

Bestmed Medical Scheme

Annual **A** Financial **F** Statements **S**

For the year ended 31 December 2020



At Bestmed  
**MEDICAL  
AID  
IS  
PERSONAL**

**bestMed**

personally yours



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## Statement of responsibility by the Board of Trustees



The Board of Trustees is responsible for the preparation, integrity and fair presentation of the Annual Financial Statements of Bestmed Medical Scheme.

The financial statements presented on pages 32 to 97 have been prepared in accordance with International Financial Reporting Standards (IFRS), in the manner required by the Medical Schemes Act and Regulations thereto and include amounts based on judgements and estimates made by management.

The Board considers that in preparing the financial statements they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all International Financial Reporting Standards that they consider to be applicable have been followed.

The Board is satisfied that the information contained in the financial statements fairly presents the results of operations and cash flows for the year and the financial position of the Scheme at year-end. The Board also prepared the rest of the information included in the report and is responsible for both its accuracy and its consistency with the financial statements. The financial statements have been audited by the Scheme's external auditors, who were given unrestricted access to all financial records and related data, including all minutes of meetings of the Board of Trustees and committees of the Board. The Trustees believe that all representations made to the external auditors during their audit are valid and appropriate. The audit report is presented on pages 26 to 29.

The Board is responsible for ensuring that accounting records are kept. The accounting records disclose with reasonable accuracy the financial position of the Scheme, which enables the Board to ensure that the financial statements comply with the relevant legislation.

Bestmed Medical Scheme operated in a well-established control environment, which is well documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute assurance that assets are safeguarded and the risks facing the business are being controlled.

The going concern basis has been adopted in preparing the financial statements. The Board has no reason to believe that the Scheme will not be a going concern in the foreseeable future, based on forecasts and available cash resources. These financial statements support the viability of the Scheme.

The financial statements were approved by the Board of Trustees on 21 April 2021 and are signed on its behalf:

**CM Mowatt**  
Chairperson

**GS DU PLESSIS**  
Vice-Chairperson

**LB Dlamini**  
Chief Executive Officer /  
Principal Officer

# Statement of Corporate Governance by the Board of Trustees



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

## BOARD OF TRUSTEES

The Board of Trustees consists of member representatives, who are nominated and elected by the members of the Scheme, and appointed members, who are elected by members of the Board of Trustees. The Board meets regularly and monitors the performance of the Scheme, their own performance and that of the Board sub-committees, against agreed terms of reference and performance targets. The Board addresses a range of key issues and ensures that discussion of items of policy, strategy and performance is critical, informed and constructive.

## INTERNAL CONTROL

The adequacy and effectiveness of the internal controls are evaluated by The Scheme's internal auditors and, as and when required, experts are consulted for professional advice.

The Scheme maintains internal controls and accounting systems designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain adequate accountability for its assets. Such controls are based on established policies and procedures and are implemented by trained personnel, with the appropriate segregation of duties. The Board concludes performance agreements annually with managerial staff to evaluate the outcome of existing control measures.

**CM Mowatt**  
Chairperson

**GS DU PLESSIS**  
Vice-Chairperson

**LB Dlamini**  
Chief Executive Officer /  
Principal Officer



Report of the  
Board of  
Trustees



# The Board of Trustees hereby presents its report for the year ended 31 December 2020.

## 1. DESCRIPTION OF THE MEDICAL SCHEME

### 1.1 Terms of Registration

Bestmed Medical Scheme ("the Scheme") is a not-for-profit, open medical scheme, registered in terms of the Medical Schemes Act 131 of 1998, as amended ("Medical Schemes Act"), and complies with the Regulations made in terms of section 67 of the Medical Schemes Act, registration number 1252. The Scheme is self-administered and the administration accreditation number is 62.

### 1.2 Benefit Options

The Scheme offered thirteen benefit options for the year under review, ten original options and three Efficiency Discounted Options (EDO's). The EDO's are included in the original ten options for reporting purposes.

Beat1  
 Beat1 Network - EDO  
 Beat2  
 Beat2 Network - EDO  
 Beat3  
 Beat3 Network - EDO  
 Beat4  
 Pace1  
 Pace2  
 Pace3  
 Pace4  
 Pulse1  
 Pulse2

### 1.3 Savings Plan

In order to provide a facility for medical scheme members to set funds aside to meet future healthcare costs not covered in the benefit options, the Board of Trustees has made the savings plan option available for some of its benefit options.

Members pay an agreed sum into this savings account. These amounts differ per option and comprise the following percentage of gross contributions:

BENEFIT OPTION	PERCENTAGE
Beat1	None
Beat1 Network - EDO	None

BENEFIT OPTION	PERCENTAGE
Beat2	16%
Beat2 Network - EDO	16%
Beat3	16%
Beat3 Network - EDO	16%
Beat4	14%
Pace1	19%
Pace2	14%
Pace3	14%
Pace4	3%
Pulse1	None
Pulse2	None

Savings contributions are refundable upon a member enrolling in another benefit option or medical scheme without a personal medical savings account, or does not enrol in another medical scheme, in which case the money will be transferred to the member in terms of the Scheme Rules.

Unexpended savings amounts are accumulated for the long-term benefit of the member. Interest is payable on credit balances equal to the interest earned on cash and cash equivalents and money market funds invested and no interest is charged on savings advances to members.

The liability to the members in respect of the savings plan is reflected as a current liability in the financial statements, but constitute trust money and is managed on the members' behalf in terms of the Scheme Rules. All unspent personal medical savings balances are invested in a separate trust account and is not managed as part of the assets of the Scheme. This treatment of members savings accounts is consistent with prior years accounting treatment in line with guidance provided by The Council for Medical Schemes ("CMS") which allows either for the recognition of members savings as assets of the Scheme or as member's funds. The Scheme was however granted an exemption by the CMS in light of Covid-19, in the financial year permitting members who opted to utilise vested savings to fund their contributions.

Where a member cannot be traced within five years of the member leaving the Scheme and after all reasonable attempts at tracing the member have been made, any unclaimed personal medical savings account balances must be paid to the Guardian's Fund. The Scheme awaits further directive from The Council for Medical Schemes ("CMS") pending their investigation as to the further treatment of these funds.

## 1.4 Risk Transfer Arrangements

The Scheme had the following risk transfer arrangements in 2020:

ER24 provided transportation or emergency medical response to the Scheme's members. Claims incurred and recoveries received were calculated based on utilisation figures obtained from ER24. The net loss on the risk transfer arrangement was R1 348 568 (2019: net income R4 840 183).

Preferred Provider Negotiators provided members on the Beat3, Beat4 and all of the Pace and Pulse options with optical services which include consultations, frames, lenses and contact lenses. Claims incurred and recoveries received were calculated based on utilisation figures obtained from Preferred Provider Negotiators. The net income on the risk transfer arrangement was R3 506 163 (2019: R7 221 695).

Bryte Insurance Company provided international transportation or emergency medical response to the Scheme's members. The Scheme contracted with Bryte Insurance at a rate of R4.00 (2019: R2.47) per member. The total travel insurance paid to Bryte for 2020 was R4 633 132 (2019: R2 800 973).

Refer to Note 15 to the financial statements for further disclosure.

## 2. MANAGEMENT

### 2.1 Board of Trustees in office during the year under review:

2.1.1 ELECTED BY THE MEMBERS	TERM OF OFFICE
RF Camphor (Vice-Chairperson) <i>End of term 23 September 2020</i>	2015 - 2020
L Heyl <i>Resigned 17 July 2020</i>	2018 - 2022
A Hartzenberg	2018 - 2022
MJ Joubert	2018 - 2022
DK Smith <i>Elected 9 October 2020</i>	2020 - 2022
E Marx <i>Re-elected 23 September 2020</i>	2020 - 2024
C Lombard <i>Elected 23 September 2020</i>	2020 - 2024
2.1.2 BOARD APPOINTED TRUSTEES	TERM OF OFFICE
GS du Plessis - CA(SA) (Vice-Chairperson)	2018 - 2022
S Stevens	2018 - 2022
T Legobye	2018 - 2022
PM Kennedy <i>Resigned 4 September 2020</i>	2015 - 2020

BOARD APPOINTED TRUSTEES	TERM OF OFFICE
CM Mowatt - CA(SA) (Chairperson) <i>Re-appointed 23 September 2020</i>	2020 - 2024
L Jordaan <i>Appointed 9 October 2020</i>	2020 - 2024

### 2.2 Principal Officer

LB Dlamini

### 2.3 Registered office address and postal address

#### Bestmed Medical Scheme

Block A  
 Glenfield Office Park  
 361 Oberon Avenue  
 Faerie Glen  
 Pretoria  
 0081

PO Box 2297  
 Pretoria  
 0001

### 2.4 Investment Advisors

#### Willis Towers Watson (Pty) Ltd

Illovo Edge  
 1 Harries Road  
 Illovo  
 Johannesburg  
 2196

Postnet Suite 154  
 Private Bag x 1  
 Melrose Arch  
 2076

FSP number: 2545

### 2.5 Investment Managers

#### Prudential Investment Managers South Africa (Pty) Ltd

5th Floor  
 Protea Place  
 40 Dreyer Street  
 Claremont  
 7708

PO Box 44813  
 Claremont  
 Cape Town  
 7735

FSP number: 45199

## 2.5 Investment Managers (continued)

### Allan Gray Life Limited

1 Silo Square  
V & A Waterfront  
Cape Town  
8001

PO Box 51605  
V & A Waterfront  
Cape Town  
8002

FSP number: 6663

### Ninety One Fund Managers SA (RF) (Pty) Ltd

36 Hans Strijdom Avenue  
Foreshore  
Cape Town  
8001

PO Box 1655  
Cape Town  
8000

FSP number: 587

### Aluwani Capital Partners (Pty) Ltd

EPPF Office Park  
24 Georgian Crescent East  
Bryanston East  
2152

Private Bag X 75  
Bryanston  
2021

FSP Number: 46196

### ABAX Investments (Pty) Ltd

2nd floor, Colinton House  
The Oval  
1 Oakdale Road  
Newlands  
Cape Town  
7700

Postnet Suite 255  
Private Bag X1005  
Claremont  
Cape Town  
7735

FSP Number: 856

## 2.6 Actuaries

### Insight Actuaries & Consultants

Ground Floor  
Block Central J  
400 Central Park  
16th Road  
Midrand  
1682

Private Bag X17  
Halfway House  
1685

## 2.7 Auditors

### PricewaterhouseCoopers Inc.

4 Lisbon Lane  
Waterfall City  
Jukskei view  
2090

Private Bag X36  
Sunninghill  
2157

## 3. INVESTMENT STRATEGY OF THE SCHEME

The Scheme's investment objectives are to maximise the return on its investments on a long-term basis at limited risk. The investment strategy takes into consideration the limitations imposed by the Medical Schemes Act and those imposed by the Board of Trustees.

The Investment Committee monitors the performance of the Scheme's investments in conjunction with the Scheme's investment advisors to ensure that maximum returns are achieved. Expert advice is obtained from Willis Towers Watson to assist in developing an appropriate investment strategy and portfolio.

Given that the central purpose of the Scheme is to provide medical benefits to members, rather than to maximise investment returns, a limited risk appetite is adopted. The Investment Committee believes the primary objective the Scheme needs to manage, is to earn a sufficient investment return in excess of inflation over a five-year period, without losing focus on downside capital protection over a one-year period. The Investment Portfolio, however, is not impervious to effects of market volatility and more recently, the effects of COVID-19. The strategic decision by the Investment Committee is to currently hold a larger portion of the investments in cash, either directly by the Scheme or via the Investment Managers, in order to minimise the fluctuations in the equity markets. As part of the Investment Committee's mandate, the Committee constantly review returns achieved and alter the investment decisions in the best interests of the members.

## 4. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

### 4.1 Solvency Ratio

The accumulated funds ratio is calculated as follows:

	2020	2019
	R'000	R'000
Total members' funds per statement of financial position	3 005 609	2 122 148
Less: Unrealised investment gains	(96 773)	(107 596)
Accumulated funds as per Regulation 29	2 908 836	2 014 552
Gross annual contribution income	6 150 430	5 686 678

### Accumulated funds ratio calculated as the ratio of Accumulated funds/gross annual contributions x 100

47.29%

35.43%

### 4.2 Results of Operations

The results of the operation of the Scheme are set out in the financial statements and the Board of Trustees believe that no further clarification is required. The objectives, policies and procedures for managing insurance risk and the method used to manage those risks are included in Note 35 to the financial statements.

### 4.3 Funds and Reserves Accounts

Movements in the reserves are set out in the Statement of Changes in Member Funds and Reserves. The significant increase in the Accumulated Funds Ratio can be attributed in the main to lower claims incurred resulting from the postponement of elective surgeries and general reduction in the utilisation of the healthcare infrastructure, as a consequence of Covid-19.

### 4.4 Outstanding Claims

Movements on the outstanding claims provision are set out in Note 11 to the financial statements. The basis of calculation of the outstanding claims provision is discussed in Note 35 to the financial statements.

## 5. ACTUARIAL SERVICES

The Scheme's actuaries have been consulted in the determination of the contribution and benefit levels, the outstanding claims provision as well as the IAS 19 retirement benefit obligations.

## 6. RELATED PARTY TRANSACTIONS

Refer to related parties disclosure in Note 29 to the financial statements, and trustee remuneration disclosure in Note 28 to the financial statements.

## 7. CORPORATE GOVERNANCE

The Scheme through its Board is committed to the principles of fairness, ethical conduct, integrity,

accountability and good governance in all its dealings with stakeholders. The Scheme aspires to fully comply to all aspects of good governance as espoused in the Medical Schemes Act and its regulations as amended.

During 2020, the Board relied on the committees listed below to oversee different aspects of the Scheme's operations. The Committees do not assume the functions of management, these remain the responsibility of the Principal Officer and other members of senior management. Further information is provided below on each committee of the Board:

### AUDIT COMMITTEE

The Scheme has an Audit Committee in accordance with the provisions of the Medical Schemes Act.

The Committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. The Committee consists of five members of which two are members of the Board of Trustees. The majority of the members, including the Chairperson, are not officers of the Scheme. Except for two "in committee" meetings, the Principal Officer, internal and external auditors, attended all Audit Committee meetings and have unrestricted access to the Chairperson of the Committee.

The Committee met four times during the year and comprised the following members:

<b>GS du Plessis - CA(SA)</b>	Trustee member
<b>L Heyl</b>	Trustee member <i>Resigned 17 July 2020</i>
<b>G Nzalo - CA(SA)</b>	Independent member - Chairperson
<b>H Wolmarans - CA(SA)</b>	Independent member
<b>DK Smith</b>	Trustee member <i>Effective 9 October 2020</i>
<b>S Thomas - CA(SA)</b>	Independent member



## 7. CORPORATE GOVERNANCE (CONTINUED)

### RISK MANAGEMENT COMMITTEE

The role of the Committee is to ensure that the Scheme has implemented an effective policy and plan for risk management that will enhance the Scheme's ability to achieve its strategic objectives and that disclosure regarding risk is comprehensive, timely and relevant. The Committee is mandated by the Board of Trustees by means of formal terms of reference as to its membership, authority and duties. The Principal Officer, Chairperson of the Audit Committee, and senior management attend meetings of the committee.

The Committee met four times during the year and comprised the following members:

<b>PM Kennedy</b>	Trustee member - Chairperson <i>Resigned 4 September 2020</i>
<b>L Heyl</b>	Trustee member <i>Resigned 17 July 2020</i>
<b>T Legobye</b>	Trustee member <i>Effective 9 October 2020</i>
<b>CM Mowatt - CA(SA)</b>	Trustee member <i>Re-appointed 9 October 2020</i>
<b>S Stevens</b>	Trustee member - Chairperson
<b>L Jordaan</b>	Trustee member <i>Effective 9 October 2020</i>
<b>G Nzalo - CA(SA)</b>	Independent member

### INVESTMENT COMMITTEE

The role of the Committee is to advise the Board of Trustees and Management on the best possible investment of the Scheme's resources available for that purpose, amendments to, or the re-investment of existing investments and possible steps that may be considered in respect of the investment of available funds. The Committee is mandated by the Board of Trustees by means of formal terms of reference as to its membership, authority and duties. The Principal Officer and senior management attend meetings of the Committee.

The Committee met four times during the year and comprised the following members:

<b>GS du Plessis - CA(SA)</b>	Trustee member - Chairperson
<b>CM Mowatt - CA(SA)</b>	Trustee member <i>End of term 9 October 2020</i>
<b>A Hartzenberg</b>	Trustee member
<b>M Joubert</b>	Trustee member
<b>C Lombard</b>	Trustee member <i>Effective 23 September 2020</i>
<b>PM Kennedy</b>	Trustee member <i>Resigned 4 September 2020</i>

### REMUNERATION AND HUMAN RESOURCES COMMITTEE

The role of the Committee is to ensure that the remuneration policy and practices are regularly reviewed, that the Scheme remunerates the Board of Trustees, senior management and its employees fairly and responsibly and that disclosure of trustee and senior management remuneration is accurate, complete and transparent. The Committee is mandated by the Board of Trustees by means of formal terms of reference as to its membership, authority and duties.

The Committee met three times during the year and comprised the following members:

<b>Prof PA Delpont</b>	Independent member <i>Effective 13 November 2020</i>
<b>RF Camphor</b>	Trustee member <i>Resigned 23 September 2020</i>
<b>CM Mowatt - CA(SA)</b>	Trustee member <i>Appointed 9 October 2020</i>
<b>E Marx</b>	Trustee member
<b>S Stevens</b>	Trustee member
<b>M Joubert</b>	Trustee member <i>Resigned 23 October 2020</i>

### DISPUTE COMMITTEE

The role of the Dispute Committee is to adjudicate medical aid claim related disputes concerning membership status and medical scheme benefits of a Member that may arise against the Scheme. The Committee is mandated by the Board of Trustees by means of formal terms of reference as to its membership, authority and duties.

The Committee did not meet during the year as no medical aid related disputes were referred for review. The committee comprised of the following members:

<b>Dr D Kapp</b>	Independent member
<b>J van den Heever</b>	Independent member
<b>H van Rooyen</b>	Independent member

### SOCIAL AND ETHICS COMMITTEE

The role of the Committee is to oversee and monitor, rather than be responsible for the implementation of operational responsibilities for which Executive Management is accountable. The Committee is mandated by the Board of Trustees by means of formal terms of reference as to its membership, authority and duties.

The Committee met three times during the year and comprised the following members:

<b>A Hartzenberg</b>	Trustee member
<b>E Marx</b>	Trustee member
<b>T Legobye</b>	Trustee member - Chairperson
<b>M Joubert</b>	Trustee member

### 8. EVENTS SUBSEQUENT TO THE STATEMENT OF FINANCIAL POSITION DATE

No events took place between the Statement of Financial Position as at 31 December 2020 and the date of this report.

### 9. GOVERNANCE IN TERMS OF THE MEDICAL SCHEMES ACT 131 OF 1998, AS AMENDED

#### COUNCIL FOR MEDICAL SCHEME INVESTIGATION

During the 2016 financial period and following the forensic investigation carried out by KPMG in 2015 as per the instruction of the Board, the Council for Medical Schemes (CMS) ordered a further inspection in terms of section 44 of the Medical Schemes Act against Bestmed. The CMS appointed Ligwa Advisory Services to carry out this inspection, which addressed materially the same subjects as the forensic investigation ordered by the Board of Trustees in 2015.

In September 2020, The Scheme received notification from the CMS confirming that according to the Regulator's records, the inspection report issued by Ligwa Advisory Services is final. Pursuant to this, no further report will be issued.

The item was tabled at the last AGM and the Scheme provided an update to all members who attended the meeting. It is also worth reporting that since the issuing of the draft report, the Scheme has taken steps to deal with the contents of the report and corrected the aspects which were found to be non-compliant. At this point no further action will be taken regarding the report.

### 10. AMALGAMATIONS

An amalgamation between Bestmed Medical Scheme and Grintek Electronics Medical Aid Scheme (Registration number 1523) was confirmed and effective from 1 July 2020 in terms of Circular 55 of 2020 issued by the Council on 16 June 2020. The amalgamation involved the assets, liabilities and members' funds of Grintek Electronics Medical Aid Scheme being transferred to Bestmed, effective 1 July 2020, for no cash consideration.

### 11. COVID-19

The Scheme saw its first positive case of COVID-19 on 5 March 2020. Since then it has remained at the forefront of developments within the industry.

The pandemic affected societies and economies across the globe and South Africa was not spared. Lockdown responses to the pandemic affected most industries in one way or other. Some industries did not survive while others thrived. The medical aid industry fared a lot better than most given the significant reduction in claims driven by the deferral of elective surgeries and general reduction in the utilisation of the healthcare infrastructure. This led to higher reserves which enabled the scheme to successfully absorb all COVID-19 related costs.

On 31 December 7,065 beneficiaries had tested positive to COVID-19 with a recovery rate of 78,9% (5,577 beneficiaries). Unfortunately, 272 beneficiaries succumbed to the virus. The total cost of COVID related claims to year end was R233.4 million which included hospitalisation, testing and out-of-hospital medicines.

The focus for 2021 for the Scheme, while still dealing with members affected by COVID-19, will be to support our members within the COVID-19 vaccination programme. The vaccine procurement and financing, and the private sector's involvement therein, has been progressing. The Scheme continues to remain close to the updates with new developments emerging regularly.

## 11. COVID-19 (CONTINUED)

The financial impact on the Scheme for 2021 has been estimated as follows:

Scenario	Number of eligible beneficiaries (age >18)	Proportion of beneficiaries vaccinated	Number of beneficiaries vaccinated	Vaccine cost per person (R)	Total vaccine cost estimate (R)	Vaccine cost as % of gross contributions	Vaccine cost as % of reserves	Impact on solvency
1	151 360	85%	128 656	450	57 895 200	0.9%	2.0%	-1.1%
2	151 360	85%	128 656	780	100 351 680	1.6%	3.5%	-1.8%
3	151 360	85%	128 656	1 100	141 521 600	2.2%	4.9%	-2.5%

### Assumptions:

- It is assumed that all beneficiaries over the age of 18 will be eligible for the vaccine. It is unlikely that every eligible beneficiary will opt for the vaccine, due to health, personal or other reasons and therefore a take up rate of 85% has been assumed.
- The pricing estimates have been based on assumptions given the uncertainty in the choice and the cost of the vaccines

Given that the solvency ratio of the Scheme at 31 December 2020 is at 47.29% above the minimum statutory requirement of 25%, this allows for sufficient capital to facilitate the estimated costs of the vaccines given the scenarios as tabled over and above the normal anticipated claims.

## 12. TRUSTEE MEETING ATTENDANCE

The following schedule sets out Board of Trustees meeting attendances and attendances by members of Board subcommittees. Trustee remuneration is disclosed in Note 28 to the financial statements.

**A - Total possible number of meetings that could have been attended.**

**B - Actual number of meetings attended.**

Trustee member	Board meetings		Audit Committee		Risk Committee		Investment Committee		Remuneration and Human Resource Committee		Social and Ethics Committee	
	A	B	A	B	A	B	A	B	A	B	A	B
RF Camphor <i>Term ended 23 September 2020</i>	6	5							2	2		
GS du Plessis - CA(SA)	8	8	4	4			4	4				
A Hartzenberg	8	8					4	4			3	3
L Heyl <i>Resigned 17 July 2020</i>	4	4	2	2	2	2						
M Joubert	8	8					4	4	2	2		
PM Kennedy <i>Resigned 4 September 2020</i>	5	5			3	3	3	3				
T Legobye	8	7			1	1					3	3
E Marx	8	8							3	3	3	3
CM Mowatt - CA(SA)	8	8			4	4	3	3	1	1		
S Stevens	8	6			4	4			1	1		
L Jordaan	2	2			1	1						
C Lombard	2	2					1	1				
DK Smith	2	1	1	1								

### Independent members

	Audit Committee		Risk Committee		Remuneration Committee	
	A	B	A	B	A	B
G Nzalo - CA(SA) Chairperson of Audit committee	4	4	4	3		
H Wolmarans - CA(SA)	4	4				
S Thomas - CA(SA)	4	4				
PA Delport					3	3

### 13. OPERATIONAL STATISTICS PER BENEFIT OPTION

2020	Beat1	Beat2	Beat3	Beat4	Pace1	Pace2	Pace3	Pace4	Pulse1	Pulse2	Total Scheme
Members at 31 December	6 990	31 626	7 316	3 343	29 317	8 904	5 093	2 124	2 101	521	<b>97 335</b>
Average number of members for the accounting period	6 605	30 542	7 345	3 446	29 405	9 078	5 152	2 179	2 182	554	<b>96 489</b>
Dependants at 31 December	7 446	32 200	7 622	3 578	42 977	6 327	4 672	981	1 164	97	<b>107 064</b>
Average number of dependants for the accounting period	6 988	31 058	7 629	3 683	42 941	6 520	4 740	1 015	1 217	107	<b>105 898</b>
Average beneficiaries for the accounting period	13 592	61 600	14 974	7 129	72 346	15 598	9 892	3 194	3 399	661	<b>202 386</b>
Ratio of average dependants at 31 December	1.06	1.02	1.04	1.07	1.46	0.72	0.92	0.47	0.56	0.19	<b>1.10</b>
Average age of beneficiaries for the accounting period	35.26	30.46	37.52	45.30	34.39	55.37	54.79	65.13	48.41	76.72	<b>37.33</b>
Ratio of beneficiaries older than 65 years	8.32%	3.63%	13.32%	21.47%	9.52%	41.52%	40.63%	61.19%	29.40%	89.81%	<b>13.56%</b>
Risk contribution per average member per month	2 638	2 548	3 877	6 344	5 098	7 032	8 317	10 694	3 055	6 723	<b>4 517</b>
Risk contribution per average beneficiary per month	1 282	1 263	1 902	3 067	2 072	4 093	4 332	7 296	1 961	5 634	<b>2 154</b>
Healthcare expenditure per average member per month	1 944	1 824	2 846	4 839	3 550	6 234	6 985	9 623	2 982	6 809	<b>3 465</b>
Healthcare expenditure per average beneficiary per month	945	905	1 396	2 339	1 443	3 628	3 638	6 565	1 914	5 705	<b>1 652</b>
Relevant healthcare expenditure as a percentage of risk contributions	73.7%	71.6%	73.4%	76.3%	69.6%	88.7%	84.0%	90.0%	97.6%	101.3%	<b>76.7%</b>
Non-healthcare expenditure per average member per month	376	382	391	354	404	384	413	372	367	320	<b>389</b>
Non-healthcare expenditure per average beneficiary per month	183	189	192	171	164	223	215	253	236	268	<b>185</b>
Non-healthcare expenditure as a percentage of risk contributions	14.25%	15.00%	10.09%	5.58%	7.93%	5.46%	4.97%	3.47%	12.03%	4.76%	<b>8.61%</b>

2019	Beat1	Beat2	Beat3	Beat4	Pace1	Pace2	Pace3	Pace4	Pulse1	Pulse2	Total Scheme
Members at 31 December	6 146	28 651	7 279	3 794	29 065	9 399	5 349	2 360	2 409	592	<b>95 044</b>
Average number of members for the accounting period	5 942	27 751	7 227	3 894	29 298	9 509	5 393	2 413	2 480	620	<b>94 527</b>
Dependants at 31 December	6 404	28 914	7 728	4 084	42 485	6 941	5 025	1 179	1 380	113	<b>104 253</b>
Average number of dependants for the accounting period	6 188	27 887	7 569	4 199	42 571	7 090	5 137	1 223	1 445	120	<b>103 429</b>
Average beneficiaries for the accounting period	12 130	55 638	14 796	8 093	71 869	16 599	10 530	3 637	3 925	740	<b>197 956</b>
Ratio of average dependants at 31 December	1.04	1.00	1.05	1.08	1.45	0.75	0.95	0.51	0.58	0.19	<b>1.09</b>
Average age of beneficiaries for the accounting period	35.85	30.41	36.79	45.08	33.94	54.94	54.04	64.14	46.86	78.67	<b>37.40</b>
Ratio of beneficiaries older than 65 years	8.92%	3.47%	12.04%	21.06%	8.68%	39.82%	38.31%	57.02%	26.97%	90.64%	<b>13.53%</b>
Risk contribution per average member per month	2 433	2 340	3 584	5 862	4 671	6 534	7 694	9 980	2 808	6 229	<b>4 269</b>
Risk contribution per average beneficiary per month	1 192	1 167	1 750	2 821	1 904	3 743	3 940	6 622	1 774	5 221	<b>2 038</b>
Healthcare expenditure per average member per month	1 751	1 770	3 057	5 219	3 778	6 501	7 405	10 402	2 786	6 409	<b>3 706</b>
Healthcare expenditure per average beneficiary per month	858	883	1 493	2 511	1 540	3 724	3 792	6 902	1 761	5 372	<b>1 770</b>
Relevant healthcare expenditure as a percentage of risk contributions	72.0%	75.7%	85.3%	89.0%	80.9%	99.5%	96.2%	104.2%	99.2%	102.9%	<b>86.8%</b>
Non-healthcare expenditure per average member per month	367	373	382	356	400	378	406	370	361	317	<b>383</b>
Non-healthcare expenditure per average beneficiary per month	180	186	187	171	163	217	208	246	228	266	<b>183</b>
Non-healthcare expenditure as a percentage of risk contributions	15.10%	15.94%	10.66%	6.07%	8.56%	5.79%	5.27%	3.71%	12.86%	5.09%	<b>8.96%</b>

#### OPERATIONAL STATISTICS FOR THE SCHEME

	2020	2019
Average accumulated funds per average member at 31 December	31 292	22 771
Average accumulated funds per average beneficiary at 31 December	14 919	10 771
Return on investments as a percentage of investments	4.08%	6.72%
Administration and other operative expenses as a percentage of gross contributions	5.91%	6.08%

## 14. NON-COMPLIANCE WITH MEDICAL SCHEMES ACT 131 OF 1998, AS AMENDED

### 14.1 Non-compliance with Section 26(7) of the Medical Schemes Act - Contributions not received within three days of becoming due

There were instances where the Scheme, in absence of any agreement or understanding, received contributions more than three days after due date. Contribution receivables are amounts receivable from individuals or employer groups and are collected by debit orders or cash payments. If not received within three days of due date, benefits of individuals are suspended and terminated if not received within 60 days. Employer group discrepancies are actively monitored and rectified on a monthly basis.

### 14.2 Non-compliance with Section 33(2)(b) of the Medical Schemes Act - Option self-sufficiency in terms of membership and financial performance be financially sound.

The Medical Schemes Act stipulates that a benefit option shall be self-supporting in terms of membership and financial performance. During the year under review two benefit options of the Scheme, namely Pulse1 and Pulse2 made a net healthcare deficit.

The Scheme monitors the results of all options and evaluates different strategies to improve the financial outcomes of all options. The different financial results reflect the different disease burdens in each option, among many other factors.

The strategy on sustainability of options has to balance short- and long-term financial considerations, with fairness to both healthy and sick members and with continued affordability of cover for members on different levels of income and needs.

The Scheme remains committed to comply with the applicable legislation, as far as possible, but also focuses on the overall stability and financial position of the Scheme as a whole and not only on individual options.

### 14.3 Non-compliance with Section 35(6)(a) of the Medical Schemes Act - Borrowings

Section 35(6)(a) states that "A medical scheme shall not encumber its assets."

The Scheme registered as a financial service provider with the Financial Sector Conduct Authority (FSCA). Registration number 44058. The FSCA required a guarantee of R1 million in terms of section 8(7) of the FSCA Board notice 106 of 2008.

In addition, the terms of the Scheme building lease agreement required a guarantee to an amount of R2,3 million.

The Scheme's banker issued these guarantees as part of the Scheme's banking facilities.

The Scheme has obtained exemption from the Council for section 35(6)(a) effective until 31 May 2022. The Scheme applied for the FSCA exemption in December 2020 and awaits approval.

### 14.4 Non-compliance with Section 35(8)(a), (c) and (d) of the Medical Schemes Act - Investments in employers, administrators employer groups.

Section 35(8) of the Medical Schemes Act states that "A medical scheme shall not invest any of its assets in the business of or grant loans to

(a) An employer who participates in the medical scheme or any administrator or any arrangement associated with the medical scheme; (b) any other medical scheme; (c) any administrator and (d) any person associated with any of the above.

Due to some of the Scheme's employer groups being listed on the JSE, investments were made in certain of its employer groups listed on the JSE through the portfolios of the investment products the Scheme utilises. This is also applicable to a JSE listed medical scheme administrators groups.

The Council for Medical Schemes has granted the Scheme an exemption from section 35(8)(a), (c) and (d) of the Medical Schemes Act effective until November 2022.

### 14.5 Non-compliance with Section 65 (3) of the Medical Schemes Act - Broker services and commission

Section 65 (3) of the Act states: "No person shall be compensated for providing services relating to the introduction or admission of a member to a medical scheme in terms of subsection (1) unless the Council has, in a particular case or in general, granted accreditation to such a person."

There was an instance where a brokerage was paid on behalf of the broker whose CMS accreditation expired.

The exception has been noted and system enhancements are being implemented.

### 14.6 Non-compliance with Section 59(2) of the Medical Schemes Act - Claim paid in excess of the claimed amount

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".

There were instances where the amount for claims paid exceeded the amount claimed by a member/provider. A report which identifies double payments was developed. Such payments are reviewed and corrected, where necessary.

### 14.7 Non-compliance with Regulation 8 of the Medical Schemes Act and Scheme Rule 13.5.4 - Prescribed Minimum Benefits claims paid from savings

Regulation 8 of the Medical Schemes Act No 31 of 1998, as amended, states the following:

"(1) Subject to the provisions of the regulation, any benefit option that is offered by a Medical Scheme must pay in full, without co-payment or the use of deductibles, the diagnosis, treatment and care costs of the prescribed minimum benefit conditions."

Furthermore Rule 13.5.4 of the Scheme Rules states that: "The balance standing to the credit of a Member in terms of any option which provides for individual medical savings accounts shall be for the exclusive benefit of the Member and his Dependents: Provided that such savings account; shall not be used to pay for the costs of prescribed minimum benefits".

It was noted that certain prescribed minimum benefit "PMB's" claims were incorrectly paid from savings. The adjustments reversing the amounts into the members savings were subsequently effected.

### 14.8 Non-compliance with the CMS guidelines 7.1.3 and 7.1.4 - COVID 19 claims paid from savings

The Council for Medical Schemes (CMS) published funding guidelines (dated 5 May 2020) on 8 May 2020 which stated the following:

"7.1.3 Testing for COVID-19 is PMB level of care upon referral from a health care worker who has screened a patient. Patients to be tested include individuals who meet the criteria for a person under investigation and those classified as high risk".

"7.1.4 The test should be funded from the risk benefit irrespective of the RT-PCR result".

There were instances where COVID-19 claims were paid from savings and not from risk benefits.

The detected claims were reassessed to ensure alignment to the CMS Prescribed Minimum Benefits Guidelines. Corrections were made and manual interventions implemented to ensure that claims are paid in accordance with the CMS funding guidelines.

### 14.9 Non-compliance with Scheme rules 4.43 and 13.5.1, rules 4.1.3, 4.1.7 and 4.2.2 of Annexure B.4 to the Scheme rules and Section 32 and Regulation 10(3) of the Medical Schemes Act - Utilization of accumulated savings to off-set contributions

Section 32 of the Medical Schemes Act states that "The rules of a medical scheme and any amendment thereof shall be binding on the medical scheme concerned, its members, officers and on any person who claims any benefit under the rules or whose claim is derived from a person so claiming."

Furthermore, Section 8(h) of the Medical Schemes Act states that a Medical Scheme may submit written

application to the Council from complying with any provision of this Act.

In May 2020 Bestmed received a section 8(h) exemption from the CMS. In line with the exemption received, the Scheme may deduct monthly contributions from the members accumulated savings. Members to utilize their accumulated savings to off-set contributions from 1 May until 31 December 2020.

### 14.10 Non-compliance with Scheme rule 13.2.1 and Sections 26(7) and 32 of the Medical Schemes Act - , contributions to be due upon receipt of their pension grants from SASSA, with effect from 1 May 2020 to 31 December 2020

Section 26(7) of the Medical Schemes Act states that Contributions must be received within three days of becoming due.

The SASSA grant payment dates changed as from May 2020 when it was published that disability and older persons grants will be paid from the fourth day of a month and all other grants on the sixth of a month.

In May 2020, Bestmed received a section 8(h) exemption from the CMS which allowed contributions owing from SASSA pension grant members to be due upon receipt and not within the prescribed 3 days as per the Medical Schemes Act.

### 14.11 Non-compliance with Section 32 of the Medical Scheme Act and scheme rules - Virtual AGM to be conducted

Section 32 of the Medical Schemes Act states that "The rules of a medical scheme and any amendment thereof shall be binding on the medical scheme concerned, its members, officers and on any person who claims any benefit under the rules or whose claim is derived from a person so claiming".

The Scheme received a section 8(h) exemption from the CMS that allowed the Scheme to conduct a virtual AGM with the following conditions attached to the exemption:

- The virtual AGM must be conducted taking into consideration the basic guidelines provided by the CMS via Circular 36 of 2020;
- The virtual AGM must be accessible to all the members of the scheme; and
- The scheme is required to provide a detailed report to the Office on the outcome of the Virtual AGM as well as confirmation of compliance with the Medical Schemes Act and the applicable registered rules of the scheme.

The Council for Medical Schemes has granted the Scheme an exemption from section 32 of the Medical Schemes Act effective 8 July 2020.



Independent  
Auditor's  
report





**Independent Auditor’s Report**

To the Members of Bestmed Medical Scheme

**Report on the financial statements**

*Opinion*

We have audited the financial statements of Bestmed Medical Scheme (the Scheme), set out on pages 32 to 97, which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, the statement of changes in members’ funds and reserves and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

*Basis for Opinion*

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

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

*Independence*

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

*Key Audit Matters*

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

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Reg. no. 1998/012055/21, VAT reg.no. 4950174682

Key audit matter	How our audit addressed the key audit matter
<p><i>Outstanding claims provision</i></p> <p>The outstanding claims provision of R136 257 508 at year-end as described in Note 11 to the financial statements, is a provision recognised for the estimated cost of healthcare benefits that have been incurred prior to year-end but that were only reported to the Scheme after year-end.</p> <p>The outstanding claims provision is calculated by the Scheme’s actuaries which is reviewed by management and the Audit Committee and recommended to the Board of Trustees for approval.</p> <p>The Scheme’s actuaries use an actuarial model, based on the Scheme’s actual claim development patterns throughout the year, to project the year-end provision. This model applies the Basic Chain Ladder (“BCL”) method. The claim service date, processing date and amount are used to derive claim development patterns. These historical patterns are then used to estimate the outstanding claims provision.</p> <p>We identified this to be a matter of most significance to the audit because of the uncertainty in the projected claims pattern. A change in the projected claims pattern can cause a material change to the amount of the provision.</p>	<p>We obtained an understanding from the Scheme’s actuaries and management regarding the process to calculate the outstanding claims provision, which included the design and implementation of controls within the process. The actuarial model applied by the Scheme is one that is generally applied within the medical scheme industry.</p> <p>We obtained the actual claims data from the member administration system covering the year ended 31 December 2020. The actual claims data includes the impact of COVID-19 and therefore the impact has been taken into account in the claims patterns in the outstanding claims provision.</p> <p>For a sample of actual claims received by the Scheme in the 2020 financial year, we tested the accuracy of the service and process dates. No material inconsistencies were noted.</p> <p>We substantively tested a sample of claims against the relevant Scheme rules and assessed completeness of the claims data.</p> <p>The claims data that was included in the Scheme’s actuarial model was agreed to the above actual claims data with no material inconsistencies noted.</p> <p>To assess the reasonableness of the Scheme actuaries’ estimation process, we compared the actual claim results in the current year to the prior year provision. Based on our assessment, the estimation process was considered reasonable.</p> <p>We have evaluated management’s experts by assessing their competence, capability, and objectivity and noted no aspects requiring further consideration. We also obtained the outstanding claims provision report from the Scheme’s actuaries and assessed whether the inputs, assumptions, methodology and findings per the report were consistent with our testing above. Based on the results of our assessment we accepted the inputs, assumptions, methodology and findings as reasonable.</p> <p>We obtained the actual claims run-off report up to 31 March 2021 from the Scheme’s management. For a sample of claims from the report, we tested the occurrence and accuracy of the claims as well as the accuracy of the related service dates and we identified no material inconsistencies.</p> <p>We enquired from the Scheme’s management whether there were delays in processing claims at year-end that could possibly impact the claims run-off pattern</p>

	<p>subsequent to year-end. Management confirmed that there were no such delays.</p> <p>We obtained the treatment pre-authorisations approved prior to year-end from management and selected a sample to assess if any of the selected claims related to a health insurance event before year end were included in the actual claims run-off report up to 31 March 2021. No material inconsistencies were noted.</p>
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*Other Information*

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

*Responsibilities of the Scheme’s Trustees for the Financial Statements*

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

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

*Auditor’s Responsibilities for the Audit of the Financial Statements*

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

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

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

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

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

**Report on Other Legal and Regulatory Requirements**

*Non-compliance with the Medical Schemes Act of South Africa*

As required by the Council for Medical Schemes, we report that there are no material instances of non-compliance with the requirements of the Medical Schemes Act of South Africa that have come to our attention during the course of our audit.

*Audit Tenure*

As required by the Council for Medical Schemes’ Circular 38 of 2018, Audit Tenure, we report that PricewaterhouseCoopers Inc. has been the auditor of Bestmed Medical Scheme for 52 years.

The engagement partner, J.J Grové, has been responsible for Bestmed Medical Scheme’s audit for 7 years.



PricewaterhouseCoopers Inc.  
 Director: J.J Grové  
 Registered Auditor  
 Johannesburg, South Africa  
 23 April 2021

# 2020 Financial Statements





## STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2020

	Notes	2020	2019
		R	R
<b>ASSETS</b>			
<b>Non-current assets</b>			
		<b>1 922 240 125</b>	<b>1 792 180 460</b>
Property and equipment	2	12 832 440	27 079 029
Intangible assets	3	11 040 516	9 358 781
Lease assets	5	80 981 300	-
Financial assets at fair value through profit or loss	4(a)	1 645 210 895	1 579 164 179
Financial assets at fair value through other comprehensive income	4(b)	172 174 974	176 578 471
<b>Current assets</b>			
		<b>2 389 304 884</b>	<b>1 517 845 260</b>
Financial assets at fair value through profit or loss		2 001 043 992	1 164 476 599
Scheme	4(a)	1 292 763 870	496 496 269
Personal medical savings account trust monies invested	4(a)	708 280 122	667 980 330
Trade and other receivables	6	118 005 284	121 955 698
Cash and cash equivalents		270 255 608	231 412 963
Scheme	8	82 551 499	117 911 183
Personal medical savings account trust monies invested	8	187 704 109	113 501 780
<b>Total assets</b>		<b>4 311 545 009</b>	<b>3 310 025 720</b>
<b>FUNDS AND LIABILITIES</b>			
<b>Members' Funds</b>			
		<b>3 005 608 874</b>	<b>2 122 148 396</b>
Accumulated funds		3 019 349 271	2 132 167 526
Revaluation Reserve - Financial assets at fair value through other comprehensive income		(13 740 397)	(10 019 130)
<b>Non-current liabilities</b>			
		<b>79 135 608</b>	<b>16 736 925</b>
Retirement benefit obligations	9	11 540 087	11 903 903
Lease liability	5	67 595 521	4 833 022
<b>Current liabilities</b>			
		<b>1 226 800 527</b>	<b>1 171 140 399</b>
Personal medical savings account trust liability	10	928 285 868	805 552 798
Outstanding claims provision	11	139 574 345	150 072 214
Lease liability	5	15 745 333	10 349 063
Trade and other payables	12	143 194 981	205 166 323
<b>Total funds and liabilities</b>		<b>4 311 545 009</b>	<b>3 310 025 720</b>

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020	2019
		R	R
<b>RISK CONTRIBUTION INCOME</b>			
	13	<b>5 230 271 100</b>	<b>4 842 034 239</b>
<b>Relevant healthcare expenditure</b>			
		<b>(4 012 054 332)</b>	<b>(4 204 344 790)</b>
Net claims incurred	14	(4 014 211 928)	(4 216 406 669)
Risk claims incurred	14	(3 894 220 088)	(4 104 189 506)
Third party claims recoveries	14	7 859 760	7 230 154
Accredited managed healthcare services	14	(127 851 599)	(119 447 317)
Net income/(expense) on risk transfer arrangements		2 157 595	12 061 878
Risk transfer arrangement premiums paid	15	(93 366 725)	(89 392 049)
Recoveries from risk transfer arrangements	15	95 524 320	101 453 928
<b>Gross healthcare result</b>		<b>1 218 216 768</b>	<b>637 689 448</b>
Broker service fees and other distribution fees	16	(85 296 672)	(80 578 114)
Administration and other operative expenses	17	(363 202 226)	(345 624 050)
Net impairment losses on healthcare receivables	18	(1 937 887)	(7 725 965)
<b>Net healthcare result</b>		<b>767 779 983</b>	<b>203 761 319</b>
<b>Other income</b>			
		<b>175 879 814</b>	<b>212 516 932</b>
Investment income		166 772 580	211 756 335
Scheme	19	122 046 917	160 744 582
Personal medical savings account trust monies invested	19;23	44 725 663	51 011 753
Own facility income	24	3 050 868	-
Sundry income	20	6 056 366	760 597
<b>Other expenditure</b>		<b>(65 669 215)</b>	<b>(66 585 184)</b>
Interest paid on personal medical savings trust accounts	21	(44 725 663)	(51 011 753)
Interest expense	22	(3 079 452)	(1 556 048)
Asset management fees	23	(5 268 705)	(5 245 262)
Own facility expenditure	24	(12 575 115)	(8 772 121)
Other losses	25	(20 279)	-
<b>NET SURPLUS FOR THE YEAR</b>		<b>877 990 583</b>	<b>349 693 067</b>
<b>Other comprehensive income</b>			
		<b>(12 065 885)</b>	<b>1 149 992</b>
Fair value adjustment on financial assets through other comprehensive income		(12 065 885)	1 149 992
Realised loss/(gains) on financial assets at fair value through other comprehensive income	19	8 344 618	(6 875 183)
Reclassification adjustment on realised (loss)/gains	19	(8 344 618)	6 875 183
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>865 924 698</b>	<b>350 843 059</b>

## STATEMENT OF CHANGES IN MEMBERS' FUNDS AND RESERVES FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Accumulated Funds	Revaluation Reserve - OCI	Total Members' Funds
		R	R	R
<b>Balance as at 31 December 2018</b>		<b>1 775 599 276</b>	<b>(4 293 939)</b>	<b>1 771 305 337</b>
Net surplus for the year		349 693 067	-	349 693 067
Other comprehensive income		6 875 183	(5 725 191)	1 149 992
Fair value adjustment on financial assets through other comprehensive income		-	1 149 992	1 149 992
Realised gains on financial assets at fair value through other comprehensive income	19	6 875 183	(6 875 183)	-
<b>Balance as at 31 December 2019</b>		<b>2 132 167 527</b>	<b>(10 019 130)</b>	<b>2 122 148 397</b>
Net surplus for the year		877 990 583	-	877 990 583
Additional amounts recognised from business combinations during the year	31	17 535 780	-	17 535 780
Other comprehensive income		(8 344 618)	(3 721 267)	(12 065 885)
Fair value adjustment on financial assets through other comprehensive income		-	(12 065 885)	(12 065 885)
Realised (losses)/gains on financial assets at fair value through other comprehensive income	19	(8 344 618)	8 344 618	-
<b>Balance as at 31 December 2020</b>		<b>3 019 349 271</b>	<b>(13 740 397)</b>	<b>3 005 608 874</b>

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020	2019
		R	R
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash Receipts from members - Contributions	27	5 241 483 299	4 816 780 425
Cash Receipts from members and providers	27	(6 960 846)	(5 366 153)
Cash Receipts from members and providers - Other loans and Receivables	27	(2 238 826)	(4 998 834)
Other loans and Receivables	27	-	171 700 000
Cash paid to providers and employees - claims	27	(4 081 972 980)	(4 203 794 082)
Cash paid to providers and employees - non healthcare expenditure	27	(434 149 386)	(404 035 977)
Increase in personal savings account liabilities		122 733 070	69 547 979
Cash generated from operations		838 894 331	439 833 359
Interest paid		47 805 115	52 567 801
Scheme	22	(3 079 452)	(1 556 048)
Interest paid on members' personal medical savings account trust monies	21	(44 725 663)	(51 011 753)
<b>Net cash flows from operating activities</b>		<b>791 089 216</b>	<b>387 265 558</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of investments		(869 040 916)	(371 325 098)
Increase in financial assets at fair value through profit or loss due to business combinations	31	5 030 942	-
Proceeds from disposal of financial assets due to business combinations	31	1 773 709	-
Increase in personal medical savings trust financial assets		(40 299 792)	(147 945 776)
Purchase of property and equipment	2	(6 833 465)	(4 366 378)
Proceeds from disposal of property and equipment	2;25	(60 997)	109 620
Increase in intangible assets	3	(2 957 723)	(725 630)
Interest income		147 920 227	153 233 310
Scheme	19	103 194 563	102 221 557
Interest received on personal medical savings account trust monies invested	19;23	44 725 663	51 011 753
Dividend income	19	16 677 062	12 981 077
<b>Net cash flows utilised in investing activities</b>		<b>(747 790 954)</b>	<b>(358 038 874)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Principal element of lease payments	5	(16 507 684)	(14 921 254)
<b>Net cash flows from financing activities</b>		<b>(16 507 684)</b>	<b>(14 921 254)</b>
Net increase in cash and cash equivalents		26 790 578	14 305 430
Cash and cash equivalents at beginning of year	8	231 412 963	217 107 533
Cash and cash equivalents from business combinations during the year	31	12 052 067	-
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	8	<b>270 255 608</b>	<b>231 412 963</b>
<b>CASH AND CASH EQUIVALENTS</b>			
Scheme		82 551 499	117 911 183
Personal medical savings account trust monies invested		187 704 109	113 501 780

# NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020

## 1. ACCOUNTING POLICIES

Bestmed Medical Scheme is an open medical scheme registered under the Medical Schemes Act 131 of 1998, as amended. The Scheme is self-administered and offers the insurance of hospital, chronic illness and day-to-day cover benefits.

of judgement, or areas where estimates are significant to the financial statements, are disclosed in Note 30.

The financial statements are prepared on a going concern basis using the historical cost convention, except for certain financial assets and liabilities which include:

- Financial assets at fair value through profit & loss;
- Financial assets at fair value through other comprehensive income;
- Financial instruments classified as originated loans carried at amortised cost; and
- Investment property.

All monetary information and figures presented in these financial statements are stated in Rand, unless otherwise indicated.

### 1.1 BASIS OF PREPARATION

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Scheme's accounting policies. The areas involving a higher degree

**The following amended standards are expected to be applicable to the Scheme in the current and/or future periods:**

The Scheme has not early adopted these standards and it is not expected that they will have any material impact to the Scheme's results but may result in additional disclosure in the financial statements.

### International Financial Reporting Standards and amendments effective for the first time for 31 December 2020 year-end

Number	Effective date	Executive summary	Impact
Amendment to IFRS 9, 'Presentation of financial statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors' on the definition of material.	1 January 2020	These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs: <ul style="list-style-type: none"> <li>• Use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting;</li> <li>• Clarify the explanation of the definition of material; and</li> <li>• Incorporate some of the guidance in IAS 1 about immaterial information. The amended definition is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."</li> </ul>	The treatment has been adopted and is applied where applicable

### International Financial Reporting Standards and amendments effective for the first time for 31 December 2020 year-end (continued)

Number	Effective date	Executive summary	Impact
Amendments to IFRS 9, 'Financial Instruments',	1 January 2020	These amendments provide certain reliefs in connection with interest rate benchmark reform (IBOR). The reliefs relate to hedge accounting and have the effect that IBOR should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement.	The amendment does not have an impact on the Scheme, as the Scheme does not apply hedge accounting.

### International Financial Reporting Standards and amendments issued but not effective for 31 December 2020 year-end relevant to the Scheme

Number	Effective date	Executive summary	Impact
IFRS 16, 'Leases' COVID-19-Related Rent Concessions Amendment	1 June 2020	The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. Lessees can elect to account for qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment.	The Scheme has leases and no material impact observed.
Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases' - interest rate benchmark (IBOR) reform (Phase 2).	1 January 2021	The Phase 2 amendments address issues that arise from the implementation of the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one.	The Scheme has financial instruments, insurance contracts and lease arrangements and no material impact anticipated.
Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current	1 January 2022	The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant).	Not material to the Scheme.

## 1. ACCOUNTING POLICIES (CONTINUED)

### 1.1 BASIS OF PREPARATION (CONTINUED)

#### International Financial Reporting Standards and amendments issued but not effective for 31 December 2020 year-end relevant to the Scheme (continued)

Number	Effective date	Executive summary	Impact
Amendment to IFRS 3, 'Business combinations'	1 January 2022	<p>The Board has updated IFRS 3, 'Business combinations', to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination.</p> <p>In addition, the Board added a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', or IFRIC 21, 'Levies', rather than the 2018 Conceptual Framework.</p> <p>The Board has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.</p>	Applicable to the Scheme's possible future business combinations.
IFRS 17, 'Insurance contracts'	1 January 2023	<p>The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.</p> <p>Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.</p> <p>Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less.</p> <p>For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.</p>	The treatment is to be adopted and applied when applicable.
IFRS 17, 'Insurance contracts' Amendments	1 January 2023	In response to some of the concerns and challenges raised, the Board developed targeted amendments and several proposed clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and ease transition. The amendments are not intended to change the fundamental principles of the standard or unduly disrupt implementation already underway.	The treatment is to be adopted and applied when applicable.

### 1.2 PROPERTY AND EQUIPMENT

Property and equipment are reflected at cost less accumulated depreciation and accumulated impairments. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Scheme and the cost of the item can be measured reliably. Depreciation is charged on the straight-line basis over the estimated useful lives of the assets after taking into account the assets' residual values. The estimated maximum useful lives are:

<b>Furniture</b>	10 years
<b>Leasehold Improvements</b>	Between 5 and 7 years
<b>Computer equipment</b>	Between 3 and 6 years
<b>Office equipment</b>	Between 3 and 5 years
<b>Medical equipment</b>	10 years
<b>Motor vehicles</b>	5 years
<b>Security equipment</b>	5 years
<b>Telephone system</b>	3 years

The useful lives and residual values are assessed annually and adjusted appropriately. Maintenance and repairs, which neither materially add to the value of assets nor appreciably prolong their useful lives, are recognised in the statement of comprehensive income.

Surpluses and deficits on the disposal of property and equipment are recognised in the statement of comprehensive income.

Carrying amounts of all items of property and equipment are reduced to their recoverable amount, where this is lower than the carrying amount. Where components of an item of property and equipment have different useful lives, they are accounted for as separate items.

### 1.3 INTANGIBLE ASSETS

#### Computer software internally developed

Costs associated with researching or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Scheme are recognised as intangible assets when the following criteria are met as per IAS38:

- It is technically feasible to complete the software product so that it will be available for use.
- Management intends to complete the software product and use or sell it.

- There is an ability to use or sell the software product.
- It can be demonstrated how the software product will generate probable future economic benefits.
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available.
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as expenses as and when incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent period.

Intangible assets that have an indefinite useful life or that are not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

Intangible assets are reflected at cost less accumulated amortisation and accumulated impairments. Amortisation begins once the assets are ready for use or to sell on the straight-line basis over the estimated useful lives of the assets after taking into account the assets' residual values.

### 1.4 CLASSIFICATION, RECOGNITION, PRESENTATION AND DERECOGNITION OF FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised on the Scheme's statement of financial position when it becomes a party to the contractual provisions of the instrument. The Scheme classifies its financial instruments into the following categories: financial assets, loans and receivables and financial liabilities measured at amortised cost. The Scheme has grouped its financial instruments into the following classes:

- Financial assets;
- Loans and receivables;
- Trade and other receivables;
- Cash and cash equivalents;
- Trade and other payables; and
- Members' personal medical savings accounts.

## 1. ACCOUNTING POLICIES (CONTINUED)

### 1.5 FINANCIAL ASSETS: INITIAL AND SUBSEQUENT MEASUREMENT

#### Classification

The scheme classifies its financial assets in the following categories: at fair value through profit or loss, at fair value through other comprehensive income and amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### (a) Financial assets at fair value through profit or loss (FVTPL)

Debt investments that do not qualify for measurement at either amortised cost or fair value through other comprehensive income.

Equity investments that are held for trading and equity investments for which the entity has not elected to recognise fair value gains and losses through OCI.

Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

#### (b) Financial assets at fair value through other comprehensive income (FVTOCI)

Equity instruments which are not held for trading, and which the scheme has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the scheme considers this classification to be more relevant.

Debt instruments where the contractual cash flows are solely principal and interest and the objective of the scheme's business model is achieved both by collecting contractual cash flows and selling financial asset or Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI).

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are

recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

#### (c) Amortised cost (AC)

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

#### (d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as current assets. The Scheme's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Scheme holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

#### Recognition and measurement

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

At initial recognition, the Scheme measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of

the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

#### Subsequent measurement

Despite the foregoing, the Scheme may make the following irrevocable election/designation at initial recognition of a financial asset: The Scheme may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and

The Scheme may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

#### Derecognition

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

#### (a) Debt instruments

Subsequent measurement of debt instruments depends on the Scheme's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Scheme classifies its debt instruments, i.e. AC, FVTOCI and FVTPL.

#### (b) Equity instruments

The Scheme subsequently measures all equity investments at fair value. Where the Scheme's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Scheme's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI

are not reported separately from other changes in fair value.

#### Impairment of financial assets

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. In relation to the impairment of financial assets an expected credit loss model is required. The expected credit loss model requires the Scheme to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The Scheme recognises a loss allowance for expected credit losses on:

- Debt investments measured subsequently at amortised cost or at FVTOCI;
- Lease receivables;
- Loans and receivables;
- Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

The Scheme measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit impaired financial asset), the Scheme is required to measure the loss allowance for that financial instrument at an amount equal to 12 months ECL.

IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

### 1.6 TRADE AND OTHER RECEIVABLES

#### Insurance contracts - IFRS 4:

A medical benefit plan or contract entered into with a member is an insurance contract as defined by IFRS 4, to the extent that:

- It transfers a risk other than a financial risk to the Scheme (for example, the risk that the member may seek medical treatment);
- There is no certainty as to whether the member will seek medical treatment; or how much will be payable by the medical scheme if the member seeks medical treatment; and

## 1. ACCOUNTING POLICIES (CONTINUED)

### 1.6 TRADE AND OTHER RECEIVABLES (CONTINUED)

- The member (i.e. policyholder) is adversely affected by the insured event (i.e. it costs the member money to seek medical treatment in the event of illness) and the medical scheme agrees to compensate the member for these costs.

The Scheme holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Receivables arising from insurance contracts are reviewed for impairment as part of the impairment review of loans and receivables.

#### Impairment:

The Scheme assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, of which the majority represents insurance receivables as disclosed in Note 6 the Scheme does not apply the impairment guidelines as outlined in IFRS 9, as insurance receivables are not included in the scope of IFRS 9. The accounting policy for impairment as indicated under Note 1.9, is still applied.

### 1.7 CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less cost to sell.

### 1.8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally

qualifies as a cash equivalent only when it has a short maturity of three months or less from the date of acquisition.

### 1.9 IMPAIRMENT OF FINANCIAL ASSETS

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of fair value less the cost to sell, and the value in use.

#### Financial assets carried at amortised cost

The Scheme assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that the loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Scheme first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Scheme determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a held-to-maturity investment or a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the Scheme may measure impairment on the basis of an instrument's fair value using an observable market price.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such

assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

#### Financial assets carried at fair value

The Scheme assesses at each statement of financial position date whether there is objective evidence that an Financial assets financial asset is impaired. For debt securities, the Scheme uses the criteria referred to above. In the case of equity investments classified as Financial assets, a significant or prolonged decline in the fair value of the security below its cost is also evident that the assets are impaired. If any such evidence exists for financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss - is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not subsequently reversed. The impairment loss is reversed through the statement of comprehensive income, if in a subsequent period, the fair value of a debt instrument classified as Financial assets increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

#### Impairment losses

The carrying amounts of the Scheme's assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

### 1.10 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life - intangible assets not ready to use - are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 1.11 LEASES

IFRS 16 Leases was adopted for the first time in 2019 and addressed the establishment of principles for the recognition, measurement, presentation and disclosure of all lease arrangements within the scope of the standard. Under the standard, an asset (the right to use the leased item) and the liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

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

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Scheme. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest, the annual escalation rate, on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the lease term on a straight-line basis.

Agreements where the counterparty retains control of the underlying asset are classified as leases. The Scheme leases various offices and office equipment. Offices consist mainly of head office buildings and branches. Rental contracts are typically made for fixed periods of three to five years but may have extension options that exist. Head office buildings are typically leased for longer periods than branches and are the main contributor to the carrying value of the right-of-use asset. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

## 1. ACCOUNTING POLICIES (CONTINUED)

### 1.11 LEASES (CONTINUED)

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

### 1.12 FINANCIAL LIABILITIES - INITIAL AND SUBSEQUENT MEASUREMENT

Financial liabilities are initially recognised at fair value net of transaction costs incurred. After initial recognition, financial liabilities are measured at fair value, with gains and losses through income. The fair value is determined as the present value of cash flows required to settle the liabilities. However, due to their short-term maturities, their fair value approximates cost. In addition, the Scheme is not permitted to borrow in terms of Section 35 of the Medical Schemes Act 131 of 1998, as amended. Therefore the Scheme has no long-term financial liabilities. As a result, no fair value adjustments arise.

#### Personal medical savings accounts: trust monies managed by the Scheme on behalf of its members

The personal medical savings account, which is managed by the Scheme on behalf of its members, represents savings plan contributions which are a deposit component of the insurance contracts, and accrued interest thereon, net of any savings claims paid on behalf of members in terms of the Scheme's Registered Rules.

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

Members' personal medical savings accounts represent a financial liability of funds due to members by the Scheme. The savings account facility assists members in managing cash flows for costs to be borne by them during the year and meeting provider service expenses not covered by the Scheme's approved benefits. Advances on personal medical savings contributions are funded from the Scheme's funds and the risk of impairment is carried by the Scheme.

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

The personal medical savings accounts are invested on behalf of members in a current bank account and money market funds with banks. The cash and cash equivalents are initially recognised at fair value and subsequently measured at amortised cost using the effective interest

method. The money market funds included in the Financial assets investments are measured at fair value.

#### Trade payables

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

### 1.13 LIABILITIES AND PROVISIONS

Liabilities and provisions are recognised when the Scheme has a present legal or contractual obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money.

#### Outstanding claims provision

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

Estimated co-payments and payments from personal medical savings accounts are deducted in calculating the outstanding claims provision. The Scheme does not discount its provision for outstanding claims on the basis that claims must be submitted within four months of the medical event, and the effect of the time value of money is not considered material.

### 1.14 MEMBER INSURANCE CONTRACTS

Contracts under which the Scheme accepts significant insurance risk from another party (the member) by agreeing to compensate the member or other beneficiary if a specified uncertain future event (the insured event) adversely affects the member or other beneficiary are classified as insurance contracts. The contracts issued compensate the Scheme's members for healthcare expenses incurred and are detailed in Note 14 and 15.

### 1.15 CONTRIBUTION INCOME

Contributions on member insurance contracts are accounted for monthly when their collection in terms of the insurance contract is reasonably certain. Risk contributions represent the gross contributions per the Registered Rules of the Scheme after the unbundling

of savings contributions. The earned portion of risk contributions received is recognised as revenue. Risk contributions are earned from the date of attachment of risk, over the indemnity period on a straight-line basis. Risk contributions are shown before the deduction of broker service fees and other acquisition costs.

### 1.16 RELEVANT HEALTHCARE EXPENDITURE

Relevant healthcare expenditure consists of net claims incurred and net income or expense from risk transfer arrangements.

#### Claims incurred

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

Net risk claims incurred comprise:

- Claims submitted and accrued for services rendered during the year in terms of the Rules of the Scheme;
- Payments under provider contracts for services rendered to members;
- Over or under provisions relating to prior year claims accruals;
- Claims incurred but not yet reported; and
- Claims settled in terms of risk transfer arrangements.

Net of:

- Claims from members' personal medical savings accounts;
- Recoveries from members for co-payments;
- Recoveries from risk transfer agreements;
- Recoveries from third parties; and
- Discount received from service providers.
- Claims paid to accredited managed healthcare services

Anticipated recoveries under risk transfer arrangements are disclosed separately as assets and are assessed in a manner similar to the assessment of the outstanding claims provision and claims reported not yet paid.

#### Risk transfer arrangements

Contracts entered into by the Scheme with third party service providers under which the Scheme is compensated for losses/claims (through the provision of services to members) on one or more contracts issued by the Scheme and that meet the classification requirements of insurance contracts are classified as risk transfer arrangements. Only contracts that give rise to a significant transfer of insurance risk are accounted for as risk transfer arrangements. Risk transfer fees are recognised as an expense over the indemnity period on a straight-line

basis. Where applicable, a portion of risk transfer fees is treated as pre-payments.

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

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

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

### 1.17 LIABILITY ADEQUACY TEST

At the statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the member insurance contract liabilities.

The liability for insurance contracts is tested for adequacy by discounting current best estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of any related assets. Where a shortfall is identified, an additional provision is made and charged to the statement of comprehensive income.

### 1.18 BROKER SERVICE FEES AND OTHER DISTRIBUTION FEES

Broker service fees and other distribution fees are expensed as incurred.

### 1.19 ADMINISTRATION AND OTHER OPERATIVE EXPENSES

Expenses for administration and other operating expenses are expensed as incurred.

### 1.20 INVESTMENT INCOME

Investment income comprises of: dividends; interest on cash and cash equivalents; fixed interest securities; realised and unrealised gains and losses.

Interest income is recognised on a yield to maturity basis, taking account of the principal outstanding and

## 1. ACCOUNTING POLICIES (CONTINUED)

the effective rate over the period to maturity, when it is determined that such income will accrue to the Scheme.

Dividend income from investments is recognised when the right to receive payment is established - this is the ex-dividend date for equity securities.

### 1.21 REVENUE FROM CONTRACTS WITH CUSTOMERS: OWN FACILITIES - MEDICAL CENTRES

The Scheme adopted IFRS 15, revenue from contracts with customers, which resulted in a change in accounting policy but no adjustment to the amount recognised in the financial statements.

Revenue from contracts with customers comprise of own facility income based on a percentage of the service providers healthcare proceeds on a monthly basis. Revenue is recognised as the service is incurred and not over a period of time.

### 1.22 REIMBURSEMENTS FROM THE ROAD ACCIDENT FUND (RAF)

The Scheme grants assistance to its members in defraying expenditure incurred in connection with rendering of any relevant health service. Such expenditure may be in connection with a claim that is also made to the RAF, administered in terms of the Road Accident Fund Act 56 of 1996 (the RAF). If the member is reimbursed by the RAF, the member is obliged contractually to cede that payment to the Scheme to the extent that he or she has already been compensated.

A reimbursement from the RAF is a possible asset that arises from a claim submitted to the RAF and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Scheme. The contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the changes occurs. Amounts received from members in respect of reimbursements from the RAF are recognised as a reduction of net claims incurred. The cumulative value of claims submitted to RAF was R59.3 million at financial year end.

### 1.23 UNALLOCATED FUNDS

Unallocated funds that have legally prescribed, i.e. funds older than three years, are written back and are included under other income in the statement of comprehensive income.

## 1.24 EMPLOYEE BENEFITS

### Pension obligations

All the employees of the Scheme contribute towards a defined contribution fund. A defined contribution plan is a pension plan under which the Scheme pays fixed contributions into a separate entity. The Scheme has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Contributions to the defined contribution fund are recognised in the statement of comprehensive income for the year in which they are incurred.

### Other post-employment obligations

The Scheme provides for medical scheme benefits upon retirement of employees who qualify. The provision comprises annual funding upon actuarial advice to provide for the future liability of medical benefits after retirement.

### Leave pay accrual

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

### Bonuses

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

## 1.25 INCOME TAX

In terms of Section 10(1)(d) of the Income Tax Act 58 of 1962, as amended, receipts and accruals of a benefit fund are exempt from normal tax. A medical scheme is included in the definition of a benefit fund and consequently the Scheme is exempt from income tax.

## 1.26 ALLOCATION OF INCOME AND EXPENDITURE TO BENEFIT OPTIONS

The following items are directly allocated to benefit options:

- Contribution income;
- Claims incurred;
- Risk transfer arrangement fees;
- Broker service fees;
- Interest paid on personal medical savings account balances.

The following items are apportioned based on the average number of members per option:

- Managed care management services;
- Broker other distribution fees;
- Administration and other operative expenses.

The following items are apportioned based on a percentage of gross contribution income per option:

- Other income;
- Expenses for asset management services rendered;
- Finance costs excluding interest paid on personal medical savings account balances;
- Other expenditure.

## 1.27 BUSINESS COMBINATIONS

The Scheme amalgamation is accounted for by applying the acquisition method.

The cost of an amalgamation is measured as the fair value of the assets transferred and liabilities incurred or assumed at the date of exchange.

When an entity is amalgamated into the Scheme, all identifiable assets, liabilities and members' funds are accounted for at their fair values at the acquisition date. No consideration is paid for these transactions and they are recognised as from the transaction date.

Section 63(14) of the Act prescribes that relevant assets and liabilities of the party effecting the transfer shall vest in and become binding upon the party to which transfer is affected.

The Scheme recognises the net assets from amalgamated schemes as a direct addition to reserves in its Statement of Change in Funds and Reserve.

No goodwill is recognised on the amalgamation of other schemes by acquisition. Acquisition-related costs are expensed as incurred.





### 3. INTANGIBLE ASSETS

	2020	2019
	R	R
<b>Year ended 31 December 2020</b>		
<b>Cost</b>		
At the beginning of the year	11 771 097	11 045 467
Additions	2 957 723	725 630
At the end of the year	<u>14 728 820</u>	<u>11 771 097</u>
<b>Accumulated amortisation</b>		
At the beginning of the year	(2 412 315)	(1 254 443)
Amortisation for the year	(1 275 990)	(1 157 872)
At the end of the year	<u>(3 688 304)</u>	<u>(2 412 315)</u>
<b>Carrying value at the end of the year</b>	<b><u>11 040 516</u></b>	<b><u>9 358 782</u></b>

The intangible asset consists of development costs incurred for the member administration IT system.

### 4. FINANCIAL ASSETS

	2020	2019
	R	R
<b>(a) Financial assets at fair value through profit or loss represent investments in:</b>		
<b>Scheme:</b>		
Money Market Funds	3 083 252	1 732 442
Listed Bonds	76 740 989	75 313 273
Linked Insurance Policies	792 104 957	773 754 048
Collective Investment Schemes	2 066 045 566	1 224 860 684
	<b><u>2 937 974 765</u></b>	<b><u>2 075 660 448</u></b>
Non-current	1 645 210 895	1 579 164 179
Current	1 292 763 870	496 496 269
	<b><u>2 937 974 765</u></b>	<b><u>2 075 660 448</u></b>
<b>Personal medical savings investments:</b>		
Money Market Funds	314 374 034	297 388 278
Linked Insurance Policies	393 906 088	370 592 052
	<b><u>708 280 122</u></b>	<b><u>667 980 330</u></b>
Non-current	-	-
Current	708 280 122	667 980 330
	<b><u>708 280 122</u></b>	<b><u>667 980 330</u></b>
<b>(b) Financial assets at fair value through other comprehensive income represent investments in:</b>		
- Listed Equities	155 680 889	150 756 860
- SA Listed Properties	16 494 085	25 821 611
	<b><u>172 174 974</u></b>	<b><u>176 578 471</u></b>

The carrying amount of the personal medical savings account trust investments approximates the fair values due to the short-term nature of the investments.

A register of investments is available for inspection at the registered office of the Scheme. Refer to Note 36 for Financial Risk Management disclosures.

The personal medical savings accounts were invested on behalf of members in Money Market Funds and Linked Insurance Policies. The effective interest rate on the investments was 6% (2019: 8.2%).

## 5. LEASES

Under IFRS 16, an asset (the right to use the leased item) and the liability to pay rentals, are recognised at the inception of the lease. The asset is disclosed separately and the liability to pay rentals is disclosed separately as lease liabilities. The Scheme has elected to apply an exemption on leases for which the underlying asset is of low value, being individual assets which are valued at less than R65 000.

Lease payments are allocated between principal and finance cost. The finance cost is charged to statement of comprehensive income over the lease period so as to produce the constant periodic rate of interest on the remaining balance of the liability for each period. The weighted average of the incremental borrowing rate applied to the lease liabilities on 31 December 2020 was 6.6% (2019: 6.6%).

### IMPACT ON STATEMENT OF FINANCIAL POSITION

The statement of financial position shows the following amounts relating to leases:

	2020	2019
	R	R
The carrying amount of lease assets and new lease assets during the reporting period are presented in the table below:		
<b>Lease assets</b>		
Carrying amount of Right-of-use assets:		
<b>Buildings:</b>		
Transfer from PPE (Note 2)	13 343 452	-
Cost	30 103 340	-
Accumulated Depreciation	(16 759 888)	-
Additions to the right-of use of assets <sup>1</sup>	84 666 452	-
Depreciation	(17 028 605)	-
<b>Total</b>	<b>80 981 300</b>	<b>-</b>

<sup>1</sup>New leases entered into and lease extensions during the financial year.

	2020	2019
	R	R
<b>Lease liabilities</b>		
Opening Balance	15 182 086	-
IFRS 16 adoption	-	33 619 302
Cash movements		
Principal element of lease payments	(16 507 684)	(18 437 216)
Non-cash movements		
New leases entered into and lease extensions during the year	84 666 452	-
<b>Lease liability at the end of the year</b>	<b>83 340 854</b>	<b>15 182 086</b>
Current	15 745 333	10 349 063
Non-current	67 595 521	4 833 023
<b>Total</b>	<b>83 340 854</b>	<b>15 182 086</b>

## AMOUNTS RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME

The statement of comprehensive income includes the following amounts relating to leases:

	2020	2019
	R	R
Depreciation charge of right-of-use assets:		
Buildings	17 028 605	16 759 888
Interest expense on lease liabilities	3 079 452	1 556 048
Expenses relating to short-term leases of low-value assets <sup>1</sup>	4 551 840	4 432 713
	<u>24 659 897</u>	<u>22 748 649</u>

<sup>1</sup>The Scheme leases computer equipment on short-term basis and has elected to exempt this leases from IFRS 16.

### CASHFLOW STATEMENT

	2020	2019
	R	R
Lease liability cash flows	19 587 136	19 993 264
Short-term leases of low-value assets	4 551 840	4 432 713
	<u>24 138 976</u>	<u>24 425 977</u>

The following table summarises the contractual maturity analysis for lease liabilities over the contractual period. The maturity analysis is presented on an undiscounted contractual cash flow basis.

31 December 2020	Within 1 year	1 - 5 years	Total
	R	R	R
<b>Lease liability</b>	20 820 440	76 078 940	96 899 380

## 6. TRADE AND OTHER RECEIVABLES

	2020	2019
	R	R
<b>Insurance receivables</b>		
Contributions outstanding	86 756 774	97 968 972
Recoveries from providers	1 680 867	1 761 167
Recoveries from members	10 121 587	14 899 771
Personal medical savings account advances (Note 10)	3 682 917	3 941 508
	<u>102 242 144</u>	<u>118 571 418</u>
Less: Provision for impairment	(9 530 654)	(13 926 065)
Total receivables arising from insurance contracts	<u>92 711 490</u>	<u>104 645 353</u>
<b>Other loans and receivables</b>		
Prepaid expenses and deposits	12 463 460	11 429 072
Accrued interest	6 734 092	6 954 633
Sundry accounts receivable	2 779 405	1 354 426
	<u>21 976 957</u>	<u>19 738 131</u>
Recovery under risk transfer arrangements outstanding claims provisions	3 316 837	(2 427 786)
<b>Total trade and other receivables</b>	<b>118 005 284</b>	<b>121 955 698</b>

The carrying amounts of trade and other receivables approximate their fair values due to the short-term maturities of these assets. Estimated cash flow receipts have not been discounted as the effect would be immaterial. Refer to Note 36 for impairment disclosures.

## 7. CONTINGENT ASSET

### Road Accident Fund

Claims for third party debtors (the Road Accident Fund) for benefits paid on behalf of the Scheme's members are disclosed as a contingent asset as the inflow of economic benefits is probable, but not virtually certain. The claims recovered amounted to R7.8M (2019: R7.2 M)

## 8. CASH AND CASH EQUIVALENTS

	2020	2019
	R	R
<b>Scheme</b>		
Call accounts	64 234 230	97 271 413
Current accounts	18 317 269	20 639 771
	<b>82 551 499</b>	<b>117 911 183</b>

The weighted average effective interest rate on short-term cash deposits was 3.08% (2019: 6.84%) and had an average maturity of 30.5 days (2019: 30.5 days). The carrying amounts of cash and cash equivalents approximate their fair values due to the short-term maturities of these assets.

Refer to Note 19 for the total interest earned on the bank accounts and fixed deposits which are included in investment income in the statement of comprehensive income.

	2020	2019
	R	R
<b>Personal medical savings account</b>		
Current account	187 704 109	113 501 780
	<b>187 704 109</b>	<b>113 501 780</b>

The weighted average effective interest rate on the short-term cash was 3.4% (2019: 2.63%) and the carrying amounts of cash and cash equivalents approximate their fair values due to the short-term nature of these assets.

## 9. RETIREMENT BENEFIT OBLIGATIONS

### Pension Fund

All the employees of the Scheme contribute towards a defined contribution plan. A defined contribution plan is a pension plan under which the Scheme and employees pay fixed percentage contributions into a separate entity. The Scheme has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

### Post-retirement medical obligation

The Scheme did make provision for contributions towards medical benefits after normal retirement. Provision is made for the estimated benefits of the existing 19 (2019: 20) pensioners. The total present value of the liability based on a projected-unit-credit basis as at 31 December 2020 is R11 540 087(2019: R11 903 902). The liability of all active employees was settled.

2020                      2019

### The independent actuarial assumptions and valuation at year-end were:

Number of pensioner members	19	20
Future long-term medical inflation	7.5% p.a.	7.3% p.a.
Expected yield on assets	9.4%	9.0%

### Mortality assumptions

Post-retirement Male	Rated down by 1 year	PA 90	PA 90
Post-retirement Female	Rated down by 2 years	PA 90	PA 90

### Life expectancy - present age 62

Male	14.01	14.17
Female	17.58	17.85

### Other assumptions

No significant changes would occur in the structure of the medical arrangements. Current contribution scales for members have been used as a basis for the calculations and was assumed that the scales will remain unchanged, with the exception of annual adjustments for medical inflation.

### Contribution tables

The monthly medical scheme contributions for 2020 used in the valuation of the contributions liability are as follows:

	Income Band	Principal Member	Adult Dependant	Child Dependant
		R	R	R
Pace1	All	4 083	2 868	1 031
Pace2	All	5 800	5 687	1 279
Pace4	All	8 318	8 318	1 949
Beat2 Network	All	1 847	1 435	777

2020                      2019

R                              R

### The reconciliation of the value recognised in the statement of financial position is:

Liability at 1 January	11 903 902	11 712 158
Actual Disbursements	(1 105 993)	(1 015 586)
Interest cost	1 021 581	1 075 619
Actuarial (gain)/loss	(279 403)	131 711
<b>Liability at year-end in the statement of financial position</b>	<b>11 540 087</b>	<b>11 903 902</b>

### Actual Disbursements

Actual Disbursements are the amounts paid with respect to the monthly subsidies of pensioners' medical scheme contributions.

### Interest cost

The interest cost is the assumed investment return on the unfunded liability. A rate of 9% per annum was used for the year ended 31 December 2020 (2019: 9.6%).

## 9. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

### Actuarial gain

The liabilities are based on projections of future experience. Any difference between the actual experience since the date of previous valuation and that assumed in the previous projections will emerge as actuarial gains or losses. In addition, any changes to the assumptions will manifest as an actuarial gain or loss.

An actuarial gain of R279 403 (2019: loss of R131 711) is reported over the past year in the statement of comprehensive income. This gain is due to the following factors:

	2020	2019
	R	R
• Demographic experience (including option changes) and that assumed in the previous valuation gave rise to an actuarial (gain)/loss.	(216 074)	335 779
• Changes made to assumptions, the increase in the discount rate from 9.0% to 9.4% (2019: 9.6% to 9.0%) and a increase in the medical cost inflation assumption from 7.3% to 7.5% (2019: 8.8% to 7.3%)	(185 225)	(419 880)
• Actual contribution increases on 1 January 2021 were 7.6% as opposed to the assumption of 6.5% used (2019: 8.8 % vs 7.2%).	94 088	192 478
• Higher than expected disbursements paid during the year	27 808	23 334
	<b>(279 403)</b>	<b>131 711</b>

History on year-end balances	Balance on statement of financial position	Actuarial (gain)/loss in statement of comprehensive income
	R	R
<b>At 31 December</b>		
2020	11 540 087	(279 403)
2019	11 903 902	131 711
2018	11 712 158	636 276
2017	12 215 765	1 425 291
2016	13 333 401	354 560
2015	13 264 418	727 022
2014	13 733 176	771 438
2013	14 132 359	888 716
2012	14 724 759	(705 065)
2011	13 694 425	955
2010	13 453 040	(870 403)

### Sensitivity analysis

The following table illustrates the impact of a 1% and 0.5% increase and decrease in the assumed future rate of medical inflation:

	Base	Inflation plus 1%	Inflation plus 0.5%	Inflation minus 1%	Inflation minus 0.5%
	R	R	R	R	R
<b>2020</b>					
<b>Liability at 1 January 2020</b>	11 903 902	11 903 902	11 903 902	11 903 902	11 903 902
Disbursements	(1 105 993)	(1 105 993)	(1 105 993)	(1 105 993)	(1 105 993)
Interest cost	1 021 581	1 021 581	1 021 581	1 021 581	1 021 581
Actuarial loss/(gain)	(279 403)	620 408	157 172	(1 079 902)	(691 187)
<b>Liability as at 31 December 2020</b>	<b>11 540 087</b>	<b>12 439 898</b>	<b>11 976 663</b>	<b>10 739 588</b>	<b>11 128 303</b>

	Base	Inflation plus 1%	Inflation plus 0.5%	Inflation minus 1%	Inflation minus 0.5%
	R	R	R	R	R
<b>2021</b>					
Liability at 1 January 2021	11 540 087	12 439 898	11 976 663	10 739 588	11 128 303
Disbursements	(1 088 528)	(1 088 527)	(1 088 528)	(1 088 527)	(1 088 527)
Interest cost	1 033 607	1 118 190	1 074 645	958 360	994 900
<b>Liability as at 31 December 2021</b>	<b>11 485 167</b>	<b>12 469 560</b>	<b>11 962 780</b>	<b>10 609 421</b>	<b>11 034 676</b>

For the purposes of this disclosure, all other assumptions shall be held constant. For plans operating in a high inflation environment, the disclosure shall be the effect of a percentage increase or decrease in the assumed medical cost trend rate of a significance similar to one percentage point in a low inflation environment.

## 10. PERSONAL MEDICAL SAVINGS ACCOUNT TRUST LIABILITY

	2020	2019
	R	R
<b>Monies managed by the Scheme on behalf of its members</b>		
Balance on personal medical savings account liability at the beginning of the year	805 552 798	736 004 819
<b>Less</b>		
Advances on personal medical savings accounts (Note 6)	(3 941 507)	(8 842 553)
Balance on personal medical savings account liability at the beginning of the year	801 611 291	727 162 266
<b>Add</b>		
Personal medical savings account contributions received or receivable (Note 13)	920 159 556	844 643 805
Personal medical savings account balances received from other Schemes	1 077 589	504 020
Interest on personal medical savings account trust funds invested paid to members (Note 19)	45 440 265	51 655 252
Advances on personal medical savings accounts written off or in debt recovery process	2 496 644	11 576 808
<b>Less</b>		
Personal medical savings claims paid on behalf of members (Note 14)	(814 408 413)	(806 523 760)
Refunds on death or resignations	(26 852 251)	(26 763 601)
Personal medical savings payable to the Guardians Fund	-	-
Bank charges and management fees (Note 23)	(714 602)	(643 499)
Contributions relief payment from savings	(4 207 128)	-
<b>Add</b>		
Advances on personal medical savings accounts (Note 6)	3 682 917	3 941 508
<b>Balances due to members on personal medical savings accounts held in trust at end of year</b>	<b>928 285 868</b>	<b>805 552 798</b>

In accordance with the Rules of the Scheme, the personal medical savings accounts are underwritten by the Scheme.

The personal medical savings account trust liability contains a demand feature in terms of Regulation 10 of the Medical Schemes Act that any credit balance on a member's personal medical savings account must be taken as a cash benefit when the member terminates his or her membership of the Scheme or benefit option, and then enrolls in another benefit option or medical scheme without a personal medical savings account or does not enrol in another medical scheme.

The carrying amount of the personal medical savings account trust investments approximates their fair values due to the short-term nature of the investments. Interest earned on all personal medical savings account funds invested as cash and cash equivalents and Financial assets investments are allocated to members' personal medical saving account balances, and are not recognised as income for the Scheme.

The Scheme does not charge interest on debit personal medical savings plan balances and advances on personal medical savings accounts are funded by the Scheme and are included and disclosed in trade and other receivables.

## 11. OUTSTANDING CLAIMS PROVISION

	Covered by risk transfer arrangements	Not covered by risk transfer arrangements	Total
	R	R	R
<b>2020</b>			
<b>Provision for outstanding claims incurred but not reported</b>	<b>3 316 837</b>	<b>136 257 508</b>	<b>139 574 344</b>
<b>Analysis of movements in outstanding claims</b>			
Balance at the beginning of the year	(2 427 786)	152 500 000	150 072 214
Payments in respect of the prior year	(3 170 667)	(142 208 709)	(145 379 377)
(Under)/over provision in the prior year	(5 598 453)	10 291 291	4 692 838
Adjustment for the current year	8 915 290	125 966 217	134 881 507
<b>Balance at end of the year</b>	<b>3 316 837</b>	<b>136 257 508</b>	<b>139 574 345</b>
<b>2019</b>			
<b>Provision for outstanding claims incurred but not reported</b>	<b>(2 427 786)</b>	<b>152 500 000</b>	<b>150 072 214</b>
<b>Analysis of movements in outstanding claims</b>			
Balance at the beginning of the year	176 037	165 500 000	165 676 037
Payments in respect of the prior year	(5 676 133)	(155 724 709)	(161 400 842)
(Under)/over provision in the prior year	(5 500 096)	9 775 291	4 275 195
Adjustment for the current year	3 072 311	142 724 709	145 797 020
<b>Balance at end of the year</b>	<b>(2 427 786)</b>	<b>152 500 000</b>	<b>150 072 214</b>

### Process used to determine the assumptions

The process used to determine the assumptions is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out annually. There is more emphasis on current trends, and where in early years there is insufficient information to make a reliable best estimate of claims development, best estimates are used.

Each notified claim is assessed on a separate, case-by-case basis with due regard to the claim circumstances, information available from Managed Care: Management Services and historical evidence of the size of similar claims. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The provision estimation difficulties also differ by category of claims (i.e. in-hospital, chronic and above threshold benefits) due to differences in the underlying insurance contract, claim complexity, the volume of claims, the individual severity of claims, determining the occurrence date of a claim and reporting lags.

The cost of outstanding claims at year-end is estimated using the chain ladder model. This model extrapolates the development of paid and incurred claims, average cost per claims and ultimate claim numbers for each benefit year based upon observed development of earlier years and expected loss ratio. Run-off triangles are used in situations where it takes time after the treatment date for the full extent of the claims to become known. It is assumed that payments will emerge in a similar way in each service month. The proportional increase in the known cumulative payments from one development month to the next can then be used to calculate payments for future development months.

The actual method or blend of method used varies according to the particular benefit year being considered, categories of claims and observed historical claims development. To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- Changes in processes that affect the development/recording of claims paid and incurred (such as changes in claim reserving procedures);
- Economic, legal, political and social trends (resulting in different than expected levels of inflation and/or minimum medical

benefits to be provided);

- Changes in medical composition of members and their dependants; and
- Random fluctuations, including the impact of large losses.

### Assumptions

The assumptions that have the greatest effect on the measurement of the outstanding claims provision are the expected claims ratios for the most recent benefit years for the in-hospital, chronic and day-to-day benefits. These are used for assessing the outstanding claims provisions for the 2020 and 2019 benefit years.

### Sensitivity analysis

The following table illustrates the impact of a 1.5 % increase and decrease in the outstanding claims provision:

	Base	Inflation +1.5%	% Change	Inflation -1.5%	% Change
	R	R	%	R	%
<b>2020</b>					
Liability as at 31 December 2020	139 574 345	141 667 960	1.50%	137 480 729	(1.50%)

### Changes in assumptions and sensitivities to changes in key variables

The table below outlines the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process. It should be noted that this is a deterministic approach with no correlations between the key variables.

Where variables are considered to be immaterial, no impact has been assessed for significant changes to these variables. Variables have not been considered to be material at present. However, should the materiality level of an individual variable change, assessment of changes to that variable may be required.

An analysis of sensitivity around various scenarios for the general medical insurance business provides an indication of the adequacy of the Scheme's estimation process. The Scheme believes that the liability for claims reported in the statement of financial position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.

### Impact on surplus reported caused by reasonable possible changes in key variables

	Claims for 2020 services paid from Jan 2021 to Mar 2021	2020 Claims estimated at that time to be paid after Mar 2021	Outstanding claims provision	% Change in outstanding claims provision
	R	R	R	%
<b>2020 Scenario</b>				
Base scenario	155 462 970	12 779 407	168 242 377	
10% increase	155 462 970	14 057 348	169 520 318	0.76%
10% decrease	155 462 970	11 501 466	166 964 436	(0.76%)
	Claims for 2019 services paid from Jan 2020 to Mar 2020	2019 Claims estimated at that time to be paid after Mar 2020	Outstanding claims provision	% Change in outstanding claims provision
	R	R	R	%
<b>2019 Scenario</b>				
Base scenario	133 139 357	19 368 856	152 508 213	
10% increase	133 139 357	21 305 742	154 445 099	1.27%
10% decrease	133 139 357	17 431 970	150 571 327	(1.27%)

This analysis is prepared for a change in a specified variable with other assumptions remaining constant. The change in liability also represents the absolute change in surplus for the period. It should be noted that increases in liabilities will result in decreases in surplus and vice versa. These reasonable possible changes in key variables do not result in any direct changes directly in reserves.

## 12. TRADE AND OTHER PAYABLES

	2020	2019
	R	R
<b>Insurance liabilities</b>		
Contributions received in advance	36 355 290	30 953 718
Unclaimed payments	7 836 341	15 146 646
Reported claims not yet paid	32 124 851	95 693 261
	<u>76 316 482</u>	<u>141 793 625</u>
<b>Financial liabilities</b>		
Other payables and accrued expenses	41 501 525	35 908 279
Trade creditors payable	12 302 587	18 418 406
	<u>53 804 113</u>	<u>54 326 685</u>
<b>Provisions</b>		
Leave provision at the beginning of the year	9 046 013	8 612 630
Movement for the year	4 028 373	433 383
Leave provision at the end of the year	<u>13 074 386</u>	<u>9 046 013</u>
<b>Total trade and other payables</b>	<b><u>143 194 981</u></b>	<b><u>205 166 323</u></b>
<b>Reported claims not yet paid</b>		
Balance at beginning of year	95 693 261	96 828 049
Net movement for the year	(63 568 410)	(1 134 788)
<b>Balance at end of year</b>	<b><u>32 124 851</u></b>	<b><u>95 693 261</u></b>

The carrying amounts of trade and other payables approximate their fair values due to the short-term maturities of these liabilities.

## 13. RISK CONTRIBUTION INCOME

	2020	2019
	R	R
Gross contributions	6 150 430 656	5 686 678 044
Less: Personal medical savings account contributions (Note 10)	(920 159 556)	(844 643 805)
	<u>5 230 271 100</u>	<u>4 842 034 239</u>

The personal medical savings account contributions are received by the Scheme in terms of Regulation 10(1) and the Scheme's Registered Rules and it is held in trust on behalf of the members of the Scheme.

## 14. NET CLAIMS INCURRED

	2020	2019
	R	R
<b>Claims incurred excluding claims incurred in respect of risk transfer arrangements</b>		
Current-year claims as per Registered Rules	4 496 099 514	4 677 742 872
Movement in outstanding claims provision	125 966 217	142 724 709
(Over)/Under provision in prior year	(10 291 291)	(9 775 291)
Adjustment for current year	136 257 508	152 500 000
Claims paid from personal medical savings accounts	(814 408 413)	(806 523 760)
	<u>3 807 657 318</u>	<u>4 013 943 821</u>
<b>Claims incurred in respect of risk transfer arrangements</b>		
Current-year claims incurred in respect of risk transfer arrangements (Note 15)	95 524 320	101 453 928
Recovery under risk transfer arrangements	(8 915 290)	(3 072 311)
Movement in outstanding claims provision	8 915 290	3 072 311
Under provision in prior year	5 598 453	5 500 096
Adjustment for current year	3 316 837	(2 427 789)
	<u>95 524 320</u>	<u>101 453 928</u>
Services provided to members in own facilities	1 821 545	-
Hospital discount received	(10 783 095)	(11 208 242)
Third party claims recoveries	(7 859 760)	(7 230 154)
<b>Accredited managed healthcare services</b>	127 851 599	119 447 317
Hospital benefit management services	32 493 465	28 416 938
Pharmacy benefit management services	67 454 833	65 007 458
Managed care network management services & risk management	10 226 132	11 481 941
Active disease risk management	17 677 169	14 540 980
<b>Net claims incurred per the statement of comprehensive income</b>	<b><u>4,014,211,928</u></b>	<b><u>4,216,406,669</u></b>

## 15. RISK TRANSFER ARRANGEMENTS

	Bryte Insurance	ER24	Preferred Provider Negotiators	Total
	R	R	R	R
<b>2020</b>				
Capitation fees paid	4 633 132	30 535 464	58 198 129	93 366 725
Recoveries received	(4 633 132)	(29 186 896)	(61 704 292)	(95 524 320)
<b>Net (income)/expense on risk transfer arrangement</b>	<b>-</b>	<b>1 348 568</b>	<b>(3 506 163)</b>	<b>(2 157 595)</b>

	Bryte Insurance	ER24	Preferred Provider Negotiators	Total
	R	R	R	R
<b>2019</b>				
Capitation fees paid	2 800 973	28 435 414	58 155 663	89 392 049
Recoveries received	(2 800 973)	(33 275 597)	(65 377 358)	(101 453 928)
<b>Net (income)/expense on risk transfer arrangement</b>	<b>-</b>	<b>(4 840 183)</b>	<b>(7 221 695)</b>	<b>(12 061 878)</b>

A risk transfer arrangement is defined by IFRS 4 as an insurance contract issued by one insurer (the reinsurer) to compensate another insurer (the cadent) for losses on one or more contracts issued by the cadent. The cost the Medical Scheme would have incurred to deliver the specified benefits had it not entered into the capitation agreement, primarily represents the Scheme's exposure to its members, as the capitation agreement cannot absolve the Medical Scheme from its responsibility towards its members. This "cost" is disclosed as claims incurred from insurance contracts (Note 15).

The Scheme would have incurred this "cost" (had it not entered into the capitation agreement) to deliver the specified benefits and as such it represents the Scheme's recovery in kind from the managed healthcare provider. This recovery in kind, of cost incurred, is disclosed as recoveries from risk transfer arrangements.

The Scheme entered into the above risk transfer arrangements (capitation contracts) whereby the parties agreed that the above service providers will render services to beneficiaries on certain options of the Scheme. A fixed fee was paid monthly to ER24, Bryte Insurance Company and the Preferred Provider Negotiators per beneficiary.

- Optical services
- Emergency transport services
- International emergency transport services

**The methodologies used to determine the claims covered by these arrangements are set out below:**

### ER24

The cost that the Scheme would have incurred for ambulance services are disclosed by ER24. Detailed records are kept of all services to every member of a medical scheme with a contracted capitation agreement. The fixed cost per member per month paid to ER24 includes administration costs, which consist of marketing cost, the pre-authorisation system and administration fees.

### Bryte Insurance Company

The Scheme took out insurance for International Travel at a rate of R4.00 (2019: R2.47) per member with Bryte Insurance Company. The total travel insurance paid to Bryte for 2020 was R4.6M (2019: R2.8M).

### Preferred Provider Negotiators

Preferred Provider Negotiators are to provide Optometric Services by the participating providers to Bestmed members, which include consultations, frames, lenses and contact lenses. Claims incurred and recoveries received were calculated based on utilisation figures obtained from Preferred Provider Negotiators.

## 16. BROKER SERVICE FEES AND OTHER DISTRIBUTION FEES

	NOTES	2020	2019
		R	R
Brokers' fees		85 296 672	80 578 114
		<b>85 296 672</b>	<b>80 578 114</b>

## 17. ADMINISTRATION EXPENSES

Managed care management services		4 879 437	6 625 934
Wellness and preventative care		3 048 637	5 252 057
Maternity programme		1 830 800	1 373 877
Actuarial fees		2 296 319	2 171 020
Audit fees		2 468 046	1 838 216
External audit services for previous year's audit		1 585 533	1 489 321
External audit services for current year audit		882 513	263 220
Other		-	85 675
Bank charges		5 254 506	4 461 298
Consultation fees		7 624 604	3 682 719
Debt collection fees		1 934 681	1 747 733
Amalgamation expenses	31	1 141 871	-
Amortization		1 275 990	1 157 871
Depreciation	2; 5	23 375 519	30 405 206
Employee benefit expenses	26	167 695 001	149 919 599
Employee recruitment, training and development		4 336 182	6 227 666
Insurance premiums		771 928	590 957
Information Technology		44 724 836	36 653 592
IT maintenance		3 069 245	3 226 212
License fees		16 505 533	12 356 746
Legal fees		1 049 516	576 919
Marketing and advertising expenses		34 695 763	36 385 294
Rent paid	5	4 551 840	4 432 713
Building expenses		4 847 969	7 191 988
Other expenses		5 648 001	7 609 733
Principal Officers' fees	26	6 490 869	5 519 275
Printing and stationery expenses		4 751 628	4 641 114
Registrar's levies and other fees		3 694 573	3 620 095
Telephone and postage fees		5 344 254	6 205 848
Total trustee remuneration and travel and accommodation expenses	28	2 553 932	2 619 599
Trustees vetting expenses		781 578	-
Travel, accommodation and conferences		1 438 605	5 756 702
		<b>363 202 226</b>	<b>345 624 050</b>



## 18. NET IMPAIRMENT LOSSES ON HEALTHCARE RECEIVABLES

	2020	2019
	R	R
<b>Trade and other receivables</b>		
Members' and service providers' portions that are not recoverable		
Movement in provision	891 169	951 574
Bad debts recovered	(499 836)	(447 327)
Bad debts written off	1 546 555	7 221 718
	<b>1 937 887</b>	<b>7 725 965</b>

## 19. INVESTMENT INCOME

### Scheme

Financial assets at fair value through profit or loss:

- Interest income	102 079 450	100 041 077
- Dividend income	10 182 082	6 559 182

Income from financial assets at fair value through other comprehensive income:

- Dividend income	6 494 980	6 421 895
Cash and cash equivalents - interest income	1 115 113	2 180 480
Net realised gains on financial assets at fair value through profit or loss	6 499 422	4 198 047
Net unrealised (loss)/gain on financial assets at fair value through profit or loss	(4 324 131)	41 343 900

**122 046 917**      **160 744 582**

### Personal medical savings account trust monies invested

Financial assets at fair value through profit or loss:

- Interest income	42 827 434	47 566 617
Cash and cash equivalents - interest income	2 612 831	4 088 635

**45 440 265**      **51 655 252**

### (1) Income from financial assets at fair value through other comprehensive income

Net realised (losses)/gains on financial assets at fair value through other comprehensive income

- Listed Equities	(8 344 618)	6 875 183
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Fair value adjustment on Financial assets at fair value through other comprehensive income

- Listed Equities	(12 065 885)	1 149 994
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### (2) Net unrealised gains (losses) on financial assets at fair value through profit and loss

- Listed Bonds	10 456 571	9 577 962
- Linked Insurance Policies	(9 120 738)	28 898 044
- Collective Investment Schemes	(5 659 963)	2 867 895

**(4 324 131)**      **41 343 900**

NOTES      2020      2019  
R      R

### (3) Net realised gains/(losses) on financial assets at fair value through profit or loss

- Listed Bonds	(1 068 512)	(393 281)
- Collective Investment Schemes	7 567 934	4 591 328
	<b>6 499 422</b>	<b>4 198 047</b>

## 20. SUNDRY INCOME

Unclaimed cheques and credits written off	6 056 366	687 596
Net profit on disposal of fixed assets	-	73 001
	<b>6 056 366</b>	<b>760 597</b>

## 21. INTEREST PAID ON PERSONAL MEDICAL SAVINGS TRUST ACCOUNTS

Net Interest paid on members' personal medical saving account balances	10	44 725 663	51 011 753
		<b>44 725 663</b>	<b>51 011 753</b>

## 22. INTEREST EXPENSE

Finance costs - lease liability	5	3 079 452	1 556 048
		<b>3 079 452</b>	<b>1 556 048</b>

## 23. ASSET MANAGEMENT FEES

### Scheme

Expenses for asset management services rendered	4	5 268 705	5 245 262
		<b>5 268 705</b>	<b>5 245 262</b>

### Personal medical savings account trust monies invested

Expenses for asset management services rendered	10	714 602	643 499
		<b>714 602</b>	<b>643 499</b>

## 24. OWN FACILITY NET EXPENDITURE

	2020	2019
	R	R
<b>Income</b>		
Income from medical services rendered in own facilities	(3 050 868)	(3 268 385)
	<u>(3 050 868)</u>	<u>(3 268 385)</u>
<b>Expenditure in operating own facility</b>		
Total healthcare provider costs	9 304 968	8 545 999
Changes in inventories	572 008	636 509
Administration expenses	328 942	334 711
Information Technology	324 552	317 805
Facilities expenditure	2 044 645	2 205 482
	<u>12 575 115</u>	<u>12 040 506</u>
<b>Deficit on Own Facility</b>	<b><u>9 524 246</u></b>	<b><u>8 772 121</u></b>

The Medical Centres facilities provide healthcare services to members and third parties and generate own revenue for the services rendered. Cost incurred by the Medical Centres represent functional medical equipment, medical supplies, facility expenditure and nursing and administration services.

## 25. OTHER LOSSES

	NOTES	2020	2019
		R	R
Net loss on disposal of fixed assets	2	20 279	-
		<u>20 279</u>	<u>-</u>

## 26. EMPLOYEE BENEFIT EXPENSES

Salaries and Bonuses		137 627 036	125 517 783
Retirement benefits		12 022 486	10 096 886
Medical and other benefits		14 892 053	14 366 209
Increase in leave pay accrual		8 902 117	4 250 665
Retirement benefit obligations		742 178	1 207 330
		<u>174 185 870</u>	<u>155 438 874</u>
Less: Principal Officer's compensation and benefits	29	(6 490 869)	(3 064 957)
- Salary		(3 418 879)	(1 617 642)
- Bonuses paid and provided for		(2 482 244)	(1 172 892)
- Retirement benefits		(261 096)	(129 930)
- Medical and other benefits*		(328 650)	(144 493)
Less: Acting Principal Officer's compensation and benefits	29	-	(2 454 319)
- Salary		-	(1 232 047)
- Acting Allowance		-	(185 610)
- Bonuses paid and provided for <sup>1</sup>		-	(725 620)
- Retirement benefits		-	(110 340)
- Medical and other benefits*		-	(200 701)
		<u>167 695 001</u>	<u>149 919 599</u>

<sup>1</sup> A repayment of R350 846 relating to the 2017 (R129,081 ) and 2018 (R221,765 ) bonuses on acting allowances, was made by the Acting Principal Officer in 2019, in line with a directive received from the CMS after conducting Section 43 Investigation.

\* Other benefits include leave encashment of R45,183 (2019: R118,438)

## 27. CASH FLOWS FROM OPERATING ACTIVITIES

	NOTES	2020	2019
		R	R
Net contribution income	13	5 230 271 100	4 842 034 239
Decrease/(Increase) in insurance receivables	6	11 212 198	(25 253 813)
<b>Cash Receipts from members - Contributions</b>		<b><u>5 241 483 299</u></b>	<b><u>4 816 780 425</u></b>
Decrease/(Increase) in Insurance receivables - Other	6	5 117 076	(1 195 585)
Less: Provision for impairment	18	(6 333 299)	(6 774 391)
Recovery under risk transfer arrangements outstanding claims provisions	6	(5 744 623)	2 603 823
<b>Cash Receipts from members and providers</b>		<b><u>(6 960 846)</u></b>	<b><u>(5 366 153)</u></b>
<b>Cash Receipts from members and providers - Other loans and Receivables</b>	6	(2 238 826)	(4 998 834)
<b>Other loans and Receivables</b>	6	-	171 700 000
Relevant healthcare expenditure	14;15	(4 012 054 332)	(4 204 344 790)
(Decrease)/Increase in insurance liabilities	12	(65 477 143)	15 466 936
Decrease in outstanding claims provision	11	(10 497 870)	(15 603 823)
Unclaimed cheques and credits write off	20	6 056 366	687 596
<b>Cash paid to providers and employees - claims</b>		<b><u>(4 081 972 980)</u></b>	<b><u>(4 203 794 082)</u></b>
Cash paid to providers and employees - non healthcare expenditure	16;17;22;23	(463 291 850)	(440 219 547)
Eliminate non cash items:			
Depreciation	2	24 724 488	31 952 657
Impairment of intangible assets	3	1 275 990	1 157 871
Increase provision for leave	12	4 028 373	433 383
(Decrease)/Increase in provision for retirement benefit obligation	9	(363 815)	191 744
(Decrease)/Increase in trade and other payables	12	(522 572)	2 447 915
<b>Cash paid to providers and employees - non healthcare expenditure</b>		<b><u>(434 149 386)</u></b>	<b><u>(404 035 977)</u></b>

## 28. TOTAL TRUSTEE REMUNERATION AND CONSIDERATION EXPENSES

	Fees for attending Board meetings	Annual Retainer Fees	Fees for attending subcommittee meetings	Total Remuneration	Travel & Accommodation	Total Considerations
	R	R	R	R	R	R
<b>2020</b>						
RF Camphor	105 585	27 225	69 148	201 958	-	<b>201 958</b>
GS Du Plessis	151 172	9 984	128 115	289 271	-	<b>289 271</b>
A Hartzenberg	144 460	-	99 249	243 709	-	<b>243 709</b>
L Heyl	69 024	-	42 706	111 730	-	<b>111 730</b>
M Joubert	144 460	-	90 085	234 545	7 946	<b>242 491</b>
PM Kennedy	84 280	-	86 275	170 555	12 811	<b>183 366</b>
T Legobye	127 678	-	85 503	213 181	-	<b>213 181</b>
E Marx	144 460	-	90 085	234 545	-	<b>234 545</b>
CM Mowatt	207 010	52 092	185 047	444 149	7 946	<b>452 095</b>
S Stevens	113 948	-	81 837	195 785	6 418	<b>202 203</b>
L Jordaan	33 564	-	20 160	53 724	1 681	<b>55 405</b>
C Lombard	46 874	-	36 800	83 674	3 362	<b>87 036</b>
DK Smith	16 782	-	20 160	36 942	-	<b>36 942</b>
	<b>1 389 297</b>	<b>89 301</b>	<b>1 035 170</b>	<b>2 513 768</b>	<b>40 164</b>	<b>2 553 932</b>

Annual retainer fees are amounts paid in accordance with the provisions of the Trustee Remuneration Policy

	Fees for attending Board meetings	Annual Retainer Fees	Fees for attending subcommittee meetings	Total Remuneration	Travel & Accommodation	Training	Total Considerations
	R	R	R	R	R	R	R
<b>2019</b>							
RF Camphor	146 457	43 774	67 725	257 955	1 528	1 202	<b>260 686</b>
PA Delpont	118 996	19 267	70 883	209 146	-	1 202	<b>210 348</b>
LB Dlamini	30 512	-	18 328	48 840	7 640	-	<b>56 480</b>
GS Du Plessis	106 792	-	94 576	201 368	2 469	1 202	<b>205 039</b>
A Hartzenberg	106 792	-	84 629	191 421	-	1 202	<b>192 623</b>
L Heyl	106 792	-	133 118	239 910	-	1 202	<b>241 112</b>
M Joubert	91 536	-	75 465	167 001	16 808	1 202	<b>185 011</b>
PM Kennedy	106 792	-	130 449	237 241	111 777	1 202	<b>350 220</b>
T Legobye	106 792	-	57 137	163 929	-	1 202	<b>165 131</b>
E Marx	106 792	-	75 465	182 257	-	1 202	<b>183 459</b>
CM Mowatt	137 304	23 716	186 137	347 156	39 191	1 202	<b>387 550</b>
S Stevens	106 792	-	57 137	163 929	16 808	1 203	<b>181 940</b>
	<b>1 272 349</b>	<b>86 757</b>	<b>1 051 049</b>	<b>2 410 154</b>	<b>196 221</b>	<b>13 223</b>	<b>2 619 599</b>

The 2020 and 2019 amounts are disclosed as per the 2020 SAICA guide categories.

Travel & Accommodation expenses are paid in order for members to attend Board/Subcommittee meetings/other meetings in Pretoria, or if needed at another location in South Africa.

## 29. RELATED PARTY TRANSACTIONS

The Scheme is governed by the Board of Trustees which is elected by the members and appointed by the Board of Trustees and employers.

Parties with significant influence over the Scheme:

- Key management personnel of the Scheme and their close family members.  
Key management personnel being those persons having authority and responsibility for planning, directing and controlling the activities of the Scheme. Key management personnel include the Board of Trustees, the Principal Officer and Executives of the Scheme. The disclosure deals with full-time personnel who are compensated on a salary basis (Principal Officer and managers) and part-time personnel who are compensated on a fee basis (Board of Trustees).
- Close family members include family members of the Board of Trustees, Principal Officer and Executives of the Scheme.

The terms and conditions of the related party transactions were as follows:

### Contributions received

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

### Claims incurred

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

### Personal medical savings account balances

The amounts owing to the related parties relate to personal medical savings account balances to which the parties have a right. In line with the terms applied to other members, the balances earn monthly interest on the savings funds invested, on an accrual basis. The amounts are all current, and would need to be payable on demand should an appropriate claim be issued, or should the member resign from the Scheme, as applicable to other members.

### Service provider fees paid/payable

These constitute fees paid to a healthcare provider (medical practitioner). Fees are paid on the same basis as applicable to third parties. Invoices paid for non-healthcare providers are also included.

### Principal Officer's compensation

This total includes salary cost, retirement benefits, medical benefits, leave encashment, other benefits and a performance bonus

The following related party transactions occurred during the financial year:

	2020	2019
	R	R
<b>Board of Trustees</b>		
Gross medical scheme contributions received	548 410	798 093
Medical scheme contributions received - risk portion	469 236	694 269
Medical scheme contributions received - personal medical savings portion	79 174	103 825
Gross benefits paid out	527 453	559 833
Benefits paid from risk pool	452 645	462 523
Benefits paid from personal medical savings available	74 808	97 310
Saving available at year-end	40 203	27 307
Trustee remuneration and travel and accommodation expenses (Note 28)	2 553 932	2 619 599
Trustee other expenses	58 853	104 154
<b>Principal Officer</b>		
Gross medical scheme contributions received	236 472	108 564
Medical scheme contributions received - risk portion	229 344	105 300
Medical scheme contributions received - personal medical savings portion	7 128	3 264
Gross benefits paid out	120 604	80 954
Benefits paid from risk pool	118 193	72 354
Benefits paid from personal medical savings available	2 410	8 600

	2020	2019
	R	R
Saving available at year-end	4 781	-
Principal Officer's compensation (Note 26)	6 490 869	3 064 957
Leave provision at end of year	202 419	163 886
<b>Acting Principal Officer</b>		
Gross medical scheme contributions received	-	36 858
Medical scheme contributions received - risk portion	-	29 856
Medical scheme contributions received - personal medical savings portion	-	7 002
Gross benefits paid out	-	1 329
Benefits paid from risk pool	-	629
Benefits paid from personal medical savings available	-	700
Acting Principal Officer's compensation (Note 26)	-	2 454 319
<b>Key management</b>		
Gross medical scheme contributions received	527 832	532 232
Medical scheme contributions received - risk portion	436 812	443 826
Medical scheme contributions received - personal medical savings portion	91 020	88 406
Gross benefits paid out	197 317	178 772
Benefits paid from risk pool	111 781	96 802
Benefits paid from personal medical savings available	85 536	81 970
Saving available at year-end	229 698	283 247
Compensation to key management personnel	26 615 700	22 715 325
Leave provision at end of year	1 421 232	860 776
<b>Service providers connected to key management and Board of Trustees</b>		
Gross benefits paid to related party service providers for consultation	19 781	571 778

## 30. CRITICAL ACCOUNTING JUDGEMENTS AND AREAS OF KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Scheme's accounting policies, the Board of Trustees has made a number of judgements that had the most significant effect on the amounts recognised in the financial statements.

Certain critical accounting judgements in applying the Scheme's accounting policies and key assumptions concerning the future and other key sources of estimating uncertainty at the statement of financial position date, are discussed below:

### (a) The ultimate liability arising from claims made under insurance contracts

There are some sources of uncertainty that need to be considered in the estimate of the liability that the Scheme will ultimately pay for such claims. Initial estimates are made by staff relating to the best calculations on reported claims and derived as the claims process develops. All estimates are revised and adjusted at year-end by management. Refer to Note 11 for assumptions made.

### (b) Impairment provision on debtors

Detailed disclosure of the annual impairment review of the Scheme is disclosed under Note 6 and 36.

### (c) Risk transfer arrangement assumptions

Detailed disclosure of the risk transfer arrangement assumptions is made under Note 15.

### (d) Post-retirement medical benefits

The Scheme provides post-retirement healthcare benefits to retired employees. An independent qualified actuary carries out valuations of the obligations on an annual basis. Details are disclosed under Note 9.

### 30. CRITICAL ACCOUNTING JUDGEMENTS AND AREAS OF KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

#### (e) Outstanding claims provision

Detailed disclosure of the outstanding claims provision assumptions is made under Note 11.

The carrying amounts of the Scheme's assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

#### (f) Covid 19

The Scheme experienced its' first positive case of COVID-19 on 05 March 2020 and by the 31 December 2020, 7,065 beneficiaries had tested positive with a recovery rate of 78,9% (5,577 beneficiaries). Unfortunately, 272 beneficiaries succumbed to the virus. The total cost COVID-19 related claims to year end was R233,4 million. These costs included hospitalisation, testing and out-of-hospital medicines.

In recognition of the financial constraints of its members the Scheme applied to the Council for Medical Aids Schemes (CMS) for an exemption to provide some relief to its members. The exemption was granted which permitted members to fund contributions from their Personal Medical Savings Account (PMSA). A cumulative number of 380 members utilized this option which amounted to R4,2 million for the year.

The focus for 2021 for the Scheme, while still dealing with members affected by COVID-19, will be to support our members within the COVID-19 vaccination programme. The vaccine procurement and financing, and the private sector's involvement therein, has been progressing. The Scheme continues to remain close to the updates with new developments emerging regularly.

### 31. AMALGAMATION

Grintek Electronics Medical Aid Scheme amalgamated with Bestmed Medical Scheme with effect from 1 July 2020 and the name of the amalgamated scheme is Bestmed Medical Scheme. The amalgamation was approved by the Council for Medical Scheme on 16 June 2020, as required by Section 63 of the Medical Schemes Act 131 of 1998, as amended, and the Competition Commission approved the amalgamation on 17 March 2020.

The amalgamation did not have a material effect on the operations of Bestmed Medical Scheme and the current Board of Trustees of Bestmed Medical Scheme has control over the amalgamated scheme.

On the date of the amalgamation 1 076 beneficiaries of which 487 were principal members joined Bestmed Medical Scheme. Grintek Electronics Medical Aid Scheme members had the option to join one of the existing options of the Scheme and the Grintek Electronics Medical Aid Scheme option was closed.

Bestmed Medical Scheme assumed full responsibility for all assets and liabilities including future commitments of Grintek Electronics Medical Aid Scheme at 1 July 2020, at which date the operations of Grintek Electronics Medical Aid Scheme were terminated. Universal Healthcare Administrators (Pty) Ltd, managed the Grintek Electronics Medical Aid Scheme winddown after amalgamation.

No purchase consideration was paid and no goodwill was recognised as a result of this transaction.

The disclosures provided below have been provided to enable users to evaluate the nature and financial effect of the amalgamation.

#### STATEMENT OF FINANCIAL POSITION

The acquisition date fair value of the total consideration transferred and the acquisition date fair value of each major class of assets and liabilities was:

	1 July 2020
	R
<b>GRINTEK ELECTRONICS MEDICAL AID SCHEME</b>	
<b>Reserves effectively transferred:</b>	
(Acquisition date fair value of Grintek members' interest)	17 535 780
<b>Net recognised values of Grintek identifiable assets and liabilities</b>	<b>17 535 780</b>

	1 July 2020
	R
<b>Assets</b>	
<b>Non-current assets</b>	<b>5 030 942</b>
Financial assets at fair value through profit or loss	5 030 942
<b>Current assets</b>	<b>15 155 521</b>
Trade and other receivables	3 103 454
Cash and cash equivalents	12 052 067
<b>Liabilities</b>	
<b>Current liabilities</b>	<b>(2 650 683)</b>
Outstanding claims provision	(1 500 000)
Trade and other payables	(1 150 683)
<b>Net recognised values of Grintek identifiable assets and liabilities</b>	<b>17 535 780</b>
Amalgamation expenses (Note 17)	(1 141 871)
<b>Total funds and liabilities</b>	<b>16 393 909</b>

	1 July 2020	1 July 2020
	R	R
<b>Trade and other receivables acquired</b>	<b>Fair Value</b>	<b>Gross Contractual value</b>
<b>Insurance Receivables</b>	2 906 235	3 305 153
Contribution debts receivable	3 135 147	3 135 147
Members co-payments receivable	123 572	123 572
Provider debts receivable	46 434	46 434
Provision for impairment	(398 918)	-
<b>Other accounts receivables</b>	197 219	197 219
Prepaid Expenses	8 340	8 340
Accrued Interest	188 879	188 879
	<b>3 103 454</b>	<b>3 502 372</b>

#### STATEMENT OF CASHFLOW

Cash and cash equivalents from business combinations during the year	12 052 067
Increase in financial assets at fair value through profit or loss due to business combinations	5 030 942

### 32. EVENTS AFTER REPORTING PERIOD

No events took place between the Statement of Financial Position as at 31 December 2020 and the date of this report.

### 33. MATTERS OF NON-COMPLIANCE

#### **Non-compliance with Section 26(7) of the Medical Schemes Act - Contributions not received within three days of becoming due**

There were instances where the Scheme, in absence of any agreement or understanding, received contributions more than three days after due date. Contribution receivables are amounts receivable from individuals or employer groups and are collected by debit orders or cash payments. If not received within three days of due date, benefits of individuals are suspended and terminated if not received within 60 days. Employer group discrepancies are actively monitored and rectified on a monthly basis.

#### **Non-compliance with Section 33(2)(b) of the Medical Schemes Act - Option self-sufficiency in terms of membership and financial performance be financially sound.**

The Medical Schemes Act stipulates that a benefit option shall be self-supporting in terms of membership and financial performance. During the year under review two benefit options of the Scheme, namely, Pulse1 and Pulse2 made a net healthcare deficit.

The Scheme monitors the results of all options and evaluates different strategies to improve the financial outcomes of all options. The different financial results reflect the different disease burdens in each option, among many other factors.

The strategy on sustainability of options has to balance short- and long-term financial considerations, with fairness to both healthy and sick members and with continued affordability of cover for members on different levels of income and needs.

The Scheme remains committed to comply with the applicable legislation, as far as possible, but also focuses on the overall stability and financial position of the Scheme as a whole and not only on individual options.

#### **Non-compliance with Section 35(6)(a) of the Medical Schemes Act - Borrowings**

Section 35(6)(a) states that "A medical scheme shall not encumber its assets".

The Scheme registered as a financial service provider with the Financial Sector Conduct Authority (FSCA). Registration number 44058. The FSCA required a guarantee of R1 million in terms of section 8(7) of the FSCA Board notice 106 of 2008.

In addition, the terms of the Scheme building lease agreement required a guarantee to an amount of R2,3 million.

The Scheme's banker issued these guarantees as part of the Scheme's banking facilities.

The Scheme has obtained exemption from the Council for section 35(6)(a) effective until 31 May 2022. The Scheme applied for the FSCA exemption in December 2020 and awaits approval.

#### **Non-compliance with Section 35(8)(a), (c) and (d) of the Medical Schemes Act - Investments in employers, administrators employer groups**

Section 35(8) of the Medical Schemes Act states that "A medical scheme shall not invest any of its assets in the business of or grant loans to (a) An employer who participates in the medical scheme or any administrator or any arrangement associated with the medical scheme; (b) any other medical scheme; (c) any administrator and (d) any person associated with any of the above.

Due to some of the Scheme's employer groups being listed on the JSE, investments were made in certain of its employer groups listed on the JSE through the portfolios of the investment products the Scheme utilises. This is also applicable to a JSE listed medical scheme administrators groups.

The Council for Medical Schemes has granted the Scheme an exemption from section 35(8)(a), (c) and (d) of the Medical Schemes Act effective until November 2022.

#### **Non-compliance with Section 65 (3) of the Medical Schemes Act - Broker services and commission**

Section 65 (3) of the Act states: "No person shall be compensated for providing services relating to the introduction or admission of a member to a medical scheme in terms of subsection (1) unless the Council has, in a particular case or in general, granted accreditation to such a person".

There was an instance where a brokerage was paid on behalf of the broker whose CMS accreditation expired.

The exception has been noted and system enhancements are being implemented.

#### **Non-compliance with Section 59(2) of the Medical Schemes Act - Claim paid in excess of the claimed amount**

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".

There were instances where the amount for claims paid exceeded the amount claimed by a member/provider. A report which identifies double payments was developed. Such payments are reviewed and corrected, where necessary.

#### **Non-compliance with Regulation 8 of the Medical Schemes Act and Scheme Rule 13.5.4 - Prescribed Minimum Benefits claims paid from savings**

Regulation 8 of the Medical Schemes Act No 31 of 1998, as amended, states the following:

"(1) Subject to the provisions of the regulation, any benefit option that is offered by a Medical Scheme must pay in full, without co-payment or the use of deductibles,

the diagnosis, treatment and care costs of the prescribed minimum benefit conditions".

Furthermore Rule 13.5.4 of the Scheme Rules states that: "The balance standing to the credit of a Member in terms of any option which provides for individual medical savings accounts shall be for the exclusive benefit of the Member and his Dependents: Provided that such savings account; shall not be used to pay for the costs of prescribed minimum benefits".

It was noted that certain prescribed minimum benefit "PMB's" claims were incorrectly paid from savings. The adjustments reversing the amounts into the members savings were subsequently effected.

#### **Non-compliance with the CMS guidelines 7.1.3 and 7.1.4 - COVID 19 claims paid from savings**

The Council for Medical Schemes (CMS) published funding guidelines (dated 5 May 2020) on 8 May 2020 which stated the following:

"7.1.3 Testing for COVID-19 is PMB level of care upon referral from a health care worker who has screened a patient. Patients to be tested include individuals who meet the criteria for a person under investigation and those classified as high risk".

"7.1.4 The test should be funded from the risk benefit irrespective of the RT-PCR result".

There were instances where COVID-19 claims were paid from savings and not from risk benefits.

The detected claims were reassessed to ensure alignment to the CMS Prescribed Minimum Benefits Guidelines. Corrections were made and manual interventions implemented to ensure that claims are paid in accordance with the CMS funding guidelines.

#### **Non-compliance with Scheme rules 4.43 and 13.5.1, rules 4.1.3, 4.1.7 and 4.2.2 of Annexure B.4 to the Scheme rules and Section 32 and Regulation 10(3) of the Medical Schemes Act - Utilization of accumulated savings to off-set contributions**

Section 32 of the Medical Schemes Act states that The rules of a medical scheme and any amendment thereof shall be binding on the medical scheme concerned, its members, officers and on any person who claims any benefit under the rules or whose claim is derived from a person so claiming.

Furthermore, Section 8(h) of the Medical Schemes Act states that a Medical Scheme may submit written application to the Council from complying with any provision of this Act.

In May 2020 Bestmed received a section 8(h) exemption from the CMS. In line with the exemption received, the Scheme may deduct monthly contributions from the members accumulated savings. Members to utilize their accumulated savings to off-set contributions from 1 May until 31 December 2020.

#### **Non-compliance with Scheme rule 13.2.1 and Sections 26(7) and 32 of the Medical Schemes Act - , contributions to be due upon receipt of their pension grants from SASSA, with effect from 1 May 2020 to 31 December 2020**

Section 26(7) of the Medical Schemes Act states that Contributions must be received within three days of becoming due.

The SASSA grant payment dates changed as from May 2020 when it was published that disability and older persons grants will be paid from the fourth day of a month and all other grants on the sixth of a month.

In May 2020, Bestmed received a section 8(h) exemption from the CMS which allowed contributions owing from SASSA pension grant members to be due upon receipt and not within the prescribed 3 days as per the Medical Schemes Act.

#### **Non-compliance with Section 32 of the Medical Scheme Act and scheme rules - Virtual AGM to be conducted**

Section 32 of the Medical Schemes Act states that "The rules of a medical scheme and any amendment thereof shall be binding on the medical scheme concerned, its members, officers and on any person who claims any benefit under the rules or whose claim is derived from a person so claiming".

The Scheme received a section 8(h) exemption from the CMS that allowed the Scheme to conduct a virtual AGM with the following conditions attached to the exemption:

(i) The virtual AGM must be conducted taking into consideration the basic guidelines provided by the CMS via Circular 36 of 2020; (ii) The virtual AGM must be accessible to all the members of the scheme; and (iii) The scheme is required to provide a detailed report to the Office on the outcome of the Virtual AGM as well as confirmation of compliance with the Medical Schemes Act and the applicable registered rules of the scheme.

(ii) The virtual AGM must be accessible to all the members of the scheme; and

(iii) The scheme is required to provide a detailed report to the Office on the outcome of the Virtual AGM as well as confirmation of compliance with the Medical Schemes Act and the applicable registered rules of the scheme.

The Council for Medical Schemes has granted the Scheme an exemption from section 32 of the Medical Schemes Act effective 8 July 2020.

### 34. SURPLUS/(DEFICIT) PER BENEFIT OPTION

	Beat1*	Beat2*	Beat3*	Beat4	Pace1	Pace2	Pace3	Pace4	Pulse1	Pulse2	Total Scheme
	R	R	R	R	R	R	R	R	R	R	R
<b>2020</b>											
<b>Average members for the financial year</b>	<b>6 605</b>	<b>30 542</b>	<b>7 345</b>	<b>3 446</b>	<b>29 405</b>	<b>9 078</b>	<b>5 152</b>	<b>2 179</b>	<b>2 182</b>	<b>554</b>	<b>96 489</b>
<b>Risk contribution income</b>	<b>209 061 480</b>	<b>933 790 111</b>	<b>341 711 076</b>	<b>262 343 226</b>	<b>1 798 871 621</b>	<b>766 017 135</b>	<b>514 187 502</b>	<b>279 637 218</b>	<b>79 980 837</b>	<b>44 670 895</b>	<b>5 230 271 100</b>
<b>Relevant healthcare expenditure</b>	<b>(154 065 620)</b>	<b>(668 686 117)</b>	<b>(250 829 241)</b>	<b>(200 112 729)</b>	<b>(1 252 487 616)</b>	<b>(679 086 266)</b>	<b>(431 837 426)</b>	<b>(251 629 885)</b>	<b>(78 082 689)</b>	<b>(45 236 744)</b>	<b>(4 012 054 332)</b>
Net claims incurred	(153 973 310)	(668 259 244)	(251 430 818)	(200 344 543)	(1 252 361 266)	(680 050 857)	(432 456 939)	(251 701 735)	(78 380 544)	(45 252 674)	<b>(4 014 211 928)</b>
Risk claims incurred	(145 735 877)	(631 027 060)	(241 881 710)	(195 778 114)	(1 214 552 296)	(669 126 996)	(426 535 016)	(248 814 467)	(76 249 509)	(44 519 042)	<b>(3 894 220 088)</b>
Third party claims recoveries	514 143	3 237 711	183 331	-	1 154 241	1 105 318	904 808	-	760 208	-	<b>7 859 760</b>
Accredited managed healthcare services	(8 751 575)	(40 469 895)	(9 732 438)	(4 566 428)	(38 963 211)	(12 029 179)	(6 826 730)	(2 887 268)	(2 891 243)	(733 632)	<b>(127 851 599)</b>
Net income/(expenses) on risk transfer arrangements	(92 311)	(426 873)	601 577	231 814	(126 349)	964 590	619 513	71 850	297 854	15 930	<b>2 157 595</b>
Risk transfer arrangement premiums paid	(2 407 327)	(11 132 198)	(8 095 736)	(5 015 846)	(42 229 649)	(12 006 178)	(7 373 041)	(2 901 253)	(1 642 484)	(563 013)	<b>(93 366 725)</b>
Recoveries from risk transfer arrangements	2 315 016	10 705 325	8 697 313	5 247 660	42 103 299	12 970 768	7 992 554	2 973 103	1 940 338	578 943	<b>95 524 320</b>
<b>Gross healthcare result</b>	<b>54 995 860</b>	<b>265 103 994</b>	<b>90 881 836</b>	<b>62 230 497</b>	<b>546 384 006</b>	<b>86 930 868</b>	<b>82 350 076</b>	<b>28 007 333</b>	<b>1 898 147</b>	<b>(565 849)</b>	<b>1 218 216 768</b>
Broker service fees and other distribution fees	(4 856 618)	(24 735 579)	(6 700 548)	(1 581 349)	(31 240 142)	(7 379 672)	(5 968 743)	(1 422 744)	(1 381 656)	(29 622)	<b>(85 296 672)</b>
Administration and other operative expenses	(24 861 572)	(114 967 320)	(27 648 018)	(12 972 359)	(110 687 116)	(34 172 623)	(19 393 450)	(8 202 182)	(8 213 475)	(2 084 110)	<b>(363 202 226)</b>
Net impairment losses on healthcare receivables	(65 865)	(349 494)	(127 972)	(96 063)	(699 337)	(280 641)	(188 404)	(90 837)	(25 201)	(14 075)	<b>(1 937 887)</b>
<b>Net healthcare result</b>	<b>25 211 806</b>	<b>125 051 601</b>	<b>56 405 298</b>	<b>47 580 725</b>	<b>403 757 411</b>	<b>45 097 932</b>	<b>56 799 479</b>	<b>18 291 570</b>	<b>(7 722 184)</b>	<b>(2 693 655)</b>	<b>767 779 983</b>
<b>Other income</b>	<b>4 536 922</b>	<b>28 161 157</b>	<b>11 536 825</b>	<b>8 370 321</b>	<b>69 798 065</b>	<b>25 885 780</b>	<b>17 929 205</b>	<b>6 972 069</b>	<b>1 731 293</b>	<b>958 177</b>	<b>175 879 814</b>
Investment income	4 227 386	26 518 687	10 935 414	7 918 867	66 511 483	24 566 888	17 043 790	6 545 175	1 612 859	892 031	<b>166 772 580</b>
Scheme	4 148 115	22 010 892	8 059 566	6 049 985	44 043 796	17 674 603	11 865 535	5 720 839	1 587 152	886 433	<b>122 046 917</b>
Personal medical savings account trust accounts	79 271	4 507 795	2 875 848	1 868 881	22 467 687	6 892 285	5 178 255	824 336	25 707	5 598	<b>44 725 663</b>
Own facility income	103 693	550 217	201 469	151 235	1 100 985	441 821	296 609	143 007	39 675	22 159	<b>3 050 868</b>
Other operating income	205 843	1 092 252	399 942	300 220	2 185 597	877 071	588 807	283 887	78 760	43 988	<b>6 056 366</b>
<b>Other expenditure</b>	<b>(791 098)</b>	<b>(8 284 918)</b>	<b>(4 258 890)</b>	<b>(2 907 074)</b>	<b>(30 025 711)</b>	<b>(9 925 290)</b>	<b>(7 214 410)</b>	<b>(1 806 046)</b>	<b>(298 066)</b>	<b>(157 712)</b>	<b>(65 669 215)</b>
Interest paid on personal medical savings trust accounts	(79 271)	(4 507 795)	(2 875 848)	(1 868 881)	(22 467 687)	(6 892 285)	(5 178 255)	(824 336)	(25 707)	(5 598)	<b>(44 725 663)</b>
Asset management fees	(179 072)	(950 199)	(347 928)	(261 175)	(1 901 349)	(763 004)	(512 229)	(246 966)	(68 517)	(38 267)	<b>(5 268 705)</b>
Own facility expenditure	(427 401)	(2 267 894)	(830 418)	(623 361)	(4 538 056)	(1 821 104)	(1 222 566)	(589 447)	(163 532)	(91 334)	<b>(12 575 115)</b>
Other losses	(689)	(3 657)	(1 339)	(1 005)	(7 318)	(2 937)	(1 972)	(951)	(264)	(147)	<b>(20 279)</b>
Finance costs	(104 664)	(555 372)	(203 357)	(152 651)	(1 111 300)	(445 960)	(299 388)	(144 347)	(40 047)	(22 366)	<b>(3 079 452)</b>
<b>NET SURPLUS/(DEFICIT) FOR THE YEAR</b>	<b>28 957 630</b>	<b>144 927 840</b>	<b>63 683 234</b>	<b>53 043 973</b>	<b>443 529 765</b>	<b>61 058 422</b>	<b>67 514 275</b>	<b>23 457 593</b>	<b>(6 288 958)</b>	<b>(1 893 190)</b>	<b>877 990 583</b>

\* The Scheme offered thirteen benefit options for the year under review, ten original options and three Efficiency Discounted Options (EDO's). The EDO's namely Beat1 Network, Beat2 Network and Beat3 Network are included in the original ten options for reporting purposes.

34. SURPLUS/ (DEFICIT) PER BENEFIT OPTION (CONTINUED)

	Beat1*	Beat2*	Beat3*	Beat4	Pace1	Pace2	Pace3	Pace4	Pulse1	Pulse2	Total Scheme
	R	R	R	R	R	R	R	R	R	R	R
<b>2019</b>											
<b>Average members for the financial year</b>	<b>5 942</b>	<b>27 751</b>	<b>7 227</b>	<b>3 894</b>	<b>29 298</b>	<b>9 509</b>	<b>5 393</b>	<b>2 413</b>	<b>2 480</b>	<b>620</b>	<b>94 527</b>
<b>Risk contribution income</b>	<b>173 509 338</b>	<b>779 241 154</b>	<b>310 795 435</b>	<b>273 924 948</b>	<b>1 642 113 302</b>	<b>745 626 760</b>	<b>497 897 726</b>	<b>288 993 257</b>	<b>83 573 258</b>	<b>46 359 061</b>	<b>4 842 034 239</b>
<b>Relevant healthcare expenditure</b>	<b>(124 892 264)</b>	<b>(589 534 183)</b>	<b>(265 126 267)</b>	<b>(243 839 861)</b>	<b>(1 328 102 581)</b>	<b>(741 840 872)</b>	<b>(479 169 344)</b>	<b>(301 213 237)</b>	<b>(82 928 884)</b>	<b>(47 697 297)</b>	<b>(4 204 344 791)</b>
Net claims incurred	(125 196 536)	(590 955 141)	(266 380 588)	(244 722 782)	(1 331 128 928)	(744 551 981)	(480 493 851)	(301 782 579)	(83 416 361)	(47 777 921)	<b>(4 216 406 668)</b>
Risk claims incurred	(117 814 364)	(558 346 629)	(257 606 853)	(240 468 100)	(1 295 369 810)	(734 396 787)	(473 842 206)	(298 733 230)	(80 617 267)	(46 994 260)	<b>(4 104 189 506)</b>
Third party claims recoveries	126 736	2 458 260	358 831	665 576	1 262 172	1 860 763	162 793	-	335 023	-	<b>7 230 154</b>
Accredited managed healthcare services	(7 508 908)	(35 066 772)	(9 132 566)	(4 920 257)	(37 021 291)	(12 015 958)	(6 814 438)	(3 049 349)	(3 134 117)	(783 661)	<b>(119 447 317)</b>
Net income/(expenses) on risk transfer arrangements	304 272	1 420 958	1 254 321	882 921	3 026 347	2 711 109	1 324 507	569 342	487 477	80 624	<b>12 061 878</b>
Risk transfer arrangement premiums paid	(1 963 637)	(9 170 229)	(7 580 634)	(5 441 086)	(40 132 023)	(12 137 524)	(7 461 770)	(3 126 548)	(1 779 268)	(599 331)	<b>(89 392 049)</b>
Recoveries from risk transfer arrangements	2 267 909	10 591 187	8 834 955	6 324 007	43 158 370	14 848 633	8 786 276	3 695 890	2 266 745	679 956	<b>101 453 927</b>
<b>Gross healthcare result</b>	<b>48 617 074</b>	<b>189 706 971</b>	<b>45 669 168</b>	<b>30 085 087</b>	<b>314 010 721</b>	<b>3 785 887</b>	<b>18 728 381</b>	<b>(12 219 980)</b>	<b>644 374</b>	<b>(1 338 236)</b>	<b>637 689 448</b>
Broker service fees and other distribution fees	(4 232 622)	(21 473 153)	(6 215 610)	(1 958 578)	(30 622 702)	(7 235 346)	(5 751 132)	(1 491 349)	(1 569 435)	(28 188)	<b>(80 578 114)</b>
Administration and other operative expenses	(21 727 228)	(101 466 655)	(26 425 329)	(14 236 898)	(107 122 108)	(34 768 501)	(19 717 761)	(8 823 373)	(9 068 653)	(2 267 544)	<b>(345 624 050)</b>
Net impairment losses on healthcare receivables	(235 713)	(1 257 445)	(501 880)	(432 465)	(2 752 818)	(1 177 838)	(786 518)	(404 763)	(113 540)	(62 984)	<b>(7 725 965)</b>
<b>Net healthcare result</b>	<b>22 421 511</b>	<b>65 509 718</b>	<b>12 526 350</b>	<b>13 457 146</b>	<b>173 513 092</b>	<b>(39 395 798)</b>	<b>(7 527 029)</b>	<b>(22 939 465)</b>	<b>(10 107 254)</b>	<b>(3 696 952)</b>	<b>203 761 319</b>
<b>Other income</b>	<b>4 980 343</b>	<b>30 920 977</b>	<b>13 736 722</b>	<b>11 353 321</b>	<b>83 030 605</b>	<b>32 627 498</b>	<b>22 709 845</b>	<b>9 427 896</b>	<b>2 412 573</b>	<b>1 317 152</b>	<b>212 516 932</b>
Investment income	4 957 138	30 797 186	13 687 313	11 310 747	82 759 599	32 511 543	22 632 415	9 388 049	2 401 395	1 310 952	<b>211 756 335</b>
Scheme	4 904 194	26 162 106	10 441 994	8 997 759	57 274 477	24 505 825	16 364 110	8 421 411	2 362 283	1 310 426	<b>160 744 583</b>
Personal medical savings account trust monies invested	52 944	4 635 080	3 245 319	2 312 988	25 485 122	8 005 719	6 268 305	966 638	39 113	526	<b>51 011 753</b>
Other operating income	23 205	123 791	49 408	42 575	271 006	115 954	77 430	39 848	11 178	6 201	<b>760 597</b>
<b>Other expenditure</b>	<b>(528 077)</b>	<b>(7 169 745)</b>	<b>(4 256 972)</b>	<b>(3 184 719)</b>	<b>(31 034 050)</b>	<b>(10 379 919)</b>	<b>(7 853 710)</b>	<b>(1 782 530)</b>	<b>(267 977)</b>	<b>(127 484)</b>	<b>(66 585 184)</b>
Interest paid on personal medical savings trust accounts	(52 944)	(4 635 080)	(3 245 319)	(2 312 988)	(25 485 122)	(8 005 719)	(6 268 305)	(966 638)	(39 113)	(526)	<b>(51 011 753)</b>
Asset management fees	(160 029)	(853 697)	(340 733)	(293 606)	(1 868 926)	(799 650)	(533 978)	(274 799)	(77 084)	(42 761)	<b>(5 245 262)</b>
Own facility expenditure	(267 631)	(1 427 712)	(569 839)	(491 024)	(3 125 571)	(1 337 327)	(893 019)	(459 572)	(128 914)	(71 512)	<b>(8 772 121)</b>
Finance costs	(47 474)	(253 257)	(101 081)	(87 101)	(554 432)	(237 223)	(158 409)	(81 521)	(22 867)	(12 686)	<b>(1 556 048)</b>
<b>NET SURPLUS/(DEFICIT) FOR THE YEAR</b>	<b>26 873 777</b>	<b>89 260 950</b>	<b>22 006 100</b>	<b>21 625 749</b>	<b>225 509 647</b>	<b>(17 148 219)</b>	<b>7 329 105</b>	<b>(15 294 099)</b>	<b>(7 962 659)</b>	<b>(2 507 283)</b>	<b>349 693 067</b>

\* The Scheme offered thirteen benefit options for the year under review, ten original options and three Efficiency Discounted Options (EDO's). The EDO's namely Beat1 Network, Beat2 Network and Beat3 Network are included in the original ten options for reporting purposes.



## 35. INSURANCE RISK MANAGEMENT REPORT

### Nature and extent of risks arising from insurance contracts

The primary insurance activity of the Scheme is to indemnify covered members and their dependants against the risk of loss arising as the result of the occurrence of a health related event. The Scheme is exposed to the uncertainty surrounding the timing and severity of claims. Insurance events are by nature random and the actual number and size of events during one year may vary from those estimated using established techniques.

### Insurance risk - description of benefit options

The types of benefits offered by the Scheme in return for monthly contributions are:

#### Hospital benefits

The hospital benefit covers medical expenses for admission to hospital, provided that the Scheme has authorised the treatment, except in the case of a medical emergency where all admissions are covered.

#### Chronic illness benefit

Approved medication for 45 listed conditions of which 27 conditions on the Chronic Disease List (CDL) are covered by this benefit. These include conditions such as asthma, cholesterol and hypertension.

#### Day-to-day benefits

The day-to-day benefits include both the Joint Benefit Account and an insurance risk element - Protocol Treatment and Above Threshold Benefits (ATB). These benefits cover healthcare services where the cost occurs outside the hospital, such as visits to general practitioners and dentists. It also covers the cost of prescribed non-chronic medicine.

The primary insurance activity carried out by the Scheme assumes risks related to the health of the Scheme members and their registered dependants. As such, the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contract.

All the contracts are annual in nature and the Scheme has the right to change the terms and conditions of the contract at renewal.

### Risk management objectives and policies for mitigating insurance risk

When assessing and managing insurance risk the Scheme takes the following main factors into account:

#### 1. The size and composition of the risk pool for each type of contract

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative

variability about the expected outcome is likely to be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Scheme has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

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

#### 2. Frequency and severity of claims

Insurance events are by their nature random and the actual number and size of events during any one year may vary from those estimated using established statistical techniques. The principal risk is that the frequency and severity of claims are greater than expected.

For insurance contracts issued, climatic and seasonal changes, as well as the spread of pandemics give rise to more frequent and severe claims. However, the data shows that the frequency and severity of claims stay relatively stable year-on-year. The quality and availability of effective private healthcare services further reduces the risk of sudden severe claim patterns.

#### 3. Benefit utilisation

The Scheme manages this risk through pre-authorisation and case management for hospitalisation, approval of registration for chronic medicine benefits, applying medicine formularies as well as various disease management programmes for high-risk/high-cost diseases such as cancer.

Various data sets are used to monitor utilisation. These include:

#### Hospitalisation

Hospitalisation accounts for more than 46% of the risk benefits paid by the Scheme. When the cost of service providers caring for patients in hospital is added, the percentage of risk benefits covered increases to 71%. This risk is managed through pre-authorisation of procedures and case management, the objective being to provide appropriate and cost-effective care for members of the Scheme.

In managing this risk the average cost per admission, number of admissions per 1 000 lives, average cost per 1 000 lives and average number of bed days per admission are monitored on a monthly basis.

#### Medicine

Medicine for chronic diseases accounts for 9% of the risk benefits paid. This risk is managed through pre-authorisation of utilisation and the use of a medicine formulary. Members are also required to re-apply for medicine after a prescribed period thus ensuring that the clinical necessity of continuing with the treatment is frequently assessed.

Average cost per beneficiary, average number of items per prescription and average cost per item are monitored on a monthly basis.

#### Claims ratio

Claims paid expressed as a percentage of contributions received, is an important indicator of the stability of the risk pool and the ability of the Scheme to fulfil its obligation under the insurance contract it sells.

#### 4. Impact of legislation and regulation

The medical scheme industry is governed by the Medical Schemes Act. The governance under the Medical Schemes Act is fulfilled by a statutory body, the Council for Medical Schemes. Various legislative measures restrict the Scheme to fully manage its insurance risk, the main factor being the fact that the Scheme is not allowed to risk rate its members at all. This severely increases the risk in a risk pool with a too high load of above average claimers.

Managed care initiatives such as disease management programmes and preventative programmes such as a training programme for potential cardiovascular patients are implemented to reduce risk.

#### Sensitivity to insurance risk

The Scheme's profitability, reserves and, consequently, its solvency are sensitive to variables that arise from contribution increases relative to medical inflation and changes in the level of insurance events as well as the composition of the risk pool, all of which could have a material impact on the business of the Scheme.

Over and above daily and monthly management information on claims ratios and composition of the risk pool, the Scheme also makes use of the monitoring of the relative insurance events by the Scheme's actuaries. The actuaries provide estimates based on statistical models, on the probability of the occurrence of future events, thus predicting the profitability to year-end.

The accumulation of claims to the next claims payment run is monitored on a daily basis, both by volume and value. This ensures that any unexpected increase in utilisation is reported timeously. Furthermore, all severe cases of hospital admissions are monitored

daily to ensure that treatment is done as effectively as possible. This also ensures that the Scheme is informed of possible high-value hospital claims in time.

The Scheme also has an independent monthly analysis of claims which is done by its actuaries. The actuaries also provide the Scheme with a monthly prediction of the outcome for the remainder of the financial year. This analysis is done based on the available data for the year together with the data for the past three years. The combined data set is run through a stochastic model which takes into account the expected behaviour of each beneficiary of the Scheme. The assumptions in the stochastic model are based on the past behaviour patterns of beneficiaries from different Schemes that participated in the same program, thus ensuring the reliability of the outcome.

## 35. INSURANCE RISK MANAGEMENT REPORT (CONTINUED)

### Sensitivity to insurance risk (continued)

The table below summarises the concentration of insurance risk, with reference to net claims incurred, by age group and type of benefits provided.

Age group	General Practitioners	Specialists	Pathology	Medicines	Hospitals	Other	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
<b>2020</b>							
<30	12 458	76 321	32 888	40 451	244 642	68 819	<b>475 578</b>
30-39	10 910	69 497	33 667	40 694	190 389	53 260	<b>398 417</b>
40-49	11 256	67 795	36 707	55 921	183 120	68 382	<b>423 181</b>
50-59	14 706	104 681	47 125	93 416	267 721	98 187	<b>625 835</b>
60-69	15 563	146 150	52 713	109 610	354 217	133 630	<b>811 883</b>
70 +	20 704	180 865	70 636	123 527	494 397	165 813	<b>1 055 942</b>
<b>Total</b>	<b>85 596</b>	<b>645 308</b>	<b>273 735</b>	<b>463 619</b>	<b>1 734 486</b>	<b>588 091</b>	<b>3 790 836</b>
<b>2019</b>							
<30	17 426	86 575	31 279	43 571	307 161	79 971	<b>565 983</b>
30-39	11 223	67 774	26 426	40 755	198 195	54 800	<b>399 173</b>
40-49	12 330	68 704	30 142	57 371	182 713	72 807	<b>424 066</b>
50-59	16 432	108 305	39 477	91 533	283 476	103 425	<b>642 648</b>
60-69	16 503	150 236	47 648	105 404	392 110	135 008	<b>846 907</b>
70 +	22 251	185 816	67 914	118 198	547 600	174 948	<b>1 116 727</b>
<b>Total</b>	<b>96 165</b>	<b>667 410</b>	<b>242 884</b>	<b>456 832</b>	<b>1 911 255</b>	<b>620 959</b>	<b>3 995 505</b>

General Practitioners benefits cover the cost of all visits by members to and of the procedures performed by them, both in and out-of-hospital.

Specialists benefits cover the cost of all visits by members to specialists and of the procedures performed by them, both in and out-of-hospital.

Pathology benefits cover the cost of pathology tests performed, mainly in hospital but also out-of-hospital where a specific option covers such benefits from the risk pool.

Medicine benefits cover the costs of chronic medicine benefits as well as acute medicine where a specific option covers such benefits from the risk pool.

Hospital benefits cover all costs incurred by members, while they are in hospital to receive pre-authorised treatment for certain medical conditions.

### Risk transfer arrangements

The Scheme entered into various capitation agreements with medical service providers (refer Note 15). These risk transfer arrangements spread the risk and minimise the effect of losses and are on annually renewable terms. The amount of each risk retained depends on the Scheme's evaluation of the specific risk, subject in certain circumstances to maximum limits on the basis of characteristics of coverage.

According to the terms of the risk transfer arrangements, the third party agrees to reimburse the ceded amount in the event the claim is paid. According to the terms of the capitation agreements, the suppliers provide certain minimum benefits to the Scheme members, as and when required by the members.

The Scheme does, however, remain liable to its members if any supplier fails to meet the obligations it assumes. When selecting suppliers, the Scheme considers their relative security and their ability to provide the relevant service. The security of the supplier is assessed from public rating information and from internal investigations such as considering capital adequacy, solvency, capacity and appropriate resources.

The following tables summarises the concentration of insurance risk transferred, with reference to the amount of the insurance claims incurred by option and in relation to the type of risk covered/benefits provided:

	Optometry	Emergency evacuation
<b>2020 Options</b>		
Beat1	-	100%
Beat2	-	100%
Beat3	100%	100%
Beat4	100%	100%
Pace1	100%	100%
Pace2	100%	100%
Pace3	100%	100%
Pace4	100%	100%
Pulse1	100%	100%
Pulse2	100%	100%

### Claims development

Claims development tables are not presented as the uncertainty regarding the amount and timing of claim payments is typically resolved within one year and in the majority of cases within four months. At year-end, a provision is made for those claims outstanding that are not yet reported at that date.

### Underwriting risk

Underwriting risk is the risk that the actual exposure of the Scheme in respect of outstanding claims will exceed best estimates of the amounts provided for the cash flows required to settle them. External actuaries have been consulted in setting these estimates at year-end, including the estimate for those claims outstanding at year-end, which had not yet been reported.

The Scheme participates in Insight Actuaries & Consultants risk management model. The model was developed by the Scheme's external actuaries and is a stochastic risk management model that was specifically designed and developed for medical schemes. Insight Actuaries & Consultants runs on detailed beneficiary-level demographic data and claims data on claim-line level. The database is updated on a monthly basis and reconciled to the Scheme's financial statements. Actual claims experience is compared to Insight Actuaries & Consultants' projected claims experience every month to ensure that the model provides a reliable basis from which to project expected claims experience. Allowance is made within the setup of Insight Actuaries & Consultants for inflation (both the severity and utilisation of claims) and seasonal variation of claim patterns. The impact that demographic changes are expected to have on claims incurred is automatically incorporated in all projected results.

Insight Actuaries & Consultants estimates claims incurred by service date based on the Scheme's actual

demographic structure and past claims. It has been used by the Scheme for more than seven years, and has proven to be a reliable predictor of claims incurred. Results from Insight Actuaries & Consultants are reconciled with the actual claims paid on a monthly basis and adjustments are made where necessary to ensure that the results remain accurate. By comparing the claims predicted by Insight Actuaries & Consultants to actual claims paid by the Scheme, the actuaries are able to calculate an appropriate provision for outstanding claims. The outstanding claims provision is calculated using traditional "chain ladder" methods based on claims development patterns derived from a period of 12 months prior to the calculation date.

The outstanding claims provision is calculated after considering the results of both Insight Actuaries & Consultants' model and the chain ladder techniques. In general terms, chain ladder methods tend to be reliable when claims administration processes are stable, whether or not this is the case for beneficiaries' claims propensities. Conversely, using methodology based on Insight Actuaries & Consultants' projections (which bear some similarity to traditional Loss Ratio methods) tend to be more reliable when beneficiaries' claims propensities are stable, whether or not this is the case for administrative processes. Insight Actuaries & Consultants' model also adjusts for demographic and benefit changes, whereas these are not automatically reflected by traditional chain ladder methods.

Finally, consideration was given to claims already paid after the reporting date, specifically claims processed between January 2021 and March 2021 for 2020 services. A significant portion of the claims incurred in 2020 are therefore expected to have been paid. The chain ladder method has therefore been used to estimate claims for future payment months.

## 35. INSURANCE RISK MANAGEMENT REPORT (CONTINUED)

### Underwriting risk (continued)

As opposed to claims for 2020 that have already been paid, the claims for 2020 estimated to be paid in future payment months are still subject to uncertainty. The table below illustrates the effect of a 10% increase and decrease in this amount.

	Claims for 2020 services paid from Jan 2021 to Mar 2021	2020 Claims estimated at that time to be paid after Mar 2021	Outstanding claims provision	% Change in outstanding claims provision
	R	R	R	%
<b>2020 Scenario</b>				
Base scenario	155 462 970	12 779 407	168 242 377	
10% increase	155 462 970	14 057 348	169 520 318	0.76%
10% decrease	155 462 970	11 501 466	166 964 436	(0.76%)

## 36. FINANCIAL RISK MANAGEMENT REPORT

### Financial risk factors

The Scheme's activities expose it to a variety of financial risks as its financial assets include the effects of changes in equity market prices, creditworthiness and interest rates. The key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, interest rate risk, market risk and liquidity risk. The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the financial performance of the investments that the Scheme holds to meet its obligations to its members.

The Board of Trustees has overall responsibility for the establishment and oversight of the risk management framework of the Scheme. The carrying amounts of the financial assets and financial liabilities per category are disclosed in the statement of financial position.

Risk management and investment decisions are made under the guidance and policies approved by the Investment Committee and Board of Trustees. The Investment Committee identifies, evaluates and economically hedges (where appropriate) financial risks associated with the Scheme's investment portfolio. The Investment Committee provides a statement of investment principles for approval by the Board of Trustees.

### Investment risk

Investment risk is the risk that the investment returns on accumulated assets will not be sufficient to cover future liabilities. Continuous monitoring takes place to ensure that appropriate assets are held where the Scheme's liabilities are dependent upon the performance of the investment portfolio and that a suitable match of assets exists for all liabilities.

The Scheme's Investment Committee invests funds in line with the Medical Schemes Act 131 of 1998, as amended. Expert advice is obtained from Willis Towers Watson to assist in developing an appropriate investment strategy and portfolio.

Given that the central purpose of the Scheme is to provide medical benefits to members rather than to maximise investment returns, a moderate risk appetite is adopted. The Committee believes that the primary objective that the Scheme needs to manage is to earn a sufficient investment return in excess of inflation over a five-year period, without losing focus on downside protection over a one-year period. The Committee believes that risk should be managed in part by holding a diversified portfolio, with a significant proportion of the assets providing returns that offer protection against inflation over the longer term.

In appointing active managers, the Committee believes that the better investment strategy is to select fundamental research orientated managers with a long-term focus, where the focus is on assessing the intrinsic value of an asset, or buying shares that have strong "value" characteristics (i.e. low price/earnings ratio, high dividend yield, low price to book ratio).

To achieve this goal, the Board has identified that an amount not exceeding the reserves of the Scheme as defined by Regulation 29, will be allocated to a strategic investment portfolio which will be managed by an Investment Committee in conjunction with the Scheme's appointed investment advisors. The balance of the available cash is held in cash and short-term investments to meet the daily operational needs of the Scheme.

The Investment Committee monitors the performance of the Scheme's investments in conjunction with the Scheme's investment advisors to ensure that maximum returns are achieved.

Personal medical savings trust investment risk is the risk that the investment balances and returns on the trust

monies will not be sufficient to cover the trust liability. The trust monies are not a direct Scheme risk as these monies belong to the members and are held through trust accounts. However, the Scheme still has an obligation to oversee the investment performance of these trust assets to ensure that the personal medical savings liabilities towards members are sufficiently covered. The Scheme has adopted a conservative investment approach in this regard by investing in low risk bank accounts and money market funds.

### Breakdown of investments

The investments managed by the Investment Committee are split between the following categories in the financial statements:

- Financial assets investments; and
- Cash and cash equivalents.

### Financial assets investments

The Scheme invests in equity through units in a linked insurance fund policy with a registered long-term insurer with underlying assets in domestic equity and through segregated portfolios with financial institutions. The performance of the investments are measured against the Consumer Price Index (CPI) with the objective to outperform CPI as follows over any rolling five-year period:

- Domestic only portfolios - CPI + 3%
- Domestic with global components portfolios - CPI + 4%

To better understand the risks associated with these investments, the following disclosure is presented under each category.

	2020	2019
	R	R
<b>Scheme</b>		
<b>Financial assets at fair value through other comprehensive income:</b>		
- Listed equity	155 680 889	150 756 860
- SA listed properties	16 494 085	25 821 611
	<b>172 174 974</b>	<b>176 578 471</b>
<b>Financial assets at fair value through profit or loss:</b>		
<b>Scheme</b>		
Money market funds	3 083 252	1 732 442
Listed bonds	76 740 989	75 313 273
Linked insurance policies	792 104 957	773 754 048
Collective investment schemes	2 066 045 566	1 224 860 684
	<b>2 937 974 765</b>	<b>2 075 660 448</b>
<b>Personal medical savings account trust monies invested</b>		
Money market funds	314 374 034	297 388 278
Linked insurance policies	393 906 088	370 592 052
<b>Total</b>	<b>708 280 122</b>	<b>667 980 330</b>

## 36. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

### Market risk

Market risk refers to the risk that changes in market prices such as interest rates, equity prices and foreign exchange rates will affect the value of the Scheme's holdings in financial instruments or its income. The objective of the management of market risk is to manage and control market risk exposure within acceptable parameters, while optimising the return on risk.

The insurance liabilities of the Scheme are settled within one year. No insurance liabilities are discounted and therefore changes in market interest rates would not affect the Scheme's surplus or deficit.

Risks identified per investment and cash instrument	Currency Risk	Price Risk	Interest Rate Risk
Segregated portfolio			
- Listed equity	-	Yes	-
- Money market funds	-	-	Yes
- Listed bonds	-	-	Yes
- SA listed properties	-	Yes	-
- Exchange traded funds	-	Yes	-
Money Market Funds	Yes	-	Yes
Collective investment Schemes	-	Yes	Yes
Cash and cash equivalents	-	-	Yes

### Currency risk

The benefits of the Scheme are Rand-denominated and therefore the Scheme does not have any significant net currency risk on its benefits. The Scheme is exposed to net currency risk through its foreign investment in bonds and international fixed interest funds of which the impact is insignificant.

### Price risk

The Scheme is indirectly exposed to equity securities price risk, SA properties and commodities because of investments via Linked Insurance Policies. To manage the risk arising from investments in equity securities, the Scheme invests in equities via a Linked Insurance Fund Policy with a long-term insurer with approval to enter into Linked Insurance Policies as defined in Section 1 and Schedule 2 of the Long-term Insurance Act 52 of 1998.

Equity securities, SA properties and commodities are classified as Financial assets investments and market gains/losses would increase/decrease the Financial assets fair value reserve of the Scheme.

This risk is managed by the mandates issued to the investment managers which are utilised by the Scheme. Investment managers are required to invest within the restrictions of Regulation 30 of the Medical Schemes Act. Furthermore, investment risks and exposure are reviewed and assessed on a regular basis by the Investment Committee of the Scheme, management as well as by the Scheme's Investment Advisors - Willis Towers Watson.

### Sensitivity analysis table

#### Effect on equity if the Listed Equities index strengthens/weakens by 10%

	Carrying value at year-end	Effect on equity if the Listed Equities index strengthens/ (weakens) by 10%
	R	R
<b>2020</b>		
Listed equities	155,680,889	15,568,089
SA listed properties	16,494,085	1,649,409
<b>2019</b>		
Listed equities	150,756,860	15,075,686
SA listed properties	25,821,611	2,582,161

### Sensitivity analysis

The Scheme acquired units in linked insurance funds with exposure to assets in domestic equity. The value of each unit is calculated as the aggregate market value of all underlying assets at the end of the day, with due allowances being made where applicable for accrued interest and dividend income. From the aggregate market value is deducted any direct costs the manager may incur in the management of the portfolio. The resultant net aggregate market value is then divided by the number of units to derive the Unit Price. The table below shows the effect of changes in the market on the Unit Price.

	Percentage effect on amount of Accumulated Funds					
	% Decrease in market			% Increase in market		
	30%	15%	5%	5%	15%	30%
31 December 2020	(237 631 487)	(118 815 744)	(39 605 248)	39 605 248	118 815 744	237 631 487
31 December 2019	(232 126 214)	(116 063 107)	(38 687 702)	38 687 702	116 063 107	232 126 214

### Interest rate risk

The Scheme is exposed to interest rate risk as it places funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate combination of fixed and floating rate investments as well as fixed deposit investments. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise.

This risk is managed by regular reviews by the Investment Committee of the Scheme, management as well as by the Scheme's Investment Advisors - Willis Towers Watson. The performance of the investments are measured against the Consumer Price Index (CPI) with the objective to outperform CPI over any rolling five-year period.

### Sensitivity analysis table

The following table summarises the Scheme's cash and cash equivalents and financial assets investments that are exposed to interest rate risks, disclosed at carrying amounts and categorised by the earlier of contractual repricing or maturity dates.

	1 - 3 months	4 - 12 months	1 - 5 years	Carrying value at year-end Total	Effect if interest rate increase by 1%
	R	R	R	R	R
<b>As at 31 December 2020</b>					
Money market funds					
Scheme	3 083 252	-	-	3 083 252	30 833
Personal medical savings account trust monies invested	136 549 231	177 824 802	-	314 374 034	3 143 740
Listed bonds					
Scheme	-	-	76 740 989	76 740 989	767 410
Linked Insurance Policies	-	-	792 104 957	792 104 957	7 921 050
Collective Investment Schemes	1 289 680 618	-	776 364 948	2 066 045 566	20 660 456
Cash and cash equivalents					
Scheme	82 551 499	-	-	82 551 499	825 515
Personal medical savings account trust monies invested	187 704 109	-	-	187 704 109	1 877 041
<b>Total</b>	<b>1 699 568 710</b>	<b>177 824 802</b>	<b>1 645 210 895</b>	<b>3 522 604 407</b>	<b>35 226 044</b>

### 36. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

#### Sensitivity analysis table (continued)

	1 - 3 months	4 - 12 months	1 - 5 years	Carrying value at year-end Total	Effect if interest rate increase by 1%
	R	R	R	R	R
<b>As at 31 December 2019</b>					
Money market funds					
Scheme	1 732 442	-	-	1 732 442	17 324
Personal medical savings account trust monies invested	27 820 382	269 567 897	-	297 388 278	2 973 883
Listed Bonds					
Scheme	-	306 250	75 007 023	75 313 273	753 133
Collective investment schemes:	494 457 577	-	730 403 107	1 224 860 684	12 248 607
Cash and cash equivalents					
Scheme	117 911 183	-	-	117 911 183	1 179 112
Personal medical savings account trust monies invested	113 501 780	-	-	113 501 780	1 135 018
<b>Total</b>	<b>755 423 363</b>	<b>269 874 147</b>	<b>805 410 131</b>	<b>1 830 707 641</b>	<b>18 307 076</b>

The table below summarises the effective interest rate at year-end by major currencies across applicable Scheme financial assets.

	2020	2019
	%	%
Financial Assets		
Scheme	4.7%	8.3%
Personal medical savings account trust monies invested	6.0%	8.2%
Cash and cash equivalents		
Scheme	3.1%	2.6%
Personal medical savings account trust monies invested	3.4%	2.6%

#### Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Scheme's principal financial assets are cash and cash equivalents, trade and other receivables and investments. The Scheme's credit risk is primarily attributable to accounts receivables by members and service providers.

##### Trade and other receivables

Trade and other receivables consist of insurance receivables and loans and receivables.

The main components of insurance receivables are:

- Receivables for contributions due from members; and
- Receivables for amounts recoverable from service providers and members in respect of claims debt.

The Scheme manages credit risk by:

- Suspending benefits on all member accounts when contributions have not been received for 30 days;
- Terminating benefits on all member accounts when contributions have not been received for 60 days;
- Ageing and pursuing unpaid accounts on a monthly basis;
- Details of the process to estimate impairment provisions are included elsewhere in Note 36; and
- Actively pursuing all contributions not received after three days of becoming due, as required by Section 26(7) of the Medical Schemes Act 131 of 1998, as amended.

#### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2020	2019
	R	R
Financial assets at fair value through profit or loss	3 646 254 887	2 743 640 778
Scheme	2 937 974 765	2 075 660 448
Personal medical savings account trust monies invested	708 280 122	667 980 330
Financial assets at fair value through other comprehensive income	172 174 974	176 578 471
Trade and other receivables	118 005 284	121 955 698
Insurance receivables	92 711 490	104 645 353
Other loans and receivables	21 976 957	19 738 131
Recovery under risk transfer arrangements outstanding claims provisions	3 316 837	(2 427 786)
Cash and cash equivalents	270 255 608	231 412 963
Scheme	82 551 499	117 911 183
Personal medical savings account trust monies invested	187 704 109	113 501 780
	<b>4 206 690 754</b>	<b>3 273 587 909</b>

The main components of insurance receivables are contribution receivables, personal medical saving advances, recoveries from member and service provider for claims. Contribution receivables are collected by means of debit orders or cash payments. Amounts which are past 120 days or more are considered impaired and are provided for.

#### Insurance receivables disclosed by quantitative analysis and maximum credit exposure at the end of the year:

	Insurance receivables	Other receivables*	Total
	R	R	R
<b>2020</b>			
Financial assets that are neither past due nor impaired	89 742 207	19 695 341	109 437 548
Financial assets that are impaired:			
Past due 30 days	1 336 873	-	1 336 873
Past due 60 days	700 766	-	700 766
Past due 90 days	931 644	-	931 644
Past due 120 days and more	9 530 654	-	9 530 654
	102 242 144	19 695 341	121 937 485
Impairment	(9 530 654)	-	(9 530 654)
	<b>92 711 490</b>	<b>19 695 341</b>	<b>112 406 831</b>
<b>2019</b>			
Financial assets that are neither past due nor impaired	101 765 548	17 310 345	119 075 893
Financial assets that are impaired:			
Past due 30 days	1 341 538	-	1 341 538
Past due 60 days	828 903	-	828 903
Past due 90 days	709 363	-	709 363
Past due 120 days and more	13 926 065	-	13 926 065
	118 571 418	17 310 345	135 881 763
Impairment	(13 926 065)	-	(13 926 065)
	<b>104 645 353</b>	<b>17 310 345</b>	<b>121 955 698</b>

\*Other receivables includes prepayments

\*Other receivables includes prepayments

### 36. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

#### Impairment losses

The Scheme establishes an allowance for impairment that represents its estimate of expected credit losses (IFRS 7) in respect of insurance receivables. The provision for impairment at 31 December 2020 was determined in accordance with the guidelines of the simplified approach (lifetime expected losses) of the expected credit loss model as required by IFRS 7. It is in respect of contributions receivable, member and service provider debit balances and advances from savings plan accounts recoverable by management.

The movement in the provision for impairment, for each class of financial asset, during the year was as follows:

	Trade and other receivables			
	Insurance receivables			Total
	Contribution debtors	Member and service provider debtors	Personal medical savings account advances	
	R	R	R	R
<b>Balance at 1 January 2019</b>	61 682	7 562 476	5 350 334	12 974 491
Increase/(decrease) in provision for impairment	(35 373)	6 337 280	(5 350 334)	951 574
<b>Balance at 31 December 2019</b>	<b>26 309</b>	<b>13 899 756</b>	<b>-</b>	<b>13 926 065</b>
<b>Balance at 1 January 2020</b>	26 309	13 899 756	-	13 926 065
Increase/(decrease) in provision for impairment	245 629	(4 641 040)	-	(4 395 411)
<b>Balance at 31 December 2020</b>	<b>271 938</b>	<b>9 258 716</b>	<b>-</b>	<b>9 530 654</b>

	2020	2019
	R	R
<b>Insurance receivables</b>		
Counterparties without external credit rating		
Contribution debtors	85 313 832	97 968 972
Member claims debtors	429 883	1 761 167
Provider claims debtors	353 722	14 899 771
Personal medical saving advances	3 682 917	3 941 508

Contribution debtors are normally collected in the following month by way of a double debit order whilst member and provider claim debtors are collected from any future benefits that are due.

#### Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (where available) or to historical information about counterparty default rates.

#### Investments

Transactions are limited to high-quality financial institutions and the amount of exposure to any one financial institution is limited.

The Scheme limits its exposure to credit risk by investing in liquid securities and only with counterparties that have a credit rating of no less than Aa1.za as rated by Moody's Ratings. Owing to these high credit ratings the Board of Trustees does not expect any counterparty to fail to meet its obligations. Credit limits per institution are prescribed by Annexure B of the Regulations to the Medical Schemes Act 131 of 1998, as amended, which reduces the risk per individual institution. The utilisation of these credit limits are regularly monitored.

The table below shows the credit limit and balance of cash and cash equivalents as well as Money Market instruments held at five major counterparties at year-end. No credit limits as per Regulation 30 were exceeded during the reporting period and the Board of Trustees does not expect any losses from non-performance of these counterparties.

Counterparty	Credit rating	2020	2019
		Credit limit	Credit limit
		R	R
Nedbank	Aa1.za	1 509 040 753	1 158 509 002
ABSA	Aa1.za	1 509 040 753	1 158 509 002
Standard Bank	Aa1.za	1 509 040 753	1 158 509 002
FNB	Aa1.za	1 509 040 753	1 158 509 002
Investec	Aa1.za	1 509 040 753	1 158 509 002
		Balance	Balance
		R	R
		365 671 171	249 322 104
		323 374 361	311 833 170
		166 236 882	157 996 288
		79 898 856	208 813 648
		172 800 194	57 011 562

Aa1.za means highest short-term credit quality on the Moody's national scale. It indicates the strongest intrinsic capacity for the timely payment of financial commitments

	2020	2019
	R	R
<b>Cash and cash equivalents</b>		
Counterparties with external credit ratings (Moody's)		
Aa1.za	270 255 608	231 412 963
	<u>270 255 608</u>	<u>231 412 963</u>

The Scheme applies the National Scale Short -Term Issue Credit Ratings for its short-term obligations. The rating relates to the capacity of the Scheme to meet its financial obligations.

Aa1.za means highest short-term credit quality on Moody's national scale. It indicates the strongest intrinsic capacity for the timely payment of financial commitments

#### Financial assets

The credit ratings of financial assets are linked to the underlying investment funds within the segregated portfolios, linked insurance policy and money market funds. The Scheme's investment portfolios managed by Investec, Allan Gray, Coronation and Prudential are all managed in compliance with Annexure B of Regulation 30 of the Medical Schemes Act. As such the per issuer limits per Annexure B applies to all the mandates. The credit rating exposures are monitored by the Scheme's Investment Advisor, Willis Towers Watson, which ensures mandate compliance.

#### Fair values of financial assets by hierarchy level

Assets measured at fair value: 2020	Level 1	Level 2	Level 3
	R	R	R
<b>Financial assets</b>			
Scheme			
Financial assets at fair value through other comprehensive income:			
Listed Shares	155 680 889	-	-
SA Listed Properties	16 494 085	-	-
Financial assets at fair value through profit or loss:			
Listed Bonds	76 740 989	-	-
Money Market Funds	-	3 083 252	-
Linked Insurance Policies	-	792 104 957	-
Collective Investment Schemes	-	2 066 045 566	-
<b>Personal medical savings account trust monies invested</b>			
Financial assets at fair value through profit or loss:			
Money Market Funds	-	314 374 034	-
Linked Insurance Policies	-	393 906 088	-
	<b>248 915 964</b>	<b>3 569 513 898</b>	<b>-</b>

### 36. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

#### Fair values of financial assets by hierarchy level (continued)

Assets measured at fair value: 2019	Level 1	Level 2	Level 3
	R	R	R
<b>Financial assets</b>			
Scheme			
Financial assets at fair value through other comprehensive income:			
Listed Shares	150 756 860	-	-
SA Listed Properties	25 821 611	-	-
Financial assets at fair value through profit or loss:			
Listed Bonds	75 313 273	-	-
Money Market Funds	-	1 732 442	-
Linked Insurance Policies	-	773 754 048	-
Collective Investment Schemes	-	1 224 860 684	-
<b>Personal medical savings account trust monies invested</b>			
Financial assets at fair value through profit or loss:			
Money Market Funds	-	297 388 278	-
Linked Insurance Policies	-	370 592 052	-
	<b>251 891 744</b>	<b>2 668 327 504</b>	-

#### Analysis of carrying amounts of financial assets and financial liabilities per category

The Scheme invests in funds whose objectives range from achieving medium- to long-term capital growth and whose investment strategy does not include the use of leverage. The funds are managed by unrelated asset managers and apply various investment strategies to accomplish their respective investment objectives.

	Cash and cash equivalents	Loans and receivables	Financial assets	Insurance receivables and payables	Total carrying amount
	R	R	R	R	R
<b>2020</b>					
Investments					
- Financial assets at fair value through other comprehensive income	-	-	172 174 974	-	172 174 974
- Financial assets at fair value through profit or loss	-	-	2 937 974 765	-	2 937 974 765
Personal medical savings account trust investment					
- Financial assets at fair value through profit or loss	-	-	708 280 122	-	708 280 122
Cash and cash equivalents					
- Scheme	82 551 499	-	-	-	82 551 499
- Personal medical savings account trust investment	187 704 109	-	-	-	187 704 109
Trade and other receivables	-	21 976 957	-	96 028 327	118 005 284
Personal medical savings account trust liability	-	-	-	(928 285 868)	(928 285 868)
Outstanding claims provision	-	-	-	(139 574 345)	(139 574 345)
Trade and other payables	-	-	-	(143 194 981)	(143 194 981)
	<b>270 255 608</b>	<b>21 976 957</b>	<b>3 818 429 861</b>	<b>(1 115 026 866)</b>	<b>2 995 635 561</b>

	Cash and cash equivalents	Loans and receivables	Financial assets	Insurance receivables and payables	Total carrying amount
	R	R	R	R	R
<b>2019</b>					
Investments					
- Financial assets at fair value through other comprehensive income	-	-	176 578 471	-	176 578 471
- Financial assets at fair value through profit or loss	-	-	2 075 660 448	-	2 075 660 448
Personal medical savings account trust investment					
- Financial assets at fair value through profit or loss	-	-	667 980 330	-	667 980 330
Cash and cash equivalents					
- Scheme	117 911 183	-	-	-	117 911 183
- Personal medical savings account trust investment	113 501 780	-	-	-	113 501 780
Trade and other receivables	-	19 738 131	-	102 217 567	121 955 698
Personal medical savings account trust liability	-	-	-	(805 552 798)	(805 552 798)
Outstanding claims provision	-	-	-	(150 072 214)	(150 072 214)
Trade and other payables	-	-	-	(205 166 323)	(205 166 323)
	<b>231 412 963</b>	<b>19 738 131</b>	<b>2 920 219 249</b>	<b>(1 058 573 770)</b>	<b>2 112 796 573</b>

#### Analysis of carrying amounts of financial assets and financial liabilities per category

Insurance receivables and payables included amounts due from/to:

- Contribution debtors
- Brokers
- MVA recoveries
- Recoveries from members for co-payments
- Provider balances
- Member balances excluding balances arising from personal medical savings accounts
- Reported claims not yet paid

The Scheme's maximum exposure to loss from its interests in funds is equal to the total fair value of its investments in the funds. Once the Scheme has disposed of its shares in a fund, it ceases to be exposed to any risk from that fund.

#### Pooled Investment Funds

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

## 36. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

### Pooled Investment Funds (continued)

The right of the Scheme to request redemption of its investments in funds ranges in frequency from weekly to annually. The exposure to investments in funds at fair value, by strategy employed, is disclosed in the following table:

Strategy	Total pool of investee funds	Fair value of asset investment at 31/12/2020 *	Weighted average of net asset value of investee funds during 2020	% of net assets attributable to holders of units **
	R	R	R	%
<b>2020</b>				
<b>Allan Gray Linked Insurance Policy</b>				
Absolute mandate portfolios investing in various instruments	2 420 723 013	436 108 501	414 293 450	18.02%
<b>Prescient Linked Insurance Policy</b>				
Absolute mandate portfolios investing in various instruments	88 898 294 204	350 392 741	336 168 857	0.39%
<b>Investec Money Market Fund Class F</b>				
Conservative maturity profile investing in money market instruments	37 894 300 943	1 289 680 618	821 208 696	3.40%
<b>Investec High Income Fund Class A</b>				
Conservative maturity profile investing in money market instruments	19 416 726 135	630 701 523	613 830 387	3.25%
<b>Investec Stable Money Market</b>				
Stable returns over the medium term, with a focus on conservative money market instruments	1 518 054 555	5 603 715	5 459 729	0.37%
	<b>150 148 098 850</b>	<b>2 712 487 099</b>	<b>2 190 961 119</b>	
Strategy	Total pool of investee funds	Fair value of asset investment at 31/12/2019 *	Weighted average of net asset value of investee funds during 2019	% of net assets attributable to holders of units **
	R	R	R	%
<b>2019</b>				
<b>Allan Gray Linked Insurance Policy</b>				
Absolute mandate portfolios investing in various instruments	2 538 885 967	431 267 372	419 740 055	16.99%
<b>Investec Money Market Fund Class F</b>				
Conservative maturity profile investing in money market instruments	28 785 722 926	494 457 577	372 609 451	1.72%
<b>Investec High Income Fund Class A</b>				
Conservative maturity profile investing in money market instruments	13 448 597 351	596 382 016	537 556 215	4.43%
<b>Investec Stable Money Market</b>				
Stable returns over the medium term, with a focus on conservative money market instruments	1 325 394 521	5 274 201	3 734 861	0.4%
	<b>46 098 600 765</b>	<b>1 527 381 165</b>	<b>1 333 640 582</b>	

\*The fair value of financial assets is included in Financial assets in the statement of financial position.

\*\*This represents the entity's percentage interest in the total net assets of the investee funds.

The fair value of publicly traded financial instruments held as Financial assets securities is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets held by the Scheme is the current bid price.

Owing to the short-term nature thereof the carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

The personal medical savings accounts of members contain a demand feature. Regulation 10 to the Medical Schemes Act 131 of 1998, as amended, determines that any credit balance on a member's personal medical savings account must be taken in cash on termination of membership except when the member enrolls in another medical scheme with a similar feature. The carrying value of the personal medical savings accounts of members are therefore deemed to equal their fair value. The amounts were not discounted due to the demand features.

The mandate of the investment manager is for a managed South African Money Market portfolio that aims to provide moderate out-performance of the benchmark, whilst at the same time providing a high degree of capital security.

The performance of the portfolio is measured against the STEFI Composite Index with the objective of out-performing the benchmark by 0,25% per annum after deducting all fees and costs related to managing the portfolio.

The permitted assets of the portfolio are limited to:

SA "Money Market Instruments" as set out in Chapter 111 (12) of GN 2071 issued on 1 August 2003 in terms of the Collective Investment Control Act 45 of 2002 and investments in grade SA bonds, with a duration of shorter than two years.

	2020	2019
	R	R
<b>Collective Investment Schemes</b>		
Scheme	2 066 045 566	1 224 860 684
<b>Money Market Funds</b>		
Personal medical savings account trust monies invested	708 280 122	667 980 330
	<b>2 774 325 688</b>	<b>1 892 841 014</b>

### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to ensure that the Scheme has the ability to fund its day-to-day operations. The Scheme manages liquidity risk by monitoring forecast cash flows and ensuring that adequate free cash is available.

The Scheme has complied in all material respects with the requirements regarding the nature and categories of assets as prescribed by Section 35 and Regulation 30 of the Medical Schemes Act 131 of 1998, as amended.

### Maturity analysis of financial assets and liabilities

The table below summarises the Scheme's exposure to liquidity risk.

As at 31 December 2020	1 - 3 months	4 - 12 months	1 - 5 years	Total
	R	R	R	R
<b>FINANCIAL ASSETS</b>				
Financial assets investments				
Scheme	1 292 763 870	-	1 817 385 869	3 110 149 739
Personal medical savings account trust monies invested	136 549 231	177 824 802	393 906 088	708 280 122
Trade and other receivables	-	118 005 284	-	118 005 284
Cash and cash equivalents				
Scheme	82 551 499	-	-	82 551 499
Personal medical savings account trust monies invested	187 704 109	-	-	187 704 109
<b>Total financial assets</b>	<b>1 699 568 710</b>	<b>295 830 087</b>	<b>2 211 291 957</b>	<b>4 206 690 754</b>



### 36. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

#### Maturity analysis of financial assets and liabilities (continued)

The table below summarises the Scheme's exposure to liquidity risk (continued)

As at 31 December 2020	1 - 3 months	4 - 12 months	1 - 5 years	Total
	R	R	R	R
<b>FINANCIAL LIABILITIES</b>				
Personal medical savings account liability	-	928 285 868	-	928 285 868
Outstanding claims provision	139 574 345	-	-	139 574 345
Trade and other payables	143 194 981	-	-	143 194 981
<b>Total financial liabilities</b>	<b>282 769 325</b>	<b>928 285 868</b>	<b>-</b>	<b>1 211 055 193</b>
<b>Net liquidity gap</b>	<b>1 416 799 385</b>	<b>(632 455 782)</b>	<b>2 211 291 957</b>	<b>2 995 635 561</b>

As at 31 December 2019	1 - 3 months	4 - 12 months	1 - 5 years	Total
	R	R	R	R
<b>FINANCIAL ASSETS</b>				
Financial assets investments				
Scheme	496 190 019	306 250	1 755 742 650	2 252 238 919
Personal medical savings account trust monies invested	27 820 382	269 567 897	370 592 052	667 980 330
Trade and other receivables	-	121 955 698	-	121 955 698
Cash and cash equivalents				
Scheme	117 911 183	-	-	117 911 183
Personal medical savings account trust monies invested	113 501 780	-	-	113 501 780
<b>Total financial assets</b>	<b>755 423 363</b>	<b>391 829 844</b>	<b>2 126 334 702</b>	<b>3 273 587 909</b>
<b>FINANCIAL LIABILITIES</b>				
Personal medical savings account liability	-	805 552 798	-	805 552 798
Outstanding claims provision	150 072 214	-	-	150 072 214
Trade and other payables	205 166 323	-	-	205 166 323
<b>Total financial liabilities</b>	<b>355 238 538</b>	<b>805 552 798</b>	<b>-</b>	<b>1 160 791 336</b>
<b>Net liquidity gap</b>	<b>400 184 825</b>	<b>(413 722 954)</b>	<b>2 126 334 702</b>	<b>2 112 796 573</b>

	2020	2019
	R	R
<b>Cash and cash equivalents</b>		
Cash and cash equivalents consist of the following:		
Current accounts	206 021 378	134 141 550
Scheme	18 317 269	20 639 771
Personal medical savings account trust monies invested	187 704 109	113 501 780
Deposits on call account	64 234 230	97 271 413
Scheme	64 234 230	97 271 413
<b>Total</b>	<b>270 255 608</b>	<b>231 412 963</b>

#### Legal risk

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

#### Capital adequacy risk

The Scheme's objectives for managing capital are to maintain the capital requirements as prescribed by the Medical Schemes Act 131 of 1998, as amended, and to safeguard the ability of the Scheme to continue as a going concern for the benefit of its stakeholders.

Regulation 29(2) of the Medical Schemes Act 131 of 1998, as amended, requires a minimum solvency ratio of accumulated funds expressed as a percentage of gross contributions of 25%.

The solvency ratio was 47.29% of gross contributions at 31 December 2020 and 35.43% at 31 December 2019.

The calculation of the regulatory capital requirement is set out below.

	2020	2019
	R	R
Total members' funds per statement of financial position	3 005 608 874	2 122 148 397
Less: Unrealised investment gains	(96 772 699)	(107 596 252)
Accumulated funds as per Regulation 29	<u>2 908 836 176</u>	<u>2 014 552 145</u>
<b>Gross annual contribution income</b>	<b>6 150 430 656</b>	<b>5 686 678 044</b>
<b>Accumulated funds ratio ( Accumulated funds/gross annual contributions x 100)</b>	<b>47.29%</b>	<b>35.43%</b>



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