



MEDSHIELD
medical scheme

HIGHLIGHTS DOCUMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

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MEDSHIELD MEDICAL SCHEME
STATEMENT OF FINANCIAL POSITION
as at 31 December 2017

	2017	2016
	R'000	R'000
ASSETS		
Non-current assets	553 244	592 520
Property, plant and equipment	6 647	4 909
Intangible asset	-	-
Available-for-sale investments	546 597	587 611
Current assets	1 498 235	1 441 822
Available-for-sale investments	1 363 631	1 277 953
- Scheme Investments	1 203 734	1 133 856
- Personal member savings account trust investment	159 897	144 097
Trade and other receivables	23 361	13 964
Cash and cash equivalents	111 243	149 905
Total assets	2 051 479	2 034 342
FUNDS AND LIABILITIES		
Members' funds	1 573 884	1 638 701
Accumulated funds	1 365 798	1 455 376
Available-for-sale investment reserve	208 086	183 325
Current liabilities	477 595	395 641
Outstanding claims provision	170 031	103 270
Personal member savings account trust liability	161 536	146 742
Trade and other payables	146 028	145 629
Total funds and liabilities	2 051 479	2 034 342

MEDSHIELD MEDICAL SCHEME
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2017

	2017 R'000	2016 R'000
Risk contribution income	2 942 378	2 680 909
Relevant healthcare expenditure	(2 879 106)	(2 537 299)
Net claims incurred	(2 836 539)	(2 500 285)
Risk claims incurred	(2 849 657)	(2 512 274)
Third party claim recoveries	7 507	8 486
Hospital discounts	5 611	3 503
Accredited managed healthcare services	(49 556)	(45 387)
Net income on risk transfer arrangements	6 989	8 373
Risk transfer arrangement fees paid	(17 924)	(17 799)
Recoveries from risk transfer arrangements	24 913	26 172
Gross healthcare result	63 272	143 610
Broker service fees	(61 452)	(56 281)
Administration expenditure	(257 561)	(226 010)
Net impairment recoveries/ (losses) on healthcare receivables	(1 024)	(1 013)
Net healthcare result	(256 765)	(139 694)
Other income	192 037	178 198
Investment income	191 756	177 985
Sundry income	281	213
Other expenditure	(24 850)	(22 849)
Interest paid on member savings	(12 150)	(10 732)
Asset management fees	(12 700)	(12 117)
Net surplus for the year	(89 578)	15 655
Other comprehensive income		
Fair value adjustment on available-for-sale investments	90 164	46 700
Net realised gains on disposal of investments	(65 403)	(50 483)
Total comprehensive income for the year	(64 817)	11 872

MEDSHIELD MEDICAL SCHEME
STATEMENT OF CASH FLOWS
for the year ended 31 December 2017

	2017	2016
	R'000	R'000
Cash flows from operating activities		
Net cash flows utilised in operations	(206 516)	(158 228)
Cash flows from investing activities		
Acquisition of property, plant & equipment	(3 999)	(4 559)
Purchase of available-for-sale investments	(390 069)	(217 164)
Proceeds on disposal of available-for-sale investments	435 569	279 947
Investment income		
- Interest	99 594	99 666
- Dividends	26 759	27 836
Net cash generated from investing activities	<u>167 854</u>	<u>185 726</u>
Net increase in cash and cash equivalents	(38 662)	27 498
Cash and cash equivalents at beginning of year	149 905	122 407
Cash and cash equivalents at end of year	<u>111 243</u>	<u>149 905</u>

MEDSHIELD MEDICAL SCHEME
STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 December 2017

	Accumulated funds	Available for-sale- investment reserve	Total members' funds
	R'000	R'000	R'000
Balance as at 1 January 2017	1 455 376	183 325	1 638 701
Net surplus for the year	(89 578)	-	(89 578)
Other comprehensive income	-	-	-
Realised gains on disposal of available-for-sale investments	-	(65 403)	(65 403)
Unrealised gain on revaluation of available-for-sale investments	-	90 164	90 164
Total comprehensive income	(89 578)	24 761	(64 817)
Balance as at 31 December 2017	1 365 798	208 086	1 573 884
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

MEDSHIELD MEDICAL SCHEME
SUMMARY OF MAIN CATEGORIES OF INVESTMENTS HELD

for the year ended 31 December 2017

	2017	2016
	R'000	R'000
Available-for-sale investments		
Fair value at the beginning of the year	1 865 564	1 881 647
Additions / re-investments	270 282	95 306
Disposals at fair value at date of disposal	(435 569)	(279 947)
Re-investment of income	119 787	121 858
Fair value gain on revaluation of available-for-sale investments to fair value	90 164	46 700
Fair value at the end of the year	<u>1 910 228</u>	<u>1 865 564</u>
Investments have been managed by a number of fund managers namely:		
Segregated portfolio investments		
Sanlam Investment Management	1 189 140	1 156 137
Argon Asset Managers	520 085	606 300
Prudential Portfolio Managers	172 863	-
	496 192	549 837
Unitised investments		
Allan Gray Life Limited	721 088	709 427
Taquanta Asset Managers	548 976	548 590
Stanlib Investment Managers	-	2 196
- Scheme investments	172 112	158 641
- Personal member savings account trust investment	12 215	14 544
	159 897	144 097
	<u>1 910 228</u>	<u>1 865 564</u>
Available -for-sale financial investments comprise the following:		
Segregated portfolio investments		
Listed equities	498 307	439 484
Debt instruments	269 700	291 140
Money market instruments	421 133	425 513
	<u>1 189 140</u>	<u>1 156 137</u>
Unitised investments		
Listed equities	224 702	234 213
Debt instruments	124 898	101 731
Money market instruments – risk	211 591	229 386
Money market instruments – personal member savings account trust investment	159 897	144 097
	<u>721 088</u>	<u>709 427</u>
Current	1 363 631	1 277 953
- Scheme investments	1 203 734	1 133 856
- Personal member savings account trust investment	159 897	144 097
Non-Current	546 597	587 611
	<u>1 910 228</u>	<u>1 865 564</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.

2. Outstanding claims provision

	2017	2016
	R'000	R'000
Provision for outstanding claims incurred but not reported	170 031	103 270
Analysis of movements in outstanding claims		
Balance at beginning of year	103 270	114 708
Payments in respect of prior year	(108 824)	(100 858)
Over provision in prior period	(5 554)	13 850
Adjustment for current year	175 585	89 420
Balance at end of year	170 031	103 270

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	3 059 015	2 793 053
Less: unbundled savings contributions	(116 637)	(112 144)
Risk contribution income	2 942 378	2 680 909

for the year ended 31 December 2017

	2017	2016
	R'000	R'000
4. Net income on risk transfer arrangements		
Premiums paid	(17 924)	(17 799)
Centre for Diabetes and Endocrinology (Pty) Ltd	(5 014)	(5 384)
Netcare Hospitals (Pty) Ltd t/a Netcare 911	(12 910)	(12 415)
Recoveries	24 913	26 172
Centre for Diabetes and Endocrinology (Pty) Ltd	4 024	5 386
Netcare Hospitals (Pty) Ltd t/a Netcare 911	20 889	20 786
Net income per the statement of comprehensive income	6 989	8 373

The recovery in respect of the 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 the Schemes legal representatives.
- (b) The Scheme has been successful in its claim against Yarona Healthcare Network. An award of R15.9m has been made to the Scheme. Yarona are seeking leave to appeal the ruling.
- (c) In the arbitration matter against the former Trustees, an award was made in favour of the Scheme in the amount of R1m. The former Trustees have subsequently filed a Notice of Appeal.
- (d) The action instituted against T B Langa & Langa Attorneys in the amount of R0.4m has been set down for an Application for Default Judgement to be heard on the 31st January 2018 and is in progress.
- (e) The Scheme has 594 (2016: 549) outstanding road accident claims to the value of R 89,7m (2016: 72,2m). Due to the uncertain outcome of claims against the Road Accident Fund by members, recoveries are only accounted for on a cash received basis.

for the year ended 31 December 2017

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) Principal Officer	2017	2016
	R'000	R'000

Transactions for the year:

Remuneration and considerations – Principal Officer	4 642	4 349
- Total Remuneration	2 903	2 871
- Short-term incentive provision	1 603	1 366
- Other disbursements (Operational expenses)	136	112

Medical Aid contribution and Claims made to and received from the Scheme

	(280)	94
- Membership contributions made by PO	117	103
- Claims made in respect of the Principal Officer	(397)	(9)

Balances at year end:

	1 603	1 366
- Short-term incentive provision	1 603	1 366

(ii) Key Management	2017	2016
	R'000	R'000
<i>Transactions for the year:</i>		
Remuneration and considerations	15 202	13 994
- Total Remuneration	9 806	9 438
- Bonuses	4 766	4 218
- Other disbursements (Operational expenses)	630	338
Medical Aid contribution and Claims made to and received from the Scheme	80	(10)
- Membership contributions made by executives	146	178
- Claims made in respect of management	(66)	(188)
<i>Outstanding balances due to related parties:</i>		
Board of Trustees		
- Fees and Remuneration considerations	3 755	4 117
- Other disbursements	514	498
- Membership contributions made by Trustees	566	603
- Claims paid in respect of Trustees	223	177
- Trustee personal medical savings account balances	51	18

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 2017

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 2017

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

	31 December 2017						
Category	R'000	R'000	R'000	R'000	R'000	R'000	R'000
	MediPlus	MediValue	MediBonus	MediPhila	MediCore	MediSaver	
Number of members	25 218	31 090	4 266	3 276	5 469	6 870	
Net contribution income	1 200 760	743 150	303 881	39 028	231 080	269 725	
Net claims incurred and net income/(expense) from risk transfer arrangements	(1 115 728)	(683 840)	(314 290)	(28 618)	(249 994)	(302 891)	
Gross healthcare result	85 032	59 310	(10 409)	10 410	(18 914)	(33 166)	
Broker service fees	(25 216)	(20 080)	(4 396)	(1 083)	(3 701)	(5 163)	
Administration expenditure	(86 688)	(97 065)	(14 696)	(7 777)	(18 581)	(23 669)	
Net impairment recoveries/(losses) on healthcare receivables	(584)	(629)	(572)	(145)	35	348	
Net healthcare result	(27 456)	(58 464)	(30 073)	1 405	(41 161)	(61 650)	
Investment income	65 209	71 200	11 133	5 399	14 134	17 836	
Sundry income	117	-	38	-	45	59	
Interest paid on savings accounts	(236)	(94)	(288)	(1)	(27)	(6 525)	
Asset management fees	(4 294)	(4 752)	(732)	(369)	(930)	(1 173)	
Surplus/(deficit) for the year	33 340	7 890	(19 922)	6 434	(27 939)	(51 453)	

MEDSHIELD MEDICAL SCHEME
NOTES TO THE HIGHLIGHTS FROM ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2017

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

31 December 2017

Category	R'000	R'000	R'000	Total
	Premium Plus	Discontinued		
Number of members	2 638	-		78 827
Net contribution income	154 753	1		2 942 378
Net claims incurred and net income/(expense) from risk transfer arrangements	(183 743)	(2)		(2 879 106)
Gross healthcare result	(28 990)	(1)		63 272
Broker service fees	(1 814)	1		(61 452)
Administration expenditure	(9 086)	1		(257 561)
Net impairment recoveries/(losses) on healthcare receivables	423	100		(1 024)
Net healthcare result	(39 467)	101		(256 765)
Investment income	6 846	(1)		191 756
Sundry income	22	-		281
Interest paid on savings accounts	(4 673)	(306)		(12 150)
Asset management fees	(451)	1		(12 700)
Surplus/(deficit) for the year	(37 723)	(205)		(89 578)

MEDSHIELD MEDICAL SCHEME
NOTES TO THE HIGHLIGHTS FROM ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2017

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

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 2017

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

31 December 2016

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

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 2017

8. Personal medical savings account trust liability	2017	2016
	R'000	R'000
Balance on personal member savings at the beginning of the year	146 742	138 555
Less: Advances on member savings at beginning of the year	<u>(106)</u>	<u>(456)</u>
Net balance on member savings at the beginning of the year	146 636	138 099
Add: Member savings contributions received or receivable	116 637	112 144
Interest earned on personal medical savings account investment	12 150	10 732
Transfers from other schemes	(164)	1 179
Claims paid on behalf of members	(102 184)	(100 202)
Less: Refunds	(11 629)	(15 316)
Add: Advances on savings plan accounts	<u>90</u>	<u>106</u>
Balance due to members savings at the end of the year	<u>161 536</u>	<u>146 742</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>159 897</u>	<u>144 097</u>



MEDSHIELD
medical scheme

REPORT OF THE BOARD OF TRUSTEES



THE BOARD OF TRUSTEES HEREBY PRESENTS THE REPORT FOR THE YEAR ENDED 31 DECEMBER 2017:

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 year of significant turnaround as the Scheme grew membership organically for the first time since it had an amalgamation in the year 2010. Due to a higher than budgeted claims experience during 2017, the Scheme posted a deficit worse than budgeted as part of its strategy to remain affordable in recognition of a very challenging economic climate for members. Industry trends have seen increasing healthcare claims in general. The Scheme maintained its reserve ratio at 44.6%, which is still high measured against the statutory requirement of 25%. This gives comfort to Medshield members that the remains financially sustainable in the medium to long term despite posting a deficit in 2017. The high reserves still indicate a strong claims paying capability which was again confirmed independently by the Global Credit Ratings Agency who have for the 11th consecutive year awarded the Scheme an AA - Credit Rating and improved the outlook to positive from stable. This is one of the higher ratings in the industry.

The governance structures of the Scheme continued to function efficiently during 2017 with the Board and the various Board Committees continuously monitoring and evaluating the work that is carried out by the Executive Management team, with positive outcomes achieved. The Executive Management implements the Board approved Scheme strategy and the Board is pleased to report that through the commitment and diligence of the Executive, the Scheme achieved in excess of 94 % of the Strategic Outputs for the year under review. The Board is therefore satisfied with the strategic results achieved during the year under review. More importantly, this was experienced as a better service to the Medshield members as evidenced by another year where the Scheme complaints ratio remained stable while the Scheme grew phenomenally by 7.4% during this reporting period.

The Scheme also concluded a three year cycle Strategic Plan during 2017.

1.2 Strategic Direction of the Scheme

The Board of Trustees held a strategic session with the Executive Management team during November 2016 and February 2017, during which the strategy for 2017 was reviewed, subsequently approved and implemented during the year. The Board also started planning and mapping the context for the next three year cycle that being 2018 to 2020. The Board continually monitors and evaluates progress made on implementation of the strategy throughout the year by means of reporting by the Principal Officer.

1.2 Strategic Direction of the Scheme (continued)

The following six (6) key strategic focus areas were confirmed and remained the Strategic Pillars for the Scheme during 2017:

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

A comprehensive strategic plan outlining the key objectives, indicators and desired outputs over the period was approved by the Board. These formed the basis for the review and assessment of the Scheme and Executive Management's performance at year-end.

1.2.1 Membership Growth

Membership growth and retention was the Scheme's biggest achievement during the year under review. The Scheme ended the year with 78,827 principal members, compared to 73,390 in December 2016. This translates to a phenomenal growth of 7.4% in an industry that is known to be stagnant. The growth is a clear indicator that the Scheme has reversed negative perceptions about previous governance and service failures. The Board remains committed to ensure that the reasons that members had for leaving the Scheme are addressed. Fifty seven out of the sixty two strategic outputs under this pillar were completed successfully. The Principal Officer (PO) and the Executive Management team will continue implementing strategic objectives identified for growth going forward. The Scheme incurred more marketing expenditure in the current financial year to grow the Scheme. The indications, based on the enrolment activity at the end of 2017 and the beginning of 2018, are that the Scheme will continue to experience growth.

1.2.2 High Performance Culture

For the year under review the focus of this pillar was to attract and retain talent in order to ensure that the Scheme has human capital resources to achieve its strategic objectives. The new performance management systems and reward systems are intended to achieve this. The Scheme's Human Capital strategy is now fully developed and its implementation was started in earnest during the year under review. The Scheme incurred higher personnel costs as part of implementing the new Scheme structure. Twenty six of the twenty seven strategic outputs of this pillar were concluded successfully.

1.2 Strategic Direction of the Scheme (continued)

1.2.3 Organisational Efficiency

The organisational efficiency strategic pillar enables the Scheme to improve business decision making and reporting capacity. System improvements are undertaken in pursuance of achieving this objective. Work to improve the Scheme's digital presence started in 2017 and will be fully implemented in 2018 with digital platforms coming live during 2018. Twenty three of the twenty four 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. The Scheme focused on improving operational efficiency, improved service quality and maintaining existing quality assurance mechanisms to achieve this strategic pillar. The Scheme is now a SABS ISO 9001 certified entity. 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 remains to limit annual member contribution increases and minimise non-healthcare costs while constantly improving financial governance. The Chief Financial Officer oversees all major financial matters, including major financial transactions, investments and reporting. A review of the Scheme's procurement systems and policies was done and approved by the Board, bringing the Scheme in line with best practice. Continuous process improvements in financial controls have resulted in much improved internal audit reports through the entire organisation for the 2017 financial year end. Twenty three of the twenty four strategic outputs under this pillar were successfully implemented.

While the Scheme had a higher than budgeted claims experience, which resulted in a worse than budgeted deficit, a five year sustainability plan, pricing strategy and financial forecasts show that the Scheme will return to breakeven in the medium term, taking into account the economic climate, the Scheme's demographic trends and the growth that the Scheme is starting to experience. These are assurances that the Scheme remains financially sustainable.

1.2.6 Efficient Clinical Risk Management

Extensive work was done to enhance Disease Management Programmes and strategic purchasing to improve the Scheme's claims experience. Results should become evident as the Scheme implements these initiatives from 2018 onwards. The Scheme's Clinical Risk Profile is also expected to improve as the Scheme continues to grow, attracting younger members. Twenty nine of the thirty two strategic outputs in this pillar were implemented successfully.

1.2 Strategic Direction of the Scheme (continued)

1.2.7 Future Strategic Outlook

The Scheme achieved 94% (2016 - 94%) 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 marginally to 10.5% for the year under review (2016: 10.1%). This increase is largely attributable to a combination of increased expenditure on payroll and marketing services due to the organisational structure required to deliver fully on the Scheme's strategy and pursuing Scheme growth respectively. Both were achieved during the year under review and these costs are expected to remain stable going forward.

Accredited managed healthcare services have been re-allocated to relevant healthcare expenditure in the current and prior financial year as required by the Regulator (refer to Note 11 to the Annual Financial Statements). Adjusting for accredited managed healthcare services, non-healthcare expenditure increased to 12.1% for the year under review (2016: 11.8%).

Managing the non-healthcare costs continues to be a Scheme focus and with the main objectives of finalising the Scheme structure and growing membership achieved, the increases in non-healthcare expenditure experienced during 2017 should abate. Notwithstanding the service level and efficiency improvements made during 2017, the Principal Officer and Executive Management remain committed to pursuing further improvements in managing non-healthcare costs downwards on an ongoing basis while 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 net contributions increased to 97.8% (2016: 94.6%). (Excluding accredited managed healthcare services, the claims loss ratio increased from 93.0% to 96.2% 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 on high cost cases was experienced by the Scheme and affected the claims loss ratio adversely. Hospital, medical specialists and medicine claims continue to be the most significant segments of healthcare expenditure, as these combined account for 76.5% of total claims expenditure [Hospital: 41.5%; Specialists: 22.0%; Medicine: 13.0%] during 2017.

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 with the outlook improving from stable to positive. This is the third highest independent rating among South African medical schemes. This rating has been maintained by the Scheme for the eleventh consecutive year. The Scheme's ability to honour claims therefore remains strong.

The Scheme's solvency ratio at the end of December 2017 was at 44.6%, well above the minimum 25% as prescribed by the Medical Schemes Act. This is a decrease from 52.1% at the end of 2016 and in line with the Scheme's strategy to use the high reserves to assist funding an affordable annual contribution increase for members. The Scheme had therefore budgeted for a deficit for the 2017 financial year. 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 Council for Medical Schemes accredited 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 second half of the reporting period, the Board interacted with the Council for Medical Schemes on matters that arose subsequent to the election of the new Board at the 2017 Annual General Meeting. These matters were duly attended to and the Scheme Rules were enhanced to minimise the risks identified and to ensure that proper governance of the Scheme is upheld. The Scheme governance structure consists of the following areas:

1.7 Corporate Governance and Compliance (continued)

- Strategic Oversight: Board of Trustees;
- Monitoring: Board Sub-Committees; and
- Functional 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 Reports on Governance, and carries out its responsibility to continuously review the effectiveness and relevance of the governance structures of the Scheme. The Board of Trustees has as one of its tasks to conduct annual evaluations of the governance structures. The Board commenced a process to adopt King IV during 2017.

The committees outlined below monitor the Scheme's operations on behalf of the Board and report quarterly or on an ad-hoc basis if necessary. The committees do not assume the operational functions of the 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 Act, as amended. The primary responsibility of this 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
- Legal Governance and Disputes Committee.

The Board continues to attend to various legal matters that were reported on in the previous financial year. A progress report on all legal and contractual matters is contained in section 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 ensure 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. The Scheme has recovered R980 927 of which R700 000 will be refunded to our insurers who funded the Scheme legal costs.
- The Court ruled in the Scheme's favour in the legal matter between Medshield and Yarona Healthcare, which was subsequently appealed by Yarona Healthcare to the Supreme Court of Appeal. The appeal was dismissed with costs and the Scheme has sent a letter of demand in the amount of R15 905 250. Yarona have subsequently filed an application for leave to appeal to the Constitutional Court.
- Medshield was successful in setting aside the trademark sale agreement with Alumni Trading. Alumni has been ordered to repay the R10m with costs. A liquidation application has been initiated against Alumni as a result of non-payment of the award within the prescribed period.
- In the arbitration matter against the former Trustees, an award was made in favour of the Scheme in the amount of R1 022 203. The former Trustees have subsequently filed a Notice of Appeal and an Appeal Tribunal has been appointed by the Johannesburg Bar Council.
- The action instituted against T B Langa & Langa Attorneys to recover R360 240 has been set down for an Application for Default Judgement to be heard on the 31 January 2018. On the 29 January 2018 the Defendant filed and served his plea. On the day of the hearing the Scheme raised an objection to the late filing of a Plea before the Presiding Judge but the Judge ruled that the Defendant be given an opportunity on condition they carry the costs and as result of this, the matter has been postponed.
- The action instituted against Traffic Integrated/MDS is on hold. The Scheme has requested permission from CMS to withdraw the action. The decision on this has been referred to the FSB by CMS.

1.9 Conclusion

The current Board is pleased and satisfied that the Scheme strategy is being implemented successfully and that the objectives are being met. The objectives being that the proper Governance structures are in place to ensure that the Scheme continues to operate in a financially sustainable manner and continue to meet and service the needs and expectations of its members to cover benefit entitlements when members need to access healthcare services. The Scheme had a challenging year occasioned by a higher than budgeted for health claims but remains financially strong to meet its obligations. The Scheme is set to continue as a going concern for the foreseeable future. The Board is confident that as we start a new three year strategy cycle it has developed and approved a strategy that is cognisant of the need for good governance with compliance obligations being met and the Scheme growing 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 seven (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 2017 year was credited to member savings accounts in accordance with the Act.

Following the Constitutional Court ruling in the Genesis case, the Scheme has changed the Scheme Rules with regards the treatment of savings monies. Effective 1 January 2018, the Scheme Rules state that the savings monies shall be kept in a Scheme account as stipulated in the Medical Schemes Act and can be utilised to fund the general business activities of the Scheme. Interest earned will be credited to the Scheme.

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**

* CDE provides the Scheme (Option: MediBonus) and its members 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 232 members (2016: 255) registered at the Centre. It is estimated that through the risk transfer arrangement, the Scheme has saved a potential cost of 50 hospital admissions for diabetes during 2017. 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	Pharmacy Direct (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	ISOLESO
GP Network Management	The IPA Foundation.
Radiology and Pathology Claims Auditing	Verirad (Pty) Ltd.

3.4 Prescribed Minimum Benefits (PMBs)

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

4. MANAGEMENT

4.1 Board of Trustees

Member Elected Trustees



Mr. Charles Richard Akeroyd

- Chairman of the Medshield Board of Trustees (Until 12 July 2017 and From 22 September 2017)
- Member of the Finance, Investment & Operations Committee (Until 22 September 2017)
- Member of the HR & Remuneration Committee (From 12 July to 22 September 2017)



Dr. Laetitia Erasmus

- Member of the Clinical Governance Committee (From 12 July 2017)
- Member of the Legal, Governance & Disputes Committee



Ms. Lethabo Happy Sekele

- Chairperson of the Marketing, Product Review & Pricing Committee (From 12 July 2017)
- Member of the HR & Remuneration Committee (From 12 July 2017)



Ms. Adelaide Ntsako Molatoli

- Chairperson of the Clinical Governance Committee (From 12 July 2017)
- Member of the Marketing, Product Review & Pricing Committee (From 12 July 2017)

4.1 Board of Trustees (continued)



Mr. Seth Makhani

- Member of the Audit, Risk & Compliance Committee (From 12 July 2017)
- Member of the Finance, Investment & Operations Committee (From 12 July 2017)

Co-opted Trustees (Appointed not elected)



Mrs. Antea Fourie Van Zyl

- Member of the Finance, Investment & Operations Committee (From 12 July 2017)
- Member of the Audit, Risk & Compliance Committee (From 12 July 2017)
- Member of the Legal, Governance & Disputes Committee
- Term ended on 20 November 2017 and re-appointed on 30 November 2017



Adv Thomas Ntsewa

- Chairman of the Board (From 12 July 2017 until 22 September 2017)
- Member of the HR & Remuneration Committee (From 22 September 2017)
- Member of the Marketing, Product Review & Pricing Committee (Until 12 July 2017)
- Member of the Finance, Investment & Operations Committee (From 22 September 2017)
- Member of the Legal, Governance & Disputes Committee (Until 12 July 2017)



Dr. Jalaluddin Soni

- Member of the Audit, Risk & Compliance Committee (From 1 March to 31 October 2017)
- Member of the Marketing, Product Review & Pricing Committee (Until 12 July 2017)
- Member of the Legal, Governance & Disputes Committee (From 12 July 2017)

MEDSHIELD MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2017

4.1 Board of Trustees (continued)

Attendance of Board of Trustees meetings is included below:

Member Elected Trustees	Date of Appointment	Area of Expertise	02 & 03 Feb 2017	01 Mar 2017	26 Apr 2017	14 Jun 2017	12 Jul 2017	26 Jul 2017	06 Sep 2017	22 Sep 2017	27 Oct 2017	23 & 24 Nov 2017
Mr. Charles Richard Akeroyd (Chairperson) (1)	24 June 2017	Finance	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Mr. Mlogodi Bernard Hlakola (2)	15 August 2014	Finance	N	Y	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mrs. Sussan Mallima (3)	15 August 2014	HR & Psychology	Y	Y	Y	Y	N/A	N/A	N/A	N/A	N/A	N/A
Mr Charles Alexander Parsons (4)	15 August 2014	General Management	Y	Y	Y	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mr Leon de Lange (5)	19 April 2017	Legal	N/A	N/A	Y	Y	N/A	N/A	N/A	N/A	N/A	N/A
Mr Derick Mokachwa (6)	19 April 2017	Labour Relations	N/A	N/A	Y	Y	N/A	N/A	N/A	N/A	N/A	N/A
Dr. Laetitia Erasmus	24 June 2017	Medical	N/A	N/A	N/A	N/A	Y	Y	Y	Y	Y	Y
Ms. Adelaide Ntsako Molatoli	24 June 2017	Medical	N/A	N/A	N/A	N/A	Y	Y	Y	Y	Y	Y
Ms. Lethabo Happy Sekele	24 June 2017	Strategic Management	N/A	N/A	N/A	N/A	Y	Y	Y	Y	Y	Y
Mr Seth Makhani	24 June 2017	Finance	N/A	N/A	N/A	N/A	Y	Y	Y	Y	Y	Y

MEDSHIELD MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2017

4.1 Board of Trustees (continued)

Co-opted Trustees (appointed not elected)	Date of Appointment	Area of Expertise	02 & 03 Feb 2017	01 Mar 2017	26 Apr 2017	14 Jun 2017	12 Jul 2017	26 Jul 2017	06 Sep 2017	22 Sep 2017	27 Oct 2017	23 & 24 Nov 2017
Mrs. Antea Fourie Van Zyl (7)	30 November 2017	Finance	Y	Y	Y	Y	Y	Y	Y	Y	Y	N/A
Adv. Thomas Ntsewa (Chairperson) (8)	10 February 2015	Legal	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Dr. Laetitia Erasmus	10 February 2015	Medical	Y	Y	Y	Y	N/A	N/A	N/A	N/A	N/A	N/A
Dr. Jalaluddin Soni	10 February 2015	Medical	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

(1) Mr. Charles Richard Akeroyd's term as Chairman ended on 24th June 2017 and was subsequently re-elected Chairman on 22 September 2017.

(2) Mr. Mogodi Bernard Hlakola resigned from the Board of Trustees on the 31st March 2017.

(3) Mrs. Sussan Malima's term ended on 24th June 2017.

(4) Mr. Charles Alexander Parsons was removed from the Board of Trustees by the Council for Medical Schemes effective 12th June 2017.

(5) Mr. Leon de Lange's term ended on 24th June 2017.

(6) Mr. Derick Mokachwa's term ended on 24th June 2017.

(7) Mrs. Antea Fourie Van Zyl's term ended on the 20 November 2017 and she was subsequently re-appointed.

(8) Advocate Thomas Ntsewa was appointed Chairperson by the Board of Trustees at a special board meeting on 12 July 2017 and subsequently removed by the Board on 22 September 2017.

Scheme Secretariat

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

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	PO Box 68618
Ferndale	Bryanston
Randburg	2021
2194	

Country of registration and domicile: South Africa

CMS Accreditation number: 1140

4.4 Investment Fund Managers during the year:

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

Allan Gray Life Limited	PO Box 51318
1 Silo Square	Cape Town
V & A Waterfront	8002
Cape Town	
8001	
Financial service provider number: 6663	

Argon Asset Management (Pty) Ltd	PO Box 23254
1st Floor Colinton House, The Oval	Claremont
1 Oakdale Road	7735
Newlands	
Cape Town	
7700	
Financial Services Provider number: 835	

REPORT OF THE BOARD OF TRUSTEES*for the year ended 31 December 2017***4.4 Investment Fund Managers during the year (continued):**

Prudential Portfolio Managers (South Africa) (Pty) Ltd	PO Box 44813 Claremont 7735
7th Floor Protea Place 40 Dreyer Street Claremont Cape Town 8001	
Financial service provider number: 45199	

Stanlib Collective Investments Ltd	PO Box 202 Melrose Arch 2076
17 Melrose Boulevard Melrose Arch 2196	

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	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	

REPORT OF THE BOARD OF TRUSTEES*for the year ended 31 December 2017***4.8 External Auditors:**

PricewaterhouseCoopers Inc.
 4 Lisbon Lane
 Waterfall City
 Jukskei View
 2090

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

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

- To assist the Board of Trustees in its evaluation of the adequacy and efficiency of the internal control systems accounting practices, information systems and auditing processes applied by the Scheme or its administrator in the day-to-day management of its business;
- To facilitate and promote communication and liaison regarding the matters referred to above or a related matter, between the Board 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 over the internal and external auditors including over their appointments, fees, plans and performances; and
- Oversight over the risk management, governance and compliance processes.

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2017

6.1 Audit, Risk & Compliance Committee (continued)

The Audit, Risk and Compliance Committee comprised:

- a. Independent: J. Prinsloo (Chairperson) (Appointed 1 July 2016)
- b. Independent: D van der Nest (Appointed 1 January 2016)
- c. Independent: N Mbhele (Appointed 1 January 2017)
- d. Trustee: A. Fourie-van Zyl (Appointed 12 July 2017)
- e. Trustee: Dr. J. Soni (Appointed 01 March 2017 and resigned 31 October 2017)
- f. Trustee: S. Makhani (Appointed 12 July 2017)

Audit, Risk & Compliance Committee meeting attendance:

Member	23 Mar 2017	19 Apr 2017	07 Jun 2017	01 Nov 2017
J. Prinsloo (Chairperson)	Y	Y	Y	Y
D. van der Nest	Y	Y	Y	Y
N. Mbhele	Y	Y	Y	Y
A. Fourie-van Zyl	Y	Y	Y	Y
Dr. J. Soni	N/A	Y	Y	N/A
S. Makhani	N/A	N/A	N/A	Y

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.

The Clinical Governance Committee comprised:

- a. Trustee: S. Malima (Chairperson) (Appointed 22 February 2015 and term ended on 24 June 2017)
- b. Trustee: C. Parsons (Appointed 22 February 2015 and removed from office on 12 June 2017)
- c. Trustee: A. Molatoli (Chairperson) (Appointed 12 July 2017)
- d. Trustee: Dr. L. Erasmus (Appointed 12 July 2017)
- e. Independent: L. Khangala (Appointed 1 January 2017)
- f. Independent: Dr. M. Mbokota (Appointed 1 January 2015)

REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2017

6.2 Clinical Governance (continued)

Clinical Governance Committee meeting attendance:

Member	16 Feb 2017	15 Mar 2017*	18 May 2017	02 Aug 2017*	31 Aug 2017	09 Nov 2017
S. Malima	Y	Y	Y	N/A	N/A	N/A
A. Molatoli	N/A	N/A	N/A	Y	Y	Y
C. Parsons	Y	Y	Y	N/A	N/A	N/A
Dr. L. Erasmus	Y	Y	Y	Y	Y	Y
L. Khangala	Y	Y	Y	N	Y	Y
Dr. M. Mbokota	Y	Y	Y	Y	N	Y

* The meetings of the 15th March & 2nd August 2017 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: S. Malima (Appointed 22 February 2015 and term ended 24 June 2017)
- b. Trustee: C. Akeroyd (Appointed 12 July 2017 and resigned on 22 September 2017)
- c. Trustee: L. Sekele (Appointed 12 July 2017)
- d. Trustee: Adv. T. Ntsewa (Appointed 22 September 2017)
- e. Independent: J. Jeftha (Chairperson) (Appointed 1 January 2016)
- f. Independent: P. Marais (Appointed 01 January 2017)

HR & Remuneration Committee meeting attendance:

Member	27 Jan 2017	30 Mar 2017	09 May 2017	13 Jul 2017	18 Aug 2017	25 Oct 2017
J. Jeftha (Chairperson)	Y	Y	Y	Y	Y	Y
S. Malima	Y	Y	Y	N/A	N/A	N/A
C. Akeroyd	N/A	N/A	N/A	Y	Y	N/A
Adv. T. Ntsewa	N/A	N/A	N/A	N/A	N/A	Y
L. Sekele	N/A	N/A	N/A	Y	N	Y
P. Marais	N/A	N/A	Y	Y	Y	Y

REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2017

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 discharging its duties specifically on issues related to product design, pricing, marketing and new business.

The Marketing, Product Review & Pricing Committee comprised:

- a. Trustee: C. Parsons (Chairperson) (Appointed 22 February 2015 and removed from office on 12 June 2017)
- b. Trustee: L. Sekele (Chairperson) (Appointed 12 July 2017)
- c. Trustee: A. Molatoli (Appointed 12 July 2017)
- d. Trustee: Dr. J. Soni (Appointed 22 February 2015 and resigned 12 July 2017)
- e. Trustee: Adv. T. Ntsewa (Appointed 22 February 2015 and resigned 12 July 2017)
- f. Independent: Prof. R. da Silva (Appointed 1 January 2015 and resigned 31 March 2017)
- g. Independent: M. Hulme (Appointed 26 October 2017)

Marketing, Product Review & Pricing Committee meeting attendance:

Member	22 Feb 2017	15 Mar 2017*	24 May 2017	21 Jul 2017	02 Aug 2017*	23 Aug 2017	25 Oct 2017
C. Parsons	Y	Y	Y	N/A	N/A	N/A	N/A
L. Sekele	N/A	N/A	N/A	Y	Y	Y	Y
A. Molatoli	N/A	N/A	N/A	Y	Y	Y	Y
Dr. J. Soni	Y	Y	Y	N/A	N/A	N/A	N/A
Adv. T. Ntsewa	Y	Y	N	N/A	N/A	N/A	N/A
Prof. R. da Silva	Y	Y	N/A	N/A	N/A	N/A	N/A

* The meetings of the 15th March & 2nd August 2017 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, tasked with assisting the BoT in fulfilling its oversight responsibility in matters relating to the Scheme's finances, investments and operations, including operational arrangements with third party service providers.

Finance, Investment & Operations Committee comprised:

- a. Trustee: B. Hlakola (Chairperson) (Appointed 22 February 2015 and resigned 31 March 2017)
- b. Independent: C. Gradidge (Chairperson) (Appointed 17 May 2017)
- c. Trustee: C. Akeroyd (Appointed 22 February 2015 and resigned 22 September 2017)
- d. Trustee: S. Makhani (Appointed 12 July 2017)

6.5 Finance, Investment & Operations Committee (continued)

- e. Trustee: A. Fourie-van Zyl (Appointed 12 July 2017)
- f. Independent: C. Gradidge (Appointed 1 January 2015)
- g. Trustee: Adv. T. Ntsewa (Appointed 22 September 2017)

Finance, Investment & Operations Committee meeting attendance:

Member	07 Mar 2017	17 May 2017	30 Aug 2017	16 Nov 2017
C. Akeroyd	Y	Y	Y	N/A
B. Hlakola (Chairperson until 31 March 2017)	N	N/A	N/A	N/A
S. Makhani	N/A	N/A	Y	Y
A. Fourie-van Zyl	N/A	N/A	Y	Y
Adv. T. Ntsewa	N/A	N/A	N/A	N
C. Gradidge (Chairperson from 17 May 2017)	Y	Y	Y	Y

MEDSHIELD MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
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7. QUANTITATIVE REVIEW OF ACTIVITIES

2017	MediPlus	MediValue	MediBonus	MediPhila	MediCore	MediSaver	Premium Plus	Total
Number of members at end of accounting year (n)	25 218	31 090	4 266	3 276	5 469	6 870	2 638	78 827
Average number of members for the accounting year (n)	26 023	28 836	4 433	2 245	5 636	7 108	2 728	77 008
Pensioner ratio (beneficiaries > 65 years)	16.50%	6.97%	32.86%	2.17%	47.71%	40.58%	59.59%	18.74%
Number of beneficiaries	57 223	58 968	8 085	6 033	11 879	13 443	4 639	160 270
Average age of members	53.06	42.78	59.94	37.71	62.78	60.95	67.62	50.59
Average net contributions per member per month	3 845	2 148	5 713	1 449	3 417	3 162	4 727	3 184
Average net contributions per beneficiary per month	1 685	1 125	2 998	763	1 562	1 609	2 677	1 549
Average net claims incurred per member per month	3 578	1 977	5 873	1 062	3 695	3 552	5 612	3 116
Average net claims incurred per beneficiary per month	1 568	1 036	3 082	560	1 689	1 808	3 179	1 516
Average non-healthcare expenses per member per month	346	346	346	346	346	346	346	346
Average non-healthcare expenses per beneficiary per month	169	169	169	169	169	169	169	169
Average accumulated funds per member at 31 December	17 736	17 736	17 736	17 736	17 736	17 736	17 736	17 736
Beneficiaries per member at 31 December	1.27	0.90	0.90	0.84	1.17	0.96	0.76	1.03
Net claims as percentage of net contribution	93%	92%	103%	73%	108%	112%	119%	98%
Non-healthcare expenses as percentage of net contributions	9%	16%	6%	23%	10%	11%	7%	11%

MEDSHIELD MEDICAL SCHEME
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2017

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%	10.4%	75%	93%	100%	115%	95%
Non-healthcare expenses as percentage of net contributions	9%	16%	7%	22%	9%	11%	7%	11%

7.1 Result of Operations

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

7.2 Accumulated Funds Ratio (Solvency Ratio)

	2017 R'000	2016 R'000
Total members' funds per the balance sheet	1 573 884	1 638 701
Less:	(208 749)	(183 988)
Revaluation reserve	(208 086)	(183 325)
Accounts held in escrow	(663)	(663)
Accumulated funds per Regulation 30	1 365 135	1 454 714
Gross Contributions	3 059 015	2 793 053
Accumulated funds ratio (including savings contributions)	44,6%	52,1%
Accumulated funds ratio (excluding savings contributions)	46,4%	54,3%

7.3 Reserves

Movements in the reserves are set out in the statement of changes in funds and reserves in the annual financial statements. The reduction in the reserve ratio year-on-year is mainly attributable to the membership growth that the Scheme experienced in 2017. Furthermore, the Scheme utilised reserves to reduce the impact of contribution increases.

7.4 Outstanding Claims

Movements in the outstanding claims provision are set out in note 7 to the annual financial statements. As a result of the implementation of the upgraded claims validation module and the resultant impact on claims processing patterns, the provision was impacted by higher than expected claims to the value of R36m.

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 and non-payment will result in the suspension of the account and no claims are paid until the account is brought up to date.

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

A significant contribution to the net healthcare result was that the claims experience was worse than expected. The Scheme had budgeted for a deficit which would explain why some of the options are loss making. The reason for this is that it is part of the Scheme's strategy to utilise reserves to subsidise contribution increases.

9.2 Loss Making Options (continued)*Corrective course of action*

The Scheme, in conjunction with the Scheme's actuaries, constantly reviews the performance of these options, and after taking all factors into consideration, contributions and benefits are adjusted accordingly on an annual basis in the normal course of business. Furthermore, the Scheme will be undertaking a scheme review in early 2018 to specifically address Scheme sustainability and a significant part of this work will encompass loss making options. In addition, the Scheme has implemented a project in early 2018 to improve the claims loss ratio, which is expected to have a positive impact on loss making options.

9.3 Direct Or Indirect Investments In Other Medical Scheme Administration Companies & Participating Employers*Nature of the non-compliance*

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

Impact

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

Cause of the non-compliance

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

Corrective course of action

The Scheme has obtained exemption from the Council for Medical Schemes for this non-compliance. This exemption expires on the 1 May 2018.

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.”

9.4 Claims payments made in excess of 30 days since receipt thereof (continued)

Impact

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

Cause of the non-compliance

These instances normally arise mainly due to queries on the accounts submitted and further investigation is required to ensure that claims are processed. In these exceptional cases claims were paid later than 30 days after date of submission. However in 2017, this was exacerbated by technical issues in the post implementation of the upgraded claims assessing module, which effectively delayed the processing of claims, thus causing payment to exceed 30 days.

Corrective course of action

The Scheme continuously encourages members and providers to submit the required supporting documentation as early as possible. The Scheme is continuously implementing new controls to manage the payments of claims in excess of 30 days. The upgraded claims assessing module has been fully implemented and is working as intended.

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 31 December 2018.

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

Nature of the non-compliance

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

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

9.6 Netcare 911 capitation agreement for the provision of emergency medical services (continued)

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

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

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

Impact

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

Cause of the non-compliance

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

Corrective course of action

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

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
25 April 2018



Mrs. Antea Fourie-van Zyl
Trustee: Audit, Risk & Compliance Committee
25 April 2018



Dr. Stanley Moloabi
Principal Officer
25 April 2018



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