

MEDSHIELD MEDICAL SCHEME

Registration Number: 1140

ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2020

MEDSHIELD MEDICAL SCHEME

ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2020

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

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MEDSHIELD MEDICAL SCHEME

STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

for the year ended 31 December 2020

The Board of Trustees of the Scheme ("the Trustees") are responsible for the preparation, integrity, and fair presentation of the Annual Financial Statements of Medshield Medical Scheme ("the Scheme"/"Medshield"). The Annual Financial Statements presented on pages 32 - 92 comprise the Statement of Financial Position at 31 December 2020, and the Statement of Comprehensive Income, Changes in Funds and Reserves and Cashflows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information. The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Medical Schemes Act, 131 of 1998 as amended, and include amounts based on judgements and estimates made by management.

The Trustees consider that in preparing the Annual Financial Statements of the Scheme, management has used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. Furthermore International Financial Reporting Standards (IFRS) and Council for Medical Schemes (CMS) guidelines have been followed.

The Trustees are satisfied that the information contained in the Annual Financial Statements fairly presents the results of operations and cash flows for the year and the financial position of the Scheme at year end.

The Trustees are also responsible for the accuracy of information included in the Annual Financial Statements and its consistency with the Annual Financial Statements. The Trustees are responsible for ensuring that accounting records are kept. The accounting records disclose, with reasonable accuracy, the financial position of the Scheme which enables the Trustees to ensure that the annual financial statements comply with the relevant legislation.

The Scheme operates in a self-administered environment which is well documented and has been reviewed regularly by the Scheme's internal auditors during the financial period. The Scheme maintains a risk register to assess and mitigate its risks. The internal control procedures are designed to provide reasonable assurance that assets are safeguarded and the risks facing the Scheme are being appropriately managed.

The going concern basis has been adopted in preparing the Financial Statements. The Trustees have no reason to believe that the Scheme will not be a going concern in the foreseeable future, which assumption is supported by forecasts and available cash resources.

The Scheme's external auditors, PricewaterhouseCoopers Inc., are responsible for auditing the Annual Financial Statements in terms of International Standards on Auditing and their report is presented on pages 28 -31. PricewaterhouseCoopers Inc. have unrestricted access to all financial records and related data, including minutes of all Board of Trustees, Board Committees and Executive Committee meetings. The Principal Officer and management believe that all representations made to the independent auditors during their audit were accurate and appropriate.

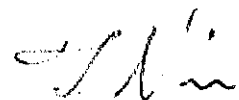
The Annual Financial Statements were approved by the Board on 22 April 2021 and are signed on its behalf by:



Mr. Andries Labuscagne
Chairperson : Board of Trustees



Mr. Mammule Chidi
Deputy Chairperson : Board of
Trustees



Mr. Thoneshan Naidoo
Principal Officer

22 April 2021

MEDSHIELD MEDICAL SCHEME

STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES

for the year ended 31 December 2020

Medshield is committed to the principles and practices of fairness, transparency, independence, responsibility, integrity and accountability in all dealings with its stakeholders. The Board conducts all its affairs according to Medshield values and within a recognised governance framework. The affairs of the Scheme are managed in accordance with the rules of the Scheme and also adhere to all aspects of governance as required by the Medical Schemes Act 131 of 1998, as amended. The Board is also committed to the principles of the Code of Corporate Practices and Conduct as set out in the King Report on Governance.

Board of Trustees

The Board consists of member representatives who are nominated and elected by the members of the Scheme, and co-opted members who are appointed by the Board for their skills and expertise. The Board meets at least once a quarter during the year and monitors the performance of the Scheme. The Board's performance and that of its Committees are appraised annually against agreed terms of reference. The Scheme is self-administered and all administration matters are under the direct control of the Board of Trustees. The Board has oversight over a range of key issues and ensures that discussions of policy, strategy and performance are critical, informed and constructive.

Risk Management and Internal Controls

Risks are identified, placed on a risk register and regularly reviewed by management. The risks are rated, based on likelihood of materialising and the likely impact on the Scheme. Specific strategies and/or mitigation processes are set in place to deal with these risks.

The Scheme maintains internal controls and systems designed to provide reasonable assurance about the integrity and reliability of the Annual Financial Statements and to adequately safeguard, verify and maintain accountability for its assets. Such controls are based on established policies and procedures and are implemented by qualified personnel with appropriate segregation of duties. The Board also concludes performance agreements annually with management to evaluate their performance and compliance with existing control measures.

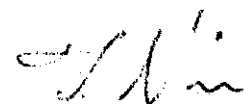
The Board has appointed an Audit, Risk and Compliance Committee, whose duty it is to assess the risk register and mitigating plans and actions implemented to mitigate the risks. The Audit, Risk and Compliance Committee reports to the Board independently and is also responsible for oversight of internal controls, compliance, fraud prevention and ICT governance.



Mr. Andries Labuscagne
Chairperson : Board of Trustees



Mr. Mammule Chidi
Deputy Chairperson : Board of
Trustees



Mr. Thoneshan Naidoo
Principal Officer

22 April 2021

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2020

1 Review of 2020

1.1 Brief Synopsis of the year under review

The Board is responsible for governing the Scheme in accordance with the Medical Schemes Act 131 of 1998 ("the Act") and the Scheme rules. The purpose of the Board Report is to inform the Scheme Members and Stakeholders on how the Board has overseen the management of the Scheme.

As a not-for-profit entity, the Scheme continues to place members at the heart of its business by protecting them from financial burdens when they face routine or even catastrophic healthcare events, and by guiding them to the best quality healthcare outcomes.

The year 2020 will go down in history as a uniquely challenging year characterised by the global crisis brought about by the Covid-19 pandemic. The Scheme, like many businesses and individuals, found itself in uncharted territory and had to adapt to the many business and operational challenges brought on by the pandemic, while also ensuring that the Scheme serviced its members' healthcare needs. Amongst the many challenges which the Scheme was faced with included the following:

- a) Health and wellness of members and Medshield staff;
- b) Economic impact of Covid-19 on the economy and retention of members;
- c) Ensuring business continuity;
- d) Unlocking Covid-19 benefits for members.

All of these factors have had a major impact on the industry, from which the Scheme was not immune.

At the end of the financial year, the Scheme unfortunately recorded a decline in membership compared to the previous financial year, and ended the year with 75 285 (2019: 79 469) principal lives and 150 975 (2019: 158 996) beneficiaries. Amidst the pandemic, it is worth highlighting that due to the significant reduction in healthcare expenditure, the Scheme recorded a R396.1m net healthcare result and a surplus after net investment income of R475.5m, which is more than R490m better than budget. As a result, the Scheme's solvency ratio increased to 52.6% (2019: 39.6%), which is now twice the statutory requirement of 25%. The improved solvency ratio reflects the Scheme's strong claims paying ability, which was confirmed by the Global Credit Rating Agency, who have for the 14th consecutive year awarded the Scheme a AA- credit rating. This is the third highest rating in the industry.

Other key matters for the year included the election of new Trustees, and a CMS investigation, which are elaborated on in the following sections.

1.2 Election of new Trustees

The Scheme holds elections every three years at its Annual General Meeting ("AGM"). The elected Trustees serve on the Board to oversee the governance of the Scheme. This year's elective AGM was initially planned to be held on the 30th June 2020, however due to Covid-19 restrictions, and in line with ensuring the safety of our members, the AGM, with permission from the Council for Medical Schemes, was postponed to the 30th September 2020. As it was unknown if the pandemic would subside by September, the Scheme prudently applied to the Council for Medical Schemes ("CMS"), and was granted permission to hold the AGM virtually.

The AGM was overseen by PwC in its capacity as the Independent Electoral Body and by BDO as the Electoral Auditor. The outcome of the election saw four new Trustees being elected to the Board. Namely:

1. Mr. Andries Labuscagne
2. Dr. Zaheera Soni
3. Ms. Elizabeth Botha
4. Mr. Trevor Wiblin

At a Board meeting held on the 20th October 2020, Mr. Andries Labuscagne was elected as the new Chair of the Board, and Mr. Mammule Chidi was elected as the new Vice-Chair.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2020

1 Review of 2020 (continued)

1.2 Election of new Trustees (continued)

The new Board wishes to thank the previous Trustees for their service and contribution to the Scheme:

1. Mr. Charles Akeroyd
2. Mr. Seth Makhani
3. Dr. Laetitia Erasmus
4. Ms. Lethabo Sekele
5. Mrs. Antea Fourie Van Zyl

1.3 CMS Investigation and related Directives

The Council for Medical Schemes, in conjunction with the Scheme, conducted a forensic investigation during 2020 into the affairs of the Scheme. The investigation related to the 2018 financial year and prior. Arising from the report, CMS issued the Scheme with a number of directives, which included setting up an Independent Committee to afford those implicated in the investigation an opportunity to present their cases. The Scheme is addressing the CMS directives and at the reporting date, the Independent Committee was still engaging with the issues.

2 Strategic Direction of the Scheme

The governance structures of the Scheme continued to function efficiently and effectively during 2020, with the Board and various Committees continuously monitoring and evaluating the work that is carried out by the Executive Management Team. In November 2020, the Board held a strategic session with Executive Management to review the Scheme's progress against the strategic plan for the period 2018-2020, covering the following six strategic pillars:

1. Membership growth;
2. High performance culture;
3. Organisational efficiency;
4. Service excellence;
5. Financial sustainability and governance;
6. Efficient clinical risk management.

Considerable success was achieved in 5 of the 6 areas, as discussed below.

2.1 Membership Growth

2.1.1 New Business Development

In the tough economic environment, exacerbated by the Covid-19 pandemic, the Scheme did not meet its membership target and ended the year with 75 285 principal members, compared with 79 469 in 2019. During the year, the Scheme received 17 710 member terminations, which was partially offset by the 13 526 new members joining the Scheme. The net effect is that the Scheme recorded a decline in membership of 4 184 members (8 021 beneficiaries), which is a -5.3% (-5.0% beneficiaries) decline. While this is concerning, the Scheme is encouraged that the average age of new lives joining was 39.40, which is lower than the existing average age of members, bringing the average age of principal members down to 50.68 in 2020. Year on year, this means the Scheme demographics are improving and was part of the better financial performance of the Scheme.

36 of 46 strategic outputs under this pillar were completed successfully. The Principal Officer (PO) and the Executive Management Team will continue implementing strategic objectives identified for sustainable membership growth.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2020

2 Strategic Direction of the Scheme (continued)

2.1.2 Marketing and Communication

The Scheme continued to strengthen the brand through key partnerships with Kaizer Chiefs, and launched a new marketing partnership in February with Pirates Running Club for the Pirates21k race - Joburg's toughest race - Powered by Medshield. Due to the uncertainty caused by Covid-19, certain marketing initiatives were put on hold, including the hosting of corporate wellness days. With many members working from home, the Scheme pivoted its marketing strategy towards a greater focus on digital channels and social media. The #MedshieldMovement campaign was launched during early stages of lockdown, allowing members to exercise from the comfort of their home by following a number of fitness videos performed by personal trainers. The Scheme played an important role in the fight against Covid-19 through a number of awareness campaigns about the virus and related safety protocols, as well as donating R500 000 (five hundred thousand Rand) to the Solidarity Fund and making a further donation of a Hyundai H1 panel van to the NICD.

40 of 42 strategic outputs under this pillar were successfully completed.

2.2 High Performance Culture

As a self-administered scheme, Medshield employs more than 260 people to service its members. With the safety of its employees in mind, the Scheme implemented a work from home strategy by limiting the number of staff in the office to approximately 70, which was cautiously increased as the level of lockdown was relaxed.

The new working from home reality posed new challenges on internet connectivity and training over virtual channels, which the Scheme adapted to. Amidst these issues, the Scheme managed to be accredited as a Top Employer 2021 by the Top Employer Institute, recognising the Scheme's investment in people practices.

46 of 49 strategic outputs under this pillar were successfully completed.

2.3 Organisational Efficiency

This strategic pillar is the basis on which the Scheme makes business decisions and reports on its activities. During the year, the Scheme invested in its IT infrastructure, improved IT security, and made enhancements to the digital tools to ensure business continuity and enable simpler and easier servicing for members. Technology has a major role to play in the healthcare sector and the Scheme is looking to enable more digital tools and service channels for its members, including virtual consultations through the Medshield Member Application.

17 of 18 strategic outputs under this pillar were successfully completed.

2.4 Service Excellence

In 2020, the Scheme received its self-administration accreditation from CMS. In addition, the Scheme was evaluated by SABS and was proudly recertified for ISO 9001:2015 compliance and is one of only a handful of Schemes in the industry with this accreditation. Furthermore, the Scheme launched a number of innovations to improve access to members to simplify their engagement with the Scheme and to help them navigate the South African healthcare system. Treating Customer Fairly campaign was one of these initiatives.

In the interest of member safety, the Scheme decided to close the regional walk-in centres to the public. Members were encouraged to engage with Medshield through safer channels such as telephonic and digital mediums. The Scheme is continuously evaluating the situation and will re-open the regional walk-in centres when it is safe to do so.

67 of 68 strategic outputs under this pillar were successfully completed.

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BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2020

2 Strategic Direction of the Scheme (continued)

2.5 Financial Sustainability & Governance

The objective of this strategic pillar is to control non-healthcare expenditure and ensure that members funds are used prudently. The Chief Financial Officer oversees all financial matters, including financial transactions, investments and reporting.

In 2020, the Scheme budgeted for a deficit of R21m, and mainly due to the significant reduction in healthcare expenditure arising from the Covid-19 impact, the Scheme recorded a surplus of R475m (R496m better than budget). This improved financial performance, together with the Scheme's high solvency ratio (52.6%), gives assurance to the members that the Scheme remains financially sustainable.

The non-healthcare expenditure (administration expenses and broker related services) was R38m better than budget, and as a proportion of gross contribution income (GCI) decreased marginally to 9.8% for the year under review (2019: 10.0%). This is below the industry benchmark of around 10.0% for open schemes.

Managing the non-healthcare expenditure continues to be a focus area for the Scheme. The Principal Officer and Executive Management remain committed to pursuing further efficiencies in managing non-healthcare expenditure on an ongoing basis, while ensuring that members' expectations continue to be met.

The Scheme has upgraded its systems relating to the procure-to-pay cycle, including adding a small accounting system to create an end-to-end solution. The internal control framework, including segregation of duties, has been strengthened due to the upgrade of systems. The control environment around procurement, payroll and financial accounting and statutory reporting continues to be strengthened and is further supported by complementary monitoring controls. During the year, the Board further strengthened governance by revising a number of policies.

25 of 25 strategic outputs under this pillar were successfully completed.

2.6 Efficient Clinical Risk Management

The claims loss ratio for the year under review (healthcare expenditure as a percentage of net contributions) decreased to 79.1% (2019: 89.9%). While the reduction in healthcare expenditure due to Covid-19 was a significant factor in the improved results, the Scheme's managed care initiatives and better tariff negotiations contributed to the overall performance. Hospital, medical specialists and medicine claims continue to be the most significant segments of healthcare expenditure, representing for 72.8% [Hospital: 37.1%; Specialists: 22.7%; Medicine: 13.0%] during 2020.

During the course of the year, the Scheme launched a number of Covid-19 related benefits, including telephonic and video consultations, medicine courier services, funding of Covid-19 testing, free trauma counselling and a free Smartcare WhatsApp Doctor service.

31 of 34 strategic outputs under this pillar were successfully completed.

3 Looking forward

We expect that many of the challenges faced in 2020 will continue to be experienced in 2021, namely:

- a) A constrained economic environment, further placing strain on membership affordability, membership growth and retention;
- b) Continued impact of Covid-19 on the country and securing access to vaccines, and;
- c) Introduction of new regulations.

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BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2020

3 Looking forward (continued)

In November 2020, the Board held a strategic session with Executive Management to set the strategy for the 2021-2023 period. Key elements of the strategy include:

- a) Driving a digital strategy through the introduction of new digital servicing channels and the use of AI tools to service members as well as enabling of virtual healthcare consultations via the mobile member app.
- b) Developing compelling value propositions, which include:
 - Launching a new digital plan (MediCurve) in 2021;
 - Introducing a low cost benefit option (LCBO) for uninsured members, regulations permitting, and;
 - Leveraging partnerships with Kaizer Chiefs and Medshield ambassadors to elevate the brand value of Medshield
- c) Working closely with regulators, including:
 - On the funding and rollout of the vaccine for members;
 - Engaging on new regulations such as NHI, the MSA Amendment Bill and the S59 enquiry, and;
 - Unlocking BBBEE as a competitive advantage for the Scheme.
- d) Drive membership growth:
 - Organically through achieving FSP accreditation and the creation of a direct sales channel;
 - Inorganically through potential amalgamations.
- e) Lowering the cost of healthcare for our members by:
 - Insourcing of managed care services which is the Scheme's significant strategic project for the next few years;
 - Insourcing will enable the Scheme to achieve significant savings which will be passed onto members, and;
 - Utilising Scheme reserves to subsidise annual contribution increases.
- f) Strengthening governance through:
 - Enhancing policies and improving processes;
 - Developing our skills, and;
 - Continuing to strengthen systems of internal controls;
 - Revising the delegation of authority.

The Board places trust in Executive Management to overcome the upcoming challenges and continue to deliver value to our members.

4 Sustainability and Going Concern

The Board of Trustees remains confident in the financial position of the Scheme, which as noted above, has been recognised by Global Credit Ratings Agency awarding the Scheme a AA- rating, with a stable outlook. The Scheme's solvency ratio at the end of the financial year was 52.6%, well above the statutory minimum of 25% as prescribed by the Act. This is an increase from 39.6% that was achieved in 2019. The impact of Covid-19 on the going concern assumption was assessed; refer to Note 31 in the Annual Financial Statements.

5 Corporate Governance and Compliance

Internal reporting is validated through the Audit, Risk & Compliance Committee via its terms of reference.

The Scheme is committed to the principles and practice of fairness, independence, openness, integrity and accountability in all dealings with its stakeholders. The Scheme endeavours to adhere to all aspects of governance as required by the Medical Schemes Act 131 of 1998. The Scheme governance structure consists of the following areas:

- Strategic oversight: Board of Trustees
- Monitoring: Board Committees
- Functional oversight: Executive Management

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2020

5 Corporate Governance and Compliance (continued)

The Board of Trustees is committed to the principles of the Code of Corporate Practices and Conduct as set out in the King Reports on Governance, and carries out its responsibility to continuously review the effectiveness and relevance of the governance structures of the Scheme. The Board of Trustees has, as one of its tasks, to conduct annual evaluations of the governance structures.

The Committees outlined below monitor the Scheme's operations on behalf of the Board and report quarterly or on an ad-hoc basis if necessary. The Committees do not assume the operational functions of Executive Management. Operations remain the responsibility of the Principal Officer and the Executive Committee.

• **Audit, Risk & Compliance Committee:** Established in accordance with the provisions of the Act, as amended. The primary responsibility of the Committee is to assist the Board in carrying out its duties relating to the Scheme's accounting policies, internal control systems, risk & compliance management and financial reporting practices. The Committee consists of four Independent Members and two Trustees.

Other Committees that supported the Board with overseeing monitoring are:

- Finance, Investments and Operations Committee;
- Human Capital and Remuneration Committee;
- Marketing, Product Review and Pricing Committee;
- Clinical Governance Committee;
- Legal Governance and Disputes Committee.

The Board continues to attend to various legal matters that were reported on in the previous financial year. A progress report on all legal and contractual matters is contained in section 6 below.

The Board of Trustees continues to monitor progress on these matters.

6 Legal and Contractual Matters

The Board of Trustees and the Principal Officer are committed to ensuring that all efforts are made to conclude all outstanding legal matters expeditiously, whilst protecting the rights and interests of the Scheme and its members. The Board of Trustees and the Principal Officer are currently attending to the following legal matters of material significance:

a. Medshield/Alumni Trading

The Scheme was successful in setting aside the trademark sale agreement with Alumni Trading. Alumni has been ordered to repay the R10m with costs. A liquidation order was subsequently granted due to non-payment of the award in the prescribed period. An insolvency inquiry initiated indicated that the two majority shareholders of Alumni have left the country. Legal proceedings are in the process of being instituted with the view to recovering money paid by Alumni to them in the amount of R972 230.

b. Medshield/Calabash Health Solution ("Calabash") & Neels Barendrecht & 4 others ("Barendrecht")

This is an action instituted by Medshield in terms of Section 424 of the Companies Act against the former directors of Calabash in order to hold them personally liable for the debts of Calabash in the amount of R46.2m.

c. Medshield/Yarona Healthcare Network

Medshield proved claims against Calabash Health Solutions. However, Medshield's claims against the insolvent estate of Calabash were expunged by the Master of the High Court after HMI lodged objections, and the Master directed Medshield to prove its claims by way of action.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2020

6 Legal and Contractual Matters (continued)

c. Medshield/Yarona Healthcare Network (continued)

An ex-parte application by HMI for leave to defend the Calabash action and for leave to institute counter-claims against Medshield on behalf of Calabash was granted on 19th December 2012. This order was subsequently rescinded by the High Court on 24th January 2014, the full bench of the High Court on 10th June 2016, as well as the Supreme Court of Appeal on 24th November 2017. The Scheme recovered the legal costs incurred.

7 Conclusion

The Board is satisfied that the Scheme strategy continues to be implemented successfully and that the objectives of the Scheme are being met. These objectives include keeping proper governance and compliance structures in place to ensure that the Scheme continues to operate in a financially sustainable manner and continues to meet and service the needs and expectations of its members.

The Scheme had a challenging year with regard to membership, but it has ended the year more financially sound than it started, and continues to be able to meet its obligations. The Scheme is set to continue as a going concern for the foreseeable future. The Board is confident that under the leadership of the Principal Officer, the Scheme will continue to be sustainable and achieve its strategic objectives.

8 Description of the Scheme

8.1 Terms of Registration

Registration number: 1140

The Scheme is a not-for-profit open medical scheme registered in terms of the Medical Schemes Act No. 131 of 1998, as amended.

8.2 Benefit options

The Scheme offers 9 benefit options to employers and members of the public, namely :

- MediValue Prime
- MediValue Compact (*efficiency discount option*)
- MediBonus
- MediPlus Prime
- MediPlus Compact (*efficiency discount option*)
- MediPhila
- MediSaver (*includes the provision of a Personal Medical Savings Account*)
- MediCore
- Premium Plus (*includes the provision of a Personal Medical Savings Account*)

8.3 Personal Members' Savings Accounts (PMSA's)

Personal medical savings constitute trust monies and are managed on the members' behalf in terms of the Scheme rules. Savings contributions are refundable upon a member enrolling in another benefit option without a personal medical savings account or another option in another medical scheme without a personal medical savings account, or in the event that a member does not enrol in another medical scheme, in which case the accumulated unutilised personal medical savings account balance is transferred to the member in terms of the Medical Schemes Act.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2020

8.3 Personal Members' Savings Accounts (PMSA's) (continued)

Following the Constitutional Court ruling in the Genesis case, the Scheme has changed the Scheme rules with regards to the treatment of savings monies. Effective 1 January 2018, the Scheme rules state that the savings monies shall be kept in a Scheme account as stipulated in the Medical Schemes Act and can be utilised to fund the general business activities of the Scheme. Interest earned will be credited to the Scheme and conversely, it will not be credited to members' savings accounts.

9 Risk Management

9.1 Risk Management Plan

Strategic risks are identified and placed on a risk register. The risks are rated, based on likelihood and impact on the Scheme and specific strategies or processes are put in place to deal with these risks. Medshield's executive management team updates the risk management plan on an ongoing basis to ensure that it is in line with the current risks of the Scheme.

9.2 Risk Transfer Arrangements

The Scheme had the following risk transfer arrangement during the year under review:

Netcare 911 Emergency Medical Services*

* Netcare provides services which include emergency telephonic assistance via health-on-line, emergency response by road or air ambulance to the scene of an accident, as well as transfer of the beneficiary by road or air to the most appropriate medical facility.

9.3 Managed Care

The Scheme had the following accredited managed care arrangements during the year under review:

Domain	Service Provider
Hospital Benefit Management	- Medscheme Health Risk Solutions ("MHRS"), a division of Medscheme Holdings (Pty) Ltd.
Pharmacy Benefit Management	- Mediscor PBM (Pty) Ltd. (1 June 2019).
Dental Benefit Management	- Dental Information Systems (Pty) Ltd ("DENIS").
HIV / AIDS Disease Management	- LifeSense Disease Management (Pty) Ltd.
Diabetes Management	- Centre for Diabetes and Endocrinology (Pty) Ltd. (1 April 2019).
Oncology Benefit and Network Management	- Independent Clinical Oncology Network (Pty) Ltd. ("ICON").

The Scheme had the following arrangements with other service providers during the year under review:

Domain	Service Provider
Optical Benefit Management	- Isoleso Optics (Pty) Ltd.
GP Network Management	- The IPA Foundation.
HIV / AIDS Medicine Benefit Management	- Pharmacy Direct (Pty) Ltd. (Designated Pharmacy Provider) .
Radiology and Pathology Claims Auditing	- Verirad (Pty) Ltd.

9.4 Prescribed Minimum Benefits (PMBs)

The Scheme has a defined process in place whereby it analyses, verifies and adjudicates PMB claims prior to payment being effected in order to, as far as possible, prevent fraudulent and incorrectly coded claims from being paid. This process was reviewed in consultation with the Council for Medical Schemes (CMS) and was in line with the Scheme Rules and the PMB regulatory provisions as set out by CMS.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT for the year ended 31 December 2020

10 Management

10.1 Board of Trustees

Attendance to Board of Trustees meetings is included below:

Member Elected Trustees	Date of Appointment	Area of Expertise	21 Jan 2020	03 Mar 2020	31 Mar 2020	22 Apr 2020	26 May 2020	10 Jun 2020	05 Aug 2020	20 Aug 2020	07 Sep 2020	20 Oct 2020	06 Nov 2020	19 Nov 2020
Mr. Charles Richard Akeroyd (Chairperson) (1)	24 June 2017	Finance	Y	Y	Y	Y	Y	Y	Y	Y	Y	N/A	N/A	N/A
Mr. Seth Makhani (2)	24 June 2017	Finance	Y	Y	Y	Y	Y	Y	Y	Y	Y	N/A	N/A	N/A
Ms. Lethabo Sekele (3)	24 June 2017	Strategic Management	Y	Y	Y	Y	Y	Y	Y	Y	Y	N/A	N/A	N/A
Dr. Laetitia Erasmus (4)	24 June 2017	Medical	Y	Y	Y	Y	Y	Y	Y	Y	Y	N/A	N/A	N/A
Mr. Andries Labuscagne (Chairperson)	30 September 2020	Finance, Legal & Management	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Y	Y	Y
Ms. Elizabeth Botha	30 September 2020	Finance & Human Capital	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Y	Y	Y
Dr. Zaheera Soni	30 September 2020	Medical	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Y	Y	Y
Mr. Trevor Wiblin	30 September 2020	Finance & Management	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Y	Y	Y
Co-opted Trustees (appointed not elected)	Date of Appointment	Area of Expertise	22 Jan 2020	03 Mar 2020	31 Mar 2020	22 Apr 2020	26 May 2020	10 Jun 2020	05 Aug 2020	20 Aug 2020	02 Sep 2020	20 Oct 2020	06 Nov 2020	19 Nov 2020
Mrs. Antea Fourie Van Zyl (5)	30 November 2017	Finance	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Mr Leon de Lange	12 February 2018	Legal	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Advocate Mammule Chidi	12 February 2018	Legal	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Dr. Jalaluddin Soni	12 February 2018	Medical	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

(1) Mr. Charles Richard Akeroyd's term as Chairman ended on 30th September 2020.

(2) Mr. Seth Makhani's term as Vice-Chairman ended on 30th September 2020.

(3) Ms. Lethabo Sekele's term ended on 30th September 2020.

(4) Dr. Laetitia Erasmus's term ended on 30th September 2020.

(5) Mrs. Antea Fourie van Zyl's term ended 29th November 2020.

Scheme Secretariat

The Scheme has established a Scheme Secretariat responsible for providing support and advice in relation to good governance to the Scheme and its committees.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2020

10 Management (continued)

10.2 Principal Officer

Mr. Thonshan Naidoo was appointed to the office of Principal Officer by the Board of Trustees. His appointment was effective 1 October 2018.

10.3 The Registered Office of the Scheme is:

288 Kent Avenue	PO Box 4346
Ferndale	Randburg
Randburg	2125
2194	

Country of registration and domicile: South Africa

CMS Accreditation number: 1140

10.4 Investment Fund Managers during the year:

Sanlam Investment Managers (Pty) Ltd	
55 Willie Van Schoor Avenue	Private Bag X8
Bellville	Tyger Valley
7530	7536

Financial Services Provider number: 579

Allan Gray Life Limited	
1 Silo Square	PO Box 51318
V & A Waterfront	Cape Town
Cape Town	8002
8001	

Financial Services Provider number: 6663

Argon Asset Management (Pty) Ltd	
1st Floor Colinton House, The Oval	PO Box 23254
1 Oakdale Road	Claremont
Newlands	7735
Cape Town	
7700	

Financial Services Provider number: 835

Prudential Portfolio Managers (South Africa) (Pty) Ltd	
5th Floor Protea Place	PO Box 44813
40 Dreyer Street	Claremont
Claremont	7735
Cape Town	
7700	

Financial Services Provider number: 45199

Stanlib Collective Investments (RF) (Pty) Ltd	
17 Melrose Boulevard	PO Box 202
Melrose Arch	Melrose Arch
2196	2076

10.5 Investment Consultants during the year:

Investec Wealth & Management - a division of Investec Securities (Pty) Ltd	
100 Grayston Drive	PO Box 78055
Sandown	Sandton
Sandton	2146
2196	

MEDSHIELD MEDICAL SCHEME

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for the year ended 31 December 2020

10.6 Actuaries:

Insight Actuaries & Consultants
(Pty) Ltd

Ground Floor, Block J	Private Bag X17
Central Park	Halfway House
400, 16th Road	1685
Midrand	
1682	

10.7 Internal Auditors:

BDO Advisory Services (Pty) Ltd	Private Bag X5
1st Floor, Wanderers Office Park	Northlands
52 Corlett Drive	2116
Illovo	
2196	

BDO were appointed the Scheme's internal auditors, effective 1 January 2019.

10.8 External Auditors:

PricewaterhouseCoopers Inc.	Private Bag X36
4 Lisbon Lane	Sunninghill
Waterfall City	2157
Jukskei View	
2090	

11 Investment Strategy of the Scheme

The Scheme's long term investments are spread across four portfolio managers. These portfolio managers complement each other in terms of the structure and nature of instruments held. The Scheme is invested in bonds, equities and cash instruments as well as linked insurance policies and pooled funds in diversified portfolios with a target return of CPI+4% over a three year rolling period, consistent with the Scheme's investment strategy. This policy is reviewed annually, taking into consideration market conditions and compliance with the Medical Schemes Act. The Scheme also uses Stanlib Collective Investments to maximise the short term funds with the view of maintaining liquidity and to be able to meet the day-to-day cash requirements of the Scheme.

12 Committees

12.1 Audit, Risk & Compliance Committee

The Audit, Risk & Compliance Committee is mandated by the Scheme by means of Board approved terms of reference as to its membership, authority and duties. The Committee consists of five members, three of whom are independent and not officers of the Scheme (including the Chairperson).

During the course of the year, the Committee undertook the following functions under the terms of reference mandated by the Board of Trustees which stipulate the following:

- To assist the Board of Trustees 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;
- To facilitate and promote communication and liaison regarding the matters referred to above or a related matter, between the Board, Principal Officer and Executive Management of the Scheme;

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2020

12.1 Audit, Risk & Compliance Committee (Cont.)

- To recommend the introduction of measures which the Committee believes may enhance the credibility and objectivity of financial statements and reports concerning the Scheme and
- To advise on any matter referred to the committee by the Board of Trustees.
- Oversight over the internal and external auditors, including their appointments, fees, plans and performances.
- Oversight over the risk management, governance and compliance processes.

The Audit, Risk and Compliance Committee comprised:

- Independent: J. John (Chairperson) (Appointed 01 January 2020 and resigned effective 30 June 2020);
- Independent: J. Maboja (Chairperson) (Appointed, effective 01 July 2020);
- Independent: L. Mothae (Appointed, effective 06 August 2020);
- Independent: M. Matlwa (Appointed, effective 06 August 2020);
- Independent: R. Gajjar (Appointed, effective 01 July 2019);
- Independent: N. Mbhele (Appointed 01 January 2017 and term ended 30 June 2020);
- Trustee: A. Fourie-van Zyl (Appointed 12 July 2017 and term ended 29 November 2020);
- Trustee: S. Makhani (Appointed 12 July 2017 and term ended 30 September 2020);
- Trustee: T. Wiblin (Appointed, effective 20 October 2020).

Audit, Risk & Compliance Committee meeting attendance:

Member	24 Mar 2020	03 Apr 2020	15 Apr 2020	17 Aug 2020	03 Sep 2020	29 Oct 2020
a. J. John (Chairperson)	Y	Y	Y	N/A	N/A	N/A
b. J. Maboja (Chairperson)	N/A	N/A	N/A	Y	Y	Y
c. L. Mothae	N/A	N/A	N/A	Y	Y	Y
d. M. Matlwa	N/A	N/A	N/A	Y	Y	Y
e. R. Gajjar	Y	Y	Y	Y	Y	Y
f. N. Mbhele	Y	Y	Y	N/A	N/A	N/A
g. A. Fourie-van Zyl	Y	Y	Y	Y	Y	Y
h. S. Makhani	Y	Y	Y	Y	Y	N/A
i. T. Wiblin	N/A	N/A	N/A	N/A	N/A	Y

The Principal Officer, Executive: Operations, Chief Financial Officer and Audit, Risk & Compliance Manager of the Scheme, as well as the Internal and External Auditors, are invited to attend all Audit, Risk and Compliance Committee meetings of the Scheme and have unrestricted access to the Chairperson of the committee.

12.2 Clinical Governance Committee

The Clinical Governance Committee is a Committee of the Board, accountable to the Board for ensuring that there are effective governance systems to safeguard and improve the quality and safety of clinical care provided to the members.

The Clinical Governance Committee comprised:

- Trustee: Dr.L. Erasmus (Chairperson) (Appointed 12 July 2017 and term ended 30 September 2020);
- Trustee: Dr.Z. Soni (Appointed, effective 20 October 2020);
- Trustee: Dr.J. Soni (Appointed, effective 14 March 2018);
- Trustee: L. de Lange (Appointed, effective 14 March 2018);
- Independent: J. Moseithi (Appointed, effective 01 January 2019);
- Independent: Dr. A. Good (Chairperson) (Appointed, effective 14 March 2019).

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for the year ended 31 December 2020

12.2 Clinical Governance Committee (Continued)

Clinical Governance Committee meeting attendance:

Member	18 Feb 2020	20 Feb 2020	21 May 2020*	04 Aug 2020	06 Aug 2020*	27 Oct 2020
a. Dr. L. Erasmus (Chairperson)	Y	Y	Y	Y	Y	N/A
b. Dr. Z. Soni	N/A	N/A	N/A	N/A	N/A	Y
c. Dr. J. Soni	Y	Y	Y	Y	Y	Y
d. L. de Lange	Y	Y	Y	Y	Y	Y
e. J. Mosetlhi	Y	Y	Y	Y	Y	Y
f. Dr. A. Good (Chairperson)	Y	Y	Y	Y	Y	Y

* The meetings of 21 May 2020 and 06 August 2020 were joint Marketing and Clinical Governance meetings.

12.3 Human Resources & Remuneration Committee

The Human Resources & Remuneration Committee is a Committee of the Board of Trustees (BoT), accountable to the BoT, and authorised to take such steps as are in its opinion appropriate and reasonable to give effect to the Scheme's remuneration policies (including trustee remuneration) and strategies determined by the BoT, subject to such conditions as may be imposed by the BoT from time to time.

The Human Capital & Remuneration Committee comprised:

- a. Independent: P. Marais (Chairperson) (Appointed, effective 01 January 2017);
- b. Trustee: L. Sekele (Appointed 12 July 2017 and term ended 30 September 2020);
- c. Trustee: Adv. M. Chidi (Appointed, effective 14 March 2018);
- d. Trustee: Ms. E Botha (Appointed, effective 20 October 2020);
- e. Independent: M. Melville (Appointed, effective 14 March 2019).

HR & Remuneration Committee meeting attendance:

Member	10 Mar 2020	21 Apr 2020	29 Apr 2020	12 May 2020	02 Jun 2020	07 Jul 2020
a. P. Marais (Chairperson)	Y	Y	Y	Y	Y	Y
e. M. Melville	Y	Y	Y	Y	Y	Y
c. Adv. M. Chidi	Y	Y	Y	Y	Y	Y
d. E. Botha	N/A	N/A	N/A	N/A	N/A	N/A
b. L. Sekele	N	Y	Y	Y	N	Y

HR & Remuneration Committee meeting attendance (continued):

Member	13 Jul 2020	27 Jul 2020	24 Aug 2020	05 Nov 2020	09 Nov 2020
a. P. Marais (Chairperson)	Y	Y	Y	Y	Y
e. M. Melville	Y	Y	Y	Y	Y
c. Adv. M. Chidi	Y	Y	Y	Y	Y
d. E. Botha	N/A	N/A	N/A	Y	Y
b. L. Sekele	Y	Y	Y	N/A	N/A

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12.4 Marketing, Product Review & Pricing Committee

The Marketing, Product Review & Pricing Committee is a Committee of the Board of Trustees (BoT), tasked with assisting the BoT in discharging its duties specifically on issues related to product design, pricing, marketing and new business.

The Marketing, Product Review & Pricing Committee comprised:

- Trustee: L. Sekele (Chairperson) (Appointed 12 July 2017 and term ended 30 September 2020);
- Trustee: E. Botha (Chairperson) (Appointed, effective 20 October 2020);
- Trustee: Adv. M. Chidi (Appointed, effective 14 March 2018);
- Independent: M Hulme (Appointed, effective 26 October 2017).

Marketing, Product Review & Pricing Committee meeting attendance:

Member	11 Feb 2020	14 May 2020	21 May 2020*	06 Aug 2020*	13 Aug 2020	28 Oct 2020
a. L. Sekele (Chairperson)	Y	Y	Y	Y	Y	N/A
b. E. Botha (Chairperson)	N/A	N/A	N/A	N/A	N/A	Y
c. Adv. M. Chidi	Y	Y	Y	Y	Y	Y
d. M. Hulme	Y	Y	Y	Y	Y	Y

* The meetings of the 21 May 2020 and 06 August 2020 were joint Marketing & Clinical Governance meetings.

12.5 Finance, Investment & Operations Committee

The Finance, Investments & Operations Committee is a Committee of the Board of Trustees (BoT), accountable to the BoT, tasked with assisting the BoT in fulfilling its oversight responsibility in matters relating to the Scheme's finances, investments and operations, including operational arrangements with third party service providers.

Finance, Investment & Operations Committee comprised:

- Trustee: A. Fourie-van Zyl (Chairperson) (Appointed 12 July 2020 and term ended 29 November 2020);
- Trustee: S. Makhani (Appointed 12 July 2017 and term ended 30 September 2020);
- Trustee: T. Wiblin (Appointed, effective 20 October 2020);
- Trustee: Dr. J. Soni (Appointed, effective 14 March 2018);
- Independent: L. Makaula (Appointed, effective 01 February 2018).

Finance, Investment & Operations Committee meeting attendance:

Member	26 Feb 2020	27 May 2020	12 Aug 2020	12 Nov 2020
a. A. Fourie-van Zyl (Chairperson)	Y	Y	Y	Y
b. S. Makhani	Y	Y	Y	N/A
c. T. Wiblin	N/A	N/A	N/A	Y
d. Dr. J. Soni	Y	Y	Y	Y
e. L. Makaula	Y	Y	Y	Y

12.6 Legal, Governance & Disputes Committee

The Legal, Governance & Disputes Committee is a Committee of the Board of Trustees (BoT) and has amongst its purposes to serve as an adjudication body over cases that would have been referred to it by the Executive Committee or its Committee tasked with receiving and adjudicating complaints, grievances and disputes brought to its attention by members of the Scheme, the Council for Medical Schemes (CMS) or any other person or body aggrieved in its dealings with the Scheme or its service providers.

The Disputes Committee comprised:

- Independent: J. Moseithi (Chairperson) (Appointed, effective 01 February 2018);
- Independent: M. Arnold (Appointed, effective 01 January 2020);
- Trustee: Dr. Z. Soni (Appointed, effective 20 October 2020);
- Trustee: Dr. L. Erasmus (Appointed 22 February 2015 and term ended 30 September 2020);
- Trustee: L. de Lange (Appointed, effective 14 March 2018).

Disputes Committee meeting attendance:

Member	04 Feb 2020	28 May 2020	14 Jul 2020	04 Nov 2020
a. J. Moseithi (Chairperson)	Y	Y	Y	Y
b. M. Arnold	Y	Y	Y	Y
c. Dr. Z. Soni	N/A	N/A	N/A	Y
d. Dr. L. Erasmus	Y	Y	Y	N/A
e. L. de Lange	Y	Y	Y	Y

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BOARD OF TRUSTEES' REPORT for the year ended 31 December 2020

13 Quantitative review of activities

2020	MediPlus Prime	MediPlus Compact	MediValue Prime	MediValue Compact	MediBonus	MediPhila	MediCore	MediSave!	Premium Plus	Total
Number of members at end of accounting year (n)	19 301	450	30 496	3 099	2 826	8 078	4 064	5 107	1 864	75 285
Average number of members for the accounting year (n)	20 139	445	32 165	2 539	2 965	7 400	4 233	5 312	1 948	77 146
Pensioner ratio (beneficiaries >65 years)	10.2%	19.2%	4.6%	4.7%	22.5%	2.6%	26.6%	24.1%	38.9%	9.7%
Number of beneficiaries	41 174	998	60 001	6 913	5 038	15 928	8 280	9 565	3 078	150 975
Average age of members	55.93	60.00	44.63	42.55	62.9	39.41	65.55	63.38	69.67	50.68
Average net contributions per member per month	5 279	4 705	2 924	2 998	7 969	2 041	4 475	4 420	6 783	3 946
Average net contributions per beneficiary per month	2 450	2 104	1 503	1 336	4 435	1 037	2 182	2 343	4 082	1 971
Average net claims incurred per member per month	4 111	6 332	2 308	2 550	6 441	1 420	3 676	3 350	5 962	3 123
Average net claims incurred per beneficiary per month	1 908	2 832	1 187	1 136	3 585	722	1 792	1 776	3 588	1 560
Average non-healthcare expenses per member per month	396	396	396	396	396	396	396	396	396	396
Average non-healthcare expenses per beneficiary per month	198	198	198	198	198	198	198	198	198	198
Average accumulated funds per member at 31 December	25 442	25 442	25 442	25 442	25 442	25 442	25 442	25 442	25 442	25 442
Beneficiaries per member at 31 December	1.13	1.22	0.97	1.23	0.78	0.97	1.04	0.87	0.65	1.01
Net claims as percentage of net contribution	77.9%	134.6%	78.9%	85.1%	80.8%	69.6%	82.1%	75.8%	87.9%	79.1%
Non-healthcare expenses as percentage of net contributions	7.8%	8.7%	13.4%	13.1%	5.2%	18.1%	8.3%	8.7%	5.4%	10.0%

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13 Quantitative review of activities

2019	MediPlus	MediValue	MediBonus	MediPhila	MediCore	MediSaver	Premium Plus	Total
Number of members at end of accounting year (n)	21 728	35 449	3 331	6 601	4 509	5 721	2 130	79 469
Average number of members for the accounting year (n)	22 533	35 982	3 471	5 415	4 673	5 923	2 214	80 211
Pensioner ratio (beneficiaries >65 years)	9.11%	4.10%	20.76%	1.98%	25.03%	22.56%	36.89%	9.32%
Number of beneficiaries	47 584	68 450	6 093	12 904	9 408	10 957	3 600	158 996
Average age of members	54.89	43.43	61.85	38.47	64.69	62.41	69.06	50.19
Average net contributions per member per month	4 793	2 705	7 161	1 848	4 048	4 057	6 126	3 699
Average net contributions per beneficiary per month	2 170	1 408	3 880	948	1 926	2 106	3 601	1 844
Average net claims incurred per member per month	4 164	2 348	7 210	1 366	4 215	3 641	6 660	3 325
Average net claims incurred per beneficiary per month	1 885	1 221	3 907	701	2 006	1 890	3 915	1 658
Average non-healthcare expenses per member per month	379	379	379	379	379	379	379	379
Average non-healthcare expenses per beneficiary per month	189	189	189	189	189	189	189	189
Average accumulated funds per member at 31 December	18 803	18 803	18 803	18 803	18 803	18 803	18 803	18 803
Beneficiaries per member at 31 December	1.19	0.93	0.83	0.95	1.09	0.92	0.69	1.01
Net claims as percentage of net contribution	88%	87%	103%	72%	105%	90%	110%	91%
Non-healthcare expenses as percentage of net contributions	8%	14%	6%	20%	9%	9%	6%	10%

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2020

14 Result of Operations

The results of the Scheme are set out in the Annual Financial Statements. The Scheme is in a sound financial position and during the year there were no changes to operations in terms of the raising and collection of contributions and the assessment and payment of claims.

15 Accumulated Funds Ratio (Solvency Ratio)

	2020 R'000	2019 R'000
Total members' funds per the statement of financial position	2 019 761	1 553 947
Less:	(52 566)	(109 952)
Investment reserves	(56 984)	(45 678)
Change in accounting policy - IFRS 16	-	105
Unrealised losses / (gains) on financial assets fair valued through profit & loss	5 081	(63 716)
Accounts held in escrow	(663)	(663)
Accumulated funds per Regulation 30	1 967 195	1 443 994
Gross Contributions	3 740 545	3 650 242
Accumulated funds ratio (including savings contributions)	52.6%	39.6%
Accumulated funds ratio (excluding savings contributions)	55.2%	40.6%

16.1 Reserves

Movements in the reserves are set out in the statement of changes in funds and reserves in the Annual Financial Statements. The increase in the solvency ratio year-on-year is mainly attributable to Covid-19 and better management of non-healthcare expenditure by the Scheme in 2020. Furthermore, the Scheme utilised reserves on a planned basis to reduce the impact of contribution increases.

16.2 Outstanding Claims

Movements in the outstanding claims provision are set out in Note 7 to the Annual Financial Statements. There have been no unusual movements that should be brought to the attention of the members of the Scheme.

17 Actuarial Services

The Scheme's actuaries have been consulted and their inputs relied upon in the determination of the contribution and benefit levels and in the calculation of the outstanding claims provision of the Scheme ("IBNR").

18 Non Compliance with the Medical Schemes Act and Regulations

18.1 Contributions Not Received Within The Time Stipulated By The Act

Nature of the non-compliance

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 becomes due.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2020

18 Non Compliance with Medical Schemes Act and Regulations (Continued)

18.1 Contributions Not Received Within The Time Stipulated By The Act (Continued)

Impact

Risk of paying claims where no contributions were received or possible bad debts as a result of not collecting the contributions on time.

Cause of the non-compliance

There were some instances noted where the contributions were not received within three days of becoming due.

Corrective course of action

Strict credit control procedures are in place to prevent loss to the Scheme. Members and employers are continuously reminded to submit payment and non-payment will result in the suspension of the account and no claims are paid until the account is brought up to date.

18.2 Loss Making Options

Nature of the non-compliance

Section 33(2) of the Act states: The Registrar shall not approve any benefit option under this section unless the Council is satisfied that such benefit option -

- a. includes the prescribed benefits;*
- b. shall be self-supporting in terms of membership and financial performance;*
- c. is financially sound; and*
- d. will not jeopardise the financial soundness of any existing benefit option within the medical scheme.*

Two of the Scheme's options incurred a net healthcare result deficit.

Impact

Benefit options will not be self-sustainable.

Cause of the non-compliance

The Scheme introduced two efficiency discount options in 2020, namely MediPlus Compact & MediValue Compact to offer greater choice to Scheme members and to attract membership. On both these options, the Scheme did not increase the 2019 contribution rates, leading to both the MediPlus Compact and MediValue Compact options incurring net healthcare deficits.

Corrective course of action

The Scheme, in conjunction with the Scheme's actuaries, constantly reviews the performance of these options, and after taking all factors into consideration, contributions and benefits are adjusted accordingly on an annual basis in the normal course of business. Furthermore, the Scheme undertook a review in early 2019 to specifically address Scheme sustainability and a significant part of this work will encompass loss-making options and effective management of healthcare expenditure. The Scheme experienced improved performance in 2020, mainly driven by Covid-19 healthcare savings, which had a positive impact on loss-making options. The Scheme improved from 4 loss-making options to 2 loss-making options and the Scheme intends to achieve option self-sustainability in the medium term as per the Scheme's 5 year sustainability plan.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2020

18 Non Compliance with Medical Schemes Act and Regulations (Continued)

18.3 Direct Or Indirect Investments In Other Medical Scheme Administration Companies & Participating Employers

Nature of the non-compliance

Section 35(8) of the Act states – A Medical Scheme shall not invest any of its assets in the business of any other medical scheme or administrator or employer who participates in the medical scheme.

Impact

Direct equity investment holdings in holding companies of medical scheme administrators.

Cause of the non-compliance

This is as a result of the mandate given to the asset managers by the Scheme, who have the discretion to invest in any approved instrument, in terms of Regulation 30.

Corrective course of action

The Scheme has obtained exemption from the Council for Medical Schemes for this non-compliance. This exemption expires on 30th November 2022.

18.4 Claims payments made in excess of 30 days since receipt thereof

Nature of the non-compliance

Section 59(2) of the Act states : 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.

Impact

Members might be charged interest on the late payment of accounts by the healthcare professionals.

Cause of the non-compliance

These instances mainly arise due to queries on the accounts submitted and further investigation is required before claims are processed. In these exceptional cases claims were paid later than 30 days after date of submission. However, there are two main process issues that will arise every year; firstly, PMB claim reversals and corrections will always breach 30 days because of the nature of the claim and secondly, there are technical system issues which result in development. This leads to claims being put on hold until the development is implemented, leading to certain claims breaching the 30 day payment requirement.

Corrective course of action

The Scheme continuously encourages members and providers to submit the required supporting documentation as early as possible. The Scheme is continuously implementing new controls to manage the payments of claims in excess of 30 days.

18.5 Encumbered Assets

Nature of the non-compliance

Section 35(6) of the Act states: A Medical Scheme shall not encumber its assets.

Impact

Cash and cash equivalents are encumbered as guarantees in respect of the deposits made to the South African Post Office and Framework.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2020

18 Non Compliance with Medical Schemes Act and Regulations (Continued)

18.5 Encumbered Assets (Continued)

Cause of the non-compliance

The deposits were required by the South African Post Office and in order to conduct business with them and by Framework in terms of their standard contract.

Corrective course of action

The Scheme has obtained exemption from the Council for Medical Schemes for this non-compliance. This exemption expires on 14 July 2021.

18.6 Netcare 911 capitation agreement for the provision of emergency medical services

Nature of the non-compliance

Regulation 7 defines a Designated Service Provider ("DSP") and Prescribed Minimum Benefits ("PMBs"):

Designated Service Provider means a health care provider or a group of providers selected by the medical scheme concerned as the provider or providers to provide its members' diagnosis, treatment and care in respect of one or more prescribed benefit conditions;

Prescribed Minimum Benefit (PMB) condition means a condition contemplated in the Diagnosis and Treatment Pairs listed in Annexure A or any emergency medical condition;

Section 15A(1) If a medical scheme provides benefits to its beneficiaries by means of a managed health care arrangement with another person -

- a. the terms of that arrangement must be clearly set out in a written contract between parties;*
- b. with effect from 1 January 2004, such arrangement must be with a person who has been granted accreditation as a managed health care organisation by the Council; and*
- c. such arrangement must not absolve a medical scheme from its responsibility towards its members if any other party to the arrangement is in default with regard to the provisions of any service in terms of such agreement.*

Impact

On or about June 2015, the Scheme entered into a contract with Netcare 911 for the provision of emergency medical services based on a capitated arrangement and in terms of the agreement Netcare was appointed as a DSP of the Scheme. CMS issued a ruling on 22 December 2017 whereby the agreement is sanctioned (not valid) by regulation 8 and 15F of the Act. The contract expired on 31 December 2017. The Scheme was contracted with Netcare 911 on a monthly basis during 2020, while a new arrangement was being formulated.

Cause of the non-compliance

- a) In terms of the agreement, the Scheme required the call centre of Netcare 911 to be utilised for authorisations, which entails provisions of non-PMB's and therefore, the Scheme could not appoint Netcare 911 as a DSP;
- b) As the agreement is a capitation agreement, regulation 15F prohibits the Scheme from entering into a capitation agreement unless the transfer of the risk is to an accredited managed health care organisation and Netcare 911 is not accredited.

Corrective course of action

The Scheme acknowledged the Registrar's ruling and informed CMS that it would abide by it. The Scheme engaged with the CMS with regard to the matter and a way forward is being determined on how the Scheme will implement business process changes to ensure compliance with the Act going forward.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2020

18 Non Compliance with Medical Schemes Act and Regulations (Continued)

18.7 Donations

Nature of the non-compliance

Section 30(1)(a) of the Act states – A Medical Scheme may in its rules make provision for donations to any hospital, clinic, nursing home, maternity home, infirmary or home for aged persons of all or some of its beneficiaries;

Impact

The Scheme played an important role in the fight against Covid-19. As part of this effort, the Scheme donated R500 000 (five hundred thousand Rand) to the Solidarity Fund and a further donation of a Hyundai H1 panel van, with a book value of R168 000 (one hundred and sixty eight thousand Rand) to the NICD.

Cause of the non-compliance

The donations made were to organisations that are not compliant with the Act.

Corrective course of action

The Scheme will ensure that all donations going forward comply with S30(1)(a) of the Act.

18.8 Commission paid to brokers on partial contributions received

Nature of the non-compliance

Regulation 28(5) of the Act states that: Payment by a medical scheme to a broker in terms of sub-regulation (2) shall be made on a monthly basis and upon receipt by the scheme of the relevant monthly contribution in respect of that member.

Circular 70 of 2019 – Revised Administrator Accreditation Standards – Version 6, standard reference 8.1.1, clarifies that the commission payable to brokers must only be calculated on contributions received in full. The standard was effective from 1 January 2020.

Impact

The Scheme paid commission of approximately R193 000 (one hundred and ninety three thousand Rand) to about 200 brokers on part-paid contributions received by the Scheme, from January to July 2020.

Cause of the non-compliance

The Scheme has historically interpreted the regulation of the Act as permitting payment of commission to brokers upon receipt of contributions, whether the contribution was received in full or not.

Corrective course of action

The Scheme implemented the revised standard, effective 1st August 2020.

18.9 Contingent fee based arrangements

Nature of the non-compliance

Section 26(5) of the Act states – No payment in whatever form shall be made by a medical scheme directly or indirectly to any person as a dividend, rebate or bonus of any kind whatsoever.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2020

18 Non Compliance with Medical Schemes Act and Regulations (Continued)

18.9 *Contingent fee based arrangements (continued)*

Impact

The Scheme has paid Medscheme Holdings (Pty) Ltd recovery fees of R1 303 825 (one million, three hundred and three thousand, eight hundred and twenty five Rand) since inception of the contract, commencing 1 January 2019.

Cause of the non-compliance

The Scheme received a letter from the Council of Medical Schemes on 2 July 2020, where they have made certain enquiries and concluded that clause 3 of Annexure "B" of the contract which, provides for additional payments to Medscheme by Medshield in the following terms, contravenes S26(5).

Clause 3 of Annexure "B" of the contract provides for additional payments in the following terms: "*In addition, Medshield shall pay Medscheme a quarterly incentive fee of 25% excluding VAT for all successful recoveries performed on behalf of the Scheme.*"

The Council goes on to state "It is our view that clause 3 payments constitute a form of a bonus".

Corrective course of action

The Scheme has obtained legal opinion and is appealing the Council's ruling.

18.10 *Personal medical savings accounts utilised to offset contributions*

Nature of the non-compliance

Regulation 10(3) of the Act states – Personal medical aid savings accounts prohibit the medical savings funds to be used to offset contributions unless to settle the scheme upon termination of membership.

Impact

The Scheme utilised approximately R3 905 717 (three million, nine hundred and five thousand, seven hundred and seventeen Rand) from about 95 members to offset contributions, from their personal medical savings account.

Cause of the non-compliance

The Scheme utilised members' personal medical savings account balances to offset contributions, from 1st July 2020.

Corrective course of action

The Scheme applied for exemption in terms of Circular 28 of 2020, which was granted on 8th June 2020.

18.11 *Contributions dealt with by the Service Provider*

Nature of the non-compliance

Section 26 (6) of the Act states that "No person other than an employer shall receive, hold or in any manner deal with the subscription or contribution which is payable to a medical scheme by or on behalf of a member of such medical scheme"

Impact

Q Link deals with contributions payable to the Scheme which contravenes the Act as they are not an employer of any members of the Scheme. Q Link collected R2 148 786 (two million, one hundred and forty eight thousand and seven hundred and eighty six Rand) in the 2020 financial year on behalf of the Scheme.

MEDSHIELD MEDICAL SCHEME

BOARD OF TRUSTEES' REPORT

for the year ended 31 December 2020

18 Non Compliance with Medical Schemes Act and Regulations (Continued)

18.11 Contributions dealt with by the Service Provider (continued)

Cause of the non-compliance

The Scheme is contracted with Q Link Holdings (Pty) Ltd to provide electronic collection services with regards to contributions due from the Department of Defence employer group. An amount of R6 739 was paid to Q Link for their services in the 2020 financial year.

Corrective course of action

The Scheme will apply for an exemption from the Council of Medical Schemes in 2021 for this service.

19 Events After Balance Sheet Date

No events have occurred subsequent to the financial year end that materially affected the Annual Financial Statements that the Board of Trustees believe should be brought to the attention of the members of the Scheme.

20 Investments in and Loans to Employers of Members of the Scheme and to Other Related Parties

The Scheme holds no investments in, nor has it made loans to, members or other related parties.

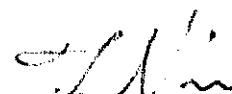


Mr. Andries Labuscagne
Chairperson : Board of Trustees

22 April 2021



Mr. Mammule Chidi
Deputy Chairperson : Board of
Trustees



Mr. Thoneshan Naidoo
Principal Officer



Independent Auditor's Report

To the Members of Medshield Medical Scheme

Report on the financial statements

Opinion

We have audited the financial statements of Medshield Medical Scheme (the Scheme), set out on pages 32 to 92, which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, the statement of changes in funds and reserves and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

Independence

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

Key Audit Matters

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

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Private Bag X36, Sunninghill, 2157, South Africa
T: +27 (0) 11 797 4000, F: +27 (0) 11 209 5800, www.pwc.co.za*

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

Key audit matter	How our audit addressed the key audit matter
<p>The outstanding claims provision of R175,000,000 at year-end as described in Note 7 to the financial statements, is a provision recognised for the estimated cost of healthcare benefits that have been incurred prior to year-end but that were only reported to the Scheme after year-end.</p> <p>The outstanding claims provision is calculated by the Scheme’s actuaries which is reviewed by management and the Audit, Risk and Compliance Committee and recommended to the Board of Trustees for approval.</p> <p>The Scheme’s actuaries use an actuarial method, based on the Scheme’s actual claim development patterns throughout the year, to project the year-end provision. This method applies a combination of the Basic Chain Ladder (“BCL”) and the Bornheutter Ferguson (“BF”) methods. The claim service date, processing date and amount are used to derive claim development patterns. These historical patterns are then used to estimate the outstanding claims provision.</p> <p>We identified this to be a matter of most significance to the audit because of the uncertainty in the projected claims pattern. A change in the projected claims pattern can cause a material change to the amount of the provision.</p>	<p>We obtained an understanding from the Scheme’s actuaries regarding the process to calculate the outstanding claims provision, which included the design and implementation of controls within the process. The actuarial method applied by the Scheme is one that is generally applied within the medical scheme industry.</p> <p>We obtained the actual claims data from the member administration system covering the year ended 31 December 2020. The actual claims data includes the impact of COVID-19 and therefore the impact has been taken into account in the claims patterns in the outstanding claims provision.</p> <p>For a sample of actual claims received by the Scheme in the 31 December 2020 financial year, we tested the accuracy of the service and process dates. No material inconsistencies were noted.</p> <p>We substantively tested a sample of claims against the relevant Scheme rules and assessed completeness of the claims data.</p> <p>The claims data that was included in the Scheme’s actuarial method was agreed to the above actual claims data with no material inconsistencies noted.</p> <p>To assess the reasonableness of the Scheme actuaries’ estimation process, we compared the actual claim results in the current year to the prior year provision. Based on our assessment, the estimation process was considered reasonable.</p> <p>Our internal actuarial experts independently calculated the Scheme’s outstanding claims provision, taking into account the claims data tested above. We compared our results with that of the Scheme and found the amounts to approximate each other.</p>

Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with

the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the Scheme's Trustees for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Scheme's trustees.
- Conclude on the appropriateness of the Scheme's trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Report on Other Legal and Regulatory Requirements

Non-compliance with the Medical Schemes Act of South Africa

As required by the Council for Medical Schemes, we report 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 PricewaterhouseCoopers Inc. has been the auditor of Medshield Medical Scheme for 20 years.

The engagement partner, Clinton Mitchelson, has been responsible for Medshield Medical Scheme's audit for 2 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Clinton Mitchelson
Registered Auditor
Johannesburg, South Africa
30 April 2021

MEDSHIELD MEDICAL SCHEME

STATEMENT OF FINANCIAL POSITION

as at 31 December 2020

	Note	2020 R'000	2019 R'000
ASSETS			
Non-current assets		603 756	282 648
Property, plant and equipment	2	5 212	6 219
Right-of-use assets	3	17 346	35 556
Financial assets		581 198	240 873
- Fair value through other comprehensive income	4	581 198	240 873
Current assets		1 944 525	1 845 326
Financial assets		1 664 546	1 658 561
- Fair value through other comprehensive income	4	864 152	966 319
- Fair value through profit or loss	4	800 394	692 242
Trade and other receivables	5	31 772	29 572
Cash and cash equivalents	6	248 207	157 193
Total assets		2 548 281	2 127 974
FUNDS AND LIABILITIES			
Members' funds		2 019 761	1 553 947
Accumulated funds		1 962 777	1 508 269
Investment reserves		56 984	45 678
- Fair value through OCI reserve - debt		38 175	19 726
- Fair value through OCI reserve - equity		18 809	25 952
Non-current liabilities			
Lease liabilities	3	1 231	16 944
Current liabilities		527 289	557 083
Lease liabilities	3	19 841	20 525
Outstanding claims provision	7	175 000	200 000
Personal medical savings account trust liability	8	164 993	161 507
Trade and other payables	9	167 455	175 051
Total funds and liabilities		2 548 281	2 127 974

MEDSHIELD MEDICAL SCHEME

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2020

	Note	2020 R'000	2019 R'000
Risk contribution income	10	3 653 013	3 560 709
Relevant healthcare expenditure		(2 890 753)	(3 200 904)
Net claims incurred	11	(2 830 954)	(3 148 007)
Risk claims incurred		(2 840 103)	(3 158 478)
Third party claim recoveries		4 411	6 011
Hospital discounts		4 738	4 460
Accredited managed healthcare services	11	(59 782)	(59 335)
Net income on risk transfer arrangements	12	(17)	6 438
Risk transfer arrangement fees paid		(16 886)	(17 979)
Recoveries from risk transfer arrangements		16 869	24 417
Gross healthcare result		762 260	359 805
Broker service fees		(76 007)	(74 420)
Administration expenses	13	(286 901)	(287 165)
Net impairment losses on healthcare receivables	14	(3 234)	(3 161)
Net healthcare result		396 118	(4 941)
Net impairment losses on financial assets	26.1	(22 631)	-
Other income		153 286	141 553
Investment income	15	147 930	135 116
Sundry income	16	5 356	6 437
Fair value adjustments	4	(33 639)	2 454
Fair value adjustment on financial assets held at fair value through profit and loss		(68 797)	702
Realised gain on financial assets held at fair value through profit and loss		35 158	1 752
Other expenditure		(13 639)	(13 015)
Asset management fees		(13 639)	(13 015)
Finance Expense		(3 947)	(4 562)
Net surplus for the year		475 548	121 489
Other comprehensive income		18 449	2 096
<i>Items that may be reclassified to profit or loss:</i>			
Fair value adjustment for financial assets valued through OCI (debt instruments)	4	11 451	10 685
Net impairment losses on financial assets	26.1	22 631	-
Reclassification adjustment on realised gains for debt instruments	15	(15 633)	(8 589)
<i>Items that will not be reclassified to profit or loss:</i>		(7 143)	(20 342)
Fair value through OCI adjustment for equity investments	4	(7 143)	(20 342)
Realised fair value through OCI for equity instruments		(21 040)	32 867
Reclassification adjustment on realised gains for equity instruments		21 040	(32 867)
Total comprehensive income for the year		486 854	103 243

MEDSHIELD MEDICAL SCHEME

STATEMENT OF CASH FLOWS

for the year ended 31 December 2020

	Note	2020 R'000	2019 R'000 Restated
Cash flows from operating activities			
Net cash flows generated from operations	18	390 107	34 547
Interest on cash and cash equivalents	15	1 855	2 786
Cash flows from investing activities			
Acquisition of property, plant & equipment	2	(1 613)	(383)
Purchase of fair value through OCI financial assets	4	(1 114 266)	(452 829)
Proceeds on disposals of fair value through OCI financial assets	4	790 156	372 142
Dividends		26 058	26 845
Interest		20 488	13 714
Net cash flows utilised from investing activities		<u>(279 177)</u>	<u>(40 511)</u>
Cash flows from financing activities			
Capital lease payments		<u>(21 771)</u>	<u>(18 627)</u>
Net cash flows utilised in financing activities		<u>(21 771)</u>	<u>(18 627)</u>
Net increase / (decrease) in cash and cash equivalents		91 014	(21 805)
Cash and equivalents at the beginning of the year		157 193	178 998
Cash and equivalents at the end of year	6	<u>248 207</u>	<u>157 193</u>

The prior year period has been restated due to a prior year period adjustment. Refer to Note 29

MEDSHIELD MEDICAL SCHEME

STATEMENT OF CHANGES IN FUNDS AND RESERVES

for the year ended 31 December 2020

	Note	Accumulated funds R'000	Fair value through OCI reserve (Debt) R'000	Fair value through OCI reserve (Equity) R'000	Total members' funds R'000
Balance as at 1 January 2020		1,508,269	19,726	25,952	1,553,947
Surplus for the year		475,548			475,548
Net impairment (losses) on financial assets	26.1		22,631		22,631
Unrealised fair value changes through OCI for equity	4			(7,143)	(7,143)
Fair value changes through OCI for debt instruments	4		11,451		11,451
Reclassification adjustment on realised gains for debt	15		(15,633)		(15,633)
Realised fair value through OCI for equity instruments			-	(21,040)	(21,040)
Reclassification adjustment on realised losses for equity		(21,040)		21,040	-
Total comprehensive income		454,508	18,449	(7,143)	465,814
Balance as at 31 December 2020		1,962,777	38,175	18,809	2,019,761
Balance as at 1 January 2019		1,354,018	17,630	46,294	1,421,291
Surplus for the year		121,489	-	-	121,489
Change in accounting policy - IFRS 16	29	(105)			(105)
Unrealised fair value changes through OCI for equity	4			(20,342)	(20,342)
Fair value changes through OCI for debt instruments	4		10,685		10,685
Reclassification adjustment on realised gains for debt instruments	15		(8,589)		(8,589)
Realised fair value through OCI for equity instruments		-	-	32,867	32,867
Reclassification adjustment on realised gains for equity		32,867		(32,867)	-
Realised gain on financial assets held at fair value through		-	-	-	-
Total comprehensive income		154,251	2,096	(20,342)	136,005
Balance as at 31 December 2019		1,508,269	19,726	25,952	1,553,947

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

1 Significant accounting policies

The following are the significant accounting policies applied in the preparation of the Annual Financial Statements. These policies comply with International Financial Reporting Standards (IFRS).

These policies have been consistently applied, unless otherwise stated. The format of the statement of comprehensive income conforms with the requirements set out in Circular 41 of 2012, issued by the Council for Medical Schemes.

1.1 Basis of preparation

Statement of compliance

The Annual Financial Statements are prepared in accordance with IFRS as defined by IAS 1 and the Medical Schemes Act 131 of 1998 as amended.

Basis of measurement

The Annual Financial Statements are prepared on the going concern basis using the historical cost basis, except for certain financial instruments, which are carried at fair value.

Functional and presentation currency

These financial statements are presented in Rands, which is the Scheme's functional and presentation currency. All the financial information presented in Rands has been rounded to the nearest thousand Rand.

Use of estimates and judgements

The preparation of annual 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 Annual Financial Statements, are disclosed in Notes 3, 7, 22 & 26.1.

1.2 Adoption of new and revised International Financial Reporting Standards (IFRS)

a. New standards, amendments and interpretations effective in 2020 and relevant to the Scheme:

Reference	Standard, interpretation or amendment	Effective date
Amendment to IAS1, 'Presentation of financial statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors' on the definition of material.	<p>These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs:</p> <p>a) use a consistent definition of materiality through the IFRSs and the Conceptual Framework for Financial Reporting;</p> <p>b) clarify the explanation of the definition of material; and</p> <p>c) incorporate some of the guidance in IAS 1 about immaterial information.</p> <p>d) The amended definition is:</p> <p><i>"Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."</i></p>	Annual periods beginning on or after 1 January 2020.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

1 Significant accounting policies (continued)

1.2 Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

b. New standards, amendments and interpretations not yet effective for December 2020 but relevant to the scheme:

Reference	Standard, interpretation or amendment	Effective date
IFRS16, 'Leases' COVID-19-Related Rent Concessions Amendment	The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. Lessees can elect to account for qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment.	Annual periods beginning on or after 1 June 2020 (early adoptions is permitted.)
IFRS 17, 'Insurance Contracts'	<p>The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP. IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.</p> <p>Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis for each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.</p> <p>Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less.</p> <p>For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in a profit or loss period in which they occur but over the remaining life of the contract.</p> <p>The Scheme plans to adopt IFRS17 on 1 January 2023, with full retrospective adoption</p>	<p>Annual periods beginning on or after 1 January 2023</p> <p>Annual periods beginning on or after 1 January 2023.</p> <p>Early application is permitted for entities that apply IFRS 9, 'Financial Instruments', at or before the date of initial application of IFRS 17.</p>
IFRS 17, 'Insurance Contracts' Amendments	In response to some of the concerns and challenges raised, the Board developed targeted amendments and several proposed clarifications intended to ease implementation of IFRS17, simplify some requirements of the standard and ease transition. The amendments are not intended to change the fundamental principles of the standard or unduly disrupt implementation already underway.	IFRS 17, 'Insurance Contracts' Amendments

1.3 Significant estimates and judgements

The areas involving significant estimates and judgements are:

- estimation judgements made in relation to lease accounting (Note 3)
- estimation of provision for incurred but not reported claims (IBNR) (Note 7)
- critical judgements (Note 22)
- expected credit losses on financial assets (Note 26.1)

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

1 Significant accounting policies (continued)

1.4 Property, plant and equipment

Property, plant and equipment is reflected at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged on the straight-line basis over the estimated useful lives of the assets. Estimated useful lives and residual values are reassessed annually.

The estimated current maximum useful lives are:

Furniture and fittings - 5 years

Office equipment - 4 years

Motor vehicles - 4 years

Computer equipment - 3 years

Leasehold improvements - 3 years

Maintenance and repairs which neither materially add to the value of the assets nor appreciably prolong their useful lives are charged against income.

1.5 Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.6 Right-of-use assets

(i) The Scheme's leasing activities and how they are accounted for:

The Scheme leases various offices, computer and office equipment. Rental contracts are typically made for fixed periods of 1 to 3 years. There are no extension or termination options in the Scheme's rental contracts.

Contracts may contain both lease and non-lease components. The Scheme allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of offices for which the Scheme is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis every three years and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases, see Note 27 for details. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Scheme.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

1 Significant accounting policies (continued)

1.6 Right-of-use assets (continued)

- fixed payments (including in-substance fixed payments);
- variable lease payments that are based on a rate, initially measured using the rate as at the commencement date.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Scheme, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Scheme, where possible, uses third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

The Scheme is exposed to potential future increases in variable lease payments based on a rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on a rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of the lease liability
- any initial direct costs

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

1.7 Financial assets

Previously, the Scheme's financial assets were classified depending on the purpose for which the financial assets were acquired. Following the adoption of IFRS 9, the Scheme has classified its financial assets based on the business model used to manage the financial assets and the contractual terms of the cash flows.

(i) Classification

From 1 January 2018, the Scheme classifies its financial assets in the following measurement categories:

- a) those to be measured subsequently at fair value through other comprehensive income and fair value through profit and loss, and
- b) those to be measured at amortised cost.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

1 Significant accounting policies (continued)

1.7 Financial assets (continued)

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Scheme commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Scheme has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Scheme measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Debt instruments

Fair value through other comprehensive income (OCI)

Assets that are held for collection of contractual cash flows and for selling the financial assets are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses and interest income which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit and loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Impairment expenses are presented as separate line item in the statement of profit and loss.

Fair value through profit or loss (FVPL)

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through FVPL. Gains or losses on a debt instrument that is subsequently measured at FVPL, is recognised in profit or loss, and presented separately.

Amortised Cost

Assets that are held for collection of contractual cashflows where those cashflows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and are presented in investment income. Impairment losses are presented as a separate line item in the statement of profit or loss.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

1 Significant accounting policies (continued)

1.7 Financial assets (continued)

Equity Instruments

The Scheme subsequently measures all equity investments at fair value. At initial recognition, the Scheme has made an irrevocable election to present equity investments at FVOCI, and therefore there is no subsequent reclassification of fair value gains and losses to profit and loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit and loss as other income when the Scheme's right to receive payments is established.

(iv) Impairment

The Scheme assesses impairment on financial assets on a forward looking basis. The expected credit losses associated with its debt instruments are carried at FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk (SICR). The trigger for an SICR is a downgrade of the sovereign by 2 notches or more, of the international scale rating scale since the acquisition of the asset.

The methods for calculating expected credit losses for each financial asset type depends on the underlying assets and their properties. Sometimes several techniques and models may be used within a single asset class. Calculation methods and models may differ from company to company based on the type of assets in each category.

The Scheme calculated expected credit losses on the Scheme's fixed income investments using the Moody's Analytics ImpairmentCalc model, which incorporates their Gcor macroeconomic data, forecasts, weightings and correlations to convert historic credit losses to forward looking expected credit losses. Refer to Note 26.1 For trade receivables, of which the majority represents insurance receivables, the Scheme does not apply the impairment guidelines as outlined in IFRS9, as insurance receivables are not included in IFRS9. Impairments relating to trade receivables are governed under the scope of IFRS4.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of receivables. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. The scheme's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(b) Trade and other receivables

Trade and other receivables are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method, less provision for impairment. An appropriate allowance for estimated recoverable amounts is recognised in the statement of comprehensive income when there is objective evidence that assets have been impaired. This allowance is based on a review of the ageing profile of outstanding balances and historical recovery rates. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within "net impairment losses on healthcare receivables". When a trade receivable is uncollectable, it is written off against the allowance account. Permanent impairments are written off to the statement of comprehensive income when identified. Subsequent recoveries of amounts previously written off are credited against net impairment losses on healthcare receivables in the statement of comprehensive income. Receivables arising from healthcare insurance contracts with members are also classified in this category.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

1 Significant accounting policies (continued)

1.7 Financial assets (continued)

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on call with banks and other short term liquid investments that are readily convertible to cash and are subject to an insignificant risk of change in value. Short term liquid investments have maturities of 3 months or less. Cash and cash equivalents are classified as loans and receivables and subsequently measured at amortised cost using the effective interest method.

1.8 Investment in Structured entity

The Scheme's investments in Investee Funds is subject to the terms and conditions of the respective Investee Fund's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those Investee Funds. The investment manager makes investment decisions after extensive due diligence of the underlying fund, its strategy and the overall quality of the underlying fund's manager. All of the Investee Funds in the investment portfolio are managed by portfolio managers who are compensated by the respective Investee Funds for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee and is reflected in the valuation of the Fund's investment in each of the Investee Funds.

The right of the scheme to request redemption of its investments in Investee Funds ranges in frequency from weekly to semi-annually.

1.9 Trade payables

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

1.10 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.

1.11 Medical insurance contracts

Contracts under which the Scheme accepts significant insurance risk from another party (the member) by agreeing to compensate the member or other beneficiary if a specified uncertain future event (the insured event) adversely affects the member or the other beneficiary are classified as insurance contracts. The contracts issued compensate the Scheme's members for healthcare expenses incurred in accordance with PMB's (prescribed minimum benefits) and scheme rules.

Description of healthcare benefits provided

The types of benefits offered by the scheme in terms of its rules in return for monthly contributions are

- In-hospital benefits,
- Chronic benefits, and
- Day to day benefits

Accounting for contributions received

Gross contributions comprise medical risk contributions and member savings contributions.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

1 Significant accounting policies (continued)

1.11 Medical insurance contracts (continued)

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 savings plan contributions, which is unbundled and accounted for under IFRS9. The earned portion of risk contributions received is recognised as revenue. Risk contributions are earned from the date of attachment of insurance risk, over the indemnity period on a straight-line basis. Risk contributions are shown before the deduction of broker service fees and other similar costs. Contributions received in advance are included in trade and other payables.

Liabilities and related assets under the liability adequacy test

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 (i.e. the value of business acquired).

Where a shortfall is identified, an additional provision is made and the scheme recognises the deficiency in income for the year.

Accounting for broker fees

Broker fees are recognised as incurred, on a monthly basis.

Claims incurred

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

Risk claims incurred comprise:

- Claims submitted and accrued for services rendered during the year, net of recoveries from members for co-payments and savings plan accounts, for which a separate liability is already recognised;

Risk claims incurred comprise:

- Claims for services rendered during the previous year not included in the outstanding claims provision for that year, net of recoveries from members for co-payments and savings plan accounts;
- Claims settled in terms of risk transfer arrangements;
- Claims incurred, not yet reported and
- Accredited managed healthcare services.

Outstanding risk claims

Claims outstanding comprise provisions for the Scheme's estimate of the ultimate cost of settling all claims incurred but not yet reported at the statement of financial position date. Claims outstanding are determined as accurately as possible based on a number of factors, which include previous experience in claims patterns, claims settlement patterns, changes in the nature and number of members according to gender and age, trends in claims frequency, changes in claims processing cycles and variations in the nature and average cost incurred per claim. The provision is calculated based on claims reported not yet settled and claims not reported.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

1 Significant accounting policies (continued)

1.11 Medical insurance contracts (continued)

Estimated co-payments and payments from savings plan accounts are deducted in calculating the outstanding claims provision. The Scheme does not discount its provision for outstanding claims on the basis that claims must be settled within four months of the medical event and therefore the discounting of the provision is not considered material.

Medical Savings Accounts

The medical savings account, which is managed by the Scheme on behalf of its members, represents savings contributions (which are a deposit component of the insurance contracts), net of any savings claims paid on behalf of members in terms of the Scheme's registered rules.

The deposit component of the insurance contracts has been unbundled, since the Scheme can measure the deposit component separately. The deposit component is recognised in accordance with IAS 39 and is initially measured at fair value and subsequently at amortised cost using the effective interest rate method. The insurance component is recognised in accordance with IFRS 4.

Unspent savings at year-end are carried forward to meet future expenses for which the members are responsible. In terms of the Medical Schemes Act 131 of 1998, as amended, balances standing to the credit of members are refundable only in terms of Regulation 10 of the Act.

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

Liability Adequacy Test

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

1.12 Risk transfer arrangements

Contracts entered into by the Scheme with third party service providers under which the Scheme is compensated for losses/claims (through the provision of services to our members) on one or more contracts issued by the Scheme and that meet the classification requirements of insurance contracts are classified as risk transfer arrangements (reinsurance contract). 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 is treated as pre-payments.

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

Amounts recoverable under such contracts are recognised in the same year as the related claim.

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

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

1 Significant accounting policies (continued)

1.12 Risk transfer arrangements (cont.)

Amounts recoverable under risk transfer arrangements are assessed for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Scheme may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Scheme will receive under the risk transfer arrangement.

1.13 Accredited managed healthcare expenditure

Accredited managed healthcare expenditure consists of expenses incurred for accredited services rendered by accredited managed healthcare providers. They are classified under relevant healthcare expenditure and included in the gross healthcare result. Unaccredited managed healthcare expenses are included in administration expenses.

1.14 Revenue recognition

Contribution income

Contribution income is dealt with in 1.11.

Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

Dividend income

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

1.15 Reimbursements from the Road Accident Fund (RAF)

The Scheme grants assistance to its members in defraying expenditure incurred in connection with the rendering of any relevant health services. 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 as amended (the RAFA). If the member is 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 a claim 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. Due to the uncertain outcome of claims to the RAF, the Scheme has accounted for reimbursements on a cash received basis. If an inflow of economic benefits has become probable, the Scheme discloses the contingent asset. Amounts received from members in respect of reimbursements from the RAF are recognised as third party claim recoveries and deducted from claims and they are not reflected as sundry income.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

1 Significant accounting policies (continued)

1.16 Defined contribution fund/ Employee benefits

Pension Obligation

The Scheme participates in a defined contribution plan via a managed umbrella fund. A defined contribution plan is a plan under which the Scheme pays fixed contributions into a separate entity. The Scheme has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Leave pay accrual

The Scheme recognises, in full, employees' rights to annual leave entitlement in respect of past services.

Incentives

Management and staff incentives are recognised as an expense in staff costs as incurred.

1.17 Allocation of income and expenditure to benefit options

The following items are directly allocated to benefit options:

- Risk contributions;
- Risk claims incurred;
- Net income/(expense) on risk transfer arrangement fees;
- Accredited managed healthcare services;
- Broker fees;

The remaining items are apportioned based on the number of members on each option (*or other suitable basis*):

- Administration fees;
- Net impairment losses or reversals on healthcare receivables;
- Net impairment losses on financial assets;
- Investment income;
- Other income; and
- Finance expense.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

2 Property, plant and equipment	Leasehold Improvements R'000	Motor vehicles R'000	Furniture & fittings R'000	Computer and office equipment R'000	Total R'000
Year ended 31 December 2020					
Gross carrying amount					
At beginning of year	3 442	1 716	9 241	4 120	18 519
Additions	-	-	109	1 504	1 613
At end of year	3 442	1 716	9 350	5 624	20 132
Accumulated depreciation					
At beginning of year	(3 051)	(1 610)	(4 137)	(3 502)	(12 300)
Depreciation charges	(236)	(60)	(1 656)	(668)	(2 620)
At end of year	(3 287)	(1 670)	(5 793)	(4 170)	(14 920)
Net carrying amount at end of year	155	46	3 557	1 454	5 212

2 Property, plant and equipment	Leasehold Improvements R'000	Motor vehicles R'000	Furniture & fittings R'000	Computer and office equipment R'000	Total R'000
Year ended 31 December 2019					
Gross carrying amount					
At beginning of year	3 398	1 716	9 129	3 893	18 136
Additions	44	-	112	227	383
At end of year	3 442	1 716	9 241	4 120	18 519
Accumulated depreciation					
At beginning of year	(2 657)	(1 415)	(2 462)	(2 818)	(9 352)
Depreciation charges	(394)	(195)	(1 675)	(684)	(2 948)
At end of year	(3 051)	(1 610)	(4 137)	(3 502)	(12 300)
Net carrying amount at end of year	391	106	5 104	618	6 219

	2020 R'000	2019 R'000
3 Right-of-use assets		
Leased properties	6 842	13 922
Leased equipment	10 504	21 634
Total right-of-use asset	17 346	35 556
Reconciliation of right-of-use asset		
Opening Balance as at 1 January 2020	35 556	-
IFRS16 transition value	-	55 992
Additions	5 374	-
Depreciation	(23 584)	(20 436)
Closing Balance at at 31 December 2020	17 346	35 556
Lease liability		
Current	(19 841)	(20 525)
Non-current	(1 231)	(16 944)
	(21 072)	(37 469)
Reconciliation of lease liability		
Opening Balance as at 1 January 2020	(37 469)	-
IFRS16 transition value	-	(56 096)
Increase in lease liability - Right-of-use asset	(5 374)	-
Lease payments	21 771	18 627
Closing Balance as at 31 December 2020	(21 072)	(37 469)

The Scheme determined the incremental borrowing rate using information obtained from the Scheme's bankers, Nedbank. It obtained pricing for computer and office equipment, which was prime less 0.5%. The Scheme used that rate for leased equipment and adjusted the rate to prime less 1.0% for leased properties.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

	2020 R'000	2019 R'000
4 Financial assets		
Current	1 664 546	1 658 561
- Fair value through other comprehensive income	864 152	966 319
- Fair value through profit or loss	800 394	692 242
Non-Current	581 198	240 873
- Fair value through other comprehensive income	581 198	240 873
	2 245 744	1 899 434
Fair value at the beginning of the year	1 899 434	1 721 265
Additions/re-investments	1 067 429	412 229
Disposals at fair value at date of disposal	(822 231)	(350 598)
Re-investment of investment income	130 443	123 741
Fair value adjustment for financial assets valued through OCI (debt instruments)	11 451	10 685
Fair value adjustment for financial assets fair valued through profit and loss	(33 639)	2 454
Fair value adjustment for financial assets valued through OCI (equity instruments)	(7 143)	(20 342)
Fair value at the end of the year	2 245 744	1 899 434
Investments have been managed by a number of fund managers namely:		
Segregated portfolio investments	1 445 350	1 207 192
Sanlam Investment Management	531 214	519 398
Argon Asset Managers	483 276	165 323
Prudential Portfolio Managers	430 860	522 471
Unitised investments	800 394	692 242
Allan Gray Life Limited	538 636	603 305
Stanlib Investment Managers	261 758	88 937
	2 245 744	1 899 434
Financial assets comprise the following:		
Financial Assets - other comprehensive income		
Listed equities	473 943	474 462
Debt instruments	387 496	249 675
Money market instruments	583 911	483 055
	1 445 350	1 207 192
Financial Assets - profit and loss		
Unitised instruments	591 654	603 305
Money market instruments - risk	208 740	88 937
	800 394	692 242

The fair value of the investments and other assets is based on market value at year end. Listed equities are based on the JSE Ltd closing price, debt instruments and money market instruments are based on the Bond Exchange of South Africa closing price. Unitised investments are measured at the repurchase price. The maximum exposure to credit risk at the reporting date is the fair value of debt securities classified as financial assets. The Scheme has invested in bonds spread across all bond types and the market performance of the bond indices varied between 11.50% (2019: 7.50%) on the 1-3 year bond index to 10.58% (2019: 12.05%) on the 7-12 year bond index. All investments are denominated in South African Rands.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

	2020 R'000	2019 R'000
5 Trade and other receivables		
<i>Receivables arising from medical insurance contracts</i>	46 979	41 935
Contributions outstanding	37 478	32 920
Contributions outstanding - Private members	9 999	9 836
Contributions outstanding - Group members	27 479	23 084
Recoveries from members for co-payments	1 601	1 422
Provider debtors	4 121	3 797
Claims recovery for emergency services (Meditrac)	3 614	3 614
Savings plan account advances (Note 8)	165	182
<i>Receivables arising from non-medical insurance contracts</i>	51 337	51 236
Interest accrued on call and current accounts	213	408
Inter-account bank transfer	494	494
Prepayments	1 183	1 206
Rent deposit	90	69
South African Post Office deposit	520	520
MVA Recoveries*	269	371
Fees recoverable from former Trustees**	10 322	10 322
Research fees recoverable for prior years**	27 667	27 667
Consulting fees recoverable	57	57
Trademark cost recovery***	10 000	10 000
Sundry accounts receivable	522	122
Less : Provision for impairment loss (Note 14)	(66 544)	(63 599)
	<u>31 772</u>	<u>29 572</u>

The carrying value of trade and other receivables is a reasonable approximation of their fair value due to the short term maturities of these assets. The maximum exposure to credit risk is the carrying value of each class of receivable mentioned above. The Scheme does not hold any collateral as security. The other receivables arising from non-medical insurance contracts include no impaired receivables (refer to Note 26 for credit quality evaluation).

* MVA recoveries are motor vehicle accident recoveries from the Road Accident Fund.

** As per the Council for Medical Schemes directive issued 15 June 2012 these amounts were to be recovered from various parties. These amounts are fully impaired as the recoverability is uncertain and the impact on the Financial Statements is effectively zero.

*** The Scheme purchased three trademarks from Alumni Trading (Pty) Ltd for R10m in 2013. The purchase agreement determined that Alumni must cause the trademarks to be transferred to Medshield which it failed to do. Medshield sent a notice of termination to Alumni in which the R10m was demanded to be returned.

	2020 R'000	2019 R'000
6 Cash and cash equivalents		
Current accounts	247 544	156 530
Current accounts held in escrow	663	663
	<u>248 207</u>	<u>157 193</u>

The average effective interest rate on current accounts was 3.8% (2019: 5.6%). The carrying value of cash and cash equivalents is a reasonable approximation of their fair value due to their short term maturities.

Yieldex Trading ("Landlord") and the Scheme entered into a lease agreement in respect of the premises situated at Glenrand MIB House, 288 Kent Avenue Ferndale Randburg, and in terms of which the Landlord requires that the Scheme furnishes the Landlord with a letter of guarantee in respect of the Scheme's rental obligation to the Landlord in terms of the Lease. The Scheme has furnished the Landlord with the required guarantee in the amount of R881 500.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

	2020 R'000	2019 R'000
6 Cash and cash equivalents (continued)		
Deposit for South African Post Office	663	663
Total current accounts held in escrow	<u>663</u>	<u>663</u>
7 Outstanding claims provision		
Provision for outstanding claims incurred but not reported	<u>175 000</u>	<u>200 000</u>
Analysis of movements in outstanding claims		
Balance at beginning of year	200 000	199 600
Payments in respect of prior year	<u>(163 060)</u>	<u>(228 937)</u>
Over/(under)provision in prior period (Note 11)	36 940	(29 337)
Adjustment for current year (Note 11)	<u>138 060</u>	<u>229 337</u>
Balance at end of year	<u>175 000</u>	<u>200 000</u>

The existing accounting policy relating to the outstanding claims provision considers current estimates of all contractual flows, therefore in terms of IFRS 4, no further liability adequacy test is required.

Methodology applied to determine the provision

The actuaries apply two methods to determine the IBNR "incurred but not reported" provision, namely the Chain Ladder Method and the Bornhuetter-Ferguson Method:

The Chain Ladder Method involves calculating monthly claims run-off factors per benefit category from the data provided and then using these factors to make projections of the total claims incurred in each month, based on payments made to-date. To ensure homogeneity, these projected figures are then used to estimate an IBNR claims reserve for each month, split per benefit category and then allocated per benefit option.

The Bornhuetter-Ferguson Method applies the run-off calculated through the Chain Ladder Method to a total monthly claims estimate based on previous years' claims ratio experience. The total claims estimate is calculated based on total contributions received and the assumption that the claims ratio is in line with that of prior year.

The results from these methods is bootstrapped to provide a distribution of possible IBNR provisions based on the statistical distribution of actual run-off factors.

Process used to determine the assumptions

The actual method or blend of methods used may vary each year due to factors relevant to that year. To the extent that these methods use historical claims development information they assume that the historical claims development 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:

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

7 Outstanding claims provision (continued)

Process used to determine the assumptions (continued)

- changes in processes can relate to change in the proportion of paper versus electronic claims submissions (electronic being quicker), changes/improvements on the administration system which improves turnaround times, proportion of working days in the month (public and school holidays do not have the same effect) and other ad hoc factors such as power outages or staff strikes that affect the development/recording of claims paid and incurred such as changes in claims submission procedures;
- economic, legal, political and social trends (resulting in different than expected levels of inflation and/or minimum and/or maximum levels of medical benefits to be provided); and
- changes in composition of beneficiary profiles and their clinical status.

Assumptions

The assumption that has the greatest effect on the measurement of the outstanding claims provision is the proportion of claims paid 3 months after the year end (as at the end of March) when expressed as a percentage of the expected total claim payments in respect of the full year for which the outstanding claims provision is being estimated, based on historical claims development information.

The analysis of sensitivity of the various estimation techniques and variables for the determination of the claims provision provides an indication of the adequacy of the Scheme's estimation process. Adequacy implies that it is equally likely that the actual result will be higher or lower than the calculated estimate. The Board believes that the liability for claims reported in the statement of financial position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.

Even though a significant proportion of the claims relating to the financial year have already been processed, the Board considers the most significant variable to be the pattern of claim submission.

Changes in assumptions and sensitivities to changes in key variables

Although the provision for outstanding claims is believed to be adequate the results are subject to a certain degree of uncertainty. As opposed to claims for 2020 that have already been paid, the claims for the 2020 estimate to be paid in future payment months are still subject to uncertainty. This quantity forms a useful basis for a sensitivity analysis. The table below illustrates the effect of a 10% increase and decrease in the claims expected to be paid in 2021 for claims with a 2020 service date.

Scenario	Claims for 2020 services paid during 2020 R'000	Outstanding claims provision R'000	Outstanding claims provision R'000	% change in outstanding claims provision
Base scenario	2 836 831	175 000	3 011 831	
Increase	2 836 831	192 500	3 029 331	0.58%
Decrease	2 836 831	157 500	2 994 331	-0.58%

The same analysis appears below for the outstanding claims provision for 2019 where claims paid after March 2020 for 2019 forms the basis for the sensitivity analysis. Note that the base scenario figures below are actuals, not estimates.

Scenario	Claims for 2019 services paid during 2019 R'000	Outstanding claims provision R'000	Outstanding claims provision R'000	% change in outstanding claims provision
Base scenario	2 893 730	200 000	3 093 730	
Increase	2 893 730	220 000	3 113 730	0.65%
Decrease	2 893 730	180 000	3 073 730	-0.65%

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

	2020 R'000	2019 R'000
8 Personal medical savings account trust liability		
Balance on personal member savings at the beginning of the year	161 507	168 948
Less: Advances on member savings at beginning of the year	(182)	(391)
Net balance on member savings at the beginning of the year	161 325	168 557
Add: Member savings contributions received or receivable (Note 10)	87 532	89 533
Transfers from other schemes	2 299	1 783
Claims paid on behalf of members (Note 11)	(72 955)	(88 355)
Less: Refunds	(9 467)	(10 193)
Less : Savings utilised to pay contributions	(3 906)	-
Add: Advances on savings plan accounts (Note 5)	165	182
Balance due to members savings at the end of the year	164 993	161 507

- The Scheme has two savings options.
- The personal medical savings contains a demand feature in terms of regulation 10 of the Medical Schemes Act that any credit balance on a member's personal savings account must be taken as a cash benefit when the member terminates his or her membership of the Scheme or benefit option, and then enrolls in another benefit option or medical scheme without a personal medical savings account or does not enrol in another medical scheme.
- Advances on member personal medical savings are included in trade and other receivables (Note 5). The Scheme does not charge interest on advances on personal medical savings accounts.
- As at the end of the period the carrying amount of the personal medical savings accounts were deemed to be equal to their fair values, which is the amount payable on demand. The amounts were not discounted due to the demand feature.
- The carrying value of personal medical savings is a reasonable approximation of its fair value as it is payable on demand.
- The Scheme rules were changed effective 1 January 2018 to reflect that personal medical savings account (PMSA) trust monies received are the funds of the Scheme and there is no obligation to deposit PMSA trust monies received into a separate trust account. Furthermore the Scheme rules state that PMSA trust monies received may be utilised by the Scheme to fund Scheme operations. The Scheme does not allocate interest to PMSA balances.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

	2020 R'000	2019 R'000
9 Trade and other payables		
<i>Payables arising from medical insurance contracts</i>	<i>106 803</i>	<i>123 311</i>
Accrual for member refunds	6 573	4 116
Contribution credit balances	6 573	4 116
Contributions received in advance	68 213	75 909
Reported claims not yet paid	25 574	35 723
Balance at beginning of year	35 723	13 066
Payment made for the year	(2 756 912)	(3 035 482)
Current year claims	2 721 189	3 022 416
Claims run payable at year end	25 574	35 723
Amounts owing to managed care service providers	6 331	7 451
Amounts owing to ambulance services	112	112
<i>Payables arising from non- medical insurance contracts</i>	<i>60 652</i>	<i>51 740</i>
Accrual for consulting services	4 079	3 752
Accrual for acquisition and retention activities	3 507	-
Accrual for IT related services	4 319	4 909
Accrual for actuarial services	176	724
Accrual for leave liability	6 015	5 073
Accrual for legal fees	1 370	3 792
Provision for internal audit fees	1 797	1 037
Provision for external audit fees	2 930	2 763
Accrual for forensic services	3 369	552
Accrual for marketing fees	81	2 939
Accrual for salaries and staff welfare*	23 768	22 964
Accrual for printing, postage & stationary	1 064	1 447
Accrual for telephony	222	-
Accrual for travel	172	-
Unallocated deposits	7 442	1 208
Other payables	341	580
	167 455	175 051

The carrying value of trade and other payables is a reasonable approximation of their fair value due to short term maturities of these liabilities.

* Included in the accruals for salaries is the provision for short-term incentives of R23.0m.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

	2020 R'000	2019 R'000
10 Risk contribution income		
Gross contributions	3 740 545	3 650 242
Less: unbundled savings contributions (Note 8)	(87 532)	(89 533)
Risk contribution income	<u>3 653 013</u>	<u>3 560 709</u>

	2020 R'000	2019 R'000
11 Risk claims incurred		
Gross claims	2 721 189	3 022 416
Claims serviced in respect of risk transfer arrangements (Note 12)	16 869	24 417
Movement in outstanding claims provision	175 000	200 000
Over provision in prior year (Note 7)	36 940	(29 337)
Adjustment for current year (Note 7)	138 060	229 337
Claims paid from savings accounts (Note 8)*	(72 955)	(88 355)
	<u>2 840 103</u>	<u>3 158 478</u>
Recoveries from the Road Accident Fund	(4 411)	(6 011)
Hospital discounts	(4 738)	(4 460)
Accredited managed care healthcare services**	59 782	59 335
	<u>2 890 736</u>	<u>3 207 342</u>

* Claims are paid on behalf of the members from their personal medical savings accounts in terms of Regulation 10(3) and the Scheme's registered benefits. Refer to Note 8 to the financial statements for a breakdown of the movement of the personal medical savings trust account.

	2020 R'000	2019 R'000
**Accredited managed healthcare services		
Medscheme Health Risk Solutions (MHRS) & Mediscor (01 June 2019) - medicine benefit management*	12 624	14 004
Medscheme Health Risk Services - hospital benefit management*	33 012	32 850
LifeSense Disease Management**	5 954	5 802
Denis Dental Management*	3 591	4 105
Centre for Diabetes and Endocrinology (effective 1 April 2019)***	4 143	2 574
Independent Clinical Oncology Network (Pty) Ltd. ("ICON").	458	-
	<u>59 782</u>	<u>59 335</u>

The calculation of allocation of each benefit is as follows:

*Per member per month

**Per member per registration

***Patient count per month

12 Net income on risk transfer arrangements

Netcare Hospitals (Pty) Ltd t/a Netcare 911

The recovery in respect of Netcare 911 is based on the total costs incurred by them in respect of services rendered to the Scheme. Services include emergency telephonic assistance via health-on-line, emergency response by road or air ambulance to the scene of the accident as well as transfer of the beneficiary by road or air to the most appropriate medical facility.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

	2020 R'000	2019 R'000
12 Net income on risk transfer arrangements (continued)		
Premiums paid	(16 886)	(17 979)
Centre for Diabetes and Endocrinology (Pty) Ltd	-	(1 261)
Netcare Hospitals (Pty) Ltd t/a Netcare 911	(16 886)	(16 718)
Recoveries (Note 11)	16 869	24 417
Centre for Diabetes and Endocrinology (Pty) Ltd	-	3 179
Netcare Hospitals (Pty) Ltd t/a Netcare 911	16 869	21 238
Net income per the statement of comprehensive income	(17)	6 438
	2020 R'000	2019 R'000
13 Administration expenses		
Actuarial Fees	2 723	3 313
Administration IT system and hosting costs	23 378	20 967
Audit Committee fees	532	434
Audit fees	2 926	3 013
- Current year	2 676	2 219
- Prior year	250	794
Bank charges	2 238	2 238
Benefit management services	8 721	9 364
Board of Healthcare Funders membership fees	1 109	1 090
Claims processing fees	1 021	1 229
Communication costs	1 688	2 055
Computer services	4 046	5 229
Conference expenses	254	314
Consulting fees	3 081	6 331
Council for Medical Schemes	3 084	3 185
Depreciation (Note 2)	2 620	2 948
Distribution costs	9 089	5 674
insurance premiums	431	335
Internal audit fees	3 387	2 981
Fidelity guarantee and professional indemnity insurance	475	445
Forensic fees	2 466	3 792
Legal fees	4 080	3 759
Marketing fees	15 340	22 644
Meeting expenses	236	419
Motor vehicle expenses	938	1 316
Office rent	2 293	2 011
Personnel and related costs	137 716	130 175
- Salaries and related costs	129 146	123 032
- Provident fund contributions	8 570	7 143
Penalties	-	188
Postage and printing	3 981	3 655
Principal Officer Fees (Note 20)	6 188	6 050
Regional office infrastructure, facilities and support	360	536
Rentals of office equipment	392	396
Right-of-use asset depreciation (Note 3)	23 584	20 436
Stationery	888	1 040
Strategic Projects	8 305	4 475
Subscriptions	233	89
Telephone	2 963	3 813
Third party recovery fees	-	1 838
Trustees fees (Note 20)	4 315	4 437
Travel & Entertainment	1 820	4 951
	286 901	287 165

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2020

14 Provision for impairments of receivables

31 December 2020	R'000					R'000								
	Employer Groups	Private members	Sundry debtors	Members portions	Provider debtors	Savings	Total	Employer Groups	Private members	Sundry debtors	Members portions	Provider debtors	Savings	Total
Opening balance	(5 147)	(2 931)	(51 660)	(1 093)	(2 627)	(141)	(63 599)							
Net provisions reversed/(raised) during the year	(1 509)	(871)	-	(475)	(188)	98	(2 945)							
Additional provisions made during the year	(6 325)	(1 244)	-	(755)	(493)	(913)	(9 730)							
Unused amounts reversed during the period	4 816	373	-	280	305	1 011	6 785							
	(6 656)	(3 802)	(51 660)	(1 568)	(2 815)	(43)	(66 544)							

31 December 2019

31 December 2019	R'000					R'000								
	Employer Groups	Private members	Sundry debtors	Members portions	Provider debtors	Savings	Total	Employer Groups	Private members	Sundry debtors	Members portions	Provider debtors	Savings	Total
Opening balance	(4 107)	(2 062)	(51 660)	(599)	(2 506)	(349)	(61 283)							
Net provisions reversed/(raised) during the year	(1 040)	(869)	-	(494)	(121)	208	(2 316)							
Additional provisions made during the year	(2 957)	(1 008)	-	(627)	(263)	(1 154)	(6 009)							
Unused amounts reversed during the period	1 917	139	-	133	142	1 362	3 693							
	(5 147)	(2 931)	(51 660)	(1 093)	(2 627)	(141)	(63 599)							

Sundry Debtor impairments relate primarily to the curatorship period whereby the Council for Medical Scheme issued directives to the Scheme to institute legal action on a number of matters. The Scheme raised the sundry income related to trustee fees (R10.3m), research fees (R27.7m) and consulting fees (R0.2m). There were further sundry income items raised related to the Meditrac Ambulance Claims (R3.6m) and the Medshield Trademark (R10m). All these items have been impaired as it is uncertain whether these amounts will be received by the Scheme.

14.1 Net (impairment losses) / recoveries on healthcare receivables

	2020	2019
Net provisions (raised) during the year	R'000	R'000
Add : Bad debts written off during the year	(2 945)	(2 316)
Net impairment (losses) in the income statement	(289)	(845)
	(3 234)	(3 161)

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

	2020 R'000	2019 R'000
15 Investment income		
Interest income	84 790	81 981
Interest on financial assets	82 935	79 195
Interest on cash and cash equivalents	1 855	2 786
Net realised gains on disposal of financial assets	15 633	8 589
Realised gains from debt instruments	23 896	10 303
Realised losses from debt instruments	(8 263)	(1 714)
Dividend income	47 507	44 546
	<u>147 930</u>	<u>135 116</u>
16 Sundry income		
Consulting fees from former Trustees recovery	-	1 527
Sale of old furniture	-	-
Fraud recoveries	5 356	4 528
Unallocated deposits written back after prescription / bad debts recovered	-	382
	<u>5 356</u>	<u>6 437</u>
17 Contingent assets		
a. Action has been instituted against Calabash Health Solutions (Pty) Ltd (In liquidation) and its former directors regarding the potential recovery of the amount of R46.2m relating to claims paid by the Scheme as a result of Calabash's breach of a capitation agreement. The matter is still being pursued by the Schemes legal representatives.		
b. The Scheme has 957 (2019: 1 162) outstanding road accident claims to the value of R111.6m (2019: R109.9m) at 31 December 2020. Due to the uncertain outcome of claims against the Road Accident Fund by members, recoveries are only accounted for on a cash received basis.		
	2020 R'000	2019 R'000 Restated
18 Cash flow generated by operations		
Surplus for the year	475 548	121 489
Adjustments for :	(76 186)	(100 107)
Outstanding claims provision adjustments	(25 000)	400
Asset management fees	11 036	10 518
Investment income	(147 930)	(135 116)
Net impairment losses on healthcare receivables	3 234	3 161
Fair value adjustment for financial assets fair valued through profit and loss	33 639	(2 454)
Depreciation	26 204	23 384
Net impairment losses on financial assets	22 631	-
	<u>399 362</u>	<u>21 382</u>
<i>Working capital changes</i>		
(Increase) in trade and other receivables	(2 200)	(1 699)
(Increase) / decrease in trade and other payables	(7 596)	24 621
Decrease / (increase) in personal medical savings account trust liability	3 486	(7 441)
Net impairment losses on healthcare receivables	(2 945)	(2 316)
	<u>390 107</u>	<u>34 547</u>

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

19 Related party transactions

The Board of Trustees and the Principal Officer have the authority as well as the responsibility for planning, directing and controlling the activities of Medshield Medical Scheme. The Trustees are responsible for the affairs of the Scheme.

Principal Officer and Executive Management

(i) Principal Officer

	2020 R'000	2019 R'000
<i>Transactions for the year:</i>		
Remuneration and considerations - Principal Officer (Note 20)	6 188	6 050
- Total Remuneration	4 030	3 767
- Short-term incentive provision	2 096	2 147
- Other disbursements (Operational expenses)*	62	136
Medical Aid contribution and claims made to and received from the Scheme	52	42
- Membership contributions made by Principal Officer	62	62
- Claims paid in respect of the Principal Officer	(10)	(20)
Balances at year-end	2 096	2 147
- Short-term incentive provision	2 096	2 147

(ii) Key Management

	2020 R'000	2019 R'000
<i>Transactions for the year:</i>		
Remuneration and considerations	21 658	19 191
- Total Remuneration	15 845	12 945
- Short-term incentive provision	5 515	5 484
- Other disbursements (Operational expenses)	298	762
Medical Aid contribution and claims made to and received from the Scheme	159	133
- Membership contributions made by executives	240	215
- Claims paid in respect of executives	(81)	(82)

Outstanding balances due to related parties:

	2020 R'000	2019 R'000
Board of Trustees		
- Fees and Remuneration considerations	4 113	3 831
- Other disbursements	202	606
- Membership contributions made by Trustees	947	660
- Claims paid in respect of Trustees	927	694
- Trustee personal medical savings accounts balances	76	56

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

Remuneration

This constitutes fees received by the member, acting in the capacity of a trustee of the Scheme.

Contributions received

This constitutes the contributions paid by the related party as a member of the Scheme, in their individual capacity. All contributions were on the same terms as applicable to members.

Claims incurred

This constitutes amounts claimed by the related parties, in their individual capacity as members of the Scheme. All claims were paid out in terms of the rules of the Scheme, as applicable to members.

Member savings

The amounts owing to the related parties relate to medical aid savings balances to which the parties have a right. In line with the Scheme rules, these balances no longer earn interest. The amounts are all current, and would need to be payable on demand should an appropriate claim be issued, or the member exits the Scheme.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

20 Trustees' & Principal Officer remuneration and considerations

31 December 2020

Names	Date appointed /resigned	R'000				R'000	
		Fees for meeting attendance	Fees for holding office	Total remuneration	*Other disbursements (Operational expenses)	Total remuneration and operational expenses	
Principal Officer							
T Naidoo			6 126	6 126	62	6 188	
Sub total			6 126	6 126	62	6 188	
Board of Trustees							
C Akeroyd (Chairperson)	Term ended 30 September 2020	29	398	427	3	430	
A Labuscagne (Chairperson)	Appointed 30 September 2020	24	133	157	36	193	
S Makhani	Term ended 30 September 2020	204	159	363	3	366	
L Sekele	Term ended 30 September 2020	240	159	399	11	410	
Dr L Erasmus	Term ended 30 September 2020	270	183	453	3	456	
A Fourie-Van Zyl	Term ended 20 November 2020	304	194	498	12	510	
T Wiblin	Appointed 30 September 2020	72	53	125	21	146	
E Botha	Appointed 30 September 2020	84	53	137	3	140	
Dr Z Soni	Appointed 30 September 2020	68	53	121	9	130	
Dr J Soni	Appointed 30 September 2020	259	212	471	3	474	
L de Lange		259	212	471	56	527	
M Chidi		279	212	491	42	533	
Sub total		2 092	2 021	4 113	202	4 315	
Total		2 092	8 147	10 239	264	10 503	

* Other disbursements (operational expenses) include amongst other expenses, training & travel and entertainment.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

20 Trustees' & Principal Officer remuneration and considerations

31 December 2019

Names	Date appointed /resigned	R'000	R'000	R'000	R'000	R'000	R'000
		Fees for meeting attendance	Fees for holding office	Total remuneration	*Other disbursements (Operational expenses)	Total remuneration and operational expenses	
Principal Officer							
T Naidoo			5 914	5 914	136	6 050	
Sub total		-	5 914	5 914	136	6 050	
Board of Trustees							
C Akeroyd (Chairperson)		-	531	531	54	585	
S Makhani		237	205	442	44	486	
L Sekele		285	212	497	65	562	
Dr L Erasmus		315	244	559	15	574	
A Fourie-Van Zyl		289	212	501	35	536	
Dr J Soni		218	212	430	12	442	
L de Lange		218	212	430	179	609	
M Chidi		229	212	441	202	643	
Sub total		1 791	2 040	3 831	606	4 437	
Total		1 791	7 954	9 745	742	10 487	

* Other disbursements (operational expenses) include amongst other expenses, training & travel and entertainment.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2020

21 Surplus/(deficit) from operations per benefit option

31 December 2020	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Category	MediPlus Prime	MediPlus Compact	MediValue Prime	MediValue Compact	MediBonus	MediPhila		
Number of members	19 301	450	30 496	3 099	2 826	8 078		
Net contribution income	1 240 318	25 115	1 163 917	91 364	283 496	181 209		
Net claims incurred & net income/(expense) from risk transfer arrangements	(993 498)	(33 799)	(890 877)	(77 718)	(229 133)	(126 089)		
Gross healthcare result	246 820	(8 684)	273 040	13 646	54 363	55 120		
Broker service fees	(24 213)	(455)	(30 762)	(2 143)	(3 523)	(5 119)		
Administration expenditure	(73 554)	(1 715)	(116 216)	(11 810)	(10 770)	(30 784)		
Net impairment (losses) on healthcare receivables	(698)	(73)	(1 463)	(381)	(456)	(308)		
Net healthcare result	148 355	(10 927)	124 599	(688)	39 614	18 909		
Net impairment (losses) on financial assets	(5 802)	(135)	(9 167)	(932)	(850)	(2 428)		
Investment income	37 925	884	59 923	6 089	5 553	15 873		
Sundry income	2 133	(3)	2 876	9	180	(30)		
Fair value adjustment on financial assets held at fair value through profit and loss	(9 072)	(183)	(15 022)	(518)	(1 342)	(2 328)		
Asset management fees	(3 497)	(82)	(5 525)	(561)	(512)	(1 463)		
Finance Expense	(1 012)	(24)	(1 599)	(162)	(148)	(424)		
Surplus/(deficit) for the year	169 030	(10 470)	156 085	3 237	42 495	28 109		

Expenses not directly attributable to an option were allocated proportionately to the membership per option.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2020

21 Surplus/(deficit) from operations per benefit option (continued)

31 December 2020	R'000	R'000	R'000	R'000	R'000	R'000
Category	MediCore	MediSaver	Premium Plus	Discontinued	Total	Total
Number of members	4 064	5 107	1 864	-	-	75 285
Net contribution income						
Net claims incurred & net income/(expense) from risk transfer arrangements	227 342	281 724	158 529	(1)	(1)	3 653 013
Gross healthcare result	(186 760)	(213 538)	(139 341)	-	-	(2 890 753)
Broker service fees	40 582	68 186	19 188	(1)	(1)	762 260
Administration expenditure	(3 403)	(4 856)	(1 531)	(2)	(2)	(76 007)
Net impairment (losses) on healthcare receivables	(15 487)	(19 462)	(7 103)	-	-	(286 901)
	(2)	(18)	165	-	-	(3 234)
Net healthcare result	21 690	43 850	10 719	(3)	(3)	396 118
Net impairment (losses) on financial assets	(1 222)	(1 535)	(560)	-	-	(22 631)
Investment income	7 985	10 035	3 663	-	-	147 930
Sundry income	68	122	1	-	-	5 356
Fair value adjustment on financial assets held at fair value through profit and loss	(1 912)	(2 386)	(877)	1	1	(33 639)
Asset management fees	(736)	(925)	(338)	-	-	(13 639)
	(213)	(268)	(98)	1	1	(3 947)
Surplus/(deficit) for the year	25 660	48 893	12 510	(1)	(1)	475 548

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

21 Surplus/(deficit) from operations per benefit option (continued)

31 December 2019	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Category	MediPlus	MediValue	MediBonus	MediPhila	MediCore	MediSaver	
Number of members	21 728	35 449	3 331	6 601	4 509	5 721	
Net contribution income	1 296 008	1 168 170	298 296	120 086	227 001	288 383	
Net claims incurred & net income/(expense) from risk transfer arrangements	(1 126 000)	(1 013 668)	(300 348)	(88 755)	(236 403)	(258 794)	
Gross healthcare result	170 008	154 502	(2 052)	31 331	(9 402)	29 589	
Broker service fees	(25 716)	(31 213)	(3 927)	(3 309)	(3 506)	(5 114)	
Administration expenditure	(80 533)	(128 855)	(12 361)	(19 795)	(16 533)	(21 175)	
Net impairment (losses) on healthcare receivables	(826)	(1 109)	(155)	(587)	20	(281)	
Net healthcare result	62 933	(6 675)	(18 495)	7 640	(29 421)	3 019	
Investment income	37 967	60 637	5 849	9 075	7 875	9 981	
Sundry income	2 273	2 711	469	251	140	481	
Fair value adjustment on financial assets held at fair value through profit and loss	646	1 207	98	141	132	166	
Asset management fees	(3 654)	(5 838)	(563)	(883)	(758)	(961)	
	(1 247)	(2 035)	(191)	(379)	(259)	(328)	
Surplus/(deficit) for the year	98 918	50 007	(12 833)	15 845	(22 291)	12 358	

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

21 Surplus/(deficit) from operations per benefit option (continued)

31 December 2019	R'000	R'000	R'000
Category	Premium Plus	Discontinued	Total
Number of members	2 130	-	79 469
Net contribution income	162 765	-	3 560 709
Net claims incurred & net income/(expense) from risk transfer arrangements	(176 944)	8	(3 200 904)
Gross healthcare result	(14 179)	8	359 805
Broker service fees	(1 635)		(74 420)
Administration expenditure	(7 913)		(287 165)
Net impairment (losses) on healthcare receivables	(214)	(9)	(3 161)
Net healthcare result	(23 941)	(1)	(4 941)
Investment income	3 732	-	135 116
Sundry income	95	17	6 437
Fair value adjustment on financial assets held at fair value through profit and loss	62	2	2 454
Asset management fees	(359)	1	(13 015)
	(122)	(1)	(4 562)
Surplus/(deficit) for the year	(20 533)	18	121 489

Expenses not directly attributable to an option were allocated proportionately to the membership per option.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

22 Critical accounting judgments and areas of key sources of estimation uncertainty

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 statement of financial position 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 claims made under insurance contracts

There are some sources of estimation uncertainty that need to be considered in the estimate of the liability that the Scheme will ultimately pay for such claims. Initial estimates are made based on calculations on reported claims and derived as the claims process develops. All estimates are revised and adjusted at year-end by management. Refer to Note 7 for the method used to calculate the outstanding claims provision.

Fair value of financial assets

Refer to the accounting policy for impairment of financial assets (Note 1.7) for the criteria used to assess impairment of debt securities.

Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Scheme uses Moody's Analytics which produces a set of macroeconomic forecasts for South Africa that considers the historical accuracy of various forecasters to identify reliable sources. These are incorporated into their GCorr macroeconomic forecast set. Based on research conducted by Moody's, they recommend the use of their Baseline, Stronger Near-Term (S1) ("Bullish"), and Moderate Recession (S3) ("Bearish") forecast sets weighted 40%, 30%, 30% respectively for a forward looking adjustment for the purposes of IFRS 9. Moody's consider both public and private South African company defaults in this research. The methodology does consider the industry of the asset and includes the calculations likely volatility of that industry to the average impact on the South African economy.

Covid-19 has had a fundamental impact on the economy and forecasts were updated to reflect this. Moody's do not disclose the specific macroeconomic variables that they have found to be best predictive of changes in credit risk in South Africa, but do provide indicators of the impact of certain of their measures. Under all three scenarios, South Africa will experience a contraction of GDP. GDP (and debt to GDP) is the single most significant macroeconomic factor used in the model. GDP assumptions by nature are uncertain and therefore the GDP assumptions contain the most significant uncertainty.

Lease liabilities

The Scheme calculates its lease liabilities on all operating leases. The future lease payments are determined for the period of lease. The net present value of the future lease payments is calculated using the incremental borrowing rate. The sum of the present value of the leases determines the lease liability. The period of the lease is three years in accordance with Scheme policy. The incremental borrowing rate was determined using information obtained from the Scheme's bankers, Nedbank, which was prime less 0.5% for computer and office equipment and less 1% for property leases (Note 3)

23 Insurance risk management

Nature and extent of risks arising from insurance contracts

The Scheme issues contracts that transfer risk to the Scheme from the members. This section summarises these risks and the way the Scheme manages them.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

23 Insurance risk management (continued)

Insurance risk - description of benefit options

The types of benefits offered by the Scheme in return for monthly contributions are a mix between traditional and savings options as indicated below:

In-hospital benefits cover all costs incurred by members, up to the member's benefit limit, whilst they are in hospital to receive pre-authorised treatment for certain medical care.

Chronic benefits provide cover to members limited to their specific options as prescribed by the chronic disease list. When limits have been reached, additional benefits per option as registered by the Council for Medical Schemes are made available to members and will be paid in accordance with Scheme rules.

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

The MediSaver and Premium Plus options include a savings benefit to cover day-to-day costs.

The above benefits are extended to the principal member and their dependents based on their elected benefit option.

Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Scheme assumes the cost of healthcare provision to members and their dependents. The risks relate to the health of the Scheme members. As such the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contracts. 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-authorisation and case management and service provider profiling.

The Scheme uses several methods to assess and monitor insurance risk exposures both for individual types of insured and overall risks. These methods include internal risk measurement models, sensitivity analyses, scenario analyses and stress testing. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are random by nature 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. Medical scheme regulations do not permit selection of risk by explicit risk rating, e.g. rating by age or medical health. The structuring of options enables the Scheme to attract and discourage certain risk. However all options must contain prescribed minimum benefits.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, location and demographics of members covered.

Insurance risk - Demographic Analysis

Age grouping (in years)

	Current year claims					
	2020			2019		
	Number of Beneficiaries	Claims expenditure		Number of Beneficiaries	Claims expenditure	
Male R'000		Female R'000	Male R'000		Female R'000	
< 25	54 217	162 332	168 915	54 217	197 828	206 538
26 – 35	19 954	75 112	171 248	19 954	87 782	171 374
36 – 54	29 249	225 948	297 971	33 249	235 188	330 555
55 – 65	29 499	360 308	417 624	31 499	393 130	401 373
>65	18 056	401 206	440 525	20 077	467 762	530 886
	150 975	1 224 906	1 496 283	158 996	1 381 690	1 640 726
Grand Total			2 721 189			3 022 416

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2020

23 Insurance risk management (continued)

Concentration of risks

The following tables summarise the concentration of insurance risk, with reference to the carrying amount of the insurance claims incurred, as determined by the service date of the claim, in relation to type of benefit provided, and by age group:

2020 Age grouping (in years)	General Practitioners		Specialists		Dentistry		Optometry		Medicines		Hospital		Other		Total	
	R'000		R'000		R'000		R'000		R'000		R'000		R'000		R'000	
< 26	27 576		47 111		20 657		6 230		43 897		143 660		59 618		348 749	
Net claims	25 164		45 907		17 434		4 455		39 230		143 311		55 747		331 248	
26 – 35	23 778		36 828		9 715		4 196		30 866		92 094		54 229		251 706	
Net claims	23 145		36 513		9 136		3 649		29 506		91 967		52 444		246 360	
36 – 54	36 842		67 456		16 454		11 461		96 028		185 106		131 676		545 023	
Net claims	34 666		66 161		14 281		8 853		89 583		184 605		125 770		523 919	
55 – 65	33 864		112 754		16 352		13 961		124 685		323 587		193 008		818 211	
Net claims	30 118		110 149		12 208		8 489		111 937		322 770		182 262		777 933	
>65	21 126		149 090		13 549		7 170		122 189		410 279		209 278		932 681	
Net claims	15 567		143 221		7 701		2 738		95 099		398 210		179 193		841 729	
Gross claims	143 186		413 239		76 727		43 018		417 665		1 154 726		647 809		2 896 370	
Net claims	128 660		401 951		60 760		28 184		365 355		1 140 863		595 416		2 721 189	

Gross claims are made up of claims submitted by service providers or members and include members' portion amounts. Net claims are claims settled in accordance with the rules of the scheme.

Classification of "other" includes radiology, pathology, physiotherapy and associated health services based on the extract of claims from the operating system, Nexus, used by the Scheme in 2020.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

23 Insurance risk management (continued)

Concentration of risks

The following tables summarise the concentration of insurance risk, with reference to the carrying amount of the insurance claims incurred, as determined by the service date of the claim, in relation to type of benefit provided, and by age group:

2019	General Practitioners R'000	Specialists R'000	Dentistry R'000	Optometry R'000	Medicines R'000	Hospital R'000	Other R'000	Total R'000
Age grouping (in years)								
< 26	37 878	55 952	23 548	8 504	46 524	184 883	70 574	427 863
Gross claims								
Net claims	34 006	54 450	19 543	6 265	40 386	184 240	65 477	404 367
26 – 35	25 997	36 807	10 777	5 913	28 017	105 036	52 963	265 510
Gross claims								
Net claims	25 240	36 295	9 993	5 314	26 438	104 836	51 040	259 156
36 – 54	40 643	75 973	18 703	16 895	94 809	209 600	136 545	593 168
Gross claims								
Net claims	37 688	73 975	15 412	12 808	87 267	209 108	129 484	565 742
55 – 65	33 964	119 143	19 414	19 316	120 146	322 682	192 299	826 964
Gross claims								
Net claims	29 595	115 510	14 237	12 578	105 977	321 756	180 755	780 408
>65	21 955	173 989	14 575	9 408	121 096	510 967	228 831	1 080 821
Gross claims								
Net claims	15 611	165 698	7 789	3 900	91 525	509 048	219 172	1 012 743
	160 437	461 864	87 017	60 036	410 592	1 333 168	681 212	3 194 326
Gross claims								
Net claims	142 140	445 928	66 974	40 865	351 593	1 328 988	645 928	3 022 416

Gross claims are made up of claims submitted by service providers or members and include members' portion amounts. Net claims are claims settled in accordance with the rules of the scheme.

Classification of "other" includes radiology, pathology, physiotherapy and associated health services based on the extract of claims from the operating system, Nexus, used by the Scheme in 2019.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

23 Insurance risk management (continued)

Frequency and severity of claims

For insurance contracts issued, climatic and seasonal changes, as well as the spread of pandemics give rise to more frequent and severe claims.

Sources of uncertainty in the estimation of future claim payments

The Scheme frequently re-rates its products to ensure that the necessary profitability is maintained relative to the risk exposure. It is relatively easy to assess the future claims payments since a large majority of claims are lodged soon after year end before the four month expiration of claims period comes into effect.

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

The strategy is set out in the annual business plan, which specifies the benefits to be provided by each option, the preferred target market and demographic split thereof. The Scheme has the right to change the terms and conditions of the contracts at renewal. Management information including contribution income and claims management information including claims ratio by option and target market demographic split, is reviewed monthly.

The main risks addressed by the Scheme in determining the contribution rates and benefits of the Scheme's different options are summarised below:

- Only part of the year's data is available when the pricing exercise is performed and for the last three treatment months a substantial portion of the claims will be outstanding (i.e. either not yet submitted or submitted but not yet paid).
- Adjustments would then need to be made for outstanding claims. This would mean applying factors derived from this year's and previous year's data. There is a risk that these claims are either overstated or understated.
- Projections of claim amounts need to be made for the remainder of the current year. This would involve using seasonality adjustments, which may differ from year to year. There is a risk of the actual experience being different to the projected experience.
- Assumptions need to be made regarding future medical price inflation and increases in benefit utilisation as a result of factors such as ageing of the membership and medical advancements. There is a risk that actual experience will differ from these assumptions.
- Expenses and fees will be loaded into the contributions. The risk is that the budgeted values may differ from actual costs incurred by the Scheme.
- Implicit currency projections need to be made due to the import of medicine, medical equipment and the potential volatility of the exchange rate makes this uncertain.
- Changes in benefit design need to be allowed for. This may be difficult if the design differs significantly from that previously offered by the Scheme.
- The risk exists that the actual changes in the Scheme's and each of the option's demographic profile will differ from those allowed for in the assumptions.
- Allowance has been made for the possible effects of changes in the legislative and market environment. There is a risk that these allowances have been over or understated.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

23 Insurance risk management (continued)

Risk transfer arrangements

The Scheme entered into a capitation agreement with Netcare Hospitals (Pty) Ltd trading as Netcare 911 (refer Note 12). The capitation agreements involve transfer of risk and are, in substance, the same as a 100% quota share reinsurance treaty.

According to the terms of the capitation agreements, the suppliers provide certain minimum benefits to certain 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 supplier fails to meet the obligation it assumes.

When selecting a supplier the Scheme considers their relative security. The security of the supplier is assessed from public rating information where applicable and from internal investigations, and reviewed on an on-going basis.

Sensitivity of the Scheme's financial position

According to the Medical Schemes Act of 1998, the reserve levels of Schemes must be equal to or exceed 25% of net contributions (i.e. including savings contributions).

The table below indicates how sensitive the Scheme's results are to changes in the claims experience:

	Change in variable %	2020 R'000	2019 R'000
Actual surplus for the year		475 548	121 489
Surplus after change in claims experience	1% lower	502 759	151 713
Surplus after change in claims experience	1% higher	448 336	91 264

Prescribed minimum benefits (PMBs)

The Scheme has a robust process in place whereby it analyses, verifies and adjudicates PMB claims before being paid in accordance with the cost of the claim so as to, as far as possible, prevent fraudulent and incorrectly coded claims from being paid. The process followed is in line with the registered Scheme rules.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

24 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

Assets as per statement of financial position

31 December 2020

Category	R'000	R'000	R'000	R'000
Category	Loans and receivables	Financial assets	Insurance receivables	Total carrying amount
Financial assets (Note 4)	-	2 245 744	-	2 245 744
Trade and other receivables (Note 5)	(323)	-	32 095	31 772
Cash and cash equivalents (Note 6)	248 207	-	-	248 207
	247 884	2 245 744	32 095	2 525 723

31 December 2019

Category	R'000	R'000	R'000	R'000
Category	Loans and receivables	Available-for-sale financial assets	Insurance receivables	Total carrying amount
Financial assets (Note 4)	-	1 899 434	-	1 899 434
Trade and other receivables (Note 5)	(424)	-	29 996	29 572
Cash and cash equivalents (Note 6)	157 193	-	-	157 193
	156 769	1 899 434	29 996	2 086 199

Liabilities as per statement of financial position

31 December 2020

Category	R'000	R'000	R'000
Category	Financial liabilities at amortised cost	Insurance payables	Total carrying amount
Lease liabilities (Note 3)	21 072	-	21 072
Medical savings (Note 8)	164 993	-	164 993
Trade and other payables (Note 9)	60 652	106 803	167 455
	246 717	106 803	353 520

31 December 2019

Category	R'000	R'000	R'000
Category	Financial liabilities at amortised cost	Insurance payables	Total carrying amount
Lease liabilities (Note 3)	37 469	-	37 469
Medical savings (Note 8)	161 507	-	161 507
Trade and other payables (Note 9)	51 740	123 311	175 051
	250 716	123 311	374 027

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

25 Credit quality of financial instruments

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to information about counterparty default rates:

Trade receivables

Members do not have external credit ratings. The members are split between groups and private. During the 2020 financial period there were 9,767 (2019: 10,208) new members and 76,998 (2019: 79,757) that existed during the financial period. Of these 7,424 (76%) [2019: 8,385 (82%)] of the new members and 58,418 (76%) [(2019: 62,041 (78%)] existing members (older than a month) were not suspended during the financial period due to non-compliance of credit control rules. Suspension for new members was 2,343 (2019: 1,823) and for members that existed at the beginning of the year was 7,581 (2019:7,291).

31 December 2020

	R'000 Group members	R'000 Private members
Fully performing and not impaired (active members between 0 to 30 days)	17 992	6 112
Past due but not impaired (between 30 to 60 days)	2 830	86
Past due and impaired (60+ days for active members and all left members) *	6 657	3 801
	<u>27 479</u>	<u>9 999</u>

31 December 2019

	R'000 Group members	R'000 Private members
Fully performing and not impaired (active members between 0 to 30 days)	15 990	6 822
Past due but not impaired (between 30 to 60 days)	1 947	82
Past due and impaired (60+ days for active members and all left members) *	5 147	2 932
	<u>23 084</u>	<u>9 836</u>

* As per the credit control policy of the Scheme, only active members over 60 days and resigned members are impaired.

Cash and cash equivalents

Cash and cash equivalents are held with Nedbank and Standard Bank (Lesotho). The ratings for Nedbank as financial institutions (per Moody's rating) are P-1 for Moody's short term rating and Ba2 for their long term rating and for Standard Bank Lesotho are P-1 for short-term and Ba2 for long-term.

Financial assets

Credit ratings obtained for certain debt and money market instruments included in portfolio investments are summarised as follows:

	Rating	R'000
Instruments guaranteed by the government of the RSA	zaAAA	314 327
Debt instruments - Other	zaAA	369 979
Long-term money market instruments	zaAA	311 123
		<u>995 429</u>

The above information was based on the average credit ratings of the instruments as communicated to the Scheme by the relevant fund managers (Sanlam, Prudential, Argon & Allan Gray). The credit ratings used by the asset managers were provided by Moody's and Standard & Poor's.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

25 Credit quality of financial instruments (continued)

Financial assets (continued)

Management is satisfied with the quality and suitability of the asset managers and their performance as mandated by the Board of Trustees.

26 Financial risk management

Financial risk management strategy and policy

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. Certain risk management and investment decisions are made under the guidance policies approved by the Board of Trustees. The Board of Trustees provides written principles for risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and investing excess liquidity.

Based on the nature of the Medical Schemes industry, the assets are considered to be the capital of the Scheme. The Scheme ensures, on a monthly basis, that it complies with regulation 30 and annexure B of the Act. The current investment structure is that 30% of total assets are held in equity, 30% of total assets are held in bonds and the remainder held in interest bearing assets and other asset types.

The investment objectives are:

- to ensure that there are sufficient funds to meet benefit and operating expense commitments as they fall due;
- to make adequate provision for possible long-term adverse claim experience;
- to manage risks such as exposure to adverse exchange rates;
- to manage the risk of diversification and credit rating/evaluation of third parties;
- to satisfy regulatory requirements in respect of the Scheme's investments;
- and to achieve an investment return of CPI + 4% (net of costs) on funds held in the investment portfolio (excludes cash and money market fund balances) over a three year rolling period, whilst minimising the potential for capital loss over any 12 month period as well as achieving a return equal to STeFi on funds held directly in cash and money market type funds.

26.1 Financial risk factors

	2020 R'000	2019 R'000
Instruments exposed to Interest rate risks	1 180 147	821 667
Instruments exposed to Price risk	1 065 597	1 077 767

The Scheme's activities expose it to a variety of financial risks including market risk (fair value interest rate risk, cash flow interest rate risk and price risk) credit risk and liquidity risk. The risks arise from open positions in interest rate and equity products all of which are exposed to general and specific market movements.

(i) Cash flow and fair value interest rate risk

The Scheme's investment policy is to hold the majority of its investments in interest bearing instruments. The Scheme's income and operating cash flow are therefore substantially influenced by changes in market interest rates. Investments in interest bearing instruments issued at variable rates expose the Scheme to cash flow interest rate risk (i.e. loss of income if the rates decrease and increase in income if they increase). Investments in interest bearing instruments issued at fixed rates expose the Scheme to fair value interest rate risk (i.e. movement in interest rates would have a direct effect on the fair value of the instruments).

An increase or decrease of 1% (100 basis points) in market interest rates on money market instruments and cash and cash equivalents at 31st December 2020, with all the other variables remaining constant would increase or decrease the Scheme's accumulated reserves by R 10 408 581 (2019: R 7 291 850).

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

26 Financial risk management (continued)

26.1 Financial risk factors (continued)

(ii) Price risk

The Scheme invests in equity of other entities that are publicly traded. The Scheme is exposed to equity security price risk because of investments held in equities. To manage its price risk the scheme diversifies its portfolio by including money market instruments and bonds. Diversification is in accordance with the limits set by the Scheme. The Scheme has investments exposed to equity price risk of R676 million (2019: R695 million).

(iii) Fair value market risk - sensitivity analysis: Cash

The sensitivity analysis is based on the movement of the STeFi index for the cash component of investments and cash and cash equivalents. The model used for % change in respect of a change in index return is the standard deviation (i.e. for every 1% assumed change in market value the index return would change by 1 standard deviation). A one percent increase in the investment return at the reporting date would have increased cash by R 10,409m in 2020 (2019: R 7,292m); an equal change in the opposite direction would have decreased cash by the same amount. These sensitivity measures are based on the average change per annum of the STEFI index over a 5 year period.

	Current accounts	Current accounts held in escrow *	Money market funds	Total Cash
31 December 2020	247 544	663	792 651	1 040 858
31 December 2019	156 530	663	571 992	729 185

31 December 2020	R'000		R'000		R'000	
	Index return	Adjusted closing value	Fair value impact	Accumulated funds	Fair value impact	Accumulated funds
% Change						
2.0%	7.4%	1 061 675	20 817	1 529 087		
1.0%	6.4%	1 051 267	10 409	1 518 677		
0.0%	5.4%	1 040 858	-	1 508 269		
-1.0%	4.4%	1 030 449	(10 409)	1 497 860		
-2.0%	3.4%	1 020 041	(20 817)	1 487 452		

31 December 2019	R'000		R'000		R'000	
	Index return	Adjusted closing value	Fair value impact	Accumulated funds	Fair value impact	Accumulated funds
% Change						
2.0%	9.3%	743 769	14 584	1 368 601		
1.0%	8.3%	736 477	7 292	1 361 310		
0.0%	7.3%	729 185	-	1 354 018		
-1.0%	6.3%	721 893	(7 292)	1 346 726		
-2.0%	5.3%	714 601	(14 584)	1 339 434		

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2020

26 Financial risk management (continued)

26.1 Financial risk factors (continued)

(iii) Fair value market risk - sensitivity analysis: Bonds

The sensitivity is based on the movement on the All Bond index. The All Bond index is a weighted portfolio of the bonds traded on the bond exchange. The index return is therefore measured by the price changes of quoted bonds. The model used for % change in price in respect of a change in index return is the standard deviation. (i.e. for every 1% assumed change in market value the index return would change by 1 standard deviation). The reason for using this model is due to its simplicity as a measure of variability and hence sensitivity. It is also suitable for measuring variability using past data. It is assumed that the Scheme's debt portfolio is weighted similar to the All Bond index and that standard deviation is representative of the current volatility and of the portfolio held. It is assumed that the Scheme's interest bearing securities are weighted on a similar bases as the All Bond index. The impact has been evaluated by looking at the change to the index return on the following 15%, 7.5% and 0% for 2020 (2019: 15%, 7.5% and 0%) applicable at 31 December for each year. These sensitivity measures are based on the average change per annum of the All Bond index over a 5 year period.

	Bonds	Total Bonds
31 December 2020	387 496	387 496
31 December 2019	249 675	249 675

31 December 2020

% Change	Index return	Adjusted closing value	Fair value impact	Accumulated funds
15.0%	23.7%	445 620	58 124	1 566 393
7.5%	16.2%	416 558	29 062	1 537 332
0.0%	8.7%	387 496	-	1 508 269
-7.5%	1.2%	358 434	(29 062)	1 479 207
-15.0%	-6.4%	329 371	(58 124)	1 450 144

31 December 2019

		R'000		R'000	
% Change	Index return	Adjusted closing value	Fair value impact	Accumulated funds	Accumulated funds
15.0%	25.3%	287 126	37 451	1 391 469	1 391 469
7.5%	17.8%	268 400	18 726	1 372 743	1 372 743
0.0%	10.3%	249 675	-	1 354 018	1 354 018
-7.5%	2.8%	230 949	(18 726)	1 335 292	1 335 292
-15.0%	-4.7%	212 223	(37 451)	1 316 567	1 316 567

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2020

26 Financial risk management (continued)

26.1 Financial risk factors (continued)

(iii) Fair value market risk - sensitivity analysis: Equities

The sensitivity analysis is based on the movement of the Weighted All share Index. The All Share Index is a weighted portfolio of all the listed shares traded on the JSE. The index return is therefore measured by the price changes of quoted shares. The model used for % change in index return is the standard deviation (i.e. for every 1% assumed change in market value the index return would change by 1 standard deviation). The reason for using this model is due to its simplicity as a measure of variability and hence sensitivity. It is also suitable for measuring variability using past data. It is assumed that the Scheme's equity portfolio is weighted similar to the All Share Index and that standard deviation is representative of the current volatility and of the portfolio held. The impact has been evaluated by looking at the change to fair value based on the following percentage changes of 30%, 20% and 10% for the year ending 31 December 2020 (30%, 20% and 10% for the year ending 31 December 2019). These sensitivity measures are based on the average change per annum of the All Share index movement over a 5 year period.

	Equities	Total Equities
31 December 2020	1 065 597	1 065 597
31 December 2019	1 077 767	1 077 767

31 December 2020	% Change	Index return	R'000		Accumulated funds	R'000
			Adjusted closing value	Fair value impact		
	30%	37.0%	1 385 277	319 679	1 827 948	
	20%	27.0%	1 278 717	213 119	1 721 388	
	10%	17.0%	1 172 157	106 560	1 614 829	
	0%	7.0%	1 065 597	-	1 508 269	
	-10%	-3.0%	959 038	(106 560)	1 401 709	
	-20%	-13.0%	852 478	(213 119)	1 295 150	
	-30%	-23.0%	745 918	(319 679)	1 188 590	

31 December 2019	% Change	Index return	R'000		Accumulated funds	R'000
			Adjusted closing value	Fair value impact		
	30%	42.0%	1 401 097	323 330	1 778 706	
	20%	32.0%	1 293 320	215 553	1 670 929	
	10%	22.0%	1 185 544	107 777	1 563 152	
	0%	12.0%	1 077 767	-	1 354 018	
	-10%	2.0%	969 990	(107 777)	1 347 599	
	-20%	-8.0%	862 214	(215 553)	1 239 822	
	-30%	-18.0%	754 437	(323 330)	1 132 045	

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

26 Financial risk management (continued)

26.1 Financial risk factors (continued)

(iv) Currency risk

The Scheme operates in South Africa and therefore its cash flows are denominated in South African Rand (ZAR). The exposure of the Scheme's solvency to foreign currency movements was 8.77% (2019: 8.72%). This was due to the Scheme's assets being invested in bonds, cash and money market instruments on international markets. The Scheme's reserves are managed in compliance with Regulation 30, which limits offshore exposure and excludes investment in offshore equities. The Scheme's underlying investment portfolios can, and will, hold Rand hedge securities.

(v) Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt financial assets carried at fair value through profit and loss (FVPL) and debt financial assets carried at fair value through other comprehensive income (FVOCI), as well as credit exposures to members, including outstanding receivables (insurance and non-insurance).

a) Risk management

Credit risk is managed on a Scheme level. For financial assets, the Scheme invests only in those financial instruments that are in compliance with Regulation 30 of the Act. Cash and financial asset transactions are limited to high credit quality institutions with high credit ratings. The Scheme manages the credit risk specifically relating to trade and other receivables, by ensuring it applies a clearly defined credit policy per category of debtor. For credit quality assessment of financial assets refer to Note 25.

In terms of the Act, contributions are required to be settled within three days after they become due. Direct paying members (DPM's) are invoiced in advance and if they are cash paying, they are suspended after 30 days if the contribution is not received. DPM's paying via debit order are suspended when the debit order is rejected, thereby reducing credit risk. Groups are suspended after thirty days. There is significant concentration of credit risk through exposure to the mining industry.

The Scheme's investments in debt instruments are considered to be low risk investments. The credit ratings of the investments are monitored for credit deterioration.

b) Impairment of financial assets

The Scheme has two types of financial asset that is subject to the expected credit loss model, being debt investments carried at fair value through other comprehensive income (FVOCI), and debt investments carried at fair value through profit and loss (FVPL):

Debt investments carried at fair value through other comprehensive income

Insurance and non-insurance trade & other receivables are subject to the impairment requirements of IFRS9 and the impairment losses have been included in Note 14.

While cash and cash equivalents are also subject to the impairment requirements of IFRS9, the identified impairment loss was immaterial.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

26 Financial risk management (continued)

26.1 Financial risk factors (continued)

(v) Credit risk (continued)

Debt investments at fair value through other comprehensive income

Expected credit losses on the debt investments (fixed income investments) and money market investments were measured on the general approach. The general approach of IFRS9 requires an assessment of the relevant stage. For stage 1 assets, one-year credit losses are measured. For stage 2 & 3 assets, lifetime losses are applied. An asset would normally be in stage 1 upon acquisition and move to stage 2 if there is a significant increase in credit risk (SICR).

The trigger for a SICR is a downgrade of the international scale rating by 2 notches or more since the acquisition of the asset by Moody's Investor Services. The appropriate rating to use in determining a SICR is the global scale. All ratings are global, long-term, senior unsecured ratings. Where only local currency ratings are available, these have been mapped to an equivalent global rating. The rationale for this, is that there were two downgrades in 2020 in quick succession, being 27th March & 20th November 2020. The implications of the 2 notch downgrade meant that South African debt was downgraded from Baa3 (investment grade) to Ba2 (sub-investment grade). This is the first time since 1994 (there was no rating prior to 1994) that South African debt has been sub-investment.

SICR is based on a comparison between risk at date of acquisition and at the current date. The measurements are limited by the information provided by the asset managers that does not include original purchase date. There were instances where there is no date of issue of each debt security. The majority of the portfolio is sovereign and bank bonds where liquidity is relatively high and the assets could have been purchased at any time. For the smaller number of corporate bonds, there is less market liquidity and it is likely that they were subscribed to an issue. There is portfolio data since 2018, so it was possible to determine which assets were acquired since then.

All of the Scheme's debt investments carried at fair value through other comprehensive income are considered to have low credit risk. All the instruments are listed on the Johannesburg Stock Exchange (JSE) and all have credit ratings. Debt investments are managed by the relevant asset managers. Due to the two notch downgrade, thus triggering a SICR, there was a loss allowance recognised during the period. The loss allowance for debt investments at FVOCI is recognised in profit or loss and in the fair value through other comprehensive reserve (debt).

The loss allowance for debt investments at FVOCI as at 31 December reconciles to the opening loss allowance as follows:

	2020 R'000
Loss allowance at at 1 January and 31 December 2019	-
Increase in loan loss allowance recognised in profit or loss during the year	22 631
Closing loss allowance as at 31 December 2020	<u>22 631</u>

The Scheme's principal financial assets are cash and cash equivalents, trade and other receivables, financial assets through OCI and financial assets. The amounts presented in the statement of financial position are net of impairments. An impairment is made where there is an identified loss event which, based on previous experience is evidence of a reduction in the recoverability of the cash flows. Cash and financial asset transactions are limited to high credit quality financial institutions with high credit ratings. The Scheme manages the credit risk specifically relating to trade and other receivables, by ensuring it applies a clearly defined credit policy per category of debtor. For credit quality assessment of financial assets refer to note 25.

The ageing of trade and other receivables has been included in Note 25. The provision for impairment losses has been included in Note 14.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

26 Financial risk management (continued)

Financial assets at fair value through profit or loss

The Scheme is also exposed to credit risk in relation to debt investments that are measured at fair value through profit or loss. The maximum exposure at the end of the reporting period is the carrying amount of these investments (R786m; 2019 - nil).

(vi) Liquidity risk

Liquidity risk is the risk that the Scheme will not have sufficient liquid funds available to settle financial obligations as they fall due. The financial liabilities have been aged according to cash requirements to service the debt. The short-term financial liabilities of the Scheme consist of claims made by members which have not been processed by the Scheme, savings refundable to members, claims payable to members and service providers processed by the Scheme at year end. The outstanding claims provision is based on contractual agreements between the Scheme and its members and is not discounted. The Scheme performs a monthly cash forecast (managed on a daily basis) based on cash requirements to service short-term financial liabilities and payment of expenses. Prudent liquidity management implies maintaining sufficient cash and marketable securities. The availability of funding through liquid holding cash positions with various financial institutions ensures that the Scheme has the ability to fund its day-to-day operations.

31 December 2020

	R'000	R'000	R'000	R'000	R'000	R'000
LIABILITIES	Up to 1 month	1-3 Months	Between 3 months and a year	Between 1 and 5 years	Over 5 Years	Total
Current liabilities						
Lease liability (Note 3)			19 841	1 231		21 072
Outstanding claims provision (Note 7)	103 638	54 418	16 944	-	-	175 000
Medical savings (Note 8)	-	164 993	-	-	-	164 993
Trade and other payables (Note 9)	167 455	-	-	-	-	167 455
Total liabilities	271 093	219 411	36 785	1 231	-	528 520
Financial assets	1 049 835	68 186	234 571	481 341	411 811	2 245 744

31 December 2019

	R'000	R'000	R'000	R'000	R'000	R'000
LIABILITIES	Up to 1 month	1-3 Months	Between 3 months and a year	Between 1 and 5 years	Over 5 Years	Total
Current liabilities						
Lease liability (Note 3)	-	-	20 525	16 944	-	37 469
Outstanding claims provision (Note 7)	127 513	31 708	40 779	-	-	200 000
Medical savings (Note 8)	-	161 507	-	-	-	161 507
Trade and other payables (Note 9)	175 051	-	-	-	-	175 051
Total liabilities	302 564	193 215	61 304	16 944	-	574 027
Financial assets	1 541 671	30 065	86 825	68 851	172 023	1 899 434

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

26 Financial risk management (continued)

26.1 Financial risk factors (continued)

(vi) Liquidity risk (continued)

A significant portion of the Scheme's investments are exposed to the change in the market interest rates.

The table below summarises the Scheme's exposure to interest rate and price risks based on the maturity dates of the relevant investment.

31 December 2020

	R'000	R'000	R'000	R'000	R'000	R'000
	Up to 1 month	1-3 Months	Between 3 months and a year	Between 1 and 5 years	Over 5 Years	Total
ASSETS						
Financial assets (Note 4)	1 049 835	68 186	234 571	481 341	411 811	2 245 744
Cash and cash equivalents (Note 6)	248 207	-	-	-	-	248 207
	<u>1 298 042</u>	<u>68 186</u>	<u>234 571</u>	<u>481 341</u>	<u>411 811</u>	<u>2 493 951</u>

31 December 2019

	R'000	R'000	R'000	R'000	R'000	R'000
	Up to 1 month	1-3 Months	Between 3 months and a year	Between 1 and 5 years	Over 5 Years	Total
ASSETS						
Financial assets (Note 4)	1 541 671	30 065	86 825	68 851	172 023	1 899 434
Cash and cash equivalents (Note 6)	157 193	-	-	-	-	157 193
	<u>1 698 864</u>	<u>30 065</u>	<u>86 825</u>	<u>68 851</u>	<u>172 023</u>	<u>2 056 627</u>

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

26 Financial risk management (continued)

26.1 Financial risk factors (continued)

(vi) Liquidity risk (continued)

Fair value estimates

Refer to Note 1.7 regarding the determination of financial assets.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year approximate their fair values.

Investment in structured entity

The exposure to investments in Investee Funds at fair value, by strategy employed, is disclosed in the following table.

These investments are included in financial assets in the statement of financial position.

2020

Strategy	Number of investee funds	Net asset value of investee fund (range and weighted average) R'000	Fair value of fund's assets of investment R'000*	% of net assets attributable to holders of redeemable shares**
Stanlib Corporate Money Market Fund B4	398	48 160 700	134 668	0.28%
Stanlib Enhanced Yield Fund B3 (Previously Cash Plus)	772	50 037 312	127 090	0.25%
Allan Gray Life Stable Medical Scheme Portfolio	19	2 420 723	538 636	27.50%
Total	791	52 458 035	665 727	1.27%

2019

Strategy	Number of investee funds	Net asset value of investee fund (range and weighted average) R'000	Fair value of fund's assets of investment R'000*	% of net assets attributable to holders of redeemable shares**
Stanlib Corporate Money Market Fund B4	545	37 721 255	88 937	0.24%
Allan Gray Life Stable Medical Scheme Portfolio	19	2 538 886	603 305	27.27%
Total	564	40 260 141	692 242	1.72%

FAIR VALUES OF FINANCIAL ASSETS BY HIERARCHY LEVEL

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market closing prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

26 Financial risk management (continued)

26.1 Financial risk factors (continued)

(vi) Liquidity risk (continued)

The fair values of other financial assets are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Fair value measurements recognised in the statement of financial position (Fair value hierarchy)

For financial assets measured at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements.

Level 1 fair value measurement represents those assets which are measured using unadjusted quoted market closing prices in an active market for identical assets.

At 31 December 2020, investments classified as Level 1 comprise approximately 53% (2019: 43%) of financial assets measured at fair value on a recurring basis. Fair value measurements classified as Level 1 include exchange traded prices of fixed maturities and equity securities.

Unit linked funds usually have a published price used for the previous day's transactions. Where the valuation of the instrument is based on these observable unit prices with no significant unobservable inputs and there are sufficient transactions to meet the definition of a quoted price in an active market, it is likely to be classified as Level 1. However, if an insurer calculates the liability without reference to the published price, it will fall into Level 2 or 3. Where the valuation of the liability incorporates significant inputs influenced by management's assumptions, such as tax adjustments not reflected in the observable price or underlying assets and liabilities, this is likely to be a Level 3 classification.

Listed debt securities such as Government securities and Corporate bonds may be classified as Level 1 or 2 depending on trade frequency and data availability.

At 31 December 2020, investments classified as Level 2 comprise approximately 47% (2019: 57%) of financial assets measured at fair value on a recurring basis. They primarily include Government and Agency securities and certain corporate debt securities, such as private fixed maturities. As market quotes generally are not readily available or accessible for these securities, their fair value measures are determined utilising relevant information generated by market transactions involving comparable securities. Inputs other than quoted prices that are observable for the assets either directly (as prices) or indirectly (derived from prices) are applied.

Observable inputs generally used to measure the fair value of securities classified as Level 2 include benchmark yields, reported secondary trades, broker-dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data. Additional observable inputs are used when available, and as may be appropriate, for certain security types, such as pre-payment, default and collateral information for purpose of measuring the fair value of mortgage and asset-backed securities.

Level 3 fair value measurements apply inputs which are not based on observable market data. Private equity securities usually are priced based on unobservable market data and are not easily tradable and are therefore likely to be classified as Level 3. These are often based on model pricing techniques that effectively discount prospective cash flows to present value using appropriate sector-adjusted credit spreads commensurate with the security's duration, also taking into consideration issuer specific credit quality and liquidity. These valuation methodologies have been studied and evaluated by the asset manager and the resulting prices determined to be representative of exit values.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

26 Financial risk management (continued)

26.1 Financial risk factors (continued)

(vi) Liquidity risk (continued)

FAIR VALUES OF FINANCIAL ASSETS BY HIERARCHY LEVEL (continued)

Fair value measurements recognised in the statement of financial position (Fair value hierarchy)(continued)

At 31 December 2020, there are no instruments classified as Level 3 (2019: 0%).

31 December 2020

ASSETS

Financial assets (Note 4)

Money market instruments

Debt instruments

Equities

Unitised investments

	R'000	R'000	R'000
	Level 1	Level 2	TOTAL
Money market instruments	357 768	226 143	583 911
Debt instruments	356 896	30 599	387 495
Equities	473 943	-	473 944
Unitised investments	-	800 394	800 394
	1 188 607	1 057 136	2 245 744

31 December 2019

ASSETS

Financial assets (Note 4)

Money market instruments

Debt instruments

Equities

Unitised investments

	R'000	R'000	R'000
	Level 1	Level 2	TOTAL
Money market instruments	94 576	388 478	483 054
Debt instruments	249 675	-	249 675
Equities	472 466	1 997	474 463
Unitised investments	-	692 242	692 242
	816 717	1 082 717	1 899 434

Capital adequacy risk

The Scheme's objectives when managing capital are to maintain the capital requirements of the Act, and to safeguard the Scheme's ability to continue as a going concern in order to provide benefits for all the stakeholders. The risk arises that the reserves are insufficient to provide for adverse variations of actual and future expenditure. The Act requires a minimum solvency ratio of accumulated funds expressed as a percentage of net premiums to be no less than 25%. The Scheme's strategy was to maintain a solvency ratio of above the required 25% and a AA- credit rating. The Scheme's solvency ratio at 31 December 2020 is 52.6% (2019: 39.6%) with a rating of AA- (2018: AA-) Stable.

Legal risk

Legal risk is the risk that the Scheme will be exposed to contractual obligations which have not been provided for. At 31 December 2020 the Scheme did not consider there to be any significant concentration of legal risk that had not been provided for other than contained in Note 17.

27 Rental Commitments

The Scheme has adopted IFRS 16 *Leases* retrospectively for 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions of the standard. The reclassification and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

28 Non Compliance with Medical Schemes Act and Regulations

28.1 Contributions not received within the time stipulated by the Act

Nature of the non-compliance

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 becomes due.

Impact

Risk of paying claims where no contributions were received or possible bad debts as a result of not collecting the contributions on time.

Cause of the non-compliance

There were some instances noted where the contributions were not received within three days of becoming due.

Corrective course of action

Strict credit control procedures are in place to prevent loss to the Scheme. Members and employers are continuously reminded to submit payment and non-payment will result in the suspension of the account and no claims are paid until the account is brought up to date.

28.2 Claims payments made in excess of 30 days since receipt thereof

Nature of the non-compliance

Section 59(2) of the Act states : "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."

Impact

Members might be charged interest on the late payment of accounts by the healthcare professionals.

Cause of the non-compliance

These instances normally arise mainly due to queries on the accounts submitted and further investigation is required to ensure that claims are processed. In these exceptional cases claims were paid later than 30 days after date of submission. However, there are two main process issues that will arise every year; firstly, PMB claim reversals and corrections will always breach 30 days because of the nature of the claim and secondly, there are technical system issues which result in development. This leads to claims being put on hold until the development is implemented, leading to certain claims breaching the 30 day payment requirement.

Corrective course of action

The Scheme continuously encourages members and providers to submit the required supporting documentation as early as possible. The Scheme is continuously implementing new controls to manage the payments of claims in excess of 30 days. The change to a new service provider was fully implemented in 2019.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

28 Non Compliance with Medical Schemes Act and Regulations (continued)

28.3 Loss making options

Nature of the non-compliance

Section 33(2) of the Act states : "The Registrar shall not approve any benefit option under this section unless the Council is satisfied that such benefit option -

- (a) includes the prescribed benefits;
- (b) shall be self-supporting in terms of membership and financial performance;
- (c) is financially sound; and
- (d) will not jeopardise the financial soundness of any existing benefit option within the medical scheme."

One of the scheme's options incurred a net deficit on the net healthcare result line.

Impact

Benefit options will not be self-sustainable.

Cause of the non-compliance

The Scheme introduced two efficiency discount options in 2020, namely MediPlus Compact & MediValue Compact to offer greater choice to Scheme members and to attract membership. On both these options, the Scheme did not increase the 2019 contribution rates, leading to MediPlus Compact incurring a net healthcare deficit.

Corrective course of action

The Scheme, in conjunction with the Scheme's actuaries, constantly reviews the performance of these options, and after taking all factors into consideration, contributions and benefits are adjusted accordingly on an annual basis in the normal course of business. Furthermore, the Scheme undertook a review in early 2018 to specifically address Scheme sustainability and a significant part of this work will encompass loss-making options. In addition, the Scheme has implemented a project in early 2018 to improve the claims loss ratio, which has had a significant positive impact on loss-making options. The Scheme experienced improved performance in 2020 due to Covid-19, which had a positive impact on loss-making options. The Scheme improved from 4 loss-making options to 1 loss making option and the Scheme intends to achieve option self-sustainability in the medium term as per the Scheme's 5 year sustainability plan.

28.4 Direct or indirect investments in other medical scheme administration companies & participating employers

Nature of the non-compliance

Section 35(8) of the Act states : "A Medical Scheme shall not invest any of its assets in the business of any other medical scheme or administrator or employer who participates in the medical scheme".

Impact

Direct equity investment holdings in holding companies of medical scheme administrators.

Cause of the non-compliance

This is as a result of the mandate given to the asset managers by the Scheme, who have the discretion to invest in any approved instrument, in terms of Regulation 30.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

28 Non Compliance with Medical Schemes Act and Regulations (continued)

28.4 *Direct or indirect investments in other medical scheme administration companies & participating employers*

Corrective course of action

The Scheme has obtained exemption from the Council for Medical Schemes for this non-compliance. This exemption expires on the 30th November 2022.

28.5 *Encumbered Assets*

Nature of the non-compliance

Section 35(6) of the Act states : "A Medical Scheme shall not encumber its assets"

Impact

Cash and cash equivalents are encumbered as guarantees in respect of the deposit made to the South African Post Office.

Cause of the non-compliance

The deposit was required by the South African Post Office in order to conduct business with them.

Corrective course of action

The Scheme has obtained exemption from the Council for Medical Schemes for this non-compliance. This exemption expires on 14th July 2021.

28.6 *Netcare 911 capitation agreement for the provision of emergency medical services*

Nature of the non-compliance

Regulation 7 defines a Designated Service Provider ("DSP") and Prescribed Minimum Benefits ("PMBs"):

Designated Service Provider means a health care provider or a group of providers selected by the medical scheme concerned as the provider or providers to provide its members diagnosis, treatment and care in respect of one or more prescribed benefit conditions;

Prescribed Minimum Benefit (PMB) condition means a condition contemplated in the Diagnosis and Treatment Pairs listed in Annexure A or any emergency medical condition;

Section 15A(1) If a medical scheme provides benefits to its beneficiaries by means of a managed health care arrangement with another person -

- a. the terms of that arrangement must be clearly set out in a written contract between parties;*
- b. with effect from 1 January 2004, such arrangement must be with a person who has been granted accreditation as a managed health care organisation by the Council; and*
- c. Such arrangement must not absolve a medical scheme from its responsibility towards its members if any other party to the arrangement is in default with regard to the provisions of any service in terms of such agreement.*

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

28 Non Compliance with Medical Schemes Act and Regulations (continued)

28.6 Netcare 911 capitation agreement for the provision of emergency medical services

Impact

On or about June 2015, the Scheme entered into a contract with Netcare 911 for the provision of emergency medical services based on a capitated arrangement and in terms of the agreement Netcare was appointed as a DSP of the Scheme. CMS issued a ruling on 22 December 2017 whereby the agreement is sanctioned (not valid) by regulation 8 and 15F of the Act. The contract expired on 31 December 2017. The Scheme was contracted with Netcare 911 on a monthly basis during 2020, while a new arrangement was being formulated.

Cause of the non-compliance

- a) In terms of the agreement, the Scheme required the call centre of Netcare 911 to be utilised for authorisations, which entails provisions of non-PMB's and therefore, the Scheme cannot appoint Netcare 911 as a DSP;
- b) In terms of the agreement being a capitation agreement, regulation 15F prohibits the Scheme from entering into a capitation agreement unless the transfer of the risk is to an accredited managed health care organisation and Netcare 911 is not accredited.

Corrective course of action

The Scheme acknowledged the Registrar's ruling and informed CMS that it would abide by it. The Scheme engaged with the CMS with regard to the matter and a way forward is being determined on how the Scheme will implement business process changes to ensure compliance with the Act going forward.

28.7 Donations

Nature of the non-compliance

Section 30(1)(a) of the Act states – A Medical Scheme may in its rules make provision for donations to any hospital, clinic, nursing home, maternity home, infirmary or home for aged persons of all or some of its beneficiaries;

Impact

The Scheme played an important role in the fight against Covid-19. As part of this effort, the Scheme donated R500 000 (five hundred thousand rand only) to the Solidarity Fund and a further donation of a Hyundai H1 panel van, with a book value of R168 000 (one hundred and sixty eight thousand Rand) to the NICD.

Cause of the non-compliance

The donations made were to organisations that are not compliant with the Act.

Corrective course of action

The Scheme will ensure that all donations going forward comply with S30(1)(a) of the Act.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

28 Non Compliance with Medical Schemes Act and Regulations (continued)

28.8 Commission paid to brokers on partial contributions received

Nature of the non-compliance

Regulation 28(5) of the Act states that: Payment by a medical scheme to a broker in terms of sub-regulation (2) shall be made on a monthly basis and upon receipt by the scheme of the relevant monthly contribution in respect of that member.

Circular 70 of 2019 – Revised Administrator Accreditation Standards – Version 6, standard reference 8.1.1, clarifies that the commission payable to brokers must only be calculated on contributions received in full. The standard was effective from 1 January 2020.

Impact

The Scheme paid commission of approximately R193 000 (one hundred and ninety three thousand Rand) to 200 brokers on part-paid contributions received by the Scheme, from January to July 2020.

Cause of the non-compliance

The Scheme has historically interpreted the regulation of the Act as permitting payment of commission to brokers upon receipt of contributions, whether the contribution was received in full or not.

Corrective course of action

The Scheme implemented the revised standard, effective 1st August 2020.

28.9 Contingent fee based arrangements

Nature of the non-compliance

Section 26(5) of the Act states – No payment in whatever form shall be made by a medical scheme directly or indirectly to any person as a dividend, rebate or bonus of any kind whatsoever.

Impact

The Scheme has paid Medscheme Holdings (Pty) Ltd recovery fees of R1 303 825 (one million, three hundred and three thousand, eight hundred and twenty five Rand) since inception of the contract, commencing 1 January 2019.

Cause of the non-compliance

The Scheme received a letter from the Council of Medical Schemes on 2 July 2020, where they have made certain enquiries and concluded that clause 3 of Annexure "B" of the contract which, provides for additional payments to Medscheme by Medshield in the following terms contravenes S26(5).

Clause 3 of Annexure "B" of the contract provides for additional payments in the following terms: "In addition, Medshield shall pay Medscheme a quarterly incentive fee of 25% excluding VAT for all successful recoveries performed on behalf of the Scheme."

The Council goes on to state "It is our view that clause 3 payments constitute a form of a bonus".

Corrective course of action

The Scheme has obtained legal opinion and is appealing the Council's ruling.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

28 Non Compliance with Medical Schemes Act and Regulations (continued)

28.10 Personal medical savings accounts utilised to offset contributions

Nature of the non-compliance

Regulation 10(3) of the Act states – Personal medical aid savings account prohibits the medical savings funds to be used to offset contributions unless to settle the scheme upon termination of membership.

Impact

The Scheme utilised approximately R3 905 717 (three million, nine hundred and five thousand, seven hundred and seventeen Rand) from about 95 members to offset contributions, from their personal medical savings account.

Cause of the non-compliance

The Scheme utilised members' personal medical savings account balances to offset contributions, from 1st July 2020.

Corrective course of action

The Scheme applied for exemption in terms of Circular 28 of 2020, which was granted on 8th June 2020.

28.11 Contributions dealt with by the Service Provider

Nature of the non-compliance

Section 26 (6) of the Act states that “No person other than an employer shall receive, hold or in any manner deal with the subscription or contribution which is payable to a medical scheme by or on behalf of a member of such medical scheme”

Impact

Q Link deals with contributions payable to the Scheme which contravenes the Act as they are not an employer of any members of the Scheme. Q Link collected R2 148 786 (Two million, one hundred and forty eight thousand and seven hundred and eighty six Rand) in the 2020 financial year on behalf of the Scheme.

Cause of the non-compliance

The Scheme is contracted with Q Link Holdings (Pty) Ltd to provide electronic collection services with regards to contributions due from the Department of Defence employer group. An amount of R6 739 was paid to Q Link for their services in the 2020 financial year.

Corrective course of action

The Scheme will apply for an exemption from the Council of Medical Schemes in 2021 for this service.

29 Restatement of Statement of Cash Flows

The Statement of Cash Flows and related Note 18 in the 2019 annual financial statements included material investment income which should have been classified as non-cash flow items. The inclusion of non-cash flow items is not in terms of IAS 7 - Statement of Cash Flow principles; this constitutes an error. The prior period error has been disclosed in terms of IAS 8 - Accounting Policies. Changes in Accounting Estimates and Error requirements. The effect of the error is disclosed below.

Impact on cash flows due to adjustment

The 2019 cash flow statement has been restated for a period error.

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

29 Restatement of Statement of Cash Flows (continued)

The 2019 cash flow statement was restated to correct for non-cash items that were included in the cash flow statement and cash items that were not included in the cash flow statement.

In addition, the 2019 cash flow statement was also restated to show the correct classification of operating and investing activities

The correction of the errors in adjustments are as follows:

Cash flow statement	Note	Previously stated 2019 R'000	Restatement Adjustment for 2019 R'000	Restated 2019 R'000
Cash flows from operating activities	18	25 638	8 909	34 547
Interest on cash and cash equivalents		-	2 786	2 786
Net cash flow generated from operations		25 638	11 695	37 333
Cash flows from investing activities				
Purchase of financial assets		(535 970)	83 141	(452 829)
Acquisition of property, plant & equipment		(383)	-	(383)
Proceeds on disposal of fair value through OCI financial assets		350 598	21 544	372 142
Realised fair value through OCI for equity instruments		32 867	(32 867)	-
Fair value adjustment for financial assets fair valued through profit and loss		(2 454)	2 454	-
Interest		81 981	(68 267)	13 714
Dividends		44 546	(17 701)	26 845
Net cash flow utilised from investing activities		(28 815)	(11 696)	(40 511)
Cash flows from financing activities				
Capital lease payments		(18 627)	-	(18 627)
Net cash flow utilised in financing activities		(18 627)	-	(18 627)
Net (decrease) in cash and cash equivalents		(21 805)	-	(21 805)
Cash and cash equivalents at beginning of year		178 998	-	178 998
Cash and cash equivalents at end of year	6	157 193	-	157 193
Cash generated by operations	18	Previously stated 2019 R'000	Restatement Adjustment for 2019 R'000	Restated 2019 R'000
Surplus for the year		121 489	-	121 489
<i>Adjustments in respect of non-cash items and items relating to investing activities :</i>		(111 332)	11 225	(100 107)
Outstanding claims provision		400	-	400
Investment income		(135 116)	-	(135 116)
Fair value adjustment for financial assets fair valued through profit and loss		-	(2 454)	(2 454)
Depreciation		23 384	-	23 384
Asset management fees		-	10 518	10 518
Impairment of accounts receivable		-	3 161	3 161
Subtotal		10 157	11 225	21 382
Working capital changes				
(Increase) in trade and other receivables		(1 699)	-	(1 699)
Increase in trade and other payables		24 621	-	24 621
(Decrease) in personal medical savings account trust liability		(7 441)	-	(7 441)
Increase in impairments		-	(2 316)	(2 316)
Total		25 638	8 909	34 547

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

30 Change in accounting policy

30.1 IFRS 16 Leases (IFRS 16)

IFRS 16 replaces the provisions of IAS 17 (Leases) that relate to operating leases. Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Scheme as lessees were classified as operating leases. Payments made under operating leases were charged to profit and loss on a straight-line basis over the period of the lease.

The adoption of IFRS 16 Leases from 1 January 2019 resulted to changes in accounting policies. The new accounting policies are set out in note 1.6 in accordance with the transition provisions in IFRS 16. Comparative figures have not been restated as the Scheme has applied the simplified transition approach. The cumulative effect of applying the standard is recognised as an adjustment to the opening balance of retained earnings.

On 1 January 2019, the Scheme recognised lease liabilities in relation to leases which had previously been classified as operating leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Scheme's incremental borrowing rate. The weighted average Scheme incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 9.55%.

Practical expedients applied

In applying IFRS 16 for the first time, the Scheme has used the following practical expedients permitted by the standard.

- a) applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- b) relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review - there were no onerous contracts as at 1 January 2019, and
- c) excluding initial direct costs for the measurement of the right-to-use asset at the date of initial application

Measurement of lease liabilities

	2019
	R'000
Operating lease commitments disclosed as at 31 December 2018	26 199
Discounted using the Scheme's incremental borrowing rate at the date of initial application	23 027
Add contracts assessed as lease contracts	33 069
Lease liability recognised as at 1 January 2019	56 096
Of which are:	
- Current lease liabilities	20 414
- Non-current lease liabilities	35 682
	56 096

Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied.

Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following in the balance sheet on 1 January 2019:

a) right-of-use assets - increase by:	55 992 061
b) lease liabilities - increase by	56 095 874
The net impact on retained earnings on 1 January 2019 was a decrease of	104 813

MEDSHIELD MEDICAL SCHEME

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

31 Going Concern

On 15 March 2020, the President of South Africa declared a national state of disaster as a result of the global Covid-19 pandemic. Whilst the pandemic has not had a significantly negative impact on the financial resources of the Scheme to date, there still does exist uncertainties about the potential impact of Covid-19 on the Scheme and its members. Various possible scenarios, including stress test scenarios, has been considered to assess the potential impact of Covid-19 on the Scheme. Based on the most likely scenario, the Trustees believe there will be no impact on the Scheme's ability to pay claims as they arise.

Scenario considerations in respect of Covid 19

Membership losses due to affordability

There is an expectation that some employer groups might not be able to retain all or some of their staff after the national lockdown comes to an end. The Scheme conservatively assumes that some surplus making members would resign from the Scheme.

In this scenario, the Scheme assumes 25% of all group members, and 25% of direct paying members aged below 45 would resign from the Scheme. This assumption was deemed to be conservative since the ultimate resignations are expected to be well below this. The Scheme assumes these members will be inactive for the full year.

Membership losses due to affordability in the above scenario will result in lost gross contributions of R92m.

Reduction in investment income

The Scheme assumes investment income (dividends and interest) will be R25m lower than expected. This is due to assumed bankruptcies, defaults and firms preserving cash.

Impact on healthcare expenditure

In the worst case scenario, the Scheme would:

- a) Fund the Pfizer vaccine for all adults (101 539), at R600 per person;
- b) experience a repeat of all Covid-19 costs incurred in 2020, being R210m;
- c) not realise any of the savings reported in 2020 as a result of the national lockdown and subsequent reductions in healthcare utilisation.

The Scheme assumes in this scenario, healthcare expenditure would increase by R271m.

The Scheme assumes in a worst case scenario, that Covid-19 could cost the Scheme R388m. Even in this scenario, the Scheme's solvency remains well above the statutory minimum of 25%.