



ANNUAL FINANCIAL REPORT

2021

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REPORT OF THE BOARD OF TRUSTEES

The Board of Trustees has pleasure in presenting its report for the year ended 31 December 2021

1 Description of Fedhealth Medical Scheme

1.1 Terms of registration

Fedhealth Medical Scheme (the Scheme/Fedhealth) is a not-for-profit open medical scheme registered in terms of the Medical Schemes Act no. 131 of 1998, as amended (the Act). It is registered (Registration number: 1202) with and regulated by the Council for Medical Schemes (the Council).

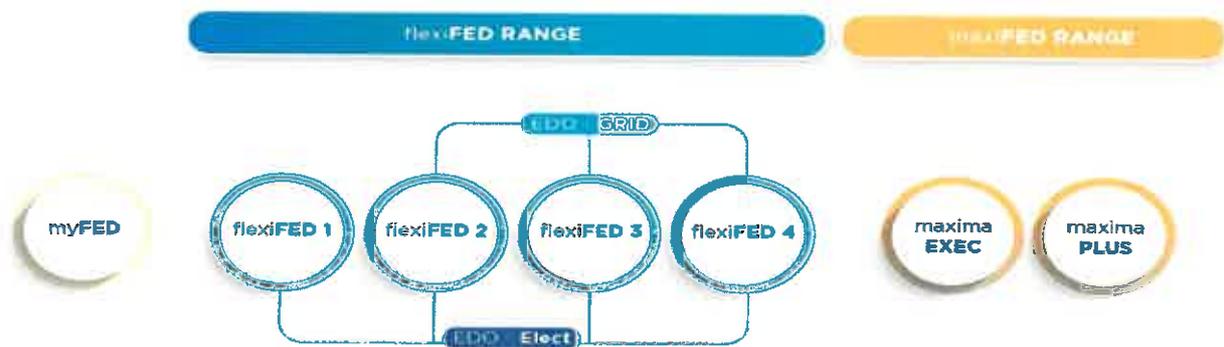
The Scheme exists for the benefit of its members. The Board of Trustees of the Scheme (the Board) oversees and governs the business of the Scheme on behalf of its members.

1.2 Benefit options within Fedhealth Medical Scheme

The Scheme provides three product ranges which includes a low cost option, MyFed. The product ranges cater for market segments at different life stages from comprehensive options, MaxiFed (Maxima Plus, Maxima Exec and Maxima Exec GRID (discontinued in 2021) for conservative and sicker members to affordable options, such as FlexiFed, for young and healthy members. The more comprehensive options have higher benefit limits, lower co-payments and better day-to-day benefits.

At every life stage a member can select an option that meets their needs with regard to affordability and the freedom of provider choice. The more limited the choice the higher the contribution discount compared to unrestricted options. In addition to the risk benefits covered in the options above, FlexiFed options give members access to an interest-free loan facility for funding of day-to-day healthcare expenses. The ELECT and GRID options are efficiency discount options (EDO), which contain the same level of benefits as the main options at a discounted contribution rate. For these options, medical services should be obtained from the Scheme Networks. Note 16 to the financial statements provides further detail.

2021 PRODUCT RANGE



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REPORT OF THE BOARD OF TRUSTEES (continued)

1 Description of Fedhealth Medical Scheme (continued)

1.3 Personal medical savings accounts (PMSA)

The Scheme offers members a savings account on the **MaxiFed and FlexiFed** options as set out above. The **FlexiFed** options' savings are significantly lower to give members access to an interest-free loan facility. These accounts assist members in managing cash flows for the payment of healthcare services for which they are responsible. PMSA monies are managed on behalf of the members in terms of the Scheme's rules.

The full annual amount is available immediately, although the members only contribute towards this monthly in arrears. In the event that a member's PMSA is exhausted before the member has paid all of the monthly contributions, the Scheme will recognise a receivable for the advance.

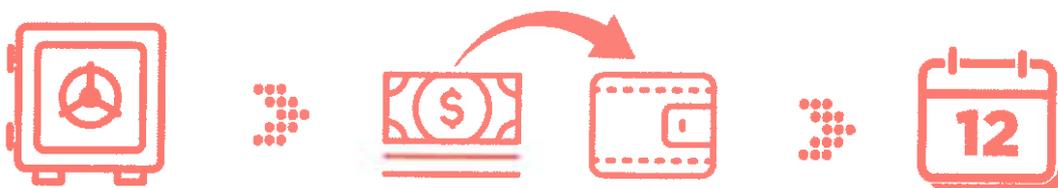
The savings may only be used for healthcare services and are only refundable as provided in Regulation 10 of the Act. These savings accounts may not be utilised to provide for benefits and fund co-payments relating to Prescribed Minimum Benefits (PMBs).

Active members earn 4% interest (2020: 4%) on their accumulated savings. In terms of the rules of the Scheme, the PMSA liability is underwritten by the Scheme.

PMSA balances are refundable when a member leaves the Scheme or transfers to a medical scheme option which does not have a PMSA. All refunds and transfers are paid in terms of the Scheme's rules.

1.4 Loans to Members – MediVault transferred to Wallet

The **FlexiFed** options give members access to an interest-free loan facility called the **MediVault** Benefit. The amount allocated can be used to pay for day-to-day medical expenses. This amount is based on the member's selected option and family composition. These funds are not pro-rated based on the member's join date and can be accessed at any time during the year. To access these funds, the member is required to accept the terms and conditions before transferring an amount to their **Wallet**. The transfer can be in full upfront, or in part as needed. The member only has to pay back the money transferred from the **MediVault** to the **Wallet**. The member has an interest free cover over a period of twelve months for the funds transferred to their **Wallet**. Day-to-day benefit claims are first funded from available savings and thereafter, if activated, the member's **Wallet** account.



An allocated amount based on your option and family composition will be available in your MediVault. If you don't use it, you don't pay for it

Transfer funds from the MediVault to your Wallet as and when required. Claims for day-to-day expenses will be paid from your Wallet.

Only pay back amounts transferred from the MediVault to Wallet over a rolling 12-month or shorter period.

1.5 Risk transfer arrangement

The Iso Leso Optics Ltd (Iso Leso) contract is disclosed in these financial statements as the only risk transfer arrangement.

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REPORT OF THE BOARD OF TRUSTEES (continued)

1 Description of Fedhealth Medical Scheme (continued)

1.5 Risk transfer arrangement (continued)

Iso Leso Optics Ltd

Iso Leso's primary objective is to manage eye care for MyFed members and their dependants. The benefits are designed to meet the basic clinical needs of MyFed members.

Iso Leso also advises the Scheme on future optical benefits, clinical issues, trends and more particularly, ensures functional vision is achieved within the framework of the optical benefits available to MyFed members.

Iso Leso receives a capitation fee in respect of all MyFed members for visits to optometrists for their comprehensive eye examination, single vision and bifocal spectacles.

1.6 Insurance risk management

The primary insurance activity carried out by the Scheme is to assume the risk of loss from members and their dependants that are directly subject to the risk. This risk relates to the health of the Scheme's members. As such the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under each member's medical insurance contract.

The Scheme manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation and case management, service provider profiling and monitoring of emerging issues.

The Scheme uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analysis, scenario analysis and stress testing. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected.

Insurance events are, by their nature, random and the actual number and size of the events during any one year may vary from those estimated with established statistical techniques. There are no changes to the assumptions used to measure insurance assets and liabilities that have a material effect on the financial statements and there are no terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the Scheme's cash flows.



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REPORT OF THE BOARD OF TRUSTEES *(continued)*
1 Description of Fedhealth Medical Scheme *(continued)*
1.7 Covid-19
New Covid-19 developments

At the time of reporting, the fourth Covid-19 wave in South Africa was coming to an end. The fourth wave was driven by the Omicron variant which was highly transmissible but less severe compared to prior waves. Although the fourth wave is dissipating there are new considerations with respect to Covid -19 after 31 December 2021.

There is a strong likelihood that Covid -19 will become an endemic disease. Some epidemiologists are predicting that there will be a fifth wave which is likely to occur soon, probably during winter (May, June or July). The strength and impact of the fifth wave will be influenced by, among other things:

- Vaccinations
- New variants
- Number of people who have had Covid-19
- Government lockdown measures

Scientists are working on various ways to administer Covid-19 vaccines, including tablets or capsules for individuals who suffer from fear of needles. The advantages of this approach is that it eases distribution and storage, eliminates the need for a medical practitioner to administer the vaccine, is likely to be cheaper, and is expected to increase vaccine take-up. A Covid-19 vaccine pill trial has been approved in South Africa. If successful, it would have a positive impact on managing the Covid-19 pandemic.

There has also been increased availability of new Covid-19 pills, which is a new way to fight Covid -19 from a therapeutic point of view. These antiviral tablets are taken orally and have been shown to significantly reduce the risk of severe infection, hospital admission or death from Covid -19 when treatment is initiated within 5 days of the first symptoms of Covid-19. On 17 February 2022, the South African Health Products Regulatory Authority (SAHPRA) approved a COVID-19 pill called Lagevrio for emergency use in South Africa. The eventual cost of these pills is currently highly uncertain. The branded medication is currently very expensive, up to R10 000 per person. There are efforts to manufacture generic versions of these drugs, which would be much more affordable. It is uncertain as to whether these new treatments will be added to the PMBs by the Council. The industry standard for medical schemes to fund these treatments regardless of regulatory intervention.

An unknown in terms of future costs is the impact of Long- Covid and whether or not support for those who suffer from Long-Covid will receive any sort of PMB entitlement. Globally evidence and studies are underway, but symptoms and support therapy vary widely with no consensus on funding guidance to date.

The Scheme strategy in dealing with the Covid -19 pandemic will be guided by lessons learnt from the first four waves. South Africa (and the Scheme) are better prepared for any new waves. The Scheme is on alert for any further emerging risks of this pandemic and will constantly review and align its internal processes and procedures to ensure that our members are educated and supported to receive the care they need. The Scheme is in close communication with all role-players so that they know how to deal with the various scenarios, in line with the Department of Health guidelines.

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REPORT OF THE BOARD OF TRUSTEES (continued)

1 Description of Fedhealth Medical Scheme (continued)**1.7 Covid-19 (continued)****New Covid-19 developments (continued)**

The administrator has a task team that is tracking events as they happen, and updating operations. Fedhealth can confirm that a positive diagnosis of Covid-19 is a notifiable condition, and that the Scheme will cover costs for supportive diagnosis, treatment and hospitalisation as PMBs, subject to scheme rules (formularies etc.) per option. The Scheme will continue educating and encouraging its membership to take the Covid-19 vaccinations, and funding the cost of vaccinating all of its members from risk, as per PMB regulations.

Geo-political risks and impact on economic recovery

On 24 February 2022 the geo-political crisis in Eastern Europe escalated when Russia launched a full-scale invasion of Ukraine. This led to a crash in global asset values and increased volatility of many securities such as equities across the globe, including those listed on the Johannesburg Stock Exchange (JSE). This has a negative impact on medical schemes' assets and investments, at least in the short to medium-term.

South Africa is a net importer of oil and gas. The geo-political crisis has seen the price of oil and gas sky-rocket. This may have a significant impact on CPI, the inflation rate in the country. High inflation not only increases the uncertainty of economic recovery locally and globally, but also impacts the cost of goods and services, including healthcare related costs, which has a direct impact on membership and affordability of medical schemes.

The Fedhealth Investment Committee is alert to the potential economic impact of the geo-political crisis and advises the Board on how best to protect and manage the Scheme's assets and investments.

Budget speech and NHI

The Minister of Finance, Mr Enoch Godongwana, delivered his inaugural National Budget Speech on 23 February 2022. The 2022 Budget Review was largely silent on National Health Insurance (NHI), the government's plan for universal health coverage. NHI has been on the government's agenda for more than a decade, but parliament has yet to pass legislation to bring it into effect. Nevertheless, Treasury has set aside R8.8bn over the medium term for the NHI, of which R6.5bn goes to the NHI indirect grant managed by the national health department.

Covid relief granted via PMSA utilisation	
Total members utilising PMSA for Covid-19 relief (n)	6
Total Rand amount of PMSA Covid-19 relief utilised (R'000)	R 27
Total of the PMSA liability of the Scheme (before relief granted) (R'000)	R135 194
Covid relief granted via contribution deferrals	
Total members granted contribution deferrals (n)	1 071
Total Rand amount of contribution deferrals granted (R'000)	R 3 843
Total Rand amount of deferrals recovered / paid back (R'000)	R 1 057
Total remaining Rand balance of contribution deferrals (R'000)	R 54
Covid relief granted via rule amendments option downgrades	
Total members impacted by relief via rule amendments (n)	4 633
Total Rand amount of relief via rule amendments (R'000)	R5 501

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REPORT OF THE BOARD OF TRUSTEES (continued)

2 Management**2.1 Board of Trustees**

Board of Trustees in office during the year under review and at the date of this report are as follows:

M Govender	Chairperson (Trustee)	Re-elected: 24 June 2021
J Cloete	Vice Chairperson (Trustee)	
G Eloff	Trustee	
K Elliott	Trustee	
A Fourie	Trustee	Term ended: 30 June 2021
A Gahagan-Thomson	Trustee	Elected: 24 June 2021
Dr A Goneos-Malka	Trustee	Elected: 24 June 2021
P Hemus	Trustee	Retired: 24 June 2021
Dr M Mojapelo-Mokotedi	Trustee	
C Norton	Trustee	Re-elected: 24 June 2021
N Parker	Trustee	
J Viljoen	Trustee	Term ended: 30 June 2021

2.2 Principal Officer

J Yatt

2.3 Registered office address and postal address of the Scheme

C/o Medscheme Holdings (Pty) Ltd
Medscheme Office Park
37 Conrad Street
Florida North
Roodepoort
1709

Private Bag X3045
Randburg
2125

www.fedhealth.co.za

2.4 Employees

Principal Officer: J Yatt
Scheme Operational Executive: T Endersby
Commercial Executive: M Morton

Resigned: 31 August 2021

C/o Medscheme Holdings (Pty) Ltd
Medscheme Office Park
37 Conrad Street
Florida North
Roodepoort
1709

Private Bag X3045
Randburg
2125

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REPORT OF THE BOARD OF TRUSTEES *(continued)*

2 Management *(continued)*

2.5 Scheme administrator during the year

Medscheme Holdings (Pty) Ltd (Medscheme)
Medscheme Office Park
37 Conrad Street
Florida North
Roodepoort
1709

Private Bag X3045
Randburg
2125

Administrator accreditation number: 21

2.6 Scheme managed healthcare administrators during the year

Medscheme Holdings (Pty) Ltd
Medscheme Office Park
37 Conrad Street
Florida North
Roodepoort
1709

P O Box 1101
Florida Glen
1708

Managed healthcare accreditation number: 53

Aid for Aids Management (Pty) Ltd
Medscheme Office Park
37 Conrad Street
Florida North
Roodepoort
1709

P O Box 1101
Florida Glen
1708

Managed healthcare accreditation number: 94

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REPORT OF THE BOARD OF TRUSTEES *(continued)***2** Management *(continued)***2.7** Investment managers during the year

<p>Old Mutual Wealth Trust Company (Pty) Ltd 2nd Floor, 1 Mutual Place 107 Rivonia Road Sandton 2196</p>	<p>P O Box 2444 Saxonwold 2132</p>
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Financial service provider number (FSP): 18427

<p>Taquanta Asset Management (Pty) Ltd 7th Floor, Newlands Terraces Boundary Road, Newlands Cape Town 7700</p>	<p>P O Box 23540 Claremont 7708</p>
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FSP: 618

<p>Sanlam Investment Management (Pty) Ltd (SIM) and Sanlam Multi-Manager (Pty) Ltd (SMMI) (Invested: 20 December 2021) 55 Willie van Schoor Avenue Bellville 7536</p>	<p>Private Bag X8 Tyger Valley 7530</p>
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SIM FSP: 579, SMMI FSP: 845

<p>Sanlam Private Wealth (Pty) Ltd 55 Willie van Schoor Avenue Bellville 7536</p>	<p>Private Bag X8 Tyger Valley 7530</p>
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FSP: 37473 (Disinvested: 18 November 2021)

<p>Truffle Asset Management (Pty) Ltd Ground Floor, Lancaster Building Hyde Park Lane Business Complex Corner William Nicol Drive and Jan Smuts Avenue Hyde Park 2196</p>	<p>P O Box 535 Pinegowrie 2123</p>
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FSP: 36584

<p>Prudential Investment Managers (SA) (Pty) Ltd 7th Floor, Protea Place 40 Dreyer Street Claremont 7708</p>	<p>P O Box 23167 Claremont 7735</p>
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FSP: 45199 (Disinvested: 14 September 2021)

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REPORT OF THE BOARD OF TRUSTEES *(continued)*

2 Management *(continued)*

2.7 Investment managers during the year *(continued)*

Fairtree Asset Management (Pty) Ltd
Willowbridge Place
Cnr Carl Cronje Dr and Old Oak Road
Bellville
7530

Willowbridge Place
Cnr Carl Cronje Dr and Old Oak Road
Bellville
7530

FSP: 25917 (Invested: 18 November 2021)

2.8 Asset consultant during the year

Simeka Consultants & Actuaries (Pty) Ltd
Simeka House
The Vineyards Office Estate
99 Jip de Jager Street
Bellville
7532

P O Box 350
Sanlamhof
7530

FSP: 13900

2.9 Actuarial services

Medscheme Holdings (Pty) Ltd
The Boulevard, Buildings F & G
Searle Street
Woodstock
7925

P O Box 38632
Pinelands
7430

Accreditation number: 53

REPORT OF THE BOARD OF TRUSTEES *(continued)***3 External Auditor**

KPMG Inc.
85 Empire Road
Parktown
Johannesburg
2193

Private Bag 9
Parkview
2122

4 Internal Auditor

AfroCentric Health Ltd
Medscheme Office Park
37 Conrad Street
Florida North
Roodepoort
2193

Private Bag X3045
Randburg
2125

5 Scheme Committees

The Scheme's governance structure comprises seven committees. Each Committee of the Board has terms of reference which set out the structures and functions of that Committee. The terms of reference are reviewed by each committee and approved by the Board annually.

5.1 Investment Committee

The membership, authority and duties of the Investment Committee are governed by terms of reference set by the Board. The Scheme's investment strategy takes into consideration both constraints imposed by legislation and those set by the Board.

The Investment Committee comprises:

Chairperson: G Eloff

Trustee: J Cloete

Trustee: A Gahagan-Thomson (Elected: 24 June 2021)

Trustee: P Hemus (Retired: 24 June 2021)

Advisor: W le Roux (From Simeka Consultants and Actuaries (Pty) Ltd)

The mandate of the Investment Committee is to:

- review the investment strategy and policy documents annually and recommend changes to the Board as necessary;
- review the effectiveness and the achievement of the objectives of the investment policy/strategy;
- oversee the criteria and process for the selection of external investment managers;
- recommend the contractual arrangements for the investment managers and investment consultants;
- monitor investment and fund manager performance;
- review performance of the investment portfolio against targeted benchmarks and, if performance results are unacceptable, consider what changes that may be required;
- recommend all investment transactions;
- ensure compliance with applicable legislation; and
- report regularly to the Board on committee activities, issues and related recommendations.

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REPORT OF THE BOARD OF TRUSTEES *(continued)*
5 Scheme Committees *(continued)*
5.1 Investment Committee *(continued)*

The Board is confident that the Scheme's investment strategy is well set up to benefit from long-term growth and absorb short-term shocks. This is also evidenced by past performance through highs and lows.

The Scheme achieved a return of 15.9% (2020: 6.7%) over the year of 2021 for the invested funds (including assets invested in both the Solvency- and Surplus Investment strategies), against the inflation rate of 5.9% (2020: 3.2%) and the Scheme's internal benchmark (CPI +3.5%) of 9.4% (2020: 6.7%). The Scheme's assets are split into two investment strategies.

The Solvency assets, represent the main investment strategy (invested between Sanlam Investment Management (Pty) Ltd (SIM), Taquanta Asset Management (Pty) Ltd (Taquanta) and Truffle Asset Management (Pty) Ltd (Truffle).

In comparison, the Surplus assets originate from the previous transfer of assets from the Topmed Medical Scheme (Topmed). The investment strategy during 2021 corresponded to the old strategy within Topmed for most of the year. However, the portfolio managers were replaced in the fourth quarter of the year. As a result, 2021 performance of this strategy was driven by the legacy portfolios Prudential Investment Managers (SA) (Pty) Ltd (Prudential) and Sanlam Private Wealth (Pty) Ltd (SPW). The new managers (which will drive future performance of this strategy) are Sanlam Multi-Manager International (Pty) Ltd (SMMI) and Fairtree Asset Management (Pty) Ltd (Fairtree).

The return on the Solvency assets of 14.8% (2020: 9.2%) was lower than that of the Surplus assets of 20.7% (2020: 3.1%). The returns achieved by the Scheme's Solvency investment strategy were exceptional compared to other medical schemes absolute return portfolios, which represent the peer group. The Truffle portfolio did particularly well, driven by equity returns and asset selection. The Scheme's Solvency assets therefore met the internal target of CPI +3.5% comfortably during 2021. The return over the last 3 years (2019 - 2021) was 12.3% (2020: 7.7%, 2019: 8.9%) against a benchmark of 8.0% (2020: 7.5%, 2019: 8.1%).

The Surplus assets performed better than the Solvency assets, due to the former taking higher investment in equities which was rewarded substantially. Due to prior underperformance relative to peers, the Board reviewed the asset managers employed in this strategy, over the 2021 year, which resulted in replacing SPW with Fairtree and replacing Prudential with SMMI. The Board and Investment Committee have a high conviction in these new managers' ability to deliver strong returns going forward.

The Scheme had an effective equity asset exposure (excluding property) of 39.0% at 31 December 2021 (2020: 34.1%). The weighted average interest earned on cash and cash equivalents was 3.7% (2020: 4.6%).

Section 35(8)(a), (c) and (d) of the Act sets out the prohibition of investments in an employer who participates in the medical scheme or in any medical scheme administrator. The Scheme has been provisionally granted an exemption for a period of three years, effective 1 December 2019 until 30 November 2022, subject to renewal. The exemption is granted subject to the following conditions:

- the Scheme continues to take steps to avoid conflicts of interest;
- the investments, which constitute the subject matter of this exemption application continue to be managed by an independent investment manager with no influence from the Scheme or its officers. The Scheme will be required on an annual basis to submit declarations from investment managers stating that no conflict of interest exists between themselves and the prohibited investment entities; and
- the Scheme conducts a comprehensive quarterly analysis on total assets to ensure that the investments do not exceed the limitations set out in Annexure B.

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REPORT OF THE BOARD OF TRUSTEES *(continued)*5 Scheme Committees *(continued)*5.1 Investment Committee *(continued)*

There is a formal process that is being managed by Old Mutual Wealth and the Scheme to ensure that the above conditions are met.

In 2021, the FTSE/JSE All Share Index produced 29.2% (2020: 7.0%) and other indices also performed positively, with listed property providing 36.9% from a low base in 2020. It was a volatile environment with a strong end to the year for investment in equities. Truffle is an aggressive balanced portfolio and is expected to have 50% or more of its assets invested in shares over time. Over this particular calendar year, Truffle posted a dominant return of 23.0% (2020: 11.1%). Truffle has delivered exceptional returns over the last number of years and this has added substantial value to the Scheme.

South African bonds offered high yields over the year, albeit also with some volatility. Short-term money market interest rates were very low, however. Taquanta, not allowed to invest in equities within its mandate, underperformed to the other equity-rich strategies, but delivered a credible outcome. The return on the Taquanta portfolio was 8.3% (2020: 8.2%), which was 2% higher than inflation for the year.

The SIM portfolio is a low risk absolute return portfolio, with the aim not to erode capital over any 12 months. Its risk level falls between that of the Truffle and Taquanta portfolios. 2021 was a strong equity-driven year, where SIM did well to participate in the positive market returns, notwithstanding its conservative approach. It delivered 12.8% (2020: 7.0%) for the year, which represents a return below that of peers, but in line with its strategy.

The SPW portfolio (fully invested in equities) benefited from high equity returns. However, the portfolio's role in the Scheme's surplus strategy had been reviewed and as a result, it was replaced by Fairtree in November 2021. The return on the SPW portfolio for the year up to the termination in November was a healthy 23.6% (2020: 2.2%), driven by strong market returns. The return on Fairtree was 2.0% for just under 2 months (part of November and the full December 2021).

Prudential's absolute return portfolio was also reviewed over the year. The decision was made to replace Prudential with the SMMI portfolio. The assets were disinvested from Prudential in August 2021, but were used to cover short-term liquidity needs of the Scheme. SMMI's mandate was incepted in December 2021, which implies a period too short to report performance. The return on Prudential's portfolio for the year to termination in August 2021 was 14.7% (2020: 0.6%), which represents an outperformance of peers and healthy return over that period.

The Board monitors the Committee's performance against the related terms of reference. No deficiencies were noted relating to the 2021 financial year.

REPORT OF THE BOARD OF TRUSTEES *(continued)***5 Scheme Committees** *(continued)***5.2 Risk and Legal Committee**

The membership, authority and duties of the Risk and Legal Committee are governed by terms of reference set by the Board.

The Risk and Legal Committee comprises:

Chairperson: G Eloff

Trustee: N Parker

Trustee: K Elliott

Trustee: J Viljoen (Term Ended: 30 June 2021)

Trustee: A Goneos-Malka (Elected: 24 June 2021)

The mandate of the Risk Committee is to:

- consider the level of governance in the various aspects of the functioning and activities of the Board;
- review policy, draft policy proposals and monitor good governance in respect of procedures by the Board and the Scheme in general and make recommendations to the Board;
- develop and maintain a risk control framework in line with best practice to ensure that risk management efforts are integrated and optimised throughout the Scheme;
- ensure that risk policies and strategies are aligned to key Scheme objectives and effectively managed;
- develop reporting guidelines which focus on stakeholder expectations and provide assurances on the adequacy and effectiveness of the risk management function within the Scheme;
- ensure that risk awareness activities are put into practice at Scheme operational levels;
- ensure that risk identification, measurement and control methodologies result in effective mitigation of risks facing the Scheme;
- entrench a risk control framework into everyday operations which focuses on automated systems and human capital;
- develop guidelines within the risk and control framework for the identification and exploitation of opportunities;
- ensure that the risk and control framework is inclusive of operational legal implications;
- manage contractual risks, statutory legal process and litigation to the benefit of the Scheme; and
- regularly review the relevant literature from appropriate sources applicable to compliance, legal and governance.

The Board considers legislation in the establishment of governance and risk structures and processes, with appropriate checks and balances that enable the Board to discharge its legal responsibilities based on the principles of effective leadership, sustainability, innovation, fairness, fair treatment of members, collaboration and social transformation.

The Board has subscribed to the Governance and Compliance Instrument (GCI Tool), which facilitated by The Global Platform for Intellectual Property and is in line with King IV (developed by the Institute of Directors of Southern Africa).

REPORT OF THE BOARD OF TRUSTEES *(continued)***5 Scheme Committees** *(continued)***5.2 Risk and Legal Committee** *(continued)*

The GCI tool is a web based assurance framework that allows medical schemes to assess their level of compliance in respect of the requirements of the King Reports and general governance. Having already completed the Council Compliance Questionnaire and self-assessment against the 16 principles of King IV during 2018, the Board is satisfied that the governance of the Scheme is aligned with the principles of King IV and that it is overseeing the application of the relevant practices.

The Board monitors the Committee's performance against the related terms of reference. No deficiencies were noted relating to the 2021 financial year.

5.3 Remuneration Committee

The membership, authority and duties of the Remuneration Committee are governed by terms of reference set by the Board.

The Remuneration Committee comprises:

Chairperson: N Parker

Trustee: P Hemus (Retired: 24 June 2021)

Trustee: J Cloete

Trustee: C Norton (Resigned: 30 June 2021)

Trustee: M Govender

Trustee: J Viljoen (Term ended: 24 June 2021)

The mandate of the Remuneration Committee is to:

- review the on-going appropriateness and relevance of the remuneration policies and procedures;
- oversee the implementation of the remuneration policy within the Scheme;
- recommend the overall policy for remuneration packages of the Board and its committees;
- recommend the overall policy for remuneration packages for all senior staff members directly employed by the Scheme, in a form and amount which will attract, retain, motivate and reward high calibre individuals;
- determine and review the remuneration packages of the Board and senior staff members directly employed by the Scheme;
- review policies for the retention and recruitment of senior staff directly employed by the Scheme, on professional and equivalent grades;
- disclose any payments or considerations made to Trustees in the particular year at the Annual General Meeting;
- review the performance of the Trustees and senior staff members directly employed by the Scheme, annually, to ensure that performance is linked to the priorities of the Scheme for the forthcoming year;
- assist the Board in developing and implementing a systematic, open and proactive performance evaluation programme for the Board and senior staff;
- recommend the annual remuneration for Trustees and the Chairperson of the Board;
- advise on the terms and conditions of contracts or renewal thereof of senior staff directly employed by the Scheme; and
- evaluate the balance of skills, knowledge and experience of the Board and prepare a description of the roles and capabilities required by the Board.

The Board assumes significant responsibilities and fiduciary risks throughout the year and has independent professions to consider. It commits a sizeable amount of time to serve the needs of the Scheme and its members. It is therefore important that the Scheme remunerates its Trustees and Committee members adequately to ensure that persons with appropriate skills and knowledge are attracted and retained by the Scheme. Remuneration and considerations paid to Board members and independent audit committee members are disclosed in [Note 11.1](#) to the financial statements.

The Board monitors the Committee's performance against the related terms of reference. No deficiencies were noted relating to the 2021 financial year.

REPORT OF THE BOARD OF TRUSTEES *(continued)***5** Scheme Committees *(continued)***5.4 Finance Committee**

The membership, authority and duties of the Finance Committee are governed by terms of reference set by the Board.

The Finance Committee comprises:

Chairperson: K Elliott

Trustee: J Cloete

Trustee: C Norton

Trustee: N Parker

Trustee: M Govender

Trustee: A Goneos-Malka (Elected: 24 June 2021)

Trustee: A Gahagan-Thomson (Elected: 24 June 2021)

The Finance Committee is mandated to take steps on behalf of the Board as necessary in fulfilling its oversight responsibilities. The Committee is further mandated to receive and review the management accounts as prepared by the administrator of the Scheme and to ensure that all financial processes are carried out properly. The Committee may consider any other issues relevant to its mandate that it deems necessary.

The mandate of the Finance Committee is to:

- analyse the monthly management accounts and report thereon to the Board;
- report regularly to the Board on the activities of the Committee and identify and make recommendations to the Board on relevant financial issues;
- prepare and monitor financial policies;
- review and assess financial performance;
- make recommendations to the Board on financial matters;
- ensure compliance with all relevant legislation; and
- perform any additional duties that may from time to time be delegated to the Committee by the Board.

The Board monitors the Committee's performance against the related terms of reference. No deficiencies were noted relating to the 2021 financial year.

5.5 Audit Committee

The membership, authority and duties of the Audit Committee are governed by terms of reference set by the Board.

The Audit Committee comprises:

Independent Chairperson: P Brink

Independent member: H Kajie

Independent member: B Phillips

Trustee: G Eloff

Trustee: K Elliott

Independent member: K Aron (Appointment: 29 July 2021)

The Committee consists of at least five members of whom the majority, including the Chairperson, are independent of the Scheme. Two Trustees are appointed as members of the Committee.

The Principal Officer of the Scheme, the financial manager of the administrator, the external auditor and internal auditor are invited to all Audit Committee meetings and have unrestricted access to the Chairperson of the Committee. All other Trustees may attend the meetings in an observer capacity.

The Audit Committee carries out the following functions in accordance with its terms of reference:

- assists the Board in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied by the Scheme or its administrator in the day to day management of its business;
- facilitates and promotes communication and liaison regarding the matters referred to above or related matters between the Board, Principal Officer, administrator, external auditor and internal auditor of the Scheme;

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REPORT OF THE BOARD OF TRUSTEES *(continued)***5** Scheme Committees *(continued)***5.5** Audit Committee *(continued)*

The Audit Committee carries out the following functions in accordance with its terms of reference: *(continued)*

- satisfies itself with the independence of the administrator's internal audit department, reviews the internal audit function, the internal audit plan and audit findings;
- satisfies itself with the independence of the external auditor and reviews its audit plan, audit management letter, audit report and audit fees;
- reviews the annual performance of the external auditor and makes recommendation to the Board for its further consideration and recommendation as to the auditors appointment to the members at the Annual General Meeting;
- satisfies itself with the financial statements in terms of the accounting policies and drafted on the going concern basis and recommends their acceptance to the Board;
- oversees the Scheme's governance processes and risk management and satisfies itself that the Scheme implements an effective policy and plan for risk management;
- satisfies itself that the financial function of the Scheme and the administrator are appropriate, adequately resourced and effective;
- advises the Board on matters referred to the Committee by them; and
- makes recommendations to the Board that arise from carrying out the above functions.

The Board monitors the Committee's performance against the related terms of reference. No deficiencies were noted relating to the 2021 financial year.

5.6 Marketing Committee

The membership, authority and duties of the Marketing Committee are governed by terms of reference set by the Board.

The Marketing Committee comprises:

Chairperson: J Cloete

Trustee: M Govender

Trustee: C Norton

Trustee: Dr M Mojapelo-Mokotedi

Trustee: A Fourie (Term ended: 30 July 2021)

Trustee: A Goneos-Malka (Elected: 24 June 2021)

Trustee: A Gahagan-Thomson (Elected: 24 June 2021)

In terms of the mandate set out below, the Committee will make recommendations to the Board on key issues impacting the direction of the Scheme from a commercial, sales channel, public relations and marketing perspective.

The mandate of the Marketing Committee is to:

- review the marketing strategy in line with the overall strategy of the Scheme;
- ensure that the marketing strategy is designed to meet the evolving needs of the Scheme and the macro environment it operates in;
- review performance of the various sales channels to market and the consideration of strategic issues that will ensure optimisation of these sales channels;
- consider strategic new sales channels that will contribute to membership growth;
- review annually the marketing budget in line with the identified strategic marketing imperatives and activities as required;
- review biannually the budget expenditure and activities;

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REPORT OF THE BOARD OF TRUSTEES *(continued)*5 Scheme Committees *(continued)*5.6 Marketing Committee *(continued)*

The Marketing Committee carries out the following functions in accordance with its terms of reference: *(continued)*

- review the implementation of the marketing strategy including creative execution and media placement in order to ensure alignment to the strategy;
- review strategic market opportunities identified by the technical/marketing consultants in relation to core product, complimentary products and services;
- review the Public Relations strategy of the Scheme annually in the light of the marketing strategy;
- oversee any agreement that pertains to marketing; and
- review the performance of the Marketing and Media agency to contract regularly.

The Board monitors the Committee's performance against the related terms of reference. No deficiencies were noted relating to the 2021 financial year.



REPORT OF THE BOARD OF TRUSTEES (continued)

5 Scheme Committees (continued)

5.7 Managed Healthcare Committee

The Managed Healthcare Committee comprises:

Chairman: Dr M Mojapelo-Mokotedi

Trustee: C Norton

Trustee: N Parker

Trustee: K Elliott

Trustee: A Fourie (Term ended: 30 June 2021)

Trustee: J Viljoen (Term ended: 30 June 2021)

In terms of the mandate set out below, the committee will make recommendations to the Board on the development and implementation of a Clinical Governance Strategy for the Scheme.

The mandate of the Managed Healthcare Committee is to:

- develop, implement, assess and evaluate the execution of the Clinical Governance Strategy and principles of the Scheme;
- review and amend clinical and funding guidelines for the Scheme;
- participate in the option design to ensure that the clinical guidelines are comprehended;
- identify best practices in attending to and resolving disputes;
- participate in option design and provide input into the preparation of member literature to ensure that the rules of the Scheme are clear and unambiguous;
- monitor the quality of healthcare delivered to members of the Scheme;
- monitor the changing healthcare environment and proactively advise the Board on strategic implications for the Scheme; and
- Identify and manage any areas of clinical risk.

The Board monitors the Committee's performance against the related terms of reference. No deficiencies were noted relating to the 2021 financial year.

5 Scheme Committees (continued)

5.8 Board and committee meeting attendance

The following schedule sets out attendance at Board and committee meetings. Related remuneration is disclosed in [Note 11.1](#) to the financial statements.

Board and Committee Members	Committee Meetings																	
	Board Meetings		Finance Committee		Audit Committee		Investment Committee		Marketing Committee		Managed Healthcare Committee		Remuneration Committee		Risk and Legal Committee		Total	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
M Govender (Chairperson)	9	9	11	11					6	6			2	2			28	28
J Cloete (Vice Chairperson)	9	9					4	4	6	6			1	1			20	20
K Elliott	9	9	11	11	3	3					5	5			3	3	31	31
G Eloff	9	9			3	3	4	4							3	3	19	19
A Fourie	5	5							1	1							6	6
A Gahagan-Thomson	4	4	5	4			2	1	2	2							13	11
Dr A Goneos-Malka	4	4	5	5					2	2					1	0	12	11
P Hemus	5	5					2	2					1	1			8	8
Dr M Mojapelo-Mokotedi	9	7							6	1	5	4					20	12
C Norton	9	8	6	6					6	3	5	5	1	1			27	23
N Parker	9	8	11	11							5	5	2	2	3	3	30	29
J Viljoen	5	5											1	1	2	1	8	7
Independent: K Aron					1	1											1	1
Independent: P Brink					3	3											3	3
Independent: H Kajie					3	2											3	2
Independent: B Phillips					3	3											3	3

A: Total meetings convened that could be attended B: Actual number of meetings attended

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ANNUAL FINANCIAL REPORT

for the year ended 31 December 2021



REPORT OF THE BOARD OF TRUSTEES (continued)

6 Scheme Activities at the end of the financial year

6.1 Operational statistics

	Maxima Plus	Maxima Exec	FlexiFed 1	FlexiFed 1 Elect	FlexiFed 2	FlexiFed 2 Grid	FlexiFed 2 Elect	FlexiFed 3	FlexiFed 3 Grid	FlexiFed 3 Elect	Subtotal
2021											
Number of members (n)	968	3 116	19 112	3 618	4 781	4 276	426	11 027	2 045	430	49 799
Number of beneficiaries (n)	1 394	4 949	38 466	6 883	10 370	9 317	980	20 549	4 112	925	97 945
Number of dependants (n)	426	1 833	19 354	3 265	5 589	5 041	554	9 522	2 067	495	48 146
Average number of members (n)	1 022	3 236	19 567	3 449	4 936	4 367	424	11 581	2 108	441	51 131
Average number of beneficiaries (n)	1 495	5 203	39 553	6 583	10 697	9 507	965	21 755	4 232	957	100 947
Dependant ratio to members (n)	0.44	0.59	1.01	0.90	1.17	1.18	1.30	0.86	1.01	1.15	0.97
Risk contribution *pan of beneficiaries **pm (R)	9 300	5 283	1 324	1 016	1 800	1 659	1 361	2 361	2 054	1 713	2 787
Average age of beneficiaries (yrs)	66.7	62.2	33.3	31.0	34.6	39.4	35.4	48.2	47.1	47.5	
Pensioner ratio (%)	65.2%	54.8%	6.8%	4.7%	10.6%	16.7%	10.4%	28.8%	29.4%	26.4%	
Average managed care *pan of members **pm (R)	121	120	109	108	113	112	112	113	115	112	
Average managed care *pan of beneficiaries **pm (R)	83	75	54	57	52	51	49	60	57	52	
Net claims as a percentage of net contributions (%)	88.3%	102.4%	81.3%	62.7%	91.9%	101.1%	85.3%	96.6%	123.5%	79.1%	
Relevant healthcare expenditure *pan of beneficiaries **pm (R)	8 303	5 388	1 082	673	1 659	1 736	1 295	2 307	2 668	1 445	
Relevant healthcare expenditure as a percentage of gross contributions - Claims ratio (%)	84.8%	88.9%	80.7%	65.4%	91.2%	103.6%	94.2%	96.8%	128.7%	83.5%	
Non-healthcare expenditure *pan of beneficiaries **pm (R)	350	323	252	257	241	240	224	277	258	235	
Non-healthcare expenditure as a percentage of gross contributions (%)	3.6%	5.3%	18.8%	25.0%	13.3%	14.3%	16.3%	11.6%	12.4%	13.6%	
Average chronic profile (%)	59.9%	54.1%	10.9%	7.6%	15.6%	18.6%	16.2%	27.0%	32.9%	25.8%	

*pan - per average number ** pm - per month

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ANNUAL FINANCIAL REPORT

for the year ended 31 December 2021

REPORT OF THE BOARD OF TRUSTEES (continued)



6 Scheme Activities at the end of the financial year (continued)

6.1 Operational statistics (continued)

	Subtotal Brought Forward	FlexiFed 4	FlexiFed 4 Grid	FlexiFed 4 Elect	MyFed	Grand Total
2021						
Number of members (n)	49 799	13 548	1 282	580	3 592	68 801
Number of beneficiaries (n)	97 945	24 164	2 486	1 140	4 983	130 718
Number of dependants (n)	48 146	10 616	1 204	560	1 391	61 917
Average number of members (n)	51 131	14 298	1 329	618	3 688	71 064
Average number of beneficiaries (n)	100 947	25 772	2 609	1 231	5 153	135 712
Dependant ratio to members (n)	0.97	0.78	0.94	0.97	0.39	0.90
Risk contribution *pan of beneficiaries **pm (R)	2 787	3 091	2 756	2 314	1 357	2 671
Average age of beneficiaries (yrs)		51.3	54.1	52.9	41.2	42.3
Pensioner ratio (%)		31.3%	40.8%	37.6%	19.9%	20.4%
Average managed care *pan of members **pm (R)		122	120	114	61	111
Average managed care *pan of beneficiaries **pm (R)		68	61	57	43	59
Net claims as a percentage of net contributions (%)		94.9%	104.1%	85.2%	115.5%	93.9%
Relevant healthcare expenditure *pan of beneficiaries **pm (R)		2 917	3 009	2 018	1 607	2 579
Relevant healthcare expenditure as a percentage of gross contributions - Claims ratio (%)		93.7%	108.4%	86.6%	118.4%	94.6%
Non-healthcare expenditure *pan of beneficiaries **pm (R)		292	265	256	182	261
Non-healthcare expenditure as a percentage of gross contributions (%)		9.4%	9.5%	11.0%	13.4%	11.8%
Average chronic profile (%)		37.8%	48.8%	39.9%	18.6%	23.8%

*pan - per average number ** pm - per month

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ANNUAL FINANCIAL REPORT

for the year ended 31 December 2021



REPORT OF THE BOARD OF TRUSTEES (continued)

6 Scheme Activities at the end of the financial year

6.1 Operational statistics

	Maxima Plus	Maxima Exec	Maxima Exec Grid	FlexiFed 1	FlexiFed 1 Elect	FlexiFed 2	FlexiFed 2 Grid	FlexiFed 2 Elect	FlexiFed 3	FlexiFed 3 Grid	FlexiFed 3 Elect	Subtotal
2020												
Number of members (n)	1 187	3 485	293	20 107	2 547	5 204	4 440	265	13 189	1 759	229	52 705
Number of beneficiaries (n)	1 765	5 724	480	41 070	4 887	11 383	9 752	575	25 378	3 619	517	105 150
Number of dependants (n)	578	2 239	187	20 963	2 340	6 179	5 312	310	12 189	1 860	288	52 445
Average number of members (n)	1 250	3 643	296	20 472	2 120	5 312	4 495	252	13 751	1 799	222	53 612
Average number of beneficiaries (n)	1 864	6 056	489	42 104	4 105	11 611	9 874	568	26 623	3 713	504	107 511
Dependant ratio to members (n)	0.49	0.64	0.64	1.04	0.92	1.19	1.20	1.17	0.92	1.06	1.26	1.00
Risk contribution *pan of beneficiaries **pm (R)	8 139	4 599	4 178	1 254	961	1 621	1 510	1 213	2 104	1 817	1 508	2 628
Average age of beneficiaries (yrs)	65.0	60.3	62.3	31.8	30.2	33.6	38.9	34.6	45.9	46.0	46.4	
Pensioner ratio (%)	62.4%	50.9%	54.4%	5.9%	3.9%	9.4%	16.2%	6.1%	25.9%	24.8%	23.1%	
Average managed care *pan of members **pm (R)	116	115	115	104	104	108	107	106	107	109	111	
Average managed care *pan of beneficiaries **pm (R)	78	69	69	51	54	49	49	47	56	53	49	
Net claims as a percentage of net contributions (%)	86.9%	94.2%	125.7%	63.4%	34.9%	85.2%	80.3%	84.5%	82.1%	91.5%	80.7%	
Relevant healthcare expenditure *pan of beneficiaries **pm (R)	7 038	4 425	5 618	812	416	1 419	1 243	1 063	1 759	1 691	1 227	
Relevant healthcare expenditure as a percentage of gross contributions - Claims ratio (%)	82.0%	83.7%	116.7%	63.3%	42.0%	86.2%	81.0%	86.1%	82.4%	91.7%	80.0%	
Non-healthcare expenditure *pan of beneficiaries **pm (R)	322	290	291	232	235	223	223	212	251	234	211	
Non-healthcare expenditure as a percentage of gross contributions (%)	3.8%	5.5%	6.1%	18.2%	24.1%	13.6%	14.6%	17.3%	11.8%	12.8%	13.9%	
Average chronic profile (%)	57.3%	52.3%	54.0%	10.2%	6.4%	14.5%	17.7%	14.0%	25.2%	28.4%	22.4%	

*pan - per average number ** pm - per month

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6 Scheme Activities at the end of the financial year (continued)

6.1 Operational statistics (continued)

	Subtotal Brought Forward	FlexiFed 4	FlexiFed 4 Grid	FlexiFed 4 Elect	MyFed	Grand Total
2020						
Number of members (n)	52 705	16 337	979	475	3 998	74 494
Number of beneficiaries (n)	105 150	30 137	2 033	969	5 681	143 970
Number of dependants (n)	52 445	13 800	1 054	494	1 683	69 476
Average number of members (n)	53 612	17 132	997	492	3 982	76 215
Average number of beneficiaries (n)	107 511	31 886	2 079	1 012	5 704	148 192
Dependant ratio to members (n)	1.00	0.84	1.08	1.04	0.42	0.93
Risk contribution *pan of beneficiaries **pm (R)	2 628	2 747	2 382	2 023	1 220	2 485
Average age of beneficiaries (yrs)		49.3	52.0	50.1	39.2	41.1
Pensioner ratio (%)		28.4%	31.3%	28.0%	16.8%	19.3%
Average managed care *pan of members **pm (R)		111	113	107	58	97.2
Average managed care *pan of beneficiaries **pm (R)		60	54	52	40	51.5
Net claims as a percentage of net contributions (%)		83.4%	93.4%	57.7%	87.5%	80.5%
Relevant healthcare expenditure *pan of beneficiaries **pm (R)		2 333	2 266	1 176	1 086	2 238
Relevant healthcare expenditure as a percentage of gross contributions - Claims ratio (%)		80.0%	94.1%	56.1%	88.1%	79.5%
Risk contribution *pan of beneficiaries **pm (R)		265	233	232	164	241
Non-healthcare expenditure as a percentage of gross contributions (%)		9.6%	9.7%	11.4%	13.4%	11.0%
Average chronic profile (%)		36.6%	43.2%	36.2%	16.9%	23.0%

*pan - per average number ** pm - per month

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REPORT OF THE BOARD OF TRUSTEES *(continued)*

7 Review of the financial year's activities

7.1 Operational statistics

	2021	2020
Accumulated funds per member at 31 December (R)	R22,545	R22,226
Amount paid to administrators (R'000)		
- Medscheme administration fees	273 003	280 461
- PHA administration fees (winddown fees)	-	308
- Medscheme managed care programme	83 111	85 158
- PHA managed care programme (winddown fees)	-	100
Broker service fees (R'000)	70 519	72 131
Number of principal members joining the Scheme (n)	10 958	12 162
Number of principal members leaving the Scheme (n)	16 651	17 483
Return on investments as a percentage of investments (%) *	15.90	6.70

*The returns on investments are calculated monthly and compounded to formulate an annual return.

7.2 Results of operations

The results of the Scheme are set out in the financial statements and the Board believes that no further clarification is required.

	2021 R'000	2020 R'000
Members' funds per statement of financial position	1 623 416	1 687 004
Less:		
Available-for-sale revaluation reserve (Cumulative net unrealised gains on re-measurement to fair value of financial instruments included in members' funds)	(72 298)	(31 279)
Accumulated funds per Regulation 29	1 551 119	1 655 725
Gross contributions	3 627 815	3 707 164
Accumulated funds ratio (%)	42.76	44.66

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7 Review of the financial year's activities (continued)

7.3 Revaluation reserve

Movements in the revaluation reserve are set out in the statement of change in funds and reserve on [page 43](#) of the financial statements. There have been no unusual movements that the Board believes should be brought to the attention of the members of the Scheme.

7.4 Outstanding risk claims provision

The basis of calculation and movements on the outstanding risk claims provision and impact of Covid-19 are set out in [Note 5](#) to the financial statements and are consistent with the previous year. There have been no unusual movements that the Board believes should be brought to the attention of the members of the Scheme.

7.5 Deferral of the implementation of IFRS 9 Financial Instruments

IFRS 9 Financial Instruments is effective for annual periods beginning on or after 1 January 2018.

IFRS 4 Insurance Contracts provides a temporary exemption that permits, but does not require, the Scheme to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023, the original effective date of the new IFRS 17 Insurance Contracts.

A scheme may apply the temporary exemption from IFRS 9 if, and only if:

- it has not previously applied any version of IFRS 9
- activities are predominantly connected with insurance, at its reporting date.

The Scheme meets both the criteria and has elected to apply the exemption to defer the application of IFRS 9 to 1 January 2023.

8 Actuarial services

The Scheme Actuary, employed by Medscheme Holdings (Pty) Ltd, during the year is C Manikai, FASSA.

The Actuary was consulted in the determination of the contribution and benefit levels for 2021 and for 2022 as well as the outstanding risk claims provision calculation at year-end.

9 Investments in and loans to participating employers of the members or other related parties of the Scheme

The Scheme has investments through portfolios managed by the underlying investment managers in Sanlam, which employs members of the Scheme. The Council has granted the Scheme an exemption in terms of Section 35(8) of the Act. The Scheme holds no other direct investments in, nor has it made loans to, participating employers of the members, or other related parties of the Scheme.

10 Fidelity Insurance

The Scheme has taken out insurance cover as required by the Act, to protect the Scheme against fidelity losses and the Trustees and independent committee members against any professional indemnity claims.

11 Related party transactions

Full details of remuneration and related party transactions are disclosed in [Note 11.1](#) and [Note 17](#) respectively to the financial statements.

12 Internal audit

A formal internal audit function exists, with regular reporting to the Audit Committee. A structured internal audit plan is provided to the Audit Committee for input and suggestions during the course of the year. This audit plan is also reviewed by the external auditor for reliance on their audit work.

The Scheme receives scheme specific internal audit reports performed by AfroCentric Health Ltd Internal Audit department which are reviewed to ensure sound and accurate administration.



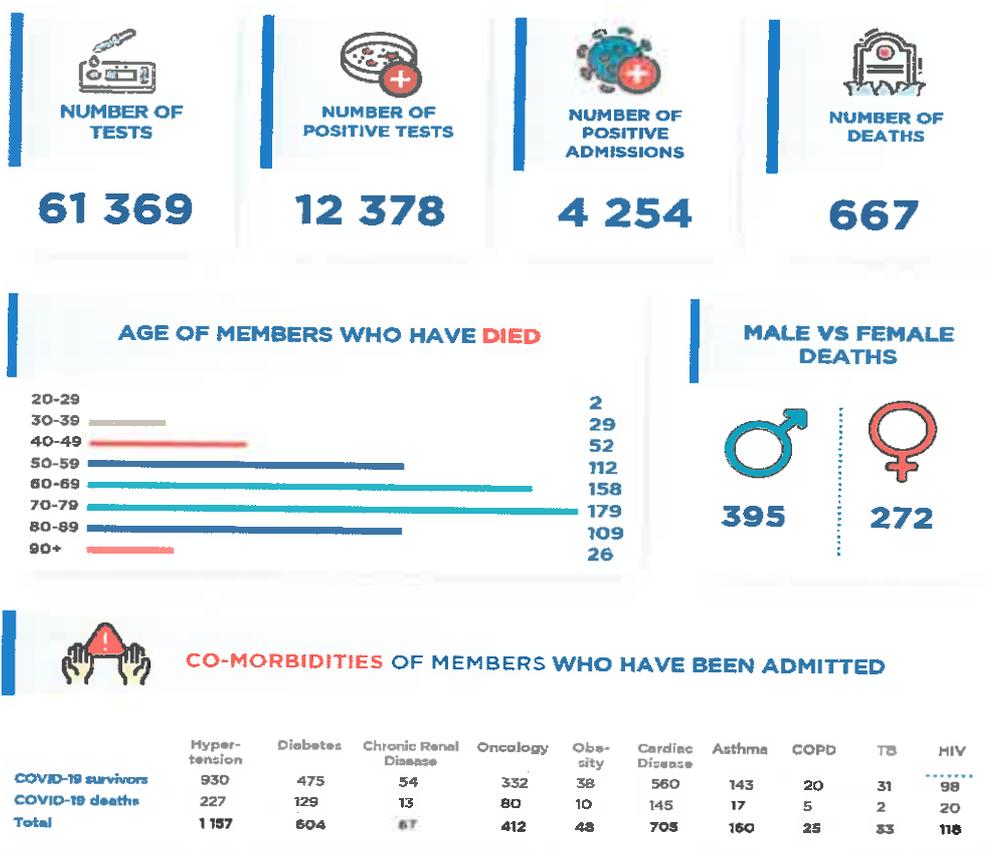
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13 Business strategy

The issue dominating 2021 was the continuation of the Covid-19 pandemic. During the course of 2021 the Scheme has paid R424m towards Covid-19 claims. This accounts for 12.6% of total annual claims and includes Covid-19 tests, admissions and vaccinations. Covid-19 related hospital claims are on average twice the costs of a non-Covid hospital admission, and this together with the return of the demand for non-essential or elective procedures, resulted in higher than budgeted hospital claims. Elective procedures are those in which the treatment is clinically appropriate but it need not be done immediately, or at all. Although the Scheme projected a loss due to the pent-up demand in elective procedures the, demand was not as high as expected and the Scheme eventually realised a deficit of R104.6m against the projected deficit of R160m.

From a Scheme perspective, continuing to manage Covid-19 related claims remains a priority. We are continuing to drive vaccinations amongst our members, which we fund in full, having reached 51% of fully vaccinated members, and 61% partially vaccinated members by the end of 2021. The Scheme objective is to ensure that as many members as possible get vaccinated and have the boosters when appropriate. This will assist the Scheme in managing the potential cost implications of future waves. Due to the unpredictability of the virus, the Board continued to adopt a cautious and prudent approach to the contribution rate increase for 2022. Reserves must be maintained at a sufficiently high level to deal with future waves despite the positive effects of the vaccine.

A summary of Fedhealth-specific Covid-19 statistics as at 31 December 2021 is contained below:



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REPORT OF THE BOARD OF TRUSTEES (continued)

13 Business strategy (continued)

The Board's strategic priorities for 2022 will focus on membership growth with the correct profile and post-Covid claims cost containment. We believe that the catch-up claims for elective procedures will continue to increase in 2022 as hospitals have less pressure from Covid-19 cases and open up for normal operations and dealing with the backlog that was created. The latter part of 2021 saw a substantial increase in hospital admissions and procedures, leading to a deficit that while below budget was still significant.

From a growth perspective the Scheme will re-focus its efforts on the corporate market where the acquisition of new members will be an overall better risk profile for the Scheme. Member retention remains an issue due to the current economic environment in which members battle to balance the increasing cost of living with maintaining their essential medical aid cover. Keeping medical aid affordable while maintaining the sustainability of the Scheme is a careful balancing act the Board takes very seriously.

The Board's strategic framework, adopted last year, is now gaining momentum, guiding the thinking and approach for the immediate future. Starting with the purpose statement: **"To provide funding for the health and well-being and healthcare needs of our members, creating peace of mind"**, the Board identified five values that guide it in decision making.

These values are:

1. **Stewardship** – holding ourselves accountable for the responsible use of members' funds;
2. **Excellence** – to identify and exceed expectations in the delivery of service and products to our members;
3. **Integrity** – to maintain the highest standards of ethical behaviour in our communications, actions and relationships;
4. **Professionalism** – decision making is rooted in fact-based expert advice. Professional expertise from varying disciplines is used to test and challenge personal opinions;
5. **Innovation** – to consider and go beyond conventional ideas and approaches so that positive change can flourish in the delivery of cost-effective services to our members.



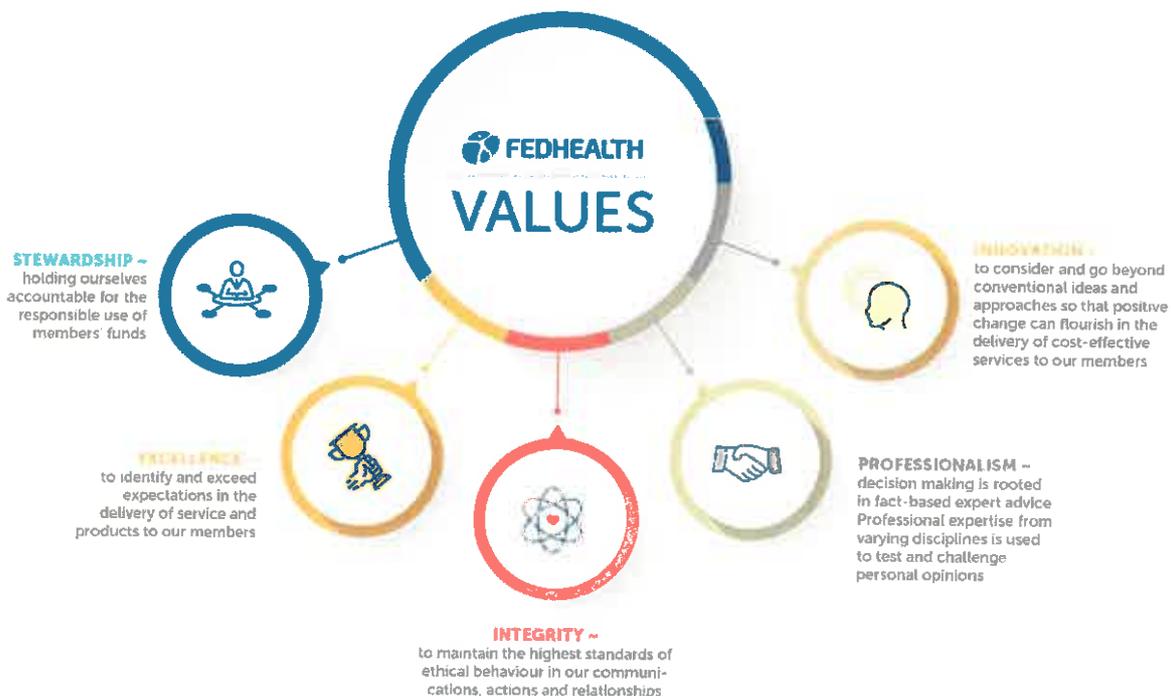
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13 Business strategy (continued)

The key priorities of the Board are as follows:

1. **Innovative value add healthcare products and services:** This process started with the adoption of the MediVault and EDO structure but will continue as the Scheme explores ways to reduce costs, simplify interaction with the Scheme and providers and enhance member understanding of the benefit structures.
2. **Growing the Scheme organically:** Growing our membership with the correct profile of member is vital for the future sustainability of the Scheme and to manage costs. Younger, healthy members subsidise the older, higher claiming members and we need to re-focus our efforts on the corporate or group market where the risk profile of new members will support this. The services of health care intermediaries is vital in this space and we will continue to build strong partnerships with existing and new intermediaries.
3. **Membership growth through acquisition:** Consolidation of schemes through amalgamation is a long-established trend. While it brings with it levels of complications in bringing two different cultures and systems together it does allow for the creation of bigger risk pools which has positive advantages. The Scheme is not actively looking for amalgamation partners but is open to any possible matches.
4. **Integrated managed care models:** Reducing unnecessary spend is an important objective, but of more importance is keeping our members healthy and reducing their need for medical interventions. The Scheme will look for ways to optimise care, improve service delivery and remove waste and fragmentation which will result in better patient experiences and clinical outcomes.
5. **Next generation service channels:** The Scheme would like to improve the member experience of any interaction with the Scheme and will investigate technology and self-service channels that will ensure an easy and pleasurable experience for members. Ensuring that all member interactions are handled with professionalism and the necessary empathy is an essential part of the Fedhealth brand promise and experience.

While the past year has been challenging, the Scheme is confident that it can meet these challenges and enhance the relationship it has with members, healthcare providers and other stakeholders.



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14 Non-compliance matters

Nature and cause of non-compliance	Possible impact of the non-compliance	Corrective course
14.1 Contributions not received within the time stipulated by the Act		
<p>Section 26(7) of the Act states that: "All subscriptions or contributions shall be paid directly to a medical scheme not later than three days after payment thereof becoming due." Exceptions were found and credit control procedures were applied.</p>	<p>Late payment may result in a loss of interest on these amounts to the Scheme for the number of days that payment is late. This is not significant due to the short duration of the contributions outstanding. Members and employer groups are continuously instructed to submit payment on time.</p>	<p>The Board addresses the issue on an ongoing basis in accordance with the Scheme's credit control policy.</p> <p>The Board received exemption in terms of section 8(h) from complying with said section 26(7) as per Circular 28 of 2020: COVID-19.</p>
14.2 Claim payments in excess of 30 days		
<p>Section 59(2) of the Act states that: "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."</p> <p>Exceptions were found at the beginning of the financial year when claims are put on hold, to ensure that the approved tariff and benefit limits are loaded correctly on the administration platform. This process results in a delay in the processing of payments due to the backlog in claims, but only for a few days.</p>	<p>The delay only occurs at the beginning of the financial year when new tariffs and benefit limits are loaded; claims are paid within the first week of tariff and benefit limit approval.</p> <p>The Scheme is not compliant with the Act and/or its rules when certain valid claims are rejected or amounts due on valid claims are short paid.</p>	<p>The year-end process is not considered to be significant due to the members and providers conforming to the annual practice. The practice ensures accurate claims processing for the new benefit year and is in the interest of the risk management process for the Scheme.</p>
14.3 Loss making options		
<p>Section 33(2) of the Act states that: "The Registrar shall not approve any benefit option under this section unless the Council is satisfied that such benefit options (b) shall be self-supporting in terms of membership and financial performance and (c) is financially sound." Various options made net healthcare deficits as disclosed in Note 16 to the financial statements.</p>	<p>The Council may withdraw benefit options, directly affecting the members on these options.</p>	<p>The Scheme was specifically costed to incur net healthcare deficits on certain options. The Scheme's actuary has taken this into account in costing the benefits for the 2022 financial year.</p>

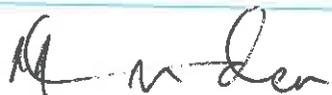
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14 Non-compliance matters *(continued)*

Nature and cause of non-compliance	Possible impact of the non-compliance	Corrective course
14.4 Prohibition of Investments in an employer who participates in the medical scheme or in any administrators		
<p>Section 35(8)(a), (c) and (d) of the Act sets out the prohibition of investments in participating employer and administrators. The Scheme is currently invested in Discovery Holdings Ltd and MMI Holdings Ltd through portfolios managed by underlying investment managers.</p>	<p>The Scheme is non-compliant with Section 35(8). The Council may require the Scheme to disinvest from these companies.</p>	<p>The Scheme has been provisionally granted an exemption for a period of three years, effective 1 December 2019 until 30 November 2022, subject to renewal. The exemption is granted subject to the following conditions:</p> <ul style="list-style-type: none"> ● the Scheme continues to take steps to avoid conflicts of interest; ● the investments, which constitute the subject matter of this exemption application continue to be managed by an independent investment manager with no influence from the Scheme or its officers. The Scheme will be required on an annual basis to submit declarations from investment managers stating that no conflict of interest exists between themselves and the prohibited investment entities; and ● the Scheme conducts a comprehensive quarterly analysis on total assets to ensure that the investments do not exceed the limitations set out in Annexure B.

14 Non-compliance matters *(continued)*

Nature and cause of non-compliance	Possible impact of the non-compliance	Corrective course
<p>14.5 Prescribed Minimum benefit (PMB) claims paid from savings</p> <p>Regulation 8 of the Act, stipulates that schemes are required to fund PMB conditions at full invoice price. Therefore PMB claims cannot be funded by the PMSA.</p> <p>Certain claim exceptions were found at the beginning of the financial year where PMB claims were paid out of savings.</p>	<p>The Scheme is non-compliant with Regulation 8 of the Act and will be liable for the PMB claims paid from the member PMSA.</p>	<p>The administrator corrected the system link to PMB payment and the testing process was refined accordingly. The impacted claims were corrected and paid accordingly.</p> <p>Three exceptions found to the value of R11 931.31.</p>



M Govender – Chairperson
31 March 2022

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STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

The Board of Trustees (the Board) is responsible for the preparation, integrity, and fair presentation of the annual financial statements of Fedhealth Medical Scheme (the Scheme). The financial statements presented on [pages 41 to 103](#) have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Medical Schemes Act no. 131 of 1998, as amended (the Act). In addition, the Trustees are responsible for preparing the Report of the Board presented on [pages 3 to 34](#).

The Board:

- considers that in preparing the financial statements it has used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates;
- 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;
- 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 reporting framework;
- is responsible for such internal controls as the Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management;
- with the assistance of the administrators, ensures that the Scheme operates 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 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.

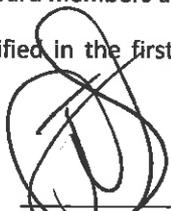
The Scheme's external auditor, KPMG Inc. is responsible for auditing the financial statements in terms of International Standards on Auditing and their report is presented on [pages 37 to 40](#). KPMG Inc. have unrestricted access to all financial records and related data, including minutes of all meetings of members, the Board and committees of the Board. The Board believes that all its representations made to the external auditor during its audit were accurate and appropriate.

The Scheme is committed to the principles and practices of fairness, responsibility, transparency and accountability in all dealings with its stakeholders. The Board members are elected in terms of the rules of the Scheme.

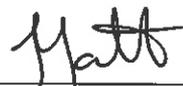
These financial statements, as identified in the first paragraph, were approved by the Board on 31 March 2022 and are signed on its behalf by:



M Govender - Chairperson



K Cloete - Trustee



Yatt - Principal Officer

31 March 2022

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STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES

Board of Trustees

The Board of Trustees (the Board) meets regularly and monitors the performance of the administrators and addresses a range of key issues and ensures that discussion of items of policy, strategy and performance is critical, informed and constructive.

All Board members have access to the advice and services of the Principal Officer and, where appropriate, may seek independent professional advice at the expense of the Scheme.

Risk management and internal controls

The Board is accountable for the process of risk management and internal controls. Risks are reviewed and identified annually and appropriate strategies are implemented. These actions are monitored monthly.

The administrator of the Scheme maintains internal controls and systems designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain accountability for the Scheme's assets adequately. Such controls are based on established policies and procedures and are implemented by trained personnel with the appropriate segregation of duties.

A formal internal audit function exists within the administrator, with regular reporting to the Audit Committee. The administrator of the Scheme has documented and tested the business continuity plan and disaster recovery procedures. The Board is satisfied that the procedures are in place and have been tested.

The Board has established a Risk Committee, mandated under a terms of reference, to oversee all legal, risk and governance issues pertaining to the Scheme in accordance with accepted corporate governance practice.

No event or item has come to the attention of the Board that indicates any material breakdown in the functioning of the key internal controls and systems during the year under review.

Performance monitoring of budgets

The budget for the Scheme is set annually and approved by the Board. The performance against budget is monitored monthly by the Finance Committee and any corrective action requiring the Board approval is recommended to the Board for appropriate action.

Performance monitoring of terms of reference

Each Committee of the Board has terms of reference which set out the structures and functions of that Committee and are reviewed by the Committee and approved by the Board annually.

Performance monitoring of third party Service Level Agreements (SLAs)

The monitoring of SLAs occurs on a monthly basis and is conducted at a Committee level. All SLAs are measured and reported on by the respective committees and any adherence failures are addressed and reported to the Board to implement appropriate action. Should the service level continue to fall below the required SLA, action is taken with the third party and terms are set to ensure that compliance is achieved.



M Govender – Chairperson



K Clarke – Trustee



J Watt – Principal Officer

31 March 2022

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Independent Auditor's Report

To the Members of Fedhealth Medical Scheme

Report on the Financial Statements

Opinion

We have audited the financial statements of Fedhealth Medical Scheme (the Scheme), set out on pages 41 to 103, which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, the statement of changes in funds and reserve 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 Fedhealth Medical Scheme as at 31 December 2021, 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 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)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Risk Claims Incurred

Refer to significant accounting policy note 1.9 and risk claim incurred in note 9 to the financial statements.

The key audit matter	How the matter was addressed in our audit
<p>Risk 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, consequently the most significant expense for the Scheme relates to risk claims incurred. Risk claims incurred is a key driver in determining the sustainability of the Scheme.</p> <p>The payment of the significant volume of valid risk claims is dependent on the integrity of the Scheme's administration system, as well as the automated claim assessment controls.</p> <p>Risk claims incurred was considered a key audit matter due to the significant volume of claims processed during the year and the work effort required to be performed by the audit team.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • We evaluated the accuracy of benefit limits and rules captured onto the administration system by comparing the approved benefit limits and rules of the Scheme, to those captured onto the administration system. • We tested the IT controls in place to prevent unauthorised access to or changes to the administration system. • We tested, through the assistance of our own IT specialists, the automated claim assessment controls of the administration system to ensure that only valid claims were being processed and paid. • We inspected the reconciliation, performed by the Scheme administrator, between the administration system and the general ledger to assess whether the risk claims paid were accurately captured into the Scheme's accounting system.

Outstanding Risk Claims Provision

Refer to significant accounting policy note 1.4 and outstanding risk claim provision in note 5 to the financial statements.

The key audit matter	How the matter was addressed in our audit
<p>The outstanding risk claims provision (the provision) is the Scheme's estimate of the ultimate cost of settling all risk claims incurred but not yet reported (IBNR) at the reporting date.</p> <p>The provision is determined by the Scheme's actuary as described in note 5 and is estimated using a blend of statistical methods. Determining the provision requires judgement with regard to the assumptions applied in respect of measuring the outstanding risk claims provision which could materially affect the financial statements.</p>	<p>Our audit procedures performed included the following:</p> <ul style="list-style-type: none"> • We, with the assistance of our own actuarial specialists: <ul style="list-style-type: none"> • evaluated the appropriateness of the methodology used in determining the provision against best practice. • challenged the appropriateness of the assumptions used in the Scheme's methodology for measuring the provision by evaluating the assumptions against best practice and the current economic environment. • evaluated the qualification, competence, independence and integrity of the Scheme's actuary. • assessed whether the data used in the provision is complete and accurate.

The key audit matter	How the matter was addressed in our audit
<p>Outstanding risk claims provision was considered a key audit matter due to the significant judgment involved in determining the provision.</p>	<ul style="list-style-type: none"> • We calculated our own estimation of the provision to confirm the reasonability of the Scheme's provision. • We assessed the adequacy of the provision by comparing actual claims paid after year-end that related to the current year to the provision at year-end. • We evaluated whether the disclosures in the financial statements were appropriate in accordance with IAS 37 Provisions, contingent liabilities and contingent assets.

Other Information

The Scheme's trustees are responsible for the other information. The other information comprises the Report of the Board of Trustees, the Statement of Responsibility by the Board of Trustees and the Statement of Corporate Governance by the Board of Trustees. 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 skepticism 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

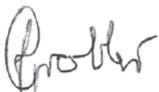
As required by the Council for Medical Schemes, we report that there are no material instances of non-compliance with the requirements of the Medical Schemes Act of South Africa, that have come to our attention during the course of our audit.

Audit tenure

As required by the Council for Medical Schemes' Circular 38 of 2018, Audit Tenure, we report that KPMG has been the auditor of Fedhealth Medical Scheme for 19 years.

The engagement partner, LW Grobler, has been responsible for Fedhealth Medical Scheme's audit for 6 years.

KPMG Inc.



Per LW Grobler
Chartered Accountant (SA)
Registered Auditor
Director
31 March 2022

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Note	2021 R'000	2020 R'000
Assets			
Non-current assets			
Available-for-sale investments	2	1 353 882	1 373 075
		1 353 882	1 373 075
Current assets			
Trade and other receivables	3	774 879	831 541
Cash and cash equivalents	4	321 074	293 629
		453 805	537 912
Total assets		2 128 761	2 204 616
Funds and liabilities			
Members' funds			
Accumulated funds		1 623 417	1 687 004
Available-for-sale revaluation reserve		1 551 119	1 655 725
		72 298	31 279
Current liabilities			
Outstanding risk claims provision	5	505 344	517 612
PMSA liability*	6	255 677	245 093
Trade and other payables	7	135 194	163 229
		114 473	109 290
Total funds and liabilities		2 128 761	2 204 616

* PMSA: Personal medical savings accounts

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STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 R'000	2020 R'000
Risk contribution income	8	3 541 927	3 615 219
Relevant healthcare expenditure		(3 430 397)	(3 047 329)
Net claims incurred		(3 430 841)	(3 047 569)
Risk claims incurred	9	(3 437 699)	(3 056 428)
Third party claim recoveries		6 858	8 859
Net income on risk transfer arrangement	10	444	240
Risk transfer arrangement premiums paid		(838)	(897)
Recoveries from risk transfer arrangement		1 282	1 137
Gross healthcare result		111 530	567 890
Broker service fees		(70 519)	(72 131)
Administration expenditure	11	(358 490)	(358 774)
Net impairment loss on healthcare receivables	12	(1 375)	(25 749)
Net healthcare result		(318 854)	111 236
Other income		229 578	93 570
Investment income	13	220 188	90 660
Sundry income	14	9 390	2 910
Other expenditure		(15 330)	(15 649)
Asset management fees	15	(10 558)	(9 586)
Interest on PMSA liability		(4 772)	(6 063)
Net (deficit)/surplus for the year		(104 606)	189 157

	Note	R'000	R'000
Other comprehensive income			
Net change in fair value on available-for-sale investments	2	165 187	8 416
Available-for-sale reclassification to profit and loss	13	(124 168)	2 296
Total other comprehensive income for the year		41 019	10 712
Total comprehensive income for the year		(63 587)	199 869

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STATEMENT OF CHANGES IN FUNDS AND RESERVE FOR THE YEAR ENDED 31 DECEMBER 2021

	Available for-sale- revaluation reserve R'000	Accumulated funds R'000	Members' funds R'000
Balance as at 1 January 2020	20 567	1 466 568	1 487 135
Total comprehensive income for the year			
Net surplus for the year	=	189 157	189 157
Other comprehensive income			
Fair value reserve available-for-sale financial assets			
Net unrealised gains for the year (Note 2)	8 416	-	8 416
Net fair value realised on disposal (Note 13)	2 296	-	2 296
Total other comprehensive income	<u>10 712</u>	<u>-</u>	<u>10 712</u>
Total comprehensive income for the year	<u>10 712</u>	<u>189 157</u>	<u>199 869</u>
Balance as at 31 December 2020	<u>31 279</u>	<u>1 655 725</u>	<u>1 687 004</u>
Balance as at 1 January 2021	31 279	1 655 725	1 687 004
Total comprehensive income for the year			
Net deficit for the year	-	(104 606)	(104 606)
Other comprehensive income			
Fair value reserve available-for-sale financial assets			
Net unrealised gains for the year (Note 2)	165 187	-	165 187
Net fair value realised on disposal (Note 13)	(124 168)	-	(124 168)
Total other comprehensive income	<u>41 019</u>	<u>-</u>	<u>41 019</u>
Total comprehensive income for the year	<u>41 019</u>	<u>(104 606)</u>	<u>(63 587)</u>
Balance as at 31 December 2021	<u>72 298</u>	<u>1 551 119</u>	<u>1 623 417</u>

..... *Create your aid.*

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

		2021	2020
	Note	R'000	Restated R'000
Cash flows from operating activities			
Cash receipt from member and providers			
Cash receipts from contributions		3 626 993	3 749 479
Cash receipts from members and providers - other		3 614 219	3 711 378
		12 774	38 101
Cash paid to providers and employees		(3 986 728)	(3 600 306)
Cash paid to providers and employees - claims		(3 543 080)	(3 157 619)
Cash paid to providers and employees - non healthcare expenditure		(438 228)	(441 176)
Cash paid member refunds		(5 420)	(1 511)
Cash (utilised in)/generated from operation		(359 735)	149 173
Cash utilised in operations			
Interest paid on PMSA liability	6	(4 772)	(6 063)
Net cash (outflow)/inflow from operating activities		(364 507)	143 110
Cash flows from investing activities			
Additions to available-for-sale investments	2	(658 000)	(547 497)
Proceeds on disposal of available-for-sale investments	2	842 380	342 345
Interest received	13	70 255	61 122
Dividends received	13	25 765	31 834
Net cash inflow/(outflow) from investing activities		280 400	(112 195)
Net (decrease)/increase in cash and cash equivalents		(84 107)	30 915
Cash and cash equivalents at the beginning of the year		537 912	506 997
Cash and cash equivalents at the end of the year	4	453 805	537 912

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NOTES TO THE FINANCIAL STATEMENTS

1 Significant accounting policies

The following are the significant accounting policies applied by the Scheme, which are consistent with those of the previous year, except for the adoption of the standards, amendments and interpretations in [Note 1.1.1](#).

1.1 Basis of preparation

The financial statements have been prepared in accordance with the manner required by the Medical Schemes Act no. 131 of 1998, as amended (the Act) and with International Financial Reporting Standards (IFRS). The financial statements are prepared on the going concern principle and using the historical cost basis, except as otherwise stated below in [Note 1.2](#). The financial statement information is presented in South African Rand (Rand), which also represents the Scheme's functional currency. All financial information presented in Rand has been rounded to the nearest thousand except where otherwise indicated.

The preparation of the financial statements, in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Scheme's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in [Note 19](#). The financial statements were approved by the Board of Trustees (the Board) on 31 March 2022.

1.1.1 New standards, amendments and interpretations not yet effective and relevant to the Scheme:

There were no new standards, amendments and interpretations effective in the 2021 financial year and relevant to the Scheme.



NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Significant accounting policies (continued)

1.1 Basis of preparation (continued)

1.1.2 New standards, amendments and interpretations not yet effective and relevant to the Scheme:

Standard	Summary of requirements
IFRS 9 Financial Instruments	<p>On 24 July 2014, the International Accounting Standards Board (IASB) issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.</p> <p>This standard will have an impact on the Scheme, which will include changes in the measurement bases of financial assets at amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the Scheme. The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.</p> <p>However, IFRS 4 provides a temporary exemption that permits, but does not require, the Scheme to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023.</p> <p>A scheme may apply the temporary exemption from IFRS 9 if, and only if:</p> <ul style="list-style-type: none"> • it has not previously applied any version of IFRS 9 • activities are predominantly connected with insurance, at its reporting date.
IFRS 17 Insurance Contracts	<p>IFRS 17 supersedes IFRS 4 Insurance Contracts and aims to increase comparability and transparency regarding profitability. The new standard introduces a new comprehensive model ("general model") for the recognition and measurement of liabilities arising from insurance contracts. In addition, it includes a simplified approach and modifications to the general measurement model that can be applied in certain circumstances and to specific contracts, such as:</p> <ul style="list-style-type: none"> • Reinsurance contracts held; • Direct participating contracts; and • Investment contracts with discretionary participation features. <p>Under the new standard, investment components are excluded from insurance revenue and service expenses. Entities can also choose to present the effect of changes in discount rates and other financial risks in profit or loss or other comprehensive income.</p> <p>The new standard includes various new disclosures and requires additional granularity in disclosures to assist users to assess the effects of insurance contracts on the Scheme's financial statements.</p> <p>The Scheme is in the process of determining the impact of IFRS 17 and will provide more detailed disclosure on the impact in future financial statements. The standard is effective for annual periods beginning on or after 1 January 2023. Early adoption is permitted only if the entity applied IFRS 9.</p>



NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1 Significant accounting policies *(continued)*

1.1 Basis of preparation *(continued)*

1.1.2 New standards, amendments and interpretations not yet effective and relevant to the Scheme: *(continued)*

Standard	Summary of requirements
Classification of liabilities as current or non-current (Amendments to IAS1)	<p>Under existing IAS1 requirements, entities classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the IASB has removed the requirement for a right to be unconditional and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period.</p> <p>There is limited guidance on how to determine whether a right has substance and the assessment may require management to exercise interpretive judgement.</p> <p>The existing requirement to ignore management’s intentions or expectations for settling a liability when determining its classification is unchanged.</p> <p>The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2023.</p>

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Significant accounting policies (continued)

1.2 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: available-for-sale financial assets, loans and receivables and other liabilities. The classification depends on the nature and the purpose of the financial instruments and is determined at the time of initial recognition.

Measurement

Financial instruments are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these instruments are measured as set out below.

Available-for-sale investments

Investments intended to be held for an indefinite period of time, which may be sold in response to needs in liquidity or changes in market conditions, are classified as available-for-sale. These are included in non-current assets unless the Trustees have the express intention of holding the investment for less than 12 months from reporting date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

All purchases and sales of investments are recognised on the trade date, which is the date that the Scheme commits to purchase or sell the asset. Available-for-sale investments are subsequently measured at fair value. Unrealised gains and losses arising from changes in the fair value of the available-for-sale investments are recognised in other comprehensive income and included in the available-for-sale revaluation reserve in members' funds. These are not taken to profit or loss. When securities categorised as available-for-sale are sold or impaired, the fair value adjustments previously accumulated in members' funds, are recognised in profit or loss as net realised gains or losses on disposal or impairments of investments. The fair values of listed investments are based on current closing prices.

Loans and other receivables

The Scheme's loans and other receivables comprise trade and other receivables and cash and cash equivalents.

Trade and other receivables

Trade and other receivables are subsequently measured at amortised cost, using the effective interest method less impairment. An appropriate impairment for estimated irrecoverable amounts is recognised in profit or loss when there is objective evidence that the asset is impaired. This impairment is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Impairments are written off to profit or loss as follows:

- An impairment account is used when the carrying amount of impaired assets is not reduced directly. The impairment loss is recognised in profit or loss.
- In other instances, the carrying value of the asset is reduced where the amounts are proved to be irrecoverable.

Insurance receivables

Insurance receivables are carried at cost less accumulated impairment losses. Impairment losses on insurance receivables are recognised and determined in a similar manner to impairment on financial assets carried at amortised cost. Refer to [Note 1.15](#).

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Significant accounting policies (continued)

1.2 Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Cash and cash equivalents are carried at amortised cost.

Financial liabilities

Financial liabilities consist of trade and other payables.

Trade and other payables

Trade and other payables are subsequently measured at amortised cost using the effective interest method.

Insurance payables

Insurance payables are subsequently measured at amortised cost using the effective interest method.

Offsetting financial instruments

Where a legally enforceable right to offset exists for the recognised financial assets and financial liabilities and there is a current intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset.

Derecognition of financial assets and liabilities

The Scheme derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Scheme neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Scheme recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

Where the risks and rewards of ownership of the financial asset are substantially retained, the financial asset continues to be recognised.

The Scheme derecognises a financial liability when the contractual obligation is discharged or expires.

1.3 Personal medical savings accounts (PMSA) liability

The PMSA liability is managed by the Scheme on behalf of its members. It represents PMSA contributions, which are a deposit component of the medical insurance contracts and accrued interest thereon, net of any PMSA claims paid on behalf of members in terms of the Scheme's rules. The deposit component has been unbundled since the Scheme can measure the deposit component separately and its accounting policies do not otherwise require it to recognise all obligations and rights arising from the deposit component. The insurance component is recognised as an insurance liability.

Member unused savings at year-end are retained in the members' PMSA. In terms of the Act, balances standing to the credit of members are refundable only in terms of Regulation 10 of the Act.

Advances on PMSA contributions are funded from the Scheme's funds, and the risk of impairment is carried by the Scheme.

NOTES TO THE FINANCIAL STATEMENTS *(continued)***1 Significant accounting policies *(continued)*****1.3 Personal medical savings accounts (PMSA) liability *(continued)***

The PMSA liability, i.e. deposit component, is recognised in accordance with IAS 39 Financial Instruments: Recognition and Measurement and is initially measured at fair value (i.e. the amount payable on demand) as it has a demand feature and subsequently is measured at amortised cost.

PMSA contributions are credited on the accrual basis and withdrawals on a cash basis, i.e. no provision is made for outstanding claims at year-end.

1.4 Provisions

Provisions are recognised when the Scheme has a present legal or constructive 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. The expected future cash flows are discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Outstanding risk claims provision

The outstanding risk claims provision is a provision made for the estimated cost of healthcare benefits that have been incurred before the end of the accounting period but that have not been reported to the medical scheme by that date. Risk claims outstanding are determined as accurately as possible based on a number of factors, which include previous experience in claims 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 payments from PMSA are deducted in calculating the outstanding risk claims provision. The Scheme does not discount its provision for outstanding risk claims, as the effect of the time value of money is not considered material.

1.5 Medical insurance contracts

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

1.6 Risk 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 gross contributions after deduction of PMSA 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 fees and other similar costs.

NOTES TO THE FINANCIAL STATEMENTS *(continued)***1 Significant accounting policies *(continued)*****1.7 Reimbursements from the Road Accident Fund (the RAF)**

The Scheme grants assistance to its members in defraying expenditure incurred in connection with the 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 No. 56 of 1996. If the members are reimbursed by the RAF, they are contractually obliged to cede that payment to the Scheme to the extent that they have already been compensated.

A reimbursement from the RAF is a possible asset that arises from claims 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 contingent asset and the related income are recognised in the financial statements in the period in which the virtual certainty occurs.

1.8 Relevant healthcare expenditure

Relevant healthcare expenditure consists of net risk claims incurred, net income or expense from risk transfer arrangements and accredited managed care services as per Circular 56 of 2015.

1.9 Risk claims incurred

Risk claims incurred comprise the total estimated cost of all claims arising (excluding claims paid out of PMSA) 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 are risk claims paid and reported adjusted by the outstanding risk claims provision at the beginning and end of the accounting period (excluding claims paid out of PMSA and Wallet). Net risk claims incurred include recoveries from third parties such as the RAF. Circular 56 of 2015 issued by the Council for Medical Schemes on 9 September 2015 concluded that all accredited managed care services are included as part of relevant healthcare expenditure as they directly impact on the delivery of cost-effective and appropriate healthcare management services to beneficiaries of medical schemes.

1.10 Risk transfer arrangement

A risk transfer arrangement is a contractual agreement whereby a third party undertakes to indemnify the Scheme against all or part of the loss that the Scheme may incur as a result of carrying on the business of a medical scheme.

Risk transfer premiums/fees are recognised as an expense over the indemnity period on a straight-line basis. If applicable, a portion of risk transfer premiums/fees are treated as prepayments.

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

Only contracts that give rise to a significant transfer of insurance risk are accounted for as re-insurance contracts. Amounts recoverable under such contracts are recognised in the same year as the related claim.

Claims recoveries relating to risk transfer arrangement is calculated on the basis as defined in [Note 10](#).

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Significant accounting policies (continued)

1.10 Risk transfer arrangement (continued)

Assets relating to a risk transfer arrangement include balances due under the risk transfer arrangement for outstanding risk claims provisions and risk claims reported not yet paid. Amounts recoverable under a risk transfer arrangement is estimated in a manner consistent with the risk claims provision, risk claims reported not yet paid and settled risk claims associated with the risk transfer arrangement.

1.11 Managed care: management services

These expenses represent the amounts paid or payable to non-accredited third party administrators, related parties and other third parties for managing the utilisation, costs and quality of healthcare services to the Scheme. These fees are expensed as incurred and are reported in [Note 9](#) of the administration expenditure as defined in Circular 56 of 2015.

1.12 Liabilities and related assets under liability adequacy test

At the reporting 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 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 the Scheme recognises the deficiency in profit or loss for the year.

1.13 Investment income

Investment income comprises dividends, interest on cash and cash equivalents, interest on fixed interest securities and realised gains or losses on available-for-sale investments.

Dividend income from investments is recognised when the right to receive payment is established.

Interest income is recognised on the effective interest method, taking account of the principal amount outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Scheme.

Realised gains or losses on disposal of available-for-sale investments are recognised in profit or loss as investment income.

1.14 Interest paid on PMSA

The interest paid on PMSA is recognised in profit or loss according to the effective interest method, net of related costs.

1.15 Impairment losses*Financial assets*

The carrying amounts of the Scheme's assets are reviewed at each reporting date to determine whether there is any indication of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset. If any such indication exists, the asset's recoverable amount is estimated.

The Scheme first assesses whether objective evidence of impairment exists for financial assets that are individually significant, such as service provider debtors. In the case of assets which are not individually significant, such as contribution debtors, financial assets are grouped on the basis of similar credit characteristics, such as asset type and past-due status. These characteristics are used in the estimation of future recoverable cash flows.

NOTES TO THE FINANCIAL STATEMENTS *(continued)***1 Significant accounting policies** *(continued)***1.15 Impairment losses** *(continued)**Financial assets (continued)*

An impairment loss in respect of an available-for-sale investment is calculated by reference to its fair value. When a decline in the fair value of an available-for-sale investment has been recognised in other comprehensive income and accumulated in the available-for-sale revaluation reserve and there is objective evidence that the asset is impaired, the cumulative loss that had been accumulated in the available-for-sale revaluation reserve is reclassified to profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is reclassified to profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that investment previously recognised in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an impairment account against loans and receivables. Interest on the impaired asset continues to be recognised.

Reversals of impairments

Impairment losses in respect of financial assets are reversed if the subsequent decrease in an impairment loss can be related objectively to an event occurring after an impairment loss was recognised or as a result of a change in the estimates used to determine the recoverable amount.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. The impairment loss is reversed, with the amount of the reversal recognised in other comprehensive income. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after an impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

An impairment reversal in respect of a receivable carried at amortised cost is recognised in profit or loss.

1.16 Allocation of income and expenditure to benefit options

The following items of income and expenditure are directly incurred by the Scheme's benefit options:

- Risk contribution income;
- Risk claims incurred;
- Risk transfer arrangement fees;
- Managed healthcare: management services;
- Administration fees;
- Broker fees; and
- Impairment and recoveries on receivables.

The remaining items are apportioned based on the number of members on each option:

- Other administration expenditure;
- Investment income;
- Winddown costs;
- Sundry income; and
- Asset management fees.

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2 Available-for-sale investments	2021	2020
	R'000	R'000
Acquisition cost	1 341 796	1 138 941
Net unrealised gains on revaluation	31 279	20 567
Fair value at the beginning of the year	1 373 075	1 159 508
Additions to investments	667 317	555 878
Investment management fees	(9 317)	(8 382)
Disposal at fair value at date of sale	(842 380)	(342 345)
Net unrealised gains for the year	165 187	8 416
Fair value at the end of the year	1 353 882	1 373 075
The investments included above represent investments in:		
Unlisted debentures	12 980	13 446
Listed equities	712 320	660 940
Listed fixed interest bonds	550 917	606 940
Listed investment property funds	77 665	91 749
	1 353 882	1 373 075

The fair values of the publicly traded financial instruments are based on listed closing prices as at the reporting date. A register of investments is available for inspection at the registered office of the Scheme. Information regarding the exposure to credit and market risks, and fair value measurement, is included in [Note 21](#).

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 Trade and other receivables	2021 R'000	2020 R'000
Insurance receivables		
Contributions receivable	210 071	196 439
Members co-payments receivable	21 560	20 262
Provider debts receivable	2 130	2 413
Financial receivables		
Advances on PMSA (Note 6)	3 985	4 170
Loans and receivables		
Aid for Aids	12	4
Hospital Discount	-	17 606
South African National Blood Service Credit note Repayment	643	-
Investment income receivable	575	399
Loans to members (other)	16	7
Loans to members (MediVault)	128 460	101 625
RAF recovery	2	117
	367 454	343 042
Insurance receivables		
Less: Impairment losses	(46 380)	(49 413)
Balance at the beginning of the year	(49 413)	(24 688)
Amounts utilised during the year	5 840	1 739
Net movement in impairment (Note 12)	(2 807)	(26 464)
Balance at the end of the year	321 074	293 629

The carrying amounts of financial receivables approximate their fair values due to the short-term maturities of these assets. The estimated future cash flow receipts have not been discounted as the effect would be immaterial.

Loans to Members – MediVault (Debtor) transferred to Wallet (Creditor)

The FlexiFed options give members access to an interest-free loan facility called the MediVault Benefit. The amount allocated can be used to pay for day-to-day medical expenses. This amount is based on the member's selected option and family composition. These funds are not pro-rated based on the member's join date and can be accessed at any time during the year. To access these funds, the member is required to accept the terms and conditions before transferring an amount to their Wallet. The transfer can be in full upfront, or in part as needed. The member only has to pay back the money transferred from the MediVault to the Wallet. The member has an interest free cover over a period of twelve months for the funds transferred to their Wallet. Day-to-day benefit claims are first funded from available savings, and thereafter if activated, the member's Wallet account.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 Cash and cash equivalents	2021 R'000	2020 R'000
Call accounts	49 191	106 728
Current accounts	72 879	24 566
Money market investments	331 735	406 618
Balance at the end of the year	453 805	537 912

The weighted average effective interest rate on cash and cash equivalents was 3.7% (2020: 4.6%). Call accounts have an average maturity of one day (2020: one day). The return on money market investments is benchmarked against the STeFi. Refer to [Note 21](#) for performance comparison.

The fair values of cash and cash equivalents approximate the carrying amount as these are short-term in nature.

5 Outstanding risk claims provision	2021 R'000	2020 R'000
Not covered by risk transfer arrangements		
Provision for outstanding risk claims - Incurred but not reported (IBNR)	255 677	245 093
Analysis of movement in outstanding risk claims		
Balance at beginning of the year	245 093	209 237
Payments in respect of the previous year	(227 546)	(208 721)
Over provision in the previous year (Note 9)	17 547	516
Adjustment for the current year (Note 9)	238 130	244 577
Balance at the end of the year	255 677	245 093
Analysis of outstanding risk claims provision		
Estimated gross claims	264 059	255 548
Less: Estimated recoveries from PMSA	(8 382)	(10 455)
Balance at the end of the year	255 677	245 093

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NOTES TO THE FINANCIAL STATEMENTS (continued)

5 Outstanding risk claims provision (continued)

Process used to determine the assumptions

The provision is calculated as expected ultimate claims less the actual claims paid and accrued as at the year-end. For year-end purposes, the expected ultimate claims are estimated by considering the actual risk claims paid as at 29 February 2022 in respect of the 2021 financial year, and extrapolating these paid claims to 30 April 2022 (four months after the end of the financial year, corresponding to the maximum period of time, of four months, during which claims have to be notified to the Scheme as per the Scheme's rules). In addition the provision includes Covid-19 Vaccination claims not submitted to date. The percentage of the estimated total risk claims in respect of the 2021 financial year paid by 28 March 2022 was 72.31% (2020: 26 March 2021: 81.0%).

The cost of outstanding risk claims is estimated using a range of statistical methods. Such methods extrapolate the trends of paid and incurred claims, average cost per risk claims and ultimate risk claim numbers for each benefit year based upon observed trends of earlier years and expected risk claims ratios. Run-off triangles are used in situations where it takes time after the treatment date until the full extent of the risk claims to be paid is known. It is assumed that payments will be made in a similar pattern for each service month.

The actual method or blend of methods used varies by benefit year considered, categories of risk claims and observed historical risk claims trends. To the extent that these methods use historical risk claims trends information they assume that the historical risk claims trends 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 pattern/recording of risk claims paid and incurred;
- economic, legal, political and social trends (resulting in different than expected levels of inflation and/or minimum medical benefits to be provided);
- changes in composition of membership and their dependants' profiles; and
- random fluctuations, including the impact of large losses.

Assumptions

The assumptions that have the greatest effect on the measurement of the outstanding risk claims provision are the previous years' experience in claims processing patterns and the average risk claims paid in the run-off period each year based on historical trends. These are used for assessing the outstanding risk claims provision.

Covid-19 impact

At the time of reporting, the fourth Covid-19 wave in South Africa was coming to an end. The fourth wave was driven by the Omicron variant which was highly transmissible but less severe compared to prior waves. Although the fourth wave is dissipating there are new considerations with respect to Covid-19 after 31 December 2021.

There is a strong likelihood that Covid-19 will become an endemic disease. Some epidemiologists are predicting that there will be a fifth wave which is likely to occur soon, probably during winter (May, June or July). The strength and impact of the fifth wave will be influenced by, among other things:

- Vaccinations
- New variants
- Number of people who have had Covid-19
- Government lockdown measures

Scientists are working on various ways to administer Covid-19 vaccines, including tablets or capsules for individuals who suffer from fear of needles. The advantages of this approach is that it eases distribution and storage, eliminates

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NOTES TO THE FINANCIAL STATEMENTS (continued)

5 Outstanding risk claims provision (continued)

Covid-19 impact (continued)

the need for a medical practitioner to administer the vaccine, is likely to be cheaper, and is expected to increase vaccine take-up. A Covid-19 vaccine pill trial has been approved in South Africa. If successful, it would have a positive impact on managing the Covid-19 pandemic.

Changes in assumptions and sensitivities to changes in key variables

The Scheme believes that the liability for risk claims reported in the statement of financial position is adequate. However, it recognises that the process of estimation is based upon certain variables which could differ when the risk claims arise.

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

The table below outlines the sensitivity of the provision for outstanding risk claims to movement in the significant key variables and assumptions.

	Increase in variable %	Change in liability 2021 R'000	Change in liability 2020 R'000
Risk claims processing patterns	10	25 568	24 509

Effect on accumulated funds ratio and accumulated funds:

Accumulated funds ratio	%	%
Accumulated funds ratio as at 31 December	42.76	44.66
Movement due to 10% increase in claims processing pattern	0.70	0.66

Accumulated funds	R'000	R'000
Accumulated funds as at 31 December	1 551 119	1 655 725
Movement due to 10% increase in claims processing pattern	25 568	24 509

Liability adequacy test

The test is required to ensure that the measurement of the Scheme's insurance liabilities considers all contractual cash flows, using current estimates.

The Scheme has no deferred acquisition costs or related intangible assets. In determining the insurance liability, the Scheme has determined, using current estimates, contractual cash flows arising from claims with a service date prior to year-end (reporting date) that will only be presented for payment after date of signature. The considerations for this calculation have been considered under this provision. There are no embedded options or guarantees in the Scheme. The Scheme has also not entered into reinsurance contracts. Having regard for the above, no shortfall has been identified when considering the measurement of the Scheme's insurance liabilities.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

6 Personal medical savings accounts (PMSA)

PMSA liability	2021 R'000	2020 R'000
Balance of PMSA liability at the beginning of the year	167 399	205 005
Advances on PMSA	(4 170)	(9 577)
Net balance on PMSA liability at the beginning of the year	163 229	195 428
PMSA contributions received (Note 8)	85 888	91 945
Interest on PMSA	4 772	6 063
Net transfer from other schemes in terms of Regulation 10(4)	2 170	2 833
Claims paid on behalf of members (Note 9)	(109 587)	(126 271)
Refunds on death or resignation in terms of Regulation 10(4)	(5 420)	(1 511)
Prescribed credit reversal/(write back) of unclaimed savings (Note 14)	(5 673)	149
Prior year advances recovered during the year	(4 170)	(9 577)
Advances on PMSA (Note 3)	3 985	4 170
Balance at the end of the year	135 194	163 229
Balance of PMSA liability:		
- for active members	111 217	138 213
- due to ex-members	23 977	25 016
Balance at the end of the year	135 194	163 229

The PMSA liability contains a demand feature in terms of Regulation 10(4) of the Act that any credit balance on a member's PMSA must be refunded to the member when the member's membership is terminated, only if the member does not belong to another medical scheme with a PMSA benefit option, in which case the funds are paid over to the savings benefit option of that scheme.

The carrying amount of the members' PMSA trust liability approximates its fair value as it is of a short-term nature.

Interest is paid on the PMSA monthly. The fixed interest rate for 2021 was 4% (2020: 4%). No interest is charged on advances for PMSA.

Prescribed unclaimed credit balances of R5.7m were written back in 2021 (R149k reversed in 2020).

It is estimated that the claims to be paid out of the members' PMSA in respect of claims incurred in 2021 but not refunded by 31 December 2021 amounted to R8.1m (2020: R10.5m). Advance PMSA liability claims are funded by the Scheme and are included in trade and other receivables.

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 Trade and other payables	2021	2020
	R'000	R'000
<i>Insurance liabilities</i>		
Reported risk claims not yet paid	31 232	34 142
Risk contributions received in advance	6 828	6 793
Total arising from insurance liabilities	38 060	40 935
<i>Financial liabilities</i>		
Accrual for investment management fee	51	46
Unknown deposits	420	338
Amounts owing to administrator	969	1 190
Other payables and accrued expenses	4 971	3 497
Member loan creditor (Wallet)	70 002	63 284
Total arising from financial liabilities	76 413	68 355
Balance at the end of the year	114 473	109 290

The carrying amounts of financial liabilities approximate their fair value due to the short-term maturities of these liabilities.

Reported risk claims not yet paid:

Balance at the beginning of the year	34 142	18 487
Movement during the year	(2 910)	15 655
Balance at the end of the year	31 232	34 142

Reported risk claims not yet paid constitute risk claims that have been received and processed for payment. These risk claims have been accounted for in the relevant healthcare expenditure for the current financial period. Payment of these risk claims will only occur in subsequent periods.

The Scheme's exposure to liquidity risk related to trade and other payables is disclosed in [Note 21](#).

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 Risk contribution income	2021 R'000	2020 R'000
Gross contributions	3 627 815	3 707 164
Less: PMSA contributions received (Note 6)	(85 888)	(91 945)
Risk contribution income	3 541 927	3 615 219

The PMSA contributions are received by the Scheme in terms of Regulation 10(1) of the Act and the Scheme's rules.

9 Risk claims incurred	2021 R'000	2020 R'000
Current year claims	3 196 790	2 841 274
Claims not covered by risk transfer arrangement	3 195 508	2 840 137
Claims covered by risk transfer arrangement	1 282	1 137
Outstanding risk claims provision	255 677	245 093
Over provision in the previous year (Note 5)	17 547	516
Adjustment for the current year (Note 5)	238 130	244 577
Managed healthcare: accredited management services	94 819	96 332
Claims paid from PMSA on behalf of members (Note 6)	(109 587)	(126 271)
Risk claims incurred	3 437 699	3 056 428
Managed healthcare: accredited management services		
Hospital benefit management	40 583	41 879
Pharmaceutical benefit management	16 233	16 740
Healthcare professional risk management (networks)	10 409	11 391
Disease management	15 983	15 346
Managed care programme	83 208	85 356
Managed healthcare programme: Aid for Aids Management (Pty) Ltd	10 540	10 874
Managed healthcare programme: Palliative Care program	494	23
Managed healthcare programme: Case Management - GCMS	577	79
	94 819	96 332

The managed healthcare fee is charged as a composite fee based on an estimated allocation by the managed healthcare organisation and the above allocation is based on that organisation's estimated cost of the services provided.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

10	Net income on risk transfer arrangement	2021 R'000	2020 R'000
	Iso Leso Optics Ltd (Iso Leso)		
	Risk transfer arrangement premiums paid	(838)	(897)
	Recovery from risk transfer arrangement	1 282	1 137
		444	240

The Scheme has a capitation agreement with Iso Leso. Its primary objective is to manage eye care so that medical scheme benefits are well designed and sufficient to meet the clinical needs of the patient. Iso Leso provides comprehensive eye examinations screening for glaucoma and single vision and bifocal spectacles for MyFed beneficiaries.

These costs are estimates only and are calculated as follows:

- Iso Leso provides the Scheme with a report reflecting underlying claims information relating to optometry services covered by the risk transfer arrangement.
- Iso Leso provides the average number of visits per annum to an optometrist. The Scheme has applied the Scheme tariff to these to determine the total cost.
- The contract is renewable bi-annually and the capitation fee is based on the number of enrolled beneficiaries in the MyFed option.



NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Administration expenditure	2021	2020
	R'000	R'000
Administration fees	273 003	280 769
Advertising	56 712	48 515
Amalgamation over accruals	-	(228)
Audit Committee costs (Note 11.1)	179	174
Audit fees	1 223	1 385
– in respect of the current year	786	968
– in respect of the previous year	437	417
Bank charges	1 659	1 920
Board of Healthcare Funders: Practice Code Numbering System (PCNS)	179	184
Conference fees	105	158
Consulting fees	2 543	2 443
Debt collection fee	111	23
Fidelity guarantee premium	334	315
Insurance Fraud Management	3 176	2 432
Health Funders Association	286	298
Legal fees	230	129
Maternity Programme	2 173	1 487
Meeting expenses	22	15
Metrofile	9	8
Principal Officer's fees	3 146	3 039
Principal Officer's remuneration	3 102	2 996
Principal Officer's expenses	44	43
Printing and photocopying	827	860
RAF recovery fees	3 583	4 796
Registrar's levies	3 332	3 130
Salaries and reimbursements	1 285	1 608
Staff training	15	-
Total Board Members' remuneration	4 358	5 314
– fees for holding of office (Note 11.1)	4 286	5 174
– travel and accommodation (Note 11.1)	72	140
Balance at the end of the year	358 490	358 774

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NOTES TO THE FINANCIAL STATEMENTS (continued)

	2021	2020
	R'000	R'000
11 Administration expenditure (continued)		
Amounts paid to the accredited administrator		
The following is a detailed breakdown of administration and benefit management services provided by the accredited administrator.		
Administration fee	-	280 769
Accredited Services		
Broker remuneration management	1 676	-
Claims processing and payment	38 229	-
Contribution management	24 538	-
Customer service	114 987	-
Financial administration management	15 473	-
Information management and data control	12 228	-
Membership record management	24 546	-
Other Services		
Broker Service	1 718	-
Distribution service	15 046	-
Governance and compliance	6 089	-
Healthcare professional management service	6 278	-
Marketing service	12 195	-
Balance at the end of the year	273 003	280 769

The Council, Circular 77 Of 2019, requires all schemes to report "accredited" administration service fees per service categories with effect from 1 January 2021. These categories were reported under administration fees in the 2020 financial year-end.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

11.1 Administration expenditure (continued)

Remuneration and expenses of the Board Members and Audit Committee	Fees for holding office	Travel and Accommodation	Audit Committee meeting fees	Total fees and Expenses	Fees for holding office	Travel and Accommodation	Audit Committee meeting fees	Total fees and Expenses
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
	2021				2020			
N Byrne	-	1	-	1	232	11	-	243
J Cloete	408	-	-	408	398	-	-	398
M Duly	3	-	-	3	365	-	-	365
G Eloff	408	8	-	416	398	6	-	404
A Fourie	199	1	-	200	398	23	-	421
A Gahagan-Thomson	209	-	-	209	-	-	-	-
M Govender	820	-	-	820	531	-	-	531
Dr A Goneos-Malka	209	-	-	209	-	-	-	-
P Hemus	199	26	-	225	398	23	-	421
T Jackson	-	-	-	-	464	14	-	478
K Elliott	408	6	-	414	166	-	-	166
Dr M Mojapelo-Mokotedi	408	6	-	414	398	7	-	405
C Norton	408	7	-	415	398	10	-	408
N Parker	408	17	-	425	398	26	-	424
D Tretheway	-	-	-	-	232	17	-	249
J Viljoen	199	-	-	199	398	3	-	401
Board Member Costs	4 286	72	-	4 358	5 174	140	-	5 314
Independent: K Aron	-	-	23	23	-	-	-	-
Independent: P Brink	-	-	72	72	-	-	70	70
Independent: H Kajie	-	-	36	36	-	-	34	34
Independent: B Phillips	-	-	48	48	-	-	70	70
Audit Committee Costs	-	-	179	179	-	-	174	174
Total	4 286	72	179	4 537	5 174	140	174	5 488

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NOTES TO THE FINANCIAL STATEMENTS (continued)

12 Net impairment loss on healthcare receivables	2021 R'000	2020 R'000
Trade and other receivables		
Contributions not recoverable	(627)	(2 107)
Decrease/(increase) in impairment	1 395	(1 245)
- Impairment recognised directly in profit or loss	(2 022)	(862)
Members' and service providers' portions not recoverable	(5 998)	(7 914)
- Increase in impairment	(2 189)	(7 037)
- Impairment recognised directly in profit or loss	(3 809)	(877)
PMSA advances not recoverable	2 504	1 613
- Decrease in impairment	2 504	1 613
Loans to members (MediVault) not recoverable	1 314	(18 056)
Decrease/(increase) in impairment	1 314	(18 056)
Net movement in impairment (Note 3)	(2 807)	(26 464)
Previous impairment losses recovered	1 432	715
Balance as at the end of the year	(1 375)	(25 749)

13 Investment income	2021 R'000	2020 R'000
Net fair value realised on disposal	124 168	(2 296)
Realised gains from available-for-sale investments	290 028	114 269
Realised losses from available-for-sale investments	(165 860)	(116 565)
Dividends received	25 765	31 834
Interest received	70 255	61 122
Interest received on investments	62 167	48 358
Interest income from cash and cash equivalents	8 088	12 764
Balance at the end of the year	220 188	90 660

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

14 Sundry income	2021	2020
	R'000	R'000
Prescribed credit write back/(reversal) of unclaimed savings (Note 6)	5 673	(149)
Fraud recoveries	2 705	3 059
Administration penalty	1 012	-
Balance at the end of the year	9 390	2 910

15 Asset management fees	2021	2020
	R'000	R'000
Investment management fees	9 317	8 382
Investment expenses	512	307
Cash management fees	729	897
Balance at the end of the year	10 558	9 586

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16 Operations per benefit option

Benefit design of the Scheme

The Scheme provides three product ranges which include a low cost option, **MyFed**. The product ranges cater for market segments at different life stages from comprehensive options, **MaxiFed** (Maxima Plus and Maxima Exec for conservative and less healthy members to cheaper options, **FlexiFed** (11 options), for young/healthy members, young couples and families. The more comprehensive options have higher benefit limits, lower co-payments and better day-to-day benefits. The **ELECT** and **GRID** options are efficiency discount options (EDO), which contain the same level of benefits as the main options at a discounted contribution rate. For these options medical services should be obtained from the Scheme Networks.

MaxiFED Options

The **MaxiFED** options generally provide more comprehensive in-hospital benefits than the **FlexiFED** options, with virtually no deductibles and more generous limits on certain procedures. The **MaxiFED** options also cover more chronic diseases than the **FlexiFED** options.

Maxima PLUS provides for the richest benefits in this range. This option has a medical savings account (savings), as well as a safety net (threshold) benefit. It also provides for day-to-day benefits from OHEB (out-of-hospital expense benefit) risk pool after members have used up their savings.

FlexiFED options

All the options in the **FlexiFED** options have co-payments on a number of in-hospital procedures. In-hospital limits differ by option, with the limits reducing across the options. These plans offer access to funding for day-to-day benefits via the innovative MediVault and Wallet system. This system allows members to select the ideal level of day-to-day benefits that best fits their needs and budget. This is superior to conventional savings plans where members are forced to accept the level of savings that is predetermined on the plan of their choice (e.g. 15% Medical Savings Account (MSA) or 25% MSA). The amount of funds that is available for day-to-day funds via the MediVault varies across each **FlexiFED** plan. All **FlexiFED** plans offer a threshold benefit which pays for unlimited (nominated) network GP consults as well as a basic/preventative dental benefit on **FlexiFED1, 2 & 3**. **FlexiFED4** offers a comprehensive, unlimited threshold benefit which covers a number of out-of-hospital benefit categories such as GP and specialist consultations, pathology and radiology, optical and dental, etc. The same also applies to the MediVault benefits. Chronic medicine is limited to Chronic Disease List (CDL) only for **FlexiFED1** and **FlexiFED2** (including EDOs). These options provide for a small medical savings account and a MediVault account that can be activated by the member. The **ELECT** and **GRID** options have hospital networks.

MyFed

The **MyFed** option is structured differently from the options in the **MaxiFED** and **FlexiFED** options. It does not provide for any OHEB, savings or threshold benefits. Rather, day-to-day benefits are specified with individual limits on benefits. All day-to-day benefits, except dental benefits, can only be accessed after referral by a contracted General Practitioner (GP). The GP is used as the gatekeeper and coordinator of all care, with the exception of dental benefits. All in-hospital limits are also significantly lower than on the **MaxiFED** or **FlexiFED** options and the option has a hospital network.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 Operations per benefit option (continued)	FlexiFed 1		FlexiFed 2			Subtotal carried forward
	FlexiFed 1 R'000	Elect R'000	FlexiFed 2 R'000	Grid R'000	Elect R'000	
2021						
Net risk contribution income	628 397	80 253	231 077	189 242	15 756	1 144 725
Relevant healthcare expenditure	(534 132)	(56 731)	(218 272)	(202 742)	(15 447)	(1 027 324)
Net claims incurred	(534 132)	(56 731)	(218 272)	(202 742)	(15 447)	(1 027 324)
Risk claims incurred	(525 301)	(55 775)	(214 962)	(200 730)	(15 208)	(1 011 976)
Claims paid from PMSA on behalf of the member	(9 946)	(1 153)	(3 591)	(2 261)	(263)	(17 214)
Third party claims recoveries	1 115	197	281	249	24	1 866
Net income on risk transfer arrangements	-	-	-	-	-	-
Risk transfer arrangement fees/premiums paid	-	-	-	-	-	-
Recoveries from risk transfer arrangements	-	-	-	-	-	-
Gross healthcare result	94 265	23 522	12 805	(13 500)	309	117 401
Broker service fees	(18 102)	(2 476)	(5 330)	(4 772)	(394)	(31 074)
Administration expenses	(101 510)	(17 861)	(25 615)	(22 659)	(2 196)	(169 841)
Net impairment (losses)/gains on healthcare receivables	(402)	18	(79)	30	15	(418)
Net healthcare result	(25 749)	3 203	(18 219)	(40 901)	(2 266)	(83 932)
Other income	61 659	10 718	15 663	13 719	1 327	103 086
Fraud Recovery	748	135	188	166	16	1 253
Investment income: Medical Scheme	60 488	10 583	15 293	13 520	1 311	101 195
Administration penalty	-	-	-	-	-	-
Prescribed credit write back of unclaimed savings	423	-	182	33	-	638
Other expenditure	(3 162)	(540)	(833)	(690)	(67)	(5 292)
Asset management fees	(2 907)	(512)	(733)	(649)	(63)	(4 864)
Interest on PMSA	(255)	(28)	(100)	(41)	(4)	(428)
Net surplus/(deficit) for the year	32 748	13 381	(3 389)	(27 872)	(1006)	13 862
Number of members per option	19 112	3 618	4 781	4 276	426	32 213

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NOTES TO THE FINANCIAL STATEMENTS (continued)

16	Operations per benefit option (continued) 2021	Subtotal brought forward R'000	FlexiFed 3 R'000	FlexiFed 3 Grid R'000	Elect R'000	FlexiFed 4 R'000	FlexiFed 4 Grid R'000	Elect R'000	Maxima Plus R'000	Maxima Exec R'000	Subtotal carried forward R'000
	Net risk contribution income	1 144 725	616 337	104 319	19 670	955 868	86 296	34 182	166 801	329 788	3 457 986
	Relevant healthcare expenditure	(1 027 324)	(615 046)	(137 852)	(17 064)	(913 727)	(95 781)	(30 503)	(150 135)	(340 199)	(3 327 631)
	Net claims incurred	(1 027 324)	(615 046)	(137 852)	(17 064)	(913 727)	(95 781)	(30 503)	(150 135)	(340 199)	(3 327 631)
	Risk claims incurred	(1 011 976)	(606 590)	(136 491)	(16 763)	(895 950)	(94 669)	(28 142)	(140 898)	(293 214)	(3 224 693)
	Claims paid from PMSA on behalf of the member	(17 214)	(9 113)	(1 481)	(326)	(21 405)	(1 188)	(2 396)	(9 295)	(47 169)	(109 587)
	Third party claims recoveries	1 866	657	120	25	3 628	76	35	58	184	6 649
	Net income on risk transfer arrangements	-	-	-	-	-	-	-	-	-	-
	Risk transfer arrangement fees/premiums paid	-	-	-	-	-	-	-	-	-	-
	Recoveries from risk transfer arrangements	-	-	-	-	-	-	-	-	-	-
	Gross healthcare result	117 401	1 291	(33 533)	2 606	42 141	(9 485)	3 679	16 666	(10 411)	130 355
	Broker service fees	(31 074)	(12 090)	(2 141)	(408)	(16 092)	(1 385)	(573)	(963)	(3 387)	(68 113)
	Administration expenses	(169 841)	(60 129)	(10 936)	(2 287)	(74 237)	(6 899)	(3 210)	(5 308)	(16 797)	(349 644)
	Net impairment (losses)/gains on healthcare receivables	(418)	(9)	(10)	20	(423)	(33)	6	(93)	(361)	(1 321)
	Net healthcare result	(83 932)	(70 937)	(46 620)	(69)	(48 611)	(17 802)	(98)	10 302	(30 956)	(288 723)
	Other income	103 086	37 098	6 600	1 382	49 209	4 161	2 120	3 547	10 784	217 987
	Fraud Recovery	1 253	438	80	17	540	51	24	40	123	2 566
	Investment income: Medical Scheme	101 195	36 043	6 516	1 365	44 377	4 110	1 917	3 173	10 040	208 736
	Administration penalty	-	-	-	-	1 012	-	-	-	-	1 012
	Prescribed credit write back of unclaimed savings	638	617	4	-	3 280	-	179	334	621	5 673
	Other expenditure	(5 292)	(2 198)	(361)	(91)	(4 565)	(272)	(137)	(285)	(1 583)	(14 784)
	Asset management fees	(4 864)	(1 721)	(313)	(65)	(2 125)	(198)	(92)	(152)	(482)	(10 012)
	Interest on PMSA	(428)	(477)	(48)	(26)	(2 440)	(74)	(45)	(133)	(1 101)	(4 772)
	Net surplus/(deficit) for the year	13 862	(36 037)	(40 381)	1 222	(3 967)	(13 913)	1 885	13 564	(21 755)	(85 520)
	Number of members per option	32 213	11 027	2 045	430	13 548	1 282	580	968	3 116	65 209

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NOTES TO THE FINANCIAL STATEMENTS (continued)

16 Operations per benefit option (continued)	Subtotal brought forward	MyFed	Grand Total
2021	R'000	R'000	R'000
Net risk contribution income	3 457 986	83 941	3 541 927
Relevant healthcare expenditure	(3 327 631)	(102 766)	(3 430 397)
Net claims incurred	(3 327 631)	(102 322)	(3 429 953)
Risk claims incurred	(3 224 693)	(102 531)	(3 327 224)
Claims paid from PMSA on behalf of the member	(109 587)	-	(109 587)
Third party claims recoveries	6 649	209	6 858
Net income on risk transfer arrangements	-	444	444
Risk transfer arrangement fees/premiums paid	-	(838)	(838)
Recoveries from risk transfer arrangements	-	1 282	1 282
Gross healthcare result	130 355	(18 825)	111 530
Broker service fees	(68 113)	(2 406)	(70 519)
Administration expenses	(349 644)	(8 846)	(358 490)
Net impairment losses on healthcare receivables	(1 321)	(54)	(1 375)
Net healthcare result	(288 723)	(30 131)	(318 854)
Other income	217 987	11 591	229 578
Fraud Recovery	2 566	139	2 705
Investment income: Medical Scheme	208 736	11 452	220 188
Administration penalty	1 012	-	1 012
Prescribed credit write back of unclaimed savings	5 673	-	5 673
Other expenditure	(14 784)	(546)	(15 330)
Asset management fees	(10 012)	(546)	(10 558)
Interest on PMSA	(4 772)	-	(4 772)
Net surplus/(deficit) for the year	(85 520)	(19 086)	(104 606)
Number of members per option	65 209	3 592	68 801

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NOTES TO THE FINANCIAL STATEMENTS (continued)

16 Operations per benefit option (continued) 2020	FlexiFed 1		FlexiFed 2			Subtotal carried forward
	FlexiFed 1 R'000	Elect R'000	FlexiFed 2 R'000	Grid R'000	Elect R'000	R'000
Net risk contribution income	633 452	47 346	225 879	178 866	8 261	1 093 804
Relevant healthcare expenditure	(429 400)	(22 488)	(202 842)	(151 515)	(7 475)	(813 720)
Net claims incurred	(429 400)	(22 488)	(202 842)	(151 515)	(7 475)	(813 720)
Risk claims incurred	(419 552)	(21 985)	(199 426)	(149 717)	(7 362)	(798 042)
Claims paid from PMSA on behalf of the member	(11 728)	(676)	(3 913)	(2 223)	(137)	(18 677)
Third party claims recoveries	1 880	173	497	425	24	2 999
Net income on risk transfer arrangements	-	-	-	-	-	-
Risk transfer arrangement fees/premiums paid	-	-	-	-	-	-
Recoveries from risk transfer arrangements	-	-	-	-	-	-
Gross healthcare result	204 052	24 858	23 037	27 351	786	280 084
Broker service fees	(17 982)	(1 405)	(5 327)	(4 643)	(227)	(29 584)
Administration expenses	(99 178)	(10 169)	(25 743)	(21 781)	(1 218)	(158 089)
Net impairment losses on healthcare receivables	(6 874)	(704)	(1 789)	(1 489)	(82)	(10 938)
Net healthcare result	80 018	12 580	(9 822)	(562)	(741)	81 473
Other income	25 230	2 681	6 529	5 525	314	40 279
Fraud Recovery	822	86	213	180	10	1 311
Investment income: Medical Scheme	24 408	2 595	6 316	5 345	304	38 968
Prescribed credit write back of unclaimed savings	-	-	-	-	-	-
Other expenditure	(2 941)	(286)	(800)	(606)	(36)	(4 669)
Asset management fees	(2 576)	(268)	(668)	(565)	(32)	(4 109)
Interest on PMSA	(365)	(18)	(132)	(41)	(4)	(560)
Net surplus/(deficit) for the year	102 307	14 975	(4 093)	4 357	(463)	117 083
Number of members per option	20 107	2 547	5 204	4 440	265	32 563

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NOTES TO THE FINANCIAL STATEMENTS (continued)

16	Operations per benefit option (continued) 2020	Subtotal brought forward R'000	FlexiFed 3 R'000	FlexiFed 3 Grid R'000	Elect R'000	FlexiFed 4 R'000	FlexiFed 4 Grid R'000	Elect R'000	Maxima Plus R'000	Maxima Elect R'000	Subtotal carried forward R'000
	Net risk contribution income	1 093 804	672 207	80 943	9 125	1 050 991	59 423	24 563	182 005	334 163	3 507 224
	Relevant healthcare expenditure	(813 720)	(575 083)	(77 051)	(7 634)	(907 074)	(57 545)	(14 435)	(158 703)	(325 322)	(2 936 568)
	Net claims incurred	(813 720)	(575 083)	(77 051)	(7 634)	(907 074)	(57 545)	(14 435)	(158 703)	(325 322)	(2 936 568)
	Risk claims incurred	(798 042)	(563 888)	(76 020)	(7 479)	(880 951)	(56 635)	(14 133)	(148 808)	(276 404)	(2 822 360)
	Claims paid from PMSA on behalf of the member	(18 677)	(12 557)	(1 229)	(182)	(29 196)	(1 002)	(503)	(10 019)	(49 281)	(122 646)
	Third party claims recoveries	2 999	1 362	198	27	3 073	92	201	124	363	8 439
	Net income on risk transfer arrangements	-	-	-	-	-	-	-	-	-	-
	Risk transfer arrangement fees/premiums paid	-	-	-	-	-	-	-	-	-	-
	Recoveries from risk transfer arrangements	-	-	-	-	-	-	-	-	-	-
	Gross healthcare result	280 084	97 124	3 892	1 491	143 917	1 878	10 128	23 302	8 841	570 656
	Broker service fees	(29 584)	(13 433)	(1 718)	(202)	(18 413)	(991)	(429)	(1 131)	(3 398)	(69 299)
	Administration expenses	(158 089)	(66 705)	(8 720)	(1 075)	(83 126)	(4 831)	(2 383)	(6 067)	(17 678)	(348 674)
	Net impairment losses on healthcare receivables	(10 938)	(4 556)	(596)	(72)	(5 687)	(340)	(171)	(538)	(1 321)	(24 219)
	Net healthcare result	81 473	12 430	(7 142)	142	36 691	(4 284)	7 145	15 566	(13 556)	128 464
	Other income	40 279	16 854	2 214	276	20 880	1 228	598	1 511	4 451	88 292
	Fraud Recovery	1 311	552	72	9	687	40	20	50	146	2 887
	Investment income: Medical Scheme	38 968	16 309	2 142	267	20 299	1 188	586	1 481	4 313	85 553
	Prescribed credit write back of unclaimed savings	-	(7)	-	-	(106)	-	(8)	(20)	(8)	(149)
	Other expenditure	(4 669)	(2 453)	(265)	(40)	(5 354)	(172)	(103)	(312)	(1 685)	(15 053)
	Asset management fees	(4 109)	(1 729)	(226)	(28)	(2 153)	(125)	(62)	(157)	(458)	(9 046)
	Interest on PMSA	(560)	(724)	(39)	(12)	(3 201)	(47)	(41)	(155)	(1 227)	(6 006)
	Net surplus/(deficit) for the year	117 083	26 831	(5 193)	378	52 217	(3 228)	7 640	16 765	(10 790)	201 703
	Number of members per option	32 563	13 189	1 759	229	16 337	979	475	1 187	3 485	70 203

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NOTES TO THE FINANCIAL STATEMENTS (continued)

16 Operations per benefit option (continued)	Subtotal brought forward R'000	Maxima Exec Grid R'000	MyFed R'000	Grand Total R'000
2020				
Net risk contribution income	3 507 224	24 494	83 501	3 615 219
Relevant healthcare expenditure	(2 936 567)	(33 181)	(77 581)	(3 047 329)
Net claims incurred	(2 936 567)	(33 181)	(77 821)	(3 047 569)
Risk claims incurred	(2 822 360)	(29 612)	(78 184)	(2 930 156)
Claims paid from PMSA on behalf of the member	(122 646)	(3 626)	-	(126 272)
Third party claims recoveries	8 439	57	363	8 859
Net income on risk transfer arrangements	-	-	240	240
Risk transfer arrangement fees/premiums paid	-	-	(897)	(897)
Recoveries from risk transfer arrangements	-	-	1 137	1 137
Gross healthcare result	570 657	(8 687)	5 920	567 890
Broker service fees	(69 299)	(273)	(2 559)	(72 131)
Administration expenses	(348 674)	(1 434)	(8 666)	(358 774)
Net impairment losses on healthcare receivables	(24 219)	(103)	(1 427)	(25 749)
Net healthcare result	128 465	(10 497)	(6 732)	111 236
Other income	88 291	364	4 915	93 570
Fraud Recovery	2 887	12	160	3 059
Investment income: Medical Scheme	85 553	352	4 755	90 660
Prescribed credit write back of unclaimed savings	(149)	-	-	(149)
Other expenditure	(15 053)	(95)	(501)	(15 649)
Asset management fees	(9 047)	(38)	(501)	(9 586)
Interest on PMSA	(6 006)	(57)	-	(6 063)
Net surplus/(deficit) for the year	201 703	(10 228)	(2 318)	189 157
Number of members per option	70 203	293	3 998	74 494

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17 Related party transactions	2021 R'000	2020 R'000
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The administrator and its associates

Medscheme Holdings (Pty) Ltd, the administrator, Aid for Aids Management (Pty) Ltd, AfroCentric Technologies (Pty) Ltd, Klinikka (Pty) Ltd, Pharmacy Direct (Pty) Ltd, The Cheese Has Moved (Pty) Ltd and Wellworx (Pty) Ltd are subsidiaries of AfroCentric Health (Pty) Ltd and provide key management services to the Scheme. Wellworx is an authorised Financial Services Provider (FSP: 46017), mandated by the Scheme to sell Fedhealth and other complimentary financial service products. Private Health Administrator (PHA) managed the Topmed winddown after amalgamation. These entities participate in the financial and operational activities of the Scheme, but do not control the Scheme. The administrator and its associates have been included due to the significance of the outsourcing relationship.

Statement of comprehensive income

Medscheme Holdings (Pty) Ltd

	364 506	371 813
– Actuarial fees	2 155	2 072
– Administration fees	273 003	280 461
– Administration penalty	1 012	–
– Insurance Fraud Management (IFM)	3 176	2 432
– Managed care: management services	83 111	85 158
– Third party collection administration services	2 049	1 690

AfroCentric Health (Pty) Ltd

	108 304	84 069
– Aid for Aids Management	10 540	10 874
– Klinikka	1 944	1 753
– Pharmacy Direct	31 548	22 580
– PHA: Administration winddown fee	–	308
– PHA: Managed care winddown fee	–	100
– The Cheese Has Moved	51 994	37 454
– Wellworx	12 278	11 000

Statement of financial position

Medscheme Holdings (Pty) Ltd

	1 197	1 323
– Administration fees	489	674
– Aid for Aids Management	(12)	(4)
– Managed care: management services	480	515
– Third party collection administration services	240	138

17 Related party transactions (continued)	2021 R'000	2020 R'000
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Statement of financial position (continued)**Terms and conditions of administration and managed care agreements**

The administration and managed care agreements comply with the rules of the Scheme and are in accordance with instructions given by the Board. The agreements comply with the Act and are automatically renewed each year unless notification of termination is received. The outstanding balances are due within 30 days.

Key management personnel of the Scheme**The Board Members, Principal Officer, Scheme employees, their dependants and close family members**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Scheme. Key management personnel include the Board Members, Principal Officer and Scheme employees. Close family members are members and dependants of the Board Members, Principal Officer and Scheme employees and are therefore also related parties.

Statement of comprehensive income

Board Members' fees for holding of office and related expenses and Principal Officer's remuneration and expenses

	7 521	8 367
– Risk contributions received in terms of the Scheme's rules	671	775
– Risk claims incurred in terms of the Scheme's rules	(506)	(598)

Statement of financial position

– PMSA liability	(10)	(6)
– Loan to member liability (Wallet)	(15)	(5)
– Loan to member debtors (MediVault)	15	252
– Risk contribution debtors	61	71

17 Related party transactions (continued)

Terms and conditions of the related party transactions were as follows:

Remuneration and expenses

This constitutes remuneration and disbursements paid to the Principal Officer and Board Members for services rendered.

Risk Contributions received

This constitutes the risk contributions paid by the related parties as members of the Scheme, in their individual capacities. All contributions are on the same terms as applicable to Scheme members.

Risk claims incurred

This constitutes risk claims from related parties, in their individual capacities as members of the Scheme. All risk claims are paid out in terms of the rules of the Scheme, as applicable to Scheme members.

Risk Contribution debtors

This constitutes risk contributions that are payable in arrears as stipulated in the rules of the Scheme. None of these debts are doubtful and thus no impairment for doubtful debts has been raised on these amounts.

Loans to members

This constitutes an interest-free loan transferred from the MediVault benefit to the member's Wallet account. The member only pays back the money transferred from the MediVault to the Wallet - interest free over a maximum period of twelve months. The instalments are payable in arrears, none of these debts are doubtful and thus no impairment for doubtful debt has been raised on these amounts.



18 Non-compliance matters

Nature and cause of non-compliance	Possible impact of the non-compliance	Corrective course
18.1 Contributions not received within the time stipulated by the Act		
<p>Section 26(7) of the Act states that: "All subscriptions or contributions shall be paid directly to a medical scheme not later than three days after payment thereof becoming due." Exceptions were found and credit control procedures were applied.</p>	<p>Late payment may result in a loss of interest on these amounts to the Scheme for the number of days that payment is late. This is not significant due to the short duration of the contributions outstanding. Members and employer groups are continuously instructed to submit payment on time.</p>	<p>The Board addresses the issue on an ongoing basis in accordance with the Scheme's credit control policy.</p> <p>The Board received exemption in terms of section 8(h) from complying with said section 26(7) as per Circular 28 of 2020: COVID-19.</p>
18.2 Claim payments in excess of 30 days		
<p>Section 59(2) of the Act states that: "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."</p> <p>Exceptions were found at the beginning of the financial year when claims are put on hold, to ensure that the approved tariff and benefit limits are loaded correctly on the administration platform. This process results in a delay in the processing of payments due to the backlog in claims, but only for a few days.</p>	<p>The delay only occurs at the beginning of the financial year when new tariffs and benefit limits are loaded; claims are paid within the first week of tariff and benefit limit approval.</p> <p>The Scheme is not compliant with the Act and/or its rules when certain valid claims are rejected or amounts due on valid claims are short paid.</p>	<p>The year-end process is not considered to be significant due to the members and providers conforming to the annual practice. The practice ensures accurate claims processing for the new benefit year and is in the interest of the risk management process for the Scheme.</p>
18.3 Loss making options		
<p>Section 33(2) of the Act states that: "The Registrar shall not approve any benefit option under this section unless the Council is satisfied that such benefit options (b) shall be self-supporting in terms of membership and financial performance and (c) is financially sound." Various options made net healthcare deficits as disclosed in Note 16 to the financial statements.</p>	<p>The Council may withdraw benefit options, directly affecting the members on these options.</p>	<p>The Scheme was specifically costed to incur net healthcare deficits on certain options. The Scheme's actuary has taken this into account in costing the benefits for the 2022 financial year.</p>

18 Non-compliance matters (continued)

Nature and cause of non-compliance	Possible impact of the non-compliance	Corrective course
18.4 Prohibition of Investments in an employer who participates in the medical scheme or in any administrators		
<p>Section 35(8)(a), (c) and (d) of the Act sets out the prohibition of investments in participating employer and administrators. The Scheme is currently invested in Discovery Holdings Ltd and MMI Holdings Ltd through portfolios managed by underlying investment managers.</p>	<p>The Scheme is non-compliant with Section 35(8). The Council may require the Scheme to disinvest from these companies.</p>	<p>The Scheme has been provisionally granted an exemption for a period of three years, effective 1 December 2019 until 30 November 2022, subject to renewal. The exemption is granted subject to the following conditions:</p> <ul style="list-style-type: none"> ● the Scheme continues to take steps to avoid conflicts of interest; ● the investments, which constitute the subject matter of this exemption application continue to be managed by an independent investment manager with no influence from the Scheme or its officers. The Scheme will be required on an annual basis to submit declarations from investment managers stating that no conflict of interest exists between themselves and the prohibited investment entities; and ● the Scheme conducts a comprehensive quarterly analysis on total assets to ensure that the investments do not exceed the limitations set out in Annexure B
18.5 Prescribed Minimum benefit (PMB) claims paid from savings		
<p>Regulation 8 of the Act, stipulates that schemes are required to fund PMB conditions at full invoice price. Therefore PMB claims cannot be funded by the member's PMSA.</p>	<p>The Scheme is non-compliant with Regulation 8 of the Act and will be liable for the PMB claims paid from the member PMSA.</p>	<p>The administrator corrected the system link to PMB payment and the testing process was refined accordingly. The impacted claims were corrected and paid accordingly.</p> <p>Three exceptions found to the value of R11 931.31.</p>

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 Critical accounting judgments and areas of key sources of estimation uncertainty

In the process of applying the Scheme's accounting policies, the Board has made the following judgments that have the most significant impact on the amounts recognised in the financial statements.

Certain critical accounting judgments in applying the Scheme's accounting policies and key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year, are discussed below.

The ultimate liability arising from risk claims made under medical insurance contracts

There are some sources of uncertainty that need to be considered in the estimation of the liability that the Scheme will ultimately pay for such risk claims. Initial estimates are made relating to the best calculations on reported risk claims and are derived as the risk claims process develops. All estimates are revised and adjusted at year-end by management. Refer to [Note 5](#) for the method used to calculate the outstanding risk claims provision.

Other judgements and estimates

The Scheme has involvement with investment funds in which it invests but it does not consolidate. The investment funds meet the definition of structured entities because:

- the voting rights in the funds are not dominant rights in deciding who controls them because they relate to administrative tasks only;
- each fund's activities are restricted by prospectus; and
- the funds have narrow and well-defined objectives to provide investment opportunities.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 Insurance risk management

The Board acknowledges its responsibility for establishing and communicating appropriate risk and control policies and ensuring that adequate risk management processes are in place. The Scheme has a number of committees which deal with the various policies for accepting risks, including selection and approval of risks to be insured, use of limits and avoiding undue concentrations of risk, and underwriting strategies to ensure appropriate risk classification and premium levels.

Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Scheme assumes the risk of losses of members and their dependants that are directly subject to the risk. The risks relate to the health of the Scheme members. As such, the Scheme is exposed to uncertainty surrounding the timing and severity of claims under the contract. Details regarding the subsequent claims development in respect thereof have been disclosed in [Note 5](#). The Scheme also has exposure to market risk through its insurance and investment activities.

The Scheme manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisations and case management, service provider profiling as well as the monitoring of emerging issues.



20 Insurance risk management (continued)

The Scheme uses several methods to assess and monitor medical insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analyses, scenario analyses and stress testing. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of risk claims are greater than expected.

Medical 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.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will 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.

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

Chronic benefits cover the cost of certain prescribed medicines utilised by members for chronic conditions such as high blood pressure, cholesterol and asthma.

Day-to-day benefits cover the cost (up to 100% of the Scheme's tariff) of out-of-hospital medical attention, such as visits to general practitioners and dentists as well as prescribed non-chronic medicines.

The Scheme's strategy seeks diversity of risk to ensure a balanced risk profile and is based on a large pool of similar risks over a period of time and, as such, it is believed that this reduces the variability of the outcome.

The strategy is set out in the annual budget and benefit guide, which specifies the benefits to be provided by each option, the preferred target market and demographic split thereof.

All the contracts are periodic in nature and the Scheme has the right to change the terms and conditions of the contract at renewal. Management information including contribution income and claims ratios by option, target market and demographic split, is reviewed monthly. There is also an underwriting review programme that regularly reviews a sample of contracts to ensure adherence to the Scheme's objectives.

Medical insurance risks facing the Scheme***Adequacy of contributions***

The most significant medical insurance risk that the Scheme faces is the risk that contributions are not sufficient to cover claims expenditure and other expenses, and are further not sufficient to maintain the accumulated funds ratio of the Scheme at the required level.

However, subject to the approval of the Council, the Scheme is able to reset contributions for a change in circumstances.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 Insurance risk management (continued)**Concentration of risk**

The following table summarises the concentration of insurance risk, net of the risk transfer arrangement, with reference to the carrying amount of the insurance claims incurred in relation to the type of benefit provided:

Provider categories	2021		2020	
		R'000		R'000
Medical practitioners	2.93%	97 471	2.93%	85 466
Medical specialists	32.32%	1 074 222	32.73%	954 522
Hospitals	47.21%	1 568 771	46.21%	1 347 162
Medicines	11.62%	386 185	12.29%	358 445
Optical	0.20%	6 490	0.22%	6 432
Dentistry	0.29%	9 536	0.26%	7 627
Paramedical services	4.26%	141 731	4.31%	125 612
Physiotherapy	1.16%	38 576	1.04%	30 463
Associated health services	0.01%	273	0.01%	326
Total	100.00%	3 323 255	100.00%	2 916 055

Distribution of principal members across options at year-end

Option name	2021		2020	
		Membership		Membership
Maxima Plus	1.41%	968	1.59%	1 187
Maxima Exec	4.53%	3 116	4.68%	3 485
Maxima Exec Grid	0.00%	-	0.39%	293
FlexiFed1	27.78%	19 112	26.99%	20 107
FlexiFed1 Elect	5.26%	3 618	3.42%	2 547
FlexiFed2	6.95%	4 781	6.99%	5 204
FlexiFed2 Grid	6.22%	4 276	5.96%	4 440
FlexiFed2 Elect	0.62%	426	0.36%	265
FlexiFed3	16.03%	11 027	17.70%	13 189
FlexiFed3 Grid	2.97%	2 045	2.36%	1 759
FlexiFed3 Elect	0.62%	430	0.31%	229
FlexiFed4	19.69%	13 548	21.93%	16 337
FlexiFed4 Grid	1.86%	1 282	1.31%	979
FlexiFed4 Elect	0.84%	580	0.64%	475
MyFed	5.22%	3 592	5.37%	3 998
Total	100.00%	68 801	100.00%	74 494

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20 Insurance risk management (continued)
Qualitative risk factors

A major source of uncertainty in the current legislative and market environment is:

- The continued absence of a standard reference price, previously applicable by the Scheme to services where no prior negotiated fee existed, means that reimbursement for 2022 for these services is assumed to be at the 2021 Scheme Rate plus 3.9%.
- Prescribed Minimum Benefit (PMB). Due to the fact that the legal challenge to the interpretation that PMB claims should be funded at invoice price was dismissed, it means that this remains a material risk to the Scheme. The Scheme has established GP and specialist networks in place, which should mitigate this risk to a large extent, but these do not cover all disciplines.
- Circular 25 of 2020 was released by the CMS on 26 March 2020 in light of the Covid-19 pandemic. In this Circular, Covid-19 was confirmed as a PMB condition and therefore most Covid-19 related costs as defined should be funded in full by medical schemes during the course of the pandemic. Therefore, in addition to the risks associated with PMBs mentioned above, the unpredictable nature of the pandemic carries significant additional risk to the Scheme.

However, the CMS also encouraged the use of telehealth consultations in this Circular, which is expected to run into 2022 and beyond as the innovation and utilisation of technology is expected to drive lower cost options which might positively impact medical scheme membership and attract younger members.

- Department of Health Circular on Vaccine (14 May 2021); details the billing amounts for medical scheme vaccines for the Pfizer and Johnson & Johnson vaccines. Facilities will bill the medical scheme R308.48 per dose for the Pfizer vaccine plus VAT. In the case of Johnson & Johnson, the medical scheme will be billed R286.96 plus VAT.

The cost of administering the vaccine for a health facility registered to vaccinate shall be R70 plus VAT per vaccination and cover for vaccine waste, including the confirmation of details on the EVDS, preparation of the vaccine, vaccination, counselling, and 15 minutes waiting period in the facility following vaccination. As per Circular 25 of 2020, the billing cost of the vaccine and the administration will be paid in full by medical schemes since this is a prescribed minimum benefit.

It should be noted that the costs of Covid-19 vaccinations will most likely not be a once off cost, but possibly an annual additional cost as vaccines are updated and might only offer protection for a limited period. Apart from an implicit allowance for annual vaccination costs similar to 2021 in 2022 and future years, no further allowance has been made for additional vaccine eligibility, utilisation and costs which may emerge in future years.

- National Health Insurance (NHI) and Medical Scheme Amendment Bills. A major source of uncertainty in the current legislative and market environment is the introduction of NHI, most recently with the latest iteration of the National Health Insurance Bill that was tabled in Parliament on 8 August 2019 where parliament called for written submissions between September and November 2019. Public hearings on the Bill were also held across different provinces by the Portfolio Committee on Health.

The Bill provides key details regarding the policy trajectory that is envisaged for the South African health system. A system of "mandatory prepayment" is earmarked, with funding to take place through social solidarity taxation principles. According to the Bill, the NHI Fund is to be fully operational by 2026 and, once the NHI has been fully implemented, medical scheme cover would be complementary to NHI cover. The exact services specified under the Bill are not yet defined, but this is intended to be "comprehensive healthcare services".

20 Insurance risk management *(continued)*

- **Competition Commission Healthcare Market Inquiry** – The Competition Commission has established a market inquiry into the private healthcare sector in terms of Chapter 4A of the Competition Act, 89 of 1998 (as amended). The aim of this inquiry is to help identify the factors driving increased expenditure as well as the market dynamics at play within the healthcare industry. The inquiry probed various segments of the private healthcare market to determine the factors that restrict competition in the private healthcare sector in South Africa. It is yet to be established exactly what the ultimate impact of the Inquiry findings will be, however, the final report suggests no immediate threat to the continued operation of medical schemes in the near future.
- **Covid-19 Global Pandemic** – Although Covid-19 has impacted the industry and the Scheme for about 2 years, there still remains many uncertainties of the Covid-19 impact on claims going forward. The claim cost projections for 2022 were based on 2021 claims costs and adjusted for aspects such as tariff increases, ageing, utilisation increases, medical inflation and benefit changes. Claims for 2021 included Covid-19 related costs therefore, some Covid-19 costs are implicitly provisioned for in the 2022 projections.

These Covid-19 costs are primarily composed of Covid-19 hospital admission costs, as these have emerged as the primary cost drivers as the pandemic progressed. Pathology costs are the other significant cost. Out-of-Hospital Covid-19 treatment costs are also another key cost component, followed by cost of Covid-19 vaccinations.

Although there is already some implicit provision for these Covid-19 costs in the 2022 budget, the costs are subject to significant uncertainties. The extent of these costs depend on uncertain elements such as timing of subsequent Covid-19 waves, severity and transmissibility of new Covid-19 variants, future numbers of beneficiaries with natural immunity to Covid-19 due to prior infections and vaccinations, possible government lockdown measures, considerations for non-Covid-19 claims utilisation and claims catch-up in 2022. There may also be emergence of new costs related to Covid-19 such as long-haul Covid-19 illness, costs of Covid-19 Booster shots or Covid-19 therapeutics.

Due to the pandemic clearly being a reality for longer than expected at the time of pricing, a resurgence in claims is still expected, but the timing of it has likely been moved out further than initially expected. There remains a risk of higher claims toward the end of 2022 and into 2023.

Overall, since Covid-19 related costs have thus far been absorbed by the Scheme, and allowance has made in the 2022 budget and future projections, Covid-19 costs are not expected to threaten the going concern status of the Scheme in the immediate future.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 Insurance risk management (continued)

Financial sustainability

The major risk affecting the future sustainability of the Scheme is the possibility of a deterioration in the risk profile of members. Schemes with a better member risk profile can offer the same benefits at a lower contribution rate than other schemes, as their members will be claiming less.

If a scheme charges higher contribution rates than the market, it is at risk of losing members and not replacing them. It is typically easier for younger, healthier members to move to another scheme. Should younger, healthier members leave the Scheme, the member risk profile would deteriorate, resulting in even higher contribution rates required.

It is therefore important that the Scheme maintains or improves its member risk profile, by attracting lower risk members and retaining healthy members in the Scheme.

Risk in terms of risk transfer arrangement

The Scheme outsources a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources. The Scheme is contracted with Iso Leso.

The capitation agreement is, in substance, the same as a non-proportional reinsurance treaty.

The Scheme cedes insurance risk to limit exposure to underwriting losses under the agreements that cover individual risks, group risks or defined blocks of business, on a co-insurance, yearly renewable term. The risk transfer arrangement transfers the risk and minimises the effect of losses. The amount of each risk retained depends on the Scheme's evaluation of the specified risk to maximum limits based on the basis of characteristics of coverage.

According to the terms of the risk transfer arrangement, the third party agrees to reimburse the ceded amount in the event the risk claim is paid. According to the terms of the capitation agreement, the supplier provides certain minimum benefits to all Scheme members as and when required by the members. The Scheme does, however, remain liable to its members with respect to ceded insurance if any reinsurer (or supplier) fails to meet the obligations it assumes.

When selecting an insurer (or supplier) the Scheme considers their relative security. The security of the insurer (or supplier) is assessed from public rating information and from internal investigations.

21 Financial risk management

The Scheme's activities expose it to a variety of financial risks, including liquidity, credit and market 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 investments that the Scheme holds to meet its obligations to its members.

Risk management and investment decisions are made under the guidance and policies approved by the Board. The Investment Committee identifies and evaluates the financial risks associated with the Scheme's investment portfolio. The Investment Committee provides written principles for investment risk management, as well as written policies covering specific areas, such as liquidity risk, credit risk and interest rate risk. The Board approves all of these written policies.

Liquidity risk management

Liquidity risk is the risk that the Scheme will encounter difficulty in raising funds to meet commitments associated with financial liabilities.

Medical schemes are registered in terms of the Act and are required to maintain a minimum accumulated fund ratio level. The Scheme's actuary and investment managers continually manage and monitor liquidity and accumulated fund ratio requirements.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. The Scheme has complied with the requirements regarding the nature and categories of assets as prescribed by Section 35 and Regulation 30 of the Act. The availability of funding through liquid holding cash positions with various financial institutions ensures that the Scheme has the ability to fund its day-to-day operations.

With the exception of the PMSA refunds due to ex-members, which are generally settled not later than 5 months, trade and other payables are settled between 30 and 60 days.

The table below summarises the Scheme's exposure to liquidity risk. Included in the table are the Scheme's assets and liabilities at carrying amounts, categorised by contractual maturities.

ANNUAL FINANCIAL REPORT

for the year ended 31 December 2021



NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Financial risk management (continued)

2021

Liquidity analysis

Assets

Non-current assets

Available-for-sale investments

Current assets

Trade and other receivables

Cash and cash equivalents

Total assets

Liabilities

Current liabilities

Outstanding risk claims provision

PMSA liability

Trade and other payables

Total liabilities

Note	Up to 1 month R'000	1 - 3 months R'000	4 - 12 months R'000	Total R'000
	-	1 353 882	-	1 353 882
2	-	1 353 882	-	1 353 882
	774 879	-	-	774 879
3	321 074	-	-	321 074
4	453 805	-	-	453 805
	774 879	1 353 882	-	2 128 761
	369 940	84 504	50 900	505 344
5	120 273	84 504	50,900	255 677
6	135 194	-	-	135 194
7	114 473	-	-	114 473
	369 940	84 504	50 900	505 344

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ANNUAL FINANCIAL REPORT

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NOTES TO THE FINANCIAL STATEMENTS (continued)

2.1 Financial risk management (continued)

2020	Note	Up to 1 month R'000	1 - 3 months R'000	4 - 12 months R'000	Total R'000
Liquidity analysis					
Assets					
Non-current assets					
Available-for-sale investments	2	-	1 373 075	-	1 373 075
		-	1 373 075	-	1 373 075
Current assets					
Trade and other receivables	3	831 541	-	-	831 541
Cash and cash equivalents	4	293 629	-	-	293 629
		537 912	-	-	537 912
Total assets		831 541	1 373 075	-	2 204 616
Liabilities					
Current liabilities					
Outstanding risk claims provision	5	410 663	87 179	19 770	517 612
PMSA liability	6	138 144	87 179	19 770	245 093
Trade and other payables	7	163 229	-	-	163 229
		109 290	-	-	109 290
Total liabilities		410 663	87 179	19 770	517 612

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NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Financial risk management (continued)**Credit risk management**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation and cause the Scheme to incur a financial loss.

The Scheme's principal financial assets are cash and cash equivalents, trade and other receivables and available-for-sale investments. The Scheme's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the statement of financial position are net of impairment. An impairment is made when there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Cash transactions are limited to high credit quality financial institutions. The Scheme has a policy of limiting the amount of credit exposure to any one financial institution.

Exposure to risk

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

	2021 R'000	2020 R'000
Available-for-sale investments	1 353 882	1 373 075
Cash and cash equivalents	453 805	537 912
Trade and other receivables	321 074	293 629
Total	2 128 761	2 204 616

Available-for-sale investments and cash and cash equivalents

Funds are invested at various institutions after taking the following criteria into account:

- The Scheme's mandate requirements;
- Regulations as per the Act;
- Credit ratings of the various institutions; and
- Interest rates offered by the institutions.

The ratings per institution are noted in the mandates and do vary, but largely a minimum rating of "AA1" as per Moody's Investors Services Inc. (Moody's) is applied.

Credit risk is contained by adhering to the Act by not investing more than 35% in large banks and 10% in smaller banks. The net qualifying capital and reserves are monitored on a monthly basis to determine the split between large and small banks.

The Scheme limits its exposure to credit risk by only investing in liquid securities with medium grade moderate risk financial institutions. The Scheme has a policy of limiting the amount of credit exposure to any one financial institution. Given these high credit ratings, management does not expect any financial institution to fail to meet its obligations.

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Financial risk management (continued)

Credit risk management (continued)

Loans and other receivables

Trade and other receivables

The Scheme's exposure to credit risk is influenced by the characteristics of each member and the demographics of the membership base. Approximately 4.20% (2020: 4.78%) of the Scheme's contribution income is attributed to the government membership base. However, geographically there is no concentration of credit risk.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtor's ability to pay all amounts due according to the contractual terms (for example on the basis of a credit risk evaluation or grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Contribution debtors are collected in arrears within 30 days of raising and loans to members debtors (MediVault) over a period of twelve months.

In monitoring member credit risk, members are grouped according to their credit characteristics, including whether they are an individual, group or government member, whether the risk arises from contributions or loans to members or member shortfalls or Covid-19 financial constraints. The Board has approved a credit control policy, thereby managing the credit risk to the Scheme.

	2021 R'000	2021 R'000	2020 R'000	2020 R'000
The age analysis of trade and other receivables at the reporting date was:	Trade and other receivables	Impairment	Trade and other receivables	Impairment
Not past due not impaired	318 478	-	281 553	-
Past due 1-30 days	7 393	(4 797)	24 943	(12 867)
Past due 31-60 days	2 170	(2 170)	3 019	(3 019)
Past due 61-90 days	1 166	(1 166)	3 354	(3 354)
More than 90 days	38 247	(38 247)	30 173	(30 173)
Note 3	367 454	(46 380)	343 042	(49 413)

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Financial risk management (continued)**Market risk management**

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

The asset managers buy and sell financial instruments in the ordinary course of business, and also incur financial liabilities, in order to manage market risk. All such transactions are carried out within the guidelines set by the investment mandate on behalf of the Scheme. The asset managers are allowed to invest in local and offshore assets at their discretion, provided that the investments comply fully with the Act and the mandates provided to them by the Scheme.

All the Scheme's equity investments are listed on the Johannesburg Stock Exchange (the JSE). The concentration, sensitivities and impact on profit or loss and equity are detailed below:

Diversification and concentration**Asset allocation**

Asset class	2021		2020	
	R'000		R'000	
Cash: Medical Scheme assets	453 805	25.10%	537 912	28.15%
Unlisted debentures	12 980	0.72%	13 446	0.70%
Listed equities	712 320	39.40%	660 940	34.59%
Listed fixed interest bonds	550 917	30.48%	606 940	31.76%
Listed investment property funds	77 665	4.30%	91 749	4.80%
Total	1 807 687	100.00%	1 910 987	100.00%

Price risk management

Price risk is the risk that the value of the Scheme's equity investments fluctuates as a result of changes in the market prices of instruments held, whether caused by factors specific to the underlying investments, their issuer or factors affecting all instruments traded in the market.

Price risk is mitigated primarily by diversification. Diversification is achieved through asset allocation, sector diversification and market diversification.

The majority of the Scheme's investments are simultaneously invested in various sectors of the market as well as various shares within each sector.

Currency risk management

The Scheme operates in the Republic of South Africa and therefore its cash flows are denominated in Rand. The Scheme had minimal exposure to currency risk during the year under review.

21 Financial risk management (continued)**Interest rate risk management**

Interest rate risk is the risk that the value and cash flow of a financial instrument will fluctuate due to changes in market interest rates.

The Scheme's activities expose it to a variety of financial risks, including the effects of changes in equity market prices and interest rates. 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 Scheme's investment policy during the year under review was to hold certain investments in interest-bearing instruments. The Scheme's investments were therefore exposed to changes in market interest rates. The fair value of fixed rate instruments has declined in the current period due to the increase in market interest rates. These instruments are exposed to fair value interest rate risk.



NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Financial risk management (continued)

Interest rate risk management (continued)

The table below summarises the Scheme's exposure to interest rate risks. Included in the table are the Scheme's financial assets and liabilities at carrying amounts, categorised by contractual maturities.

2021

	Note	Up to 1 month R'000	1 – 3 months R'000	1 -5 years R'000	Non-interest bearing R'000	Total R'000
Available-for-sale investments	2	-	-	550 917	802 965	1 353 882
Trade and other receivables	3	-	-	-	133 693	133 693
Trade and other payables	7	-	-	-	(76 413)	(76 413)
Cash and cash equivalents	4	373 760	80 045	-	-	453 805
Total		373 760	80 045	550 917	860 245	1 864 967
2020						
Available-for-sale investments	2	-	-	606 940	766 135	1 373 075
Trade and other receivables	3	-	-	-	123 928	123 928
Trade and other payables	7	-	-	-	(68 355)	(68 355)
Cash and cash equivalents	4	457 867	80 045	-	-	537 912
Total		457 867	80 045	606 940	821 708	1 966 559

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Financial risk management (continued)

Asset managers and mandates

Allocation as at 31 December 2021

Asset Manager	Segregated Mandate	Benchmark	R'000	
Nedbank Ltd current account	*Cash		72 879	4.03%
Old Mutual Wealth Trust Co (Pty) Ltd	*Cash		75 388	4.17%
Fairtree Asset Management (Pty) Ltd	Absolute return	CPI+3.5%	138 665	7.67%
Sanlam Investment Management (Pty) Ltd	Absolute return	CPI+3.5%	461 598	25.54%
Sanlam Multi Manager (Pty) Ltd	Absolute return	CPI+3.5%	120 443	6.66%
Taquanta Asset Management (Pty) Ltd	Enhanced cash	SteFi+1%	445 017	24.62%
Truffle Asset Management (Pty) Ltd	Absolute return	CPI+5%	493 697	27.31%
Total			1 807 687	100.00%

Allocation as at 31 December 2020

Asset Manager	Segregated Mandate	Benchmark	R'000	
Nedbank Ltd current account	*Cash		24 566	1.29%
Old Mutual Wealth Trust Co (Pty) Ltd	*Cash		163 772	8.57%
Prudential Investment Managers SA (Pty) Ltd	Pooled Mandate	CPI+5.0%	152 301	7.97%
Sanlam Investment Management (Pty) Ltd	Absolute return	CPI+3.5%	494 010	25.85%
Sanlam Private Wealth (Pty) Ltd	Capped Swix Capital	SteFi+1%	179 794	9.41%
Taquanta Asset Management (Pty) Ltd	Enhanced cash	SteFi+1%	458 491	23.99%
Truffle Asset Management (Pty) Ltd	Absolute return	CPI+5%	438 053	22.92%
Total			1 910 987	100.00%

* Includes the Scheme's current accounts

Market performance to 31 December 2021

Performance to	3 Months	1 Year	3 Years (%pa)	5 Years (%pa)
	%	%	%	%
All Share Index	15.13%	29.23%	15.71%	11.38%
All Bond Index	2.87%	8.40%	9.12%	9.05%
STeFi	0.98%	3.81%	5.49%	6.25%
CPI	0.98%	5.47%	4.06%	4.40%
Resource 20	22.19%	32.36%	26.18%	22.54%
Industrial 25	16.81%	24.24%	16.42%	10.20%
Financial 15	2.21%	27.43%	1.09%	4.27%
Financial Industrial 30	13.03%	25.11%	12.66%	8.97%
Top 40	16.25%	28.40%	16.65%	12.36%

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ANNUAL FINANCIAL REPORT

for the year ended 31 December 2021



NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Financial risk management (continued)

The Scheme's performance to 31 December 2021

Performance to	Market value R'000	% Portfolio	3 Months %	1 Year %	3 Years %	5 Years %
Nedbank Ltd current account	72 879	4.03%	0.50%	2.00%	3.10%	3.85%
Old Mutual Wealth Trust (Pty) Ltd	75 388	4.17%	0.94%	3.69%	5.04%	5.79%
Fairtree Asset Managers (Pty) Ltd	138 665	7.67%	0.00%	0.00%	0.00%	0.00%
Sanlam Investment Management (Pty) Ltd	461 598	25.54%	3.98%	12.76%	9.96%	8.69%
Sanlam Multi Manager (Pty) Ltd	120 443	6.66%	0.00%	0.00%	0.00%	0.00%
Taquanta Asset Management (Pty) Ltd	445 017	24.62%	1.79%	8.31%	9.43%	10.67%
Truffle Asset Management (Pty) Ltd	493 697	27.31%	4.82%	22.95%	16.58%	11.67%
Total	1 807 687	100.00%				

Consolidated benchmark CPI +3.5%

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NOTES TO THE FINANCIAL STATEMENTS *(continued)***21 Financial risk management** *(continued)***Sensitivity analysis: Cash and cash equivalents - Medical Scheme assets***Basis*

The sensitivity analysis determines different levels of the closing market value as compared to the actual closing market value based on different levels of investment performance (see table below) i.e. a 1% change suggests the closing market value could have been approximately R458m (2020: R543m) if the investment performance had been higher by 1% during 2021 as compared to the market investment performance. A 1% increase in the investment return at the reporting date would have increased cash by R4.37m (2020: R5.10m); an equal change in the opposite direction would have decreased cash by the same amount.

	% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
2021	2%	5.81%	462 548	8 743
	1%	4.81%	458 176	4 371
	0%	3.81%	453 805	-
	% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
2020	2%	7.39%	548 120	10 208
	1%	6.39%	543 016	5 104
	0%	5.39%	537 912	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Financial risk management (continued)

Sensitivity analysis: Equity and investment property funds

Basis

The sensitivity analysis determines different levels of the closing market value as compared to the actual closing market value based on different levels of investment performance (see table below) i.e. a 10% change suggests the closing market value could have been approximately R851m (2020: R823m) if the investment performance had been higher by 10% during 2021 as compared to the market investment performance.

A 10% increase in the investment return at the reporting date would have increased equity and investment property investments by R61.13m (2020: R70.34m); an equal change in the opposite direction would have decreased equity and investment property funds by the same amount.

The change will have an impact on the revaluation reserve and/or the surplus/deficit depending on the investment type.

	% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
2021	20%	49.23%	912 245	122 260
	10%	39.23%	851 115	61 130
	0%	29.23%	789 985	-
	% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
2020	20%	27.00%	893 377	140 688
	10%	17.00%	823 033	70 344
	0%	7.00%	752 689	-

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NOTES TO THE FINANCIAL STATEMENTS *(continued)***21 Financial risk management** *(continued)***Sensitivity analysis: Bonds and debentures****Basis**

The sensitivity analysis determines different levels of the closing market value as compared to the actual closing market value based on different levels of investment performance (see table below) i.e. a 1% change suggests the closing market value could have been approximately R569m (2020: R626m) if the investment performance had been higher by 1% during 2021 as compared to the market investment performance. A 1% increase in the investment return at the reporting date would have increased bond investments by R5.20m (2020: R5.71m); an equal change in the opposite direction would have decreased bond investments by the same amount.

	% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
2021	5%	14.40%	595 109	31 212
	1%	9.40%	569 099	5 202
	0%	8.40%	563 897	-
	% Change	Index return %	Adjusted closing value R'000	Impact on accumulated funds R'000
2020	5%	10.65%	631 806	11 420
	1%	9.65%	626 096	5 710
	0%	8.65%	620 386	-

Investment risk and investment return

Seeking higher investment returns is typically associated with taking additional risk through exposure to asset classes such as equities and bonds where the capital is at risk. Additional investment risk is typically associated with higher variability in asset prices.

Capital management

The Scheme's policy is to maintain a strong capital base seeking a real return with limited capital volatility and strives for ongoing capital preservation. The Board seeks to maintain a balance between conservatively pooled and bond portfolios, selected from all asset classes and shares with limited downside.

There were no changes in the Scheme's approach to capital management during the year. The Scheme is subject to externally imposed capital requirements by the Council and the Act.

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Financial risk management (continued)

Analysis of carrying amounts and fair value of assets and liabilities per category

Asset class <small>*The fair values for instruments such as short-term trade receivables and payables are not disclosed, as the carrying amounts are a reasonable approximation of fair values.</small>	Available-for-sale financial assets	Loans and receivables	Liabilities measured at amortised cost	Non-insurance receivables and payables	Insurance receivables and payables	Total carrying amount	Fair Value	
							Level 1	Level 2
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
2021								
Assets measured at fair value								
Investments	1 353 882	-	-	-	-	1 353 882	1 340 902	12 980
- Unlisted debentures	12 980	-	-	-	-	12 980	-	12 980
- Listed equities	712 320	-	-	-	-	712 320	712 320	-
- Listed fixed interest bonds	550 917	-	-	-	-	550 917	550 917	-
- Listed investment property funds	77 665	-	-	-	-	77 665	77 665	-
Assets not measured at fair value	-	587 498	-	-	187 381	774 879		
Cash and cash equivalents	-	453 805	-	-	-	453 805		
Trade and other receivables *	-	133 693	-	-	187 381	321 074		
Liabilities not measured at fair value	-	-	(76 413)	(135 194)	(293 737)	(505 344)		
PMSA liability	-	-	-	(135 194)	-	(135 194)		
Outstanding risk claims provision	-	-	-	-	(255 677)	(255 677)		
Trade and other payables *	-	-	(76 413)	-	(38 060)	(114 473)		
	1 353 882	587 498	(76 413)	(135 194)	(106 356)	1 623 416		

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NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Financial risk management (continued)

Analysis of carrying amounts and fair value of assets and liabilities per category

Asset class <small>*The fair values for instruments such as short-term trade receivables and payables are not disclosed, as the carrying amounts are a reasonable approximation of fair values.</small>	Available-for-sale financial assets		Liabilities measured at amortised cost	Non-insurance receivables and payables	Insurance receivables and payables	Total carrying amount	Fair Value	
	Loans and receivables						Level 1	Level 2
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
2020								
Assets measured at fair value								
Investments	1 373 075	-	-	-	-	1 373 075	1 359 629	13 446
- Unlisted debentures	13 446	-	-	-	-	13 446	-	13 446
- Listed equities	660 940	-	-	-	-	660 940	660 940	-
- Listed fixed interest bonds	606 940	-	-	-	-	606 940	606 940	-
- Listed investment property funds	91 749	-	-	-	-	91 749	91 749	-
Assets not measured at fair value	-	661 840	-	-	169 701	831 541		
Cash and cash equivalents	-	537 912	-	-	-	537 912		
Trade and other receivables *	-	123 928	-	-	169 701	293 629		
Liabilities not measured at fair value	-	-	(68 355)	(163 229)	(286 028)	(517 612)		
PMSA trust liability	-	-	-	(163 229)	-	(163 229)		
Outstanding risk claims provision	-	-	-	-	(245 093)	(245 093)		
Trade and other payables *	-	-	(68 355)	-	(40 935)	(109 290)		
	1 373 075	661 840	(68 355)	(163 229)	(116 327)	1 687 004		

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21 Financial risk management (continued)**Financial Instruments – Fair values and risk management***Fair value estimation*

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Scheme for similar financial instruments.

Fair value of financial instruments

The Scheme measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1:

Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2:

Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable for the asset and liability from market data.

Level 3:

Valuation techniques using significant unobservable inputs for the fair value measurement of an asset or a liability. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments' valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair values and categories of financial assets and financial liabilities are disclosed on [page 100](#).

Type	Valuation technique
Listed equity, bonds, investment property funds, debentures	These financial instruments are valued using the closing prices of the exchange on which they trade.
Unlisted debentures and bonds	<p>Unlisted debenture and bond instruments are valued using a yield curve created by the asset management accounting system based on certain inputs, to discount cash flows, in order to determine the securities present value.</p> <p>This yield curve consists of published zero yield indices derived from observed market interest rates that represent the most liquid and dominant instrument for their respective horizons. These zero yields are combined into a standard periodicity, and linear interpolation used to fill time periods not available from the list of input yield index instruments.</p>

Capital adequacy risk

This represents the risk that there are insufficient reserves to provide for adverse variations on future investment and claims experience. At the year-end the accumulated funds ratio computed in terms of the Registrar's formula was 42.76% (2020: 44.66%). The Board believes that this cover is appropriate for the Scheme's needs.

NOTES TO THE FINANCIAL STATEMENTS *(continued)***22 Contingent assets and liabilities****Contingent assets**

There are currently 290 open (2020: 84) road accident cases totalling R36.3m (2020: R26.3m) since 2017 managed by Medscheme. Batsumi Claims Management Solutions (Pty) Ltd will continue to winddown the 177 (2020: 211) outstanding road accident claims totalling R35.4m (2020: R42.1m) relating to the period before Medscheme took over from Batsumi.

Due to the uncertain outcome of claims lodged with the RAF, the Scheme has not yet accounted for the inflow of economic benefits.

Contingent liabilities

The Scheme has no contingent liabilities.

23 Restatement: Change in accounting policy of Statement of Cash Flows

IAS 7, Statement of Cash Flows allows entities to present their Statement of Cash Flows on the direct or indirect method. The Scheme chose to apply the indirect method.

In 2021 CMS issued Circular 52 of 2021: Statement of Cash Flows. According to this Circular schemes are required in terms of section 37(2) of the Act to report cash flows from operating activities using the direct method in their financial statements of the year ended 31 December 2021 onwards.

The Scheme changed the Statement of Cash Flows from indirect to direct method, resulting in a restatement for 2020.