



BP Southern Africa Medical Aid Society

**ANNUAL REPORT**  
**for the year ended 31 December 2002**

# **BP SOUTHERN AFRICA MEDICAL AID SOCIETY**

## **ANNUAL REPORT**

**for the year ended 31 December 2002**

The reports and statements set out below comprise the annual financial statements presented to members:

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## **BP SOUTHERN AFRICA MEDICAL AID SOCIETY**

### **CHAIRMAN'S REPORT FOR THE YEAR 2002**

presented to the Members at the Annual General Meeting of the Society held at Kelvin Grove on 30 May 2003.

Dear Members

What an opportunity I have as Chairman to be able to share the “backdrop” for and the principal activities and highlights of the Society for the year 2002 with you at this our 61<sup>st</sup> or possibly 62<sup>nd</sup> Annual General Meeting. The remainder of our members will receive this report with the minutes, which will be sent out to them before the end of June.

A run through the minutes of the numerous and sometimes long and difficult meetings, being the official record of the lives of the Trustees of the Society and some related records, suggests to me that it was indeed one in which we as members, administrators, managed health care providers, employer, trustees and consultants might remember as “it was the best of times... it was the worst of times”.

### **The Environment**

There is no doubt that throughout this period all Medical Schemes continued to experience increasing financial and environmental pressures, which have and will continue to impact upon their ability to continue to deliver sustainable, affordable accessible and appropriate health care for all their members.

Such pressures were caused in the main by:

1. the accelerating pace of change and developments within the Health Care Industry itself
2. the impact of regular changes to the Medical Schemes Act and Regulations, aimed at ensuring good governance, the protection of members' interests and the reduction of perceived unnecessary administrative, broker and re-insurance costs
3. the continuing impact of real Medical Inflation well above CPIX
4. the perceived inevitability of the introduction of National Health Insurance, following the release of the Taylor Report
5. the continuing pressure on some employers to reduce their long term exposure to the contingent liability for Post-Retirement Funding of their medical aid liabilities.
6. growing member demands for more flexibility of choice in determining whether to have health care cover or not
7. the provision of more affordable low cost benefit options for low income earners
8. the significant impact of the weakened Rand on the cost of imported technology and disposable instruments for some technology procedures.

### **Highlights**

#### **1. BP Agreement with the Scheme**

The most significant and enduring outcome of what proved to be the best highlight of the year was our finally signing the Agreement between the Society and BP Southern Africa “BP” on the 22<sup>nd</sup> of October. This agreement which although mentioned at the AGM last year had not been finalized then, provides for the following important matters:

- the limitation of the liability of BP for payments to the Scheme in respect of members' contributions and subsidies – *no more loan accounts or open ended liabilities*

- the commitment by BP to continue to subsidise members' contributions at the rate of R1 for R1
- BP no longer being liable with effect from 2000 to fund any continuation member deficit
- the introduction of an additional contribution, payable by BP, which would be equal to the total of all contributions made by BP for continuation members and their dependants - *effectively increasing the subsidy to R2 for R1*
- the introduction of a medical allowance to be determined and paid at BP's discretion to low income earners – *the limit for which was set at R6000 per month*
- the commitment of the scheme to admit employees or continuation members
- the appointment of an equal number employer nominated trustees to those trustees elected by members – *the rules were amended to allow for three each*
- notice to BP of rule changes directly or indirectly affecting BP's rights and obligations
- BP to reimburse the Scheme of all HIV/Aids costs for members and their dependants, who register for the confidential programme, limited to all programme costs, pathology and hospital costs, including those of specialists providing in-hospital services and medication, including anti-retroviral costs – subject to limits of
  - R30 000 for hospital costs
  - R30 000 all other costs excluding programme fees
- the appointment to the Board of Trustees of the nominated National Bargaining Forum/Trade Union person who has to be a member of the scheme
- the continuity of Trustees through rotation and whose period of office was extended to three years
- the appointment of the Principal Officer in consultation with BP, who shall be employed by BP at BP's cost, as a specialist, primarily serving the Scheme
- the appointment and role of the BP Medical Adviser in providing clinical advice to the Scheme and as co-opted member of the Board of Trustees and Chairman of the Ex Gratia Committee
- the protection of members' rights in event of change of ownership and control of BP
- the further protection of the Scheme with BP being obligated to re-negotiate the additional contribution if there is any financial prejudice to members through changes in membership brought about directly or indirectly by BP

For the breakthrough in developing this agreement and all that goes with it into the years ahead we thank Irene Juhnke of BP Management once again for her dedicated support and commitment.

## 2. The Client Centric Focus by Metropolitan Health Group (MHG)

This was introduced by Nick Rudston, financial director at MHG, during early 2002.

It allowed the formation of a dedicated BP Scheme MHG TEAM, based in Paarl, under the very capable guidance of Scheme Manager, Lorraine Davies, to concentrate on what they were good at for the BP Scheme and its members alone.

Throughout the year this Team embarked upon all sorts of initiatives. They tidied up and reconciled membership records, especially dependants' records; reduced the difficulties around contribution reconciliation and discrepancies; expedited claims processing and brought life to the Administration Forum which met to deal with all sorts of operational issues.

Above all they remained committed to resolving any member related queries and/or complaints. Lorraine also found time to assist BP in doing a "road show" to inform members of the new subsidy arrangements and the advantages of being a member of the BP Scheme.

To Lorraine and her Team of Johrina, Madelaine, Erica – as an expert Meeting and Minute Secretary and all others in Client Services and Communication at MHG thank you for your jobs well done. The many positive thank you letters from Members bear testimony to that!

### 3. The Nomination and Appointment of Employer Trustees

The welcome arrival of firstly Andrew Mestern, with his keen sense of humour, as well as wealth of banking, financial and practical “no nonsense” approach and then Bebe Oyegun with her fine intellect, penchant for rigorous debate, strong interpersonal skills and wisdom beyond her years, as Employer Nominated Trustees to the Board of Trustees, have added new breadth and depth to all that happens within the Scheme.

### 4. General Highlights

- 4.1 Expanding the definition of adult dependants to allow for dependant children over 21, who were not dependants, as provided in the rules, to remain as members of the Scheme
- 4.2 Ensuring better than average investment returns through having all our investment funds in the Money Market.
- 4.3 Moving towards equalizing pension and provident fund continuation members' contributions.
- 4.4 Introducing steps to ensure that all those Employees who were not on the BP or their Spouses' schemes became members of the BP Scheme.
- 4.5 Tidy up of Bad Debt and introducing clear guidelines for dealing with suspensions and termination of membership and related procedures where members fail to pay contributions on time.
- 4.6 The commencement of initiatives towards the more effective management of high-risk disease and medicine management.
- 4.7 The tabulation of who pays what for dependants between 18 and 27 and older.
- 4.8 The Policies for Bad Debt – Member or Provider and Late/Stale Claim payment.

### **Thank you**

It really is a pleasure to be able to say thank you to all those who in some way have contributed to the success of the workings of the Scheme during the year 2002.

1. To the members of the Board of Trustees thanks for your commitment and dedication to the long term sustainability of the Scheme. To Albert Myburgh and Nick de Villiers who have and will continue to be, “pillars of strength” and “beacons of light and hope”, for their fellow retiree members, whether on the BOT or not, and indeed to us as Trustees, a very special thank you. You are so reliable and dependable and always deliver excellence in what you commit to!

At times we had some very heated exchanges and major differences of opinion, as we debated matters and sought consensus for some difficult decisions. I am happy to report that we managed to overcome these and are stronger for the years ahead.

2. We said goodbyes to John Ainsbury, as Principal Officer at the end of March 2002 and Andre Hector, Employer Trustee, had his last meeting on 8th July. Whilst with us and amidst major work pressures both of you contributed so much of lasting value – especially laughter.
3. The Members of the HR Team within BP who act behind the scenes, both in RSA and Namibia.
4. The Administrators, MHG, and through them the wonderful Clinicians, Informatics and Managed Care Provider experts at Qualsa, about whom I said a little earlier.
5. The members of the Alexander Forbes Health Care Consultants Team of especially Marius, Pierre (now overseas) and then Helen Riding who guided us with practical and relevant advice and through many hours of both actuarial assumptions and calculations in setting and forecasting budgets, 5-year plans and new contribution tables.
6. Medikredit, Direct Medicines and Netcare 911, our other service providers.
7. Shuaib Manjra, who as Medical Adviser/Ex Gratia Committee Chairman, friend and fellow runner, when not involved with World Cup Cricket or Santos Football Club, has provided so much clinical guidance and advice.
8. BP, who as sponsoring Employer, has continued to meet its obligations and provide so much support in direct and indirect ways to ensure the effective and efficient operation and sustainability of the Scheme.
9. The Members for your willingness to entrust in us your hopes and aspirations for affordable and appropriate health care in such a complex arena into the future. Also for your support and encouragement, as well as the helpful suggestions and fair criticisms made towards ensuring the continued improvement of OUR SCHEME, as we “Manage Our Health Together.”

## **Welcome & Closure**

In closing this report might I welcome once again Cheryl-Anne Robertson.

Since her arrival as the new Principal Officer in January, she has worked tirelessly and made a significant impact on completing work in progress, the development of supportive Sub-Committee Structures, the proper and effective recordal of meetings and decision making. With such an auspicious start we wish her much happiness and success as Principal Officer and in whatever else she might be required to attend to as an employee of BP.

Finally some further good news! Pradeep Parbhoo has just been nominated and appointed to be the third Employer Trustee on the Board of Trustees. He was with Internal Audit and I understand that he is now working in Logistics. He attended the Operational Processes Workshop session with HR and MHG as Administrators, facilitated by Cheryl. We welcome you Pradeep and trust that you will find that working with the Scheme as Trustee will be very rewarding.



John E Bush  
Chairman – BP Medical Aid Society  
29 May 2003

## **BP SOUTHERN AFRICA MEDICAL AID SOCIETY**

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

The Board of Trustees hereby presents its report for the year ended 31 December 2002.

#### **1. Management**

##### **1.1 The Board of Trustees comprises the following members:**

J Bush	Chairperson and Elected Member	
A Mestern	Employer appointed	Appointed 30 May 2002
B Oyegun	Employer appointed	Appointed 21 October 2002
J Ainsbury	Employer appointed	Appointed 31 May 2002 Resigned 21 October 2002
N de Villiers	Elected member	
A Myburgh	Elected member	
J Plaatjies	Union-elected member	

With effect from 22 October 2002 the employer has been entitled to nominate a third trustee, subject to registration of the relevant rule amendment.

##### **1.2 Principal Officer**

Mr J Ainsbury, an employee of BPSA (Pty) Ltd	Resigned 31 March 2002
Ms C Robertson, an employee of BPSA (Pty) Ltd	Appointed 1 January 2003

Mr J Bush performed the functions of the Principal Officer from 1 April 2002 to 31 December 2002, pending the appointment of a new Principal Officer.

##### **1.3 Registered Office and Postal Address**

Business Address	Postal Address
BP Town Square	P.O. Box 6006
61 St Georges Street Mall	Roggebaai
6 <sup>th</sup> floor	8012
Cape Town	
8001	

##### **1.4 Scheme Administrator**

Metropolitan Health Group (Pty) Ltd

Business Address	Postal Address
Bankmed Centre	P.O. Box 1626
116 Buitengracht Street	Vlaeberg
Cape Town	8018
8001	

## **BP SOUTHERN AFRICA MEDICAL AID SOCIETY**

### **REPORT OF THE BOARD OF TRUSTEES (Continued)**

#### **2. Description of society**

##### **2.1 Terms of registration:**

BP Southern Africa Medical Aid Society is a restricted membership society registered in terms of the Medical Schemes Act 131 of 1998. Membership of the Society is open to all employees of BP Southern Africa Limited and any other associated employer to whose employees membership has been extended by the Board of Trustees, appointed to manage the Society in terms of the rules.

##### **2.2 Options within the BP Southern Africa Medical Aid Society**

The BP Southern Africa Medical Aid Society offers only one plan with no options.

##### **2.3 Reinsurance**

The trustees have decided to reinsure certain risks with Munich Re to protect the Society from any unusual exposure to high cost incidence claims. The result of this arrangement is set out in Note 12 to the Income Statement. This arrangement has been discontinued with effect from 1 January 2003.

#### **3. Investment policy of the Society**

The Board of Trustees has continued to invest excess funds in line with the requirements of the Medical Schemes Act 131 of 1998. There has been no change in the policy during the current year.

#### **4. Review of the year's activities**

##### **4.1 Operational Activities**

	<b>2002</b>	<b>2001</b>
Number of members at year end	2,333	2,336
Average number of members for the year	2,358	2,342
Average contributions per member per month (R)	1,276	930
Average contributions per beneficiary per month (R)	495	560
Average claims incurred per member per month (R)	1,204	1,132
Average claims incurred per beneficiary per month (R)	468	681
Average administration costs per member per month (R)	83	14
Average administration costs per beneficiary per month (R)	32	9
Average managed care: management services per member per month (R)	19	8
Average accumulated funds per member at 31 December (R)	12,599	11,634
Beneficiaries per member at 31 December	2.43	1.66
Net claims as a percentage of net contributions	94.39%	121.72%
Managed care: management services as a percentage of net contributions	1.49%	0.81%
Administration expenses as a percentage of net contributions	6.55%	1.52%

## **BP SOUTHERN AFRICA MEDICAL AID SOCIETY**

### **REPORT OF THE BOARD OF TRUSTEES (Continued)**

#### **4.2 Results of operations**

The results of the Society are clearly set out in the financial statements and the trustees believe that no further clarification is required.

#### **4.3 Accumulated funds ratio**

The accumulated funds ratio is calculated on the following basis:

	<b>2002</b>	<b>2001</b>
	<b><u>R</u></b>	<b><u>R</u></b>
Total members' funds per the Balance Sheet	29,704,348	28,070,674
Contribution income per Income Statement	36,088,977	26,066,712
Accumulated funds (current)/Net contribution income X 100%	82%	108%

#### **4.4 Reserve Accounts**

Movements in the reserves are set out in the Statement of Changes in Funds and Reserves. There have been no unusual movements that the trustees believe should be brought to the attention of the members of the fund.

#### **4.5 Outstanding Claims**

Movements on the provision are clearly set out in the notes to the financial statements and there have been no unusual movements that the Board of Trustees needs to bring to your attention.

#### **5. Actuarial Valuation**

In the trustees' opinion, an actuarial valuation is not required for the fund.

#### **6. Subsequent events**

The scheme is no longer covered under the New Africa Capital Ltd fidelity cover arrangement. With effect from 1 January 2003, the scheme's trustees have effected cover to the value of R10 000 000. The administrator continues to be covered under the New Africa Capital Ltd policy. There have been no other events that have occurred subsequent to the financial year that affect the annual financial report and that the trustees consider should be brought to your attention.

#### **7. Administration Cost**

The administration cost for 2001 and 2002 is not comparable due to the fact that the employer paid most of the administration cost for 2001, while the scheme paid these charges in 2002.

## **BP SOUTHERN AFRICA MEDICAL AID SOCIETY**

### **REPORT OF THE BOARD OF TRUSTEES (Continued)**

#### **8. Audit Committee**

The Board of Trustees constituted an audit committee during 2002 but owing to conflicts of interest, it was not truly representative and a new committee was appointed at the beginning of 2003 comprising:

Mr E J Rood (Chairperson), Mr J Benn (Independent Member), Mr J Bush (Trustee), Ms M Mcleod (Independent Member), Mr A Myburgh (Trustee), Ms C Robertson (Principal Officer).

The chairperson of the fund, the financial manager and the external auditors attend all committee meetings and have unrestricted access to the chairman of the committee.

In accordance with the provisions of the Act, the primary responsibility of the committee is to assist the Board of Trustees in carrying out its duties relating to the fund's accounting policies, internal control systems and financial reporting practices. The external auditors formally report to the committee on critical findings arising from audit activities.

**BP SOUTHERN AFRICA MEDICAL AID SOCIETY**

**ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2002**

**STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES**

The trustees are responsible for the preparation of the annual financial statements of BP Southern Africa Medical Aid Society and to ensure that proper systems of internal control are employed by or on behalf of the Society.

The Trustees discharged this responsibility primarily by ensuring the establishment and maintenance of accounting systems and practices adequately supported by internal accounting controls. As the administration of the Scheme is contracted to Metropolitan Health these controls are implemented and maintained by them. Metropolitan Health confirmed that:

- the internal controls and systems are designed to provide reasonable assurance as to the integrity and reliability of the published financial statements.
- such controls and systems are based on established written policies and procedures and are implemented by trained, skilled personnel whose duties have been segregated appropriately.
- although they are aware of deficiencies in the control environment they do not believe these deficiencies indicate a material malfunction of the internal accounting controls, accounting systems and practices during the year under review.

The trustees considered the adequacy of the systems of internal control of the Scheme and made certain recommendations to improve these systems. The administrator agreed to implement these recommendations within a reasonable timeframe.

In presenting the Annual Financial Statements set out on pages 11 to 22, generally accepted accounting practice has been followed, appropriate accounting policies have been used, while prudent judgements and estimates have been made.

The annual financial statements have been prepared on the going concern basis, as the trustees have no reason to believe that the society will not be a going concern in the foreseeable future based on forecasts and available cash resources.

The annual financial statements have been audited by the independent accounting firm Ernst and Young, who were given unrestricted access to all financial records and related data, including minutes of all meetings of members, the board of trustees and the committees of the board. The trustees believe that all representations made to the independent auditors during the audit were valid and appropriate. Ernst and Young audit report is presented on page 10.

The annual financial statements were approved by the board of trustees on 23 April 2003 and are signed on its behalf by:



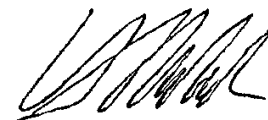
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J Bush  
CHAIRMAN



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A J Myburgh  
TRUSTEE



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C Robertson  
PRINCIPAL OFFICER

Cape Town

## REPORT OF THE INDEPENDENT AUDITORS

to the members of the BP Southern Africa Medical Aid Society

We have audited the annual financial statements of BP Southern Africa Medical Aid Society set out on pages 11 to 22 for the year ended 31 December 2002. These financial statements are the responsibility of the trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

### Scope

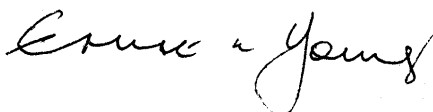
We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

### Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the Society at 31 December 2002 and the results of its operations and cash flows for the year then ended, in accordance with generally accepted accounting practice and in the manner required by the Medical Schemes Act, 1998.



Ernst and Young  
Registered Accountant and Auditors  
Chartered Accountants (SA)  
Cape Town

28 April 2003

**BP SOUTHERN AFRICA MEDICAL AID SOCIETY**

**BALANCE SHEET  
AT 31 December 2002**

	Notes	2002 R	2001 R
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments	2	27,782,747	32,366,789
<b>Current assets</b>			
		5,262,697	2,367,933
Accounts receivable	3	1,552,684	355,138
Cash or cash equivalents	4	3,710,013	2,012,795
<b>Total assets</b>		<u>33,045,444</u>	<u>34,734,722</u>
<b>FUNDS AND LIABILITIES</b>			
<b>Members' funds</b>			
Accumulated funds		30,187,298	27,176,619
<b>Non-current liabilities</b>			
Borrowings	5	-	4,553,777
<b>Current liabilities</b>			
		2,858,146	3,004,326
Accounts payable	6	640,695	430,512
Outstanding claims provision	7	2,217,451	2,573,814
<b>Total funds and liabilities</b>		<u>33,045,444</u>	<u>34,734,722</u>

## BP SOUTHERN AFRICA MEDICAL AID SOCIETY

### INCOME STATEMENT

for the year ended 31 December 2002

	Notes	2002 R	2001 R
Contributions	8	36,088,977	26,066,712
Net claims incurred	9	(34,062,937)	(31,728,982)
		<hr/>	<hr/>
<b>Gross underwriting surplus</b>		2,026,040	(5,662,270)
Managed care: management services	10	(538,002)	(267,220)
Administration and other expenses	11	(2,362,247)	(340,196)
Net reinsurance expense	12	(304,875)	369,278
		<hr/>	<hr/>
<b>Net underwriting deficit</b>		(1,179,084)	(5,900,408)
Bad debts written off	13 a	(11,221)	-
Provision for doubtful debts	13 b	306,226	(525,086)
		<hr/>	<hr/>
<b>Deficit from operations</b>		(884,079)	(6,425,494)
Net investment income	14	3,411,808	4,363,628
Gain/(loss) on revaluation of investment	14 a	482,950	(894,055)
		<hr/>	<hr/>
<b>Net surplus for the year</b>		<u>3,010,679</u>	<u>(2,955,921)</u>

**BP SOUTHERN AFRICA MEDICAL AID SOCIETY**

**STATEMENT OF CHANGES IN FUNDS AND RESERVES  
for the year ended 31 December 2002**

	<b>2002</b>	<b>2001</b>
	<b>R</b>	<b>R</b>
<b><u>Accumulated Funds</u></b>		
Balance at 1 January	27,176,619	30,132,540
Net (deficit)/surplus for the year	3,010,679	(2,955,921)
Balance at 31 December	<u>30,187,298</u>	<u>27,176,619</u>

**BP SOUTHERN AFRICA MEDICAL AID SOCIETY**

**CASH FLOW STATEMENT  
for the year ended 31 December 2002**

	<b>2002</b>	<b>2001</b>
	<b>R</b>	<b>R</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Revenues excluding investment income	36,088,977	26,066,712
Operating expenses	<u>(36,490,106)</u>	<u>(33,386,261)</u>
Operating profit/(loss) before working capital changes	(401,128)	(7,319,549)
Working capital changes	(1,343,727)	136,839
(Decrease)/Increase in accounts receivable	(1,197,547)	1,218,337
(Increase)/Decrease in provision for outstanding claims	(356,363)	15,814
(Increase)/Decrease in accounts payable	210,184	(1,097,312)
Cash utilised in operations	(1,744,855)	(7,182,710)
Investment income	<u>3,411,808</u>	<u>4,363,628</u>
Net cash (outflows)/inflows from operating activities	1,666,953	(2,819,082)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in investments	4,584,042	116,037
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase/(Decrease) in borrowings	(4,553,777)	3,798,283
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,697,218	1,095,238
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<u>2,012,795</u>	<u>917,557</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE OF YEAR</b>	<u><u>3,710,013</u></u>	<u><u>2,012,795</u></u>

**BP SOUTHERN AFRICA MEDICAL AID SOCIETY**

**CASH FLOW STATEMENT**  
**for the year ended 31 December 2002 (Continued)**

**NOTES TO THE CASH FLOW STATEMENT**

Reconciliation of net deficit before working capital changes  
to cash applied to operations

Net surplus/(deficit) for the year	3,010,679	(2,955,921)
Adjustments for:		
<b>Investment Income</b>	(3,411,808)	(4,363,628)
	<hr/>	<hr/>
	<u>(401,128)</u>	<u>(7,319,549)</u>

## **BP SOUTHERN AFRICA MEDICAL AID SOCIETY**

### **NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2002**

#### **PRINCIPAL ACCOUNTING POLICIES**

##### **1.1 Basis of preparation**

The financial statements are prepared on the historical cost basis and incorporate the following accounting policies which are consistent with those applied in the previous year.

##### **1.2 Financial instruments**

###### *Measurement*

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition, these instruments are measured as set out below.

###### *Investments*

Held to maturity investments are measured at amortised cost using effective interest rates.

###### *Trade and other receivables*

Trade and other receivables originated by the Society are stated at cost less provision for doubtful debts.

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

Cash and cash equivalents are measured at fair value.

###### *Financial liabilities*

Financial liabilities are recognised at amortised cost, namely original debt less principal payments and amortisations.

##### **1.3 Provisions**

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

###### *Outstanding claims provision*

The outstanding claims provision is a provision made for the estimated cost of healthcare benefits that have occurred before the year-end, but that have not been reported to the Society by that date. This provision is determined as accurately as possible based on a number of factors, which include previous experience in claims patterns, claims settlement patterns, changes in nature and number of members according to gender and age, trends in claims frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim.

## BP SOUTHERN AFRICA MEDICAL AID SOCIETY

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2002 (Continued)

#### 1.4 Contributions

Contributions are brought to account on the accrual basis.

#### 1.5 Claims

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

Net claims incurred comprise:

- claims submitted and accrued for services rendered during the year, net of recoveries from reinsurance claims received.
- claims for services rendered during the previous year not included in the outstanding claims provision for that year.

#### 1.6 Managed care: management services

These expenses represent the amounts paid or payable to a third party for managing the utilisation, costs and quality of healthcare services to the Society.

#### 1.7 Reinsurance

Reinsurance premiums are recognised evenly over the period of risk covered by the policy. Reinsurance claims received or receivable are recognised when the reinsurer approves payment of the claim.

#### 1.8 Interest income

Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Society.

	2002	2001
2 INVESTMENTS	R	R
Investments available for sale		
- Money Market	27,782,747	32,366,789
	<u>27,782,747</u>	<u>32,366,789</u>

A register of investments is available for inspection at the registered office of the Fund.

## BP SOUTHERN AFRICA MEDICAL AID SOCIETY

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2002 (Continued)

	2002	2001
	R	R
<b>3 ACCOUNTS RECEIVABLE</b>		
Contributions outstanding	1,684,048	771,446
Amounts owing by suppliers & members	18,982	69,464
Less : provision for doubtful debts	(199,407)	(505,634)
Accrued income	<u>49,061</u>	<u>19,862</u>
	<u>1,552,684</u>	<u>355,138</u>

At 31 December 2002 the carrying amounts of accounts receivable approximate their fair values due to the short-term maturities of these assets.

#### 4 CASH OR CASH EQUIVALENTS

Current accounts	<u>3,710,013</u>	<u>2,012,795</u>
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At 31 December 2002 the carrying amounts of cash and cash equivalents approximate their fair values due to the short-term maturities of these assets.

#### 5 BORROWINGS

##### Non interest-bearing borrowings

BP Southern Africa (Pty) Ltd	<u>-</u>	<u>4,553,777</u>
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The loan was interest-free and unsecured. The loan was repaid during 2002.

#### 6 ACCOUNTS PAYABLE

Debtors with credit balances	130,543	293,212
Reported claims not paid	8,311	79,478
Accrued expenses	378,721	57,822
Provision for audit fees	<u>123,120</u>	<u>-</u>
	<u>640,695</u>	<u>430,512</u>

At 31 December 2002 the carrying amounts of accounts payable approximate their fair values due to the short-term maturities of these liabilities.

**BP SOUTHERN AFRICA MEDICAL AID SOCIETY****NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2002 (Continued)**

	<b>2002</b>	<b>2001</b>
	<b>R</b>	<b>R</b>
<b>7 OUTSTANDING CLAIMS PROVISION</b>		
Balance at beginning of year	2,573,814	2,558,000
Payments in respect of prior year	<u>(2,160,057)</u>	<u>(2,219,450)</u>
Over provision in respect of prior year	413,757	338,550
Adjustment for current year	<u>1,803,694</u>	<u>2,235,264</u>
Balance at end of year	<u><u>2,217,451</u></u>	<u><u>2,573,814</u></u>
<b>8 CONTRIBUTIONS</b>		
Gross Contributions	<u><u>36,088,977</u></u>	<u><u>26,066,712</u></u>
<b>9 NET CLAIMS INCURRED</b>		
Claims incurred	33,492,871	30,545,306
Outstanding claims provision	1,803,694	2,235,264
Less: Discounts received on claims	<u>(1,233,628)</u>	<u>(1,051,588)</u>
	<u><u>34,062,937</u></u>	<u><u>31,728,982</u></u>
<b>10 MANAGED CARE: MANAGEMENT SERVICES</b>		
Hospital Management Programme	212,824	211,883
Chronic Medication Programme	184,388	-
HIV/Aids Programme	58,561	55,337
Emergency Transport	<u>82,229</u>	<u>-</u>
	<u><u>538,002</u></u>	<u><u>267,220</u></u>

**BP SOUTHERN AFRICA MEDICAL AID SOCIETY**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2002 (Continued)**

	<b>2002</b>	<b>2001</b>
	<b>R</b>	<b>R</b>
<b>11 ADMINISTRATION AND OTHER EXPENSES</b>		
Administration fees paid	1,709,791	276,000
Trustee Compensation	127,500	42,500
Council for Medical Schemes	23,964	21,696
Consulting Fees	192,997	-
Audit Fees	147,772	-
Bank Charges	67,613	-
Subscriptions	11,238	-
Legal Fees	4,617	-
Regional Services Council Levies	7,758	-
Telephone	18,598	-
Travelling & Entertainment	1,801	-
Namibian Healthcare Advisors	15,038	-
Printing & Postages	33,560	-
	<u>2,362,247</u>	<u>340,196</u>

The administration cost for 2001 and 2002 is not comparable due to the fact that the employer paid most of the administration cost for 2001, while the scheme paid these charges in 2002.

**12 NET REINSURANCE INCOME / (EXPENSE)**

Premiums paid	(648,181)	(641,501)
Claims recoveries	<u>343,306</u>	<u>1,010,779</u>
	<u>(304,875)</u>	<u>369,278</u>

**BP SOUTHERN AFRICA MEDICAL AID SOCIETY**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2002 (Continued)**

	<b>2002</b>	<b>2001</b>
	<b>R</b>	<b>R</b>
<b>13 a BAD DEBTS WRITTEN OFF</b>		
Members' and service providers' portions that are not recoverable	<u>(11,221)</u>	<u>-</u>
<b>13 b PROVISION FOR DOUBTFUL DEBTS</b>		
Members' and service providers' portions that are not recoverable	<u>306,226</u>	<u>(525,086)</u>
<b>14 NET INVESTMENT INCOME</b>		
Interest received	3,526,864	4,480,108
Less: Management fee investment portfolio	<u>(115,056)</u>	<u>(116,480)</u>
	<u>3,411,808</u>	<u>4,363,628</u>

**14 a GAIN/(LOSS) ON REVALUATION OF INVESTMENT**

These amounts represent unrealised gains or losses on the market value of the Scheme's negotiable money market investments, without accrued interest.

**15 FIDELITY COVER**

The Scheme's trustees and administrator participates under the fidelity cover of New Africa Capital Ltd, the holding company of the administrator.

On 31 December 2002 the value of the such cover was R50 000 000 (2001: R50 000 000) for all schemes under MHG administration.

**BP SOUTHERN AFRICA MEDICAL AID SOCIETY**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2002 (Continued)**

**16 CREDIT RISK**

The Society's credit risk is primarily attributable to accounts receivables. The amounts represented in the balance sheet are net of allowances for doubtful debts, estimated by the Society's management based on prior experience and the current economic environment.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Society has no significant concentration of credit risk, other than the employer, with exposure spread over a large number of counterparties and members.

**17 LIQUIDITY RISK**

The Society manages liquidity risk by monitoring forecast cash flows.

**18 CAPITAL ADEQUACY RISK**

The risk that there are insufficient reserves to provide for adverse variations on actual and future experience. The solvency ratio was 82% at 31 December 2002 and 108% at 31 December 2001.