the Scheme does not have any influence over these entities in which it holds investments.</p>
<p><b>19.5 Prohibition the medical savings funds to be used to offset contributions unless to settle the scheme upon terminations of membership</b></p> <p>Regulation 10(3) personal medical savings account prohibits the medical savings funds to be used to offset contributions unless to settle the scheme upon termination of membership. Funds deposited in a member's PMSA shall be available for the exclusive benefit of the member and his or her dependants but may not be used to offset contributions, provided that the medical scheme may use funds in a member's PMSA to offset debt owed by the member to the medical scheme following that member's termination of membership of the medical scheme.</p>	<p>The Scheme is non-compliant with Section 10(3). The Council may require the Scheme to reverse contribution recovery from PMSA.</p>	<p>The Board received exemption in terms of section 8(h) from complying with said section 26(7) as per Circular 28 of 2020: COVID-19.</p> <p>Only six members' contribution debts were recovered from their PMSA to the value of R27 300.</p>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

**20 Critical accounting judgments and areas of key sources of estimation uncertainty**

In the process of applying the Scheme's accounting policies, the Board has made the following judgments that have the most significant impact on the amounts recognised in the financial statements.

Certain critical accounting judgments in applying the Scheme's accounting policies and key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year, are discussed below.

*The ultimate liability arising from risk claims made under medical insurance contracts*

There are some sources of uncertainty that need to be considered in the estimation of the liability that the Scheme will ultimately pay for such risk claims. Initial estimates are made relating to the best calculations on reported risk claims and are derived as the risk claims process develops. All estimates are revised and adjusted at year-end by management. Refer to [Note 5](#) for the method used to calculate the outstanding risk claims provision.

*Other judgements and estimates*

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 administrative tasks only;
- each fund's activities are restricted by prospectus; and
- the funds have narrow and well-defined objectives to provide investment opportunities.

NOTES TO THE FINANCIAL STATEMENTS *(continued)***2.1 Insurance risk management**

The Board acknowledges its responsibility for establishing and communicating appropriate risk and control policies and ensuring that adequate risk management processes are in place. The Scheme has a number of committees which deal with the various policies for accepting risks, including selection and approval of risks to be insured, use of limits and avoiding undue concentrations of risk, and underwriting strategies to ensure appropriate risk classification and premium levels.

*Risk management objectives and policies for mitigating insurance risk*

The primary insurance activity carried out by the Scheme assumes the risk of losses of members and their dependants that are directly subject to the risk. The risks relate to the health of the Scheme members. As such, the Scheme is exposed to uncertainty surrounding the timing and severity of claims under the contract. Details regarding the subsequent claims development in respect thereof have been disclosed in [Note 5](#). The Scheme also has exposure to market risk through its insurance and investment activities.

The Scheme manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisations and case management, service provider profiling as well as the monitoring of emerging issues.





## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 21 Insurance risk management *(continued)*

The Scheme uses several methods to assess and monitor medical insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analyses, scenario analyses and stress testing. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of risk claims are greater than expected.

Medical insurance events are, by their nature, random and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Scheme has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

In-hospital benefits cover all costs incurred by members, whilst they are in hospital to receive pre-authorised treatment for certain medical conditions.

Chronic benefits cover the cost of certain prescribed medicines utilised by members for chronic conditions such as high blood pressure, cholesterol and asthma.

Day-to-day benefits cover the cost (up to 100% of the Scheme's tariff) of out-of-hospital medical attention, such as visits to general practitioners and dentists as well as prescribed non-chronic medicines.

The Scheme's strategy seeks diversity of risk to ensure a balanced risk profile and is based on a large pool of similar risks over a period of time and, as such, it is believed that this reduces the variability of the outcome.

The strategy is set out in the annual budget and benefit guide, which specifies the benefits to be provided by each option, the preferred target market and demographic split thereof.

All the contracts are periodic in nature and the Scheme has the right to change the terms and conditions of the contract at renewal. Management information including contribution income and claims ratios by option, target market and demographic split, is reviewed monthly. There is also an underwriting review programme that regularly reviews a sample of contracts to ensure adherence to the Scheme's objectives.

#### ***Medical insurance risks facing the Scheme***

##### **Adequacy of contributions**

The most significant medical insurance risk that the Scheme faces is the risk that contributions are not sufficient to cover claims expenditure and other expenses, and are further not sufficient to maintain the accumulated funds ratio of the Scheme at the required level.

However, subject to the approval of the Council, the Scheme is able to reset contributions for a change in circumstances.

**NOTES TO THE FINANCIAL STATEMENTS** *(continued)*

**21 Insurance risk management** *(continued)*

**Concentration of risk**

The following table summarises the concentration of insurance risk, net of the risk transfer arrangement, with reference to the carrying amount of the insurance claims incurred in relation to the type of benefit provided:

Provider categories	%	2020		2019	
		R'000	%	R'000	%
Medical practitioners	2.93%	85 466	3.22%	94 254	
Medical specialists	32.73%	954 522	32.49%	951 184	
Hospitals	46.21%	1 347 162	47.94%	1 403 162	
Medicines	12.29%	358 445	10.74%	314 495	
Optical	0.22%	6 432	0.12%	3 642	
Dentistry	0.26%	7 627	0.30%	8 873	
Paramedical services	4.31%	125 612	4.12%	120 696	
Physiotherapy	1.04%	30 463	1.06%	31 048	
Associated health services	0.01%	326	0.01%	290	
<b>Total</b>	<b>100.00%</b>	<b>2 916 055</b>	<b>100.00%</b>	<b>2 927 644</b>	

**Distribution of principal members across options at year-end**

Option name	%	2020		2019	
		Membership	%	Membership	%
Maxima Plus	1.59%	1 187	1.86%	1 484	
Maxima Exec	4.68%	3 485	5.19%	4 146	
Maxima Exec Grid	0.39%	293	0.24%	193	
FlexiFed1	26.99%	20 107	26.80%	21 400	
FlexiFed1 Elect	3.42%	2 547	1.41%	1 123	
FlexiFed2	6.99%	5 204	6.63%	5 288	
FlexiFed2 Grid	5.96%	4 440	5.90%	4 711	
FlexiFed2 Elect	0.36%	265	0.24%	189	
FlexiFed3	17.70%	13 189	18.75%	14 962	
FlexiFed3 Grid	2.36%	1 759	2.05%	1 636	
FlexiFed3 Elect	0.31%	229	0.18%	140	
FlexiFed4	21.93%	16 337	23.76%	18 967	
FlexiFed4 Grid	1.31%	979	1.05%	837	
FlexiFed4 Elect	0.64%	475	0.63%	500	
MyFed	5.37%	3 998	5.31%	4 239	
<b>Total</b>	<b>100.00%</b>	<b>74 494</b>	<b>100.00%</b>	<b>79 815</b>	

NOTES TO THE FINANCIAL STATEMENTS *(continued)*21 Insurance risk management *(continued)***Qualitative risk factors**

A major source of uncertainty in the current legislative and market environment is:

- The continued absence of a standard reference price, previously applicable by the Scheme to services where no prior negotiated fee existed, means that reimbursement for 2020 for these services is assumed to be at the 2019 Scheme Rate plus 3.4%. Should a 2021 Reference Price List be published, or a statutory pricing body intervene, the 2021 Scheme Rate may be too low, and this could pose a significant financial risk to the Fund (although the rates negotiated with some disciplines provide a degree of protection). The likelihood of this change is considered small, although the recommendation from the Health Market Inquiry may kick-start such processes.
- Prescribed Minimum Benefit (PMB). The legal challenge based on the interpretation that PMB claims should be funded at the invoiced price has been dismissed. This issue still remains a material risk to the Scheme. General Practitioner and Specialist Networks have been implemented and this should mitigate the risk to a large extent.
- Circular 25 of 2020 was released by the CMS on 26 March 2020 in light of the current COVID-19 pandemic. In this circular COVID-19 was confirmed as a PMB condition and therefore most COVID-19 related costs as defined should be funded in full by medical schemes during the course of the pandemic. Therefore, in addition to the risks associated with PMBs mentioned above, the unpredictable nature of the pandemic carries significant additional risk to the Scheme. This risk might be further increased if a third or fourth wave of infections might realise and adversely affect claims experience.

However, the CMS also encouraged the use of telehealth consultations in this Circular, which is expected to run into 2021.

COVID-19 has brought the reality of a global pandemic to the fore and has resulted in a material direct and indirect financial impact on medical schemes. It is worth noting that, apart from an explicit allowance for a baseline cost relating to COVID-19 for 2021, no allowance has been incorporated in the pricing projections for any other epidemics and the significant impact it may have on claims utilisation and scheme financials in future years. Due to the significant uncertainty at the time of writing around the timing, availability, effectiveness and cost of a vaccine for COVID-19, no additional allowance is made for the likely cost of funding a vaccine.

- A major source of uncertainty in the current legislative and market environment is the introduction of National Health Insurance (NHI), most recently with the latest iteration of the National Health Insurance Bill that was tabled in Parliament on 8 August 2019. The Bill provides key details regarding the policy trajectory that is envisaged for the South African health system. A system of "mandatory prepayment" is earmarked, with funding to take place through social solidarity taxation principles. According to the Bill, the NHI Fund is to be fully operational by 2026 and, once NHI has been fully implemented, medical scheme cover would be complementary to NHI cover. The exact services specified under the Bill are not yet defined, but these are intended to be "comprehensive healthcare services".

These are large-scale changes that would affect private providers of care and it is therefore clear that NHI in its current proposed form will have a major impact on medical schemes; however, no explicit allowance has been made for these developments in the 2020 contribution review. It should be noted that there is a possible risk of an increase in utilisation in the medium term - especially of elective services - as members may want to access these benefits earlier due to the expectation that might exist that such services may no longer be available from medical scheme cover at some point in the future. The NHI draft bill does not detail explicit provisions that there will be any significant changes in the role, structure and functioning of the Medical Schemes industry.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*21 Insurance risk management *(continued)***Qualitative risk factors** *(continued)*

- **Competition Commission Healthcare Market Inquiry** – The Competition Commission has established a market inquiry into the private healthcare sector in terms of Chapter 4A of the Competition Act, 89 of 1998 (as amended). The aim of this inquiry is to help identify the factors driving increased expenditure as well as the market dynamics at play within the healthcare industry.

Following several iterations of public hearings, submissions and interviews, the Final Findings and Recommendations Report of the Health Market Inquiry (HMI) were published during September 2019. The Final Report was released in October 2019. This publication is a culmination of a long process of engagements that Medscheme has been continuously involved in over the four years and Medscheme has made many technical submissions on matters pertaining to market structure, tariffs, negotiation processes, market power, as well as supplier induced demand. It is yet to be established what the ultimate impact of this exercise will be and therefore no impact allowance on the 2021 budget has been made.



**NOTES TO THE FINANCIAL STATEMENTS** *(continued)***21 Insurance risk management** *(continued)***Financial sustainability**

The major risk affecting the future sustainability of the Scheme is the possibility of a deterioration in the risk profile of members. Schemes with a better member risk profile can offer the same benefits at a lower contribution rate than other schemes, as their members will be claiming less.

If a scheme charges higher contribution rates than the market, it is at risk of losing members and not replacing them. It is typically easier for younger, healthier members to move to another scheme. Should younger, healthier members leave the Scheme, the member risk profile would deteriorate, resulting in even higher contribution rates required.

It is therefore important that the Scheme maintains or improves its member risk profile, by attracting lower risk members and retaining healthy members in the Scheme.

**Risk in terms of risk transfer arrangement**

The Scheme outsources a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources. The Scheme is contracted with Iso Leso.

The capitation agreement is, in substance, the same as a non-proportional reinsurance treaty.

The Scheme cedes insurance risk to limit exposure to underwriting losses under the agreements that cover individual risks, group risks or defined blocks of business, on a co-insurance, yearly renewable term. The risk transfer arrangement transfers the risk and minimises the effect of losses. The amount of each risk retained depends on the Scheme's evaluation of the specified risk to maximum limits based on the basis of characteristics of coverage.

According to the terms of the risk transfer arrangement, the third party agrees to reimburse the ceded amount in the event the risk claim is paid. According to the terms of the capitation agreement, the supplier provides certain minimum benefits to all Scheme members as and when required by the members. The Scheme does, however, remain liable to its members with respect to ceded insurance if any reinsurer (or supplier) fails to meet the obligations it assumes.

When selecting an insurer (or supplier) the Scheme considers their relative security. The security of the insurer (or supplier) is assessed from public rating information and from internal investigations.

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 22 Financial risk management

The Scheme's activities expose it to a variety of financial risks, including liquidity, credit and market risk. The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the financial performance of investments that the Scheme holds to meet its obligations to its members.

Risk management and investment decisions are made under the guidance and policies approved by the Board. The Investment Committee identifies and evaluates the financial risks associated with the Scheme's investment portfolio. The Investment Committee provides written principles for investment risk management, as well as written policies covering specific areas, such as liquidity risk, credit risk and interest rate risk. The Board approves all of these written policies.

#### **Liquidity risk management**

Liquidity risk is the risk that the Scheme will encounter difficulty in raising funds to meet commitments associated with financial liabilities.

Medical schemes are registered in terms of the Act and are required to maintain a minimum accumulated fund ratio level. The Scheme's actuary and investment managers continually manage and monitor liquidity and accumulated fund ratio requirements.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. 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. The availability of funding through liquid holding cash positions with various financial institutions ensures that the Scheme has the ability to fund its day-to-day operations.

With the exception of the PMSA refunds due to ex-members, which are generally settled not later than 5 months, trade and other payables are settled between 30 and 60 days.

The table below summarises the Scheme's exposure to liquidity risk. Included in the table are the Scheme's assets and liabilities at carrying amounts, categorised by contractual maturities.

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 Financial risk management (continued)

2020	Note	Up to 1 month R'000	1 - 3 months R'000	4 - 12 months R'000	Total R'000
<b>Liquidity analysis</b>					
<b>Assets</b>					
<b>Non-current assets</b>					
	2	-	1 373 075	-	1 373 075
		-	1 373 075	-	1 373 075
<b>Current assets</b>					
	3	831 541	-	-	831 541
		293 629	-	-	293 629
	4	537 912	-	-	537 912
		831 541	1 373 075	-	2 204 616
<b>Total assets</b>					
<b>Liabilities</b>					
<b>Current liabilities</b>					
	5	410 663	87 179	19 770	517 612
		138 144	87 179	19 770	245 093
	6	163 229	-	-	163 229
	7	109 290	-	-	109 290
		410 663	87 179	19 770	517 612
<b>Total liabilities</b>					

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 Financial risk management (continued)

2019	Note	Up to 1 month R'000	1 - 3 months R'000	4 - 12 months R'000	Total R'000
<b>Liquidity analysis</b>					
<b>Assets</b>					
<b>Non-current assets</b>					
	2	-	1 159 508	-	1 159 508
Available-for-sale investments		-	1 159 508	-	1 159 508
<b>Current assets</b>					
Trade and other receivables	3	799 349	-	-	799 349
Cash and cash equivalents	4	292 352	-	-	292 352
		506 997	-	-	506 997
<b>Total assets</b>		<b>799 349</b>	<b>1 159 508</b>	<b>-</b>	<b>1 958 857</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Outstanding risk claims provision	5	371 288	79 510	20 924	471 722
PMSA liability	6	108 803	79 510	20 924	209 237
Trade and other payables	7	195 428	-	-	195 428
		67 057	-	-	67 057
<b>Total liabilities</b>		<b>371 288</b>	<b>79 510</b>	<b>20 924</b>	<b>471 722</b>



## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 22 Financial risk management (continued)

**Credit risk management**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation and cause the Scheme to incur a financial loss.

The Scheme's principal financial assets are cash and cash equivalents, trade and other receivables and available-for-sale investments. The Scheme's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the statement of financial position are net of impairment. An impairment is made when there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Cash transactions are limited to high credit quality financial institutions. The Scheme has a policy of limiting the amount of credit exposure to any one financial institution.

*Exposure to risk*

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2020 R'000	2019 R'000
Available-for-sale investments	1 373 075	1 159 508
Cash and cash equivalents	537 912	506 997
Trade and other receivables	293 629	292 352
<b>Total</b>	<b>2 204 616</b>	<b>1 958 857</b>

*Available-for-sale investments and cash and cash equivalents*

Funds are invested at various institutions after taking the following criteria into account:

- The Scheme's mandate requirements;
- Regulations as per the Act;
- Credit ratings of the various institutions; and
- Interest rates offered by the institutions.

The ratings per institution are noted in the mandates and do vary, but largely a minimum rating of "AA1" as per Moody's Investors Services Inc. (Moody's) is applied.

Credit risk is contained by adhering to the Act by not investing more than 35% in large banks and 10% in smaller banks. The net qualifying capital and reserves are monitored on a monthly basis to determine the split between large and small banks.

The Scheme limits its exposure to credit risk by only investing in liquid securities with medium grade moderate risk financial institutions. The Scheme has a policy of limiting the amount of credit exposure to any one financial institution. Given these high credit ratings, management does not expect any financial institution to fail to meet its obligations.

**NOTES TO THE FINANCIAL STATEMENTS** *(continued)*
**22 Financial risk management** *(continued)*
**Credit risk management** *(continued)*
*Loans and other receivables*
*Trade and other receivables*

The Scheme's exposure to credit risk is influenced by the characteristics of each member and the demographics of the membership base. Approximately 4.78% (2019: 5.25%) of the Scheme's contribution income is attributed to the government membership base. However, geographically there is no concentration of credit risk.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtor's ability to pay all amounts due according to the contractual terms (for example on the basis of a credit risk evaluation or grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Contribution debtors are collected in arrears within 30 days of raising and loans to members debtors (MediVault) over a period of twelve months.

In monitoring member credit risk, members are grouped according to their credit characteristics, including whether they are an individual, group or government member, whether the risk arises from contributions or loans to members or member shortfalls or COVID-19 financial constraints. The Board has approved a credit control policy, thereby managing the credit risk to the Scheme.

	2020 R'000	2020 R'000	2019 R'000	2019 R'000
The age analysis of trade and other receivables at the reporting date was:	<b>Trade and other receivables</b>	<b>Impairment</b>	<b>Trade and other receivables</b>	<b>Impairment</b>
Not past due not impaired	<b>281 553</b>	-	265 635	-
Past due 0-30 days	<b>24 943</b>	<b>(12 867)</b>	38 214	(11 670)
Past due 31-60 days	<b>3 019</b>	<b>(3 019)</b>	1 159	(989)
Past due 61-90 days	<b>3 354</b>	<b>(3 354)</b>	986	(983)
More than 90 days	<b>30 173</b>	<b>(30 173)</b>	11 046	(11 046)
<b>Note 3</b>	<b>343 042</b>	<b>(49 413)</b>	<b>317 040</b>	<b>(24 688)</b>

**NOTES TO THE FINANCIAL STATEMENTS** *(continued)*

**22 Financial risk management** *(continued)*

**Market risk management**

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

The asset managers buy and sell financial instruments in the ordinary course of business, and also incur financial liabilities, in order to manage market risk. All such transactions are carried out within the guidelines set by the investment mandate on behalf of the Scheme. The asset managers are allowed to invest in local and offshore assets at their discretion, provided that the investments comply fully with the Act and the mandates provided to them by the Scheme.

All the Scheme's equity investments are listed on the Johannesburg Stock Exchange (the JSE). The concentration, sensitivities and impact on profit or loss and equity are detailed below:

**Diversification and concentration**

**Asset allocation**

Asset class	2020		2019	
	R'000	%	R'000	%
Cash: Medical Scheme assets	537 912	28.15%	506 997	30.43%
Unlisted debentures	13 446	0.70%	10 231	0.61%
Listed equities	660 940	34.59%	589 957	35.40%
Listed fixed interest bonds	606 940	31.76%	462 754	27.77%
Listed investment property funds	91 749	4.80%	96 566	5.79%
<b>Total</b>	<b>1 910 987</b>	<b>100.00%</b>	<b>1 666 505</b>	<b>100.00%</b>

**Price risk management**

Price risk is the risk that the value of the Scheme's equity investments fluctuates as a result of changes in the market prices of instruments held, whether caused by factors specific to the underlying investments, their issuer or factors affecting all instruments traded in the market.

Price risk is mitigated primarily by diversification. Diversification is achieved through asset allocation, sector diversification and market diversification.

The majority of the Scheme's investments are simultaneously invested in various sectors of the market as well as various shares within each sector.

**Currency risk management**

The Scheme operates in the Republic of South Africa and therefore its cash flows are denominated in Rand. The Scheme had minimal exposure to currency risk during the year under review.



NOTES TO THE FINANCIAL STATEMENTS (continued)

22 Financial risk management (continued)

**Interest rate risk management**

Interest rate risk is the risk that the value and cash flow of a financial instrument will fluctuate due to changes in market interest rates.

The Scheme’s activities expose it to a variety of financial risks, including the effects of changes in equity market prices and interest rates. The Scheme’s overall risk management programme focuses on the unpredictability of financial markets, and seeks to minimise potentially adverse effects on the financial performance of the investments that the Scheme holds to meet its obligations to its members.

The Scheme’s investment policy during the year under review was to hold certain investments in interest-bearing instruments. The Scheme’s investments were therefore exposed to changes in market interest rates. The fair value of fixed rate instruments has declined in the current period due to the increase in market interest rates. These instruments are exposed to fair value interest rate risk.



NOTES TO THE FINANCIAL STATEMENTS (continued)

22 Financial risk management (continued)

Interest rate risk management (continued)

The table below summarises the Scheme's exposure to interest rate risks. Included in the table are the Scheme's financial assets and liabilities at carrying amounts, categorised by contractual maturities.

2020	Note	Up to 1 month R'000	1 – 3 months R'000	1 – 5 years R'000	Non-interest bearing R'000	Total R'000
Available-for-sale investments	2	-	-	606 940	766 135	1 373 075
Trade and other receivables	3	-	-	-	123 928	123 928
Trade and other payables	7	-	-	-	(68 355)	(68 355)
Cash and cash equivalents	4	457 867	80 045	-	-	537 912
<b>Total</b>		<b>457 867</b>	<b>80 045</b>	<b>606 940</b>	<b>821 708</b>	<b>1 966 560</b>
2019						
Available-for-sale investments	2	-	-	462 754	696 754	1 159 508
Trade and other receivables	3	-	-	-	100 591	100 591
Trade and other payables	7	-	-	-	(42 297)	(42 297)
Cash and cash equivalents	4	426 952	80 045	-	-	506 997
<b>Total</b>		<b>426 952</b>	<b>80 045</b>	<b>462 754</b>	<b>755 048</b>	<b>1 724 799</b>

**NOTES TO THE FINANCIAL STATEMENTS** *(continued)*
**22 Financial risk management** *(continued)*
**Asset managers and mandates**
**Allocation as at 31 December 2020**

Asset Manager	Segregated Mandate	Benchmark	R'000	%
Old Mutual Wealth Trust Co (Pty) Ltd	*Cash		<b>188 338</b>	<b>9.86%</b>
Prudential Investment Managers (Pty) Ltd	Pooled Mandate	CPI+5.0%	<b>152 301</b>	<b>7.97%</b>
Sanlam Investment Management (Pty) Ltd	Absolute return	CPI+3.5%	<b>494 010</b>	<b>25.85%</b>
Sanlam Private Wealth (Pty) Ltd	Capped Swix Capital	SteFi+1%	<b>179 794</b>	<b>9.41%</b>
Taquanta Asset Management (Pty) Ltd	Enhanced cash	SteFi+1%	<b>458 491</b>	<b>23.99%</b>
Truffle Asset Managers (Pty) Ltd	Absolute return	CPI+5%	<b>438 053</b>	<b>22.92%</b>
<b>Total</b>			<b>1 910 987</b>	<b>100.00%</b>

**Allocation as at 31 December 2019**

Asset Manager	Segregated Mandate	Benchmark	R'000	%
Old Mutual Wealth Trust Co (Pty) Ltd	*Cash		143 775	8.63%
Allan Gray Ltd	CPI+3%		84 197	5.05%
Prudential Investment Managers (Pty) Ltd	CPI+5.0%		152 251	9.14%
Sanlam Investment Management (Pty) Ltd	Absolute return	CPI+3.5%	348 736	20.93%
Sanlam Investment Management (Pty) Ltd	Active Income Fund	SteFi+1%	95 850	5.75%
Sanlam Private Wealth (Pty) Ltd	Capped Swix Capital	SteFi+1%	185 220	11.11%
Taquanta Asset Management (Pty) Ltd	Enhanced cash	SteFi+1%	296 387	17.78%
Truffle Asset Managers (Pty) Ltd	Absolute return	CPI+5%	360 089	21.61%
<b>Total</b>			<b>1 666 505</b>	<b>100.00%</b>

\* Includes the Scheme's current accounts

**Market performance to 31 December 2020**

Performance to	3 Months	1 Year	3 Years	5 Years
	%	%	(%pa)	(%pa)
			%	%
All Share Index	9.75%	7.00%	3.12%	6.30%
All Bond Index	6.71%	8.65%	8.88%	10.43%
STeFi	0.97%	5.39%	6.64%	6.97%
CPI	0.43%	3.17%	3.97%	4.63%
Resource 20	7.85%	21.11%	21.36%	21.90%
Industrial 25	6.80%	14.22%	1.36%	3.63%
Financial 15	20.09%	-19.66%	-8.05%	0.03%
Financial Industrial 30	9.90%	5.04%	-0.77%	2.97%
Top 40	8.88%	9.97%	4.26%	6.54%

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 Financial risk management (continued)

The Scheme's performance to 31 December 2020

Performance to:	Market value R'000	% Portfolio	3 Months %	1 Year %	3 Years %	5 Years %
Nedbank Ltd current account	24 566	1.29%	0.50%	2.58%	4.09%	4.49%
Old Mutual Wealth Trust (Pty) Ltd	163 772	8.57%	0.91%	4.59%	6.10%	6.48%
Taquanta Asset Management (Pty) Ltd	458 491	23.99%	2.30%	8.20%	10.77%	11.00%
Truffie Asset Managers (Pty) Ltd	438 053	22.92%	12.07%	11.09%	9.68%	6.76%
Sanlam Investment Management (Pty) Ltd	494 010	25.85%	3.75%	7.04%	6.38%	8.25%
Sanlam Private Wealth (Pty) Ltd	179 794	9.41%	9.18%	-2.15%	-0.63%	3.51%
Prudential Investment Managers (Pty) Ltd	152 301	7.97%	6.68%	0.63%	1.35%	4.37%
<b>Total</b>	<b>1 910 987</b>	<b>100.00%</b>				

Consolidated benchmark CPI +3.5%

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 Financial risk management (continued)

**Sensitivity analysis: Cash and cash equivalents - Medical Scheme assets**

*Basis*

The sensitivity analysis determines different levels of the closing market value as compared to the actual closing market value based on different levels of investment performance (see table below) i.e. a 1% change suggests the closing market value could have been approximately R543m (2019: R512m) if the investment performance had been higher by 1% during 2020 as compared to the market investment performance. A 1% increase in the investment return at the reporting date would have increased cash by R5.10m (2019: R4.73m); an equal change in the opposite direction would have decreased cash by the same amount.

	% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
2020	-2%	7.39%	548 120	10 208
	1%	6.39%	543 016	5 104
	0%	5.39%	537 912	-
	% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
2019	2%	9.29%	516 449	9 452
	1%	8.29%	511 723	4 726
	0%	7.29%	506 997	-





**NOTES TO THE FINANCIAL STATEMENTS** *(continued)*

**22 Financial risk management** *(continued)*

**Sensitivity analysis: Equity and investment property funds**

*Basis*

The sensitivity analysis determines different levels of the closing market value as compared to the actual closing market value based on different levels of investment performance (see table below) i.e. a 10% change suggests the closing market value could have been approximately R823m (2019: R748m) if the investment performance had been higher by 10% during 2020 as compared to the market investment performance.

A 10% increase in the investment return at the reporting date would have increased equity and investment property investments by R70.34m (2019: R61.24m); an equal change in the opposite direction would have decreased equity and investment property funds by the same amount.

The change will have an impact on the revaluation reserve and/or the surplus/deficit depending on the investment type.

	% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
2020	20%	27.00%	893 377	140 688
	10%	17.00%	823 033	70 344
	0%	7.00%	752 689	-
2019	20%	32.10%	809 008	122 485
	10%	22.10%	747 766	61 243
	0%	12.10%	686 523	-



NOTES TO THE FINANCIAL STATEMENTS (continued)

22 Financial risk management (continued)

Sensitivity analysis: Bonds and debentures

Basis

The sensitivity analysis determines different levels of the closing market value as compared to the actual closing market value based on different levels of investment performance (see table below) i.e. a 1% change suggests the closing market value could have been approximately R626m (2019: R477m) if the investment performance had been higher by 1% during 2020 as compared to the market investment performance. A 1% increase in the investment return at the reporting date would have increased bond investments by R5.71m (2019: R4.29m); an equal change in the opposite direction would have decreased bond investments by the same amount.

	% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
2020	5%	10.65%	631 806	11 420
	1%	9.65%	626 096	5 710
	0%	8.65%	620 386	-
	% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
2019	5%	15.32%	494 423	21 438
	1%	11.32%	477 273	4 288
	0%	10.32%	472 985	-

Investment risk and investment return

Seeking higher investment returns is typically associated with taking additional risk through exposure to asset classes such as equities and bonds where the capital is at risk. Additional investment risk is typically associated with higher variability in asset prices.

Capital management

The Scheme's policy is to maintain a strong capital base seeking a real return with limited capital volatility and strives for ongoing capital preservation. The Board seeks to maintain a balance between conservatively pooled and bond portfolios, selected from all asset classes and shares with limited downside.

There were no changes in the Scheme's approach to capital management during the year. The Scheme is subject to externally imposed capital requirements by the Council and the Act.

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 Financial risk management (continued)

Analysis of carrying amounts and fair value of assets and liabilities per category

Asset class	Available- for-sale financial assets		Liabilities measured at amortised cost		Non- insurance receivables and payables		Insurance receivables and payables		Total carrying amount		Fair Value	
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	Level 1 R'000	Level 2 R'000	Level 1 R'000	Level 2 R'000
* The fair values for instruments such as short-term trade receivables and payables are not disclosed, as the carrying amounts are a reasonable approximation of fair values.												
<b>Assets measured at fair value</b>												
<b>Investments</b>												
- Unlisted debentures	13 446	-	-	-	-	-	-	-	13 446	-	13 446	-
- Listed equities	660 940	-	-	-	-	-	-	-	660 940	-	660 940	-
- Listed fixed interest bonds	606 940	-	-	-	-	-	-	-	606 940	-	606 940	-
- Listed investment property funds	91 749	-	-	-	-	-	-	-	91 749	-	91 749	-
	<b>1 373 075</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1 373 075</b>	<b>-</b>	<b>1 359 629</b>	<b>13 446</b>
<b>Assets not measured at fair value</b>												
<b>Cash and cash equivalents</b>												
Trade and other receivables *	537 912	-	-	-	-	-	-	-	537 912	-	537 912	-
	123 928	-	-	-	-	-	-	-	123 928	-	123 928	-
	<b>661 840</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>661 840</b>	<b>-</b>	<b>660 940</b>	<b>91 749</b>
<b>Liabilities not measured at fair value</b>												
<b>PMSA liability</b>												
Outstanding risk claims provision	-	-	-	-	-	-	-	-	-	-	-	-
Trade and other payables *	(68 355)	-	(68 355)	-	(68 355)	-	(40 935)	-	(109 290)	-	(109 290)	-
	<b>(517 612)</b>	<b>(163 229)</b>	<b>(68 355)</b>	<b>(163 229)</b>	<b>(286 028)</b>	<b>(163 229)</b>	<b>(245 093)</b>	<b>(40 935)</b>	<b>(517 612)</b>	<b>(163 229)</b>	<b>(245 093)</b>	<b>(109 290)</b>
	<b>1 373 075</b>	<b>661 840</b>	<b>(68 355)</b>	<b>(163 229)</b>	<b>(116 327)</b>	<b>(163 229)</b>	<b>(116 327)</b>	<b>(116 327)</b>	<b>1 687 004</b>	<b>1 687 004</b>	<b>1 687 004</b>	<b>-</b>

2020

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 Financial risk management (continued)

Analysis of carrying amounts and fair value of assets and liabilities per category

Asset class	Available-for-sale financial assets		Liabilities measured at amortised cost		Non-insurance receivables and payables		Insurance receivables and payables		Total carrying amount		Fair Value	
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	Level 1 R'000	Level 2 R'000	
* The fair values for instruments such as short-term trade receivables and payables are not disclosed, as the carrying amounts are a reasonable approximation of fair values.												
<b>Assets measured at fair value</b>												
<b>Investments</b>	<b>1 159 508</b>	-	-	-	-	-	-	-	<b>1 159 508</b>	<b>1 149 277</b>	<b>10 231</b>	
- Unlisted debentures	10 231	-	-	-	-	-	-	-	10 231	-	10 231	
- Listed equities	589 957	-	-	-	-	-	-	-	589 957	589 957	-	
- Listed fixed interest bonds	462 754	-	-	-	-	-	-	-	462 754	462 754	-	
- Listed investment property funds	96 566	-	-	-	-	-	-	-	96 566	96 566	-	
<b>Assets not measured at fair value</b>												
<b>Cash and cash equivalents: Medical Scheme assets</b>	-	<b>607 588</b>	-	-	-	-	<b>191 761</b>	-	<b>799 349</b>			
Trade and other receivables *	-	506 997	-	-	-	-	-	-	506 997			
	-	100 591	-	-	-	-	191 761	-	292 352			
<b>Liabilities not measured at fair value</b>												
<b>PMSA trust liability</b>	-	-	<b>(42 297)</b>	<b>(195 428)</b>	<b>(233 998)</b>	-	-	-	<b>(471 723)</b>			
Outstanding risk claims provision	-	-	-	(195 428)	-	-	-	-	(195 428)			
Trade and other payables *	-	-	(42 297)	-	(24 761)	-	-	(209 237)	(209 237)			
	-	-	-	-	-	-	-	(67 058)	(67 058)			
	<b>1 159 508</b>	<b>607 588</b>	<b>(42 297)</b>	<b>(195 428)</b>	<b>(42 237)</b>				<b>1 487 134</b>			

2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 Financial risk management (continued)

**Financial Instruments – Fair values and risk management**

*Fair value estimation*

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Scheme for similar financial instruments.

*Fair value of financial instruments*

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.

*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 market prices in active markets for similar instruments; 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 for the asset and liability from market data.

*Level 3:*

Valuation techniques using significant unobservable inputs for the fair value measurement of an asset or a liability. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments' 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 the instruments.

The fair values and categories of financial assets and financial liabilities are disclosed on [page 98](#).

Type	Valuation technique
Listed equity, bonds, investment property funds, debentures	These financial instruments are valued using the closing prices of the exchange on which they trade.
Unlisted debentures and bonds	Unlisted debenture and bond instruments are valued using a yield curve created by the asset management accounting system based on certain inputs, to discount cash flows, in order to determine the securities present value.  This yield curve consists of published zero yield indices derived from observed market interest rates that represent the most liquid and dominant instrument for their respective horizons. These zero yields are combined into a standard periodicity, and linear interpolation used to fill time periods not available from the list of input yield index instruments.

*Capital adequacy risk*

This represents the risk that there are insufficient reserves to provide for adverse variations on future investment and claims experience. At the year-end the accumulated funds ratio computed in terms of the Registrar's formula was 44.66% (2019: 43.43%). The Board believes that this cover is appropriate for the Scheme's needs.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

**23 Events after the reporting date**

The Scheme is aware of the following events after the reporting date:

**New COVID-19 variants**

The new COVID-19 variant is believed to have acquired 23 mutations. The changes to the spike protein of the new variants have enhanced its binding ability with human cells, allowing easier infection and greater replication within the host. The new variant caused the second wave, which resulted in much higher number of infections, a higher peak (approximate 65% higher), more hospital admissions and a higher number of deaths in the country compared to the first wave.

New research shows that the new variant identified in South Africa may escape antibodies generated from previous infection and vaccines designed for the earlier variants. For example, initial results showed that the AstraZeneca vaccine was less effective in preventing the new variant. There is ongoing research to establish if the new variants cause more severe diseases but prevention, symptoms and clinical management appear to remain the same. Further new variants have been identified in the UK and Brazil. This may result in a third wave with more cases than the second wave. The view of the Minister of Health, as well as members of the Ministerial Advisory Committee, is that a third wave is almost inevitable, and likely to occur during winter (June or July).

The strength of the third wave will be influenced by, among other things:

- Vaccinations
- New variants
- Number of people who have had COVID-19
- Government lockdown measures

The Scheme strategy will be guided by lessons learnt from the first and second waves. South Africa (and the Scheme) are better prepared for any new waves. Fedhealth is on alert for any further emerging risks of this pandemic and will constantly review and align its internal processes and procedures to ensure that Fedhealth members are educated and supported to receive the care they need. The Scheme is in close communication with our network facilities and practitioners and all role-players know how to deal with the various scenarios, in line with the Department of Health guidelines. There are designated hospitals in both the public and private sector where Fedhealth patients can be admitted in line with clearly defined protocols in the event of being faced with identified or potential cases. The Scheme is in further negotiations with pathology and radiology laboratories to ensure that standard operating procedures are clearly defined and that the best rates are negotiated.

The administrator has a task team that is tracking events as they happen and updating operations. Fedhealth can confirm that a positive diagnosis of COVID-19 is a notifiable condition, and that the Scheme will cover costs for supportive diagnosis, treatment and hospitalisation as Prescribed Minimum Benefits (PMBs), subject to scheme rules (formularies etc.) per option. Fedhealth will be educating and encouraging its membership to take the COVID-19 vaccinations, and funding the cost of vaccinating all of its members from risk.

It is not clear if medical schemes will be forced to subsidise non-members vaccination costs by way of a higher Single Exit Price as previously suggested during discussions with National Department of Health, BHF and HFA. In this scenario, the expected cost of vaccinations is projected to be between R38 million and R67 million for 2021. This Fedhealth is in a strong financial position to afford the cost of vaccinating its members, and a similar number of non-members, should this be made compulsory by the Government. It should be noted that the costs of COVID-19 vaccinations will most likely not be a once off cost, but possibly an annual additional cost as vaccines are updated and might only offer protection for a limited period.

**NOTES TO THE FINANCIAL STATEMENTS** *(continued)*

**24 Contingent assets and liabilities**

**Contingent assets**

There are currently 84 open (2019: 81) road accident cases totalling R26.3m (2019: R23.8m) since 2017 managed by Medscheme. Batsumi Claims Management Solutions (Pty) Ltd will continue to wind down the 211 (2019: 293) outstanding road accident claims totalling R42.1m (2019: R58.2m) relating to the period before Medscheme took over from Batsumi.

Due to the uncertain outcome of claims lodged with the RAF, the Scheme has not yet accounted for the inflow of economic benefits.

**Contingent liabilities**

The Scheme has no contingent liabilities.