



Annual **Financial Report**

2022



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REPORT OF THE BOARD OF TRUSTEES

The Board of Trustees has pleasure in presenting its report for the year ended 31 December 2022

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).

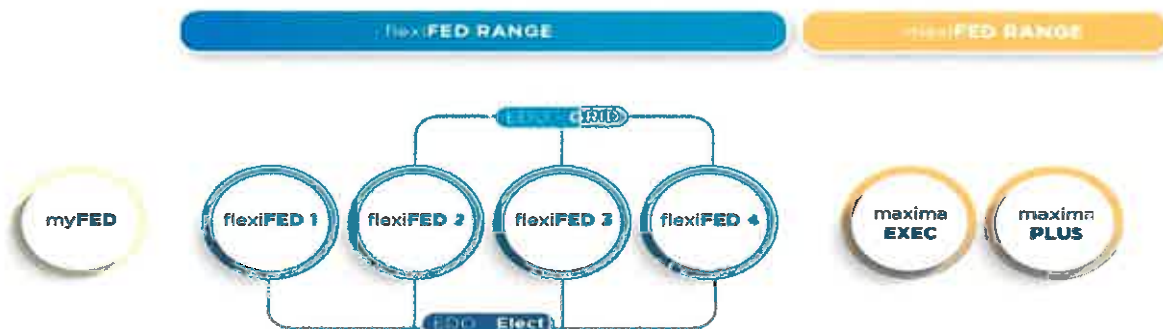
The Scheme exists for the benefit of its members. The Board of Trustees of the Scheme (the Board) oversees and governs the business of the Scheme on behalf of its members.

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 regarding 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.

2022 PRODUCT RANGE



Create your aid.

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 fund co-payments relating to Prescribed Minimum Benefits (PMBs).

Active members earn 4% interest (2021: 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](#). 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 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.

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.

REPORT OF THE BOARD OF TRUSTEES *(continued)*

1 Description of Fedhealth Medical Scheme *(continued)*

1.5 Risk transfer arrangement *(continued)*

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.

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 medical 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.



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REPORT OF THE BOARD OF TRUSTEES *(continued)*1 Description of Fedhealth Medical Scheme *(continued)*

1.7 Covid-19

New Covid-19 developments

COVID-19 continues as the background music to all our daily activities and lives. We have learned to co-exist with disease as it slowly moves from pandemic to endemic. The end of 2022 saw the emergence of the new, highly transmissible XBB.1.5 “Kraken” variant in South Africa, and epidemiologists continue to monitor its spread. The Department of Health (DoH) announced plans to ramp up its vaccination drive to ensure that citizens remain up to date with their COVID-19 immune protection. The Scheme awaits the announcement of the reduction in age (to all over 18s) being eligible for another booster vaccination. The Scheme will fund these vaccines and support the DoH strategy in combating this disease. Prevention remains key.

The impact of the acute phase of the COVID-19 pandemic will be felt for years to come. The Scheme is seeing an increase in the number of associated medical problems that have been precipitated or exacerbated by the COVID-19 pandemic. We have families who have lost loved ones and were unable to give them a proper funeral or grieve adequately, people have lost jobs and livelihoods, children missed crucial learning and fundamental relationship building time, and the effects are being borne out in a scourge of mental health issues, learning delays and complicated family dynamic issues, all which put strain on limited medical resources.

In addition to the above, the impact of missed/delayed screening and preventative care measures such as vaccination is evident in the current measles outbreak as well as the increase in the presentation of advanced disease.

Members impacted by long-COVID-19 do have PMB support, but symptoms and support therapy vary widely with no consensus on funding guidance to date. Globally, evidence and studies are underway, and the Scheme continues to monitor updates in this arena. The Scheme strategy in dealing with the COVID-19 pandemic will continue to be guided by lessons learnt from previous waves and international experience. South Africa (and the Scheme) are better prepared for any new waves of COVID-19 or new pandemics, with mandates and operational standard operating procedures readily available for rapid implementation. The Scheme 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 our members are educated and supported to receive the care they need.

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. The Scheme will continue educating and encouraging its membership to take the COVID-19 vaccinations, and funding the cost of vaccinating all of its members from risk, as per PMB regulations.

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:

M Govender	Chairperson (Trustee)	
J Cloete	Vice Chairperson (Trustee)	Re-elected: 30 June 2022
G Eloff	Trustee	Re-elected: 30 June 2022
K Elliott	Trustee	
A Gahagan-Thomson	Trustee	
Dr A Goneos-Malka	Trustee	
Dr M Mojapelo-Mokotedi	Trustee	
C Norton	Trustee	
N Parker	Trustee	Re-elected: 30 June 2022

2.2 Principal Officer

J Yatt

2.3 Registered office address and postal address of the Scheme

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

Private Bag X3045
Randburg
2125

www.fedhealth.co.za

2.4 Employees

Principal Officer: J Yatt

Scheme Operational Executive: T Endersby

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

Private Bag X3045
Randburg
2125

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REPORT OF THE BOARD OF TRUSTEES (continued)

2 Management (continued)

2.5 Scheme administrator during the year

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

Private Bag X3045
Randburg
2125

Administrator accreditation number: 21

2.6 Scheme managed healthcare administrators during the year

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

P O Box 1101
Florida Glen
1708

Managed healthcare accreditation number: 53

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

P O Box 1101
Florida Glen
1708

Managed healthcare accreditation number: 94

REPORT OF THE BOARD OF TRUSTEES (continued)

2 Management (continued)

2.7 Investment managers during the year

Old Mutual Wealth Trust Company (Pty) Ltd
2nd Floor, 1 Mutual Place
107 Rivonia Road
Sandton
2196

P O Box 2444
Saxonwold
2132

Financial service provider number (FSP): 18427

Taquanta Asset Management (Pty) Ltd
5th Floor, Draper on Main
47 Main Road
Claremont
7708

P O Box 23540
Claremont
7735

FSP: 618

Sanlam Investment Management (Pty) Ltd (SIM) and
Sanlam Multi-Manager (Pty) Ltd (SMMI) (Invested:
20 December 2021)
55 Willie van Schoor Avenue
Bellville
7536

Private Bag X8
Tyger Valley
7530

SIM FSP: 579, SMMI FSP: 845

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 O Box 535
Pinegowrie
2123

FSP: 36584

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REPORT OF THE BOARD OF TRUSTEES *(continued)*

2 Management *(continued)*

2.7 Investment managers during the year *(continued)*

Fairtree Asset Management (Pty) Ltd
Willowbridge Place
Cnr Carl Cronje Dr and Old Oak Road
Bellville
7530

Willowbridge Place
Cnr Carl Cronje Dr and Old Oak Road
Bellville
7530

FSP: 25917

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 Actuarial services

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
1709

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: G Eloff

Trustee: A Gahagan-Thomson

Trustee: J Cloete

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.

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

The Board is confident that the Scheme's investment strategy is well set up to benefit from long-term growth and absorb short-term shocks. This is also evidenced by past performance through highs and lows.

The Scheme achieved a return of 10.2% (2021: 15.9%) over the year of 2022 for the invested funds (including assets invested in both the Solvency- and Surplus Investment strategies), against the inflation rate of 7.2% (2021: 5.9%) and the Scheme's internal benchmark (CPI +3.5%) of 10.7% (2021: 9.4%). 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).

The Surplus investment strategy was reviewed and amended in 2021 with the new managers expected to provide high conviction, strong investment returns – these are Sanlam Multi-Manager (Pty) Ltd (SMMI) and Fairtree Asset Management (Pty) Ltd (Fairtree).

The return on the Solvency assets of 9.8% (2021: 14.8%) was lower than that of the Surplus assets of 11.8% (2021: 20.7%). The returns achieved by the Scheme's Solvency investment strategy were exceptional compared to other medical schemes absolute return portfolios and outperformed the best portfolio in the most widely quoted medical investment survey by about 3%. The Truffle portfolio did particularly well, driven by equity stock selection and asset allocation. As mentioned earlier, 2022 was a tough year for most asset classes and therefore the Scheme's Solvency investment strategy's slight (1.1%) underperformance of the internal target of CPI +3.5% is a very good outcome for 2022. The return over the last 3 years (2020 - 2022) was 11.2% (2021: 12.3%, 2020: 7.7%) against a target of 8.8% (2021: 8.0%, 2020: 7.5%).

The Surplus investment strategy performed better than the Solvency investment strategy, due to exceptional outperformance by Fairtree's equity mandate against its benchmark – i.e. equity stock selection. The current strategy of Fairtree and SMMI has been in place for just over a year and this has driven performance in impressive fashion.

The Scheme had an effective equity asset exposure (excluding property) of 37.0% at 31 December 2022 (2021: 39.0%).

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 administrator. The Scheme has been provisionally granted an exemption for a period of three years, effective 1 December 2022 until 30 November 2025, 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 of the Act.

REPORT OF THE BOARD OF TRUSTEES (continued)

5 Scheme Committees (continued)

5.1 Investment Committee (continued)

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 2022 asset class performance was very volatile, driven by sharp interest rate hikes throughout the course of the year that caused a decline in many of the asset classes from the levels seen in 2021. The FTSE/JSE All Share Index produced a return of 3.6% (2021: 29.2%) and other indices such as listed property returned 0.5% in 2022, off from the high of 36.9% in 2021 (from a low base in 2020). Truffle is an aggressive balanced portfolio and is expected to have 50% or more of its assets invested in shares over time. Over this difficult 2022 period for equities, Truffle managed a return of 12.1% (2021: 23.0%), which is well above inflation. Truffle has delivered exceptional returns over the last number of years, and this has added substantial value to the Scheme.

South African bonds also did not offer any escape in 2022, offering high, but rising yields over the year, which led to a total return of only 4.4% for the year. Taquanta, not allowed to invest in equities within its mandate, outperformed the All-Bond Index, as well as the STeFI (cash) index and returned a commendable 8.6% (2021: 8.3%), which was 1.2% higher than the elevated inflation number for the year.

The SIM portfolio is a low-risk absolute return portfolio, with the aim not losing capital over any 12 months. Its risk level falls between that of the Truffle and Taquanta portfolios. SIM managed positive returns above inflation despite the funds conservative approach and lack of support from investment markets. It delivered 8.3% (2021: 12.8%) for the year, which although below its CPI + 3.5% target, is still above the elevated inflation and commendable given the market environment.

Fairtree boasted an impressive return of 15.5% for the year, 8% above inflation in a tough inflationary environment and 11% better than its benchmark.

SMMI returned 7.3% over the calendar year, broadly in line with inflation and outperforming peers, albeit understandably underperforming its internal target of CPI +3.5%.

The Board monitors the committee's performance against the related terms of reference. No deficiencies were noted relating to the 2022 financial year.

REPORT OF THE BOARD OF TRUSTEES (continued)
5 Scheme Committees (continued)
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: A Gahan-Thomson

Trustee: N Parker

Trustee: K Elliott

Trustee: Dr A Goneos-Malka

The mandate of the Risk and Legal 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 facilitated by The Global Platform for Intellectual Property and is in line with King IV (developed by the Institute of Directors of Southern Africa).

REPORT OF THE BOARD OF TRUSTEES (continued)

5 Scheme Committees (continued)

5.2 Risk and Legal Committee (continued)

The GCI tool 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 2022 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: M Govender

Trustee: J Cloete

Trustee: C Norton

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 and independent audit committee 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 2022 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

Trustee: J Cloete

Trustee: G Eloff

Trustee: N Parker

Trustee: M Govender

Trustee: Dr A Goneos-Malka

Trustee: A Gahagan-Thomson

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 2022 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

Independent member: H Kajie

Independent member: B Phillips

Trustee: G Eloff

Trustee: K Elliott

Independent member: K Aron (Resigned 1 October 2022)

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:

- assist 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;
- facilitate and promote communication and liaison 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)*

- satisfy itself with the independence of the administrator's internal audit department, reviews the internal audit function, the internal audit plan and audit findings;
- satisfy itself with the independence of the external auditor and reviews its audit plan, audit management letter, audit report and audit fees;
- review the annual performance of the external auditor and makes recommendation to the Board for its further consideration and recommendation as to the auditors' appointment to the members at the Annual General Meeting;
- satisfy 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;
- oversee the Scheme's governance processes and risk management and satisfies itself that the Scheme implements an effective policy and plan for risk management;
- satisfy itself that the financial function of the Scheme and the administrator are appropriate, adequately resourced and effective;
- advise the Board on matters referred to the committee by them; and
- make 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 2022 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: C Norton

Trustee: Dr M Mojapelo-Mokotedi

Trustee: Dr A Goneos-Malka

Trustee: A Gahagan-Thomson

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;

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REPORT OF THE BOARD OF TRUSTEES *(continued)*

5 Scheme Committees *(continued)*

5.6 Marketing Committee *(continued)*

The mandate of the Marketing Committee is to: *(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 2022 financial year.



REPORT OF THE BOARD OF TRUSTEES *(continued)*

5 Scheme Committees *(continued)*

5.7 Managed Healthcare Committee

The Managed Healthcare Committee comprises:

Chairperson: Dr M Mojapelo-Mokotedi

Trustee: C Norton

Trustee: N Parker

Trustee: K Elliott

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 2022 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 Healthcare Committee		Remuneration Committee		Risk and Legal Committee		Total	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
M Govender (Chairperson)	9	9	11	11					7	7			2	2			29	29
J Cloete (Vice Chairperson)	9	9					4	3	7	7			2	2			22	21
K Elliott	9	9	11	11	3	3					5	5			4	4	32	32
G Eloff	9	9			3	3	4	4							2	2	18	18
A Gahagan-Thomson	9	9	11	11			4	3	7	7					2	2	33	32
Dr A Goneos-Malka	9	9	11	11					7	7					4	4	31	31
Dr M Mojapelo-Mokotedi	9	8							7	4	5	4					21	16
C Norton	9	7							7	6	5	5	2	1			23	19
N Parker	9	7	11	9							5	5	2	2	3	3	30	26
Independent: K Aron (Resigned: 1 October 2022)					3	2											3	2
Independent: P Brink					3	3											3	3
Independent: H Kajie					3	3											3	3
Independent: B Phillips					3	3											3	3

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 financial year

6.1 Operational statistics

	Maxima Plus	Maxima Exec	FlexiFed 1	FlexiFed 1 Elect	FlexiFed 2	FlexiFed 2 Grid	FlexiFed 2 Elect	FlexiFed 3	FlexiFed 3 Grid	FlexiFed 3 Elect	Subtotal
2022											
Number of members (n)	835	2 782	17 563	3 691	4 390	4 161	410	9 696	2 321	425	46 274
Number of beneficiaries (n)	1 169	4 303	34 974	6 968	9 401	8 971	931	17 781	4 593	883	89 974
Number of dependants (n)	334	1 521	17 411	3 277	5 011	4 810	521	8 085	2 272	458	43 700
Average number of members (n)	859	2 868	18 193	3 732	4 534	4 273	422	10 085	2 376	434	47 776
Average number of beneficiaries (n)	1 209	4 465	36 423	7 095	9 718	9 240	960	18 586	4 708	913	93 317
Dependant ratio to members (n)	0.40	0.55	0.99	0.89	1.14	1.16	1.27	0.83	0.98	1.08	0.94
Risk contribution *pan of beneficiaries **pm (R)	10 113	5 721	1 392	1 073	1 912	1 748	1 428	2 526	2 197	1 837	2 048
Average age of beneficiaries (yrs)	66.9	62.7	33.3	31.0	34.7	39.3	34.6	48.5	47.9	48.2	
Pensioner ratio (%)	65.6%	55.6%	7.1%	4.8%	11.2%	16.5%	9.3%	29.2%	30.9%	28.6%	
Average managed care *pan of members **pm (R)	130	124	114	113	119	118	117	120	121	118	
Average managed care *pan of beneficiaries **pm (R)	92	80	57	60	55	54	51	65	61	56	
Net claims as a percentage of net contributions (%)	93.7%	102.6%	80.7%	59.5%	99.3%	95.9%	73.4%	94.0%	113.6%	65.4%	
Relevant healthcare expenditure *pan of beneficiaries **pm (R)	9 233	5 793	1 161	685	1 922	1 697	967	2 372	2 499	1 235	
Relevant healthcare expenditure as a percentage of gross contributions - Claims ratio (%)	86.7%	88.3%	82.3%	3.0%	99.5%	96.0%	67.1%	93.1%	112.7%	66.6%	
Non-healthcare expenditure *pan of beneficiaries **pm (R)	386	350	270	276	259	257	239	299	278	259	
Non-healthcare expenditure as a percentage of gross contributions (%)	3.6%	5.3%	19.2%	25.4%	13.4%	14.5%	16.6%	11.7%	12.5%	13.9%	
Average chronic profile (%)	60.5%	55.9%	11.7%	7.8%	16.2%	19.3%	15.9%	28.5%	34.9%	27.6%	

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

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REPORT OF THE BOARD OF TRUSTEES (continued)

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

6.1 Operational statistics (continued)

	Subtotal Brought Forward	FlexiFed 4	FlexiFed 4 Grid	FlexiFed 4 Elect	MyFed	Grand Total
2022						
Number of members (n)	46 274	11 591	1 431	501	3 062	62 859
Number of beneficiaries (n)	89 974	20 214	2 661	952	4 144	117 945
Number of dependants (n)	43 700	8 623	1 230	451	1 082	55 086
Average number of members (n)	47 776	12 186	1 471	519	3 266	65 218
Average number of beneficiaries (n)	93 317	21 431	2 749	993	4 453	122 943
Dependant ratio to members (n)	0.94	0.74	0.86	0.90	0.35	0.88
Risk contribution *pan of beneficiaries **pm (R)	2 048	3 326	3 008	2 537	1 467	2 275
Average age of beneficiaries (yrs)		51.8	55.4	54.7	42.5	42.3
Pensioner ratio (%)		32.0%	43.5%	40.7%	22.2%	20.7%
Average managed care *pan of members **pm (R)		142	127	121	64	120
Average managed care *pan of beneficiaries **pm (R)		81	68	63	47	63
Net claims as a percentage of net contributions (%)		92.7%	104.4%	71.7%	140.5%	93.2%
Relevant healthcare expenditure *pan of beneficiaries **pm (R)		3 087	3 170	1 831	2 167	2 137
Relevant healthcare expenditure as a percentage of gross contributions - Claims ratio (%)		92.1%	104.6%	71.7%	147.7%	91.7%
Non-healthcare expenditure *pan of beneficiaries **pm (R)		317	294	280	206	283
Non-healthcare expenditure as a percentage of gross contributions (%)		9.5%	9.7%	11.0%	14.0%	12.2%
Average chronic profile (%)		38.9%	50.6%	41.5%	21.3%	24.4%

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

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REPORT OF THE BOARD OF TRUSTEES (continued)

6 Scheme Activities at the end of the financial year

6.1 Operational statistics

	Maxima Plus	Maxima Exec	FlexiFed 1	FlexiFed 1 Elect	FlexiFed 2	FlexiFed 2 Grid	FlexiFed 2 Elect	FlexiFed 3	FlexiFed 3 Grid	FlexiFed 3 Elect	Subtotal
2021											
Number of members (n)	968	3 116	19 112	3 618	4 781	4 276	426	11 027	2 045	430	49 799
Number of beneficiaries (n)	1 394	4 949	38 466	6 883	10 370	9 317	980	20 549	4 112	925	97 945
Number of dependants (n)	426	1 833	19 354	3 265	5 589	5 041	554	9 522	2 067	495	48 146
Average number of members (n)	1 022	3 236	19 567	3 449	4 936	4 367	424	11 581	2 108	441	51 131
Average number of beneficiaries (n)	1 495	5 203	39 553	6 583	10 697	9 507	965	21 755	4 232	957	100 947
Dependant ratio to members (n)	0.44	0.59	1.01	0.90	1.17	1.18	1.30	0.86	1.01	1.15	0.97
Risk contribution *pan of beneficiaries **pm (R)	9 300	5 283	1 324	1 016	1 800	1 659	1 361	2 361	2 054	1 713	2 787
Average age of beneficiaries (yrs)	66.7	62.2	33.3	31.0	34.6	39.4	35.4	48.2	47.1	47.5	
Pensioner ratio (%)	65.2%	54.8%	6.8%	4.7%	10.6%	16.7%	10.4%	28.8%	29.4%	26.4%	
Average managed care *pan of members **pm (R)	121	120	109	108	113	112	112	113	115	112	
Average managed care *pan of beneficiaries **pm (R)	83	75	54	57	52	51	49	60	57	52	
Net claims as a percentage of net contributions (%)	88.3%	102.4%	81.3%	62.7%	91.9%	101.1%	85.3%	96.6%	123.5%	79.1%	
Relevant healthcare expenditure *pan of beneficiaries **pm (R)	8 378	5 455	1 130	723	1 705	1 781	1 339	2 361	2 719	1 491	
Relevant healthcare expenditure as a percentage of gross contributions - Claims ratio (%)	85.6%	90.0%	84.2%	70.3%	93.7%	106.3%	97.3%	99.1%	131.1%	86.2%	
Non-healthcare expenditure *pan of beneficiaries **pm (R)	350	323	252	257	241	240	224	277	258	235	
Non-healthcare expenditure as a percentage of gross contributions (%)	3.6%	5.3%	18.8%	25.0%	13.3%	14.3%	16.3%	11.6%	12.4%	13.6%	
Average chronic profile (%)	59.9%	54.1%	10.9%	7.6%	15.6%	18.6%	16.2%	27.0%	32.9%	25.8%	

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

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REPORT OF THE BOARD OF TRUSTEES (continued)

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

6.1 Operational statistics (continued)

	Subtotal Brought Forward	FlexiFed 4	FlexiFed 4 Grid	FlexiFed 4 Elect	MyFed	Grand Total
2021						
Number of members (n)	49 799	13 548	1 282	580	3 592	68 801
Number of beneficiaries (n)	97 945	24 164	2 486	1 140	4 983	130 718
Number of dependants (n)	48 146	10 616	1 204	560	1 391	61 917
Average number of members (n)	51 131	14 298	1 329	618	3 688	71 064
Average number of beneficiaries (n)	100 947	25 772	2 609	1 231	5 153	135 712
Dependant ratio to members (n)	0.97	0.78	0.94	0.97	0.39	0.90
Risk contribution *pan of beneficiaries **pm (R)	2 787	3 091	2 756	2 314	1 357	2 671
Average age of beneficiaries (yrs)		51.3	54.1	52.9	41.2	42.3
Pensioner ratio (%)		31.3%	40.8%	37.6%	19.9%	20.4%
Average managed care *pan of members **pm (R)		122	120	114	61	111
Average managed care *pan of beneficiaries **pm (R)		68	61	57	43	59
Net claims as a percentage of net contributions (%)		94.9%	104.2%	85.2%	115.5%	94.0%
Relevant healthcare expenditure *pan of beneficiaries **pm (R)		2 978	3 064	2 069	1 641	2 631
Relevant healthcare expenditure as a percentage of gross contributions - Claims ratio (%)		95.7%	110.4%	88.8%	120.9%	95.0%
Non-healthcare expenditure *pan of beneficiaries **pm (R)		292	265	256	182	261
Non-healthcare expenditure as a percentage of gross contributions (%)		9.4%	9.5%	11.0%	13.4%	11.8%
Average chronic profile (%)		37.8%	48.8%	39.9%	18.6%	23.8%

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

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REPORT OF THE BOARD OF TRUSTEES (continued)

7 Review of the financial year's activities

7.1 Operational statistics

	2022	2021
Accumulated funds per member at 31 December (R)	R23,724	R22,545
Net deficit for the year (R'000)	*(59 852)	(104 606)
Amount paid to administrators (R'000)		
- Medscheme administration fees	262 165	273 003
- Medscheme managed care programme	80 348	83 111
Broker service fees (R'000)	66 990	70 519
Number of principal members joining the Scheme (n)	8 038	10 958
Number of principal members leaving the Scheme (n)	13 980	16 651
Return on investments as a percentage of investments (%) **	10.20	15.90

*To cushion members against the impact of COVID-19, the Scheme deferred contribution increases from 1 January to 1 April 2022. Without the 3 months contribution increase holiday, the Scheme would have reported a net surplus.

**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.

	2022	2021
	R'000	R'000
Members' funds per statement of financial position	1 537 790	1 623 417
Less:		
Available-for-sale revaluation reserve (Cumulative net unrealised gains on re-measurement to fair value of financial instruments included in members' funds)	(46 523)	(72 298)
Accumulated funds per Regulation 29	1 491 267	1 551 119
Gross contributions	3 437 229	3 627 815
Accumulated funds ratio (%)	43.39	42.76

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REPORT OF THE BOARD OF TRUSTEES (continued)

7 Review of the financial 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 42](#) 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 2023, 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.

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 2022 and for 2023 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 17](#) respectively to the financial statements.

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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 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 Business strategy

The Board of Fedhealth Medical Scheme have developed their strategic direction over a number of years. The sustainability of the Scheme in terms of meeting its future obligations towards its existing and new members required a very forward-looking approach. As a result, a two phased approach was adopted which focused on attracting new membership to the scheme and managing the existing claims risks without compromising access to benefits.

FEDHEALTH STATEMENT OF STRATEGIC INTENT

“Maximising member value through innovation and managing the Risk Pool”

OUR PURPOSE

“To contribute to health and well-being and provide peace of mind in meeting the healthcare needs of our members.”

In terms of the implementation of the strategic intent the Board identified five strategic priorities to ensure that it could meet the challenges of the future. The Covid-19 pandemic had played havoc on the economy placing greater strain on schemes to remain affordable. At the same time the industry noticed that during the pandemic members chose to remain on cover but once the threat had receded the costs of medical aid were outweighing the fear of possible hospitalisation, especially with the lower risk or healthier members. The situation was aggravated by a growing prevalence of health insurance plans that, while not offering the same level of cover and comfort as medical aid products, purported to provide some cover at much more affordable rates. This was particularly attractive to younger or healthier lives.

At the same time there was also an increase in the preponderance of high-cost cases, particularly oncology claims. Possible reasons for the increase in such cases include the failure to screen adequately during lockdown as well as other environmental factors. The issue still was that claims pressures were increasing on the Scheme while contribution revenue declined due to membership losses.

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REPORT OF THE BOARD OF TRUSTEES (continued)

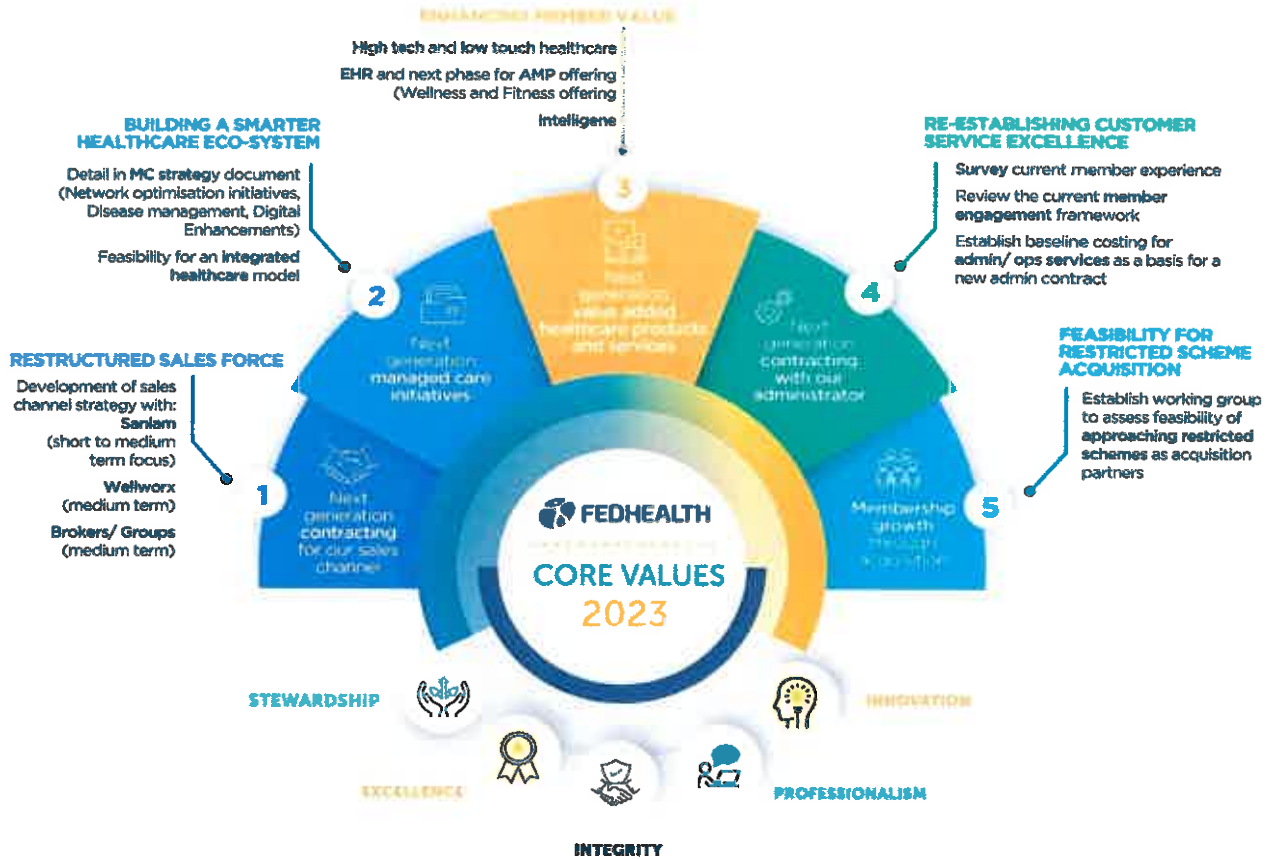
13 Business strategy (continued)

While the overall pricing of the Scheme's benefit options had remained correct to retain solvency adequacy, the Board was cognisant of certain other steps that needed to be taken. The focus here was to improve the new member acquisition more cost-effective manner and with the correct profile to improve cross-subsidy objectives. This would be achieved in the following manner:

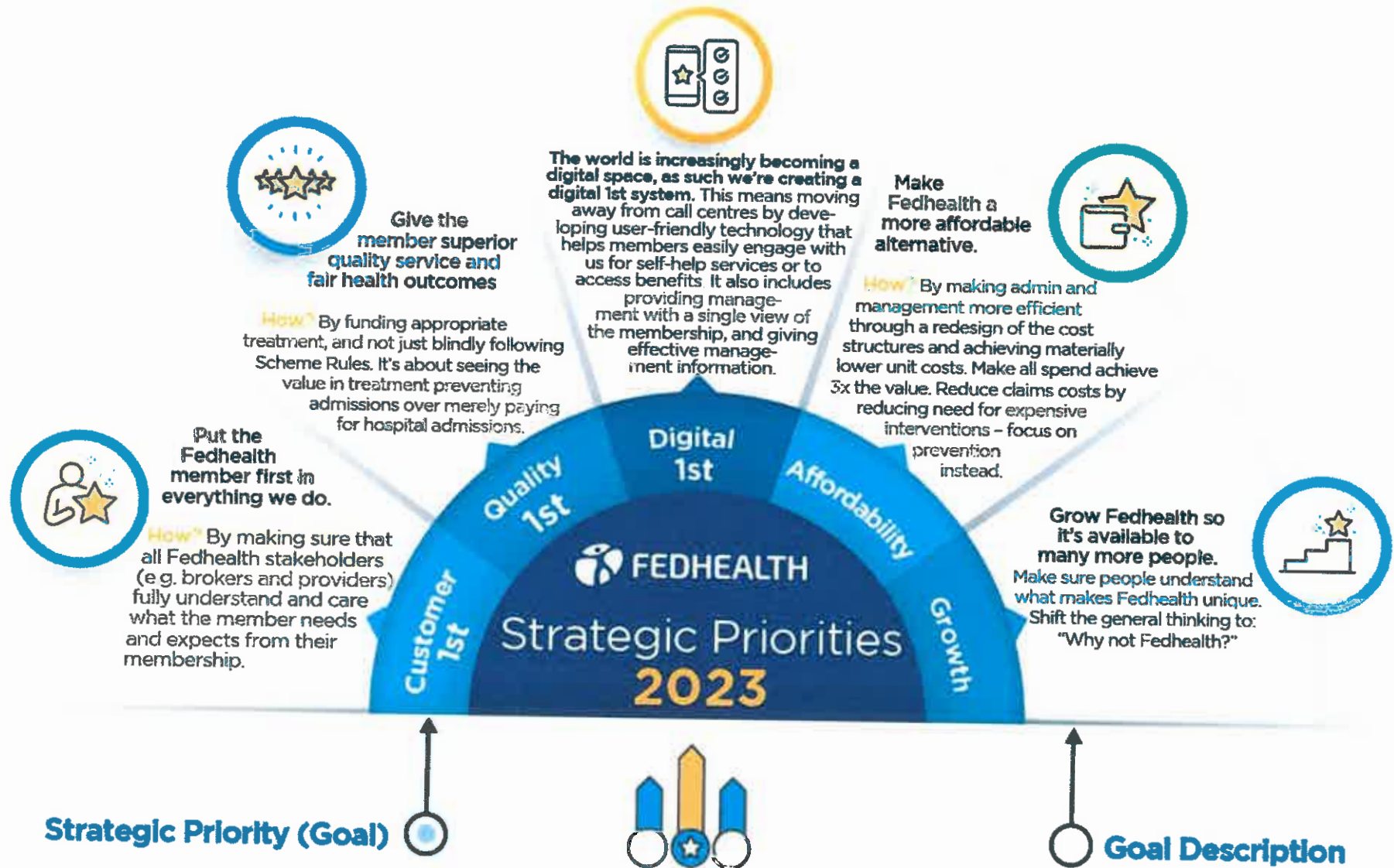
- A determined focus on product design to create benefit options that would compete with health insurance products while still providing the levels of care that members would expect from a medical aid. This product would potentially be a game changer in the industry and be a compelling offer for people who would otherwise not see value in a medical aid.
- Greater attention would be paid to healthcare brokers, particularly those contracted with larger employer groups as the risk profile of employer groups is more stable than that of individual members,
- The team responsible for generating membership was restructured to service brokers and educate the market about the superior medical aid benefit structures that Fedhealth offers. Medical aid products are complicated and it is often difficult to sort out which options offer the best value, so broker education is essential.
- Services which enhance quality of care and reduced waste in the form of unnecessary treatments or procedures where outcomes are not cost-effective. A successful example of this sort of service is Alignnd, a palliative care programme that not only offers comfort, dignity and support to end-of-life patients but also ensures that futile care is not continued. Other initiatives include provider driven solutions where collaborative systems allow the Scheme to fund essential procedures without exposing it to waste or abuse.
- Technological advances in digital communication methods and services are being explored to reduce the costs of administering the Scheme as well as shortening response times and improving the service experience. Customer satisfaction remains a challenging objective for the Scheme, particularly when members are not always familiar with the details of their benefits.

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REPORT OF THE BOARD OF TRUSTEES (continued)



REPORT OF THE BOARD OF TRUSTEES (continued)



REPORT OF THE BOARD OF TRUSTEES (continued)

14 Non-compliance matters

Nature and cause of non-compliance	Possible impact of the non-compliance	Corrective course
14.1 Contributions not received within the time stipulated by the Act		
<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>
14.2 Claim payments in excess of 30 days		
<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>
14.3 Loss making options		
<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 2022 financial year.</p>

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REPORT OF THE BOARD OF TRUSTEES (continued)

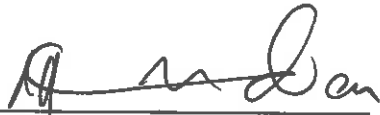
14 Non-compliance matters (continued)

Nature and cause of non-compliance	Possible impact of the non-compliance	Corrective course
<p>14.4 Prohibition of Investments in an employer who participates in the medical scheme or in any administrators</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, Sanlam Ltd, Momentum Metropolitan Life Ltd and MMI Holdings 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 Scheme has been provisionally granted an exemption for a period of three years, effective 1 December 2019 until 30 November 2022, and this exemption has subsequently been renewed effective 1 December 2022 until 30 November 2025. The exemption is granted subject to the following conditions:</p> <ul style="list-style-type: none"> ● 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.

REPORT OF THE BOARD OF TRUSTEES (continued)

14 Non-compliance matters (continued)

Nature and cause of non-compliance	Possible impact of the non-compliance	Corrective course
<p>14.5 Prescribed Minimum benefit (PMB) claims paid from savings</p> <p>Regulation 8 of the Act, stipulates that schemes are required to fund PMB conditions at full invoice price. Therefore, PMB claims cannot be funded by the PMSA.</p> <p>Certain claim exceptions were found at the beginning of the financial year where PMB claims were paid out of savings.</p>	<p>The Scheme is non-compliant with Regulation 8 of the Act and will be liable for the PMB claims paid from the member PMSA.</p>	<p>The administrator corrected the system link to PMB payment and the testing process was refined accordingly. The impacted claims were corrected and paid accordingly.</p> <p>One exception was noted to the value of R213.34.</p>



M Govender – Chairperson
30 March 2023

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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 40 to 107](#) 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 34](#).

The Board:

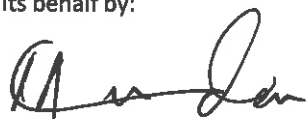
- considers that in preparing the financial statements it has used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates;
- is satisfied that the information contained in the financial statements fairly presents the results of operations 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 37 to 40](#). 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 2023 and are signed on its behalf by:



M Govender - Chairperson



J Cloete - Trustee



J Yatt - Principal Officer

30 March 2023

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 and Legal 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

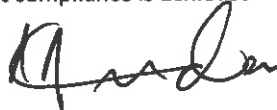
The budget for the Scheme is set annually and approved by the Board. The performance against budget is monitored monthly by the Finance Committee and any corrective action requiring the Board approval is recommended to the Board for appropriate action.

Performance monitoring of terms of reference

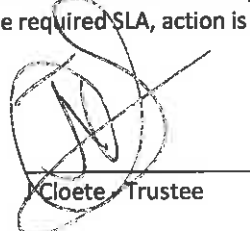
Each committee of the Board has terms of reference which set out the structures and functions of that committee and are reviewed by the committee and approved by the Board annually.

Performance monitoring of third party Service Level Agreements (SLAs)

The monitoring of SLAs occurs monthly 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



Cloete – Trustee



J Yatt – Principal Officer

30 March 2023

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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 41 to 107, which comprise the statement of financial position as at 31 December 2022, 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, these financial statements present fairly, in all material respects, the financial position of Fedhealth Medical Scheme as at 31 December 2022, 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.

<p>Risk claims incurred Refer to significant accounting policy note 1.9 and risk claims incurred in note 9 to the financial statements</p>	
<p>Key audit matter</p> <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>How the matter was addressed in our audit</p> <p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • 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. • We tested the IT controls in place to prevent unauthorised access to or changes to the administration system. • 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. • We inspected 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.
<p>Outstanding risk claims provision Refer to significant accounting policy note 1.4 and outstanding risk claims provision in note 5 to the financial statements.</p>	
<p>Key audit matter</p> <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 range 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>How the matter was addressed in our audit</p> <p>Our audit procedures performed included the following:</p> <ul style="list-style-type: none"> • We used our own actuarial specialists and: <ul style="list-style-type: none"> ○ evaluated the appropriateness of the methodology used in determining the provision against best practice. ○ 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. ○ evaluated the qualification, competence, independence and integrity of the Scheme's actuary. ○ assessed whether the data used in the provision is complete and accurate. • We calculated our own estimation of the provision to confirm the reasonability of the Scheme's provision. • 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.



Risk claims incurred Refer to significant accounting policy note 1.9 and risk claims incurred in note 9 to the financial statements	
Key audit matter	How the matter was addressed in our audit
	<ul style="list-style-type: none">• We evaluated whether the disclosures in the financial statements were appropriate in accordance with IAS 37 <i>Provisions, contingent liabilities and contingent assets</i>.

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. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Scheme's trustees for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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



appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Scheme's trustees.
- Conclude on the appropriateness of the Scheme's trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists in relation 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 20 years.

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

KPMG Inc.

Per LW Grobler
Chartered Accountant (SA)
Registered Auditor
Director
14 April 2023

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	Note	2022 R'000	2021 R'000
Assets			
Non-current assets			
Available-for-sale investments	2	1 334 212	1 353 882
Current assets			
Trade and other receivables	3	310 298	321 074
Cash and cash equivalents	4	317 787	453 805
Total assets		1 962 297	2 128 761
Funds and liabilities			
Members' funds			
Accumulated funds		1 537 790	1 623 417
Available-for-sale revaluation reserve		46 523	72 298
Current liabilities			
Outstanding risk claims provision	5	195 116	255 677
PMSA liability*	6	119 339	135 194
Trade and other payables	7	110 052	114 473
Total funds and liabilities		1 962 297	2 128 761

* PMSA: Personal medical savings accounts

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 R'000	2021 R'000
Risk contribution income	8	3 356 865	3 541 927
Relevant healthcare expenditure		(3 153 820)	(3 430 397)
Net claims incurred		(3 154 138)	(3 430 841)
Risk claims incurred	9	(3 161 227)	(3 437 699)
Third party claim recoveries		7 089	6 858
Net income on risk transfer arrangement	10	318	444
Risk transfer arrangement premiums paid		(767)	(838)
Recoveries from risk transfer arrangement		1 085	1 282
Gross healthcare result		203 045	111 530
Broker service fees		(66 990)	(70 519)
Administration expenditure	11	(351 247)	(358 490)
Net impairment loss on healthcare receivables	12	(17 124)	(1 375)
Net healthcare result		(232 316)	(318 854)
Other income		186 159	229 578
Investment income	13	174 604	220 188
Sundry income	14	11 555	9 390
Other expenditure		(13 695)	(15 330)
Asset management fees	15	(9 813)	(10 558)
Interest on PMSA liability		(3 882)	(4 772)
Net deficit for the year		(59 852)	(104 606)

	Note	R'000	R'000
Other comprehensive income			
Net change in fair value on available-for-sale investments	2	39 385	165 187
Available-for-sale reclassification to profit or loss	13	(65 160)	(124 168)
Total other comprehensive income for the year		(25 775)	41 019
Total comprehensive income for the year		(85 627)	(63 587)

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STATEMENT OF CHANGES IN FUNDS AND RESERVE FOR THE YEAR ENDED 31 DECEMBER 2022

	Available for-sale- revaluation reserve R'000	Accumulated funds R'000	Members' funds R'000
Balance as at 1 January 2021	31 279	1 655 725	1 687 004
Total comprehensive income for the year			
Net deficit for the year	-	(104 606)	(104 606)
Other comprehensive income			
Fair value reserve available-for-sale financial assets			
Net unrealised gains for the year (Note 2)	165 187	-	165 187
Net fair value realised on disposal (Note 13)	(124 168)	-	(124 168)
Total other comprehensive income	41 019	-	41 019
Total comprehensive income for the year	41 019	(104 606)	(63 587)
Balance as at 31 December 2021	72 298	1 551 119	1 623 417
Balance as at 1 January 2022	72 298	1 551 119	1 623 417
Total comprehensive income for the year			
Net deficit for the year	-	(59 852)	(59 852)
Other comprehensive income			
Fair value reserve available-for-sale financial assets			
Net unrealised gains for the year (Note 2)	39 385	-	39 385
Net fair value realised on disposal (Note 13)	(65 160)	-	(65 160)
Total other comprehensive income	(25 775)	-	(25 775)
Total comprehensive income for the year	(25 775)	(59 852)	(85 627)
Balance as at 31 December 2022	46 523	1 491 267	1 537 790

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

		2,022	2,021
	Note	R'000	R'000
Cash flows from operating activities			
Cash receipt from member and providers			
		3 445 856	3 626 993
Cash receipts from contributions		3 436 857	3 614 219
Cash receipts from members and providers - other		8 999	12 774
Cash paid to providers and employees		(3 746 491)	(3 986 728)
Cash paid to providers and employees - claims		(3 314 416)	(3 543 080)
Cash paid to providers and employees - non healthcare expenditure		(431 531)	(438 228)
Cash paid - member refunds		(544)	(5 420)
Cash utilised in operation		(300 635)	(359 735)
Cash utilised in operations			
Interest paid on PMSA liability	6	(3 882)	(4 772)
Net cash outflow from operating activities		(304 517)	(364 507)
Cash flows from investing activities			
Additions to available-for-sale investments	2	(1 193 581)	(658 000)
Proceeds on disposal of available-for-sale investments	2	1 252 636	842 380
Interest received	13	68 122	70 255
Dividends received	13	41 322	25 765
Net cash inflow from investing activities		168 499	280 400
Net decrease in cash and cash equivalents		(136 018)	(84 107)
Cash and cash equivalents at the beginning of the year		453 805	537 912
Cash and cash equivalents at the end of the year	4	317 787	453 805

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NOTES TO THE FINANCIAL STATEMENTS

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 19](#). The financial statements were approved by the Board of Trustees (the Board) on 30 March 2023.

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

There were no new standards, amendments and interpretations effective in the 2022 financial year and relevant to the Scheme.



NOTES TO THE FINANCIAL STATEMENTS

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
IFRS 17 Insurance Contracts	<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"> • Reinsurance contracts held; • Direct participating contracts; and • Investment contracts with discretionary participation features. <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 standard is effective for annual periods beginning on or after 1 January 2023. Early adoption is permitted only if the entity applied IFRS 9. The Scheme is in the process of preparing the necessary calculations, assessments and disclosure changes required in the Scheme financial report and are working closely with the Scheme’s Actuaries to calculate the expected cash outflows and risk adjustments required by the standard. Below is the initial assessment on some of the pertinent changes.</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	Amendment	Implementation Progress
IFRS 17 Insurance Contracts	Level of aggregation of insurance contracts	The Scheme deems it appropriate that all 14 of its benefit options are managed together as a single portfolio of contracts that display similar risks. Therefore, contracts held by the Scheme across all the options are considered to constitute a single portfolio.
	Initial recognition	<p>The Scheme's coverage period aligns with the financial reporting year as both begin on 1 January each year and conclude on 31 December of the same year. The contracts with members will be recognised from 1 January, or from inception of cover should the member join the Scheme after 1 January.</p> <p>The contract boundary is one year from 1 January to 31 December each year.</p> <p>Onerous contracts shall be recognised when facts and circumstances indicate that they are onerous. This is likely to be in the previous financial year when members indicate which benefit option, they would elect for the following benefit year.</p>
	Measurement model	<p>The Scheme will apply the Premium Allocation Approach (PAA) model since the coverage period for all contracts issued is one year or less.</p> <p>Measurement of Liability for Incurred claims (LIC)</p> <p>As the Scheme is applying the PAA, it has to measure the LIC for the group of insurance contracts at the fulfilment cash flows relating to incurred claims, applying the general measurement model.</p> <p>The fulfilment cash flows included in the LIC calculation comprise estimates of future cash flows as informed by the Outstanding Claims Reserve and run-off tables. There is not expected to be a material difference to the LIC as reported in prior years due to cash flows relating directly to the fulfilment of the outstanding claims. Furthermore, the LIC includes claims incurred but not yet reported (IBNR).</p> <p>A confidence-interval method, based on a claims curve (stochastically determined), is being finalised. The confidence-level technique expresses the likelihood that the actual outcome will be within a specified interval.</p>

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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	Amendment	Summary of requirements	Implementation Progress
IFRS 17 Insurance Contracts	Measurement model (continued)	<p>Measurement of Liability for remaining coverage (LRC): Initial and subsequent The Scheme has opted to adopt the PAA (as discussed above). Therefore, a simplified approach to the measurement of the LRC will be applied.</p> <p>Reinsurance contracts held Reinsurance contracts held will be accounted for per the PAA since the coverage period of each contract in the group of reinsurance contracts held is one year or less.</p> <p>Significant financing component: LRC and LIC Discounting of both the LRC and LIC is not required as claims are typically paid within a year from the date the claims were incurred.</p> <p>Insurance acquisition cash flows In applying the PAA, the Scheme elected to recognise any insurance acquisition cash flows as expenses when it incurs those costs, provided that the coverage period of each contract in the group at initial recognition is no more than one year.</p> <p>Insurance revenue As the Scheme will apply PAA, insurance revenue for the period is the amount of expected premium receipts (excluding any investment component and adjusted to reflect the time value of money and the effect of financial risk, if applicable) allocated to the period.</p> <p>Insurance expenses The Scheme will present in profit or loss insurance service expenses arising from a group of insurance contracts issued, comprising incurred claims (excluding repayments of investment components), other incurred insurance service expenses and other amounts as described in the standard.</p>	

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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	Amendment	Implementation Progress
IFRS 17 Insurance Contracts	Personal medical savings accounts (PMSA)	<p>In some benefit options, the Scheme provides for PMSA facilities to members. Savings contributions are recognised when at least one of the parties has performed and that is generally deemed to be when the contribution has been received and claims paid.</p> <p>PMSA can be separately measured, however for all these options where the savings benefit is available, the member is not able to utilise the savings benefit without first acquiring the insurance contract. The PMSA is therefore highly interrelated with insurance contracts.</p> <p>As such, PMSA are considered a non-distinct investment component and will be accounted for in terms of IFRS 17.</p>

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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
IFRS 9 Financial Instruments	<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 by 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 2023.</p> <p>A scheme may apply the temporary exemption from IFRS 9 if, and only if:</p> <ul style="list-style-type: none"> • it has not previously applied any version of IFRS 9 • activities are predominantly connected with insurance, at its reporting date. <p>The Scheme meets both the criteria and has decided to apply the exemption to defer the application of IFRS 9.</p> <p>The Scheme is in the process of preparing the business model assessments, solely payments of principal and interest (SPPI) tests and disclosure requirements relating to IFRS 9. Indications are that the business model per assessment will be held for trading. This will result in available-for-sale investments being classified as fair value through profit or loss.</p>
Classification of liabilities as current or non-current (Amendments to IAS1)	<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>Disclosure of Accounting Policies: The amendments require schemes to disclose the material accounting policy information rather than the significant accounting policies, with additional guidance added to the Standard to explain how an entity can identify material accounting policy information with examples of when accounting policy information is likely to be material.</p> <p>The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2023. The amendment is not anticipated to have a significant impact on the Scheme.</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 several 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 because 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 based on 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)**Financial assets (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 because 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 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 healthcare: 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;
- Sundry income; and
- Asset management fees.

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2022 R'000	2021 R'000
2 Available-for-sale investments		
Acquisition cost	1 281 584	1 341 796
Net unrealised gains on revaluation	72 298	31 279
Fair value at the beginning of the year	1 353 882	1 373 075
Additions to investments	1 202 052	667 317
Investment management fees	(8 471)	(9 317)
Disposal at fair value at date of sale	(1 252 636)	(842 380)
Net unrealised gains for the year	39 385	165 187
Fair value at the end of the year	1 334 212	1 353 882
The investments included above represent investments in:		
Unlisted debentures	14 718	12 980
Listed equities	657 144	712 320
Listed fixed interest bonds	598 228	550 917
Listed investment property funds	64 122	77 665
	1 334 212	1 353 882

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 21](#).

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 Trade and other receivables	2022 R'000	2021 R'000
Insurance receivables		
Contributions receivable	204 554	210 071
Members co-payments receivable	16 876	21 560
Provider debts receivable	2 158	2 130
Financial receivables		
Advances on PMSA (Note 6)	2 110	3 985
Loans and receivables		
Aid for Aids	1	12
Sundry debtor	1	645
Investment income receivable	693	575
Loans to members (other)	8	16
Loans to members (MediVault)	123 225	128 460
	349 626	367 454
Impairment movement		
Less: Impairment losses	(39 328)	(46 380)
Balance at the beginning of the year	(46 380)	(49 413)
Amounts utilised during the year	24 730	5 840
Net movement in impairment (Note 12)	(17 678)	(2 807)
Balance at the end of the year	310 298	321 074

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. 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 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.

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4 Cash and cash equivalents	2022 R'000	2021 R'000
Call accounts	60 027	49 191
Current accounts	22 675	72 879
Money market investments	235 085	331 735
Balance at the end of the year	317 787	453 805

The weighted average effective interest rate on cash and cash equivalents was 5.3% (2021: 3.7%). Call accounts have an average maturity of one day (2021: one day). The return on money market investments is benchmarked against the STeFi. Refer to [Note 21](#) 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	2022 R'000	2021 R'000
Not covered by risk transfer arrangements		
Provision for outstanding risk claims - Incurred but not reported (IBNR)	195 116	255 677
Analysis of movement in outstanding risk claims		
Balance at beginning of the year	255 677	245 093
Payments in respect of the previous year	(208 770)	(227 546)
Over provision in the previous year (Note 9)	46 907	17 547
Adjustment for the current year (Note 9)	148 209	238 130
Balance at the end of the year	195 116	255 677
Analysis of outstanding risk claims provision		
Estimated gross claims	201 486	264 059
Less: Estimated recoveries from PMSA	(6 370)	(8 382)
Balance at the end of the year	195 116	255 677

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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 29 February 2023 in respect of the 2022 financial year, and extrapolating these paid claims to 30 April 2023 (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 2022 financial year paid by 17 March 2023 was 80.83% (2021: 28 March 2022: 72.31%).

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 development

COVID-19 continues as the background music to all our daily activities and lives. We have learned to co-exist with disease as it slowly moves from pandemic to endemic. The end of 2022 saw the emergence of the new, highly transmissible XBB.1.5 "Kraken" variant in South Africa, and epidemiologists continue to monitor its spread. The DoH announced plans to ramp up its vaccination drive to ensure that citizens remain up to date with their COVID-19 immune protection. The scheme awaits the announcement of the reduction in age (to all over 18s) being eligible for another booster vaccination. The scheme will fund these vaccines and support the DoH strategy in combating this disease. Prevention remains key.

The impact of the acute phase of the COVID-19 pandemic will be felt for years to come. The scheme is seeing an increase in the number of associated medical problems that have been precipitated or exacerbated by the COVID-19 pandemic. We have families who have lost loved ones and were unable to give them a proper funeral or grieve adequately, people have lost jobs and livelihoods, children missed crucial learning and fundamental relationship building time, and the effects are being borne out in a scourge of mental health issues, learning delays and complicated family dynamic issues, all which put strain on limited medical resources.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

5 Outstanding risk claims provision (continued)

Covid-19 development (continued)

In addition to the above, the impact of missed/delayed screening and preventative care measures such as vaccination is evident in the current measles outbreak as well as the increase in the presentation of advanced disease.

Members impacted by long- COVID-19 do have PMB support, but symptoms and support therapy vary widely with no consensus on funding guidance to date. Globally, evidence and studies are underway, and the scheme continues to monitor updates in this arena. The Scheme strategy in dealing with the COVID-19 pandemic will continue to be guided by lessons learnt from previous waves and international experience. South Africa (and the Scheme) are better prepared for any new waves of COVID-19 or new pandemics, with mandates and operational SOPs readily available for rapid implementation. The Scheme 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 our members are educated and supported to receive the care they need.

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 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 2022 R'000	Change in liability 2021 R'000
Risk claims processing patterns	10	19 512	25 568

Effect on accumulated funds ratio and accumulated funds:

Accumulated funds ratio	%	%
Accumulated funds ratio as at 31 December	43.39	42.76
Movement due to 10% increase in claims processing pattern	0.57	0.70

Accumulated funds	R'000	R'000
Accumulated funds as at 31 December	1 491 267	1 551 119
Movement due to 10% increase in claims processing pattern	19 512	25 568

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NOTES TO THE FINANCIAL STATEMENTS (continued)

5 Outstanding risk claims provision (continued)

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	2022 R'000	2021 R'000
Balance of PMSA liability at the beginning of the year	139 179	167 399
Advances on PMSA	(3 985)	(4 170)
Net balance on PMSA liability at the beginning of the year	135 194	163 229
PMSA contributions received (Note 8)	80 364	85 888
Interest on PMSA	3 882	4 772
Net transfer from other schemes in terms of Regulation 10(4)	2 141	2 170
Claims paid on behalf of members (Note 9)	(100 178)	(109 587)
Refunds and journal offsets on death or resignation in terms of Regulation 10(4)	(544)	(5 420)
Prescribed credit reversal/(write back) of unclaimed savings (Note 14)	355	(5 673)
Prior year advances recovered during the year	(3 985)	(4 170)
Advances on PMSA (Note 3)	2 110	3 985
Balance at the end of the year	119 339	135 194
Balance of PMSA liability:		
- for active members	91 361	111 217
- due to ex-members	27 978	23 977
Balance at the end of the year	119 339	135 194

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 2022 was 4% (2021: 4%). No interest is charged on advances for PMSA.

There were no prescribed unclaimed credit balances written back in 2022 (2021: R5.7m).

It is estimated that the claims to be paid out of the members' PMSA in respect of claims incurred in 2022 but not refunded by 31 December 2022 amounted to R6.4m (2021: R8.1m). 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	2022 R'000	2021 R'000
<i>Insurance liabilities</i>		
Reported risk claims not yet paid	37 876	31 232
Risk contributions received in advance	6 071	6 828
Total arising from insurance liabilities	43 947	38 060
<i>Financial liabilities</i>		
Accrual for investment management fee	34	51
Unknown deposits	518	420
Amounts owing to administrator	1 919	969
Other payables and accrued expenses	460	4 971
Member loan creditor (Wallet)	63 174	70 002
Total arising from financial liabilities	66 105	76 413
Balance at the end of the year	110 052	114 473

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	31 232	34 142
Movement during the year	6 644	(2 910)
Balance at the end of the year	37 876	31 232

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 21](#).

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 Risk contribution income	2022	2021
	R'000	R'000
Gross contributions	3 437 229	3 627 815
Less: PMSA contributions received (Note 6)	(80 364)	(85 888)
Risk contribution income	3 356 865	3 541 927

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

9 Risk claims incurred	2022	2021
	R'000	R'000
Current year claims	2 972 734	3 196 790
Claims not covered by risk transfer arrangement	2 971 649	3 195 508
Claims covered by risk transfer arrangement	1 085	1 282
Outstanding risk claims provision	195 116	255 677
Over provision in the previous year (Note 5)	46 907	17 547
Adjustment for the current year (Note 5)	148 209	238 130
Managed healthcare: accredited management services	93 555	94 819
Claims paid from PMSA on behalf of members (Note 6)	(100 178)	(109 587)
Risk claims incurred	3 161 227	3 437 699
Managed healthcare: accredited management services		
Hospital benefit management	38 966	40 583
Pharmaceutical benefit management	15 591	16 233
Healthcare professional risk management (networks)	10 578	11 048
Disease management	15 308	15 344
Managed care programme	80 443	83 208
Managed healthcare programme: Aid for Aids Management (Pty) Ltd	10 111	10 540
Managed healthcare programme: Palliative Care program	2 617	494
Managed healthcare programme: Case Management - GCMS	384	577
	93 555	94 819

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

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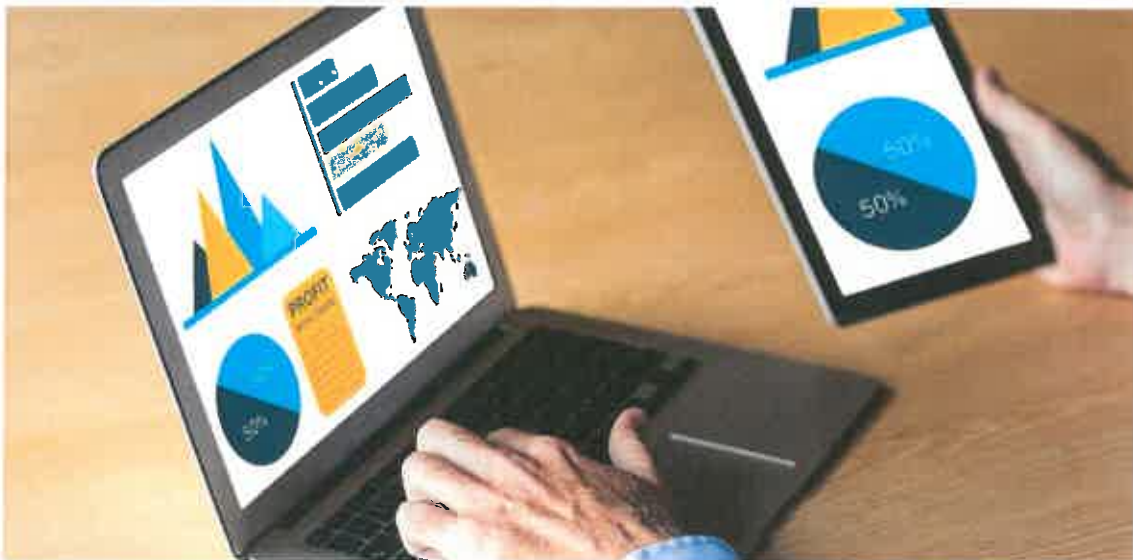
NOTES TO THE FINANCIAL STATEMENTS (continued)

10 Net income on risk transfer arrangement	2022 R'000	2021 R'000
Iso Leso Optics Ltd (Iso Leso)		
Risk transfer arrangement premiums paid	(767)	(838)
Recovery from risk transfer arrangement	1 085	1 282
	318	444

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)

	2022	2021
	R'000	R'000
11 Administration expenditure		
Administration fees	262 165	273 003
Advertising	61 845	56 712
Audit Committee costs (Note 11.1)	215	179
Audit fees	1 291	1 223
– in respect of the current year	822	786
– in respect of the previous year	469	437
Bank charges	1 607	1 659
Board of Healthcare Funders: Practice Code Numbering System (PCNS)	172	179
Conference fees	98	105
Consulting fees	2 673	2 543
Debt collection fee	123	111
Fidelity guarantee premium	334	334
Insurance Fraud Management	3 734	3 176
Health Funders Association	286	286
Legal fees	96	230
Maternity Programme	945	2 173
Meeting expenses	36	22
Metrofile	8	9
Principal Officer's fees	3 675	3 146
Principal Officer's remuneration	3 334	3 102
Principal Officer's expenses	341	44
Printing and photocopying	372	827
RAF recovery fees	3 391	3 583
Registrar's levies	3 063	3 332
Salaries and reimbursements	615	1 285
Staff training	-	15
Total Board Members' remuneration	4 503	4 358
– fees for holding of office (Note 11.1)	4 323	4 286
– travel and accommodation (Note 11.1)	180	72
Balance at the end of the year	351 247	358 490

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2022	2021
	R'000	R'000
11 Administration expenditure (continued)		
Amounts paid to the accredited administrator		
The following is a detailed breakdown of administration and benefit management services provided by the accredited administrator.		
Administration fee		
Accredited Services		
Broker remuneration management	1 609	1 676
Claims processing and payment	36 709	38 229
Contribution management	23 561	24 538
Customer service	110 429	114 987
Financial administration management	14 861	15 473
Information management and data control	11 735	12,228
Membership record management	23 569	24,546
Other Services		
Broker service	1 654	1 718
Distribution service	14 454	15 046
Governance and compliance	5 845	6 089
Healthcare professional management service	6 026	6 278
Marketing service	11 713	12 195
Balance at the end of the year	262 165	273 003

The Council, Circular 77 Of 2019, requires all schemes to report "accredited" administration service fees per service categories with effect from 1 January 2021.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11.1 Administration expenditure (continued)

Remuneration and expenses of the Board Members and Audit Committee	Fees for holding office	Travel and Accommodation	Audit Committee meeting fees	Total fees and Expenses	Fees for holding office	Travel and Accommodation	Audit Committee meeting fees	Total fees and Expenses
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
	2022				2021			
J Cloete	432	-	-	432	408	-	-	408
M Duly	-	-	-	-	3	-	-	3
G Eloff	432	52	-	484	408	8	-	416
A Gahagan-Thomson	432	-	-	432	209	-	-	209
M Govender	867	-	-	867	820	-	-	820
Dr A Goneos-Malka	432	-	-	432	209	-	-	209
K Elliott	432	12	-	444	408	6	-	414
Dr M Mojapelo-Mokotedi	432	12	-	444	408	6	-	414
C Norton	432	32	-	464	408	7	-	415
N Parker	432	72	-	504	408	17	-	425
N Byrne	-	-	-	-	-	1	-	1
A Fourie	-	-	-	-	199	1	-	200
P Hemus	-	-	-	-	199	26	-	225
J Viljoen	-	-	-	-	199	-	-	199
Board Member Costs	4 323	180	-	4 503	4 286	72	-	4 358
Independent: K Aron	-	-	38	38	-	-	23	23
Independent: P Brink	-	-	75	75	-	-	72	72
Independent: H Kajie	-	-	51	51	-	-	36	36
Independent: B Phillips	-	-	51	51	-	-	48	48
Audit Committee Costs	-	-	215	215	-	-	179	179
Total	4 323	180	215	4 718	4 286	72	179	4 537

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NOTES TO THE FINANCIAL STATEMENTS (continued)

	2022	2021
	R'000	R'000
12 Net impairment loss on healthcare receivables		
Trade and other receivables		
Contributions not recoverable	(12 769)	(627)
(Increase)/decrease in impairment	(429)	1 395
- Impairment recognised directly in profit or loss	(12 340)	(2 022)
Members' and service providers' portions not recoverable	(7 503)	(5 998)
- Decrease/(increase) Increase in impairment	4 660	(2 189)
- Impairment recognised directly in profit or loss	(12 163)	(3 809)
PMSA advances not recoverable	970	2 504
- Decrease in impairment	1 059	2 504
- Impairment recognised directly in profit or loss	(89)	-
Loans to members (MediVault) not recoverable	1 624	1 314
- Decrease in impairment	1 624	1 314
Net movement in impairment (Note 3)	(17 678)	(2 807)
Previous impairment losses recovered	554	1 432
Balance as at the end of the year	(17 124)	(1 375)

	2022	2021
	R'000	R'000
13 Investment income		
Net fair value realised on disposal	65 160	124 168
Realised gains from available-for-sale investments	183 991	290 028
Realised losses from available-for-sale investments	(118 831)	(165 860)
Dividends received	41 322	25 765
Interest received	68 122	70 255
Interest received on investments	57 972	62 167
Interest income from cash and cash equivalents	10 150	8 088
Balance at the end of the year	174 604	220 188

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

14 Sundry income	2022 R'000	2021 R'000
Prescribed credit (reversal)/write back of unclaimed savings (Note 6)	(355)	5 673
Fraud recoveries	7 910	2 705
Administration penalty	4 000	1 012
Balance at the end of the year	11 555	9 390

15 Asset management fees	2022 R'000	2021 R'000
Investment management fees	8 471	9 317
Investment expenses	639	512
Cash management fees	703	729
Balance at the end of the year	9 813	10 558

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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 and Maxima Exec for conservative and less healthy 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 several 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, except for 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) 2022	FlexiFed 1	FlexiFed 2			Subtotal carried forward	
	R'000	Elect R'000	R'000	Grid R'000	Elect R'000	R'000
Net risk contribution income	608 222	91 338	222 920	193 870	16 449	1 132 799
Relevant healthcare expenditure	(507 565)	(58 329)	(224 097)	(188 176)	(11 141)	(989 308)
Net claims incurred	(507 565)	(58 329)	(224 097)	(188 176)	(11 141)	(989 308)
Risk claims incurred	(498 438)	(57 045)	(221 134)	(185 874)	(10 905)	(973 396)
Claims paid from PMSA on behalf of the member	(9 506)	(1 349)	(3 048)	(2 388)	(244)	(16 535)
Third party claims recoveries	379	65	85	86	8	623
Net income on risk transfer arrangements	-	-	-	-	-	-
Risk transfer arrangement fees/premiums paid	-	-	-	-	-	-
Recoveries from risk transfer arrangements	-	-	-	-	-	-
Gross healthcare result	100 657	33 009	(1 177)	5 694	5 308	143 491
Broker service fees	(17 469)	(2 861)	(5 069)	(4 826)	(421)	(30 646)
Administration expenses	(100 634)	(20 631)	(25 079)	(23 632)	(2 332)	(172 308)
Net impairment (losses)/gains on healthcare receivables	(7 662)	(488)	(1 817)	(768)	(79)	(10 814)
Net healthcare result	(25 108)	9 029	(33 142)	(23 532)	2 476	(70 277)
Other income	52 019	10 664	12 952	12 205	1 206	89 046
Fraud Recovery	2 208	455	550	519	51	3 783
Investment income: Medical Scheme	48 708	9 981	12 142	11 434	1 129	83 394
Administration penalty	1 117	228	277	262	26	1 910
Prescribed credit reversal of unclaimed savings	(14)	-	(17)	(10)	-	(41)
Other expenditure	(2 936)	(588)	(771)	(687)	(68)	(5 050)
Asset management fees	(2 738)	(562)	(682)	(643)	(63)	(4 688)
Interest on PMSA	(198)	(26)	(89)	(44)	(5)	(362)
Net surplus/(deficit) for the year	23 975	19 105	(20 961)	(12 014)	3 614	13 719
Number of members per option	17 563	3 691	4 390	4 161	410	30 215

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NOTES TO THE FINANCIAL STATEMENTS (continued)

16	Operations per benefit option (continued) 2022	Subtotal	FlexiFed 3	FlexiFed 4				Maxima	Maxima	Subtotal	
		brought forward		Grid	Elect	Grid	Elect	Plus	Exec	carried forward	
		R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	
	Net risk contribution income	1 132 799	563 283	124 113	20 124	855 450	99 247	30 229	146 682	306 549	3 278 476
	Relevant healthcare expenditure	(989 308)	(529 042)	(141 209)	(13 535)	(794 200)	(104 571)	(21 823)	(133 923)	(310 406)	(3 038 017)
	Net claims incurred	(989 308)	(529 042)	(141 209)	(13 535)	(794 200)	(104 571)	(21 823)	(133 923)	(310 406)	(3 038 017)
	Risk claims incurred	(973 396)	(522 029)	(139 613)	(13 230)	(782 529)	(103 297)	(21 349)	(125 851)	(263 568)	(2 944 862)
	Claims paid from PMSA on behalf of the member	(16 535)	(7 662)	(1 637)	(313)	(17 262)	(1 300)	(494)	(8 087)	(46 888)	(100 178)
	Third party claims recoveries	623	649	41	8	5 591	26	20	15	50	7 023
	Net income on risk transfer arrangements	-	-	-	-	-	-	-	-	-	-
	Risk transfer arrangement fees/premiums paid	-	-	-	-	-	-	-	-	-	-
	Recoveries from risk transfer arrangements	-	-	-	-	-	-	-	-	-	-
	Gross healthcare result	143 491	34 241	(17 096)	6 589	61 250	(5 324)	8 406	12 759	(3 857)	240 459
	Broker service fees	(30 646)	(10 932)	(2 573)	(433)	(14 177)	(1 581)	(467)	(849)	(2 896)	(64 554)
	Administration expenses	(172 308)	(55 794)	(13 137)	(2 401)	(67 436)	(8 134)	(2 870)	(4 753)	(15 863)	(342 696)
	Net impairment (losses)/gains on healthcare receivables	(10 814)	(1 430)	(315)	(7)	(3 015)	(274)	(91)	(222)	(1 013)	(17 181)
	Net healthcare result	(70 277)	(33 915)	(33 121)	3 748	(23 378)	(15 313)	4 978	6 935	(23 629)	(183 972)
	Other income	89 046	28 768	6 784	1 240	34 805	4 204	1 423	2 403	8 135	176 808
	Fraud Recovery	3 783	1 223	289	53	1 475	179	63	104	348	7 517
	Investment income: Medical Scheme	83 394	27 001	6 349	1 161	32 644	3 935	1 390	2 300	7 674	165 848
	Administration penalty	1 910	618	146	26	749	90	32	52	175	3 798
	Prescribed reversal write back of unclaimed savings	(41)	(74)	-	-	(63)	-	(62)	(53)	(62)	(355)
	Other expenditure	(5 050)	(1 865)	(398)	(87)	(3 752)	(301)	(117)	(257)	(1 377)	(13 204)
	Asset management fees	(4 688)	(1 517)	(358)	(65)	(1 833)	(221)	(78)	(129)	(432)	(9 321)
	Interest on PMSA	(362)	(348)	(40)	(22)	(1 919)	(80)	(39)	(128)	(945)	(3 883)
	Net surplus/(deficit) for the year	13 719	(7 012)	(26 735)	4 901	7 675	(11 410)	6 284	9 081	(16 871)	(20 368)
	Number of members per option	30 215	9 696	2 321	425	11 591	1 431	501	835	2 782	59 797

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NOTES TO THE FINANCIAL STATEMENTS (continued)

16 Operations per benefit option (continued) 2022	Subtotal brought forward R'000	MyFed R'000	Grand Total R'000
Net risk contribution income	3 278 476	78 389	3 356 865
Relevant healthcare expenditure	(3 038 017)	(115 803)	(3 153 820)
Net claims incurred	(3 038 017)	(116 121)	(3 154 138)
Risk claims incurred	(2 944 862)	(116 187)	(3 061 049)
Claims paid from PMSA on behalf of the member	(100 178)	-	(100 178)
Third party claims recoveries	7 023	66	7 089
Net income on risk transfer arrangements	-	318	318
Risk transfer arrangement fees/premiums paid	-	(767)	(767)
Recoveries from risk transfer arrangements	-	1 085	1 085
Gross healthcare result	240 459	(37 414)	203 045
Broker service fees	(64 554)	(2 436)	(66 990)
Administration expenses	(342 696)	(8 551)	(351 247)
Net impairment losses on healthcare receivables	(17 181)	57	(17 124)
Net healthcare result	(183 972)	(48 345)	(232 316)
Other income	176 808	9 351	186 159
Fraud Recovery	7 517	393	7 910
Investment income: Medical Scheme	165 848	8 756	174 604
Administration penalty	3 798	202	4 000
Prescribed credit reversal of unclaimed savings	(355)	-	(355)
Other expenditure	(13 204)	(491)	(13 695)
Asset management fees	(9 321)	(491)	(9 812)
Interest on PMSA	(3 883)	-	(3 883)
Net surplus/(deficit) for the year	(20 368)	(39 485)	(59 852)
Number of members per option	59 797	3 062	62 859

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NOTES TO THE FINANCIAL STATEMENTS (continued)

15 Operations per benefit option (continued) 2021	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	628 397	80 253	231 077	189 242	15 756	1 144 725
Relevant healthcare expenditure	(534 132)	(56 731)	(218 272)	(202 742)	(15 447)	(1 027 324)
Net claims incurred	(534 132)	(56 731)	(218 272)	(202 742)	(15 447)	(1 027 324)
Risk claims incurred	(525 301)	(55 775)	(214 962)	(200 730)	(15 208)	(1 011 976)
Claims paid from PMSA on behalf of the member	(9 946)	(1 153)	(3 591)	(2 261)	(263)	(17 214)
Third party claims recoveries	1 115	197	281	249	24	1 866
Net income on risk transfer arrangements	-	-	-	-	-	-
Risk transfer arrangement fees/premiums paid	-	-	-	-	-	-
Recoveries from risk transfer arrangements	-	-	-	-	-	-
Gross healthcare result	94 265	23 522	12 805	(13 500)	309	117 401
Broker service fees	(18 102)	(2 476)	(5 330)	(4 772)	(394)	(31 074)
Administration expenses	(101 510)	(17 861)	(25 615)	(22 659)	(2 196)	(169 841)
Net impairment (losses)/gains on healthcare receivables	(402)	18	(79)	30	15	(418)
Net healthcare result	(25 749)	3 203	(18 219)	(40 901)	(2 266)	(83 932)
Other income	61 659	10 718	15 663	13 719	1 327	103 086
Fraud Recovery	748	135	188	166	16	1 253
Investment income: Medical Scheme	60 488	10 583	15 293	13 520	1 311	101 195
Administration penalty	-	-	-	-	-	-
Prescribed credit write back of unclaimed savings	423	-	182	33	-	638
Other expenditure	(3 162)	(540)	(833)	(690)	(67)	(5 292)
Asset management fees	(2 907)	(512)	(733)	(649)	(63)	(4 864)
Interest on PMSA	(255)	(28)	(100)	(41)	(4)	(428)
Net surplus/(deficit) for the year	32 748	13 381	(3 389)	(27 872)	(1 006)	13 862
Number of members per option	19 112	3 618	4 781	4 276	426	32 213

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NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Operations per benefit option (continued) 2021	Subtotal brought forward	FlexiFed 3	FlexiFed 4				Maxima Plus	Maxima Exec	Subtotal carried forward	
	R'000	R'000	Grid R'000	Elect R'000	R'000	Grid R'000	Elect R'000	R'000	R'000	R'000
Net risk contribution income	1 144 725	616 337	104 319	19 670	955 868	86 296	34 182	166 801	329 788	3 457 986
Relevant healthcare expenditure	(1 027 324)	(615 046)	(137 852)	(17 064)	(913 727)	(95 781)	(30 503)	(150 135)	(340 199)	(3 327 631)
Net claims incurred	(1 027 324)	(615 046)	(137 852)	(17 064)	(913 727)	(95 781)	(30 503)	(150 135)	(340 199)	(3 327 631)
Risk claims incurred	(1 011 976)	(606 590)	(136 491)	(16 763)	(895 950)	(94 669)	(28 142)	(140 898)	(293 214)	(3 224 693)
Claims paid from PMSA on behalf of the member	(17 214)	(9 113)	(1 481)	(326)	(21 405)	(1 188)	(2 396)	(9 295)	(47 169)	(109 587)
Third party claims recoveries	1 866	657	120	25	3 628	76	35	58	184	6 649
Net income on risk transfer arrangements	-	-	-	-	-	-	-	-	-	-
Risk transfer arrangement fees/premiums paid	-	-	-	-	-	-	-	-	-	-
Recoveries from risk transfer arrangements	-	-	-	-	-	-	-	-	-	-
Gross healthcare result	117 401	1 291	(33 533)	2 606	42 141	(9 485)	3 679	16 666	(10 411)	130 355
Broker service fees	(31 074)	(12 090)	(2 141)	(408)	(16 092)	(1 385)	(573)	(963)	(3 387)	(68 113)
Administration expenses	(169 841)	(60 129)	(10 936)	(2 287)	(74 237)	(6 899)	(3 210)	(5 308)	(16 797)	(349 644)
Net impairment (losses)/gains on healthcare receivables	(418)	(9)	(10)	20	(423)	(33)	6	(93)	(361)	(1 321)
Net healthcare result	(83 932)	(70 937)	(46 620)	(69)	(48 611)	(17 802)	(98)	10 302	(30 956)	(288 723)
Other income	103 086	37 098	6 600	1 382	49 209	4 161	2 120	3 547	10 784	217 987
Fraud Recovery	1 253	438	80	17	540	51	24	40	123	2 566
Investment income: Medical Scheme	101 195	36 043	6 516	1 365	44 377	4 110	1 917	3 173	10 040	208 736
Administration penalty	-	-	-	-	1 012	-	-	-	-	1 012
Prescribed credit write back of unclaimed savings	638	617	4	-	3 280	-	179	334	621	5 673
Other expenditure	(5 292)	(2 198)	(361)	(91)	(4 565)	(272)	(137)	(285)	(1 583)	(14 784)
Asset management fees	(4 864)	(1 721)	(313)	(65)	(2 125)	(198)	(92)	(152)	(482)	(10 012)
Interest on PMSA	(428)	(477)	(48)	(26)	(2 440)	(74)	(45)	(133)	(1 101)	(4 772)
Net surplus/(deficit) for the year	13 862	(36 037)	(40 381)	1 222	(3 967)	(13 913)	1 885	13 564	(21 755)	(85 520)
Number of members per option	32 213	11 027	2 045	430	13 548	1 282	580	968	3 116	65 209

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NOTES TO THE FINANCIAL STATEMENTS (continued)

16 Operations per benefit option (continued) 2021	Subtotal brought forward R'000	MyFed R'000	Grand Total R'000
Net risk contribution income	3 457 986	83 941	3 541 927
Relevant healthcare expenditure	(3 327 631)	(102 766)	(3 430 397)
Net claims incurred	(3 327 631)	(102 322)	(3 429 953)
Risk claims incurred	(3 224 693)	(102 531)	(3 327 224)
Claims paid from PMSA on behalf of the member	(109 587)	-	(109 587)
Third party claims recoveries	6 649	209	6 858
Net income on risk transfer arrangements	-	444	444
Risk transfer arrangement fees/premiums paid	-	(838)	(838)
Recoveries from risk transfer arrangements	-	1 282	1 282
Gross healthcare result	130 355	(18 825)	111 530
Broker service fees	(68 113)	(2 406)	(70 519)
Administration expenses	(349 644)	(8 846)	(358 490)
Net impairment losses on healthcare receivables	(1 321)	(54)	(1 375)
Net healthcare result	(288 723)	(30 131)	(318 854)
Other income	217 987	11 591	229 578
Fraud Recovery	2 566	139	2 705
Investment income: Medical Scheme	208 736	11 452	220 188
Administration penalty	1 012	-	1 012
Prescribed credit write back of unclaimed savings	5 673	-	5 673
Other expenditure	(14 784)	(546)	(15 330)
Asset management fees	(10 012)	(546)	(10 558)
Interest on PMSA	(4 772)	-	(4 772)
Net surplus/(deficit) for the year	(85 520)	(19 086)	(104 606)
Number of members per option	65 209	3 592	68 801

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

17 Related party transactions	2022 R'000	2021 R'000
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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, Scriptpharm (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. 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	355 186	364 506
– Actuarial fees	2 673	2 155
– Administration fees	262 165	273 003
– Administration penalty	4 000	1 012
– Insurance Fraud Management (IFM)	3 734	3 176
– Managed care: management services	80 348	83 111
– Third party collection administration services	2 266	2 049
AfroCentric Health (Pty) Ltd	110 408	108 304
– Aid for Aids Management	10 111	10 540
– Klinikka	2 360	1 944
– Pharmacy Direct	24 982	31 548
– Scriptpharm	2 628	-
– The Cheese Has Moved - monthly fee	10 260	9 764
– The Cheese Has Moved - reimbursements	47 783	42 230
– Wellworx	12 284	12 278

Statement of financial position

Medscheme Holdings (Pty) Ltd	1 918	1 197
– Administration fees	808	489
– Aid for Aids management	(1)	(12)
– Forensic services	387	-
– Managed care: management services	615	480
– Third party collection administration services	109	240

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 Related party transactions (continued)	2022 R'000	2021 R'000
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Statement of financial position (continued)**Terms and conditions of administration and managed care agreements**

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.

Key management personnel of the Scheme**The Board Members, Principal Officer, Scheme employees, their dependants and close family members**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Scheme. Key management personnel include the 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.

Statement of comprehensive income

Board Members' fees for holding of office and related expenses and Principal Officer's remuneration and expenses

- Risk contributions received in terms of the Scheme's rules
- Risk claims incurred in terms of the Scheme's rules

8 186	7 521
691	671
(263)	(506)

Statement of financial position

- PMSA liability
- Loan to member liability (Wallet)
- Loan to member debtors (MediVault)
- Risk contribution debtors

(8)	(10)
-	(15)
4	15
59	61

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 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)

18 Non-compliance matters

Nature and cause of non-compliance	Possible impact of the non-compliance	Corrective course
18.1 Contributions not received within the time stipulated by the Act		
<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>
18.2 Claim payments in excess of 30 days		
<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>
18.3 Loss making options		
<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 2022 financial year.</p>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

18 Non-compliance matters (continued)

Nature and cause of non-compliance	Possible impact of the non-compliance	Corrective course
18.4 Prohibition of Investments in an employer who participates in the medical scheme or in any administrators		
<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, Sanlam Ltd, Momentum Metropolitan Life Ltd and MMI Holdings 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 Scheme has been provisionally granted an exemption for a period of three years, effective 1 December 2019 until 30 November 2022, and this exemption has subsequently been renewed effective 1 December 2022 until 30 November 2025. The exemption is granted subject to the following conditions:</p> <ul style="list-style-type: none"> ● 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
18.5 5 Prescribed Minimum benefit (PMB) claims paid from savings		
<p>Regulation 8 of the Act stipulates that schemes are required to fund PMB conditions at full invoice price. Therefore, PMB claims cannot be funded by the PMSA.</p> <p>Certain claim exceptions were found at the beginning of the financial year where PMB claims were paid out of savings.</p>	<p>The Scheme is non-compliant with Regulation 8 of the Act and will be liable for the PMB claims paid from the member PMSA.</p>	<p>The administrator corrected the system link to PMB payment and the testing process was refined accordingly. The impacted claims were corrected and paid accordingly.</p> <p>One exception was noted to the value of R213.34</p>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

19 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 is involved 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)

20 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)

20 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 can reset contributions for a change in circumstances.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 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	2022		2021	
		R'000		R'000
Medical practitioners	3.05%	95 174	2.93%	97 471
Medical specialists	34.87%	1 089 784	32.32%	1 074 222
Hospitals	45.35%	1 417 247	47.21%	1 568 771
Medicines	10.55%	329 814	11.62%	386 185
Optical	0.24%	7 386	0.20%	6 490
Dentistry	0.30%	9 278	0.29%	9 536
Paramedical services	4.33%	135 159	4.26%	141 731
Physiotherapy	1.30%	40 775	1.16%	38 576
Associated health services	0.01%	274	0.01%	273
Total	100.00%	3 124 891	100.00%	3 323 255

Distribution of principal members across options at year-end

Option name	2022		2021	
		Membership		Membership
Maxima Plus	1.33%	835	1.41%	968
Maxima Exec	4.43%	2 782	4.53%	3 116
FlexiFed1	27.94%	17 563	27.78%	19 112
FlexiFed1 Elect	5.87%	3 691	5.26%	3 618
FlexiFed2	6.98%	4 390	6.95%	4 781
FlexiFed2 Grid	6.62%	4 161	6.22%	4 276
FlexiFed2 Elect	0.65%	410	0.62%	426
FlexiFed3	15.42%	9 696	16.03%	11 027
FlexiFed3 Grid	3.69%	2 321	2.97%	2 045
FlexiFed3 Elect	0.68%	425	0.62%	430
FlexiFed4	18.44%	11 591	19.69%	13 548
FlexiFed4 Grid	2.28%	1 431	1.86%	1 282
FlexiFed4 Elect	0.80%	501	0.84%	580
MyFed	4.87%	3 062	5.22%	3 592
Total	100.00%	62 859	100.00%	68 801

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NOTES TO THE FINANCIAL STATEMENTS (continued)

20 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 2023 for these services is assumed to be at the 2022 Scheme Rate plus annual increases as determined by the Scheme.
- Prescribed Minimum Benefit (PMB). Since the legal challenge to the interpretation that PMB claims should be funded at invoice price was dismissed, it means that this remains a material risk to the Scheme. The Scheme has established GP and specialist networks in place, which should mitigate this risk to a large extent, but these do not cover all disciplines.
- Circular 25 of 2020 was released by the CMS on 26 March 2020 considering the 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 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.

However, the CMS also encouraged the use of telehealth consultations in this Circular, which is expected to run into 2023 and beyond as the innovation and utilisation of technology is expected to drive lower cost options which might positively impact medical scheme membership and attract younger members.

- Department of Health Circular on Vaccine (14 May 2021); details the billing amounts for medical scheme vaccines for the Pfizer and Johnson & Johnson vaccines. Facilities will bill the medical scheme R308.48 per dose for the Pfizer vaccine plus VAT. In the case of Johnson & Johnson, the medical scheme will be billed R286.96 plus VAT.

The cost of administering the vaccine for a health facility registered to vaccinate shall be R70 plus VAT per vaccination and cover for vaccine waste, including the confirmation of details on the EVDS, preparation of the vaccine, vaccination, counselling, and 15 minutes waiting period in the facility following vaccination. As per Circular 25 of 2020, the billing cost of the vaccine and the administration will be paid in full by medical schemes since this is a prescribed minimum benefit.

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. Apart from an implicit allowance for annual vaccination costs based on the Scheme's experience, no further allowance has been made for additional vaccine eligibility, utilisation and costs which may emerge in future years.

- National Health Insurance (NHI) and Medical Scheme Amendment Bills. A major source of uncertainty in the current legislative and market environment is the introduction of NHI, most recently with the latest iteration of the National Health Insurance Bill that was tabled in Parliament on 8 August 2019 where parliament called for written submissions between September and November 2019. Public hearings on the Bill were also held across different provinces by the Portfolio Committee on Health.

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 the 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 this is intended to be "comprehensive healthcare services".

NOTES TO THE FINANCIAL STATEMENTS *(continued)*20 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. The inquiry probed various segments of the private healthcare market to determine the factors that restrict competition in the private healthcare sector in South Africa. It is yet to be established exactly what the ultimate impact of the Inquiry findings will be, however, the final report suggests no immediate threat to the continued operation of medical schemes soon.
- **Covid-19 Global Pandemic** – Although Covid-19 has impacted the industry and the Scheme for about 3 years, there remains many uncertainties of the Covid-19 impact on claims going forward. The claim cost projections for 2023 were based on prior year's claims costs and adjusted for aspects such as tariff increases, ageing, utilisation increases, medical inflation and benefit changes. Claims for 2022 included Covid-19 related costs therefore, some Covid-19 costs are implicitly provisioned for in the 2023 projections.

These Covid-19 costs are primarily composed of Covid-19 hospital admission costs, as these have emerged as the primary cost drivers as the pandemic progressed. Pathology costs are the other significant cost. Out-of-Hospital Covid-19 treatment costs are also another key cost component, followed by cost of Covid-19 vaccinations.

Although there is already some implicit provision for these Covid-19 costs in the 2023 budget, the costs are subject to significant uncertainties. The extent of these costs depends on uncertain elements such as timing of subsequent Covid-19 waves, severity and transmissibility of new Covid-19 variants, future numbers of beneficiaries with natural immunity to Covid-19 due to prior infections and vaccinations, how long immunity will last, possible government lockdown measures, and considerations for non-Covid-19 claims utilisation in 2023. There may also be additional costs related to Covid-19 such as long-haul Covid-19 illness, costs of Covid-19 Booster shots or Covid-19 therapeutics.

Overall, since Covid-19 related costs have thus far been absorbed by the Scheme, and allowance has made in the 2023 budget and future projections, Covid-19 costs are not expected to threaten the going concern status of the Scheme in the immediate future.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*20 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 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 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.

21 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 can fund its day-to-day operations.

Except for 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)

21 Financial risk management (continued)

2022	Note	Up to 1 month R'000	1 - 3 months R'000	4 - 12 months R'000	Total R'000
Liquidity analysis					
Assets					
Non-current assets					
Available-for-sale investments	2	-	1 334 212	-	1 334 212
Current assets		628 085	-	-	628 085
Trade and other receivables	3	310 298	-	-	310 298
Cash and cash equivalents	4	317 787	-	-	317 787
Total assets		628 085	1 334 212	-	1 962 297
Liabilities					
Current liabilities					
Outstanding risk claims provision	5	114 937	42 765	37 414	195 116
PMSA liability	6	119 339	-	-	119 339
Trade and other payables	7	110 052	-	-	110 052
Total liabilities		344 328	42 765	37 414	424 507

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NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Financial risk management (continued)

2021	Note	Up to 1 month R'000	1 - 3 months R'000	4 - 12 months R'000	Total R'000
Liquidity analysis					
Assets					
Non-current assets					
Available-for-sale investments	2	-	1 353 882	-	1 353 882
			1 353 882	-	1 353 882
Current assets					
Trade and other receivables	3	774 879	-	-	774 879
Cash and cash equivalents	4	321 074	-	-	321 074
		453 805	-	-	453 805
Total assets		774 879	1 353 882	-	2 128 761
Liabilities					
Current liabilities					
Outstanding risk claims provision	5	369 940	84 504	50 900	505 344
PMSA liability	6	120 273	84 504	50 900	255 677
Trade and other payables	7	135 194	-	-	135 194
		114 473	-	-	114 473
Total liabilities		369 940	84 504	50 900	505 344

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NOTES TO THE FINANCIAL STATEMENTS (continued)

21 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:

	2022 R'000	2021 R'000
Available-for-sale investments	1 334 212	1 353 882
Cash and cash equivalents	317 787	453 805
Trade and other receivables	310 298	321 074
Total	1 962 297	2 128 761

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. 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 monthly 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)

21 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 3,56% (2021: 4.20%) 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.

	2022 R'000	2022 R'000	2021 R'000	2021 R'000
The age analysis of trade and other receivables at the reporting date was:	Trade and other receivables	Impairment	Trade and other receivables	Impairment
Not past due not impaired	304 982	-	318 478	-
Past due 1-30 days	10 483	(5 167)	7 393	(4 797)
Past due 31-60 days	1 473	(1 473)	2 170	(2 170)
Past due 61-90 days	1 943	(1 943)	1 166	(1 166)
More than 90 days	30 745	(30 745)	38 247	(38 247)
Note 3	349 626	(39 328)	367 454	(46 380)

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Financial risk management (continued)**Market risk management**

Market risk is the risk that changes in market prices, such as interest rates and equity prices that 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	2022		2021	
	R'000		R'000	
Cash: Medical Scheme assets	317 787	19.24%	453 805	25.10%
Unlisted debentures	14 718	0.89%	12 980	0.72%
Listed equities	657 144	39.78%	712 320	39.40%
Listed fixed interest bonds	598 228	36.21%	550 917	30.48%
Listed investment property funds	64 122	3.88%	77 665	4.30%
Total	1 651 999	100.00%	1 807 687	100.00%

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 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)

21 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)

21. 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.

2022	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	-	-	598 228	735 984	1 334 212
Trade and other receivables	3	-	-	-	126 038	126 038
Trade and other payables	7	-	-	-	(66 105)	(66 105)
Cash and cash equivalents	4	237 742	80 045	-	-	317 787
Total		237 742	80 045	598 228	795 917	1 711 932
2021						
Available-for-sale investments	2	-	-	550 917	802 965	1 353 882
Trade and other receivables	3	-	-	-	133 693	133 693
Trade and other payables	7	-	-	-	(76 413)	(76 413)
Cash and cash equivalents	4	373 760	80 045	-	-	453 805
Total		373 760	80 045	550 917	860 245	1 864 967

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Financial risk management (continued)**Asset managers and mandates****Allocation as at 31 December 2022**

Asset Manager	Segregated Mandate	Benchmark	R'000	
Nedbank Ltd current account	*Cash		22 675	1.37%
Old Mutual Wealth Trust Co (Pty) Ltd	*Cash		90 335	5.47%
Fairtree Asset Management (Pty) Ltd	Absolute return	CPI+3.5%	158 908	9.62%
Sanlam Investment Management (Pty) Ltd	Absolute return	CPI+3.5%	453 444	27.45%
Sanlam Multi Manager (Pty) Ltd	Absolute return	CPI+3.5%	128 167	7.76%
Taquanta Asset Management (Pty) Ltd	Enhanced cash	SteFi+1%	341 689	20.68%
Truffle Asset Management (Pty) Ltd	Absolute return	CPI+5%	456 781	27.65%
Total			1 651 999	100.00%

Allocation as at 31 December 2021

Asset Manager	Segregated Mandate	Benchmark	R'000	%
Nedbank Ltd current account	*Cash		72 879	4.03%
Old Mutual Wealth Trust Co (Pty) Ltd	*Cash		75 388	4.17%
Fairtree Asset Management (Pty) Ltd	Absolute return	CPI+3.5%	138 665	7.67%
Sanlam Investment Management (Pty) Ltd	Absolute return	CPI+3.5%	461 598	25.54%
Sanlam Multi Manager (Pty) Ltd	Absolute return	CPI+3.5%	120 443	6.66%
Taquanta Asset Management (Pty) Ltd	Enhanced cash	SteFi+1%	445 017	24.62%
Truffle Asset Management (Pty) Ltd	Absolute return	CPI+5%	493 697	27.31%
Total			1 807 687	100.00%

* Includes the Scheme's current accounts

Market performance to 31 December 2022

Performance to	3 Months	1 Year	3 Years (%pa)	5 Years (%pa)
	%	%	%	%
All Share Index	15.16%	3.58%	12.72%	7.98%
All Bond Index	5.68%	4.36%	7.09%	7.85%
STeFi	1.58%	5.21%	4.80%	5.78%
CPI	1.04%	7.20%	5.38%	4.92%
Resource 20	17.56%	6.21%	19.41%	20.23%
Industrial 25	16.99%	-3.36%	11.17%	4.61%
Financial 15	13.92%	19.21%	4.11%	1.78%
Financial Industrial 30	16.75%	0.29%	9.64%	4.16%
Top 40	17.11%	4.21%	13.74%	8.69%

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NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Financial risk management (continued)

The Scheme's performance to 31 December 2022

Performance to	Market value R'000	% Portfolio	3 Months %	1 Year %	3 Years %	5 Years %
Nedbank Ltd current account	22 675	1.37%	0.50%	2.00%	3.10%	3.85%
Old Mutual Wealth Trust Co (Pty) Ltd	90 335	5.47%	0.94%	3.69%	5.04%	5.79%
Fairtree Asset Management (Pty) Ltd	158 908	9.62%	16.38%	15.45%	0.00%	0.00%
Sanlam Investment Management (Pty) Ltd	453 444	27.45%	3.98%	12.76%	9.96%	8.69%
Sanlam Multi Manager (Pty) Ltd	128 167	7.76%	4.79%	7.31%	0.00%	0.00%
Taquanta Asset Management (Pty) Ltd	341 689	20.68%	1.79%	8.31%	9.43%	10.67%
Truffle Asset Management (Pty) Ltd	456 781	27.65%	4.82%	22.95%	16.58%	11.67%
Total	1 651 999	100.00%				

Consolidated benchmark CPI +3.5%

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NOTES TO THE FINANCIAL STATEMENTS (continued)

21 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 R321m (2021: R458m) if the investment performance had been higher by 1% during 2022 as compared to the market investment performance. A 1% increase in the investment return at the reporting date would have increased cash by R3.02m (2021: R4.37m) 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
2022	2%	7.21%	323 828	6 041
	1%	6.21%	320 808	3 021
	0%	5.21%	317 787	-
	% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
2021	2%	5.81%	462 548	8 743
	1%	4.81%	458 176	4 371
	0%	3.81%	453 805	-

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NOTES TO THE FINANCIAL STATEMENTS (continued)

21 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 R791m (2021: R851m) if the investment performance had been higher by 10% during 2022 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 R69.63m (2021: R61.13m) 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
2022	20%	23.58%	860 534	139 268
	10%	13.58%	790 900	69 634
	0%	3.58%	721 266	-
	% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
2021	20%	49.23%	912 245	122 260
	10%	39.23%	851 115	61 130
	0%	29.23%	789 985	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 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 R619m (2021: R569m) if the investment performance had been higher by 1% during 2022 as compared to the market investment performance. A 1% increase in the investment return at the reporting date would have increased bond investments by R5.87m (2021: R5.20m) 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
2022	5%	10.36%	648 188	35 242
	1%	5.36%	618 820	5 874
	0%	4.36%	612 946	-
	% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
2021	5%	14.40%	595 109	31 212
	1%	9.40%	569 099	5 202
	0%	8.40%	563 897	-

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)

21 Financial risk management (continued)

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

Asset class <small>*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.</small>	Available-for-sale financial assets	Loans and receivables	Liabilities measured at amortised cost	Non-insurance receivables and payables	Insurance receivables and payables	Total carrying amount	Fair Value	
							Level 1 R'000	Level 2 R'000
2022								
Assets measured at fair value								
Investments	1 334 212	-	-	-	-	1 334 212	1 319 494	14 718
- Unlisted debentures	14 718	-	-	-	-	14 718	-	14 718
- Listed equities	657 144	-	-	-	-	657 144	657 144	-
- Listed fixed interest bonds	598 228	-	-	-	-	598 228	598 228	-
- Listed investment property funds	64 122	-	-	-	-	64 122	64 122	-
Assets not measured at fair value		443 825	-	-	184 260	628 085		
Cash and cash equivalents	-	317 787	-	-	-	317 787		
Trade and other receivables *	-	126 038	-	-	184 260	310 298		
Liabilities not measured at fair value								
PMSA liability	-	-	(66 105)	(119 339)	(239 063)	(424 507)		
Outstanding risk claims provision	-	-	-	(119 339)	-	(119 339)		
Trade and other payables *	-	-	(66 105)	-	(43 947)	(110 052)		
	1 334 212	443 825	(66 105)	(119 339)	(54 803)	1 537 790		

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NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Financial risk management (continued)

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

Asset class <small>*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.</small>	Available-for-sale financial assets	Loans and receivables	Liabilities measured at amortised cost	Non-insurance receivables and payables	Insurance receivables and payables	Total carrying amount	Fair Value	
							Level 1	Level 2
							R'000	R'000
2021								
Assets measured at fair value								
Investments	1 353 882	-	-	-	-	1 353 882	1 340 902	12 980
- Unlisted debentures	12 980	-	-	-	-	12 980	-	12 980
- Listed equities	712 320	-	-	-	-	712 320	712 320	-
- Listed fixed interest bonds	550 917	-	-	-	-	550 917	550 917	-
- Listed investment property funds	77 665	-	-	-	-	77 665	77 665	-
Assets not measured at fair value	-	587 498	-	-	187 381	774 879		
Cash and cash equivalents	-	453 805	-	-	-	453 805		
Trade and other receivables *	-	133 693	-	-	187 381	321 074		
Liabilities not measured at fair value			(76 413)	(135 194)	(293 737)	(505 344)		
PMSA trust liability	-	-	-	(135 194)	-	(135 194)		
Outstanding risk claims provision	-	-	-	-	(255 677)	(255 677)		
Trade and other payables *	-	-	(76 413)	-	(38 060)	(114 473)		
	1 353 882	587 498	(76 413)	(135 194)	(106 356)	1 623 417		

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NOTES TO THE FINANCIAL STATEMENTS (continued)

21 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 102](#).

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	<p>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.</p> <p>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.</p>

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 43.39% (2021: 42.76%). The Board believes that this cover is appropriate for the Scheme's needs.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

22 **Contingent assets and liabilities**

Contingent assets

There are currently 402 open (2021: 290) road accident cases totalling R46.6m (2021: R36.3m) since 2017 managed by Medscheme. Batsumi Claims Management Solutions (Pty) Ltd will continue to winddown the 148 (2021: 177) outstanding road accident claims totalling R33.7m (2021: R35.4m) 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.