



MEDSHIELD

your kind of care

HIGHLIGHTS DOCUMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

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**MEDSHIELD MEDICAL SCHEME
STATEMENT OF FINANCIAL POSITION**



as at 31 December 2014

	2014	2013
	R'000	R'000
ASSETS		
Non-current assets	1 150 240	1 120 898
Property, plant and equipment	1 747	338
Intangible asset	-	10 000
Available-for-sale investments	1 148 493	1 110 560
Current assets	850 643	775 278
Available-for-sale investments	724 933	631 950
- Scheme Investments	593 806	521 609
- Personal member savings account trust investment	131 127	110 341
Trade and other receivables	20 373	12 735
Cash and cash equivalents	105 337	130 593
Total assets	2 000 882	1 896 176
FUNDS AND LIABILITIES		
Members' funds	1 606 269	1 529 417
Accumulated funds	1 395 760	1 336 145
Available-for-sale investment reserve	210 509	193 272
Current liabilities	394 613	366 759
Outstanding claims provision	125 529	105 700
Member savings	126 542	113 935
Trade and other payables	142 542	147 124
Total funds and liabilities	2 000 882	1 896 176



**MEDSHIELD MEDICAL SCHEME
STATEMENT OF COMPREHENSIVE INCOME**

for the year ended 31 December 2014

	2014 R'000	2013 R'000
Net contribution income	2 496 403	2 451 531
Relevant healthcare expenditure	(2 264 547)	(2 164 012)
Net claims incurred	(2 266 154)	(2 165 237)
Risk claims incurred	(2 274 885)	(2 171 314)
Third party claim recoveries	8 731	6 077
Net income on risk transfer arrangements	1 607	1 225
Risk transfer arrangement fees paid	(6 082)	(6 541)
Recoveries from risk transfer arrangements	7 689	7 766
Gross healthcare result	231 856	287 519
Managed care : management services	(53 261)	(49 435)
Broker service fees	(53 133)	(51 958)
Administration expenditure	(196 325)	(186 171)
Net impairment losses on healthcare receivables	(6 421)	831
Net healthcare result	(77 284)	786
Other income	154 930	124 956
Investment income	140 636	123 760
Sundry income	14 294	1 196
Other expenditure	(18 031)	(15 783)
Interest paid on member savings	(7 430)	(5 903)
Asset management fees	(10 601)	(9 970)
Net surplus for the year	59 615	109 869
Other comprehensive income		
Unrealised fair value adjustment on available-for-sale investments	53 250	46 297
Net realised gains on disposal of investments	(36 013)	(27 511)
Total comprehensive income for the year	76 852	128 655

**MEDSHIELD MEDICAL SCHEME
STATEMENT OF CASH FLOWS**



for the year ended 31 December 2014

	2014 R'000	2013 R'000
Cash flows from operating activities		
Net cash flows (utilised in) operations	(50 507)	(1 311)
Cash flows from investing activities		
Acquisition of equipment	(1 707)	(532)
Acquisition of trademark	-	(10 000)
Purchase of available-for-sale investments	(166 562)	(533 312)
Proceeds on disposal of available-for-sale investments	88 897	456 949
Investment income		
- Interest	82 907	78 648
- Dividends	21 716	17 601
Net cash (utilised in)/generated from investing activities	<u>25 251</u>	<u>9 354</u>
Net decrease in cash and cash equivalents	(25 256)	8 043
Cash and equivalents at beginning of year	130 593	122 550
Cash and equivalents at end of year	<u>105 337</u>	<u>130 593</u>



**MEDSHIELD MEDICAL SCHEME
STATEMENT OF CHANGES IN FUNDS AND RESERVES**



for the year ended 31 December 2014

	Accumulated funds	Available for-sale- investment reserve	Total members' funds
	R'000	R'000	R'000
Balance as at 1 January 2014	1 336 145	193 272	1 529 417
Net surplus for the year	59 615	-	59 615
Other comprehensive income			
Realised gains on disposal of available-for-sale investments	-	(36 013)	(36 013)
Unrealised gain on revaluation of available-for-sale investments	-	53 250	53 250
Total comprehensive income	59 615	17 237	76 852
Balance as at 31 December 2014	1 395 760	210 509	1 606 269
Balance as at 1 January 2013	1 226 276	174 486	1 400 762
Net surplus for the year	109 869	-	109 869
Other comprehensive income			
Realised gains on disposal of available-for-sale investments	-	(27 511)	(27 511)
Unrealised gain on revaluation of available-for-sale investments	-	46 297	46 297
Total comprehensive income	109 869	18 786	128 655
Balance as at 31 December 2013	1 336 145	193 272	1 529 417



MEDSHIELD MEDICAL SCHEME
SUMMARY OF MAIN CATEGORIES OF INVESTMENTS HELD



for the year ended 31 December 2014

	2014	2013
	R'000	R'000
Available-for-sale investments		
Fair value at the beginning of the year	1 742 510	1 619 850
Additions	69 003	440 697
Disposals at fair value at date of disposal	(88 897)	(456 949)
Re-investment of income and proceeds on disposal	97 559	92 615
Unrealised gain on revaluation of available-for-sale investments to fair value	53 250	46 297
Fair value at the end of the year	<u>1 873 425</u>	<u>1 742 510</u>
Investments have been managed by a number of fund managers namely:		
Segregated portfolio investments	1 007 706	914 092
Sanlam Investment Management	483 275	444 078
Prudential Portfolio Managers	524 431	470 014
Unitised investments	865 719	828 418
Allan Gray Life Limited	328 212	249 856
Taquanta Asset Managers	327 162	369 536
Stanlib Investment Managers	210 345	209 026
- Scheme investments	79 218	98 685
- Personal member savings account trust investment	131 127	110 342
	<u>1 873 425</u>	<u>1 742 510</u>
Available -for-sale financial investments comprise the following:		
Segregated portfolio investments		
Listed equities	414 808	388 124
Debt instruments	448 969	273 494
Money market instruments	143 929	252 474
	<u>1 007 706</u>	<u>914 092</u>
Unitised investments		
Listed equities	128 692	120 889
Non-listed equities	-	113
Debt instruments	229 194	336 757
Money market instruments – risk	376 706	260 318
Money market instruments – personal member savings account trust investment	131 127	110 341
	<u>865 719</u>	<u>828 418</u>
Current	724 933	631 950
- Scheme investments	593 806	521 609
- Personal member savings trust investment	131 127	110 341
Non-Current	1 148 492	1 110 560
	<u>1 873 425</u>	<u>1 742 510</u>



for the year ended 31 December 2014

1. Significant accounting policies

The significant accounting policies applied in the preparation of the annual financial statements are set out in the full annual financial statements. These policies comply with International Financial Reporting Standards (IFRS).

The financial information contained in this Highlights document has been extracted from and are in agreement with the Audited Financial Statement, a full set of which may be obtained from the Schemes offices at 288 Kent Avenue, Randburg.

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 18 of 2009, issued by the Council for Medical Schemes.

	2014	2013
	R'000	R'000
2. Outstanding claims provision		
Provision for outstanding claims incurred but not reported	125 529	105 700
Analysis of movements in outstanding claims		
Balance at beginning of year	105 700	106 000
Payments in respect of prior year	(105 992)	(102 409)
	(292)	3 591
(Under)/over provision in prior period	125 821	102 109
Payments in respect of prior year	125 529	105 700
Balance at end of year	125 529	105 700

The existing accounting policy relating to the outstanding claims provision considers current estimates of all contractual flows; therefore in terms of paragraphs 15 to 19 of IFRS 4, no further liability adequacy test is required.

3. Net contribution income

Gross contributions	2 600 678	2 557 952
Less: unbundled savings contributions	(104 275)	(106 421)
Net contribution income	2 496 403	2 451 531

for the year ended 31 December 2014

	2014	2013
	R'000	R'000
4. Net income/(expense) on risk transfer arrangements		
Premiums paid	(6 082)	(6 541)
Centre for Diabetes and Endocrinology (Pty) Ltd	(6 082)	(6 541)
Recoveries	7 689	7 766
Centre for Diabetes and Endocrinology (Pty) Ltd	7 689	7 766
Net income/(expense) per the statement of comprehensive income	1 607	1 225

The recovery in respect of Centre for Diabetes and Endocrinology (Pty) Ltd is based on average costs incurred by them in respect of the total enrolled beneficiaries managed by them. Costs include those related to medicine, including blood glucose monitors, testing strips, laboratory services, podiatry, ophthalmology and dietician costs.

5. Contingencies

(a) Action has been instituted against Calabash Healthcare 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 schemes legal representatives.

(b) Action has been instituted against Yarona Healthcare Network regarding the potential recovery of R6m relating to breach of contract. Yarona is a sister company of Calabash.

The scheme and Old Mutual Healthcare (Pty) Ltd (OMHC) agreed on an in principle settlement of R4m. This amount covers all matters between the scheme and OMHC. A draft agreement reflecting the settlement terms has been compiled and forwarded to OMHC for signature.

(c) The scheme has 726 (2013: 1 054) outstanding road accident claims to the value of R 82,8m (2013: 87,8m). Due to the uncertain outcome of claims against the Road Accident Fund by members, the scheme has decided that recoveries will only be accounted for on a cash received basis.

for the year ended 31 December 2014

6. Related party transactions

Trustees and Executive Principal Officer

(i) Curator

Prior to the appointment of the Curator, the Board of Trustees, the Executive Principal Officer and Acting Executive Principal Officer had the authority as well as the responsibility for planning, directing and controlling the activities of Medshield Medical Scheme. The curator is now responsible for the affairs of the scheme. The curator was appointed on 2 October 2012 and was succeeded by the following curator on 1 March 2014.

	2014	2013
	R'000	R'000

Transactions for the year:

Curator and Executive Management

	2 298	2 557
Remuneration and considerations - Curator		
- Total Remuneration	2 272	2 350
- Other disbursements (Operational expenses)	26	207

(ii) Langa Attorneys

The first curator is a practicing Attorney, the firm is Langa Attorneys.

Transactions for the year:

- Total	-	250
- Secretarial services rendered	-	250

(iii) Executive Management

Transactions for the year:

	9 792	8 703
Remuneration and considerations		
- Total Remuneration	8 625	7 670
- Bonuses	651	696
- Other disbursements (Operational expenses)	516	337

for the year ended 31 December 2014

6. Related party transactions (continued)

	2014	2013
	R'000	R'000
Medical Aid contribution and Claims	89	192
- Membership contributions made by executives	122	306
- Claims made by executives	(33)	(114)
Trustees		
- Fees and Remuneration considerations	209	-
- Other disbursements	16	-
- Membership contributions made by Trustees	353	-
- Claims made	228	-
- Trustee savings balances	15	-

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 terms applied to third parties, the balances earn interest at the effective interest rate, which accrues to the member. 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.

Contribution Debtor

This constitutes outstanding contributions receivable. The amounts are due immediately. No provision for doubtful debts has been raised in respect of these amounts.

**MEDSHIELD MEDICAL SCHEME
NOTES TO THE HIGHLIGHTS FROM ANNUAL FINANCIAL STATEMENTS**

for the year ended 31 December 2014

7. Surplus/(deficit) from operations per benefit option

31 December 2014	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Category	MediPlus	MediValue	MediBonus	MediPhila	Core Plus	80 % Plan			
Number of members	30 643	19 654	6 043	6	7 260	1 004			
Net contribution income									
Net claims incurred	1 112 940	358 707	323 360	15	252 375	57 244			
Net income on risk transfer arrangements	(982 700)	(304 693)	(309 338)	-	(226 084)	(52 410)			
Gross healthcare result	130 240	54 014	14 022	15	26 291	4 834			
Managed care - management services	(21 823)	(13 004)	(4 315)	(1)	(4 806)	(731)			
Broker service fees	(23 688)	(7 635)	(6 882)	-	(5 372)	(1 218)			
Administration expenditure	(78 683)	(50 466)	(15 522)	(15)	(18 642)	(2 578)			
Net impairment losses on healthcare receivables	(2 573)	(1 651)	(508)	(1)	(610)	(84)			
Net healthcare result	3 473	(18 741)	(13 205)	(2)	(3 138)	222			
Investment income	56 364	36 151	11 119	11	13 354	1 847			
Sundry income	5 729	3 674	1 130	1	1 357	188			
Interest paid on savings accounts	-	-	-	-	-	-			
Asset management fees	(4 249)	(2 725)	(838)	(1)	(1 007)	(139)			
Surplus/(deficit) for the year	61 317	18 359	(1 794)	9	10 567	2 118			

Expenses not directly attributable to an option were allocated proportionately to the membership per option, except for Broker service fees which was allocated based on contributions received.

**MEDSHIELD MEDICAL SCHEME
NOTES TO THE HIGHLIGHTS FROM ANNUAL FINANCIAL STATEMENTS**
for the year ended 31 December 2014

7. Surplus/(deficit) from operations per benefit option (continued)

31 December 2014	R'000	R'000	R'000	R'000	R'000
Category	Standard	Premium Plus	Discontinued	Total	Total
Number of members	9 343	2 504	-	-	76 459
Net contribution income					
Net claims incurred	279 376	110 249	2 137	2 496 403	
Net income on risk transfer arrangements	(277 131)	(112 371)	180	(2 264 547)	
	-	-	-	-	
Gross healthcare result	2 245	(2 122)	2 317	2 317	231 856
Managed care - management services	(6 655)	(1 759)	(168)	(168)	(53 262)
Broker service fees	(5 946)	(2 347)	(45)	(45)	(53 133)
Administration expenditure	(23 990)	(6 430)	-	-	(196 325)
Net impairment losses on healthcare receivables	(785)	(210)	-	-	(6 421)
Net healthcare result	(35 131)	(12 867)	2 104	2 104	(77 285)
Investment income	17 185	4 606	-	-	140 636
Sundry income	1 747	468	-	-	14 294
Interest paid on savings accounts	(5 861)	(1 570)	-	-	(7 430)
Asset management fees	(1 296)	(347)	3	3	(10 602)
Surplus/(deficit) for the year	(23 355)	(9 711)	2 107	2 107	59 615

Expenses not directly attributable to an option were allocated proportionately to the membership per option, except for Broker service fees which was allocated based on contributions received.

MEDSHIELD MEDICAL SCHEME
NOTES TO THE HIGHLIGHTS FROM ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2014



7. Surplus/(deficit) from operations per benefit option (continued)

Category	31 December 2013					
	R'000	R'000	R'000	R'000	R'000	R'000
	MediPlus	MediValue	MediBonus	Essential	Core Plus	80 % Plan
Number of members	325 963	16 915	6 833	1 137	8 135	1 264
Net contribution income	1 099 111	281 529	332 053	25 088	263 977	68 549
Net claims incurred	(942 837)	(220 751)	(332 608)	(22 605)	(222 903)	(62 969)
Net expense on risk transfer arrangements	-	-	-	-	-	-
Gross healthcare result	156 274	60 778	(555)	2 483	41 074	5 580
Managed care - management services	(20 713)	(9 434)	(4 367)	(736)	(5 194)	(837)
Broker service fees	(21 434)	(10 999)	(4 443)	(739)	(5 290)	(822)
Administration expenditure	(76 799)	(39 409)	(15 920)	(2 649)	(18 953)	(2 945)
Net impairment recoveries on healthcare receivables	350	130	80	13	95	17
Net healthcare result	37 678	1 066	(25 205)	(1 628)	11 732	993
Investment income	52 131	23 452	11 001	1 856	13 089	2 113
Sundry income	481	241	100	17	119	19
Interest paid on savings accounts	-	-	-	(486)	-	-
Asset management fees	(4 183)	(1 912)	(881)	(149)	(1 049)	(169)
Surplus/(deficit) for the year	86 107	22 847	(14 985)	(390)	23 891	2 956

Expenses not directly attributable to an option were allocated proportionately to the membership per option, except for Broker service fees which was allocated based on contributions received.



**MEDSHIELD MEDICAL SCHEME
NOTES TO THE HIGHLIGHTS FROM ANNUAL FINANCIAL STATEMENTS**

for the year ended 31 December 2014

7. Surplus/(deficit) from operations per benefit option (continued)

31 December 2013

Category	Standard	R'000	Premium Plus	R'000	Discontinued	R'000	Total
Number of members	9 900		2 760		-		79 907
Net contribution income							
Net claims incurred	271 579		109 646		-		2 451 532
Net expense on risk transfer arrangements	(253 753)		(105 623)		38		(2 164 011)
	-		-		-		-
Gross healthcare result							
Managed care - management services	17 826		4 023		38		287 521
Broker service fees	(6 325)		(1 829)		-		(49 435)
Administration expenditure	(6 437)		(1 795)		-		(51 959)
Net impairment recoveries on healthcare receivables	(23 065)		(6 430)		-		(186 170)
	114		31		-		831
	(17 887)		(6 000)		38		786
Net healthcare result							
Investment income	15 738		4 380		-		123 760
Sundry income	145		74		-		1 196
Interest paid on savings accounts	(4 236)		(1 181)		-		(5 903)
Asset management fees	(1 276)		(351)		-		(9 970)
	(7 516)		(3 078)		38		109 869

Expenses not directly attributable to an option were allocated proportionately to the membership per option, except for Broker service fees which was allocated based on contributions received.

for the year ended 31 December 2014

8. Member savings	2014	2013
	R'000	R'000
Balance on member savings at the beginning of the year	113 935	109 459
Less: Advances on member savings at beginning of the year	(156)	(48)
Net balance on member savings at the beginning of the year	113 779	109 411
Add: Member savings contributions received or receivable	104 275	106 421
Interest paid on member savings	7 430	5 903
Transfers from other schemes	495	1 220
Claims paid on behalf of members	(91 031)	(96 730)
Less: Refunds	(8 764)	(12 446)
Add: Advances on savings plan accounts	358	156
Balance due to members savings at the end of the year	<u>126 542</u>	<u>113 935</u>
 Investments of member savings account trust monies managed by the scheme on behalf of its members		
 Total member savings account trust monies invested in Money Market accounts	 <u>131 127</u>	 <u>110 341</u>



MEDSHIELD
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REPORT OF THE BOARD OF TRUSTEES



THE BOARD OF TRUSTEES HEREBY PRESENTS THE REPORT FOR THE YEAR ENDED 31 DECEMBER 2014:

1. OVERVIEW

1.1 Curatorship

The affairs of a medical scheme are governed by a Board of Trustees in terms of the Medical Schemes Act 131 of 1998 ("the Act"). Under exceptional circumstances, the governance of the Medical Scheme may be placed in the hands of someone other than the Board of Trustees.

On the 02 October 2012 the North Gauteng High Court appointed Mr. Themba Benedict Langa ("the Curator") as provisional Curator of Medshield Medical Scheme ("the Scheme") and ruled that the powers of the Board of Trustees and the Principal Officer have been entrusted to him. On the 25 January 2013, the North Gauteng High Court issued an order on the Council for Medical Schemes' application to confirm the curatorship for the Scheme. The court upheld the initial judgement, ruling that Mr. Langa continue in his capacity as the Curator of the Scheme, and to conduct an election of a new Board of Trustees, supervised by an independent party, within 12 months of the ruling. On the 05 July 2013, some members of the then Board of Trustees submitted an application for leave to appeal the court order of the 25 January 2013. On the 05 July 2013 the North Gauteng High Court granted leave to appeal to the Supreme Court of Appeal, extending the provisional Curatorship order of the 02 October 2012 pending the outcome of the appeal.

Mr. T.B. Langa resigned as the Curator of the Scheme with effect from 28 February 2014, and Dr. T. Phaleng was appointed as the new Curator with effect from the 01 March 2014. The new Curator remains committed to:

- Restore the faith of the Scheme members in the Scheme by placing proper governance structures and internal processes in place to ensure that all Scheme activities are performed within the guidelines of the Act;
- To ensure a sustainable Scheme for all members in an ever changing policy and regulatory landscape and economic landscape.

On 16 September 2014 the Supreme Court of Appeal of South Africa (SCA) dismissed the former Trustees' appeal, thus confirming curatorship as per the North Gauteng High Court's 25 January 2013 ruling.

Based on the Curator's recommendations and representation by the Registrar of Medical Schemes, the Scheme was on 15 December 2014 granted upliftment of curatorship by the North Gauteng High Court. The Trustees were subsequently constituted as a Board of Trustees on 19 December 2014, under CMS supervision. The Board of Trustees are committed to carrying over the work and interventions initiated during curatorship and seeing these to completion.

The Scheme shall remain under close supervision by CMS for a period of 18 months post-curatorship. This should entail *inter alia*, quarterly reporting to the Registrar of Medical Schemes and CMS representation (observer status) at the Scheme's Board and relevant Sub-Committee meetings.

Dr. Tebogo Phaleng, an independent health industry strategy/risk management consultant and outgoing Curator of the Scheme was appointed as the Acting Principal Officer of the Scheme, reporting to the Board of Trustees. Dr. Tebogo Phaleng will perform this function until the Board of Trustees has appointed a permanent Principal Officer.

1.2 Strategic Direction of the Scheme

The Board of Trustees held two strategy sessions with the Executive Management team, in March and June 2014, during which strategy for 2014 was drafted and reviewed respectively.

The following four (4) key strategic focus areas were set for the Scheme:

- Governance framework and internal controls for the Scheme.
- Membership retention and growth.
- Risk management, financial stability and sustainability.
- Coordinated and operational oversight and execution.

A comprehensive strategic plan outlined the key objectives, milestones and desired outcomes over the period, which formed the basis for the review and assessment of the Scheme and Management's performance at year-end.

1.3 Membership

The Scheme ended the year with 76,459 principal members, compared to 79,907 in December 2013. The Scheme remains the fifth largest open medical scheme in South Africa. Members' financial constraints have been shown to be the single biggest contributor to this trend, accounting for over a third of members exiting the Scheme, while less than 10% citing inadequate benefits or unsatisfactory service as reasons for leaving the Scheme. The Principal Office (PO) and the Executive Management team have identified initiatives to reduce the membership losses and retain the members on the Scheme. These initiatives will be rolled out during the course of 2015.

1.4 Financial Strength and Sustainability

The Finance Office now oversees all major financial matters, including major financial transactions, investments and reporting. A formal procurement system and processes are also being implemented, and due to go live in June 2015.

A three year pricing strategy and financial forecasts have been developed, taking into account the Scheme's demographic trends and strategic imperatives.

1.4.1 Non-healthcare Costs

The non-healthcare expenditure (administration expenses and managed care services) as a proportion of gross contribution income (GCI) decreased to 11.6% for the year under review (2013: 12%). This decrease is largely attributable to a combination of operational efficiency initiatives and reduced expenditure on marketing and distribution services.

Managing the non-healthcare costs has enabled the Scheme to minimise contribution increases to lower percentages than what would have been expected otherwise. Notwithstanding the service level and efficiency improvements made during 2014, the PO remains committed to pursue further improvements in managing non-healthcare costs on an ongoing basis, to ensure that members' expectations continue to be met.

1.4.2 Managed Healthcare Services and Claims Expenditure

The claims expenditure ratio (claims loss ratio) for the year under review as measured against gross contributions increased to 91% (2013: 88%). This has been driven primarily by lower than expected contribution income, a result of less than expected membership (and therefore contribution income) growth, rather than an adverse claims experience per se. The management of hospital, medical specialist and medicine claims poses the biggest risk to the Scheme's sustainability, as these combined account for 84% of total claims expenditure (Hospital: 45%; Specialists: 24%; Chronic Medicine: 15%).

1.4.3 Sustainability and Going Concern

The Board of Trustees remains confident in the financial position of the Scheme, which was once again awarded an AA- rating, the second highest rating among South African medical schemes, as independently rated by Global Credit Ratings.

The Scheme's reserve ratio at the end of December 2014 is at 53.6%, well above the minimum 25% as prescribed by the Medical Schemes Act, an increase from 53% at the end of 2013. The PO is therefore confident that the Scheme will remain a going concern for the foreseeable future.

1.4.4 Reporting

Internal reporting capacity has also been enhanced through the redesign of the Scheme report and building a team of data analysts, led by the Finance Office.

for the year ended 31 December 2014

1.5 Corporate Governance and Compliance

The Scheme is committed to the principles and practice of fairness, independence, openness, integrity and accountability in all dealings with its stakeholders. The Scheme adheres fully to all aspects of governance as required by the Medical Schemes Act 131 of 1998. During the period under curatorship, the Curator assumed the full responsibilities of the Board of Trustees and Principal Officer, to ensure governance of the Scheme. A new governance framework was put in place by the Curator, as mandated by the Registrar of Medical Schemes.

The new Board of Trustees is committed to the principles of the Code of Corporate Practices and Conduct as set out in the King Report on Governance (King III), as part of its responsibility to continuously review the effectiveness and relevance of the governance structures of the Scheme. The Board of Trustees will conduct annual evaluation of the governance structures.

1.6 Legal matters

The Acting Principal Officer is committed to ensuring that all efforts are made to conclude outstanding legal matters expeditiously, whilst protecting the rights and interests of the Scheme and its members. The significant legal matters are as follows:

Calabash Health Solutions (Pty) Ltd

As reported in 2012, Calabash Health Solutions (Pty) Ltd., which provided capitated services to the Scheme, was placed under liquidation in July 2009. The Scheme initiated proceedings resulting in the convening of a commission of inquiry into the affairs of Calabash Health Solutions (Pty) Ltd., in order to identify avenues for recovery. Various legal challenges have hindered progress, however progress has subsequently been made in this regard and the various interlocutory applications have been dealt with and the focus has now shifted to trying the real disputes.

Old Mutual Healthcare (Pty) Ltd and Old Mutual Life Assurance Company South Africa (Pty) Ltd (OMLACSA)

The Scheme has invoked the arbitration provisions contained in its agreement with Old Mutual Healthcare (Pty) Ltd., the previous administrator of the Scheme, relating to its non-fulfilment of contractual obligations which caused the Scheme to suffer losses in the amount of R 51, 8 million. The arbitration has been set down for August 2014 and the Scheme is advised that it has good prospects of success.

Old Mutual Healthcare is claiming R11 million from the Scheme in respect of administration fees due to it. The Scheme filed an exception to the claim and is advised that it has good prospects of successfully defending the claim.

for the year ended 31 December 2014

1.6 Legal matters (continued)
Alumni Trading

This is a claim by the Scheme against Alumni Trading, to whom the Scheme paid R10m to purchase the name and trademark, Medshield. This transaction occurred under the tenure of the previous curator, Mr. Themba Langa.

The Scheme has instituted proceedings to liquidate Alumni Trading, over and above attempts to have the agreement set aside and the moneys paid, recovered. Mr. Langa and the other “stakeholders” were joined to the proceedings. The application was issued out of the Gauteng Division of the High Court, in December 2014 and duly served on all respondents between January and March 2014. Alumni Trading and Mr. Langa have filed notices to oppose the application.

1.7 Conclusion

Medshield Medical Scheme is delivering daily on the needs and expectations of its members. The Scheme is financially strong and is set to continue as a going concern for the foreseeable future. The Curator is confident and assured that with precise management of governance and compliance obligations, the Scheme will grow from strength to strength. Therefore, the Acting Principal Officer is optimistic that the Scheme will be able to provide its membership with high quality service and benefits in the years ahead.

2. DESCRIPTION OF THE MEDICAL SCHEME

2.1 Terms or registration

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

2.2 Benefit options within Medshield Medical Scheme

The Scheme offers 8 benefit options to employers and members of the public. These are:

- MediValue
- MediBonus
- MediPlus
- Essential (*closed with effect 31 December 2013*)
- Standard (*Personal Medical Savings Account*)
- Core Plus
- Premium Plus (*Personal Medical Savings Account*)
- 80% Plan

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2.3 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 Scheme's Act. The member PMSA balances are held in a separate money market account. Members with positive PMSA's accumulate interest at the effective interest rate as required by CMS Circular 38 of 2011. Interest earned for the 2014 year was credited to the member savings accounts in accordance with the Act.

3. RISK MANAGEMENT

3.1 Risk management plan

The Scheme's Risk Management and Combined Assurance frameworks were revised and approved by the Scheme's Audit, Risk and Compliance Committee. 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 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.

3.2 Risk transfer arrangements

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

Centre for Diabetes and Endocrinology (Pty) Ltd. provides the Scheme and its members a program for diabetes, which includes consultations, blood tests and hospital admissions, once approved. Members must register at the centre to qualify for this benefit, upon which a fixed fee per member is paid. At year-end the

Scheme had 311 members (2013: 348) registered at the centre. It is estimated that through the risk transfer arrangement, the Scheme has saved a potential cost of 69 hospital admissions for diabetes during 2014.

3.3 Managed Care

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

- Medscheme Health Risk Solutions ("MHRS"), a division of Medscheme Holdings (Pty) Ltd. renders services of medicine benefit management, pharmacy network management services and dental benefit management.
- Preferred Provider Network ("PPN") renders services for optometry benefit management.
- Medical Services Organisation South Africa (Pty) Ltd. ("MSO") renders the service of hospital benefit

for the year ended 31 December 2014

3.3 Managed Care (continued)

management.

- Europe Assistance SA (Pty) Ltd. renders emergency services management and health line advisory services to members.
- Lifesense Disease Management (Pty) Ltd. renders HIV/Aids management.
- Verirad (Pty) Ltd. renders management service for radiology and pathology claims.
- Independent Clinical Oncology Network (Pty) Ltd. (“ICON”) renders oncology benefit management services and provides a network of oncologists to the Scheme.
- Optipharm (Pty) Ltd. renders HIV/AIDS medicine benefit management services.

3.4 Prescribed minimum benefits (PMBs)

The Scheme has a robust process in place whereby it analyses, verifies and adjudicates PMB claims prior to payment being effected so as to, as far as possible, prevent fraudulent and incorrectly coded claims from being paid. This process has been revised in consultation with the Council for Medical Schemes and as of November 2013, the process is in line with the Scheme Rules and PMB regulatory provisions as set out by CMS. Further to this, the Curator provided confirmatory documentation to CMS in 2014 as part of regular reporting to the Registrar of Medical Schemes. The revised process has subsequently been communicated to Scheme members.

4. MANAGEMENT





4.1 Board of Trustees

The Scheme was placed under provisional curatorship on 02 October 2012 and therefore there was no Board of Trustees in place during most of the period under review. The powers and authority of the Board of Trustees were vested in the Office of the Curator until 15 December 2014.

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Member Elected Trustees	
 <p>Mr. Tebogo Jones Mphela Date of appointment: 15 August 2014 Area of Expertise: General Management</p>	 <p>Mr. Charles Richard Akeroyd Date of appointment: 15 August 2014 Area of Expertise: Finance</p>
 <p>Mr. Mogodi Bernard Hlakola Date of appointment: 15 August 2014 Area of Expertise: Finance</p>	 <p>Mr. Charles Alexander Parsons Date of appointment: 15 August 2014 Area of Expertise: Managed Care</p>
 <p>Mrs. Sussan Malima Date of appointment: 15 August 2014 Area of expertise: HR & Psychology</p>	

for the year ended 31 December 2014

Co-opted Trustees (appointed not elected)	
 <p>Mrs. Antea Fourie Van Zyl Date of appointment: 21 November 2014 Area of expertise: Finance</p>	 <p>Dr. Leetitia Erasmus Date of appointment: 10 February 2015 Area of expertise: Medical</p>
 <p>Advocate Thomas Ntsewa Date of appointment: 10 February 2015 Area of expertise: Legal</p>	 <p>Dr Jalaludine Soni Date of appointment: 10 February 2015 Area of expertise: Medical / General Knowledge</p>

for the year ended 31 December 2014

4.2 Principal Officer

The Curator was appointed Acting Principal Officer on the 19th December 2014. He will hold office until the Trustees appoint a permanent Principal Officer, which process is underway.

4.3 The registered office of the Scheme is:

288 Kent Avenue	PO Box 68618
Ferndale	Bryanston
Randburg	2021
2194	

4.4 Investment Fund Managers during the year:

Sanlam Investment Managers (Pty) Ltd	Private Bag X8
55 Willie Van Schoor Avenue	Tyger Valley
Bellville	7536
7536	
Financial service provider number: 579	

Allan Gray Life Limited	P O Box 51318
Granger Bay Court, Beach Road	Cape Town
V & A Waterfront	8002
Cape Town	
8001	
Financial service provider number: 594	

Taquanta Asset Management (Pty) Ltd	P O Box 86
Nedbank Clocktower, 5th Floor	Cape Town
V & A Waterfront	8002
Cape Town	
8001	
Financial service provider number: 6663	

Prudential Portfolio Managers (South Africa) (Pty) Ltd	P O Box 44813
7 th Floor Protea Place	Claremont
40 Dreyer Street	7735
Claremont	
Cape Town	
8001	
Financial service provider number: 618	

for the year ended 31 December 2014

4.5 Investment consultants during the year:

Investec Private Bank (Wealth Management)- a division of Investec Bank Ltd	
100 Grayston Drive	PO Box 785700
Sandown	Sandton
Sandton	2146
2196	
Financial service provider number: 8102	

4.6 Actuaries:

NMG Consultants & Actuaries (Pty) Ltd	
411 Main Avenue	PO Box 3075
Ferndale, Randburg	Randburg
2125	2125

4.7 Internal Auditors:*

SizweNtsalubaGobodo	
20 Morris Street East	P.o Box 2959
Woodmead	Saxonwold
2191	2132
* Appointed in June 2013	

4.8 External Auditors:

PricewaterhouseCoopers Inc.	
2 Eglin Road	Private Bag X36
Sunninghill	Sunninghill
2157	2157

5. 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 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.

for the year ended 31 December 2013

6. AUDIT, RISK & COMPLIANCE COMMITTEE

The Audit, Risk and Compliance Committee is mandated by the Scheme by means of written terms of reference as to its membership, authority and duties. The committee consists of five members, four 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 of Trustees, executive principal officer and management of the Scheme;
- To recommend the introduction of measures which the committee believe 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.

The Audit, Risk & Compliance Committee comprised:

- a. Independent: M. Brown (Chairperson) (Appointed 12th April 2013)
- b. Independent: J. Prinsloo (Appointed 12th April 2013)
- c. Independent: L. Sennelo (Appointed 12th April 2013)
- d. Independent: M. Salanje (Appointed 12th April 2013)
- e. Curator: T. Phaleng (Appointed 1st March 2014)

The independent member, M. Salanje, failed to attend three meetings thereby automatically being terminated in line with Scheme rules.

AUDIT, RISK & COMPLIANCE COMMITTEE MEMBERS MEETING ATTENDANCE

Member	27 Mar 2014	16 Apr 2014	30 Jul 2014	11 Nov 2014
M. Brow(Chairperson)	√	√	√	√
J. Prinsloo	√	√	√	√
L. Sennelo	√	√	√	√
T. Phaleng (Curator)	√	√	√	√

Details of the Audit Committee members’ fees are included in the Annual Financial Statements.

The Chief Operations Officer, General Manager (Finance) and Governance, Risk & Compliance Specialist of the Scheme as well as the Internal and External auditors are invited to attend all Audit, Risk & Compliance Committee meetings of the Scheme and have unrestricted access to the chairperson of the committee.

for the year ended 31 December 2014

7 QUANTITATIVE REVIEW OF ACTIVITIES

7.1 Operational statistics

2014	MediPlus	MediValue	MediBonus	MediPhila	Core Plus	80 % Plan	Standard	Premium Plus	Total
Number of members at end of accounting year (n)	30 643	19 654	6 045	6	7 260	1 004	9 343	2 504	76 459
Average number of members for the accounting year (n)	31 721	19 190	6 369	3	7 578	1 079	9 822	2 596	78 358
Pensioner ratio (beneficiaries>65 years)	11.37%	6.16%	23.61%	0%	40.3%	65.35%	34.96%	51.28%	18.62%
Number of beneficiaries	40 951	16 180	5 813	2	9 501	823	9 601	2 126	84 997
Average age of members	50.11	43.34	56.69	39.83	59.6	68.03	58.18	63.87	37.60
Average risk contributions per member per month	2 924	1 557	4 231	0	2 775	4 416	2 371	3 539	2 653
Average risk contributions per beneficiary per month	1 249	858	2 150	0	1 190	2 392	1 161	1 892	1 247
Average risk claims incurred per member per month	2 589	1 331	4 049	0	2 501	4 031	2 362	3 617	2 416
Average risk claims incurred per beneficiary per month	1 105	734	2 057	0	1 073	2 182	1 157	1 934	1 133
Average administration expenses per member per month	209	209	209	209	209	209	209	209	209
Average administration expenses per beneficiary per month	102	102	102	102	102	102	102	102	102
Average managed care per member per month	58	58	58	58	58	58	58	58	58
Average accumulated funds per member at 31 December	18 255	18 255	18 255	18 255	18 255	18 255	18 255	18 255	18 255
Beneficiaries per member at 31 December	1.34	0.82	0.96	0.33	1.31	0.82	1.03	0.85	1.11
Net claims as percentage of risk contributions	89%	86%	96%	0%	90%	92%	100%	100%	91%
Managed care management services as percentage of gross contributions	2%	4%	1%	0%	2%	1%	2%	1%	2%
Administration expenses as percentage of risk contributions	9%	15%	7%	0%	9%	7%	11%	8%	8%

for the year ended 31 December 2014

7.1 Operational statistics (continued)

2013	MediPlus	MediValue	MediBonus	Essential	Core Plus	80 % Plan	Standard	Premium Plus	Total
Number of members at end of accounting year (n)	32 963	16 915	6 833	1 137	8 135	1 264	9 900	2 760	79 907
Average number of members for the accounting year (n)	36 448	16 053	7 720	1 319	9 168	1 525	11 134	3 050	86 417
Pensioner ratio (beneficiaries>65 years)	6.30%	4.45%	14.87%	27.50%	22.47%	40.28%	19.98%	32.56%	11.63%
Number of beneficiaries	77 482	30 864	13 530	1 860	19 281	2 392	20 963	5 277	171 650
Average age of members	33.78	33.21	42.11	45.57	43.10	51.79	41.95	48.79	37.22
Average risk contributions per member per month	2 513	1 461	3 584	1 585	2 399	3 581	2 033	2 996	2 364
Average risk contributions per beneficiary per month	1 132	823	1 915	1 050	1 062	2 124	1 009	1 644	1 153
Average risk claims incurred per member per month	2 156	1 146	3 590	1 428	2 026	3 440	1 899	2 886	2 087
Average risk claims incurred per beneficiary per month	971	646	1 918	946	897	1 951	943	1 583	1 107
Average administration expenses per member per month	180	180	180	180	180	180	180	180	180
Average administration expenses per beneficiary per month	88	88	88	88	88	88	88	88	88
Average managed care per member per month	51	51	51	51	51	51	51	51	51
Average accumulated funds per member at 31 December	16 721	16 721	16 721	16 721	16 721	16 721	16 721	16 721	16 721
Beneficiaries per member at 31 December	1.36	0.97	0.98	0.63	1.39	1.09	1.12	0.92	1.09
Net claims as percentage of net contribution	86%	78%	99%	88%	84%	93%	83%	98%	89%
Managed care management services as percentage of gross contributions	2%	3%	1%	4%	2%	1%	2%	2%	2%
Administration expenses as percentage of net contributions	7%	14%	5%	11%	7%	4%	8%	6%	8%

for the year ended 31 December 2014

7.2 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 Curatorship there were no changes to operations of the Scheme in terms of contributions raisings and collections and the assessment and payment of claims.

7.3 Accumulated funds ratio

	2014	2013
	R'000	R'000
Total members' funds per balance sheet	1 606 269	1 529 417
Less:	(211 571)	(194 286)
Revaluation reserve	(210 509)	(193 272)
Account held in escrow	(1 062)	(1 014)
	1 394 698	1 335 131
Accumulated funds per Regulation 29	1 394 698	1 335 131
Gross contributions	2 600 678	2 557 952
Accumulated funds ratio (Including savings contributions)	53.6%	52.2%
Accumulated funds ratio (Excluding savings contributions)	55.9%	54.5%

7.4 Reserve accounts

Movements in the reserves are set out in the statement of changes in funds and reserves in the annual financial statements. There have been no unusual movements that the Curator and the Executive Management team believe should be brought to the attention of the members of the Scheme.

7.5 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 the Curator and the Executive Management team believe should be brought to the attention of the members of the Scheme.

for the year ended 31 December 2014

8. 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 liability of the Scheme ("IBNR").

9. NON-COMPLIANCE WITH MEDICAL SCHEMES ACT AND REGULATIONS

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.

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.

for the year ended 31 December 2013

Cause of the non-compliance

Claims experience higher than budget expectations on these options for the current year.

Corrective course of action

The Scheme, in conjunction with the Scheme's actuaries, constantly looks at the performance of these options, and after taking all factors into consideration; benefits are adjusted accordingly on an annual basis.

Direct or indirect investments in other medical scheme administration companies

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 nature of these investments held by our portfolio managers.

Corrective course of action

The Scheme is in the process of obtaining exemption from the Council for Medical Schemes on these investments.

Payments in excess of 30 days

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 charged interest on late accounts by the healthcare professionals.

Cause of the non-compliance

These instances 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.

for the year ended 31 December 2014

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.

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 deposits

Cause of the non-compliance

The deposits are required to execute the transactions with counter parties.

10. EVENTS AFTER BALANCE SHEET DATE

No events have occurred subsequent to the financial year end that materially affected the annual financial statements that the PO and the Board of Trustees believe should be brought to the attention of the members of the Scheme as at 28 April 2015.

11. 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, participating employers of Scheme members or other related parties.

Mr. Tebogo Mphela
Chairperson: Board of Trustees

29 April 2015

Mrs. Antea Fourie Van Zyl (CA,SA)
Trustee: Audit, Risk & Compliance Committee

Dr. Tebogo Phaleng
Acting Principal Officer



Call Centre: 086 000 2120
www.medshield.co.za