



MEDSHIELD
medical scheme

HIGHLIGHTS DOCUMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

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MEDSHIELD MEDICAL SCHEME
STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

	2016	2015
	R'000	R'000
ASSETS		
Non-current assets	592 520	1 002 292
Property, plant and equipment	4 909	1820
Intangible asset	-	-
Available-for-sale investments	587 611	1 000 472
Current assets	1 441 822	1 021 819
Available-for-sale investments	1 277 953	881 175
- Scheme Investments	1 133 856	745 415
- Personal member savings account trust investment	144 097	135 760
Trade and other receivables	13 964	18 236
Cash and cash equivalents	149 905	122 408
Total assets	2 034 342	2 024 111
FUNDS AND LIABILITIES		
Members' funds	1 638 701	1 626 829
Accumulated funds	1 455 376	1 439 721
Available-for-sale investment reserve	183 325	187 108
Current liabilities	395 641	397 282
Outstanding claims provision	103 270	114 708
Personal member savings account trust liability	146 742	138 555
Trade and other payables	145 629	144 019
Total funds and liabilities	2 034 342	2 024 111

MEDSHIELD MEDICAL SCHEME
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	2016 R'000	2015 R'000
Risk contribution income	2 680 909	2 588 049
Relevant healthcare expenditure	(2 540 802)	(2 452 152)
Net claims incurred	(2 503 788)	(2 408 758)
Risk claims incurred	(2 512 274)	(2 417 895)
Third party claim recoveries	8 486	9 137
Accredited managed healthcare services	(45 387)	(48 079)
Net income on risk transfer arrangements	8 373	4 685
Risk transfer arrangement fees paid	(17 799)	(13 120)
Recoveries from risk transfer arrangements	26 172	17 805
Gross healthcare result	140 107	135 897
Broker service fees	(56 281)	(54 107)
Administration expenditure	(226 010)	(198 627)
Net impairment recoveries/ (losses) on healthcare receivables	(1 013)	2 941
Net healthcare result	(143 197)	(113 896)
Other income	181 701	177 875
Investment income	177 985	162 259
Sundry income	3 716	15 616
Other expenditure	(22 849)	(20 018)
Interest paid on member savings	(10 732)	(8 640)
Asset management fees	(12 117)	(11 378)
Net surplus for the year	15 655	43 961
Other comprehensive income		
Fair value adjustment on available-for-sale investments	46 700	26 396
Net realised gains on disposal of investments	(50 483)	(49 797)
Total comprehensive income for the year	11 872	20 560

MEDSHIELD MEDICAL SCHEME
STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

	2016	2015
	R'000	R'000
Cash flows from operating activities		
Net cash flows utilised in operations	(158 228)	(112 875)
Cash flows from investing activities		
Acquisition of property, plant & equipment	(4 559)	(691)
Purchase of available-for-sale investments	(217 164)	(565 633)
Proceeds on disposal of available-for-sale investments	279 947	583 807
Investment income		
- Interest	99 666	88 292
- Dividends	27 836	24 170
Net cash generated from investing activities	<u>185 726</u>	<u>129 945</u>
Net increase in cash and cash equivalents	27 498	17 070
Cash and cash equivalents at beginning of year	122 407	105 337
Cash and cash equivalents at end of year	<u>149 905</u>	<u>122 407</u>

MEDSHIELD MEDICAL SCHEME
STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 December 2016

	Accumulated funds	Available for-sale- investment reserve	Total members' funds
	R'000	R'000	R'000
Balance as at 1 January 2016	1 439 721	187 108	1 626 829
Net surplus for the year	15 655	-	15 655
Other comprehensive income	-	-	-
Realised gains on disposal of available-for-sale investments	-	(50 483)	(50 483)
Unrealised gain on revaluation of available-for-sale investments	-	46 700	46 700
Total comprehensive income	15 655	(3 783)	11 872
Balance as at 31 December 2016	1 455 376	183 325	1 638 701
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

MEDSHIELD MEDICAL SCHEME
SUMMARY OF MAIN CATEGORIES OF INVESTMENTS HELD

for the year ended 31 December 2016

	2016 R'000	2015 R'000
Available-for-sale investments		
Fair value at the beginning of the year	1 881 647	1 873 425
Additions / re-investments	95 306	458 874
Disposals at fair value at date of disposal	(279 947)	(583 807)
Re-investment of income	121 858	106 759
Fair value gain on revaluation of available-for-sale investments to fair value	46 700	26 396
Fair value at the end of the year	<u>1 865 564</u>	<u>1 881 647</u>
Investments have been managed by a number of fund managers namely:		
Segregated portfolio investments	1 156 137	1 115 635
Sanlam Investment Management	606 300	553 272
Prudential Portfolio Managers	549 837	562 363
Unitised investments	709 427	766 012
Allan Gray Life Limited	548 590	500 336
Taquanta Asset Managers	2 196	2 220
Stanlib Investment Managers	158 641	263 456
- Scheme investments	14 544	127 696
- Personal member savings account trust investment	144 097	135 760
	<u>1 865 564</u>	<u>1 881 647</u>
Available -for-sale financial investments comprise the following:		
Segregated portfolio investments		
Listed equities	439 484	508 816
Debt instruments	291 140	552 210
Money market instruments	425 513	54 609
	<u>1 156 137</u>	<u>1 115 635</u>
Unitised investments		
Listed equities	234 213	211 193
Debt instruments	101 731	325 707
Money market instruments – risk	229 386	93 352
Money market instruments – personal member savings account trust investment	144 097	135 760
	<u>709 427</u>	<u>766 012</u>
Current	1 277 953	881 175
- Scheme investments	1 133 856	745 415
- Personal member savings account trust investment	144 097	135 760
Non-Current	587 611	1 000 472
	<u>1 865 564</u>	<u>1 881 647</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 41 of 2012, issued by the Council for Medical Schemes.

	2016	2015
	R'000	R'000
2. Outstanding claims provision		
Provision for outstanding claims incurred but not reported	103 270	114 708
Analysis of movements in outstanding claims		
Balance at beginning of year	114 708	125 529
Payments in respect of prior year	(100 858)	(125 151)
Over provision in prior period	13 850	378
Adjustment for current year	89 420	114 330
Balance at end of year	103 270	114 708

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

3. Risk contribution income

Gross contributions	2 793 053	2 703 234
Less: unbundled savings contributions	(112 144)	(115 185)
Risk contribution income	2 680 909	2 588 049

for the year ended 31 December 2016

	2016	2015
	R'000	R'000
4. Net income on risk transfer arrangements		
Premiums paid	(17 799)	(13 120)
Centre for Diabetes and Endocrinology (Pty) Ltd	(5 384)	(5 757)
Netcare Hospitals (Pty) Ltd t/a Netcare 911	(12 415)	(7 363)
Recoveries	26 172	17 805
Centre for Diabetes and Endocrinology (Pty) Ltd	5 386	7 747
Netcare Hospitals (Pty) Ltd t/a Netcare 911	20 786	10 058
Net income per the statement of comprehensive income	8 373	4 685

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. Contingent assets

- (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 549 (2015: 703) outstanding road accident claims to the value of R 72,2m (2015: 76,5m). 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 2016

6. Related party transactions

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

Principal Officer and Executive Management

Transactions for the year:

(i) Curator	2016	2015
	R'000	R'000
Remuneration and considerations - Curator	-	695
- Total Remuneration	-	650
- Other disbursements (Operational expenses)	-	45

(ii) Principal Officer

Transactions for the year:

Remuneration and considerations – Principal Officer	4 349	2 142
- Total Remuneration	2 871	2 141
- Short-term incentive provision	1 366	-
- Other disbursements (Operational expenses)	112	1
<i>Balances at year end:</i>	1 366	-
- Short-term incentive provision	1 366	-

for the year ended 31 December 2016

(iii) Key Management	2016	2015
	R'000	R'000
<i>Transactions for the year:</i>		
Remuneration and considerations	10 236	10 563
- Total Remuneration	9 438	9 803
- Bonuses	460	699
- Other disbursements (Operational expenses)	338	61
Medical Aid contribution and Claims made to and received from the Scheme	(10)	126
- Membership contributions made by executives	178	184
- Claims made in respect of management	(188)	(58)
<i>Outstanding balances due to related parties:</i>		
Board of Trustees		
- Fees and Remuneration considerations	4 117	3 591
- Other disbursements	498	219
- Membership contributions made by Trustees	603	552
- Claims paid in respect of Trustees	177	198
- Trustee personal medical savings account balances	18	39

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.

for the year ended 31 December 2016

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.

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

31 December 2016	R'000	R'000	R'000	R'000	R'000	R'000
Category	MediPlus	MediValue	MediBonus	MediPhila	MediCore	MediSaver
Number of members	26 580	24 795	4 754	904	5 945	7 501
Net contribution income	1 153 688	554 501	303 702	11 918	232 838	270 131
Net claims incurred and net income/(expense) from risk transfer arrangements	(1 042 863)	(510 004)	(316 961)	(8 944)	(216 046)	(269 302)
Gross healthcare result	110 825	44 497	(13 259)	2 974	16 792	829
Broker service fees	(25 404)	(15 118)	(4 793)	(282)	(3 680)	(5 180)
Administration expenditure	(83 768)	(73 320)	(15 086)	(2 332)	(18 441)	(23 881)
Net impairment recoveries/(losses) on healthcare receivables	(326)	(467)	(266)	(20)	20	71
Net healthcare result	1 327	(44 408)	(33 404)	340	(5 309)	(28 161)
Investment income	65 927	57 651	11 897	1 842	14 771	18 670
Sundry income	1 362	1 226	245	41	306	385
Interest paid on savings accounts	(214)	(95)	(268)	(2)	(21)	(5 775)
Asset management fees	(4 491)	(3 920)	(811)	(125)	(1 006)	(1 272)
Surplus/(deficit) for the year	63 911	10 454	(22 341)	2 096	8 741	(16 153)

MEDSHIELD MEDICAL SCHEME
NOTES TO THE HIGHLIGHTS FROM ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2016

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

31 December 2016	R'000	R'000	R'000
Category	Premium Plus	Discontinued	Total
Number of members	2 911	-	73 390
Net contribution income	154 132	(1)	2 680 909
Net claims incurred and net income/(expense) from risk transfer arrangements	(176 656)	(27)	(2 540 802)
Gross healthcare result	(22 524)	(28)	140 107
Broker service fees	(1 823)	(1)	(56 281)
Administration expenditure	(9 181)	-	(226 010)
Net impairment recoveries/(losses) on healthcare receivables	(43)	18	(1 013)
Net healthcare result	(33 571)	(11)	(143 197)
Investment income	7 227	-	177 985
Sundry income	150	1	3 716
Interest paid on savings accounts	(4 067)	(290)	(10 732)
Asset management fees	(493)	1	(12 117)
Surplus/(deficit) for the year	(30 754)	(299)	15 655

for the year ended 31 December 2016

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

31 December 2015	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) from risk transfer arrangements	(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 recoveries 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)

MEDSHIELD MEDICAL SCHEME
NOTES TO THE HIGHLIGHTS FROM ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2016

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

31 December 2015	R'000	R'000	R'000
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) from risk transfer arrangements	(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 recoveries 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

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 2016

8. Personal medical savings account trust liability	2016	2015
	R'000	R'000
Balance on personal member savings at the beginning of the year	138 555	126 542
Less: Advances on member savings at beginning of the year	(456)	(358)
Net balance on member savings at the beginning of the year	138 099	126 184
Add: Member savings contributions received or receivable	112 144	115 185
Interest earned on personal medical savings account investment	10 732	8 640
Transfers from other schemes	1 179	745
Claims paid on behalf of members	(100 202)	(101 892)
Less: Refunds	(15 316)	(10 763)
Add: Advances on savings plan accounts	106	456
Balance due to members savings at the end of the year	<u>146 742</u>	<u>138 555</u>
 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 funds	 <u>144 097</u>	 <u>135 760</u>



REPORT OF THE BOARD OF TRUSTEES



THE BOARD OF TRUSTEES HEREBY PRESENTS THE REPORT FOR THE YEAR ENDED 31 DECEMBER 2016:

1. OVERVIEW

1.1 Brief Synopsis of the year under review

The Board of Trustees ("the Board") has an explicit responsibility to govern the Scheme in accordance with the Medical Schemes Act 131 of 1998 ("the Act") and the Scheme rules. The purpose of the Board Report is to inform the Members and Stakeholders on how the Board has overseen the management of the Scheme, ensuring that the Scheme continues to honour its obligations of ensuring that members benefit entitlements are paid while the Scheme remains sustainable into the future.

The year under review has been a significant year for the Scheme as it continued to sustain good financial performance by posting a surplus in a very challenging economic climate where industry trends have experienced increasing healthcare claims in general. The Scheme maintained its reserve ratio just above 50%, which is twice the statutory requirement, and this must give comfort to our members that we are financially sustainable in the medium to long term. This also indicates our strong claims paying capability which is confirmed independently by the Global Credit Ratings Agency who have for the 10th consecutive year awarded the Scheme an AA - Credit Rating. This is one of the higher ratings in the industry.

The governance structures of the Scheme continued to function efficiently during 2016 with the Board and the various Board Committees continuously monitoring and evaluating the work that is carried out by the Executive Management Team. The Executive Management implements the Board approved Strategy and we are pleased to report that through commitment and diligence of the Executive, the Scheme achieved in excess of 90% of the Strategic Outputs for the year under review. The Board is therefore pleased with the Strategic results during the year under review. More importantly, this has translated into better service to the Medshield members as evidenced by a marked decrease in the Complaints ratio that was reported in the Council for Medical Schemes Report for this period.

1.2 Strategic Direction of the Scheme

The Board of Trustees held a strategic session with the Executive Management team during January 2016, during which the strategy for 2016 was reviewed, subsequently approved and implemented during the year. The Board continually monitors and evaluates progress made on implementation of the strategy throughout the year by means of reporting by the Principal Officer.

The following six (6) key strategic pillars were set for the Scheme, with Efficient Clinical Risk Management being introduced as a new strategic pillar:

- Membership growth;
- High performance culture;
- Organisational efficiency;
- Service excellence;

1.2 Strategic Direction of the Scheme (continued)

- Financial sustainability and governance; and
- Efficient Clinical Risk Management.

A comprehensive strategic plan outlined the key objectives, indicators and desired outputs over the reporting period, which formed the basis for the review and assessment of the Scheme and Executive Management's performance at year-end. The Board continually monitors and evaluates progress made on implementation of the strategy through reporting by the Principal Officer.

1.2.1 Membership Growth

This pillar supports the Scheme's intent of retaining and growing membership. The Scheme ended the year with 73,390 principal members, compared to 75,006 in December 2015. 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, while the minority cite inadequate benefits or unsatisfactory service as reasons for leaving the Scheme. Thirty three out of the forty strategic outputs under this pillar were completed successfully. The Principal Officer (PO) and the Executive Management team have identified initiatives to reverse the membership losses so as to retain the members on the Scheme. These initiatives will be rolled out during the course of 2017. The indications, based on the enrolment activity at the end of 2016, are that the Scheme should experience growth during 2017.

1.2.2 High Performance Culture

For the year under review the focus of this pillar was to develop the Human Capital Service Delivery Model (SDM) and ensure that there is change management regarding new performance management and a new reward system. Nineteen out of nineteen strategic outputs of this pillar were concluded successfully.

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. Fifty of the fifty one strategic outputs under this pillar were concluded successfully.

1.2.4 Service Excellence

Improving service excellence continued to be a focus area during this reporting period and the Scheme focused on improving operational efficiency, improved service quality and instituting a quality assurance mechanism to achieve this strategic pillar. Forty seven of the fifty strategic outputs in this area were completed successfully.

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 oversees all major financial matters, including major financial transactions, investments and reporting. Procurement systems are in place and improvements in financial controls and processes have resulted in much improved audit reports through the entire organisation for

1.2.5 Financial Sustainability & Governance (continued)

the 2016 financial year end. Twenty of the twenty Strategic outputs under this pillar were successfully implemented.

The three year pricing strategy and financial forecasts have been implemented, taking into account the economic climate, the Scheme's demographic trends and strategic imperatives and these are translating into good financial results reported in the financial section of this report.

1.2.6 Efficient Clinical Risk Management

The focus area for this pillar was to adapt Disease Management Programmes to improve the Schemes Clinical Risk Profile and ensure that the Managed Healthcare structures are aligned to Scheme's strategy. Twenty six of the twenty six strategic outputs in this pillar were implemented successfully.

1.2.7 Future Strategic Outlook

The Scheme achieved 94% (2015 - 81%) of the identified strategic outputs for this reporting period. The Board of Trustees is pleased with this organisational performance and will continue to ensure that Scheme officers pursue excellence relentlessly. In this regard, 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) increased to 10.1% for the year under review (2015: 9.3%). This increase is largely attributable to a combination of increased expenditure on payroll and marketing services due to the organisational structure being fully implemented.

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 increased to 11.8% for the year under review (2015: 11.1%).

Managing the non-healthcare costs has enabled the Scheme to minimise contribution increases to lower percentages than would have been expected otherwise. Notwithstanding the service level and efficiency improvements made during 2016, the Principal Officer and Executive Management remain committed to pursuing further improvements in managing non-healthcare costs on an ongoing basis, to ensure 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 net contributions increased to 94.8% (2015: 94.7%). (Adjusting for accredited managed healthcare services, the claims loss ratio

1.4 Managed Healthcare Services and Claims Expenditure (continued)

increased from 92.9% to 93.1% for the year under review.) This has been driven primarily by higher than expected healthcare expenditure due to both increased cost per claim as well as volume of claims. Higher than expected healthcare expenditure has been experienced across the industry. Hospital, medical specialists and medicine claims continue to be the most significant segments of healthcare expenditure, as these combined account for 79% of total claims expenditure [Hospital: 42%; Specialists: 23%; Medicine: 14%] during 2016.

1.5 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 by the Global Credit Ratings Agency. This is the third highest independent rating among South African medical schemes. This rating has been maintained by the Scheme for the tenth consecutive year. The Scheme's ability to honour claims remains strong.

The Scheme's solvency ratio at the end of December 2016 is at 52.1%, well above the minimum 25% as prescribed by the Medical Schemes Act. This is a slight decrease from 53.2% at the end of 2015. The Board is therefore confident that the Scheme will remain a going concern for the foreseeable future.

1.6 Reporting

Internal reporting is validated through an Audit & Risk Committee approved Audit Plan that is carried out by an independent reputable Audit firm.

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 Scheme organisational structure became fully operational to ensure proper governance of the Scheme. The Scheme organisational structure consists the following areas:

- Strategic Oversight: Board of Trustees;
- Monitoring: Board Sub-Committees; and
- Functional Implementation and Oversight: Executive Management

The 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), and carries out its responsibility to continuously review the effectiveness and relevance of the governance structures of the Scheme. The Board of Trustees will conduct annual evaluations of the governance structures. The Scheme takes note that King IV will be effective 1 April 2017.

During 2016 the Board of Trustees utilised the below-mentioned committees 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.

1.7 Corporate Governance and Compliance (continued)

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, internal control systems, risk management and financial reporting practices. The committee consists 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.

1.8 Legal and Contractual Matters

The Board continues to attend to various legal matters that were reported on in the previous financial year. The Board of Trustees continues to monitor progress on these matters.

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

The Court ruled in the Scheme's favour in the legal matter between Medshield and Calabash Health Solutions (Pty) Ltd/HMI Healthcare Corporation/Agility Global Health Solutions, Yarona Healthcare, Medshield Distribution Services (MDS)/Sapling, Alumni Trading. The respondent is appealing the outcome of the ruling. In the matter between the Scheme and a number of past Scheme Trustees an arbitration process was pursued and ruled in the Scheme's favour.

1.9 Conclusion

As the Board takes the Scheme into the third year since it was elected, the current Board is pleased and satisfied that it has achieved the Objectives it set itself when it was elected. The Objectives being proper Governance structures in place to ensure that the Scheme continues to operate in a sustainable manner and continuing to meet 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 that as we enter into a Board election year we are handing over to the incoming Board a Scheme that is built on good governance with compliance obligations met and the Scheme going 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
- MediSaver (Personal Medical Savings Account)
- MediCore
- Premium Plus (Personal Medical Savings Account)

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 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 2016 year was credited to member savings accounts in accordance with the Act.

3. RISK MANAGEMENT

3.1 Risk Management Plan

Strategic risks are identified and placed on a risk register. The risks are rated, based on likelihood and impact on the Scheme and specific strategies or processes are put in place to deal with these risks. Medshield's 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")*
- Netcare 911 Emergency Medical Services**

3.2 Risk Transfer Arrangements (continued)

*CDE provides the Scheme (Option: MediBonus) 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 255 members (2015: 285) registered at the centre. It is estimated that through the risk transfer arrangement, the Scheme has saved a potential cost of 42 hospital admissions for diabetes during 2016. Refer to Note 12 of the financial statements for the net income of risk transfer arrangements.

** Netcare provides services which 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.

3.3 Managed Care

The Scheme had the following accredited 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").
HIV / AIDS Disease Management	- LifeSense Disease Management (Pty) Ltd.
HIV / AIDS Medicine Benefit Management	- Optipharm (Pty) Ltd. (Designated Pharmacy Provider)
Oncology Benefit and Network Management	- Independent Clinical Oncology Network (Pty) Ltd. ("ICON")

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

Domain	Service Provider
Optical Benefit Management	- Preferred Provider Network ("PPN")
GP Network Management	- The IPA Foundation.
Radiology and Pathology Claims Auditing	- Verirad (Pty) Ltd.

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 was revised in consultation with the Council for Medical Schemes (CMS) and was in line with the Scheme Rules and PMB regulatory provisions as set out by CMS.



4. MANAGEMENT

4.1 Board of Trustees

Member Elected Trustees



Mr. Tebogo Jones Mphela

- Chairman of the Medshield Board (Until 26 April 2016)
- Member of the Finance, Investment & Operations Committee
- Member of the HR & Remuneration Committee
- Resigned effective 31 December 2016



Mr. Charles Richard Akeroyd

- Chairman of the Finance, Investment & Operations Committee (Until 26 April 2016)
- Chairman of the Medshield Board (From 26 April 2016)



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

4.1 Board of 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 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. Jalaluddin 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	21 Jan 2016	24 Feb 2016	26 Apr 2016	22 Jun 2016	29 Jul 2016	7 Sep 2016	11 Nov 2016
Mr. Charles Richard Akeroyd (Chairperson)	15 August 2014	Finance	Y	Y	Y	Y	Y	Y	Y
Mr. Mogodi Bernard Hlakola	15 August 2014	Finance	Y	Y	N	Y	Y	Y	Y
Mrs. Sussan Malima	15 August 2014	HR & Psychology	Y	Y	Y	N	Y	Y	Y
Mr. Tebogo Jones Mphela	15 August 2014	General Management	Y	Y	N	N	Y	Y	Y
Mr Charles Alexander Parsons	15 August 2014	Managed Care	Y	Y	Y	Y	Y	Y	Y

Co-opted Trustees (appointed not elected)	Date of Appointment	Area of Expertise	21 Jan 2016	24 Feb 2016	26 Apr 2016	22 Jun 2016	29 Jul 2016	7 Sep 2016	11 Nov 2016
Mrs. Antea Fourie Van Zyl	21 November 2014	Finance	Y	Y	Y	Y	Y	Y	Y
Advocate Thomas Ntsewa	10 February 2015	Legal	Y	Y	Y	Y	Y	Y	Y
Dr. Laetitia Erasmus	10 February 2015	Medical	Y	Y	Y	Y	Y	Y	Y
Dr. Jalaluddin Soni	10 February 2015	Medical	Y	Y	Y	Y	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

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	P O Box X8 Tyger Valley 7536
Allan Gray Life Limited Granger Bay Court, Beach Road V & A Waterfront Cape Town 8001 Financial service provider number: 594	P O Box 51318 Cape Town 8002
Taquanta Asset Management (Pty) Ltd Nedbank Clocktower, 5th Floor V & A Waterfront Cape Town 8001 Financial service provider number: 6663	P O Box 86 Cape Town 8002
Prudential Portfolio Managers (South Africa) (Pty) Ltd 7th Floor Protea Place 40 Dreyer Street Claremont Cape Town 8001 Financial service provider number: 618	P O Box 44813 Claremont 7735

4.5 Investment consultants during the year:

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

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

4.7 Internal Auditors

KPMG	PO Box 11265
1226 Francis Baard Street	Hatfield
Hatfield	0028
0083	
* Appointed in April 2015	

4.8. External Auditors:

PricewaterhouseCoopers Inc.	Private Bag X36
2 Eglin Road	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, 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:

6.1 Audit, Risk & Compliance Committee (continued)

- 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;
- 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; and
- Oversight of the risk management, governance and compliance processes.

The Audit, Risk and Compliance Committee comprised:

- Independent: M. Brown (Chairperson) (Appointed 12 April 2013 and resigned 30 June 2016)
- Independent: J. Prinsloo (Appointed 12 April 2013 & appointed Chairperson on 1 July 2016)
- Trustee: A. Fourie-van Zyl (Appointed 22 February 2015)
- Trustee: B Hlakola (Appointed 22 February 2015)
- Independent: D van der Nest (Appointed 1 January 2016)

Audit, Risk & Compliance Committee meeting attendance:

Member	8 Apr 2016	22 Apr 2016	14 Jun 2016	2 Nov 2016
M. Brown (Chairperson)	Y	Y	Y	N/A
J. Prinsloo (Chairperson)	Y	Y	Y	Y
D. van der Nest	Y	Y	Y	Y
A. Fourie-van Zyl	Y	Y	Y	Y
B Hlakola	Y	Y	Y	Y

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

The Principal Officer, Executive Operations, Chief Financial Officer and Audit, 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

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

- 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: R. Mokoena (Appointed 1 January 2015 & term ended 31 December 2016)
- e. Independent: Dr. M. Mbokota (Appointed 1 January 2015)

Member	18 Feb 2016	6 Apr 2016*	12 May 2016	4 Aug 2016*	18 Aug 2016	10 Nov 2016
S. Malima (Chairperson)	Y	Y	Y	Y	Y	Y
Dr. L. Erasmus	Y	Y	Y	Y	Y	Y
C. Parsons	Y	Y	N	Y	Y	Y
R. Mokoena	Y	Y	Y	Y	Y	Y
Dr. M. Mbokota	Y	Y	Y	Y	Y	Y

* The meetings of the 6th April & 4th August 2016 were joint Marketing and Clinical Governance meetings

6.3 Human Resources & Remuneration Committee

The Human Resources & 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 determined by the BoT subject to such conditions as may be imposed by the BoT from time to time.

The Human Resources & Remuneration Committee comprised:

- a. Trustee: T. Mphela (Appointed 22 February 2015 & resigned 31 December 2016)
- b. Trustee: S. Malima (Appointed 22 February 2015)
- c. Independent: M. Maisela (Chairperson) (Appointed 1 January 2015 & term ended 31 December 2016)
- d. Independent: J Jeftha (Appointed 1 January 2016)
- e. Independent: J Prinsloo (Resigned 31 December 2015)

6.3 Human Resources & Remuneration Committee (continued)

Member	13 Jan 2016	22 Jan 2016	29 Feb 2016	20 Apr 2016	7 Jul 2016	1 Sep 2016	17 Oct 2016
M. Maisela (Chairperson)	Y	Y	N	Y	Y	Y	Y
T. Mphela	Y	N	Y	Y	Y	N	Y
S. Malima	Y	Y	Y	Y	Y	Y	Y
J. Jeftha	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	24 Feb 2016	6 Apr 2016*	18 May 2016	13 Jul 2016	4 Aug 2016*	17 Aug 2016	26 Oct 2016
C. Parsons (Chairperson)	Y	Y	Y	Y	Y	Y	Y
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	Y	N	Y	Y

* The meetings of the 6th April & 4th August 2016 were joint Marketing and Clinical Governance meetings

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 (continued)

Finance, Investment & Operations Committee comprised:

- a. Trustee: Akeroyd (Appointed 22 February 2015)
- b. Trustee: T. Mphela (Appointed 22 February 2015 & resigned 31 December 2016)
- c. Trustee: B. Hlakola (Chairperson) (Appointed 22 February 2015)
- d. Independent: C. Gradidge (Appointed 1 January 2015)

Finance, Investment & Operations Committee meeting attendance:

Member	14 Mar 2016	16 May 2016	15 Aug 2016	14 Nov 2016
C. Akeroyd	Y	Y	Y	Y
T. Mphela	N	Y	Y	Y
B. Hlakola (Chairperson)	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) and has amongst its purposes to serve as an adjudication body over cases that shall have been 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: R. Mokoena (Appointed 1 January 2015 & term ended 31 December 2016)

Disputes Committee meeting attendance:

Member	20 Jan 2016	8 Jul 2016
Dr. M. Mbokota (Chairperson)	Y	Y
Dr. L. Erasmus	Y	Y
A. Fourie Van Zyl	Y	Y
Adv. T. Ntsewa	Y	Y
R. Mokoena	Y	Y

7. QUANTITATIVE REVIEW OF ACTIVITIES

2016	MediPlus	MediValue	MediBonus	MediPhila	MediCore	MediSaver	Premium Plus	Total
Number of members at end of accounting year (n)	26,580	24,795	4,754	904	5,945	7,501	2,911	73,390
Average number of members for the accounting year (n)	27,465	23,931	4,959	759	6,154	7,780	3,010	74,058
Pensioner ratio (beneficiaries>65 years)	14.79%	7.05%	29.41%	2.88%	45.72%	38.94%	58.30%	19.67%
Number of beneficiaries	61,067	46,565	9,115	1,573	13,101	14,834	5,165	151,420
Average age of members	52.08	43.13	58.90	37.56	61.90	60.17	66.67	51.52
Average net contributions per member per month	3,501	1,931	5,104	1,308	3,153	2,893	4,268	3,017
Average net contributions per beneficiary per month	1,517	1,036	2,644	758	1,417	1,457	2,388	1,456
Average net claims incurred per member per month	3,164	1,776	5,327	982	2,926	2,884	4,891	2,859
Average net claims incurred per beneficiary per month	1,371	953	2,760	569	1,315	1,452	2,737	1,380
Average non-healthcare expenses per member per month	319	319	319	319	319	319	319	319
Average non-healthcare expenses per beneficiary per month	154	154	154	154	154	154	154	154
Average accumulated funds per member at 31 December	19,652	19,652	19,652	19,652	19,652	19,652	19,652	19,652
Beneficiaries per member at 31 December	1.30	0.88	0.92	0.74	1.20	0.98	0.77	1.06
Net claims as percentage of net contribution	90%	92%	104%	75%	93%	100%	115%	95%
Non-healthcare expenses as percentage of net contributions	9%	16%	7%	22%	9%	11%	7%	11%

7. QUANTITATIVE REVIEW OF ACTIVITIES

2015	MediPlus	MediValue	MediBonus	MediPhila	MediCore	MediSaver	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%

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)

	2016 R'000	2015 R'000
Total members' funds per the balance sheet	1 638 701	1 626 829
Less:	(183 988)	(187 771)
Revaluation reserve	(183 325)	(187 108)
Accounts held in escrow	(663)	(663)
Accumulated funds per Regulation 30	1 454 714	1 439 058
Gross Contributions	2 793 053	2 703 234
Accumulated funds ratio (including savings contributions)	52,1%	53,2%
Accumulated funds ratio (excluding savings contributions)	54,3%	55,6%

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.”

Six 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.

9.6 Audit Committee

Nature of the non-compliance

Section 36(10) of the act states : *"The board of trustees of a medical scheme shall, subject to the provisions of subsection (13), appoint an audit committee of at least five members of which at least two shall be members of that board of trustees. "*

Impact

The Audit, Risk & Compliance Committee meeting held on the 2nd November 2016 did not consist of at least five members (committee only consisted of four members). The implications being that this did not constitute a valid committee and as such the committee.

Cause of the non-compliance

The vacancy arose when the then Chairman gave notice of his intention to resign effective 30 June 2016 (the Board accepted the Chairman's resignation at the Board of Trustees meeting held on the 19th November 2015). The Scheme then immediately began the search for a replacement for an independent member. A suitable candidate was identified. A letter of offer was issued to candidate with an appointment date effective 1 July 2016. The candidate accepted the appointment subject to her obtaining permission from her employer. The Board accepted this and gave her until 31st October 2016 to obtain the relevant permission from her employer. The candidate failed to secure the necessary permission by the 31st October 2016. Therefore there was insufficient time to find a suitable replacement candidate for the Committee meeting which was held on the 2nd November 2016.

9.6 Audit Committee (continued)

Corrective course of action

The Scheme then immediately started the search for a suitable replacement candidate for the position of independent on the Audit, Risk & Compliance Committee. The replacement candidate was appointed by the Board at a special meeting held on the 13th December 2016, effective 1 January 2017.

9.7 Marketing

Nature of the non-compliance

Section 21A of the Act states: "It is an offence to market, advertise or in any other way promote the business of any person in a manner likely to create the impression that such person conducts, will conduct, or is entitled to conduct, the business of a medical scheme unless that person is registered as a medical scheme in terms of section 24(1) of this Act".

Impact

Medshield More is a loyalty product designed for members of Medshield and offered by a third party that offers benefits such as Free Funeral, Accidental Death and Disability and Home Assistance cover.

Cause of the non-compliance

The Medshield More benefits are in no way related to the business of a medical scheme and therefore cannot be legally offered or marketed by a medical scheme.

Corrective course of action

The Scheme continues to engage with the Council for Medical Schemes with regards to the loyalty programme to ensure that the Scheme complies with the Act.

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, members or other related parties.



Mr. Charles Akeroyd
Chairperson: Board of Trustees
26 April 2017



Mrs. Antea Fourie-van Zyl
Trustee: Audit, Risk & Compliance Committee
26 April 2017



Dr. Stanley Moloabi
Principal Officer
26 April 2017



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

