



MEDSHIELD

your kind of care

HIGHLIGHTS DOCUMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

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	2015	2014
	R'000	R'000
ASSETS		
Non-current assets	1 002 292	1 150 240
Property, plant and equipment	1 820	1 747
Intangible asset	-	-
Available-for-sale investments	1 000 472	1 148 493
Current assets	1 021 819	850 642
Available-for-sale investments	881 175	724 932
- Scheme Investments	745 415	593 805
- Personal member savings account trust investment	135 760	131 127
Trade and other receivables	18 236	20 373
Cash and cash equivalents	122 408	105 337
Total assets	2 024 111	2 000 882
FUNDS AND LIABILITIES		
Members' funds	1 626 829	1 606 269
Accumulated funds	1 439 721	1 395 760
Available-for-sale investment reserve	187 108	210 509
Current liabilities	397 282	394 613
Outstanding claims provision	114 708	125 529
Member savings	138 555	126 542
Trade and other payables	144 019	142 542
Total funds and liabilities	2 024 111	2 000 882

**MEDSHIELD MEDICAL SCHEME
STATEMENT OF COMPREHENSIVE INCOME**

for the year ended 31 December 2015

	2015 R'000	Reclassified 2014 R'000
Net risk contribution income	2 588 049	2 496 403
Relevant healthcare expenditure	(2 452 152)	(2 310 701)
Net claims incurred	(2 408 758)	(2 266 154)
Risk claims incurred	(2 417 895)	(2 274 885)
Third party claim recoveries	9 137	8 731
Accredited managed healthcare services	(48 079)	(46 154)
Net income on risk transfer arrangements	4 685	1 607
Risk transfer arrangement fees paid	(13 120)	(6 082)
Recoveries from risk transfer arrangements	17 805	7 689
Gross healthcare result	135 897	185 702
Broker service fees	(54 107)	(53 133)
Administration expenditure	(198 627)	(203 432)
Net impairment recoveries/ (losses) on healthcare receivables	2 941	(6 421)
Net healthcare result	(113 896)	(77 284)
Other income	177 875	154 930
Investment income	162 259	140 636
Sundry income	15 616	14 294
Other expenditure	(20 018)	(18 031)
Interest paid on member savings	(8 640)	(7 430)
Asset management fees	(11 378)	(10 601)
Net surplus for the year	43 961	59 615
Other comprehensive income		
Unrealised fair value adjustment on available-for-sale investments	26 396	53 250
Net realised gains on disposal of investments	(49 797)	(36 013)
Total comprehensive income for the year	20 560	76 852

MEDSHIELD MEDICAL SCHEME
STATEMENT OF CASH FLOWS
for the year ended 31 December 2015

	2015	2014
	R'000	R'000
Cash flows from operating activities		
Net cash flows utilised in operations	(112 874)	(50 507)
Cash flows from investing activities		
Acquisition of equipment	(691)	(1 708)
Purchase of available-for-sale investments	(565 633)	(166 562)
Proceeds on disposal of available-for-sale investments	583 807	88 897
Investment income		
- Interest	88 292	82 908
- Dividends	24 170	21 716
Net cash generated from investing activities	<u>129 945</u>	<u>25 251</u>
Net increase /(decrease) in cash and cash equivalents	17 071	(25 256)
Cash and equivalents at beginning of year	105 337	130 593
Cash and equivalents at end of year	<u>122 408</u>	<u>105 337</u>

MEDSHIELD MEDICAL SCHEME
STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 December 2015

	Accumulated funds	Available for-sale- investment reserve	Total members' funds
	R'000	R'000	R'000
Balance as at 1 January 2015	1 395 760	210 509	1 606 269
Net surplus for the year	43 961	-	43 961
Other comprehensive income	-	-	-
Realised gains on disposal of available-for-sale investments	-	(49 797)	(49 797)
Unrealised gain on revaluation of available-for-sale investments	-	26 396	26 396
Total comprehensive income	43 961	(23 401)	20 560
Balance as at 31 December 2015	1 439 721	187 108	1 626 829
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

MEDSHIELD MEDICAL SCHEME
SUMMARY OF MAIN CATEGORIES OF INVESTMENTS HELD

for the year ended 31 December 2015

	2015 R'000	2014 R'000
Available-for-sale investments		
Fair value at the beginning of the year	1 873 525	1 742 510
Additions	458 874	69 003
Disposals at fair value at date of disposal	(583 807)	(88 897)
Re-investment of income and proceeds on disposal	106 759	97 559
Unrealised gain on revaluation of available-for-sale investments to fair value	26 396	53 250
Fair value at the end of the year	<u>1 881 647</u>	<u>1 873 525</u>
Investments have been managed by a number of fund managers namely:		
Segregated portfolio investments	1 115 635	1 007 706
Sanlam Investment Management	553 272	483 275
Prudential Portfolio Managers	562 363	524 431
Unitised investments	766 012	865 719
Allan Gray Life Limited	500 336	328 212
Taquanta Asset Managers	2 220	327 162
Stanlib Investment Managers	263 456	210 345
- Scheme investments	127 696	79 218
- Personal member savings account trust investment	135 760	131 127
	<u>1 881 647</u>	<u>1 873 425</u>
Available -for-sale financial investments comprise the following:		
Segregated portfolio investments		
Listed equities	508 816	414 808
Debt instruments	552 210	448 969
Money market instruments	54 609	143 929
	<u>1 115 635</u>	<u>1 007 706</u>
Unitised investments		
Listed equities	211 193	128 692
Debt instruments	325 707	229 194
Money market instruments – risk	93 352	376 706
Money market instruments – personal member savings account trust investment	135 760	131 127
	<u>766 012</u>	<u>865 719</u>
Current	881 175	724 932
- Scheme investments	745 415	593 805
- Personal member savings account trust investment	135 760	131 127
Non-Current	1 000 472	1 148 493
	<u>1 881 647</u>	<u>1 873 425</u>

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 is in agreement with the Audited Financial Statements, 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.

	2015	2014
	R'000	R'000
2. Outstanding claims provision		
Provision for outstanding claims incurred but not reported	114 708	125 529
Analysis of movements in outstanding claims		
Balance at beginning of year	125 529	105 700
Payments in respect of prior year	(125 151)	(105 992)
(Under)/over provision in prior period	378	(292)
Payments in respect of prior year	114 330	125 821
Balance at end of year	114 708	125 529

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 risk contribution income

Gross contributions	2 703 234	2 600 678
Less: unbundled savings contributions	(115 185)	(104 275)
Net contribution income	2 588 049	2 496 403

for the year ended 31 December 2015

	2015	2014
	R'000	R'000
4. Net income/(expense) on risk transfer arrangements		
Premiums paid	(13 120)	(6 082)
Centre for Diabetes and Endocrinology (Pty) Ltd	(5 757)	(6 082)
Netcare Hospitals (Pty) Ltd t/a Netcare 911	(7 363)	-
Recoveries	17 805	7 689
Centre for Diabetes and Endocrinology (Pty) Ltd	7 747	7 689
Netcare Hospitals (Pty) Ltd t/a Netcare 911	10 059	-
Net income/(expense) per the statement of comprehensive income	4 685	1 607

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.

The recovery in respect of Netcare 911 is based on the total costs incurred by them in respect of services rendered. 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.

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.
- (c) The scheme has 703 (2014: 726) outstanding road accident claims to the value of R 76,5m (2014: 82,8m). 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.

6. Related party transactions

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 and terminated on the 31 March 2015.

Curator, Principal Officer and Executive Management

Transactions for the year:

(i) Curator	2015	2014
	R'000	R'000
Remuneration and considerations - Curator	695	2 298
- Total Remuneration	650	2 272
- Other disbursements (Operational expenses)	45	26

(ii) Principal Officer

Dr Tebogo Phaleng was appointed the Acting Principal Officer on the 1st April 2015 and his contract was terminated on the 31st July 2015. Dr. Stanley Moloabi was appointed the permanent Principal Officer on 15th July 2015.

Transactions for the year:

Remuneration and considerations – Principal Officer	2 142	-
- Total	2 141	-
- Secretarial services rendered	1	-

for the year ended 31 December 2015

(ii) Key Management

Transactions for the year:

	10 563	9 792
Remuneration and considerations		
- Total Remuneration	9 803	8 625
- Bonuses	699	651
- Other disbursements (Operational expenses)	61	516
	2015	2014
	R'000	R'000
Medical Aid contribution and Claims	126	89
- Membership contributions made by executives	184	122
- Claims made by executives	(58)	(33)
Trustees		
- Fees and Remuneration considerations	3 591	209
- Other disbursements	219	16
- Membership contributions made by Trustees	552	353
- Claims made	198	228
- Trustee savings balances	39	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.

MEDSHIELD MEDICAL SCHEME
NOTES TO THE HIGHLIGHTS FROM ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2015

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

31 December 2015	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	Standard			
Number of members	28 918	22 185	5 341	545	6 520	8 347			
Net contribution income	1 158 865	441 916	313 158	4 822	245 228	274 581			
Net claims incurred and net income/(expense)	(1 058 510)	(413 826)	(308 682)	(2 836)	(236 365)	(267 831)			
Gross healthcare result	100 355	28 090	4 476	1 986	8 863	6 750			
Broker service fees	(21 443)	(15 024)	(4 001)	(231)	(4 844)	(6 227)			
Administration expenditure	(76 579)	(58 749)	(14 143)	(1 443)	(17 266)	(22 104)			
Net impairment losses on healthcare receivables	1 134	870	209	21	256	327			
Net healthcare result	3 467	(44 813)	(13 459)	333	(12 991)	(21 254)			
Investment income	62 558	47 992	11 554	1 179	14 105	18 057			
Sundry income	6 021	4 619	1 112	113	1 357	1 738			
Interest paid on savings accounts	-	-	-	-	-	(6 273)			
Asset management fees	(4 387)	(3 365)	(810)	(83)	(989)	(1 266)			
Surplus/(deficit) for the year	67 659	4 433	(1 603)	1 542	1 482	(8 998)			

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.

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

31 December 2015

Category	Premium Plus	Discontinued	Total
Number of members	3 150	-	75 006
Net contribution income	149 580	(101)	2 588 049
Net claims incurred and net income/(expense)	(164 259)	157	(2 452 152)
Gross healthcare result	(14 679)	56	135 897
Broker service fees	(2 338)	1	(54 107)
Administration expenditure	(8 341)	(2)	(198 627)
Net impairment losses on healthcare receivables	124	-	2 941
Net healthcare result	(25 234)	55	(113 896)
Investment income	6 814	-	162 259
Sundry income	656	-	15 616
Interest paid on savings accounts	(2 367)	-	(8 640)
Asset management fees	(478)	-	(11 378)
Surplus/(deficit) for the year	(20 609)	55	43 961

MEDSHIELD MEDICAL SCHEME
NOTES TO THE HIGHLIGHTS FROM ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2015



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

31 December 2014 (Restated)	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	6 045	6	7 260	1 004		
Net contribution income	1 112 940	358 707	323 360	15	252 375	57 244		
Net claims incurred and net income/(expense)	(1 001 197)	(316 557)	(312 987)	-	(230 466)	(53 016)		
Gross healthcare result	111 743	42 150	10 373	15	21 909	4 228		
Broker service fees	(23 688)	(7 635)	(6 882)	-	(5 372)	(1 218)		
Administration expenditure	(81 531)	(52 293)	(16 084)	(16)	(19 317)	(2 671)		
Net impairment recoveries on healthcare receivables	(2 573)	(1 651)	(508)	(1)	(610)	(84)		
Net healthcare result	3 951	(19 428)	(13 101)	(2)	(3 389)	254		
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	61 795	17 672	(1 690)	9	10 316	2 150		

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.



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	279 376	110 249	2 137	2 496 403	
Net claims incurred and net income/(expense)	(282 771)	(113 883)	176	(2 310 701)	
Gross healthcare result	(3 395)	(3 634)	2 313	185 702	
Broker service fees	(5 946)	(2 347)	(45)	(53 133)	
Administration expenditure	(24 858)	(6 663)	-	(203 432)	
Net impairment recoveries on healthcare receivables	(785)	(210)	-	(6 421)	
Net healthcare result	(34 984)	(12 853)	2 268	(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	(10 602)	
Surplus/(deficit) for the year	(23 208)	(9 697)	2 271	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.

8. Personal medical savings account trust liability	2015	2014
	R'000	R'000
Balance on member savings at the beginning of the year	126 542	113 935
Less: Advances on member savings at beginning of the year	(358)	(156)
Net balance on member savings at the beginning of the year	126 184	113 779
Add: Member savings contributions received or receivable	115 185	104 275
Interest paid on member savings	8 640	7 430
Transfers from other schemes	745	495
Claims paid on behalf of members	(101 892)	(91 031)
Less: Refunds	(10 763)	(8 764)
Add: Advances on savings plan accounts	456	358
Balance due to members savings at the end of the year	138 555	126 542
 Investments of member savings account trust monies managed by the scheme on behalf of its members		
Total personal medical savings account trust monies invested in Money Market accounts	135 760	131 127



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REPORT OF THE BOARD OF TRUSTEES



THE BOARD OF TRUSTEES HEREBY PRESENTS THE REPORT FOR THE YEAR ENDED 31 DECEMBER 2015:

1. OVERVIEW

1.1 Upliftment of 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, in line with applicable provisions of the law. Dr. T. Phaleng was appointed as Curator with effect from 1 March 2014 until 15 December 2014 when curatorship was lifted.

The upliftment of the curatorship was granted by the North Gauteng High Court on 15 December 2014. The Trustees were subsequently constituted as a Board of Trustees on the 19 December 2014, under CMS supervision. The Board of Trustees continued to implement the work and interventions initiated during the curatorship. The governance structures proposed by the Curator are now in place.

Dr. Tebogo Phaleng was appointed as the Acting Principal Officer of the Scheme, reporting to the Board of Trustees. Dr. Phaleng performed this function until the Board of Trustees appointed a permanent Principal Officer, Dr. Stanley Moloabi on 15 July 2015.

The Scheme remains under close supervision of CMS for the remainder of a period of 18 months post-curatorship, which concludes on 19 June 2016. This entails inter alia quarterly reporting to the Registrar of Medical Schemes, CMS representation (observer status) at the Scheme's Board and if need be, at the relevant Sub-Committee meetings.

1.2 Strategic Direction of the Scheme

The newly appointed Board of Trustees held a strategic session with the Executive Management team in February 2015 during which the strategy for 2015 was drafted, subsequently approved and implemented during the year. The Board continually monitors and evaluates progress made on implementation of the strategy through the reporting by the Principal Officer.

The following five (5) key strategic focus areas were set for the Scheme:

- Membership growth;
- High performance culture;
- Organisational efficiency;
- Service excellence; and
- Financial sustainability and governance.

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

1.2.1 Membership Growth

This pillar supports the Scheme's intent of retaining and growing membership. The Scheme ended the year with 75,006 principal members, compared to 76,459 in December 2014. The Scheme is the seventh largest open medical scheme in South Africa. Members' financial constraints continue to be the single biggest contributor to this trend of declining membership, accounting for over a third of members exiting the Scheme, whilst the minority cite inadequate benefits or unsatisfactory service as reasons for leaving the Scheme. The Principal Officer (PO) and the Executive Management team identified initiatives to reverse the membership losses to retain the members on the Scheme. These initiatives will be rolled out during the course of 2016.

1.2.2 High Performance Culture

The Scheme implemented a talent attraction and retention plan that addresses the skills library and transformation. The talent attraction and retention plan is also aimed at executing climate audits to provide feedback from employees.

1.2.3 Organisational Efficiency

The organisational efficiency strategic pillar enables the Scheme to improve business decision making and reporting capacity. ICT system improvements are undertaken in pursuance of achieving this objective.

1.2.4 Service Excellence

Improving service excellence was a focus area during this reporting period. The Scheme focused on improving operational efficiency and service quality. The Scheme instituted a quality assurance mechanism to achieve this strategic pillar.

1.2.5 Financial Sustainability & Governance

The objective of this strategic pillar is to minimise member contributions, costs and improve financial governance. The Chief Financial Officer now oversees all major financial matters, including major financial transactions, investments and reporting. A formal procurement system, together with improvements in financial controls and processes, were implemented during the 2015 financial year. A three-year pricing strategy and financial forecasts have been developed and allows for the economic climate, the Scheme's demographic trends and strategic imperatives.

1.2.6 Future Strategic Outlook

The Scheme achieved 81% of the identified strategic outputs for this reporting period. The imperative going forward is to achieve a higher target as stipulated by the Board of Trustees on an annual basis. The Scheme reviews the strategic outputs annually and with the deliberate implementation, continual monitoring and reporting against the strategic imperatives, the organisation is well placed to achieve its mission of providing access to affordable high quality healthcare through sustainable partnerships.

1.3 Non-healthcare Costs

The non-healthcare expenditure, (administration expenses and broker related services) as a proportion of gross contribution income (GCI), decreased to 9.3% for the year under review (2014: 9.9%). This decrease is largely attributable to a combination of operational efficiency initiatives and reduced expenditure on marketing and distribution services.

Accredited managed healthcare services have been re-allocated to relevant healthcare expenditure in the current financial year, with a specific restatement of the comparative figures (refer to Note 11 to the Annual Financial Statements). Adjusting for accredited managed healthcare services, non-healthcare expenditure decreased to 11.1% for the year under review (2014: 11.6%).

Managing the non-healthcare costs enabled the Scheme to minimise contribution increases to lower percentages. Notwithstanding the service level and efficiency improvements made during 2015, the Principal Officer and Executive Management remains committed to pursue further improvements in managing non-healthcare costs on an ongoing basis, ensuring that members' expectations continue to be met.

1.4 Managed Healthcare Services and Claims Expenditure

The claims expenditure ratio (claims loss ratio) for the year under review, as measured against gross contributions, decreased to 94.7% (2014: 92.6%). (Adjusting for accredited managed healthcare services, the claims loss ratio increased from 90.7% to 92.9% for the year under review.) This has been driven primarily by lower than expected contribution income due to less than expected membership growth. The healthcare expenditure for 2015 was also marginally higher than budgeted. Hospital, medical specialists and medicine claims continue to pose the biggest risk to the Scheme's sustainability, since combined these account for 80% of total claims expenditure [Hospital: 44%; Specialists: 22%; Chronic Medicine: 14%] during 2015.

1.5 Sustainability and Going Concern

The Board of Trustees remains confident of the financial position of the Scheme, which was once again awarded an AA- rating by the Global Credit Ratings Agency. An AA- rating is the second highest independent rating among South African medical schemes. The Scheme has maintained this rating for the ninth consecutive year. The Scheme's ability to honour claims remains strong.

The Scheme's solvency ratio at the end of December 2015 is at 53.2%, well above the minimum 25% as prescribed by the Medical Schemes Act. This is a slight decrease from 53.6% at the end of 2014. The Board is therefore confident that the Scheme will remain a going concern for the foreseeable future.

1.6 Reporting

Internal reporting capacity has been enhanced by the appointment of the Chief Financial Officer during 2015.

1.7 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 reporting period, the new Scheme organisational structure became fully operational, ensuring proper governance of the Scheme.

The Scheme organisational structure now consists of the following areas:

- Strategic oversight: Board of Trustees;
- Monitoring: Board Sub-Committees; and
- Functional oversight: Executive Management.

The new Board of Trustees is committed to the principles of the Code of Corporate Practices and Conduct as stipulated in the King Report on Governance (King III). The Board of Trustees continually focus on its responsibility to consistently review the effectiveness and relevance of the governance structures of the Scheme. The Board of Trustees will conduct annual evaluations of the governance structures.

During 2015 the Board of Trustees utilised the committees mentioned below to monitor the Scheme's operations. 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 and Compliance Committee:** Established in accordance with the provisions of the Medical Schemes Act 131 of 1998, as amended, the primary responsibility of the Committee is to assist the Board of Trustees in carrying out their duties relating to the Scheme's accounting policies,

1.7 Corporate Governance and Compliance (continued)

internal control systems, risk management and financial reporting practices. This Committee consisted of three independent members and two Trustees.

Other committees that supported the Board with overseeing monitoring are:

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

The Board continues to attend to various legal matters that were reported in the previous financial year. A progress report on all legal and contractual matters is contained in section 1.8 of the Board of Trustees report. The Board of Trustees continues to monitor progress on these matters.

1.8 Legal and Contractual Matters

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

- All the contractual matters relating to the various service providers to the Scheme were dealt with successfully during the reporting period. The Scheme now has valid contracts which have contract periods that have been benchmarked against best practice.
- Of the legal matters that were outstanding in the previous reporting period, the matter between Medshield and Old Mutual Healthcare (Pty) Ltd has been settled with the parties reaching an out of court settlement. The legal matters between Medshield and Calabash Health Solutions (Pty) Ltd./HMI Healthcare Corporation/Agility Global Health Solutions, Yarona Healthcare, Medshield Distribution Services (MDS)/Sapling, Alumni Trading and a number of past Scheme Trustees are at different stages of court processes, with the Scheme pursuing alternative dispute resolution processes where possible.

1.9 Forensic Review

Significant progress was made in finalising the matters that related to the findings of the KPMG forensic review that was commissioned during March 2014. KPMG reviewed matters that arose during the period 02 October 2012 to 28 February 2014.

The majority of matters that were identified during the forensic review related to poor controls and in some instances non-adherence to existing policies.

A review of the governance framework and associated internal controls was completed, and the Scheme has a proper governance structure in place which is inclusive of Internal and External Audit functions. Risk, compliance and internal financial control functions are overseen and monitored by a properly constituted Audit, Risk & Compliance Committee. Proper controls are now in place and compliance with policies is compulsory. The Board has attended to, and finalised the majority of issues identified in the KPMG Forensic Report of 2014, and control measures have been implemented to prevent future reoccurrences.

1.10 Conclusion

The Board has attended to and finalised the majority of issues that were identified as governance failures previously, and the Scheme continues to operate and service the needs and expectations of its members on a daily basis. The Scheme is financially strong and is set to continue as a going concern for the foreseeable future. The Board of Trustees are confident and assured that with the precise management of governance and compliance obligations, the Scheme will grow from strength to strength.

2. DESCRIPTION OF THE MEDICAL SCHEME

2.1 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.

2.2 Benefit options within Medshield Medical Scheme

The Scheme offers 7 benefit options to employers and members of the public, namely:

- MediValue
- MediBonus
- MediPlus
- MediPhila
- Standard (*Personal Medical Savings Account*)

2.2 Benefit options within Medshield Medical Scheme (continued)

- Core Plus
- Premium Plus (*Personal Medical Savings Account*)
- 80% Plan – discontinued 31 December 2014

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 when a member enrolls in another benefit option without a personal medical savings account, or enrolls on another option at 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.

The member PMSA balances are held in a separate money market fund. Members with positive PMSA's accumulate interest at the effective interest rate as required by CMS Circular 38 of 2011. Interest earned for the 2015 year was credited to 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 arrangements during the year under review:

- Centre for Diabetes and Endocrinology (Pty) Ltd. ("CDE") *; and
- Netcare 911 Emergency Medical Services

*CDE provides the Scheme (Option: MediBonus) and its members with a programme 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 285 members (2014: 311) registered at the Centre. It is estimated that through the risk transfer

3.2 Risk transfer arrangements (continued)

arrangement, the Scheme has saved the potential cost of 63 hospital admissions for diabetes during 2015. Refer to Note 12 of the financial statements for the net income of risk transfer arrangements.

3.3 Managed Care

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

Domain	Service Provider
Hospital Benefit Management	Medical Services Organisation of South Africa (Pty) Ltd. ("MSO")
Pharmacy Benefit Management	Medscheme Health Risk Solutions ("MHRS"), a division of Medscheme Holdings (Pty) Ltd.
Dental Benefit Management	Dental Information Systems (Pty) Ltd. ("DENIS")
Optical Benefit Management	Preferred Provider Network ("PPN")
Emergency Services Management	- Europe Assistance SA (Pty) Ltd. (1 Jan 15 - 31 May 15) - Netcare 911, a division of Netcare (Ltd). (1 Jun 15 - 31 Dec 15)
HIV / AIDS Disease Management	LifeSense Disease Management (Pty) Ltd.
HIV / AIDS Medicine Benefit Management	Optipharm (Pty) Ltd. (Designated Pharmacy Provider)
GP Network Management	The IPA Foundation
Radiology and Pathology Claims Auditing	Verirad (Pty) Ltd.
Oncology Benefit and Network Management	Independent Clinical Oncology Network (Pty) Ltd. ("ICON")

3.4 Prescribed Minimum Benefits (PMBs)

The Scheme has a robust process in place for analysis, verification and adjudication of PMB claims prior to payment being effected to, as far as possible, prevent fraudulent and incorrectly coded claims from being settled. This process has been revised in consultation with the Council for Medical Schemes (CMS) and is in line with the Scheme Rules and PMB regulatory provisions as set out by CMS.

4. MANAGEMENT

4.1 Board of Trustees

The Scheme successfully exited provisional curatorship on 15 December 2014 and the Board of Trustees was constituted on the 19th December 2014.

Member Elected Trustees



Mr. Tebogo Jones Mphela

- Chairman of the Medshield Board
- Member of the Finance, Investment & Operations Committee
- Member of the HR & Remuneration Committee



Mr. Charles Richard Akeroyd

- Chairman of the Finance, Investment & Operations Committee



Mr. Mogodi Bernard Hlakola

- Deputy Chairman of the Board
- Member of the Audit, Risk & Compliance Committee
- Member of the Finance, Investment & Operations Committee



Mr. Charles Alexander Parsons

- Chairman of the Marketing, Product Review & Pricing Committee
- Member of the Clinical Governance Committee

Member Elected Trustees (continued)



Mrs. Sussan Malima

- Chairperson of Clinical Governance Committee
- Member of the HR & Remuneration Committee

Co-opted Trustees (appointed not elected)



Mrs. Antea Fourie Van Zyl

- Member of the Finance Committee
- Member of the Audit, Risk & Compliance Committee



Dr. Laetitia Erasmus

- Member of the Marketing, Product Review & Pricing Committee
- Member of Clinical Governance Committee
- Member of the Disputes Committee



Advocate Thomas Ntsewa

- Member of the Marketing, Product Review & Pricing Committee
- Member of the Disputes Committee



Dr Jalaludine Soni

- Member of the Marketing, Product Review & Pricing Committee

4.1 Board of Trustees (continued)

Attendance of the Board of Trustees meetings is included below:

Member Elected Trustees	Date of Appointment	Area of Expertise	28 Apr 2015	18 Jun 2015	24 Jul 2015	26 Aug 2015	19 Nov 2015	15 Dec 2015
Mr. Charles Richard Akeroyd	15 August 2014	Finance	Y	Y	Y	Y	Y	Y
Mr. Mogodi Bernard Hlakola	15 August 2014	Finance	Y	Y	Y	Y	Y	Y
Mrs. Sussan Malima	15 August 2014	HR & Psychology	Y	Y	Y	Y	Y	Y
Mr. Tebogo Jones Mphela (Chairperson)	15 August 2014	General Management	Y	Y	Y	Y	Y	Y
Mr Charles Alexander Parsons	15 August 2014	Managed Care	Y	Y	Y	Y	Y	Y
Co-opted Trustees (appointed not elected)	Date of Appointment	Area of Expertise	28 Apr 2015	18 Jun 2015	24 Jul 2015	26 Aug 2015	19 Nov 2015	15 Dec 2015
Mrs. Anthea Fourie Van Zyl	21 November 2014	Finance	Y	Y	Y	Y	Y	Y
Advocate Thomas Ntsewa	10 February 2015	Legal	Y	Y	Y	Y	Y	Y
Dr. Laetitia Erasmus	10 February 2015	Medical	Y	Y	Y	Y	Y	Y
Dr. Jalaluddin Soni	10 February 2015	Medical	Y	Y	N	Y	Y	Y

The Trustees were elected on the 15 August 2014, prior to the Board of Trustees being constituted on the 19th December 2014.

Scheme Secretariat

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

4.2 Principal Officer

The Curator at the time was appointed Acting Principal Officer on the 19th December 2014 and held office until the 31st of July 2015. Dr. Stanley Moloabi was appointed to the office of Principal Officer by the Board of Trustees on the 15th July 2015.

4.3 The registered office of the Scheme is:

288 Kent Avenue
 Ferndale
 Randburg
 2194

PO Box 68618
 Bryanston
 2021

Country of registration and domicile: South Africa

CMS Accreditation number: 1140

4.4 Investment Fund Managers during the year:

Sanlam Investment Managers (Pty) Ltd
 55 Willie Van Schoor Avenue
 Bellville
 7536

Private Bag X8
 Tyger Valley
 7536

Financial service provider number: 579

4.4 Investment Fund Managers during the year: (continued)

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
Nedbank Clocktower, 5th Floor P O Box 86
V & A Waterfront Cape Town
Cape Town 8002
8001
Financial service provider number: 6663

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

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:*

KPMG
1226 Francis Beard Street
Hatfield
0083

PO Box 11265
Hatfield
0028

* Appointed in April 2015

4.8 External Auditors:

PricewaterhouseCoopers Inc.
2 Eglin Road
Sunninghill
2157

Private Bag X36
Sunninghill
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, 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.

6. SUB-COMMITTEES

6.1 Audit, Risk & Compliance Committee

The Audit, Risk and Compliance Committee is mandated by the Scheme through a Board approved terms of references stipulating 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;

6.1 Audit, Risk & Compliance Committee (continued)

- 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;
- To advise on any matter referred to the Committee by the Board of Trustees;
- Oversight of the internal and external auditors, including over their appointments, fees, plans and performances;
- Oversight of the risk management, governance and compliance processes.

The Audit, Risk and Compliance Committee comprised:

- a. Independent: M. Brown (Chairperson) (Appointed 12 April 2013)
- b. Independent: J. Prinsloo (Appointed 12 April 2013)
- c. Independent: L. Sennelo (Appointed 12 April 2013 and resigned 4 November 2015)
- d. Trustee: A. Fourie-van Zyl (Appointed 21 November 2014)
- e. Trustee: B. Hlakola (Appointed 15 August 2014)
- f. Independent: D. van der Nest (Appointed 1 January 2016 to fill the vacancy)
- g. Independent: L. Sennelo (Appointed 12 April 2013 and resigned 4 November 2015)
- h. Trustee: A. Fourie-van Zyl (Appointed 21 November 2014)
- i. Trustee: B. Hlakola (Appointed 15 August 2014)
- j. Independent: D. van der Nest (Appointed 1 January 2016 to fill the vacancy)

Audit, Risk & Compliance Committee meeting attendance:

Member	15 Apr 2015	29 Jun 2015	04 Nov 2015
M. Brown (Chairperson)	Y	Y	Y
J. Prinsloo	Y	Y	Y
L. Sennelo	Y	Y	Y
A. Fourie-van Zyl	Y	Y	Y
B Hlakola	Y	Y	Y

Details of the committee members' fees are included in the Annual Financial Statements (Note 21).

The Principal Officer, Chief Operations Officer, Chief Financial Officer and Governance, Risk & Compliance Specialist 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.

6.2 Clinical Governance Committee

The Clinical Governance Committee is a sub-committee of the Board of Trustees (BoT) accountable to the BoT for ensuring effective governance systems to safeguard and improve the quality and safety of clinical care provided to members.

The Clinical Governance Committee comprised:

- a. Trustee: S. Malima (Chairperson) (Appointed 22 February 2015)
- b. Trustee: Dr. L. Erasmus (Appointed 22 February 2015)
- c. Trustee: C. Parsons (Appointed 22 February 2015)
- d. Independent: Adv. R. Mokoena (Appointed 1 January 2015)
- e. Independent: Dr. M. Mbokota (Appointed 1 January 2015)

Clinical Governance Committee meeting attendance:

Member	31 Mar 2015	02 Jun 2015	15 Jul 2015*	21 Aug 2015	03 Nov 2015
S. Malima (Chairperson)	Y	Y	Y	Y	Y
Dr. L. Erasmus	Y	Y	Y	Y	Y
C. Parsons	Y	Y	Y	Y	Y
Adv. R. Mokoena	Y	Y	Y	N	Y
Dr. M. Mbokota	Y	Y	Y	Y	Y

* The meeting of the 15th July 2015 was a joint Marcom and Clinical Governance meeting.

6.3 HR & Remuneration Committee

The HR & Remuneration Committee is a sub-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 as determined by the BoT, subject to such conditions as may be imposed by the BoT from time to time.

The HR & Remuneration Committee comprised:

- a. Independent: J. Prinsloo (Chairperson) (Appointed 1 January 2015)
- b. Trustee: T. Mphela (Appointed 22 February 2015)
- c. Trustee: S. Malima (Appointed 22 February 2015)
- d. Independent: M. Maisela (Appointed 1 January 2015)

6.3 HR & Remuneration Committee (continued)

HR & Remuneration Committee attendance:

Member	16 Mar 2015	06 May 2015	13 Aug 2015	17 Aug 2015	06 Nov 2015	11 Nov 2015	26 Nov 2015
J. Prinsloo (Chairperson)	Y	Y	Y	Y	Y	Y	Y
T. Mphela	Y	Y	N	Y	Y	N	Y
S. Malima	Y	Y	Y	Y	Y	Y	N
M. Maisela	Y	Y	Y	Y	Y	Y	Y

6.4 Marketing, Product Review & Pricing Committee

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

The Marketing, Product Review & Pricing Committee comprised:

- Trustee: C. Parsons (Chairperson) (Appointed 22 February 2015)
- Trustee: Dr. J. Soni (Appointed 22 February 2015)
- Trustee: Adv. T. Ntsewa (Appointed 22 February 2015)
- Independent: Prof. R. da Silva (Appointed 1 January 2015)

Marketing, Product Review & Pricing Committee meeting attendance:

Member	16 Mar 2015	06 May 2015	10 Jun 2015	15 Jul 2015*	05 Aug 2015	14 Aug 2015	11 Nov 2015
C. Parsons (Chairperson)	Y	Y	Y	Y	Y	N	N
Dr. J. Soni	Y	Y	Y	Y	Y	Y	Y
Adv. T. Ntsewa	Y	Y	Y	Y	Y	Y	N
Prof. R. da Silva	Y	Y	Y	N	Y	Y	Y

* The meeting of the 15th July 2015 was a joint Marcom and Clinical Governance meeting.

6.5 Finance, Investment & Operations Committee

The Finance, Investments & Operations Committee is a sub-committee of the Board of Trustees (BoT), accountable to the BoT and 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.

6.5 Finance, Investment & Operations Committee

Finance, Investment & Operations Committee comprised:

- a. Trustee: C. Akeroyd (Chairperson) (Appointed 22 February 2015)
- b. Trustee: T. Mphela (Appointed 22 February 2015)
- c. Trustee: B. Hlakola (Appointed 22 February 2015)
- d. Independent: C. Gradidge (Appointed 1 January 2015)

Finance, Investment & Operations Committee meeting attendance:

Member	16 Mar 2015	18 May 2015	17 Aug 2015	16 Nov 2015
C. Akeroyd (Chairperson)	Y	Y	Y	Y
T. Mphela	Y	Y	Y	Y
B. Hlakola	Y	Y	Y	Y
C. Gradidge	Y	Y	Y	Y

6.6 Disputes Committee

The Disputes Committee is a sub-committee of the Board of Trustees (BoT) serves as an adjudication body over cases that are referred to it by the Executive Committee, or its sub-committee tasked with receiving and adjudicating complaints, grievances and disputes brought to their 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:

- a. Independent: Dr. M. Mbokota (Chairperson) (Appointed 1 January 2015)
- b. Trustee: Dr. L. Erasmus (Appointed 22 February 2015)
- c. Trustee: A. Fourie Van Zyl (Appointed 22 February 2015)
- d. Trustee: Adv. T. Ntsewa (Appointed 22 February 2015)
- e. Independent: Adv. R. Mokoena (Appointed 1 January 2015)

Disputes Committee meeting attendance:

Member	26 Mar 2015	29 May 2015	23 Oct 2015
Dr. M. Mbokota (Chairperson)	Y	Y	Y
Dr. L. Erasmus	Y	Y	Y
A. Fourie Van Zyl	Y	Y	Y
Adv. T. Ntsewa	Y	Y	Y
Adv. R. Mokoena	Y	N	Y

MEDSHIELD MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2015

7. QUANTITATIVE REVIEW OF ACTIVITIES

2015	MediPlus	MediValue	MediBonus	MediPhila	Core Plus	Standard	Premium Plus	Total
Number of members at end of accounting year (n)	28 918	22 185	5 341	545	6 520	8 347	3 150	75 006
Average number of members for the accounting year (n)	29 999	21 001	5 599	320	6 777	8 712	3 271	75 679
Pensioner ratio (beneficiaries>65 years)	13,11%	6,49%	26,59%	2,75%	43,27%	37,38%	56,70%	19,19%
Number of beneficiaries	67 308	40 986	10 391	979	14 724	16 714	5 697	156 799
Average age of members	50,98	43,00	57,78	37,01	60,70	59,26	65,94	51,40
Average net contributions per member per month	3 219	1 754	4 661	1 254	3 016	2 627	3 811	2 850
Average net contributions per beneficiary per month	1 379	946	2 386	657	1 322	1 305	2 095	1 353
Average net claims incurred per member per month	2 940	1 642	4 594	737	2 907	2 562	4 185	2 700
Average net claims incurred per beneficiary per month	1 259	886	2 352	387	1 275	1 273	2 301	1 282
Average non-healthcare expenses per member per month	275	275	275	275	275	275	275	275
Average non-healthcare expenses per beneficiary per month	131	131	131	131	131	131	131	131
Average accumulated funds per member at 31 December	18 634	18 634	18 634	18 634	18 634	18 634	18 634	18 634
Beneficiaries per member at 31 December	1,33	0,85	0,95	0,80	1,26	1,00	0,81	1,09
Net claims as percentage of net contribution	91%	94%	99%	59%	96%	98%	110%	95%
Non-healthcare expenses as percentage of net contributions	8%	16%	6%	34%	9%	10%	7%	10%

MEDSHIELD MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2015

7. QUANTITATIVE REVIEW OF ACTIVITIES

2014 (Restated)	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%	40.30%	63.35%	34.96%	51.28%	18.62%
Number of beneficiaries	71 594	35 834	11 858	8	16 761	1 827	18 944	4 630	161 456
Average age of members	50,11	43,34	56,69	39,83	59,60	68,03	58,18	63,87	51,46
Average net contributions per member per month	2 924	1 557	4 231	0	2 775	4 416	2 371	3 539	2 653
Average net contributions per beneficiary per month	1 249	858	2 150	0	1 190	2 392	1 161	1 892	1 247
Average net claims incurred per member per month	2 630	1 375	4 095	0	2 534	4 095	2 399	3 656	2 457
Average net claims incurred per beneficiary per month	1 123	758	2 080	0	1 087	2 217	1 174	1 954	1 158
Average non-healthcare expenses per member per month	280	280	280	280	280	280	280	280	280
Average non-healthcare expenses per beneficiary per month	132	132	132	132	132	132	132	132	132
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 net contribution	90%	88%	97%	0%	91%	93%	101%	103%	93%
Non-healthcare expenses as percentage of net contributions	10%	17%	7%	111%	10%	7%	11%	8%	11%

7.1 Result of Operations

The results of the Scheme are set out in the annual financial statements. The Scheme holds a sound financial position and there were no changes to the operations of the Scheme during the year, in terms of contributions raisings, collections and the assessment and payment of claims.

7.2 Accumulated Funds Ratio (Solvency Ratio)

	2015	2014
	R'000	R'000
Total members' funds per the balance sheet	1 626 829	1 606 269
Less:	(187 771)	(211 571)
Revaluation reserve	(187 108)	(210 509)
Accounts held in escrow	(663)	(1 062)
Accumulated funds per Regulation 30	1 439 058	1 394 698
Gross Contributions	2 703 234	2 600 678
Accumulated funds ratio (including savings contributions)	53,2%	53,6%
Accumulated funds ratio (excluding savings contributions)	55,6%	55,9%

7.3 Reserves

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 should be brought to the attention of the members of the Scheme.

7.4 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.

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 THE MEDICAL SCHEMES ACT AND REGULATIONS

9.1 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.

9.2 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."*

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

Impact

Benefit options are not self-sustainable.

Cause of the non-compliance

Claims experience was 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 reviews the performance of these options. After taking all factors into consideration, contributions and benefits are adjusted accordingly on an annual basis.

9.3 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 result of the mandate given to the asset managers by the Scheme, who have the discretion to invest in any approved instrument.

Corrective course of action

The Scheme is in the process of obtaining exemption from the Council for Medical Schemes on these investments. The Scheme had exemption until October 2015 when it expired.

9.4 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 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.

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.

9.5 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 the 3 March 2017.

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 Board of Trustees believe should be brought to the attention of the members of the Scheme.

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.



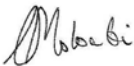
Mr. Tebogo Mphela

Chairperson: Board of Trustees
20 May 2016



Mrs. Antea Fourie-van Zyl

Trustee: Audit, Risk & Compliance Committee



Dr. Stanley Moloabi

Principal Officer



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