



**ALLIANCE-MIDMED MEDICAL SCHEME**

**Registration number 1465**

**Annual Board of Trustees Report  
and  
Audited Annual Financial Statements  
for the year ended 31 December 2020**



## ALLIANCE-MIDMED MEDICAL SCHEME

### ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2020

#### STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

The Board of Trustees ("Board" or "Trustees") is responsible for the preparation, integrity, and fair presentation of the annual financial statements of Alliance-Midmed Medical Scheme ("the Scheme"). The annual financial statements presented on pages 11 to 29 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the Medical Schemes Act 131 of 1998, as amended ("the Act") and include amounts based on judgements and estimates.

The Board is satisfied that the information contained in the annual financial statements fairly presents the results of operations and cash flows for the year and the financial position of the Scheme at year-end. The Board also prepared the additional information included in the Board of Trustees annual report and are responsible for both its accuracy and its consistency with the annual financial statements.

The Scheme operates in a well-documented control environment with established policies and procedures to enhance oversight, including reviews that incorporate 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 Scheme are controlled. No event or item has come to the attention of the Board of Trustees that indicates any material breakdown in the key internal controls and systems during the year under review.

The going concern basis has been adopted in preparing the annual financial statements. The Council for Medical Schemes (CMS) announced in 2017 that it intends to consolidate smaller schemes into bigger risk pools, apparently to align with the longer-term funding objectives of the National Health Insurance (NHI) Scheme. This initiative is, however, likely to face delays and challenges before it becomes a reality, and there is no indication that the Scheme will cease to exist in the short to medium term. Accordingly, the Board have no reason to believe that the Scheme will not be a going concern for the foreseeable future based on these annual financial statements, forecasts, and available cash resources.

The Board continues to develop a comprehensive risk policy and matrix. The first draft of the matrix was completed in September 2020 and the Audit, Risk and Compliance Committee (ARCC) will initiate a review of the document starting March 2021. The risk policy and matrix form the basis for the Board's responses to risks and exposures. The Board, at its annual strategy meeting, also considers compliance and the scope of the ARCC, where required.

During the period under review, the Board has not taken and is not aware of any undue risks that fall outside its tolerance levels or that could lead to unexpected material loss.

The Scheme has not, during the period under review, paid any penalties for regulatory contraventions or non-compliances.

During 2019 an independent Audit, Risk and Compliance Committee (ARCC) (previous Audit Committee) was appointed. Its scope broadened from the prescribed mandate and the Scheme's registered rules, constituted in accordance with the provisions of the Act.

BDO was appointed as external auditor for the period under review.

The Scheme is committed to the principles and practice of fairness, openness, integrity, and accountability in all dealings with its stakeholders. The Scheme subscribes to the highest standards of governance, following relevant frameworks such as King IV wherever applicable. The Scheme's external auditors have audited the financial statements in terms of International Standards on Auditing and their report is presented on pages 7 - 10.

There were no requests for Scheme information under the Promotion of Access to Information Act.

The Board is committed to, as far as it is practically possible, adhere to non-binding rules, codes, and standards.

The Board meet regularly and monitor the performance of the Scheme and its service providers. The Board address a range of key issues and ensure that discussion of items of policy, strategy and performance is critical, informed, and constructive.

Member Representative Trustees are elected every three years and comprise 50% of the Board. During 2018, elections were held, and new Board members appointed. Board members receive extensive training, and all have access to the advice and services of the Principal Officer and, in compliance with Scheme policies, may seek independent, professional advice at the expense of the Scheme.

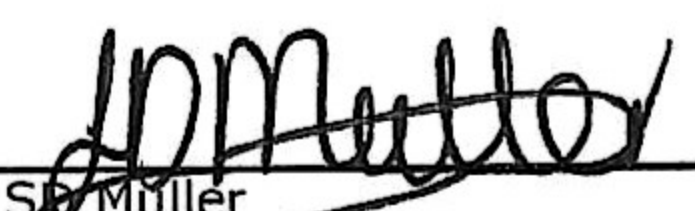
The Board adheres to a gifts policy and manages potential conflicts of interest through voluntary disclosures and periodic legal checks. Board members are also members of the Scheme. Their contributions and claims are reported and managed at arms-length as for members.

The Board holds an Annual General Meeting, compliant with the notification, agenda, content, and disclosure requirements, in terms of its Rules and as specified by the Regulator. The Board obtained exemption to hold a virtual AGM which was concluded on 20 August 2020. All business items were concluded, and the meeting was uneventful.

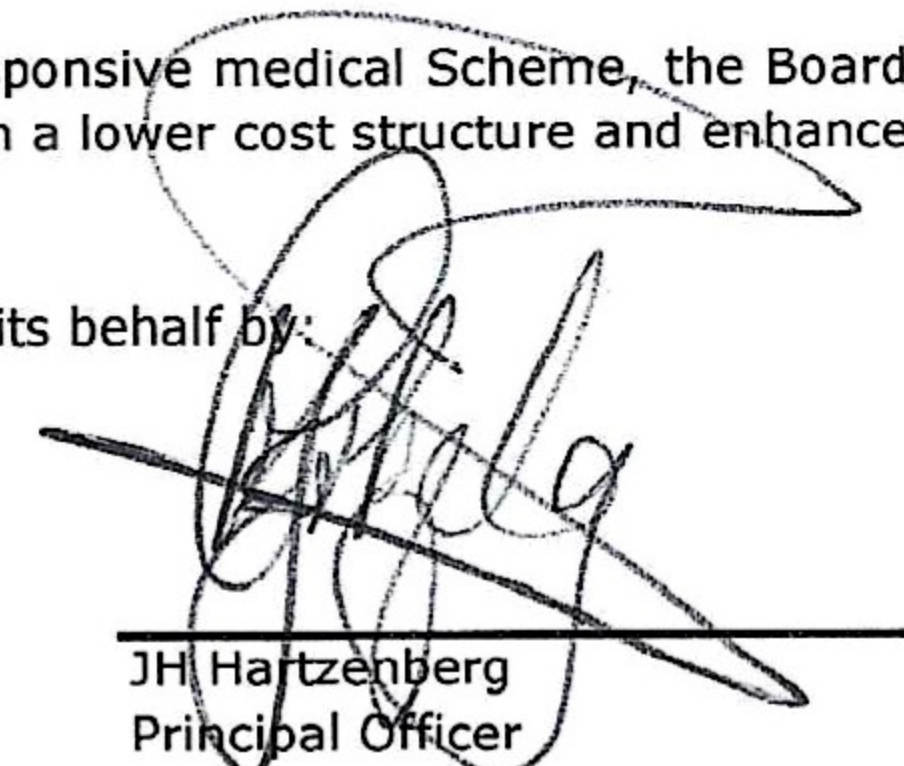
The Board embarked on a compliance project to be substantially compliant with the good governance requirements contained in the King III Report, and then the King IV report, by 2023. The compliance project progress was delayed during the 2020 pandemic and lockdown restrictions and will be progressed once the lockdown and continuing self-administration governance changes are fully implemented and the team settled into a routine.

To improve compliance to a level acceptable to the Board and to maintain a unique and member-centric responsive medical Scheme, the Board commenced on self-administration from 1 January 2020. Self-administration will enable the Board to maintain a lower cost structure and enhance our focussed management of access to quality health care services.

The Annual Financial Statements were approved by the Board of Trustees on 17 May 2021 and are signed on its behalf by:

  
S. Müller  
Chairperson

  
C Kritzing  
Trustee

  
JH. Hartzenberg  
Principal Officer



## **ALLIANCE-MIDMED MEDICAL SCHEME**

**Registration number: 1465**

### **REPORT OF THE BOARD OF TRUSTEES**

**for the year ended 31 December 2020**

#### **1. DESCRIPTION OF THE MEDICAL SCHEME**

##### **1.1 Terms of registration**

Alliance-Midmed Medical Scheme ("the Scheme") is a non-profit restricted membership medical scheme registered in terms of the Medical Schemes Act 131 of 1998, as amended ("the Act"). Its membership is restricted to employees who work for Columbus Stainless (Pty) Ltd and associate companies.

##### **1.2 Benefit options within Alliance-Midmed Medical Scheme**

The Scheme offers one benefit option.

##### **1.3 Personal Medical Savings Account (PMSA)**

The Scheme offers a 5% (2019: 5%) member savings account and pays for the majority of benefits through the Major Risk Pool (MRP).

The PMSA forms part of the scheme assets, but unexpended savings amounts are accumulated for the benefit of the member. No interest accrues to positive savings balances.

In terms of the Regulations of the Act and the Rules of the Scheme, the PMSA is underwritten by the Scheme.

#### **2. MANAGEMENT**

##### **2.1 Board of Trustees in office during the year under review and at the date of this report:**

|                      |                       |                                 |
|----------------------|-----------------------|---------------------------------|
| SD Muller            | Trustee (Chairperson) | Member Elected Trustee          |
| M Janse van Rensburg | Trustee               | Employer Representative Trustee |
| C Kritzingen         | Trustee               | Member Elected Trustee          |
| FJ Mabheba           | Trustee               | Employer Representative Trustee |
| R van Coller         | Trustee               | Employer Representative Trustee |
| DP Martin            | Trustee               | Member Elected Trustee          |

The Trustees took office in July 2018. Three Trustees are appointed, and three Trustees are elected. Three Co-opted Trustees are invited to attend the Board meetings to ensure continuity should Trustees become unavailable to perform their duties or resign.

Board elections are performed according to the Scheme policy, with the objective to have a knowledgeable and representative Board that acts in the best interest of the Scheme and all its beneficiaries. First there is a call for nominations, followed by a process to obtain the nominee's acceptance, and several checks to confirm that the nominees meet the legal requirements. An open election and formal appointment process follows, where after the Trustees are provided with comprehensive training.

As the Scheme is a restricted scheme, and Trustees are also members of the Scheme, there tends to be a greater degree of engagement and an interest in its continued success. After the initial training, further training is based on self-assessments.

The Trustees are not remunerated for their services.

##### **2.2 Principal Officer**

JH Hartzenberg  
Postnet Suite MW60  
Private Bag X1838  
Middelburg  
1050

##### **2.3 Registered office address and postal address**

Suite 8  
Four Stones Office Park  
21 Dolerite Road  
Middelburg  
1055

P.O. Box 90346  
Garsfontein  
0042



**ALLIANCE-MIDMED MEDICAL SCHEME**  
**Report of the Board of Trustees**  
for the year ended 31 December 2020

**2. MANAGEMENT (continued)**

**2.4 Scheme Administrator**

The Scheme commenced self-administration effective 1 January 2020, after receiving approval from the Council for Medical Schemes (CMS).

The Scheme was administered by Private Health Administrators (Pty) Limited ("PHA"). The PHA contract terminated on 31 December 2019, following the purchase of PHA by Medscheme and divergent funding and financial structure philosophies.

**2.5 Consultants**

Dr R Odes performed the duties of Scheme Medical Advisor.

**2.6 Bankers**

First National Bank

**2.7 Independent Auditors**

BDO South Africa Incorporated  
Wanderers Office Park  
52 Corlett Drive  
Illovo  
2196

Private Bag X60500  
Houghton  
2041

**2.8 Investment managers during the year**

Old Mutual Wealth  
No1 Mutual Place  
107 Rivonia Road  
Sandton  
2196  
Financial Service Provider Number 588

Prudential Portfolio Managers (SA) (Pty) Ltd  
P.O. Box 23167  
Claremont  
7735  
Financial Service Provider Number 615

Stanlib Collective Investments  
17 Melrose Boulevard  
Cnr Campground & Main Roads  
Melrose Arch  
2196

Allan Gray Life Ltd  
1 Silo Square  
V & A Waterfront  
Cape Town  
8001

**3. INVESTMENT POLICY OF THE SCHEME**

The Scheme's long term investment objective is to maximize the return on its investments while exercising prudence. The investment strategy takes into consideration constraints imposed by the Act.

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

**4.1 Operational statistics**

Refer to page 6 of this report for a comparative analysis of the operational statistics of the Scheme.

**4.2 Results of operations**

The results of the Scheme are set out in the annual financial statements, and the Board of Trustees believe that no further clarification is

The continued focus of the Board was to implement a robust governance model and further enhance the Scheme's health, legal and financial risk management. As set out in the annual financial statements (AFS), the Scheme has generated a net surplus for the year of R20 483 260 (2019: R2 199 191 surplus). The Scheme's solvency ratio of 53.71% exceeds the minimum legal requirement. The average accumulated funds (excluding savings) per member, on 31 December 2020 was R43 770 (2019: R28 719). The Scheme is not experiencing cash flow problems.



**ALLIANCE-MIDMED MEDICAL SCHEME**

**Report of the Board of Trustees**  
for the year ended 31 December 2020

**4. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES (continued)****4.3 Accumulated funds**

|                                                                          | 2020<br>R   | 2019<br>R   |
|--------------------------------------------------------------------------|-------------|-------------|
| The accumulated funds ratio is calculated on the following basis:        |             |             |
| Total members' funds per statement of financial position                 | 68 587 480  | 48 104 220  |
| Less: Cumulative net gains on remeasurement to fair value of investments | (9 963 422) | (9 852 424) |
| Accumulated funds per Regulation 29 of the Act                           | 58 624 058  | 38 251 796  |
| Gross contributions (Note 9)                                             | 109 139 903 | 102 568 482 |
| Accumulated funds ratio                                                  |             |             |
| = Accumulated funds/Gross annual contribution income x 100%              | 53.71%      | 37.29%      |

**4.4 Members' funds**

Movements in Scheme reserves are set out in the Statement of Changes in Funds and Reserves. There has been a significant increase in reserves due to the reduced utilisation of medical services brought about by the COVID-19 lockdown restrictions.

**4.5 Outstanding claims**

Movements in the outstanding claims provision are set out in Note 8 to the annual financial statements. There have been no unusual movements that the Board of Trustees believe should be brought to the attention of the members of the Scheme.

**4.6 Self administration**

From 1 January 2020 the Scheme commenced self-administration. The CMS is undertaking an inspection to assess the Scheme's administration capabilities.

During 2020 the Scheme updated its accounting system, telephone system, document management and archive system, membership processes, and implemented a range of policies and procedures required as a self-administered scheme, and appointed, assigned and trained staff to ensure that the various contract services are aligned and functioning effectively. During COVID-19 lockdown the Scheme implemented, through its IT service provider, a work-from-home solution for all staff. The COVID-19 induced work-from-home arrangement, affected productivity which caused some delays in claims payment. The impact thereof was experienced in terms of client services, 30-day claims payment turnaround times, an increase in duplicate claims payments and a delay in implementation of some policies, and, unusually, also a complaint against the Scheme with CMS. Several management actions were implemented to address the challenges and, since November 2020, we have seen an improvement.

Regarding health management, we managed to source and administer flu vaccines to our high-risk and vulnerable members, since there was no stock available at the regular outlets. Our clinical team also managed to obtain limited stock of Remdisivir, which assisted us in controlling COVID-19 costs.

Office changes were necessitated due to COVID-19 and the need to perform more virtual work (refer "Additions" under Note 2).

We also incurred expenses such as Zoom, Sync.com and Google accounts to facilitate the remote work and meetings.

**5. INVESTMENTS IN AND LOANS TO EMPLOYERS OF MEMBERS OF THE SCHEME AND OTHER RELATED PARTIES**

The Scheme holds no investments in participating employers or related parties to Scheme officials or Board members.

**6. SUBSEQUENT EVENTS**

From 1 January 2020 the Scheme commenced self-administration. The CMS is performing an assessment of the Scheme's self-administration processes and controls capabilities. When we approached CMS initially, there was no pre-accreditation requirement, since it is not a third-party administration arrangement, but self-administration. The latest update is from a virtual meeting held with a multi-departmental CMS team, on 28 January 2021, where we addressed general questions. Initially an inspection was due by Q4 2020. The Accreditation Inspection did not take place yet.

The Board is also dealing with a routine inspection by CMS and a draft report will likely be finalised with an investigator during Q2 2021.

The Scheme's financial position improved significantly since COVID-19 lockdown was implemented in South Africa. It continues to disrupt claims patterns and forecasts.

From January 2021, the Scheme adjusted its initial projections relating to COVID, now expecting a total R7 Million to R11 Million financial impact over a two-year period relating to the COVID-19 pandemic and up to ten persons who could succumb to COVID-19 and related illness. Although we see some increased claiming patterns, we anticipate, given current information about the pandemic, that the Scheme will be in a net positive cash position in the next reporting period, at least until the lockdown restrictions have been fully voided.

We estimate the cost of the COVID-19 vaccines, extrapolated from the calculations of Prof A van der Heever from Wits, to range between R1.2 Million and R1.8 Million and current reserves are adequate to cover this amount. The Board will follow national guidelines to prioritise and assist members to be vaccinated. The Scheme already stratified members according to the risk criteria.



**ALLIANCE-MIDMED MEDICAL SCHEME**  
**Report of the Board of Trustees**  
for the year ended 31 December 2020

**7. COMPLIANCE MATTERS**

A potential contingent liability arose through a directive from CMS to the Scheme to refund about R37.2 million to members, according to CMS calculations. CMS alleged that the Scheme used Member Savings to pay for Prescribed Minimum Benefit (PMB) claims, which claims should have been paid from the Major Risk Pool (MRP). We objected to the directive and the basis thereof as explained in Note 24. On 28 January 2021, the CMS confirmed that they have not yet finalised the objection that we lodged against the Regulation 10 Directive and our submitted evidence that the CMS used another Scheme's data and that the Regulation 10 Directive is therefore invalid (refer note 25.)

**8. AUDIT, RISK AND COMPLIANCE COMMITTEE**

An Audit, Risk and Compliance Committee was established in accordance with the provisions of the Act. The Audit, Risk and Compliance Committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority, and duties. The Audit, Risk and Compliance Committee consists of five members of which two are members of the Board of Trustees. The chairperson and two other members are independent as they are not officers of the Scheme or its service providers. The Audit, Risk and Compliance Committee met on three occasions during the course of the year as follows:

17 August 2020  
23 September 2020  
15 December 2020

The Chairperson of the Scheme, the Principal Officer, the financial manager, and the external auditor are invited to attend Audit, Risk and Compliance Committee meetings and have unrestricted access to the Chairman of the Audit, Risk and Compliance Committee.

In accordance with the provisions of the Act, the primary responsibility of the Audit, Risk and Compliance Committee is to assist the Board of Trustees in carrying out its duties relating to the Scheme's accounting policies, internal control systems and financial reporting practices. The independent external auditor formally reports to the Audit, Risk and Compliance Committee on critical findings arising from their audit activities. The Audit, Risk and Compliance Committee also ensures that significant matters are identified and appropriately dealt with.

The Audit, Risk and Compliance Committee comprises Board Members C Kritzinger and M Janse van Rensburg, and non-Board Members K Bizana and D van der Merwe, under the chairmanship of non-Board member JP van der Walt.

**DEVIATIONS:**

The Board of Trustees are of the opinion that there are no material deviations from the Act and list the following three matters that are practical challenges and not wilful non-compliances.

1. Not all contributions that are billed are received within three days as required by Section 26(7) of the Act. These incidents are exceptional, e.g., when the three-day grace period falls over a weekend. Credit control procedures minimise the risk of non-recoverability, including that about 90% of contributions are collected via deductions from the employers' payroll. The Scheme negotiates with the employer from time to time, to minimise the incidences.
2. Claims are generally paid within 30 days of receipt, in terms of Section 59(2) of the Act, but due to certain procedures such as clinical auditing and suspected fraudulent claims, some claims are paid after 30 days of receipt. This could impact on member and provider relationships and cash flow. Management track claims older than 30-days and monitor progress to minimise delays.
3. Section 35(8)(c) of the Act states that a medical scheme shall not invest any of its assets in any administrator. The Scheme's investment funds are managed by independent third-party asset managers. They have a discretionary mandate to achieve their target. Given this approach, the Scheme may be exposed to shares in an administrator from time to time. As a precaution the Scheme made application and was granted exemption from complying with this requirement by the Council for Medical Schemes. The Scheme made a renewal application on 06 May 2019 and was granted exemption from 1 December 2019 through 30 November 2022. At the time when the exemption was granted, the Scheme held investments in MMI Holdings Limited (Allan Gray and Stanlib) and Discovery Group Limited (Allan Gray and Stanlib).

**9. KEY MATTERS**

The Board of Trustees have identified the following as key matters:

**Solvency:**

The solvency of the Scheme remains well above the regulated minimum, and within the 40% to 70% target range agreed by the Board.

**Management of Claims:**

High claims costs, that, pre-COVID-19, was a Scheme and industry concern, is expected to return to pre-COVID-19 levels, after lockdown restrictions have been fully lifted. COVID-19 did, however, result in significantly reduced benefit utilisation. Since December 2020 we have experienced some increased claims, but it is not near familiar claims patterns. We expect COVID-19 to impact healthcare and member claims for a longer period (well into 2022) than anticipated and we are implementing plans to manage adverse high-cost events due to uncontrolled chronic conditions due to patients avoiding regular check-ups.

To accurately report the Scheme's financial position, and because claims must be paid for four months after the service date, management use the Incurred-But-Not-Reported (IBNR) provision. The IBNR provision calculation is based on the chain ladder method (CLM). The CLM uses run-off triangles to calculate the expected outstanding claims amount. The primary assumption is that previous claims patterns are representative of current run-off expectations. The 2021 claims payment information is also used in an attempt to enhance the reliability of results, together with historic claims payment run-off trends. The estimation process is based on variables and assumptions which could differ when claims arise, although a large portion of the likely claims relating to the financial year have already been processed.

**Profile of Members:**

The member profile has a significant impact on future claims. Membership, on 31 December 2020, was 1 520 (2019: 1 680). The average age of beneficiaries on 31 December 2020 was 34.36 (2019: 33.5). There was little member movement in this reporting period, mostly due to union activity, and it does not present a sustainability risk. Nevertheless, claims are closely monitored.



**ALLIANCE-MIDMED MEDICAL SCHEME**  
**Report of the Board of Trustees**  
for the year ended 31 December 2020

**Governance:**

The Board is committed to strong governance structures to ensure appropriate and professional management. The Board embarked on the implementation of a robust governance model. The governance model has already strengthened several management practices and we expect this project to be completed in 2023, because it includes compliance to relevant aspects of King III and King IV. Underpinning the governance model and structures are stringent internal and external control processes.

**Risk Management:**

A robust risk management approach is applied operationally at clinical, financial and investment management levels. The Board is constantly seeking ways to enhance risk identification and management.

The Scheme retained the Health Insurance Platform (HiP) System as an integrated platform for the processing of claims due to the high level of integration of financials health risk management, and financial functionality and management controls. The detailed beneficiary and claims level access and flexible reporting functions, with a plus 99% availability, and relatively user-friendly operation makes it ideal and cost effective allowing us to employ fewer staff. The system is an oracle-based and internationally utilised insurance and healthcare platform. It is highly automated and allows for speedier processing and payment of claims. HiP deployed internationally recognised information security systems and first-class disaster management and recovery processes. The multiple award-winning HiP system, accommodates more than 740,000 policy holders in 15 countries.

**Impact on the environment:**

The Board is continuously looking at ways to further improve its low impact on the environment. The Scheme has effective and efficient systems and processes to minimise its negative impact on the environment (e.g., high automation levels, email communications and a member app to communicate and submit accounts in real-time, electronically). We are working on reducing negative impacts where these are discovered (e.g., a campaign to register providers on the administrator electronic platform for account management and

**10. TRUSTEES AND AUDIT, RISK AND COMPLIANCE COMMITTEE MEMBERS MEETING ATTENDANCE**

|                                                     | Board of Trustees meetings |   | Audit, Risk and Compliance Committee meetings |   | Annual general meetings |   |
|-----------------------------------------------------|----------------------------|---|-----------------------------------------------|---|-------------------------|---|
|                                                     | A                          | B | A                                             | B | A                       | B |
| <b>Trustees</b>                                     |                            |   |                                               |   |                         |   |
| SD Muller (Chairperson)                             | 4                          | 4 | 3                                             | 3 | 1                       | 1 |
| M Janse van Rensburg #                              | 4                          | 4 | 3                                             | 2 | 1                       | 1 |
| FJ Mabheba                                          | 4                          | 4 |                                               |   | 1                       | 1 |
| C Kritzing #                                        | 4                          | 4 | 3                                             | 2 | 1                       | 1 |
| R van Coller                                        | 4                          | 3 |                                               |   | 1                       | 1 |
| D Martin                                            | 4                          | 4 |                                               |   | 1                       | 1 |
| JM Fourie (Co-Opted Trustee)                        | 4                          | 4 |                                               |   | 1                       | 1 |
| N Harris (Co-Opted Trustee)                         | 4                          | 4 |                                               |   | 1                       | 1 |
| J Tharakan (Co-Opted Trustee)                       | 4                          | 3 |                                               |   | 1                       | 1 |
| <b>Audit, Risk and Compliance Committee members</b> |                            |   |                                               |   |                         |   |
| J Van Der Walt (Chairman)                           |                            |   | 3                                             | 3 | 1                       | 1 |
| D Van Der Merwe                                     |                            |   | 3                                             | 3 | 1                       | 1 |
| K Bizana                                            |                            |   | 3                                             | 3 | 1                       | 1 |
| <b>Principal Officer</b>                            |                            |   |                                               |   |                         |   |
| J Hartzenberg                                       | 4                          | 4 | 3                                             | 3 | 1                       | 1 |

# - Trustees serving on the Audit, Risk and Compliance Committee  
4 Board Meetings (1 Strategy Session and Budget Meeting not counted)  
A = maximum possible attendance  
B = actual attendance

**11. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES**

**Operational statistics**

|                                                                              | 2020        | 2019        |
|------------------------------------------------------------------------------|-------------|-------------|
| Number of members at the end of the year                                     | 1 520       | 1 680       |
| Number of beneficiaries at the end of the year                               | 3 618       | 3 928       |
| Average number of members for the year                                       | 1 567       | 1 675       |
| Average number of beneficiaries for the year                                 | 3 723       | 3 900       |
| Beneficiaries per member at the end of the year                              | 2.38        | 2.34        |
| Average age of beneficiaries for the year                                    | 34.36       | 33.50       |
| Pensioner ratio (beneficiaries > 65 years)                                   | 8.82%       | 7.59%       |
| Dependants per member at the end of the accounting period                    | 1.38        | 1.34        |
| Average net contributions per beneficiary per month                          | R2 322      | R2 082      |
| Average relevant healthcare expenditure incurred per beneficiary per month   | R1 806      | R2 028      |
| Total relevant healthcare expenditure as a percentage of gross contributions | 73.93%      | 92.55%      |
| Average non-healthcare expenditure per beneficiary per month                 | R128        | R118        |
| Non-healthcare expenses as a percentage of gross contributions               | 5.24%       | 5.38%       |
| Average accumulated funds(excl savings) per member at the end of the year    | R43 770     | R28 719     |
| Return on investments as a percentage of closing investments                 | 3.49%       | 6.83%       |
| Breakdown of total administration costs:                                     |             |             |
| Administration fees                                                          | R 3 378 034 | R 3 999 701 |
| Managed care: management services                                            | R 1 343 185 | R 965 046   |
| Total                                                                        | R 4 721 219 | R 4 964 747 |
| Average amount paid for the administration per member per month              | R 251       | R 247       |



## Independent Auditor's Report

### To the Members of ALLIANCE-MIDMED MEDICAL SCHEME

#### Report on the Financial Statements

##### Opinion

We have audited the financial statements of Alliance-Midmed Medical Scheme (the Scheme), set out on pages 11 to 29, which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, the statement of changes in members' funds 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 Alliance-Midmed Medical Scheme as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa.

##### Basis for Opinion

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

| 1. Outstanding claims provision (IBNR) - Note 1.5 and 8                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Key audit matter                                                                                                                                                                                                                                                | How our audit addressed the key audit matter                                                                                                                                                                                                                                                                                                                                                       |
| The outstanding claims provision is a provision for the estimated cost of healthcare benefits that have occurred before the reporting date but have not been reported to the Scheme by that date. The provision is determined based on a number of assumptions. | <p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"><li>We obtained an understanding of the process and the methodology used and the related key controls over the IBNR calculation.</li><li>We assessed the appropriateness and timely recognition of costs and provisions in accordance with IAS 37: <i>Provisions, Contingent Liabilities and</i></li></ul> |



|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
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| <p>In accordance with the scheme rules, members have 4 months from the service date to submit claims before they are considered stale and rejected.</p> <p>At the time of approval of the financial statements, 3 months of the 4 months are known and historically the majority of the claims are received in the first 2 months after year end.</p> <p>The method used to estimate outstanding claims uses historical claims development information and assumes that the historical claims development pattern will occur again in the future. There is no certainty whether similar patterns will be followed which could result in a material misstatement in the outstanding claims provision.</p> <p>The outstanding claims provision is considered to be significant to our audit and therefore is considered to be a key audit matter as the balance is material to the financial statements as a whole and is subject to a degree of estimation uncertainty and judgement from management.</p> | <p><i>Contingent Assets and IFRS 4: Insurance Contracts.</i></p> <ul style="list-style-type: none"> <li>• We assessed Chainladder which is compiled from the claims received subsequent to year-end, as well as post year-end claims data, for claims incurred relating to the 2020 financial year.</li> <li>• We scrutinised the hospital pre-authorisation lists before year-end and the confirmation from the hospitals of claims incurred to the end of December 2020.</li> <li>• We critically assessed management's assumptions compared to our own industry knowledge and client specific historical information.</li> <li>• We performed a retrospective review of the provision historically raised by inspecting the utilisation of the provision for the 2020 financial year.</li> <li>• We performed a recalculation of the provision based on the claims data for the first 3 months of the 2021 financial year.</li> <li>• We assessed the calculation of run-off triangles for reasonability compared to the current and historical claims development patterns over the last 3 years.</li> <li>• We assessed and recomputed the sensitivity analyses of the provision for accuracy.</li> <li>• We evaluated the presentation and disclosure of the outstanding claims provision in terms of IFRS and the applicable industry guides.</li> </ul> |
| <p><b>2. Automated and complex information technology system</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <p><b>Key audit matter</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <p><b>How our audit addressed the key audit matter</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <p>The Scheme retained the Health Insurance Platform (HiP) System as an integrated platform for the processing of claims due to the high level of integration of financials health risk management and financial functionality and management controls. HIP is considered to be complex as it performs a high degree of automated processing with many application controls and contains electronic transactions generated from service providers with very little observable external audit trail.</p> <p>Should an error occur there could potentially be a significant impact on the financial data that is provided to the Scheme or alternatively if the automated controls were to fail it could potentially result in significant financial loss to the Scheme.</p> <p>As a result, the reliability and functioning of the automated controls in the system are considered to be a key audit matter.</p>                                                                                          | <p>The following audit procedures were performed, amongst others:</p> <ul style="list-style-type: none"> <li>• Our information technology (IT) assurance team performed a review of the general IT control environment of the Scheme and specifically the HIP system. These procedures included testing the design, implementation and effectiveness of the key controls on access administration, user identification, change management, backups &amp; recoveries and authentication.</li> <li>• We performed exception testing on the transactional database by identifying anomalies in the transactional data and confirming the validity of the exceptions.</li> </ul> <p>For weaknesses identified in the review by IT assurance we adjusted our audit approach and performed substantive detail tests.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |



### **Other Information**

The Scheme's trustees are responsible for the other information. The other information comprises the Report of the Board of Trustees as required by the Medical Schemes Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the Scheme's Trustees for the Financial Statements**

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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



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

#### **Report on Other Legal and Regulatory Requirements**

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

As required by the Council for Medical Schemes, we report the following material instances of non-compliance with the requirements of the Medical Schemes Act of South Africa, as amended, that have come to our attention during the course of our audit:

- Section 59(2) - Claims not paid within 30 days of receipt

##### **Audit tenure**

As required by the Council for Medical Schemes' Circular 38 of 2018, Audit Tenure, we report that BDO South Africa Incorporated has been the auditor of Alliance-Midmed Medical Scheme for 3 years.

The engagement partner, Terri Weston, has been responsible for Alliance-Midmed Medical Scheme's audit for 1 year.

##### **BDO South Africa Incorporated**

Registered Auditors

BDO SOUTH AFRICA INC

**Terri Weston**

Director

Registered Auditor

17 May 2021

Wanderers Office Park

52 Corlett Drive

Illovo, 2196



**ALLIANCE-MIDMED MEDICAL SCHEME**

**STATEMENT OF FINANCIAL POSITION**

as at 31 December 2020

|                                                        | Notes | 2020<br>R   | 2019<br>R  |
|--------------------------------------------------------|-------|-------------|------------|
| <b>ASSETS</b>                                          |       |             |            |
| <b>Non-current assets</b>                              |       |             |            |
| Property and Equipment                                 | 2     | 17 116      | -          |
|                                                        |       | 106 457 326 | 82 312 738 |
| <b>Current assets</b>                                  |       |             |            |
| Inventories                                            |       | 64 328      | -          |
| Trade and other receivables                            | 3     | 1 482 206   | 690 231    |
| Cash and cash equivalents                              | 4     | 25 766 138  | 9 629 197  |
| Investments held at fair value through profit and loss | 5     | 79 144 654  | 71 993 310 |
| <b>Total assets</b>                                    |       | 106 474 442 | 82 312 738 |
| <b>FUNDS AND LIABILITIES</b>                           |       |             |            |
| <b>Members' funds</b>                                  |       |             |            |
| Accumulated funds                                      |       | 68 587 480  | 48 104 220 |
|                                                        |       | 37 886 962  | 34 208 518 |
| <b>Current liabilities</b>                             |       |             |            |
| Personal Medical Savings Account liability (PMSA)      | 6     | 31 053 085  | 29 532 308 |
| Trade and other payables                               | 7     | 5 410 694   | 2 525 213  |
| Outstanding claims provision                           | 8     | 1 423 183   | 2 150 997  |
| <b>Total funds and liabilities</b>                     |       | 106 474 442 | 82 312 738 |



# **ALLIANCE-MIDMED MEDICAL SCHEME**

## **STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME** for the year ended 31 December 2020

|                                                                 | Notes | 2020<br>R    | 2019<br>R    |
|-----------------------------------------------------------------|-------|--------------|--------------|
| <b>Net contribution income</b>                                  | 9     | 103 752 458  | 97 425 545   |
| <b>Relevant healthcare expenditure</b>                          |       | (80 688 951) | (94 922 277) |
| Net claims incurred                                             | 10    | (78 750 592) | (93 189 829) |
| Claims incurred                                                 |       | (78 750 592) | (93 189 829) |
| Third party claim recoveries                                    |       | -            | -            |
| Accredited managed healthcare services<br>(no transfer of risk) | 11    | (1 938 359)  | (1 732 448)  |
| <b>Gross healthcare result</b>                                  |       | 23 063 507   | 2 503 268    |
| Administration expenses                                         | 12    | (5 688 705)  | (5 412 975)  |
| Net impairment losses on healthcare receivables                 | 13    | (31 613)     | (107 268)    |
| <b>Net healthcare result</b>                                    |       | 17 343 189   | (3 016 975)  |
| <b>Other income</b>                                             |       | 3 672 624    | 5 703 345    |
| Investment income                                               | 14    | 3 664 425    | 5 576 768    |
| Sundry income                                                   |       | 8 199        | 126 577      |
| <b>Other expenditure</b>                                        |       | (532 552)    | (487 179)    |
| Asset management fees                                           |       | (532 552)    | (487 179)    |
| <b>Net surplus for the year</b>                                 |       | 20 483 260   | 2 199 191    |
| <b>Total comprehensive income for the year</b>                  |       | 20 483 260   | 2 199 191    |



**ALLIANCE-MIDMED MEDICAL SCHEME**

**STATEMENT OF CHANGES IN FUNDS AND RESERVES**  
for the year ended 31 December 2020

|                                         | <b>2020</b>       | <b>2019</b>       |
|-----------------------------------------|-------------------|-------------------|
|                                         | <b>R</b>          | <b>R</b>          |
| <b>Balance as at 1 January</b>          | 48 104 220        | 45 905 029        |
| Total comprehensive income for the year | 20 483 260        | 2 199 191         |
| <b>Balance as at 31 December</b>        | <u>68 587 480</u> | <u>48 104 220</u> |



# **ALLIANCE-MIDMED MEDICAL SCHEME**

## **STATEMENT OF CASH FLOWS**

for the year ended 31 December 2020

|                                                                       | Notes | 2020<br>R          | 2019<br>R           |
|-----------------------------------------------------------------------|-------|--------------------|---------------------|
| <b>Cash flows from operating activities</b>                           |       |                    |                     |
| Cash flows utilised in operations before working capital changes      | 15    | 17 459 540         | (2 729 742)         |
| Working capital changes                                               |       |                    |                     |
| - (Increase) / decrease in trade and other receivables                |       | (887 916)          | 267 506             |
| - Increase / (decrease) in trade and other payables                   |       | 2 885 481          | (1 053 788)         |
| - Increase / (decrease) in personal medical savings account liability |       | 1 520 777          | (2 652 847)         |
| - (Decrease) in outstanding claims provision                          |       | (727 814)          | (483 439)           |
| <b>Cash utilised in operations</b>                                    |       | <b>20 250 068</b>  | <b>(6 652 310)</b>  |
| <b>Cash flow from investing activities</b>                            |       | <b>(4 113 127)</b> | <b>(6 640 049)</b>  |
| Acquisition of computer equipment                                     |       | (41 408)           | -                   |
| Acquisition of investments                                            |       | (7 092 594)        | (13 293 595)        |
| Proceeds on disposal of investments                                   |       | 52 248             | 2 945 250           |
| Interest income                                                       |       | 2 921 998          | 3 830 108           |
| Dividend income                                                       |       | 579 181            | 365 367             |
| Asset management fees                                                 |       | (532 552)          | (487 179)           |
| <b>Net decrease in cash and cash equivalents</b>                      |       | <b>16 136 941</b>  | <b>(13 292 359)</b> |
| Cash and cash equivalents at the beginning of the year                |       | 9 629 197          | 22 921 556          |
| <b>Cash and cash equivalents at the end of the year</b>               | 4     | <b>25 766 138</b>  | <b>9 629 197</b>    |



## ALLIANCE-MIDMED MEDICAL SCHEME

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2020

#### 1. PRINCIPAL ACCOUNTING POLICIES

These annual financial statements (AFS) have been prepared in accordance with International Financial Reporting Standards (IFRS) and the disclosures as required by the Medical Schemes Act 131 of 1998, as amended ("the Act").

The following are the principal accounting policies used by the Scheme, which are consistent with those of the previous year.

##### 1.1 Basis of preparation

The AFS are prepared on the historical cost basis except for short-term investments and investments classified as held at fair value through profit and loss, which are carried at fair value.

##### 1.2 Financial instruments

Financial assets and liabilities are recognised on the Scheme's statement of financial position on the trade date when it becomes a party to the contractual provisions of the instrument.

###### *Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Scheme has substantially transferred all the risks and rewards of ownership.

###### *Measurement*

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

The carrying value of short-term financial assets and liabilities approximates fair value.

###### *Cash and cash equivalents*

Cash and cash equivalents comprise the current bank accounts, deposits held on call with banks, and other short-term liquid investments that are readily convertible to a known amount of cash, which are subject to an insignificant risk of change in value with original maturities of three months or less.

###### *Investments held at fair value through profit and loss*

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. The cost of purchases includes transaction costs. Investments held at fair value through the statement of comprehensive income are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the investments are included in the statement of comprehensive income in the year in which they arise. The fair value of financial instruments is determined by reference to an exit price on measurement date.

Investments are held conservatively as current assets because of the volatility inherent in the size of the Scheme and the Trustees must ensure sufficient liquidity to ensure reasonable access to cash in the event of major expenses. Within the current arrangement we aim to access the majority of the investments within 30-days without significant risk of loss, and all within 180 days.

The Scheme assets are held in such a manner so as to account for several challenges that may or may not materialise in the next six to 24-months. For one the Scheme was served with a Regulation 10 Directive to pay in excess of R36Million to members in their PMSA in lieu of PMB payments that the Scheme made from member's PMSA, instead of the Major Risk Pool. The Scheme objected and is still awaiting the outcome to the objection. The Directive instructed the refund to be effective within two weeks. In addition, the government has expressed the intention to expedite the National Health Insurance Scheme and a prominent element is to consolidate small Schemes. This threat is "imminent" as declared in the Schemes Annual Financial Statements since 2018 and recently government intensified their attempts, under the COVID-19 response, to expedite

On disposal of an investment, the difference between the net disposal proceeds and carrying amount is recognised in the surplus/deficit for the

###### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

##### 1.3 Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Scheme has determined that some of its investments in pooled funds and collective investment schemes ("funds") are investments in unconsolidated structured entities. The Scheme invests in these funds, whose objectives range from achieving medium- to long-term capital growth and whose investment strategy do not include the use of leverage. The funds are managed by unrelated asset managers and apply various investment strategies to accomplish their respective investment objectives.

The change in fair value of each fund is included in the statement of profit and loss and other comprehensive income in 'Net gains/ (losses) on financial instruments held at fair value through profit or loss'.

##### 1.4 Impairment losses

###### **Impairment of non-financial assets**

The carrying amount of the Scheme's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and an allowance account to record impairment losses is created.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss and other comprehensive income.

Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss is

The recoverable amount of non-financial assets is the greater of the fair value less costs of disposals and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using the effective interest rate computed at initial recognition of the financial asset. Receivables due within the same operating cycle are not discounted.



## ALLIANCE-MIDMED MEDICAL SCHEME

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2020

#### Impairment of financial assets

##### (a) Assets carried at amortised cost

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

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income.

Where the carrying amount of the asset is reduced through the use of an allowance account, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited as other income or against operating expenses in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's statement of comprehensive income).

#### 1.5 Personal Medical Savings Account liability (PMSA)

The personal medical savings account, which is managed by the scheme on behalf of its members, represents savings contributions (which are a deposit component of the insurance

The deposit component of the insurance contracts has been unbundled, since the scheme can measure the deposit component separately. The deposit component is recognised in accordance with IAS 39/IFRS 9 and is initially measured at fair value and subsequently at amortised cost using the effective interest method. The insurance component is recognised in accordance with IFRS 4.

PMSA contributions are credited on the accrual basis and withdrawals on a cash basis, i.e. no provision is made for outstanding claims related to PMSA portion at year-end. The Personal Medical Savings Accounts are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

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

Interest is paid in terms of the rules of the Scheme on the PMSA on a monthly basis, based on the effective interest method.

The PMSA assists members to manage cash flows for costs in excess of the Scheme's approved benefits and self-funding member co-payments for provider services rendered.

PMSA contributions are advanced annually. Unexpended savings at the year-end are carried forward to meet future expenses in excess of Scheme benefits. Balances standing to the credit of members are refundable in terms of regulation 10 of the Act.

The Scheme bears the risk associated with the non-recovery of balances which have been advanced to members and who have subsequently left the Scheme without settling those outstanding balances.

In accordance with the Scheme Rules, Member's PMSA are underwritten by the Scheme. No interest accrues to member PMSA's.

#### 1.6 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 obligation amount.

##### Outstanding claims provision (IBNR)

The outstanding claims provision is the estimated cost of healthcare benefits that have occurred before the reporting date but have not been reported to the Scheme by that date. This provision is determined according to, amongst others, previous claims experience, claims settlement patterns, membership changes, claims frequency changes, claims processing cycles and variations, and average claims costs. The outstanding claims provision is reduced by the estimated recoveries from members for co-payments, and PMSA Accounts.

##### Liabilities and related assets under the liability adequacy test

The Scheme does not discount its provision for outstanding risk claims, since the effect of the time value of money is not considered material.

Liability adequacy tests are performed to ensure the adequacy of the member insurance contract liabilities as at the reporting date.

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 (i.e. the value of business acquired). Where a shortfall is identified, an additional provision is made and the Scheme recognises the deficiency in income for the year.

#### 1.7 Investment income

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

Dividends are recognised when the Scheme's right to receive payment is established.

#### 1.8 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 the gross contributions per the registered rules after the unbundling of savings contributions. The earned portion of risk contributions received is recognised as revenue. Risk contributions are earned from the date of attachment of risk, over the indemnity period on a straight-line basis. The Scheme does not pay broker service fees and other acquisition costs.

#### 1.9 Relevant healthcare expenditure

Gross claims incurred comprise the total estimated cost of all claims arising from healthcare events that have occurred in the year and for which the Scheme is responsible, whether reported by the end of year. Net claims incurred comprise:

- claims submitted and accrued for services rendered during the year, net of recoveries from members for co-payments and Personal Medical Accounts;  
members  
for co-payments, and Personal Medical Savings Accounts and
- movement in the provision for outstanding claims.



## ALLIANCE-MIDMED MEDICAL SCHEME

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2020

#### 1.10 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from supplier. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

#### 1.11 Property and equipment

Property and equipment comprises mainly of office and computer equipment. Property and equipment is reflected at historical cost less accumulated depreciation and accumulated impairments. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation on all assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The useful lives of office and computer equipment is 1-3 years.

#### 1.12 Standards and interpretations effective in the current year

##### IAS 1 and 8: Presentation of Financial Statements and IAS 8, 'Accounting policies, changes in accounting estimates and errors' on the definition of material (Effective 1 January 2020)

These amendments relate to IAS 1 and IAS 8 and consequential amendments to other IFRSs:

- use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting;
- clarify the explanation of the definition of material; and
- incorporate some of the guidance in IAS 1 about immaterial information.

The amended definition is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

##### IFRS 9 Scheme Impact Analysis

IFRS 4 allows for a temporary exemption to defer the adoption until 1 January 2023. This exemption may be applied if:

- the Scheme has not previously applied any version of IFRS 9; and
- its activities are predominantly connected with insurance.

A scheme's activities are predominantly connected with insurance if, and only if:

- the carrying amount of its liabilities arising from members' contracts, which includes any deposit components (i.e. the medical savings account liability), is significant compared to the total carrying amount of all its liabilities; and
- the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities is:
  - greater than 90 per cent; or
  - less than or equal to 90 per cent but greater than 80 per cent, and the scheme does not engage in a significant activity unconnected with insurance.

|                                            | 31 Dec 2020       | 31 Dec 2019       |
|--------------------------------------------|-------------------|-------------------|
| Savings plan liability                     | 31 053 085        | 29 532 308        |
| Credit balances due to members & suppliers | 4 919 432         | 2 028 080         |
| Provision for outstanding claims           | 1 423 183         | 2 150 997         |
|                                            | <b>37 395 700</b> | <b>33 711 385</b> |
| <b>Total liabilities</b>                   | <b>37 886 962</b> | <b>34 208 518</b> |
| Percentage                                 | 98.7%             | 98.5%             |

The Trustees are satisfied that the Scheme meets the requirements and have therefore elected to defer the adoption of IFRS 9 and will review the decision annually.

IFRS 9 introduces a single "expected credit loss" model for impairment, a new hedge accounting model and a new approach to classification of financial assets.

Investments are measured at fair value through profit or loss and would be continued to be held at fair value through profit or loss, under IFRS 9. For the remainder of the financial assets the carrying value approximates fair value. Receivables will be accounted for according to the expected loss impairment model and not the incurred loss impairment model currently applied. Given the short-term nature of the receivables, it is unlikely to result in a material financial provision.

#### 1.13 IFRS standards and interpretations not yet effective

##### Standards and interpretations not yet effective

The following new and revised accounting standards and interpretations, which are relevant to medical schemes are in issue, but not yet effective. None of the applicable standards below have been early adopted by the Scheme.

| Standard                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Effective date |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| Amendments to IFRS 17 - Insurance contracts - IFRS 17 will affect the measurement of the contracts with members in the Scheme's financial statements. The Scheme will qualify for the premium allocation approach, which requires the Scheme to recognise a liability for remaining coverage (with reference to the premiums received) and a liability for incurred claims (calculated as the expected cash outflows and a risk adjustment). The Scheme expects that the boundary of the contracts with members will be one year. The Scheme will be required to assess for onerous contracts at the point members elect the benefit option for the following year. | 01-Jan-23      |
| IFRS 17 - Insurance Contracts - (Amendments) - In response to some of the concerns and challenges raised, the Board developed targeted amendments and several proposed clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and ease transition. The amendments are not intended to change the fundamental principles of the standard or unduly disrupt implementation already underway.                                                                                                                                                                                                                           | 01-Jan-23      |

*The Scheme will adopt the above-mentioned standard on the effective date. The impact of adoption of this standard in future financial reporting periods is currently being assessed.*

These standards will be adopted on their effective dates, and its potential impact is being assessed.



**ALLIANCE-MIDMED MEDICAL SCHEME**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)**  
for the year ended 31 December 2020

|                                       | 2020<br>R     | 2019<br>R |
|---------------------------------------|---------------|-----------|
| <b>2. PROPERTY AND EQUIPMENT</b>      |               |           |
| <b>Cost</b>                           |               |           |
| At beginning of year                  | -             | -         |
| Additions                             | 41 408        | -         |
| At end of year                        | 41 408        | -         |
| <b>Accumulated depreciation</b>       |               |           |
| At beginning of year                  | -             | -         |
| Depreciation                          | (24 292)      | -         |
| At end of year                        | (24 292)      | -         |
| <b>Carrying amount at end of year</b> | <u>17 116</u> | <u>-</u>  |

**3. TRADE AND OTHER RECEIVABLES**

|                                                         |                  |                |
|---------------------------------------------------------|------------------|----------------|
| <b>Insurance receivables</b>                            |                  |                |
| Net contributions outstanding                           | 1 427 640        | 637 019        |
| Amounts owing by members                                | 28 624           | 22 186         |
| Amounts owing by suppliers                              | 217 038          | 175 442        |
| Personal Medical Savings Account advances (note 6)      | 26 086           | 38 372         |
| Total receivables arising from insurance contracts      | 1 699 388        | 873 019        |
| Less: Provision for impairment of insurance receivables | (236 182)        | (204 569)      |
|                                                         | <u>1 463 206</u> | <u>668 450</u> |
| <b>Financial assets</b>                                 |                  |                |
| Prepaid expenses                                        | 19 000           | 21 781         |
| Sundry receivable                                       | -                | 3 745          |
| Accrued interest                                        | -                | 14 254         |
|                                                         | <u>-</u>         | <u>3 782</u>   |
|                                                         | <u>1 482 206</u> | <u>690 231</u> |

The movement in the allowance for impairment during the year was as follows:

|                                                                                   | Contribution<br>debt<br>R | Member and<br>supplier debt<br>R | Savings<br>Account<br>advances<br>R | Total<br>R       |
|-----------------------------------------------------------------------------------|---------------------------|----------------------------------|-------------------------------------|------------------|
| <b>2020</b>                                                                       |                           |                                  |                                     |                  |
| Balance as at 1 January                                                           | -                         | (181 474)                        | (23 095)                            | (204 569)        |
| Amounts written off during the year                                               | -                         | -                                | -                                   | -                |
| Amount recognised in the statement of comprehensive income for the year (note 13) | -                         | (28 631)                         | (2 982)                             | (31 613)         |
| Unused amounts reversed during the year                                           | -                         | -                                | -                                   | -                |
| Amounts utilised during the year                                                  | -                         | (28 631)                         | (2 982)                             | (31 613)         |
| <b>Balance as at 31 December</b>                                                  | <u>-</u>                  | <u>(210 105)</u>                 | <u>(26 077)</u>                     | <u>(236 182)</u> |
| <b>2019</b>                                                                       |                           |                                  |                                     |                  |
| Balance as at 1 January                                                           | -                         | (82 570)                         | (24 850)                            | (107 420)        |
| Amounts written off during the year                                               | -                         | 818                              | 7 939                               | 8 757            |
| Amount recognised in the statement of comprehensive income for the year (note 13) | -                         | (99 722)                         | (6 184)                             | (105 906)        |
| Unused amounts reversed during the year                                           | -                         | -                                | -                                   | -                |
| Amounts utilised during the year                                                  | -                         | (99 722)                         | (6 184)                             | (105 906)        |
| <b>Balance as at 31 December</b>                                                  | <u>-</u>                  | <u>(181 474)</u>                 | <u>(23 095)</u>                     | <u>(204 569)</u> |

|                                     | 2020<br>R         | 2019<br>R        |
|-------------------------------------|-------------------|------------------|
| <b>4. CASH AND CASH EQUIVALENTS</b> |                   |                  |
| Current accounts                    | 471 487           | 512 680          |
| Deposits on call                    | 25 294 651        | 9 116 517        |
|                                     | <u>25 766 138</u> | <u>9 629 197</u> |

The overall weighted average effective interest rate on cash resources at year end was 4.62% (2019: 6.85%).

**5. INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT AND LOSS**

|                                                                                              |                   |                   |
|----------------------------------------------------------------------------------------------|-------------------|-------------------|
| Fair value at the beginning of the year                                                      | 71 993 310        | 60 318 422        |
| Additions and income capitalised                                                             | 7 092 594         | 13 293 595        |
| Disposals                                                                                    | (52 248)          | (2 945 250)       |
| Net unrealised gains on revaluation recognised through the statement of comprehensive income | 110 998           | 1 326 543         |
| Fair value at the end of the year                                                            | <u>79 144 654</u> | <u>71 993 310</u> |
| The investments included above represent:                                                    |                   |                   |
| Cash and equivalents                                                                         | 12 121 551        | 12 743 019        |
| Bonds                                                                                        | 44 587 676        | 35 284 598        |
| Equities                                                                                     | 18 226 242        | 18 364 679        |
| Property unit trusts                                                                         | 4 209 185         | 5 297 219         |
| Other                                                                                        | -                 | 303 795           |
| Fair value at the end of the year                                                            | <u>79 144 654</u> | <u>71 993 310</u> |



**ALLIANCE-MIDMED MEDICAL SCHEME**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)**  
for the year ended 31 December 2020

**6. PERSONAL MEDICAL SAVINGS ACCOUNT**

Balance on Personal Medical Savings Accounts at beginning of the year  
Less: Prior year advances on Personal Medical Savings Account

Net balance on Personal Medical Savings Account at the beginning of the year

Personal Medical Savings Account contributions received  
- for the current year (note 9)  
- allocated to settle prior year advances

Less:

Transfers to other Schemes and repayments on death or resignation  
Claims paid on behalf of members (note 10)

Net balance on Personal Medical Savings Account liability at the end of the year

Add: Advances on Personal Medical Savings Account included in trade and other receivables (note 3)

Amounts due to members on Personal Medical Savings Account at the end of the year

The Personal Medical Savings Account liability contains a demand feature in terms of regulation 10 of the Act that any credit on a member's PMSA must be taken as a cash benefit when the member terminates his or her membership of the Scheme or benefit option and then enrolls in another benefit option or medical scheme without a Personal Medical Savings Account or does not enrol in another medical scheme.

It is estimated that claims to be paid out of members' Personal Medical Savings Accounts in respect of claims incurred in 2020 but not recorded amount to R 159 946 (2019: R236 566).

Advances on Personal Medical Savings Accounts are funded by the Scheme and are included in trade and other receivables. The Scheme does not charge interest on advances on PMSA.

**7. TRADE AND OTHER PAYABLES**

**Insurance liabilities**

Accounts payable to providers and members  
Contributions received in advance and unallocated receipts

**Financial liabilities**

Sundry accounts payable

**8. OUTSTANDING CLAIMS PROVISION**

**Analysis of movements in outstanding claims**

Balance at beginning of year  
Payments in respect of prior year

Over provision in prior year  
Raised in the current year

Balance at end of year

The 2019 over-provision relates to an out-of-pattern reduction in claims in the last quarter of the year. No specific reasons were identified for this change in claiming pattern.

**Analysis of outstanding claims provision**

Estimated gross claims  
Less: Estimated recoveries from Personal Medical Savings Accounts

Balance at end of year

|                                                                                                                                                                                                                                                                                                                                                                                                                        | 2020<br>R   | 2019<br>R   |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|
| Balance on Personal Medical Savings Accounts at beginning of the year                                                                                                                                                                                                                                                                                                                                                  | 29 532 308  | 32 185 155  |
| Less: Prior year advances on Personal Medical Savings Account                                                                                                                                                                                                                                                                                                                                                          | (38 372)    | (46 518)    |
| Net balance on Personal Medical Savings Account at the beginning of the year                                                                                                                                                                                                                                                                                                                                           | 29 493 936  | 32 138 637  |
| Personal Medical Savings Account contributions received                                                                                                                                                                                                                                                                                                                                                                | 5 425 817   | 5 189 455   |
| - for the current year (note 9)                                                                                                                                                                                                                                                                                                                                                                                        | 5 387 445   | 5 142 937   |
| - allocated to settle prior year advances                                                                                                                                                                                                                                                                                                                                                                              | 38 372      | 46 518      |
| Less:                                                                                                                                                                                                                                                                                                                                                                                                                  |             |             |
| Transfers to other Schemes and repayments on death or resignation                                                                                                                                                                                                                                                                                                                                                      | (1 899 368) | (4 513 576) |
| Claims paid on behalf of members (note 10)                                                                                                                                                                                                                                                                                                                                                                             | (1 993 386) | (3 320 580) |
| Net balance on Personal Medical Savings Account liability at the end of the year                                                                                                                                                                                                                                                                                                                                       | 31 026 999  | 29 493 936  |
| Add: Advances on Personal Medical Savings Account included in trade and other receivables (note 3)                                                                                                                                                                                                                                                                                                                     | 26 086      | 38 372      |
| Amounts due to members on Personal Medical Savings Account at the end of the year                                                                                                                                                                                                                                                                                                                                      | 31 053 085  | 29 532 308  |
| The Personal Medical Savings Account liability contains a demand feature in terms of regulation 10 of the Act that any credit on a member's PMSA must be taken as a cash benefit when the member terminates his or her membership of the Scheme or benefit option and then enrolls in another benefit option or medical scheme without a Personal Medical Savings Account or does not enrol in another medical scheme. |             |             |
| It is estimated that claims to be paid out of members' Personal Medical Savings Accounts in respect of claims incurred in 2020 but not recorded amount to R 159 946 (2019: R236 566).                                                                                                                                                                                                                                  |             |             |
| Advances on Personal Medical Savings Accounts are funded by the Scheme and are included in trade and other receivables. The Scheme does not charge interest on advances on PMSA.                                                                                                                                                                                                                                       |             |             |
| <b>Insurance liabilities</b>                                                                                                                                                                                                                                                                                                                                                                                           | 5 004 791   | 2 160 829   |
| Accounts payable to providers and members                                                                                                                                                                                                                                                                                                                                                                              | 4 919 432   | 2 028 079   |
| Contributions received in advance and unallocated receipts                                                                                                                                                                                                                                                                                                                                                             | 85 359      | 132 750     |
| <b>Financial liabilities</b>                                                                                                                                                                                                                                                                                                                                                                                           | 405 903     | 364 384     |
| Sundry accounts payable                                                                                                                                                                                                                                                                                                                                                                                                | 405 903     | 364 384     |
|                                                                                                                                                                                                                                                                                                                                                                                                                        | 5 410 694   | 2 525 213   |
| <b>Analysis of movements in outstanding claims</b>                                                                                                                                                                                                                                                                                                                                                                     |             |             |
| Balance at beginning of year                                                                                                                                                                                                                                                                                                                                                                                           | 2 150 997   | 2 634 436   |
| Payments in respect of prior year                                                                                                                                                                                                                                                                                                                                                                                      | (913 361)   | (2 273 584) |
| Over provision in prior year                                                                                                                                                                                                                                                                                                                                                                                           | 1 237 636   | 360 852     |
| Raised in the current year                                                                                                                                                                                                                                                                                                                                                                                             | 185 547     | 1 790 145   |
| Balance at end of year                                                                                                                                                                                                                                                                                                                                                                                                 | 1 423 183   | 2 150 997   |
| The 2019 over-provision relates to an out-of-pattern reduction in claims in the last quarter of the year. No specific reasons were identified for this change in claiming pattern.                                                                                                                                                                                                                                     |             |             |
| <b>Analysis of outstanding claims provision</b>                                                                                                                                                                                                                                                                                                                                                                        |             |             |
| Estimated gross claims                                                                                                                                                                                                                                                                                                                                                                                                 | 1 423 183   | 2 387 563   |
| Less: Estimated recoveries from Personal Medical Savings Accounts                                                                                                                                                                                                                                                                                                                                                      | -           | (236 566)   |
| Balance at end of year                                                                                                                                                                                                                                                                                                                                                                                                 | 1 423 183   | 2 150 997   |



**ALLIANCE-MIDMED MEDICAL SCHEME****NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)**

for the year ended 31 December 2020

**8. OUTSTANDING CLAIMS PROVISION (continued)****Basis for determination of the outstanding claims provision**

The outstanding claims provision is a provision for the estimated cost of healthcare benefits that have occurred before the reporting date but have not been reported to the Scheme by that date. The provision is determined based on a number of assumptions which are outlined below.

**Process used to determine the assumptions**

The process used to determine the assumptions is intended to result in a realistic estimate of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies of historical claiming patterns to establish a claims run-off period per discipline. More emphasis is placed on recent information, particularly where current claims do not appear to follow prior year trends. Where, in prior years, there is insufficient information to make a reliable best estimate of claims development, prudent assumptions are used.

To the extent that historical claims development is used to determine the claim run-off period, it is assumed that this pattern will occur again in 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, inter alia, include:

- changes in processes that affect the development or recording of claims paid and incurred (such as changes in claims submission mechanisms);
- changes in membership profile of the Scheme;
- random fluctuations; and
- legislative changes (for example, expansion of the definition of a Prescribed Minimum Benefit (PMB)/Chronic Disease Listing (CDL) condition).

**Assumptions**

The assumptions that have the greatest effect on the measurement of the outstanding claims provision are the claims "run-off periods" for the most recent benefit years (split by discipline). The run-off factor relates to the emergence and settlement patterns of claims and is expressed as the percentage of claims settled in respect of total claims expected to emerge in a specific service month. This factor is then used to project the remainder of the outstanding claims relating to the specified service month. A "seasonality factor" is further incorporated into the calculation, also based on past claims experience. These assumptions have been used for assessing the outstanding claims provisions for the 2019 and 2020 benefit years. The COVID-19 impact on claims experience will influence these assumptions and trends.

**Calculation of the outstanding claims provision at year end**

Since claims data is available for three months after year-end for services provided up until the reporting date, considering that members have a four-month period to submit their claims to the Scheme, the unknown portion of the outstanding claims provision is expected to be relatively small.

|                                                                             | <b>2020</b> | <b>2019</b> |
|-----------------------------------------------------------------------------|-------------|-------------|
|                                                                             | <b>R</b>    | <b>R</b>    |
| Outstanding claims provision (not covered by risk transfer arrangements)    | 1 423 183   | 2 150 997   |
| Portion of outstanding claims paid in first three / two months of 2021/2020 | 1 019 646   | 808 311     |
| Residual estimate of claims incurred but not paid                           | 403 537     | 84 607      |
| Percentage of claims paid of total outstanding claims                       | 71.6%       | 37.6%       |

**Changes in assumptions**

The table below outlines the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process. It should be noted that this is a deterministic approach with no correlations between the key variables. Where variables are considered to be immaterial, no impact has been assessed for 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 to that variable in the future may be

An analysis of sensitivity around various scenarios for the general medical insurance business provides an indication of the adequacy of the estimation process. The Trustees believe that the liability for claims reported in the statement of financial position is adequate. However, they recognise that the process of estimation is based upon certain variables and assumptions which could differ when claims arise. The sensitivity of the liability is limited as it comprises 71.6 % (2019: 96.1%) of actual payments made in January, February and March 2021 which relate to 2020 claims. Therefore, the remaining balance has variables considered to be immaterial and no impact has been assessed for insignificant changes to these variables. Consequently, if for example the estimates of the unreceived portion of claims costs for the year was 5% inaccurate, the impact on the net surplus of the Scheme would be as follows:

**Impact on reported profits due to changes in key variables of the claims provision**

|                                  | <b>Change in<br/>variable</b> | <b>Change in<br/>liability<br/>2020</b> | <b>Change in<br/>liability<br/>2019</b> |
|----------------------------------|-------------------------------|-----------------------------------------|-----------------------------------------|
|                                  |                               | <b>R</b>                                | <b>R</b>                                |
| Hospital (Major medical benefit) | <b>5%</b>                     | 11 018                                  | 2 362                                   |
| Chronic                          | <b>5%</b>                     | 1 756                                   | 57                                      |
| Day-to-day                       | <b>5%</b>                     | 7 402                                   | 1 812                                   |

This analysis has been prepared for a change in a specified variable with other assumptions remaining constant. Inflation is not a factor as retrospective inflation is known.



**ALLIANCE-MIDMED MEDICAL SCHEME**
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)**  
for the year ended 31 December 2020

**9. NET CONTRIBUTION INCOME**

Gross contributions  
Less: Savings contributions (note 6)

| 2020<br>R          | 2019<br>R         |
|--------------------|-------------------|
| 109 139 903        | 102 568 482       |
| (5 387 445)        | (5 142 937)       |
| <b>103 752 458</b> | <b>97 425 545</b> |

**10. NET CLAIMS INCURRED**

Current year claims (note 19)  
Movement in outstanding claims provision  
- Over provision in prior year (note 8)  
- Current year provision  
Less:  
- Claims paid from Personal Medical Savings Account (note 6)

|                   |                   |
|-------------------|-------------------|
| 80 558 431        | 94 720 264        |
| 185 547           | 1 790 145         |
| (1 237 636)       | (360 852)         |
| 1 423 183         | 2 150 997         |
| (1 993 386)       | (3 320 580)       |
| <b>78 750 592</b> | <b>93 189 829</b> |

**11. ACCREDITED MANAGED HEALTHCARE SERVICES (no transfer of risk)**

Private Health Administrators (Pty) Ltd  
Rx Health (Pty) Ltd  
Mediscor PBM (Pty) Ltd  
Dental Information Systems (Pty) Ltd

|                  |                  |
|------------------|------------------|
| -                | 965 046          |
| 1 343 185        | -                |
| 512 759          | 525 631          |
| 82 415           | 241 771          |
| <b>1 938 359</b> | <b>1 732 448</b> |

Private Health Administrators (Pty) Ltd ("PHA")- Administrators contracted to the Scheme to provide managed care services. The contract terminated on 31 December 2019. Rx Health (Pty) Ltd is contracted to the Scheme to provide managed care services, effective 01 January 2020.

Mediscor PBM (Pty) Ltd ("Mediscor") - service provider contracted to provide a pharmacy benefit management programme to the Scheme.

Dental Information Systems (Pty) Ltd ("Denis") - service provider contracted to provide a dental benefit management programme to the Scheme. The Denis contract terminated in May and the Scheme self-manage dental benefits from 1 June 2020.

**12. ADMINISTRATION EXPENSES**

Reimbursement of Trustee expenditure (refer table below)  
Administrator's fees  
Audit fees  
Benefit management fee - not accredited managed care  
- Paid to Health Portfolio Managers  
- Paid to Smart Client Services  
Consultant fees  
Depreciation  
Fidelity guarantee and professional indemnity insurance premium  
Registrar's levies  
PO Remuneration  
- Paid by Scheme  
- Employer group funding of remuneration  
Staff remuneration  
Travel expenses  
Member Communication  
Europ Assistance  
Other expenses

|                  |                  |
|------------------|------------------|
| -                | 12 709           |
| -                | 3 999 701        |
| 278 869          | 250 192          |
| 2 616 016        | -                |
| 1 702 791        | -                |
| 913 225          | -                |
| 1 524 251        | 519 613          |
| 24 292           | -                |
| 18 000           | 16 140           |
| 66 231           | 74 305           |
| -                | -                |
| 409 682          | 397 050          |
| (409 682)        | (397 050)        |
| 762 018          | 43 000           |
| 38 735           | 107 804          |
| -                | 3 422            |
| 81 617           | 83 526           |
| 278 677          | 302 563          |
| <b>5 688 705</b> | <b>5 412 975</b> |

| REIMBURSEMENT OF TRUSTEE EXPENDITURE | Accommodation and travel R | Total R |
|--------------------------------------|----------------------------|---------|
| <b>31 December 2020</b>              | -                          | -       |
| <b>31 December 2019</b>              | 12 709                     | 12 709  |
| SD Muller (Chairperson)              | 12 709                     | 12 709  |



**ALLIANCE-MIDMED MEDICAL SCHEME**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)**  
for the year ended 31 December 2020

|                                                                                                                                                                                                                                                                                                                      | <b>2020</b>       | <b>2019</b>        |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|--------------------|
|                                                                                                                                                                                                                                                                                                                      | <b>R</b>          | <b>R</b>           |
| <b>13. NET IMPAIRMENT LOSSES ON HEALTHCARE RECEIVABLES</b>                                                                                                                                                                                                                                                           |                   |                    |
| Impaired losses recognised directly through comprehensive income                                                                                                                                                                                                                                                     | -                 | 1 362              |
| Increase in provision for impairment on receivables                                                                                                                                                                                                                                                                  | 31 613            | 105 906            |
|                                                                                                                                                                                                                                                                                                                      | <u>31 613</u>     | <u>107 268</u>     |
| <b>14. INVESTMENT INCOME</b>                                                                                                                                                                                                                                                                                         |                   |                    |
| Interest income earned on cash and cash equivalents                                                                                                                                                                                                                                                                  | 693 081           | 600 681            |
| Investments held at fair value through profit and loss                                                                                                                                                                                                                                                               |                   |                    |
| -Interest income                                                                                                                                                                                                                                                                                                     | 2 228 917         | 3 229 427          |
| -Dividend income                                                                                                                                                                                                                                                                                                     | 579 181           | 365 367            |
| -Net gain on investments held at fair value through profit and loss                                                                                                                                                                                                                                                  | 163 246           | 1 381 293          |
|                                                                                                                                                                                                                                                                                                                      | <u>3 664 425</u>  | <u>5 576 768</u>   |
| <b>14.1 NET FAIR VALUE GAINS / (LOSSES)</b>                                                                                                                                                                                                                                                                          |                   |                    |
| Net fair value gains / (losses) on investments held at fair value through profit and loss                                                                                                                                                                                                                            |                   |                    |
| -Net realised gain on disposals                                                                                                                                                                                                                                                                                      | 52 248            | 54 750             |
| -Net unrealised gains on revaluation                                                                                                                                                                                                                                                                                 | 110 998           | 1 326 543          |
|                                                                                                                                                                                                                                                                                                                      | <u>163 246</u>    | <u>1 381 293</u>   |
| <b>15. CASH FLOWS FROM OPERATIONS BEFORE WORKING CAPITAL CHANGES</b>                                                                                                                                                                                                                                                 |                   |                    |
| <i>Reconciliation of net surplus for the year to cash flows utilised in operations before working capital changes</i>                                                                                                                                                                                                |                   |                    |
| Net surplus for the year                                                                                                                                                                                                                                                                                             | 20 483 260        | 2 199 191          |
| Adjustments for:                                                                                                                                                                                                                                                                                                     |                   |                    |
| - Depreciation on equipment                                                                                                                                                                                                                                                                                          | 24 292            | -                  |
| - Net impairment losses                                                                                                                                                                                                                                                                                              | 31 613            | 105 906            |
| - Interest income                                                                                                                                                                                                                                                                                                    | (2 921 998)       | (3 830 108)        |
| - Dividend income                                                                                                                                                                                                                                                                                                    | (579 181)         | (365 367)          |
| - Net unrealised (gains) on revaluation of investments held at fair value through profit and loss                                                                                                                                                                                                                    | (110 998)         | (1 326 543)        |
| - Asset management fees                                                                                                                                                                                                                                                                                              | 532 552           | 487 179            |
|                                                                                                                                                                                                                                                                                                                      | <u>17 459 540</u> | <u>(2 729 742)</u> |
| <b>16. FIDELITY COVER</b>                                                                                                                                                                                                                                                                                            |                   |                    |
| The Scheme has arranged cover in the Scheme's name to the value of R10 million through ITOO underwritten by Hollard, effective from 1 January 2020 to 31 December 2020 for 2020, and the policy was renewed for 1 January 2021 to 1 December 2021, with the renewal confirmation provided to us on 23 December 2020. |                   |                    |



## **ALLIANCE-MIDMED MEDICAL SCHEME**

### **NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)** for the year ended 31 December 2020

#### **17. RELATED PARTY TRANSACTIONS**

The Scheme's managed care organisation, Rx Health, has significant influence over the Scheme since Rx Health participates in and influences the financial and operating policy decisions of the Scheme but does not control the Scheme. Rx Health received from the Scheme market-related fees for managed care service amounting to R 1 343 185. In 2019 Private Health Administrators was paid for administration and managed care management services provided amounting to R4 964 747.

Health Portfolio Management provides systems and infra-structure services to the Scheme at arms-length. The service was previously included in the PHA administration services contract. The cost to the Scheme was R1 702 791 for the year.

Smart Client Services provides Member and Provider Communication services to the Scheme at arms-length. The service was previously included in the PHA administration services contract. The cost to the Scheme was R913 225 for the year.

Client Success Consulting Services provides Scheme management advice, systems optimisation, and data analytics/reporting services. This service was included in the Scheme administration services agreement with PHA prior to 2020. The service cost R299 096 for the year.

The participating employers' payroll system is primarily utilised to collect both the member's and the employer's proportionate share of the contributions.

The Trustees are considered to be key management personnel since they have authority and responsibility for planning, directing, and controlling the activities of the Scheme. Contributions of R 543 360 (2019: R486 648) were received and claims of R 520 487 (2019: R201 429) were paid in respect of the Trustees who are members of the Scheme. All contributions were at the same terms as applicable to third parties. All claims were paid in accordance with the Rules of the Scheme. Payments made with respect to Trustees are reflected under note

The Principal Officer received remuneration of R409 682 to attend to the duties as the Principal Officer in 2020 (2019: R397 050). This is fully recovered from Columbus Stainless (Pty) Ltd, upon request from members of the Scheme.

On 31 December 2020, the Trustees had positive savings balances of R 307 857 (2019: R167 716). The amounts are all current and are payable on demand should an appropriate claim be issued, or the member exits the Scheme.

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

In the process of applying the Scheme's accounting policies, the following judgements have the most significant effect on the amounts recognised in the annual financial statements:

##### **Outstanding claims provision**

Details of assumptions and judgements used in determining the outstanding claims provision are outlined under Note 8.

There are no other key areas 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.

#### **19. MEDICAL INSURANCE RISK MANAGEMENT**

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

The primary insurance activity carried out by the Scheme assumes the risk of financial loss by members and their dependants that are directly attributable to the risks. These risks relate to the cost of their healthcare as defined in the Rules. As such the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contract. 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, benefit access pre-approval procedures, pricing guidelines, case management, contracting with providers, service provider profiling, technology, centralised management of risk transfer arrangements as well as the close monitoring of emerging health risk management options. The services of an actuarial consultant are contracted in this regard.

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 analyses, scenario analyses and stress testing. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The three principal risks are that the frequency and severity of claims is greater than expected, there is a cybercrime incident (involving the theft of Scheme data/assets, and legislator/legislative changes that significantly change the Scheme's financial position.

Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated.

The following table summarises the concentration of insurance risk on a beneficiary level, with reference to the net carrying amount of 2020 medical insurance claims paid in the 2020 financial year, by age group and in relation to the type of risk covered or benefits provided. Where appropriate prescribed minimum benefits (PMB) and non-PMB claims have been split.



ALLIANCE-MIDMED MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2020

19. MEDICAL INSURANCE RISK MANAGEMENT (Continued)

Risk management objectives and policies for mitigating medical insurance risk (continued)

|                                |               | Hospital (major medical) |            | Chronic   |           | Day-to-day | Total      |
|--------------------------------|---------------|--------------------------|------------|-----------|-----------|------------|------------|
|                                |               | PMB                      | Non-PMB    | PMB       | Non-PMB   |            |            |
|                                |               | R                        | R          | R         | R         | R          | R          |
| <b>2020</b>                    |               |                          |            |           |           |            |            |
| <b>Age grouping (in years)</b> |               |                          |            |           |           |            |            |
| < 26                           | -Gross        | 5 263 835                | 1 656 529  | 163 712   | 287 312   | 5 872 193  | 13 243 580 |
|                                | -Net          | 5 205 489                | 1 649 500  | 163 017   | 285 949   | 5 509 021  | 12 812 976 |
| 26 - 35                        | -Gross        | 2 264 659                | 842 491    | 222 448   | 28 783    | 3 311 872  | 6 670 252  |
|                                | -Net          | 2 220 774                | 838 916    | 221 497   | 28 546    | 3 120 086  | 6 429 820  |
| 36 - 50                        | -Gross        | 7 557 823                | 2 499 543  | 1 404 306 | 324 264   | 8 040 157  | 19 826 093 |
|                                | -Net          | 7 442 943                | 2 488 937  | 1 395 905 | 322 505   | 7 587 634  | 19 237 923 |
| 51 - 65                        | -Gross        | 8 914 240                | 4 021 875  | 2 080 910 | 416 355   | 8 315 045  | 23 748 426 |
|                                | -Net          | 8 807 393                | 4 004 809  | 2 072 080 | 414 588   | 7 936 371  | 23 235 242 |
| > 65                           | -Gross        | 5 835 769                | 3 446 142  | 1 491 068 | 287 890   | 4 130 224  | 15 191 094 |
|                                | -Net          | 5 786 020                | 3 431 520  | 1 484 741 | 286 665   | 3 981 153  | 14 970 098 |
| <b>Total</b>                   | <b>-Gross</b> | 29 836 327               | 12 466 580 | 5 362 444 | 1 344 604 | 29 669 490 | 78 679 445 |
|                                | <b>-Net</b>   | 29 462 619               | 12 413 681 | 5 337 241 | 1 338 253 | 28 134 265 | 76 686 059 |

|                                |               | Hospital (major medical) |            | Chronic |         | Day-to-day | Total      |
|--------------------------------|---------------|--------------------------|------------|---------|---------|------------|------------|
|                                |               | PMB                      | Non-PMB    | PMB     | Non-PMB |            |            |
|                                |               | R                        | R          | R       | R       | R          | R          |
| <b>2019</b>                    |               |                          |            |         |         |            |            |
| <b>Age grouping (in years)</b> |               |                          |            |         |         |            |            |
| < 26                           | -Gross        | 5 899 477                | 2 391 250  | 25 530  | 8 429   | 8 089 174  | 16 413 860 |
|                                | -Net          | 5 946 833                | 2 359 107  | 25 185  | 8 514   | 7 136 374  | 15 476 013 |
| 26 - 35                        | -Gross        | 2 451 961                | 804 801    | 21 662  | 10 656  | 4 070 768  | 7 359 849  |
|                                | -Net          | 2 461 888                | 803 516    | 21 880  | 10 763  | 3 650 378  | 6 948 426  |
| 36 - 50                        | -Gross        | 5 526 679                | 3 150 195  | 133 781 | 87 351  | 10 478 274 | 19 376 280 |
|                                | -Net          | 5 558 081                | 3 147 910  | 134 423 | 88 230  | 9 568 639  | 18 497 282 |
| 51 - 65                        | -Gross        | 7 237 049                | 6 087 665  | 292 032 | 187 139 | 11 301 145 | 25 105 030 |
|                                | -Net          | 7 293 474                | 6 048 462  | 294 970 | 189 021 | 10 476 739 | 24 302 667 |
| > 65                           | -Gross        | 11 495 359               | 3 647 853  | 247 810 | 146 272 | 6 990 236  | 22 527 530 |
|                                | -Net          | 11 576 815               | 3 639 200  | 250 303 | 147 743 | 6 623 520  | 22 237 581 |
| <b>Total</b>                   | <b>-Gross</b> | 32 610 525               | 16 081 765 | 720 816 | 439 847 | 40 929 597 | 90 782 549 |
|                                | <b>-Net</b>   | 32 837 091               | 15 998 196 | 726 760 | 444 272 | 37 455 649 | 87 461 969 |

The utilisation of chronic benefits, changed significantly since the onset of COVID-19. It is being investigated and assessed continuously.

Reconciliation of net claims to current year claims paid:

|                                                             | 2020       | 2019       |
|-------------------------------------------------------------|------------|------------|
|                                                             | R          | R          |
| Total net claims as above                                   | 76 686 059 | 87 461 969 |
| Road Accident Fund claim recoveries and claim adjustments   | 244 382    | (669)      |
| Claims paid via Dental Information Systems                  | 1 163 394  | 3 506 671  |
| Claims paid via Europ Assist                                | 471 209    | 431 713    |
| Claims paid from Personal Medical Savings Accounts (note 6) | 1 993 386  | 3 320 580  |
| Claims paid (note 10)                                       | 80 558 431 | 94 720 264 |

Hospital (major medical) benefits cover costs incurred by members whilst they are in hospital receiving preauthorised and emergency treatment for certain medical conditions.

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

Day-to-day benefits (which are paid from the major medical pool) cover the cost of out of hospital medical attention, such as visits to general practitioners and dentists as well as prescribed non-chronic medicines.

Contracts are annual in nature and the Scheme has the right to change the terms and conditions of the contract under certain conditions. Management information including contribution income and claims ratios, target market and demographic split, is reviewed monthly. There is also a review program that regularly reviews contractual premium and benefit data.



**ALLIANCE-MIDMED MEDICAL SCHEME**
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)**

for the year ended 31 December 2020

**20. FINANCIAL RISK MANAGEMENT**

Several activities expose the Scheme to a variety of financial risks, including changes in bond and equity market prices and interest rates. The Scheme's overall risk management programme focuses on the unpredictability of investment returns and seeks to minimise potentially adverse effects on the financial performance of the investments, which the Scheme holds. The Scheme's investment managers operate in terms of mandates which are approved by the Board of Trustees.

**Financial risk factors**
**Currency risk**

The Scheme operates in South Africa and therefore its cash flows are denominated in South African Rand. The Scheme's direct exposure to currency risk is considered immaterial.

**Market risk**

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the marketplace.

Equities and bonds are reflected at market values, which are susceptible to fluctuations. The Scheme manages its market risk by employing the following procedures:

- mandating a specialist fund manager to invest in equities and bonds, where there is an active market and where access is gained to a broad spectrum of financial information relating to the institutions invested in;
- diversifying across a large pool of securities to reduce risk. Investments are according to prescription of the Act; and
- considering the risk-reward profile of holding equities and bonds and bearing the risk in order to improve returns on assets.

Should the South African bond and equities move by 2%, assuming all other variables remain constant, and the recent past is predictive of the future, the impact on investment returns and accumulated funds of the Scheme would be as follows:

|                                         | Market value as a percentage of scheme assets |           | Impact           |                  |
|-----------------------------------------|-----------------------------------------------|-----------|------------------|------------------|
|                                         | 2020<br>%                                     | 2019<br>% | 2020<br>R        | 2019<br>R        |
| Bonds                                   | 41.88%                                        | 42.87%    | 807 500          | 607 723          |
| Equities including property unit trusts | 21.07%                                        | 28.75%    | 432 816          | 415 878          |
| Total change in accumulated funds       |                                               |           | <u>1 240 316</u> | <u>1 023 601</u> |

**Interest Rate Risk**

Interest rate risk is the exposure to movements in interest rates. The Scheme's exposure to interest rate risk is reduced by the fact that the Scheme holds no interest bearing debt.

The Scheme places funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate placings within market expectations and determined mandates. The table below summarises the Scheme's exposure to interest rate risks in terms of the contractual maturity dates of the underlying investments. Included in the table are the Scheme's investments in interest-bearing instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

|                                                        | Up to 1<br>month<br>R | 2 - 3<br>months<br>R | 4 - 12<br>months<br>R | 1 - 5<br>years<br>R | Over 5<br>years<br>R | Total<br>R        |
|--------------------------------------------------------|-----------------------|----------------------|-----------------------|---------------------|----------------------|-------------------|
| <b>As at 31 December 2020</b>                          |                       |                      |                       |                     |                      |                   |
| Cash and cash equivalents                              | 25 766 138            | -                    | -                     | -                   | -                    | 25 766 138        |
| Investments held at fair value through profit and loss | 26 469 255            | 34 449 156           | -                     | -                   | -                    | 60 918 411        |
| <b>Total</b>                                           | <b>52 235 393</b>     | <b>34 449 156</b>    | <b>-</b>              | <b>-</b>            | <b>-</b>             | <b>86 684 549</b> |
| <b>As at 31 December 2019</b>                          |                       |                      |                       |                     |                      |                   |
| Cash and cash equivalents                              | 9 629 197             | -                    | -                     | -                   | -                    | 9 629 197         |
| Investments held at fair value through profit and loss | 20 405 265            | 32 919 571           | -                     | -                   | -                    | 53 324 836        |
| <b>Total</b>                                           | <b>30 034 462</b>     | <b>32 919 571</b>    | <b>-</b>              | <b>-</b>            | <b>-</b>             | <b>62 954 033</b> |

If interest rates changed by 2%, assuming all other variables remain constant, and the recent past is predictive of the future, the impact on return on investment and the resulting impact on the net results of the Scheme is as follows:

|                             | 2020<br>R      | 2019<br>R      |
|-----------------------------|----------------|----------------|
| Change in investment income | <u>719 000</u> | <u>462 311</u> |



**ALLIANCE-MIDMED MEDICAL SCHEME****NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)**  
for the year ended 31 December 2020**20. FINANCIAL RISK MANAGEMENT (continued)****Credit Risk**

Credit risk is the risk of loss arising from the inability of a member or a third party to service their debt obligations.

The Scheme's principal financial assets are cash, cash equivalents, investments and trade and other receivables. The Scheme's credit risk is attributable primarily to its trade and other receivables. The amounts presented in the statement of financial position are net of allowances for impaired receivables. An allowance for impairment is made where there is an identified event which, based on previous experience is evidence of a reduction in the recoverability of the cash flows. Cash balances are held at high credit quality financial institutions, with a minimum credit rating of pAA. The Scheme has no significant concentration of credit risk, with exposure spread over a number of counterparties and members.

|                                                         | <b>2020</b>      | <b>2019</b>    |
|---------------------------------------------------------|------------------|----------------|
|                                                         | <b>R</b>         | <b>R</b>       |
| <b>Trade and other receivables</b>                      |                  |                |
| Fully performing                                        | 1 482 206        | 690 231        |
| Past due and impaired                                   | <u>236 182</u>   | <u>204 569</u> |
|                                                         | 1 718 388        | 894 800        |
| Provision for impairment of trade and other receivables | (236 182)        | (204 569)      |
| Trade and other receivables (note 3)                    | <u>1 482 206</u> | <u>690 231</u> |

In order to mitigate this risk, there is a formal policy in place for the treatment of any debt that becomes past due.

A subset of credit risk is counterparty risk which is the risk that a counterparty is unable to meet its financial and or contractual obligations during the period of a transaction. The financial exposure has been addressed above. Contractual exposure exists with regards to managed care agreements, administration agreements and investment mandates. Each of these risk exposures is managed in the ordinary course of business. Where appropriate, contractual rights, service level agreements and performance management interventions are in place. It is also relevant to note that the counterparty risk is limited.

**Liquidity Risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. By monitoring the availability of funding through liquid holding cash positions with various financial institutions, management ensures that the Scheme has the ability to fund its day-to-day operations. Liquidity is further managed by monitoring forecast cash flows and ensuring adequate liquid resources to meet its short-term commitments.



## **ALLIANCE-MIDMED MEDICAL SCHEME**

### **NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)**

for the year ended 31 December 2020

#### **21. CAPITAL ADEQUACY RISK MANAGEMENT**

The Scheme defines its capital as accumulated funds detailed in the statement of changes in funds and reserves. The Scheme manages its capital to ensure that it will be able to continue as a going concern as well as meet the solvency ratio of 25%, as regulated in the Act.

The Schemes' solvency at the end of 2020: 53.71% (2019: 37.29%). The Scheme also maintains an estimate of COVID-19 related claims that it foresees will be incurred in the next 24 months as part of the solvency reserves - refer note 26.

The Scheme manages its funds by utilising the expertise of investment managers to maximise return on investments and maintain an acceptable level of risk. Investment managers are guided by mandates, subject to the Scheme's Investment Policy, issued by the Board of Trustees. In addition, careful consideration is given to the impact on accumulated funds when preparing future year benefit options.

#### **22. COMMITMENTS**

There were no capital commitments as at 31 December 2020 (2019: nil).

#### **23. GUARANTEES**

No guarantees either from or to third parties existed at 31 December 2020 (2019: nil).

#### **24. CONTINGENT ASSETS**

The Scheme has approximately R2.9m (2019: R3.2m) in recoveries outstanding from the Road Accident Fund (RAF) for claims paid on behalf of members. The likelihood of recovery of these amounts is uncertain, and the Trustees have elected not to recognise a receivable on the statement of financial position as any future recoveries are highly contingent on multiple factors. The Trustees consider, based on past experience, that the receivable, were it to be recognised would be substantially impaired.

#### **25. CONTINGENT LIABILITIES**

During September 2019, the Council for Medical Schemes (CMS) requested information, alleging that during the 2016, 2017 and 2018 benefit years the Scheme may have paid approximately R37.28 million from member's Personal Medical Savings Accounts (savings) for Prescribed Minimum Benefit (PMB) claims. PMB claims must legally be paid from the Major Risk Pool. In May 2020 the Scheme received a Regulation 10(6) Non-Compliance Directive, instructing the Scheme to refund the claimed amounts to member's savings accounts.

We objected to the Directive, stating that, amongst others, CMS may have included amounts for consumables, amounts that providers have written off and codes that was used for non-PMB claims, but that could be used for either PMB or non-PMB claims as well as co-payments for services provided by non-DSP's. In addition, the fact that CMS performed an accreditation audit on the Administrator in 2015/16, including a check on the savings payments and we were not informed that there were any findings in this regard. We also queried the amounts because Alliance-Midmed reconciles PMB claims prior to claims payment runs, and we would have been aware of the differences.

CMS directed that the Scheme refund the said amount to members, that they say the Scheme paid from savings for PMB claims. During the period that the Directive applied, the Scheme had an 8% savings benefit, total contribution income for the 2016 benefit year was R80.40 Million, the savings opening balance was R25.21 Million and year-end savings amounted to R28.07 million. It is therefore, given the movement in the savings liability, an impossibility to have paid claims to this value from the savings accounts.

Alliance-Midmed requested the data and methodology from CMS to check and verify the claims. We have also requested from the administrator at the time, the data that they originally submitted. We engaged a clinical auditor to work through the data and we have also engaged with Bowmans Law to provide legal advice on the matter. One of the items on the legal check is to ensure that we can submit a claim against the administrator's indemnity insurer, should there be a liability.

Upon in-depth investigation by the Clinical Auditor, it appears that the CMS may have used another Scheme's data in their assessments. We provided this feedback on two occasions.

There could have been a potential liability of around R1.0 million as per the original letter that arose over the three years in question - noting that we processed around R200.0 million worth of claims. This is due to the nature of the PMB's including the requirement for interpretation and judgement. This is especially challenging in the medical environment. However due to our internal control processes, we would have disputed these amounts as well.

This was queried again, on 28 January 2021, and were informed by CMS that they are still reviewing the feedback that we provided, and the objection is still under review.

#### **26. SUBSEQUENT EVENTS**

From 1 January 2020 the Scheme commenced self-administration. The CMS is performing an assessment of the Scheme's self-administration processes and controls capabilities. When we approached CMS initially, there was no pre-accreditation requirement, since it is not a third-party administration arrangement, but self-administration. The latest update is from a virtual meeting held with a multi-departmental CMS team, on 28 January 2021, where we addressed general questions. Initially an inspection was due by Q4 2020. The Accreditation Inspection did not take place yet.

The Board is also dealing with a routine inspection by CMS and a draft report will likely be finalised with an investigator during Q2 2021.

The Scheme's financial position improved significantly since COVID-19 lockdown was implemented in South Africa. It continues to disrupt claims patterns and forecasts.

From January 2021, the Scheme adjusted its initial projections relating to COVID, now expecting a total R7 Million to R11 Million financial impact

We estimate the cost of the COVID-19 vaccines, extrapolated from the calculations of Prof A van der Heever from Wits, to range between R1.2 Million and R1.8 Million and current reserves are adequate to cover this amount. The Board will follow national guidelines to prioritise and assist members to be vaccinated. The Scheme already stratified members according to the risk criteria.



**ALLIANCE-MIDMED MEDICAL SCHEME**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)**

for the year ended 31 December 2020

**27. NON-COMPLIANCE WITH THE MEDICAL SCHEMES ACT**

1. Not all contributions that are billed are received within three days as required by Section 26(7) of the Act. These incidents are the exception, e.g., when the three day grace period falls over a weekend. Credit control procedures minimise the risk of non-recoverability, including that the majority of contributions are collected via deductions from the employers' payroll. The Scheme negotiates with the employer from time to time, to minimise the incidences.
2. Claims are generally paid within 30 days of receipt, as required in Section 59(2) of the Act, but due to certain procedures such as clinical auditing and suspected fraudulent claims, some claims are paid after 30 days of receipt. This could impact on member and provider relationships and cash flow. Management track claims older than 30-days and monitor progress to minimise delays.
3. Section 35(8)(c) of the Act states that a medical scheme shall not invest any of its assets in any administrator. The Scheme's investment funds are managed by independent third-party asset managers. They have a discretionary mandate to achieve their target. Given this approach, the Scheme may be exposed to shares in an administrator from time to time. As a precaution the Scheme made application and was granted exemption from complying with this requirement by the Council for Medical Schemes. The Scheme made a renewal application on 06 May 2019 and was granted exemption from 1 December 2019 through 30 November 2022. At the time when the exemption was granted, the Scheme held investments in MMI Holdings Limited (Allan Gray and Stanlib) and Discovery Group Limited (Allan Gray and Stanlib).

**28. GOING CONCERN**

The Council for Medical Schemes announced in 2017 that it intends to consolidate smaller schemes into bigger risk pools in order to align with the longer-term funding objectives of the National Health Insurance Scheme. This is, however, likely to face challenges before it becomes reality and there is no indication that this will occur in the short to medium term. The Scheme is financially sound.

Despite the dire Covid-19 pandemic WHO projections, we do not foresee that it will be a threat to the going concern status of the Scheme in the next reporting period.

Based on the information contained in these annual financial statements, available cash resources and forecasts, there is no reason to believe that the Scheme would not continue as a going concern in the foreseeable future.