



**NOTICE IS HEREBY GIVEN THAT THE EIGHTY-FOURTH ANNUAL GENERAL MEETING
OF BP MEDICAL AID SOCIETY WILL BE HELD ON MONDAY, 28 JUNE 2021, AT 10:00 VIA
VIRTUAL PLATFORM**

As a result of the ongoing coronavirus (COVID-19) pandemic restrictions related to events and gatherings, as well as the uncertainties related to the progression of the pandemic, BP Medical Aid Society's Board of Trustees will this year once again conduct a virtual Annual General Meeting (AGM). This will give you the opportunity to attend the AGM and participate online using your smartphone, tablet or computer.

Members who wish to participate in the Society's virtual AGM may do so in the following ways. Members may:

1. vote, either prior to or at the virtual AGM
2. exercise votes by submitting a proxy form; proxy forms must be received by the Principal Officer by Thursday, 24 June 2021, at bpmaspo@bp.com
3. visit <https://mmiholdings.zoom.us/j/93641715233?pwd=dHRwRkJTUW5JeEdkUzNoNm1UZHh0dz09> on a smartphone, tablet or computer to participate in the virtual AGM
4. register any additional agenda items and comments to be addressed at the meeting by noting this with the Principal Officer seven days before the meeting
5. address the meeting by speaking on the call; direct your request, noting the agenda item or topic in question, to the Principal Officer on or before Friday, 25 June 2021.
6. comment on the matters brought before the meeting using the chat box; these comments will be noted and discussed after each agenda item.

AGENDA

1. Opening and welcome, confirmation of proper notice given and quorum present
2. Attendance and apologies
3. Address by Chairman
4. Amalgamation update
5. Presentation of the audited Annual Financial Statements for the year ended 31 December 2020
 - i. Disclosure of Trustee and Committee Member remuneration
 - ii. Appointment of external auditors for the ensuing year
6. **Resolution 1** – Acceptance of the minutes of the AGM held on 25 June 2018
7. **Resolution 2** – Acceptance of the minutes of the AGM held on 24 June 2019
8. **Resolution 3** – Acceptance of the minutes of the AGM held on 23 November 2020
9. Trustee election results: To announce the member-elected and employer-appointed Trustees for the ensuing year
10. To announce the composition of the Disputes Committee for the ensuing year
11. Other business of which notice was given to the Principal Officer by 21 June 2021

By order of the Board

JANINE DANIELS
ACTING PRINCIPAL OFFICER

BP Medical Aid Society – Chairperson’s Report – 2021 Annual General Meeting

Introduction

I write this report having been on the BPMAS Board for around 4 months following my appointment to fill a vacant member-elected trustee position. I joined the Board and was immediately elected to the role of Chairperson.

The past four months have been intense as I have and continue to work closely with the trustees towards regularizing the composition of the Board, addressing the many areas of operations that require attention and ensuring the best interests of all the members are at all times prioritized and protected.

Sadly, continuing investigations by the current Board have revealed that the previous Board appears to have paid lip service to their core responsibility towards all the members of BPMAS, in supporting and then driving other interests ahead of the interests of all BPMAS members. A number of examples of the failure of the previous Board to act in accordance with members’ interests are noted herein, others will I’m sure, be revealed over time.

Covid-19

The pandemic has had a lasting effect on all our lives and sadly has resulted in the passing of some of our erstwhile work colleagues and BPMAS members. For those who have lost loved ones, our sincere condolences and best wishes as you seek to overcome the loss and pain that you are experiencing.

Whilst I’m sure we all wish for a speedy conclusion to the pandemic, I encourage all members to stay the course and take whatever precautions are necessary to prevent the spread of the disease.

Concerned Members Support Group

We as members owe a huge debt of gratitude to the CMSG and particularly Carlo Germeshuys, John Bush and the core CMSG team. With great fortitude and no financial compensation Carlo, John and the team have worked tirelessly to ensure members interests are prioritized.

It was clear from an early stage in the amalgamation process that the Board and other stakeholders placed other objectives above the interest and well-being of members and without the herculean effort of the CMSG I have no doubt that we, as members, would all have suffered significant and irrecoverable financial loss.

Carlo, John, and the team, we will always be gratefully for what you have done and continue to do to conclude the matter of the amalgamation such that it prioritizes the members interests.

Board Composition

Through the CMSG’s actions it became clear that the BPMAS Board composition was not compliant with the Medical Schemes Act. Section 57(2) of the Act states that: *At least 50 per cent of the members of the board of trustees shall be elected from amongst members.* The rules of BPMAS have since 2002 allowed for the appointment of 3 member elected trustees, 3 employer appointed trustees and one trade union appointed trustee, thus limiting the member elected representatives to 43%.

The previous Board’s attempt to argue that the trade union appointed trustee is elected from amongst the members of BPMAS was disingenuous at best, a position which has been confirmed by the Council for Medical Schemes (CMS) in recent discussions held between the Board and representatives of the CMS Compliance and Benefits divisions.

This misinterpretation of the Medical Schemes Act is an example of how the previous Board disregarded the law, the BPMAS rules and member interests.

Another example relates to the previous Boards removal of the rules, which previously qualified members of BPMAS for continuation membership and the post-retirement subsidy benefits. These rules were altered or deleted without engaging the affected members or seeking approval from the members of BPMAS.

One of my saddest experiences in my short time on the Board has been the realization of the depths of to which the previous Board had stooped towards deceiving and misleading members.

Although the regularizing of the Board composition and the resolution of the membership issues raised here are complex, requiring the involvement of the CMS and possible amendments to the Rules, members can be assured that this is being dealt with appropriately by the current Board.

State of BPMAS and membership changes

Members will be aware that it was common practice for the previous Board and their agents to portray BPMAS as not being sustainable as a going concern with an imminent collapse likely if the amalgamation did not proceed.

This picture painted by the previous Board was false. BPMAS has an exceptional reserve ratio – probably one of the best amongst all the medical aid schemes in South Africa. In 2020 BPMAS increased its reserves by some R22M and at the end of Q1 2021, a surplus for the year of around R10M is showing. These recent surpluses are largely as a result of members foregoing possible treatments and elective surgery during the Covid 19 pandemic period. Caution is thus required when interpreting these results, however they nevertheless show that BPMAS is in good health.

In summary, there are no concerns about the financial state of BPMAS. By all accounts the outlook for the future is positive provided the we have a Board acting responsibly and in the best interests of members.

Despite the healthy state of our finances, the situation may change rapidly and recent changes by the employer that affect the membership of BPMAS will need careful consideration.

At the end of 2020 the employer embarked on a restructuring exercise which resulted in around 140 employees being retrenched, some of whom were members of BPMAS. The employer then relaxed the rule relating to compulsory membership of BPMAS by enabling employees on Total Cost of Employment packages (TCOE) to elect to move to a medical scheme of their choice – subject to certain conditions.

To put the impact of these changes into numbers, in November 2020 BPMAS had 3300 members (both Principal and Dependents); by March 2021 BPMAS had 3046 members – a total reduction of some 254 members.

Despite this reduction in membership, BPMAS continues to thrive and the Board is actively monitoring the situation and preparing appropriate actions and response.

The amalgamation

At the time of writing this report, the formal status of the proposed amalgamation between BPMAS and Momentum is that we are awaiting the outcome of the Appeal process as the matter is before the Council for Medical Schemes Appeals Board.

Given that this is a legal matter, there is not much that I can formally add at this stage except to say that for as long as I'm serving on the Board I will ensure that any decision taken by the Board will be done in the best interests of all the members.

In my personal view the amalgamation proposal that is before us, does not meet the standard of serving the interests of all members and would therefore require significant changes if it were to be implemented. It is common cause that the failure of the previous Board to secure a watertight commitment from the employer regarding ongoing subsidies is against the members interests. Similarly, the failure of the previous Board to ensure that all members are treated equally through the amalgamation, would render the current amalgamation proposal unacceptable when measured against the requirement that it serves the interests of all members.

Obviously there is a lot at stake regarding the proposed amalgamation and all I can offer in this report is my assurance to members that we have an exceptional team working on the matter and are fully confident of achieving an outcome that is in the best interests of all members of BPMAS.

Appeal for members to serve on committees

We have a number of important sub-committees of the Board that are critical to the orderly functioning of BPMAS. Understandably the Board is stretched given the significant issues that are being dealt with. I am therefore requesting that members consider offering to serve on the various subcommittee including the following:

- Audit and Risk Sub-committee
- Legal and Compliance Sub-committee
- Investment Sub-committee
- Communications Sub-committee

Should you be willing to serve, please drop the Principal Officer a mail and we will get back to you.

**BP MEDICAL AID SOCIETY
CHAIRPERSON'S REPORT (CONTINUED)**

Closing

Finally, I would like to express my gratitude and appreciation to all those who have ensured the continued and orderly function of BPMAS. Your continued commitment and efforts are greatly appreciated. I would especially like to thank Roshan and Janine for their efforts during these trying times.

Much has been achieved; much still remains to be done.

Sincerely

A handwritten signature in cursive script that reads "russel glass".

RUSSEL GLASS
CHAIRPERSON

**BP MEDICAL AID SOCIETY
STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES
for the year ended 31 December 2020**

The Board of Trustees are responsible for the preparation, integrity and fair presentation of the Annual Financial Statements of the BP Medical Aid Society (the Society). The Annual Financial Statements presented on pages 25 to 61 have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Medical Scheme's Act of South Africa and include amounts based on judgements and estimates made by management under the guidance and oversight of the Trustees.

The Board of Trustees considers that in preparing the Annual Financial Statements, they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates.

The Board of Trustees is satisfied that the information contained in the Annual Financial Statements fairly presents the results of operations for the year and the cash flow and the financial position of the Society at year-end. The Trustees are also responsible for the preparation of the other information included in the annual report and are responsible for both its accuracy and its consistency with the Annual Financial Statements.

The Board of Trustees have the responsibility for ensuring that accounting records are kept. The accounting records should disclose with reasonable accuracy the financial position of the Society, which enables the Trustees to ensure that the Annual Financial Statements comply with the relevant legislation.

Other than the matter disclosed in note 16 of the financial statements, no significant events have occurred subsequent to the financial year-end that the Board believes should be brought to the attention of the members of the Society.

The Society's external auditors, Ernst & Young Inc., audited the Annual Financial Statements in terms of International Standards on Auditing and their report is presented on pages 7 to 8.

The Annual Financial Statements were approved by the Board of Trustees on 19 April 2021 and are signed on its behalf by:

russel glass

CHAIRPERSON



TRUSTEE

Janine Daniels

**ACTING PRINCIPAL
OFFICER**

19 April 2021

**BP MEDICAL AID SOCIETY
STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES
for the year ended 31 December 2020**

The BP Medical Aid Society (the Society) is committed to the principles and practice of fairness, openness, integrity and accountability in all dealings with its stakeholders. The Society conducts its affairs according to ethical values. The Trustees of the Society are appointed or elected by the participating employers or the members of the Society respectively. The Trustees recognise the need to conduct the business of the Society in accordance with the principles of the King Code of Corporate Practices and Conduct ('King code'), as applicable.

BOARD OF TRUSTEES

The Board of Trustees monitors the performance of the Administrator. They address a range of key issues and ensure that discussion of items of policy, strategy and performance is critical, informed and constructive.

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

INTERNAL CONTROLS

The Administrator of the Society maintains internal controls and systems designed to provide reasonable assurance as to the integrity, adequacy and reliability of the Annual Financial Statements and to safeguard, verify and maintain accountability for the Society's assets. Such controls are based on established policies and procedures and are implemented by trained personnel with the appropriate segregation of duties.

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

russel glass

CHAIRPERSON



TRUSTEE

Janine Daniels

**ACTING PRINCIPAL
OFFICER**

19 April 2021

INDEPENDENT AUDITOR'S REPORT
To the Members of the BP Medical Aid Society

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the BP Medical Aid Society (the Society), set out on pages 25 to 61, which comprise the Statement of Financial Position as at 31 December 2020, and the Statement of Comprehensive Income, Statement of Changes in Funds and Reserves and 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, the accompanying financial statements present fairly, in all material respects, the financial position of BP Medical Aid Society as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) 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 Society in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* and other independence requirements applicable to performing audits of financial statements of the Society and in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits of the Society and in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants* (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. We do not believe that any of the matters communicated to those charged with governance were key audit matters in the context of the International Standards on Auditing and consequently we did not identify any key audit matters in the current year.

Other information

The Trustees are responsible for the other information. The other information comprises the information included in the 64-page document titled 'BP Medical Aid Society Annual Financial Statements for the year ended 31 December 2020', which includes the Board of Trustees' Report. The other information does not include the financial statements and our auditors' 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 Society's Trustees for the financial statements

The Trustees are responsible for the preparation and fair presentation of these financial statements in accordance with IFRS and the requirements of the Medical Schemes Act of South Africa, and for such internal control as the Trustees determine 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 Trustees are responsible for assessing the Society'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 either intends to liquidate the Society or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

The objectives of our audit 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.

EY

**REPORT OF THE INDEPENDENT AUDITOR TO THE TRUSTEES OF BP MEDICAL AID SOCIETY
INDEPENDENT AUDITOR'S REPORT
to the Members of the BP Medical Aid Society (continued)**

Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of 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 Society's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustees.
- Conclude on the appropriateness of the 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 Society'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 Society 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 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 Society'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.

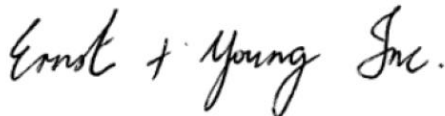
Report on other legal and regulatory requirements

As required by the Council for Medical Schemes, we draw your attention to note 24 which outlines instances of non-compliance with the Medical Schemes Act of South Africa.

Audit tenure

As required by the Council for Medical Schemes' Circular 38 of 2018, Audit Tenure, we report that EY has been the auditor of the BP Medical Aid Society for 53 years.

The engagement partner, David Christian, has been responsible for the BP Medical Aid Society's audit for two years.



Ernst & Young Inc.

Director: David Christian
Registered Auditor
Chartered Accountant (SA)

3rd Floor, Waterway House
3 Dock Road
V&A Waterfront
Cape Town

23 April 2021

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020**

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

Registration number: 1237

1. MANAGEMENT

1.1 BOARD OF TRUSTEES

The following persons served on the Board of Trustees during the year under review:

Employer appointed

P Khoosal	Resigned 31 August 2020
S Molekwa	Resigned 30 November 2020
W Schoeman	Resigned 31 December 2020
M Wilson	Appointed 23 February 2021
B Khumalo *	
B Eigenhuis *	Member-elected
C McClelland (Chairperson)	Term ended 23 November 2020
R Glass (Chairperson)	Appointed 1 February 2021
G McGregor	Resigned 31 January 2021
J Bush	Appointed 23 November 2020
C Germeshuys	Appointed 23 November 2020

Trade union representative

M Mlomo *

The appointments of Messrs Khumalo and Eigenhuis as employer-appointed Trustees were not confirmed by the Board, as their nominations were made in contravention of Rule 18.2 of the Society and would render the Board non-compliant with Section 57(2) of the Medical Schemes Act.

- Rule 18.2 states: '*The names of the Employer-appointed Trustees shall be advised by the Employer to the Principal Officer in writing not later than 30 days prior to the Annual General Meeting of each year.*' The Employer only advised the Principal Officer of the proposed appointments on 17 December 2020. The Board therefore cannot confirm their appointment, as there is no basis within the rules of the Society for the Board to grant a waiver on any grounds.
- Section 57(2) of the Medical Schemes Act states that: '*At least 50 per cent of the members of the Board of Trustees shall be elected from amongst members.*' Given that the three employer-appointed Trustees and the Trustee appointed to represent the trade union are not appointed from amongst the members of the Society, confirming the appointments of Messrs Khumalo and Eigenhuis as Trustees would have rendered the Board non-compliant with the Act.

The Board remains quorate and legally compliant, as it consists of the three member-elected Trustees, one employer-appointed Trustee and the Trustee representing the trade union.

The Board is in the process of resolving these matters, which have been brought to the attention of the Council for Medical Schemes.

1.2 PRINCIPAL OFFICER

T Mlotshwa	Resigned 29 February 2020
F de Wit	Appointed 1 March 2020 and resigned 6 March 2020

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020 (continued)**

1. MANAGEMENT (CONTINUED)

1.2 PRINCIPAL OFFICER (CONTINUED)

ACTING PRINCIPAL OFFICER

Danel Stoffberg Janine Daniels	Appointed 8 April 2020 and resigned 30 June 2020 Appointed 1 October 2020
-----------------------------------	--

BP Waterfront Dock Road Portwood Ridge V & A Waterfront 8002	PO Box 6006 Roggebaai 8012
--	----------------------------------

1.3 REGISTERED OFFICE ADDRESS AND POSTAL ADDRESS

BP Waterfront Dock Road Portwood Ridge V & A Waterfront 8002	PO Box 6006 Roggebaai 8012
--	----------------------------------

Country of registration and domicile	South Africa
--------------------------------------	--------------

1.4 MEDICAL SCHEME ADMINISTRATOR AND MINUTE TAKING

Momentum Health Solutions (Pty) Ltd

268 West Avenue Centurion 0046	PO Box 7400 Centurion 0157
--------------------------------------	----------------------------------

Accreditation number: 13

1.5 MANAGED CARE

Momentum Health Solutions (Pty) Ltd

268 West Avenue Centurion 0046	PO Box 7400 Centurion 0157
--------------------------------------	----------------------------------

Accreditation number: MCO: 59

1.6 INVESTMENT MANAGERS

1.6.1 Alexander Forbes Investments Ltd

115 West Street Sandown 2146	PO Box 786055 Sandton 2146
------------------------------------	----------------------------------

Accreditation number: FSB 711	FAIS 711
-------------------------------	----------

1.6.2 Old Mutual Wealth Trust Company (Pty) Ltd

No.1 Mutual Place 107 Rivonia Road Sandton 2196	PO Box 2444 Saxonwold Johannesburg 2132
--	--

Accreditation number: FAIS 18427

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020 (continued)**

1. MANAGEMENT (CONTINUED)

1.7 AUDITOR

Ernst & Young Inc.

3rd floor, Waterway House
3 Dock Road
V&A Waterfront
8001

PO Box 656
Cape Town
8000

1.8 ACTUARIAL CONSULTANTS

1.8.1 Alexander Forbes Health (Pty) Ltd

40 Dorp Street
Stellenbosch
7600

PO Box 700
Stellenbosch
7599

1.8.2 3ONE (Pty) Ltd t/a 3ONE Consulting Actuaries

1st floor Gleneagles
Fairway Office Park
Bryanston
2191

52 Grosvenor Road
Johannesburg

2. DESCRIPTION OF THE MEDICAL SCHEME

The Society is a not-for-profit restricted membership scheme registered in terms of the Medical Schemes Act. Membership of the Society is open to all employees of BP Southern Africa (Pty) Ltd (BPSA), former employees, subject to qualifying conditions, employees of any other associated employer to whom membership has been extended and to the dependants of such employees.

2.1 BENEFIT OPTIONS WITHIN THE SOCIETY

The Society offers a single, comprehensive benefit plan.

2.2 SAVINGS PLAN

There is no medical savings plan.

2.3 RISK TRANSFER ARRANGEMENTS

The Society entered into a capitation agreement with Iso Leso Optics Ltd, whereby Iso Leso facilitates optometric services through a network of contracted providers to the beneficiaries on behalf of the Society.

The Society entered into a capitation agreement with Netcare Hospitals (Pty) Ltd, whereby Netcare 911 (Pty) Ltd facilitates emergency transport for beneficiaries on behalf of the Society.

2.4 OPERATING ENVIRONMENT

There have been no other significant changes apart from those disclosed in note 7 of this report.

3. INVESTMENT STRATEGY

The Board of Trustees has a statutory and fiduciary duty to invest the Society's assets in line with the requirements of the Medical Scheme Act, 131 of 1998 (as amended) and in a responsible manner in order to protect the Society's accumulated funds and reserves.

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020 (continued)**

3. INVESTMENT STRATEGY (CONTINUED)

For the purposes of the Society's investment strategy, the Board of Trustees has categorised the Society's assets as follows:

Old Mutual Wealth Trust Company (Pty) Ltd was appointed as cash manager.

Type of asset	Purpose	Allocation	Target return/objectives
Cash: Current account, call accounts and fixed deposits	Ensure sufficient cash is available to pay claims and other operational expenses. These cash assets are managed by both Momentum Health Solutions (Pty) Ltd and by Old Mutual Wealth Trust Company (Pty) Ltd. Old Mutual Wealth Trust Company (Pty) Ltd has a mandate to maximise cash returns by investing in call and fixed deposits for durations not exceeding twelve months.	The greater of 20% of assets, less accounts receivable or 20% of annual contributions, less the Continuing Financial Commitment (CFC)	Consumer price index (CPI) in respect of the current account and STefl Call (i.e. short-term fixed interest call index) in respect of call and fixed deposits
Solvency reserve: Alexander Forbes Investments (AFI) Medical Schemes Real Return Focus Portfolio	These assets are required to ensure that the Society's solvency ratio meets the Board of Trustees' minimum solvency threshold target of 70%.	70% of annual contributions, less the cash allocation	CPI + 4% per annum during any rolling three- year period; minimise the risk of capital loss during any rolling 12-month period
Assets in excess of the Board of Trustees' solvency ratio target: The Alexander Forbes Performer Local was closed during the year and the Domestic Balanced Fund replaced this portfolio.	Enhance the return on the Society's investments. This portfolio is a fully discretionary balanced portfolio with a moderate to aggressive risk profile.	Assets in excess of 70% of annual contributions. The strategy is being progressively implemented by regular transfers of funds from the AFI Medical Scheme Return Focus Portfolio to the AFI Performer Local and AFI Pure Equity Portfolio.	This portfolio aims to achieve capital growth through investment in the South African equity market. It aims to outperform the median manager on the Alexander Forbes Investment SA Large Manager Watch.

4. MANAGEMENT OF INSURANCE RISK

The primary insurance activity carried out by the Society assumes the risk of loss from members and their dependants who are directly subject to the risk. This risk relates to the health of the Society's members. As such, the Society is exposed to the uncertainty surrounding the timing and severity of claims under the contract between the Society and its members. The Society also has exposure to market risk through its insurance and investment activities.

The Society manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation and case management, as well as the monitoring of emerging issues, and network arrangements through the appointment of designated and preferred service providers.

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020 (continued)**

4. MANAGEMENT OF INSURANCE RISK (CONTINUED)

The Society uses several methods to assess and monitor insurance risk exposures, both for individual types of risks insured and overall risks. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims are greater than expected.

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

5. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

5.1 OPERATIONAL STATISTICS

	2020	2019
Number of members at year-end	1,674	1,750
Average number of principal members for the year	1,716	1,767
Average number of beneficiaries for the year	3,401	3,564
Number of beneficiaries at year-end	3,285	3,532
Average dependants per principal member	0.98	1.02
Average age of beneficiaries	47.02	46.24
Pensioner ratio (i.e. the proportion of beneficiaries who are 65 years of age and older)	31.9%	30.4%
Continuation member ratio (i.e. all principal members not actively employed by the Employer)	56.5%	56.6%
Average Continuing Financial Commitment per member (R)	1,608	1,357
Average Continuing Financial Commitment per beneficiary (R)	811	673
Average contribution per member per month (R)	5,136	4,658
Average contribution per beneficiary per month (R)	2,591	2,309
Average relevant healthcare expenditure per member per month (R)	5,490	6,078
Average relevant healthcare expenditure per beneficiary per month (R)	2,770	3,014
Average administration costs per member per month (R)	471	584
Average managed care: Management Services per member per month (R)	112	109
Average accumulated funds per member at 31 December (R)	91,762	76,450
Relevant healthcare expenditure as a percentage of contributions	106.9%	130.5%
Managed care: Management services as a percentage of contributions	2.3%	2.3%
Administration expenses as a percentage of contributions	9.2%	12.5%
Amounts paid to Administrator (R)	5,898,330	5,827,229
- Administration fees (refer note 11) (R)	3,460,161	3,532,047
- Managed care fees (refer note 10) (R)	2,438,169	2,295,182
Non-healthcare expenditure per beneficiary per month (R)	246	292
Return on investments as a percentage of investments	3.3%	5.9%

5.2 RESULTS OF OPERATIONS

The results of the Society's operations for the year under review and financial position at 31 December 2020 are set out in the Annual Financial Statements. The Trustees believe that no further clarification is required.

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020 (continued)**

5. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

5.3 ACCUMULATED FUNDS RATIO

The accumulated funds ratio is calculated on the following basis:

	2020	2019
	R	R
Total accumulated funds per the Statement of Financial Position	157,463,994	135,086,480
Less: Cumulative unrealised gains on financial assets at fair value through profit or loss	<u>(6,820,687)</u>	<u>(7,088,327)</u>
Accumulated funds per Regulation 29	<u>150,643,307</u>	<u>127,998,153</u>
 Annual contributions	 <u>105,763,278</u>	 <u>98,763,132</u>
 Accumulated funds ratios:		
 Accumulated funds/annual contributions x 100%	 <u>142.43%</u>	 <u>129.60%</u>

5.4 LIABILITY ADEQUACY TEST

Liability adequacy tests are performed to ensure the adequacy of insurance payables as at the reporting date. In performing these tests, current estimates of future cash flows under the Society's insurance payables are used and any deficiency is recognised in the surplus or deficit.

5.5 OUTSTANDING CLAIMS

Movements on the outstanding claims provision are set out in note 7 to the Annual Financial Statements. There have been no unusual movements that the Trustees believe should be brought to the attention of the members of the Society.

6. CONTINUING FINANCIAL COMMITMENT FROM EMPLOYER

In terms of the agreement concluded between BP Medical Aid Society and BPSA on 22 October 2002, BPSA and its associates are liable to at agreed times to make payments of defined subsidies, allowances, reimbursements and an additional contribution in respect of continuation members of BP Medical Aid Society, the total of which is reflected in the accounts as Continuing Financial Commitment.

7. EVENTS POST THE REPORTING DATE

Society amalgamation

At the time of our last update on the amalgamation, the BP Medical Aid Society Board of Trustees advised that the appeal to the Council for Medical Schemes (CMS) Appeals Board, lodged by the Concerned Members Support Group, could not proceed on the scheduled date of 2 November 2020.

This delay was due to the expiration of the terms of office of the members of the Appeals Board on 30 October 2020. The Minister of Health has not yet appointed new members to the Appeals Board.

The decision of the previous Board of Trustees to oppose the appeal, along with that of Momentum and the CMS, still stands. Once the Appeals Board is appointed, and unless all parties opposing the appeal abandon their opposition, the hearing of the appeal will proceed.

7. EVENTS POST THE REPORTING DATE (CONTINUED)

Coronavirus (COVID-19)

The South African economy was affected by the news of the first confirmed cases of the virus in the country early in March 2020 and this led to the President declaring a national disaster on 15 March 2020. On 28 December 2020 the President announced an increase in infection rates. On 3 March 2021 some restrictions were relaxed when the President announced an alert level 1.

The following cumulative COVID-19 information from March 2020 until the end of March 2021 was taken into consideration:

- Total members infected by COVID-19	89
- Total members recovered from COVID-19	77
- Total member deaths from COVID-19	11
- Total COVID-19-related claims in rand	R 7 144 907

Below is the assessment of each of the Society's significant balance sheet items:

Scheme's investment portfolio

As mentioned in note 3, the Society's investments are measured at fair value (an exit price in an orderly transaction) and, as such, the value of the investments currently disclosed are indicative of the fair value amounts as at 31 December 2020. Any conditions that existed broadly in the market would have been incorporated into a fair value measurement as at 31 December 2020. Therefore, the impact of COVID-19 since 2020 will not impact the investments balances as at 31 December 2020. At 31 December 2020 the solvency ratio was 142.43%.

Furthermore, the financial risk sensitivity analyses provided in note 21 were based on the Society's best estimate of possible rate changes; however, given the continued uncertainty on the impact and duration of the COVID-19 pandemic, the analyses may not be indicative of the possible outcome in the foreseeable future.

Outstanding risk claims provision

Provision for outstanding risk claims, as disclosed in note 7, is an estimate of the ultimate costs of settling all claims incurred that have occurred before the end of the reporting period, but have not been reported to the Scheme. Given the fact that the risk claims provision as at 31 December 2020 relates to 2020 and prior claims, the claims provision remains unchanged.

The impact on the Society's performance since 31 December 2020 is as follows:

Contribution income

It is unclear how the restrictions imposed by the Government during the national lockdown period will impact member contribution collections. The Society is a restricted membership medical scheme. The Employer has been identified as an essential service provider and therefore a minimal impact is expected on the contribution income relating to COVID-19 for the current working members, as well as the retired members who are receiving monthly financial assistance from the Employer for their contributions.

Conclusion

Based on the current situation and the Society's analysis of the information on hand, the Board is comfortable about the Society's ability to operate under the going-concern basis for the next financial year. The Society continues to monitor the disruptions on member contributions due to the national lockdown, it continues to be operational and remains focused on serving its members. The Society will work closely with the Council for Medical Schemes in obtaining any developing guidelines.

8. FIDELITY COVER

The Board of Trustees is covered under a Marsh (Pty) Ltd policy underwritten by Camargue Underwriting Managers. The level of cover was reviewed and on 31 December 2020 the value of the fidelity cover was R25,000,000 (2019: R25,000,000).

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020 (continued)**

9. ACTUARIAL SERVICES

The Society's actuaries, Alexander Forbes Health (Pty) Ltd, have been consulted in the determination of the contribution and benefit levels.

10. INVESTMENTS IN AND LOANS TO EMPLOYERS OF MEMBERS OF THE SOCIETY AND OTHER RELATED PARTIES

The Society holds no investments in, and has made no loans to, any participating employers of the Society's members. Refer to note 17 of the Annual Financial Statements for other related party transactions.

11. AUDIT COMMITTEE

A representative Audit Committee was appointed, which should have five members, of which two shall be members of the Board of Trustees.

During the year the Audit Committee comprised:

B Hashim	Independent Chairperson	Resigned 7 August 2020
D Mitchell	Independent Chairperson	Appointed 15 August 2020
M Tshuma (independent member): Appointed 1 September 2018	Independent member	
P Khoosal	Member Trustee	Resigned 31 August 2020
W Schoeman	Member Trustee	Resigned 31 July 2020
G Mc Gregor	Member Trustee	Appointed 1 August 2020 and resigned 31 January 2021
L Mlomo	Union-elected Trustee	Appointed 1 September 2020
C Germeshuys	Member Trustee	Appointed 1 March 2021
M Wilson	Member Trustee	Appointed 1 March 2021

The Principal Officer attended the meetings, as required of the office.

The Committee met on three occasions during the course of the year, as follows:

- 8 April 2020
- 7 August 2020
- 5 November 2020.

The Administrator and the external auditors are invited to all Committee meetings and have unrestricted access to the Chairperson of the Committee.

In accordance with the provisions of the Medical Schemes Act, the primary responsibility of the Committee is to assist the Board of Trustees in carrying out its duties relating to the Society'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.

12. INVESTMENT SUB-COMMITTEE

An Investment Sub-Committee was established and is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. The Sub-Committee should consist of at least three members, of whom three shall be Trustees of the Society.

During the year the Investment Sub-Committee comprised:

G McGregor	Chairperson	Resigned 31 January 2021
C McClelland	Member Trustee	Term ended 23 November 2020

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020 (continued)**

12. INVESTMENT SUB-COMMITTEE (CONTINUED)

S Molekwa	Member Trustee	Resigned 30 November 2020
R Glass	Member Trustee	Appointed 1 March 2021
M Wilson	Member Trustee	Appointed 1 March 2021
C Germeshuys	Member Trustee	Appointed 1 March 2021
Q Fourie	Independent member	

The Principal Officer attended the meetings, as required of the office.

The Sub-Committee met on three occasions during the course of the year, as follows:

- 11 February 2020
- 21 May 2020
- 6 August 2020.

The primary responsibility of the Sub-Committee is to assist the Board of Trustees in carrying out its duties relating to the investment strategy of the Society.

13. LEGAL, COMPLIANCE AND CONTRACTUAL SUB-COMMITTEE

A Legal, Compliance and Contractual Sub-Committee was established and is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. The Sub-Committee should have three members of whom three shall be Trustees of the Society.

During the year the Legal and Compliance Sub-Committee comprised:

C McClelland	Member Trustee	Term ended 23 November 2020
G McGregor	Member Trustee	Resigned January 2021
L Niyabo	Independent member	Appointed 1 February 2020
C Germeshuys	Member Trustee	Appointed 1 March 2021
J Bush	Member Trustee	Appointed 1 March 2021

The Principal Officer attended the meetings, as required of the office.

The Sub-Committee met on three occasions during the course of the year, as follows:

- 12 February 2020
- 21 May 2020
- 4 August 2020.

The primary responsibility of the Sub-Committee is to assist the Board of Trustees in carrying out its duties relating to legal, compliance and contractual matters of the Society.

14. COMMUNICATIONS SUB-COMMITTEE

A Communications Sub-Committee was established and is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. The Sub-Committee should consist of at least three members, of whom at least two shall be Trustees of the Society.

During the year the Communications Sub-Committee comprised:

S Molekwa	Chairperson	Resigned 30 November 2020
N Masina	Independent/BPSA Communications Manager	
C McClelland (Trustee-member)	Member Trustee	Term ended 23 November 2020

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020 (continued)**

14. COMMUNICATIONS SUB-COMMITTEE (CONTINUED)

G McGregor	Member Trustee	Resigned 31 January 2021
R Glass	Member Trustee	Appointed 1 March 2021
M Wilson	Member Trustee	Appointed 1 March 2021

The Principal Officer attended the meetings, as required of the office.

The Sub-Committee met on three occasions during the course of the year, as follows:

- 12 February 2020
- 3 June 2020
- 27 October 2020.

The primary responsibility of the Sub-Committee is to assist the Board of Trustees in carrying out its duties relating to the communication to members of the Society.

15. CLINICAL SUB-COMMITTEE

A Clinical Sub-Committee was established and is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. The Sub-Committee should consist of the Society's Medical Advisor and at least three members of whom three shall be Trustees of the Society.

During the year the Clinical Sub-Committee comprised:

S Manjra	Chairperson and Medical Advisor	
S Molekwa	Member Trustee	Resigned 30 November 2020
C McClelland	Member Trustee	Term ended 23 November 2020
J Bush	Member Trustee	Appointed 1 March 2021
M Wilson	Member Trustee	Appointed 1 March 2021

The Principal Officer attended the meetings, as required of the office.

The Sub-Committee met on four occasions during the course of the year, as follows:

- 10 February 2020
- 19 May 2020
- 28 July 2020
- 4 November 2020.

The primary responsibility of the Sub-Committee is to assist the Board of Trustees in carrying out its duties relating to clinical matters.

16. OPERATIONS SUB-COMMITTEE

An Operations Sub-Committee was established and is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. This Sub-Committee has the Principal Officer and operational staff from the Employer (BPSA) and Administrator (Momentum Health Solutions). The Sub-Committee should consist of at least three members of whom at least one shall be a Trustee of the Society.

During the year the Operations Sub-Committee comprised:

T Mlotshwa	Principal Officer and Chairperson	Resigned 29 February 2020
D Stoffberg	Acting Principal Officer and Chairperson	Appointed 1 April and resigned 30 June 2020
J Daniels	Acting Principal Officer and Chairperson	Appointed 1 October 2020

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020 (continued)**

16. OPERATIONS SUB-COMMITTEE (CONTINUED)

J Bush	Member Trustee	Appointed 1 March 2021
M Wilson	Member Trustee	Appointed 1 March 2021
R Andrews	Fund Manager	
L Liebenberg	Service Manager	
C Mdakane	Human Resources Manager	

The Sub-Committee met on four occasions during the course of the year, as follows:

- 12 February 2020
- 26 May 2020
- 4 August 2020
- 30 October 2020.

The primary responsibility of the Sub-Committee is to assist the Board of Trustees in carrying out its duties relating to operational matters of the Society.

17. DISPUTES COMMITTEE

A Disputes Committee was established and is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. The Committee shall consist of three members, who may not be members of the Board of Trustees, as defined in the rules or the Principal Officer or any other officer of the Society, as defined in the act, or of the Administrator.

During the year the Disputes Committee comprised:

- T Matlhare
- M Petersen
- I Juhnke.

The primary responsibility of the Committee is to assist the Board of Trustees in carrying out its duties in respect of disputes. A Chairperson is elected at each meeting.

One matter was referred to the Committee; however, it was withdrawn and resolved by the Administrator and the Committee did not need to meet.

18. AMALGAMATION COMMITTEE

The Amalgamation Committee was appointed by the Board of Trustees in September 2018 with a mandate to assist the Board of Trustees with the amalgamation project. The overall objective is to bring about a successful amalgamation, if an amalgamation is possible and is in the interest of members, through:

- assessing the offering of the Schemes in line with BP Medical Aid Society member needs using an agreed evaluation criteria approved by the Board
- recommending to the Board the scheme to partner with
- once approved, creating alignment with the chosen scheme partner
- assessing in conjunction with 3ONE Consulting Actuaries, the Independent Consultants appointed for the project, the Employer's subsidy proposal within the Board's mandate and advising the Board if it is acceptable, i.e. submit recommendations to the Board for consideration
- in the event of an amalgamation, be actively involved in member communication and engagement to ensure members understand the new Society offering and new employer subsidy.

During the year the Amalgamation Sub-Committee comprised:

S Manjra	Chairperson and Medical Advisor	
I Juhnke	Independent/Continuation member	Resigned 30 November 2020
C McClelland	Member Trustee	Term ended 23 November 2020

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020 (continued)**

18. AMALGAMATION COMMITTEE (CONTINUED)

L Mlomo	Member Trustee	
T Mlotshwa	Principal Officer	Resigned 29 February 2020 and independent 31 October 2020
D Stoffberg	Acting Principal Officer	Appointed 1 April and resigned 30 June 2020
J Daniels	Acting Principal Officer	Appointed 1 October 2020
S Molekwa	Member Trustee	Resigned 30 November 2020
T Onia	BPSA Rewards and Benefit Manager	

The Sub-Committee met on seventeen occasions during the course of the year, as follows:

- 7 January 2020
- 22 April 2020
- 30 January 2020
- 29 April 2020
- 14 February 2020
- 12 May 2020
- 5 March 2020
- 14 May 2020
- 25 March 2020
- 20 May 2020
- 1 April 2020
- 17 June 2020
- 6 April 2020
- 7 July 2020
- 8 April 2020
- 8 July 2020
- 15 April 2020.

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020 (continued)**

19. SOCIETY'S MEETING ATTENDANCE

Principal Officer/Trustee/Sub-Committee member	Board meetings		Special/ Closed Board meetings		Amalgama- tion Committee		Audit Committee		Investment Sub- Committee		Legal, Compliance and Contractual Sub- Committee		Communica- tions Sub- Committee		Operations Sub- Committee		Clinical Sub- Committee	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
C McClelland (Chairperson)	5	5	19	19	17	17	3	3	3	3	3	3	3	3			4	4
J Bush	2	2																
C Germeshuys	2	2																
S Molekwa	6	1	19	5	17	5			3	1			3	1			4	1
L Mlomo	6	3	19	11	17	14	3	0										
G McGregor	6	4	19	17			2	2	3	3	3	3	3	3				
W Schoeman	6	4	19	15			3	1										
P Khoosal (resigned 31 August 2020)	6	3	18	9			3	2										
T Mlotshwa (Principal Officer; resigned 29 February 2020)			5	5	17	17												
F de Wit (Principal Officer; resigned 6 March 2020)	1	1					1	1										
D Stoffberg (Acting Principal Officer; resigned 30 June 2020)	1	1	7	7	8	8			1	1	1	1	1	1	1	1	1	1
J Daniels (Acting Principal Officer; appointed 1 October 2020)	5	5	3	3			1	1					3	3	3	3	4	4

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2020 (continued)**

19. SOCIETY'S MEETING ATTENDANCE (CONTINUED)

Principal Officer/Trustee/Sub-Committee member	Board meetings		Special/ Closed Board meetings		Amalgamation Committee		Audit Committee		Investment Sub-Committee		Legal, Compliance and Contractual Sub-Committee		Communications Sub-Committee		Operations Sub-Committee		Clinical Sub-Committee	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
S Manjra (Medical Advisor)	6	4	19	17	17	17											4	4
Q Fourie*									3	0								
D Mitchell *							3	3										
B Hashim*							2	2										
I Juhnke*					17	17												
M Tshuma*							3	3										
L Niyabo											3	3						
N Masina*													3	2				
R Andrews													3	3	3	3		
F Davids															3	0		
L Liebenberg															3	3		
M Mdakane															2	2		

A – total possible number of meetings could have attended

B – actual number of meetings attended

* – independent members

20. NON-COMPLIANCE MATTERS

20.1 Contravention of Section 35(8)(c) of the Medical Schemes Act

Nature and impact

In terms of Section 35(8) of the Act, a medical scheme shall not invest any of its assets in the business of, or grant loans to, an employer who participates in the medical scheme or any administrator or any arrangement associated with the medical scheme.

The Society holds shares in Momentum Metropolitan Holdings Ltd, Sanlam Limited, Liberty Holdings and Discovery Group Ltd. This is in contravention of this requirement of the Act.

Causes for the failure

The Society invests in a pooled portfolio and does not have control over the selection of the underlying assets.

Corrective action

The Society applied for exemption on 23 November 2020 and is still waiting on approval from the Council for Medical Schemes.

20.2 Contravention of Section 26(7) of the Medical Schemes Act

Nature and impact

In terms of Section 26(7) of the Act, contributions should be received in accordance with the rules of the Society. The rules indicate that contributions should be received no later than three days after they become due. As at 31 December 2020, there were contribution debtors outstanding for more than 30 days to the amount of R216,897 (2019: R358,813), the majority of which relates to debit order pensioners, as well as pensioner employer groups in Portugal. This amount represents 0.21% of the total contributions received during the year. The delay in receipt is in contravention of Section 26(7) of the Act.

Causes for the failure

Delays were experienced in respect of receipt of payment from some of the group codes.

Corrective action

This non-compliance is a result of the following:

Section 26(7) does not adequately provide for circumstances where member contributions are remitted from other countries of residence and the Society has pensioner members who reside outside South Africa.

20.3 Claims not settled within 30 days of statutory timeframe

Nature and impact

We noted six (6) claims lines that were settled outside the 30-day statutory timeframe. These claims lines were not erroneous or unacceptable for payment.

Causes for the failure

A number of processes result in claims being placed on hold due to clinical interventions/referrals. Five (5) claims lines identified were paid late due to clinical interventions. One (1) claim line was paid late due to a three-week payment run.

20. NON-COMPLIANCE MATTERS (CONTINUED)

20.3 Claims not settled within 30 days of statutory timeframe (continued)

Corrective action

The settlement of claims that might fall outside the statutory timeframe will be prioritised and members/service providers will be notified promptly of any reversals/rejections within the 30-day timeframe.

20.4 Non-compliance with regulation 30 – equity

Nature and impact

In terms of Regulation 30 of the Act, a scheme is prohibited from investing more than 40% of its investments in equity instruments. The Society holds 46% of its investments in equity instruments.

Causes for the failure

The Society has equities invested in managed portfolios above the 40% limit specified in category 4(a) of Annexure B to the Medical Scheme Regulations.

Corrective action

The Society will send a letter of motivation to the Council for Medical Schemes.

20.5 Trustee appointment

Nature and impact

The names of the Employer-appointed Trustees shall be advised by the Employer to the Principal Officer in writing not later 30 days prior to the Annual General Meeting of each year.

Causes for the failure

The names of the Employer-appointed Trustees were submitted outside of the 30 days prior to the Annual General Meeting stated in the rules.

Corrective action

The Employer should notify the Principal Officer 30 days before the Annual General Meeting of any Employer-appointed Trustees.

BP MEDICAL AID SOCIETY
STATEMENT OF FINANCIAL POSITION
for the year ended 31 December 2020

ASSETS	Notes	2020 R	2019 R
Non-current assets		91,575,887	86,150,271
Financial assets at fair value	3	91,575,887	86,150,271
Current assets		74,210,833	57,910,852
Trade and other receivables	4	6,636,291	10,444,522
Financial assets at fair value through profit or loss	3	16,980,332	18,075,695
Cash and cash equivalents	5	50,594,210	29,390,635
Total assets		165,786,720	144,061,123
FUNDS AND LIABILITIES			
Members' funds		157,463,994	135,086,480
Accumulated funds		157,463,994	135,086,480
Current liabilities		8,322,726	8,974,643
Trade and other payables	6	5,818,445	6,312,081
Outstanding claims provision	7	2,504,281	2,662,562
Total funds and liabilities		165,786,720	144,061,123

BP MEDICAL AID SOCIETY
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2020

	Notes	2020 R	2019 R
Contribution income	8	105,763,278	98,763,132
Relevant healthcare expenditure		(113,052,486)	(128,883,046)
Net claims incurred		(112,642,441)	(129,150,636)
Claims incurred	9	(110,219,534)	(126,933,172)
Managed care: Management services	10	(2,453,525)	(2,311,038)
Third-party claim recoveries		30,618	93,574
Net (expense)/income on risk transfer arrangements	9	(410,045)	267,590
Risk transfer arrangement fees/premiums paid		(2,352,020)	(2,388,073)
Recoveries from risk transfer arrangements		1,941,975	2,655,663
Gross healthcare result		(7,289,208)	(30,119,914)
Administration expenses	11	(9,691,936)	(12,376,224)
Net movement in provision for doubtful debts	12	46,424	39,581
Net healthcare result		(16,934,720)	(42,456,557)
Other income		39,934,485	38,728,685
Investment income	13	6,808,791	8,209,097
Continuing financial commitment from Employer	14	33,103,260	28,777,696
Stale cheques written back	14	-	49,343
Insurance claims recovery	14	290,074	-
Unrealised (losses)/gains on financial assets at fair value through profit or loss	3	(267,640)	1,692,549
Other expenditure		(622,251)	(681,151)
Asset management fees	3	(622,251)	(681,151)
Total comprehensive income/(loss) for the year		<u>22,377,514</u>	<u>(4,409,023)</u>

BP MEDICAL AID SOCIETY
STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 December 2020

	Member's funds and accumulated funds R
Balance at 1 January 2019	139,495,503
Total comprehensive income/(loss) for the year	(4,409,023)
Balance at 1 January 2020	135,086,480
Total comprehensive income/(loss) for the year	22,377,514
Balance at 31 December 2020	157,463,994

BP MEDICAL AID SOCIETY
STATEMENT OF CASH FLOWS
for the year ended 31 December 2020

CASH FLOWS FROM OPERATING ACTIVITIES	Notes	2020	2019
		R	R
Total comprehensive income/(loss) for the year		22,377,514	(4,409,023)
Investment income received	13	(3,665,304)	(3,960,331)
Interest received on cash and cash equivalents	13	(1,588,647)	(1,733,462)
Dividends on investments at fair value through profit or loss	13	(1,554,840)	(2,515,304)
Asset management fees	3	622,251	681,151
Unrealised losses/(gains) on financial assets at fair value through profit or loss	3	267,640	(1,692,549)
Cash flows from operations before working capital changes		16,458,614	(13,629,518)
Working capital changes			
- Decrease/(Increase) in trade and other receivables		3,808,231	(4,537,659)
- Increase in outstanding claims provision		(158,281)	45,198
- (Decrease)/Increase in trade and other payables		(493,636)	2,091,639
Net cash flows from operating activities		19,614,928	(16,030,340)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of financial assets at fair value	3	-	12,000,000
Interest received on cash and cash equivalents	13	1,588,647	1,733,462
Net cash flows from investing activities		1,588,647	13,733,462
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		21,203,575	(2,296,878)
Cash and cash equivalents at beginning of the year		29,390,635	31,687,513
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	5	50,594,210	29,390,635

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the BP Medical Aid Society (the Society) Annual Financial Statements, as set out below, are in accordance with International Financial Reporting Standards (IFRS), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and in the manner required by the Medical Schemes Act. In addition, the Statement of Comprehensive Income is prepared in accordance with Circular 41 of 2012 issued by the Council for Medical Schemes that set out their interpretation of IFRS as it relates to the Statement of Comprehensive Income for Medical Schemes in South Africa.

The accounting policies adopted are consistent with those of the previous financial year, except as otherwise stated.

Refer to note 2 for amendments to standards in issue but not yet effective.

1.1 Basis of preparation

The financial statements set out on pages 25 to 61 are prepared on the historical cost basis, except for financial assets at fair value through profit or loss, which are measured at fair value.

1.2 Financial instruments

Initial recognition and subsequent measurements

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The Society classifies its financial instruments at fair value through profit or loss (FVTPL) and financial instruments at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Society's business model for managing them. With the exception of non-insurance trade receivables that do not contain a significant financing component or for which the Society has applied the practical expedient, the Society may initially measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Non-insurance trade receivables that do not contain a significant financing component or for which the Society has applied the practical expedient, are measured at the transaction price.

Purchases or sales of financial assets that require delivery of assets within a timeframe established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Society commits to purchase or sell the asset.

Subsequent measurement

Financial assets are measured at amortised cost due to the objective of the financial assets held within the business model to collect contractual cash flows.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Society's financial assets at amortised cost includes non-insurance trade receivables and cash and cash equivalents in the Statement of Financial Position.

Cash and cash equivalents consist of call accounts and current accounts, which form an integral part of the Society's cash management.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.2 Financial instruments (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the Statement of Financial Position at fair value with net changes in fair value recognised in the Statement of Profit or Loss.

This category includes derivative instruments and listed equity investments, which the Society had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on listed equity investments are recognised as investment income in the Statement of Profit or Loss when the right of payment has been established.

The Society's financial instruments at fair value through profit or loss consists of investments in the Statement of Financial Position.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Society's Statement of Financial Position) when:

- the rights to receive cash flows from the asset have expired; or
- the Society has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Society has transferred substantially all the risks and rewards of the asset, but has transferred control of the asset;
- when the Society has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership; when it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Society continues to recognise the transferred asset to the extent of its continuing involvement; in that case, the Society also recognises an associated liability; the transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Society has retained.

Impairment

For insurance trade receivables, the Society assesses at each reporting date whether there is any objective evidence that a financial asset carried at amortised cost or a group of financial assets, excluding financial assets at fair value through profit or loss, is impaired.

The Society applies a simplified approach in calculating expected credit losses (ECLs) for non-insurance receivables.

Therefore, the Society does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Society has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of the financial assets.

If, in a subsequent year, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.2 Financial instruments (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

The Society's financial liabilities consist of trade and other payables and the outstanding claims provision.

Subsequent measurement

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Society has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortised cost

This is the category most relevant to the Society. These are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

The Society's financial liabilities at amortised cost include trade and other payables and the outstanding claims provision.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Statement of Profit or Loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

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.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.3 Provisions (continued)

Outstanding claims

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

The Society does not discount its provision for outstanding claims on the basis that claims must be submitted within four months of the medical event.

1.4 Insurance contracts

Insurance contracts are contracts under which the Society accepts significant insurance risk from another party (the member) by agreeing to compensate the member or other beneficiary if a specified uncertain future event (the insured event) adversely affects the member or other beneficiary.

The contracts issued compensate the Society's members for healthcare expenses incurred.

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the EIR method. The carrying value of insurance receivables is reviewed for impairment whenever events of circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Statement of Profit or Loss.

Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

1.5 Contributions

Contributions are received monthly and are brought into account on an accrual basis when their collection in terms of the insurance contract is reasonably certain. The earned portion of contributions received is recognised as revenue. Contributions are earned from the date of attachment risk, over the indemnity period on a straight-line basis.

1.6 Relevant healthcare expenditure

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

Claims incurred

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

Net claims incurred comprise:

- claims incurred net of discounts received, recoveries from members for co-payments;
- claims for services rendered during the previous year not included in the outstanding claims provisions for that year;
- claims settled in terms of risk transfer arrangements; and
- movement in the outstanding claims provision.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.6 Relevant healthcare expenditure (continued)

Claims incurred (continued)

Claims incurred relating to risk transfer arrangements are calculated by applying an inflation-adjusted rate to the different categories of services provided by the capitation provider.

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

1.7 Liabilities and related assets under liability adequacy test

The liability for insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of any related assets. Where a shortfall is identified, an additional provision is made and the Society recognises the deficiency in surplus or deficit for the year.

1.8 Risk transfer arrangements

Risk transfer premiums are recognised as an expense over the indemnity period on a straight-line basis.

Risk transfer premiums and benefits reimbursed are presented in surplus or deficit and the Statement of Financial Position on a gross basis. Only contracts that give rise to a significant transfer of insurance risk are accounted for as insurance. Amounts recoverable under such contracts are recognised in the same year as the related claim.

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

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

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

Risk transfer claims and benefits reimbursed are presented in the Statement of Comprehensive Income and Statement of Financial Position on a gross basis.

1.9 Managed care: Management services expenses

These expenses represent internal expenditure and the amounts paid or payable to the third-party Administrator, related parties and other third parties for managing the utilisation, costs and quality of healthcare services provided to the members of the Society.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.10 Reimbursements from the Road Accident Fund (RAF)

The Society grants assistance to its members in defraying expenditure incurred in connection with the rendering of any relevant health service. Such expenditure may be in connection with a claim that is also made to the RAF, administered in terms of the Road Accident Fund Act, No 56 of 1996. If the member is reimbursed by the RAF, he or she is obliged contractually to refund that payment to the Society to the extent that he or she has already been compensated.

A reimbursement from the RAF is a possible asset that arises from claims submitted to the RAF. Its existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Society. The contingent assets are assessed continually to ensure that developments are appropriately reflected in the Annual Financial Statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the Annual Financial Statements of the period in which the change occurs. If an inflow of economic benefits has become probable, the Society discloses the contingent asset. Amounts received in respect of reimbursements from the RAF are recognised as part of net claims incurred in the surplus or deficit.

1.11 Investment income

Interest is recognised on a yield-to-maturity 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. Dividend income is recognised when the right to receive payments is established.

1.12 Functional and presentation currency

Items included in the Annual Financial Statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity ('the functional currency'). The Annual Financial Statements are presented in South African rand ('the presentation currency'), which is the functional currency of the Society.

1.13 Taxation

The Society is registered under the Medical Schemes Act. It therefore falls within the definition of a benefit fund, as defined in the Income Tax Act. The receipts and accruals of the Society are exempt from taxation under Section 10(1)(d) of the Income Tax Act.

1.14 Continuing financial commitment

BPSA agreed to pay additional amounts to assist in funding the shortfall arising from the ageing membership, as well as the costs for the Principal Officer and HIV & AIDS. This amount is disclosed under other income in the Statement of Comprehensive Income.

2. NEW STANDARDS AND AMENDMENTS TO STANDARDS

There were no new standards adopted in the current year.

Standards issued, but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Society's financial statements are disclosed below. The Society intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

2. NEW STANDARDS AND AMENDMENTS TO STANDARDS (CONTINUED)

IFRS 17 Insurance Contracts (continued)

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- a specific adaptation for contracts with direct participation features (the variable fee approach)
- a simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the Society also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Society has not early adopted this accounting standard.

Standards issued and effective

Amendments to IFRS 3: Definition of a business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Society will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, '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 Society.'

The amendments to the definition of material is not expected to have a significant impact on the Society's financial statements.

3. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020	2019
	R	R
Fair value at the beginning of the year	104,225,966	108,738,933
Capitalised interest and dividends	5,220,144	6,475,635
Asset management fees	(622,251)	(681,151)
Unrealised (loss)/gain at fair value through profit or loss	(267,640)	1,692,549
Sale or disposal of investment	-	(12,000,000)
Fair value at the end of the year	<u>108,556,219</u>	<u>104,225,966</u>
Non-current assets	91,575,887	86,150,271
Current assets	<u>16,980,332</u>	<u>18,075,695</u>
	<u>108,556,219</u>	<u>104,225,966</u>

The investments are unitised and are part of a pooled portfolio through a linked policy of insurance, where the underlying assets are owned by the insurer.

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

3. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

	2020	2019
	R	R
Bonds and debentures	36,557,849	28,467,208
Listed property	3,917,628	5,763,686
Equities with primary listing on the JSE	51,100,410	51,919,377
Local cash	16,550,053	17,051,103
Foreign cash	430,279	1,024,592
	<u>108,556,219</u>	<u>104,225,966</u>

The investments have no fixed maturity. The fair value of the investments is based on the market value as at 31 December 2020.

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

4. TRADE AND OTHER RECEIVABLES

Insurance receivables	6,744,445	10,500,504
Contributions outstanding	1,095,169	4,879,506
Amounts owing by members and service providers	353,709	247,756
Income receivable – BPSA refunds	5,295,567	5,373,242
Less:		
Current year provision for doubtful debts	(332,409)	(488,292)
Provision for doubtful debts	(488,292)	(535,990)
Movement in provision for doubtful debts	156,680	39,581
Amounts recovered during the year	(797)	8,117
Other receivables*	129,654	316,214
Interest receivable	129,654	147,400
Sundry receivables	-	168,814
Risk transfer arrangements	94,601	116,096
Share of outstanding claims provision	94,601	116,096
	<u>6,636,291</u>	<u>10,444,522</u>

* The Society has assessed the IFRS 9 expected credit loss impact on other receivables and concludes that there is no impact.

Ageing of insurance receivables – 2020

	Current	30 days	60 days	90 days	120 days+	TOTAL
Contributions outstanding	835,333	42,939	46,557	43,699	126,641	1,095,169
Amounts owing by members and service providers	2,915	24,372	36,994	116,523	172,905	353,709
Income receivable – BPSA refunds	1,746,497	-	45,000	43,500	3,460,570	5,295,567
	<u>2,584,745</u>	<u>67,311</u>	<u>128,551</u>	<u>203,722</u>	<u>3,760,116</u>	<u>6,744,445</u>

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

4. TRADE AND OTHER RECEIVABLES (CONTINUED)

Ageing of insurance receivables – 2019

	Current	30 days	60 days	90 days	120 days+	TOTAL
Contributions outstanding	4,457,210	63,483	63,405	30,610	264,798	4,879,506
Amounts owing by members and service providers	12,280	15,549	7,060	1,384	211,483	247,756
Income receivable – BPSA refunds	697,890	105,080	44,205	712,427	3,813,640	5,373,242
	5,167,380	184,112	114,670	744,421	4,289,921	10,500,504

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

Contribution debtors, as well as member and provider debtors, are periodically tested for impairment. Contribution debtors largely relate to the continuation members and are made up of both member debtors and employer debtors and receivable from both the members and employers. Collection of arrears is as per the debt collection mandate.

Interest receivable and risk transfer receivables are of a current nature and are settled within 30 days.

Income receivable for HIV & AIDS relates to a contractual reimbursement for HIV & AIDS related costs incurred by the Society for all members who are registered on the HIV YourLife Programme. The reimbursement is made by BPSA on a quarterly basis.

5. CASH AND CASH EQUIVALENTS

	2020	2019
	R	R
Call accounts	45,623,186	24,719,187
Current accounts	4,971,024	4,671,448
Cash and cash equivalents per Cash Flow Statement	<u>50,594,210</u>	<u>29,390,635</u>

The weighted average effective interest rate on short-term bank deposits was 3.34% (2019: 5.93%) per annum.

At 31 December the carrying amounts of cash and cash equivalents approximate their fair values due to the short-term maturities of these assets.

6. TRADE AND OTHER PAYABLES

Insurance liabilities

Claims payable	4,719,191	4,150,577
----------------	-----------	-----------

Financial liabilities

Accrued expenses	564,389	1,680,148
Audit fees accrual	534,865	481,356
	<u>5,818,445</u>	<u>6,312,081</u>

At 31 December the carrying amounts of trade and other payables approximate their fair values due to the short-term maturities of these liabilities.

Claims payable consists of claims processed at year-end, but not yet paid by the Society.

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

7. OUTSTANDING CLAIMS PROVISION	2020	2019
	R	R
Not covered by risk transfer arrangements		
Provision for outstanding claims	2,409,680	2,546,466
Analysis of movements in outstanding claims		
Balance at beginning of year	2,546,466	2,567,535
Payments in respect of prior year	(2,233,937)	(2,222,013)
Over-provision in the prior year	312,529	345,522
Over-provision in respect of prior year written back	(312,529)	(345,522)
Adjustment for current year	2,409,680	2,546,466
Provision at end of year (note 9)	2,409,680	2,546,466
Covered by risk transfer arrangements		
Provision for outstanding claims for Iso Leso and Netcare 911	94,601	116,096
Analysis of movements in outstanding claims		
Balance at beginning of year	116,096	49,829
Payments in respect of prior year	(116,096)	(49,829)
Over/(Under)-provision in the prior year	-	-
Adjustment for current year	94,601	116,096
Provision at end of year (note 9)	94,601	116,096
Total outstanding claims provision	2,504,281	2,662,562

Process used to determine the assumptions

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

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

The cost of outstanding claims is estimated using statistical methods. Such methods extrapolate the development of paid and incurred claims, average cost per claims and ultimate claim numbers for each benefit year based upon observed development of earlier years and expected loss ratios. Past trends are used in situations where it takes time after the treatment date until the full extent of the claims to be paid is known. It is assumed that payments will emerge in a similar way in each service month. The proportional increase in the known cumulative payments from one development month to the next can then be used to calculate payments for future development months.

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

7. OUTSTANDING CLAIMS PROVISION (CONTINUED)

Process used to determine the assumptions (continued)

The actual method used is consistent with prior years and considers categories of claims and observed historical claims development. To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in processes that affect the development/recording of claims paid and incurred (such as changes in claim reserving procedures);
- economic, legal, political and social trends (resulting in different-than-expected levels of inflation and/or minimum medical benefits to be provided);
- changes in composition of members and their dependants and random fluctuations, including the impact of large losses.

Assumptions

The assumptions that have the greatest effect on the measurement of the outstanding claims provision are the expected percentages of claims settled after each of the first four months of the claims run-off period, before the claims turn stale.

The percentages used as assumptions are listed in the table below. The table also outlines the sensitivity of these percentages and the impact on the Society's liabilities if an incorrect assumption is used.

Other assumptions

- The actual demographics of the Society were used, including all membership movements for the period.
- The effect of an ageing population on the utilisation of health services is automatically incorporated.

The assumed percentages of claims outstanding at the end of the period:

Claims outstanding for services rendered in:	2020	2019
December	7%	6%
November	3%	2%
October	2%	1%
September	1.5%	0.5%
August and prior	1.4%	0.4%

The impact of the sensitivity of the assumptions are set out below:	2020	2019
	R	R
Effect of a 1% point increase in assumptions	1,394,266	1,216,523
Effect of a 2% point increase in assumptions	1,863,541	1,704,653
Effect of a 3% point increase in assumptions	2,342,741	2,203,099

The Society believes that the liability for claims reported in the Statement of Financial Position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.

8. CONTRIBUTION INCOME

Member contributions	<u>105,763,278</u>	<u>98,763,132</u>
----------------------	--------------------	-------------------

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

9. RELEVANT HEALTHCARE EXPENDITURE

Claims incurred, excluding claims incurred in respect of risk transfer arrangements

	2020	2019
	R	R
Current year claims	106,470,101	122,218,207
Movement in outstanding claims provision	2,097,151	2,200,944
Over-provision in prior year (note 7)	(312,529)	(345,522)
Adjustment for current year (note 7)	2,409,680	2,546,466
	<u>108,567,252</u>	<u>124,419,151</u>
Less:		
Discounts received on claims	(289,693)	(141,642)
	<u>108,277,559</u>	<u>124,277,509</u>

Claims incurred in respect of risk transfer arrangements

Current year claims	1,847,374	2,539,567
Movement in outstanding claims provision	94,601	116,096
Adjustment for current year (note 7)	94,601	116,096
	<u>1,941,975</u>	<u>2,655,663</u>
Claims incurred, including claims in respect of risk transfer arrangements (note 21)	<u>110,219,534</u>	<u>126,933,172</u>

Net (expense)/income on risk transfer arrangements

Risk transfer arrangement fees/premiums paid	2,352,020	2,388,073
Recoveries from risk transfer arrangements	(1,941,975)	(2,655,663)
Net (expense)/income on risk transfer arrangements	<u>410,045</u>	<u>(267,590)</u>

The Society entered into a risk transfer agreement with Iso Leso Optics Ltd in 1 January 2017, whereby Iso Leso provides optometric services through a network of contracted providers to the beneficiaries on behalf of the Society.

Claims received in respect of optometric services rendered by participating and non-participating providers are processed and paid by Iso Leso. The Society pays a fixed fee in respect thereof.

The Society entered into an agreement with Netcare Hospitals (Pty) Ltd on 1 January 2017. Netcare 911 (Pty) Ltd facilitates emergency transport for beneficiaries on behalf of the Society, for which the Society pays a fixed fee in respect thereof.

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

10. MANAGED CARE: MANAGEMENT SERVICES

10.1 Momentum Health Solutions (Pty) Ltd	2020	2019
	R	R
Disease Risk Management Programme	460,596	390,121
Electronic Benefit Management Programme	601,478	565,810
General Practitioner (GP) Network	252,118	237,338
HIV YourLife Programme	186,656	175,689
Hospital Risk Management Programme	559,973	526,822
Maternity Programme	82,300	77,732
Oncology Programme	82,300	77,732
Prescribed Minimum Benefits Programme	145,389	180,319
Specialist network	67,359	63,619
	<u>2,438,169</u>	<u>2,295,182</u>
10.2 Isimo Health (Pty) Ltd		
Oncology Programme	<u>15,356</u>	<u>15,856</u>
Managed care: Management services	<u>2,453,525</u>	<u>2,311,038</u>

11. ADMINISTRATION EXPENSES

Actuarial fees	498,853	1,270,871
Administrator's fees	3,460,161	3,532,047
Audit fees		
- current year audit services	546,928	502,515
- services	61,226	90,818
Bank charges	26,448	28,355
Board of Healthcare Funders' subscriptions	24,577	23,572
Consulting fees	3,183,105	1,975,623
Council for Medical Schemes – levies	68,553	69,850
Fidelity cover	173,250	32,852
General expenses	-	38,717
Printing and postage	220,155	422,869
Principal Officer costs	344,947	1,577,844
Society staff in Principal Officer's office	233,360	262,814
Special project – Discovery	-	1,150,000
Telephone	51,641	54,977
Travelling and entertainment	20,631	314,983
Trustees/Committee members' remuneration and related costs (note 11.1 and 11.2)	778,101	1,027,517
	<u>9,691,936</u>	<u>12,376,224</u>

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

11. ADMINISTRATION EXPENSES (CONTINUED)

11.1 Board of Trustee members' remuneration and related costs

31 December 2020	Services as Trustee R	Travelling and accommodation R	Total R
J Bush	11,733	-	11,733
C Germeshuys	11,733	-	11,733
P Khoosal*	-	5,277	5,277
G McGregor	186,794	-	186,794
C McClelland	470,086	9,027	479,113
S Molekwa*	-	2,891	2,891
M Mlomo*	-	9,030	9,030
W Schoeman*	-	-	-
	680,346	26,225	706,571

31 December 2019	Services as Trustee R	Travelling and accommodation R	Total R
P Khoosal*	-	47,620	47,620
G McGregor	169,499	4,267	173,766
C McClelland	398,250	39,481	437,731
S Molekwa*	-	66,104	66,104
M Mlomo*	-	141,418	141,418
W Schoeman*	-	1,364	1,364
A Stapelberg	82,005	4,256	86,261
	649,754	304,510	954,264

* Non-remunerated Trustees and Committee members

11.2 Sub-Committee remuneration	Audit Committee R	Total R
31 December 2020		
B Hashim	30,745	30,745
D Mitchell	40,785	40,785
P Khoosal*	-	-
W Schoeman*	-	-
G McGregor*	-	-
L Mlomo*	-	-
	71,530	71,530

31 December 2019	Audit Committee R	Total R
B Hashim	56,253	56,253
D Mitchell	17,000	17,000

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

11. ADMINISTRATION EXPENSES (CONTINUED)

11.2 Sub-Committee remuneration (continued)

31 December 2019	Audit Committee R	Total R
P Khoosal*	-	-
A Rumble*	-	-
D Fortune*	-	-
M Tshuma*	-	-
	73,253	73,253

* Non-remunerated Trustees and Committee members

12. NET MOVEMENT IN PROVISION FOR DOUBTFUL DEBTS

	2020 R	2019 R
Trade and other receivables		
Contributions at risk of not being collected	27,901	(15,301)
Movement in provision for doubtful debt	138,157	(15,301)
Written off	(110,256)	-
Members' and service providers' portions at risk of not being collected	17,726	62,999
Movement in provision for doubtful debt	17,726	62,999
Written off	-	-
Less:		
Previous impairment losses recovered	797	(8,117)
	46,424	39,581

13. INVESTMENT INCOME

Financial assets at fair value – interest income	3,665,304	3,960,331
Financial assets at fair value – dividend income	1,554,840	2,515,304
Cash and cash equivalents – interest income	1,588,647	1,733,462
	6,808,791	8,209,097

14. OTHER OPERATING INCOME

Continuing financial commitment from Employer

Continuation members	27,601,672	25,386,782
HIV & AIDS refunds	5,167,390	2,163,696
Principal Officer costs refunds	334,198	1,227,218
	33,103,260	28,777,696
Insurance recovery	290,074	-
Stale cheques written back	-	49,343
	290,074	49,343

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

15. Going concern

The Board of Trustees explored the option of an amalgamation with an open scheme due to the long-term sustainability of the Society and following indications from the Employer in 2018 that BPSA would financially support an amalgamation. An amalgamation was seen to be in the long-term interest of members, as it would guarantee sustainable healthcare cover and choice to members. After a rigorous due diligence process, the Board of Trustees selected Momentum Medical Scheme as the amalgamation partner scheme.

In February 2020, the Council for Medical Schemes approved the amalgamation with Momentum Medical Scheme with the effective date of 1 May 2020. The Competition Commission's approval for the amalgamation was granted in 2019. However, this is on hold as the Society received a court interdict against the amalgamation in April 2020 from going ahead on 1 May 2020. The hearing was referred to the Council for Medical Schemes Appeals Board set for 2 November 2020. On 31 October 2020 the term of office of the Appeals Board came to an end. Currently the Society awaits the Minister of Health to appoint the new Appeals Board to proceed with the hearing .

The Trustees have made an assessment of the ability of the Society to continue as a going concern based on an actuarial analysis. The Trustees believe the Society will be a going concern in the year ahead; refer to note 16 of the notes to the financial statements for additional disclosure on events post-reporting date.

16. Events post-reporting date

Society amalgamation

At the time of our last update on the amalgamation, the BP Medical Aid Society Board of Trustees advised that the appeal to the Council for Medical Schemes Appeals Board, lodged by the Concerned Members Support Group, could not proceed on the scheduled date of 2 November 2020.

This delay was due to the expiration of the terms of office of the members of the Appeals Board on 30 October 2020. The Minister of Health has not yet appointed new members to the Appeals Board.

Coronavirus (COVID-19)

At the date of finalisation of the financial statements there were no material events that occurred subsequent to the reporting date that required adjustments to the amounts recognised in the financial statements. The COVID-19 outbreak is a material subsequent non-adjusting event in the financial statements.

On 11 March 2020, the World Health Organization declared the COVID-19 outbreak to be a pandemic. Many governments are taking increasingly stringent steps to help contain the spread of the virus, including requiring self-isolation/quarantine by those potentially affected, implementing social distancing measures and controlling or closing borders and 'locking-down' cities/regions or even entire countries. There has also been a significant increase in economic uncertainty, evidenced by more volatile asset prices and currency exchange rate and a significant decline in long-term interest rates in developed economies.

The South African economy was affected by the news of the first confirmed cases of the virus in the country early in March 2020 and this led to the President declaring a national disaster on 15 March 2020. On 28 December 2020 the President announced an increase in infection rates. On 3 March 2021 some restrictions were relaxed when the President announced an alert level 1.

The following cumulative COVID-19 information from March 2020 until end of March 2021 was taken into consideration:

- Total members infected by COVID-19	89
- Total members recovered from COVID-19	77
- Total member deaths from COVID-19	11
- Total COVID-19-related claims in rand	R7,144,907

16. Events post-reporting date

Below is the assessment of each of the Society's significant balance sheet items:

Scheme's investments portfolio

As mentioned in note 3, the Society's investments are measured at fair value (an exit price in an orderly transaction), and as such the value of the investments currently disclosed are indicative of the fair value amounts as at 31 December 2020. Any conditions that existed broadly in the market would have been incorporated into a fair value measurement as at 31 December 2020. Therefore, the impact of COVID-19 since 2020 will not impact the investments balances as at 31 December 2020. At 31 December 2020 the solvency ratio was 142.43%.

Furthermore, the financial risk sensitivity analyses provided in note 21 were based on the Society's best estimate of possible rate changes; however, given the continued uncertainty of the impact and duration of the COVID-19 pandemic, the analyses may not be indicative of the possible outcome in the foreseeable future.

Outstanding risk claims provision

Provision for outstanding risk claims, as disclosed in note 7, is an estimate of the ultimate costs of settling all claims incurred that have occurred before the end of the reporting period, but have not been reported to the Scheme. Given the fact that the risk claims provision as at 31 December 2020 relates to 2020 and prior claims, the claims provision remains unchanged.

Impact on the Society performance since 31 December 2020 is as follows:

Contribution income

It is unclear how the restrictions imposed by the Government during the national lockdown period will impact member contribution collections. The Society is a restricted membership medical scheme. The employer has been identified as an essential service provider and therefore a minimal impact is expected on the contribution income relating to COVID-19, for the current working members as well as the retired members who are receiving monthly financial assistance from the Employer for their contributions.

Conclusion

Based on the current situation and the Society's analysis of the information on hand, the Board is comfortable about the Society's ability to operate under the going-concern basis for the next financial year. The Society continues to monitor the disruptions on member contributions due to the national lockdown, it continues to be operational and remains focused to serving its members. The Society will work closely with the Council for Medical Schemes for obtaining any developing guidelines.

17. RELATED PARTY TRANSACTIONS

Parties with significant influence over the Society

The Employer, BPSA, has significant influence over the Society, as it has a continuing financial commitment to the Society and also appoints three Trustees.

The Administrator, Momentum Health Solutions (Pty) Ltd, has significant influence over the Society, as it provides financial and operational information on which policy decisions are based.

The managed care organisation, Momentum Health Solutions (Pty) Ltd, a wholly owned subsidiary of Momentum Metropolitan Holding Ltd, has significant influence over the Society as managed care provider.

The provider of actuarial and consulting services, Alexander Forbes Health (Pty) Ltd, has significant influence over the Society, as it provides financial and operational information on which policy decisions are based.

The provider of consulting services, 3ONE (Pty) Ltd, has significant influence over the Society, as it advised the Society on matters relating to the potential amalgamation partner.

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

17. RELATED PARTY TRANSACTIONS (CONTINUED)

Parties with significant influence over the Society (continued)

The investment cash manager, Old Mutual Wealth Trust Company (Pty) Ltd, has significant influence over the Society, as it provides financial and operational information on which policy decisions are based.

These entities do not have significant influence for the purposes of accounting for the Society as an associate.

These parties are considered to have influence, different from IAS 24, but the Society believes it is improved disclosure to add these particular parties to the related parties note.

Key management personnel and their close family members

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Society. Key management personnel include the Board of Trustees, the Principal Officer and members of Sub-Committees.

Close family members include dependants of the Board of Trustees, Principal Officer and members of the Sub-Committees.

	2020	2019
	R	R
Statement of Comprehensive Income		
Gross contributions received (key personnel) – short-term	316,977	373,261
Claims incurred (key personnel)	267,684	597,683
Continuing financial commitment from Employer	33,103,260	28,777,637
- Continuation members	27,601,672	25,386,783
- HIV & AIDS refunds	5,167,390	2,163,636
- Principal Officer costs refunds	334,198	1,227,218
Administration fees paid to Momentum Health Solutions (Pty) Ltd	3,460,161	3,532,047
Managed care fees paid to Momentum Health Solutions (Pty) Ltd	2,438,169	2,295,182
Consulting fees paid to Alexander Forbes Health (Pty) Ltd	498,853	1,270,871
Consulting fees paid to Old Mutual Wealth Trust Company (Pty) Ltd	173,141	188,768
Consulting fees paid to 3ONE (Pty) Ltd t/a 3ONE consulting fees	184,690	675,120
Consulting fees paid to Thabi Mlotshwa	351,654	-
Principal Officer remuneration	344,947	1,577,844
Statement of Financial Position		
Momentum Health Solutions (Pty) Ltd	(230,568)	(1,147,472)
Consulting fees payable to Alexander Forbes Health (Pty) Ltd	(151,330)	(136,856)
BPSA refunds	5,295,567	5,373,242
- HIV & AIDS refunds	5,167,389	4,211,254
- Principal Officer costs refunds	128,178	1,161,988
Old Mutual Wealth Trust Company (Pty) Ltd	(15,995)	(1,421)
3ONE consulting	-	(104,363)
Amount due to John Bush (Trustee)	(11,733)	-
Compensation to key management personnel		
Remuneration and related costs – short term	706,571	954,264

17. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Contributions received (key personnel)

This constitutes the contributions paid by related parties as members of the Society in their individual capacities. All contributions were on the same terms as applicable to other members.

Claims incurred (key personnel)

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

Administration fees

The administration agreement is in terms of the rules of the Society and in accordance with instructions given by the Board of Trustees. The duration of the agreement is indefinite, but subject to the right of either party to terminate the agreement by giving not less than six months' notice.

Managed care fees

The managed care agreement is in terms of the rules of the Society and in accordance with instructions given by the Board of Trustees. The duration of the agreement is indefinite, but subject to the right of either party to terminate the agreement by giving not less than three months' notice.

18. GUARANTEES AND COMMITMENTS

The Society has not given any guarantees or commitments as at 31 December 2020 (no changes from 31 December 2019).

19. CONTINGENT ASSET

As at 31 December 2020, the Society had pending claims submitted to the Road Accident Fund (RAF) for assessment. These will only be accounted for when an amount is certain to be received from the RAF. The value at year-end amounted to R803,676 (2019: R295,475).

20. CONTINGENT LIABILITIES

There were no potential liabilities contingent on the outcome of litigation, claims, guarantees, suretyships or the like at 31 December 2020 (no changes from 31 December 2019).

21. FINANCIAL RISK MANAGEMENT REPORT

The Society is exposed to a range of financial risks through its financial assets and financial liabilities. In particular, the key financial risk is that the Society's investment performance is not sufficient to maintain the current reserve ratio, or that the Society may have to increase member contributions due to insufficient investment performance. The most important components of these financial risks are interest rate risk, equity price risk, credit risk and liquidity risk.

These risks arise from open positions in interest rate and equity risk products, both of which are exposed to general and specific market movements. The risks that the Society primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

The Board of Trustees appointed an investment committee to focus on the Society's investment strategy, risk management and asset allocation. Risk management and investment decisions are made under the guidance and policies approved by the Board of Trustees. The Audit, Investment and Risk Committees assist the Board with the formulation of these policies.

The Society's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the financial performance of the investments, which the Society holds to meet its obligations to its members.

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

21. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

The following summary represents the major asset classifications held by the Society, which is exposed to the financial risks, as discussed:

Asset allocation summary	2020	2019
	R	R
Financial assets at fair value (note 3)	108,556,219	104,225,966
Cash and cash equivalents (note 5)	50,594,210	29,390,635
Trade and other receivables (note 4)	6,636,291	10,444,522
	<u>165,786,720</u>	<u>144,061,123</u>

Risk management and investment decisions are carried out by the Board of Trustees. The Board of Trustees identifies and evaluates risks associated with the Society's investment portfolios, with the assistance of the Investment Sub-Committee.

The Society appointed a professional asset management company (Alexander Forbes Health [Pty] Ltd) with an established track record to manage the Society's investment portfolios. These investments are held via linked policies of insurance. The approach of the asset manager is to construct portfolios of diversified asset classes in order to obtain an optimal risk/return mix. The strategy is to focus on strategic asset allocation rather than on timing the market. This will mitigate the risk of volatile markets.

Old Mutual Wealth Trust Company (Pty) Ltd has a mandate to maximise cash returns by investing in call and fixed deposits for durations not exceeding twelve months.

LIQUIDITY RISK

Liquidity risk is the risk that the Society may be in a position where it cannot settle claims and other obligations as they fall due. This could occur when the Society's assets are tied up in investments that cannot be readily converted into cash.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities through liquid-holding cash positions with various financial institutions. This ensures that the Society has the ability to fund its day-to-day operations.

At year-end 31.8% (2019: 22.0%) of the Society's assets were invested in cash products to ensure that the Society can meet its short-term liabilities. The table below illustrates the prudent liquidity position of the Society and amounts presented are undiscounted:

As at 31 December 2020					
Category	Total	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Over 1 year
	R	R	R	R	R
Trade and other payables	5,818,445	5,818,445	-	-	-
Outstanding claims provision	2,504,281	1,898,718	310,459	295,104	-
	8,322,726				
Trade and trade receivables	6,541,690	2,714,399	366,721	3,460,570	-
Cash and cash equivalents	50,594,210	50,594,210	-	-	-
Financial assets at fair value through profit or loss investments	108,556,219	16,980,332	-	-	91,575,887
	165,692,119				
Excess liquidity	157,369,393				

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

21. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

LIQUIDITY RISK (CONTINUED)

As at 31 December 2019					
Category	Total	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Over 1 year
	R	R	R	R	R
Trade and other payables	6,312,081	6,312,081	-	-	-
Outstanding claims provision	2,662,562	1,803,726	345,208	513,628	-
	8,974,643				
Trade and trade receivables	10,328,426	5,472,779	297,586	4,558,061	-
Cash and cash equivalents	29,390,635	29,390,635	-	-	-
Financial assets at fair value through profit or loss investments	104,225,966	18,075,695	-	-	86,150,271
	143,945,027				
Excess liquidity	134,970,384				

CREDIT RISK

The Society has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Society is exposed to credit risk are:

- amounts due from members and service providers
- interest and capital due from financial institutions.

The table below illustrates the quality of the Society's receivables in order to assess the credit risk:

As at 31 December 2020	R	R	R	R
Class	Fully performing	Past due	Impaired	Total
Insurance receivables	6,100,952	311,084	332,409	6,744,445
Sundry receivables	-	-	-	-
Interest receivables	129,654	-	-	129,654

As at 31 December 2019	R	R	R	R
Class	Fully performing	Past due	Impaired	Total
Insurance receivables	9,354,440	657,772	488,292	10,500,504
Sundry receivables	168,814	-	-	168,814
Interest receivables	147,400	-	-	147,400

The table below provides an age analysis of the credit that is past due, but not impaired:

As at 31 December 2020	R	R	R	R
Class	30 – 60 days	60 – 90 days	90 – 120 days	Total
Insurance receivables	67,311	83,551	160,222	311,084

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

21. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

CREDIT RISK (CONTINUED)

As at 31 December 2019	R	R	R	R
Class	30 – 60 days	60 – 90 days	90 – 120 days	Total
Insurance receivables	79,032	102,459	476,281	657,772

The table below illustrates the quality of the Society's cash and cash equivalents.

Fitch National Long-Term Rating

Financial institution	2020	2019	Credit rating	
	R	R	2020	2019
ABSA	4,803	1,233	BB+	BB+
Investec	15,877,262	8,644,160	BB+	BB+
Nedbank	15,903,011	8,647,006	BB+	BB+
Standard Bank	18,809,134	12,098,236	BB+	BB+
	50,594,210	29,390,635		

The credit risk on liquid funds is limited because the counterparty is a financial institution with a high credit rating.

The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset, where a legally enforceable right exists.

Management information reported to the Society includes details of provisions for impairment on receivables and subsequent write-offs.

MARKET RISK

The Society has exposure to market risk, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market price risk comprises three types of risks: currency risk, interest rate risk and other price risk, which includes equity price risk.

Currency risk

The Society is exposed to foreign exchange risk arising from its investment in the Alexander Forbes Investments portfolio. At 31 December 2020 and 31 December 2019, the Society has exposure to offshore cash.

The Trustees manage this risk by ensuring that the asset manager complies with the Regulations of the Act. The maximum exposure to foreign cash is 10% of assets available for investment.

Interest rate risk

The Society is exposed to interest rate risk, as it places funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate placings within market expectations.

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

21. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

CREDIT RISK (CONTINUED)

The table below summarises the Society's exposure to interest rate risks. Included in the table are the Society's investments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

2020	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Total
	R	R	R	R	R
Cash and cash equivalents	50,594,210	-	-	-	50,594,210
Financial assets at fair value through profit or loss investments					
- Bonds and debentures	-	-	-	36,557,849	36,557,849
- Local cash	16,550,053	-	-	-	16,550,053
- Foreign cash	430,279	-	-	-	430,279
Total	67,574,542	-	-	36,557,849	104,132,391

The cash and cash equivalents are subject to floating interest rates, linked to the repo rate. Bond investments are subject to fixed interest rates. The cash portion of the financial instruments contains exposure to floating interest rates and exposure to fixed interest rates.

2019	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Total
	R	R	R	R	R
Cash and cash equivalents	29,390,635	-	-	-	29,390,635
Financial assets at fair value through profit or loss investments					
- Bonds and debentures	-	-	28,467,208	-	28,467,208
- Local cash	17,051,103	-	-	-	17,051,103
- Foreign cash	1,024,592	-	-	-	1,024,592
Total	47,466,330	-	28,467,208	-	75,933,538

Sensitivity analysis

The sensitivity analysis for interest rate risk illustrates how changes in the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

A decrease in 100 basis points in interest yields for a full year would result in an decrease in reserves and profit or loss income of R653,074 (2019: R433,419). An increase in 100 basis points in interest yields for a full year would result in a increase in reserves and profit or loss of R653,074 (2019: decrease of R433,419).

This sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated, for example the effect of interest rates on the equity market.

Equity price risk

The Society is exposed to equity price risk, as it invested funds in South African equities through an asset manager. The Society's equity portfolio is a long-term investment and the funds invested in this portfolio are not needed in the short to medium term. This mitigates the risk for short-term fluctuations in the equity market. The Society appointed a reputable asset manager with a good track record in terms of performance.

21. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

CREDIT RISK (CONTINUED)

Equity price risk (continued)

The Society is also exposed to equity price risk, as the asset manager deals in equities via derivative trading. The equity investment strategy is to protect capital by limiting any loss in exposed capital. This is achieved by hedging exposures with other derivative instruments. The equity price risk is therefore limited by strategic actions by the asset manager.

Sensitivity analysis

The sensitivity analysis for equity price risk illustrates how changes in the fair value of future cash flows of a financial instrument will fluctuate because of changes in the equity market at the reporting date.

An increase of 2% in the JSE All Share Index would result in an increase in reserves of R1,020,874 (2019: R1,259,438). This full amount would be recognised in the Society's accumulated funds and will not affect the Society's reserve ratio.

This sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated, for example the effect of interest rates on the equity market.

The Board of Trustees monitor the equity portfolio movements on a regular basis and the Investment Sub-Committee has regular meetings to review the Society's strategy and asset allocation.

Risk management of the investment portfolio

The asset manager's approach is to construct a portfolio of diversified asset classes, after determining the long-term relationship or correlation of these asset classes, in order to obtain an optimal risk/return mix. The asset manager uses strategic asset allocation rather than market timing strategies to manage risk. Quantitative analysts ensure appropriate risk exposure.

Fair value estimation

The fair value of publicly traded financial instruments and financial assets at fair value through profit or loss investments is based on quoted market prices at the reporting date.

Management assessed that the fair values of cash and short-term deposits, trade receivable, trade payables and other current liabilities approximate their carrying amount largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values:

- The fair values of the quoted notes and bonds are based on price quotations at the reporting date. The fair value of unquoted instruments and other financial liabilities, as well as other non-current financial liabilities, is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. In addition to being sensitive to reasonably possible change in the forecast cash flows or the discount rate, the fair value of the equity instruments is also sensitive to a reasonably possible change in the growth rates. The valuation requires management to use unobservable inputs in the model. Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs and determines their impact on the total fair value.
- There is an active market for the Society's listed equity investments and quoted debt instruments.

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

21. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

CREDIT RISK (CONTINUED)

Fair value estimation (continued)

The table below provides the carrying amounts of financial assets and liabilities per category:

	2020	2019
	R	R
Financial assets at fair value (mandatory at fair value)	108,556,219	104,225,966
Cash and cash equivalents (mandatory at amortised cost)	50,594,210	29,390,635
Trade and other receivables (mandatory at amortised cost)	6,636,291	10,444,522
- Insurance receivables	6,412,036	10,012,212
- Other receivables	129,654	316,214
- Risk transfer arrangements	94,601	116,096
Trade and other payables (mandatory at amortised cost)	(5,818,445)	(6,312,081)
Provision for outstanding claims (mandatory at cost)	(2,504,281)	(2,662,562)

The carrying amounts of these financial assets and liabilities approximate their fair values.

The Society invests in pooled investment vehicles, the underlying of which is made up of bonds and debentures, property, equities and local cash.

The table below has been prepared on a look-through basis.

The classification of bond and debentures, local cash and foreign cash is consistent with the prior year as level 2 financial instruments. Cash and trade and other receivables are classified as financial instruments at amortised cost.

As at 31 December 2020	Level 1	Level 2	Level 3	Reclassification
	R	R	R	R
Financial assets at fair value through profit or loss				
Bonds and debentures	-	36,557,849	-	-
Property	-	3,917,628	-	-
Equities with primary listing on the JSE	51,100,410	-	-	-
Local cash	-	16,980,332	-	-
Foreign cash	-	430,279	-	-
Total	51,100,410	57,886,088	-	-

As at 31 December 2019	Level 1	Level 2	Level 3	Reclassification
	R	R	R	R
Financial assets at fair value through profit or loss				
Bonds and debentures	-	28,467,208	-	-
Property	-	5,763,686	-	-
Equities with primary listing on the JSE	51,919,377	-	-	-
Local cash	-	17,051,103	-	-
Foreign cash	-	1,024,592	-	-
Total	51,919,377	52,306,589	-	-

21. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

CREDIT RISK (CONTINUED)

The hierarchy levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities. These are readily available in the market and are normally obtainable from multiple sources.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Capital management

The Society's objective is to manage its capital in such a way that the annual contribution increase to members is as low as possible.

Capital adequacy risk is the risk that there may be insufficient reserves to provide for adverse variations on actual and future experience.

The accumulated funds ratio was 142.03% at 31 December 2020 and 129.6% at 31 December 2019 and compares favourably to the accumulated funds ratio of 25%, as prescribed by the Medical Schemes Act.

22. INSURANCE RISK MANAGEMENT

NATURE AND EXTENT OF RISKS ARISING FROM INSURANCE CONTRACTS

The Society issues contracts that transfer insurance risk. This section summarises these risks and the way the Society manages them.

Insurance risk – description of benefits

- In-hospital benefits cover all costs incurred by members, whilst they are in hospital to receive pre-authorised treatment for certain medical conditions.
- Chronic medication 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 cover the cost of out-of-hospital medical attention (subject to certain sub-limits), such as visits to general practitioners and dentists, as well as prescribed non-chronic medicines.
- The treatment of Prescribed Minimum Benefits are covered at cost.

Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Society assumes the risk of loss from members and their dependants that are directly subject to the risk. These risks relate to the health of the Society's members. As such, the Society is exposed to the uncertainty surrounding the timing and severity of claims under the contract. The Society also has exposure to market risk through its insurance and investment activities.

22. INSURANCE RISK MANAGEMENT (CONTINUED)

NATURE AND EXTENT OF RISKS ARISING FROM INSURANCE CONTRACTS (CONTINUED)

The Board of Trustees has developed and approved documented policies and practices for the acceptance and management of insurance risk to which the Society is exposed. Reference has also been made to the requirements of the Medical Schemes Act in compiling the insurance risk management policy. These policies are reviewed annually and the benefit option provided to members is structured to fall within the acceptable insurance risk levels specified. The Board of Trustees also determines the policy for entering into risk transfer arrangements. The annual business plan is structured around the insurance risk management policy.

The Society manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation and case management, as well as the monitoring of emerging issues and network arrangements through the appointment of designated and preferred service providers. Certain risks are mitigated by entering into a risk transfer arrangement.

The Society uses several methods to assess and monitor insurance risk exposures, both for individual types of risks insured and overall risks. These methods include analysing detailed claims information with the assistance of the Society's actuarial consultants.

The Board of Trustees also appointed managed care providers to focus on specific areas where the Society is exposed to insurance risk. These programmes include the following:

- HIV YourLife Programme
- Hospital Risk Management Programme
- Medicine Risk Management Programme
- Electronic Benefit Management Programme
- Disease Risk Management Programme
- Prescribed Minimum Benefits Programme
- Oncology Programme
- Maternity Programme
- General Practitioner and Specialist Network.

The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected.

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Society has developed its insurance underwriting strategy to manage the type of insurance risk accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Frequency and severity of claims

Insurance contracts issued, climatic and seasonal changes, as well as the spread of pandemics give rise to more frequent and severe claims.

Source of uncertainty in the estimation of future claims payments

The Society reviews the contributions and benefits annually to ensure that the necessary underwriting surplus is maintained relative to the risk exposure. It is relatively easy to assess the future claim payments, since the large majority is lodged soon after year-end, before the four-month expiration of claims period comes into effect.

All the contracts are annual in nature and the Society has the right to change the terms and conditions of the contracts at renewal. Management information, including contribution income and claims ratios, target market and demographic split, is reviewed monthly.

22. INSURANCE RISK MANAGEMENT (CONTINUED)

NATURE AND EXTENT OF RISKS ARISING FROM INSURANCE CONTRACTS (CONTINUED)

The insurance risk management strategy is set out in the annual business plan, which specifies the benefits to be provided. Management information, including contribution income and claims ratios, is reviewed monthly.

Concentration of insurance risk

The following table summarises the concentration of insurance risk, with reference to the number of beneficiaries by age group.

Age grouping (in years)	2020	2019
	Total	Total
<=25	891	958
26 - 35	240	274
36 - 50	547	593
51 - 64	556	629
=> 65	1,051	1,078
Total	3,285	3,532

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

22. INSURANCE RISK MANAGEMENT (CONTINUED)

The following table summarises the concentration of insurance risk, with reference to the carrying amount of the insurance claims incurred, by age group and in relation to the type of risk covered/benefits provided.

2020

Age grouping	General practitioners	Medical specialists	Dentistry	Medicines	Hospital	Other	Optometry	Total
	R	R	R	R	R	R	R	R
< 25	625,425	1,819,378	382,272	969,624	2,530,421	397,241	-	6,724,361
26 – 35	408,022	1,150,105	192,700	566,051	1,284,046	198,498	-	3,799,422
36 – 50	970,100	3,565,558	410,926	2,263,196	3,851,226	992,322	-	12,053,328
51 – 64	837,050	5,392,637	691,569	3,128,841	5,953,192	1,355,305	-	17,358,594
> 65	1,940,652	19,688,108	1,165,944	9,358,520	29,234,973	4,856,506	-	66,244,703
Iso Leso	-	-	-	-	-	-	1,279,765	1,279,765
Netcare 911	-	-	-	-	-	662,210	-	662,210
	4,781,249	31,615,786	2,843,411	16,286,232	42,853,858	8,462,082	1,279,765	108,122,383
IBNR – current year								2,833,555
IBNR – prior year over provision								(312,529)
TOTAL								110,643,409

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

22. INSURANCE RISK MANAGEMENT (CONTINUED)

2019

Age grouping	Medical specialists	General practitioners	Dentistry	Medicines	Hospital	Other	Optometry	Total
	R	R	R	R	R	R	R	R
< 25	2,153,348	992,595	501,649	1,178,674	3,050,260	466,748	-	8,343,274
26 – 35	1,082,708	483,086	259,247	682,985	818,978	233,821	-	3,560,825
36 – 50	4,007,635	1,108,559	597,013	2,285,102	5,562,494	1,112,575	-	14,673,378
51 – 64	6,756,439	1,033,175	989,373	4,118,747	7,277,524	1,621,111	-	21,796,369
> 65	21,861,689	2,231,255	1,454,257	9,875,818	31,628,294	6,649,251	2,155	73,702,719
Iso Leso	-	-	-	-	-	-	1,914,594	1,914,594
Netcare 911	-	-	-	-	-	741,069	-	741,069
	35,861,819	5,848,670	3,801,539	18,141,326	48,337,550	10,824,575	1,916,749	124,732,228
IBNR – current year								2,546,466
IBNR – prior year over-provision								(345,522)
TOTAL								126,933,172

The insurance risk management strategy is reviewed annually and specifies the benefits to be provided, as well as the contribution payable.

The 'Other' category includes: radiology, pathology, renal care, blood services, etc.

Claims development

Claims development tables are not presented, since the uncertainty regarding the amount and timing of claims payment is typically resolved within one year.

Risk transfer arrangements

The Society entered into capitation agreements with an optical service provider and an emergency transport provider.

The Society, however, remains liable to its members with respect to these services, should the capitation provider fail to meet its obligation.

22. INSURANCE RISK MANAGEMENT (CONTINUED)

The amount of each risk retained depends on the Society's evaluation of the specific risk, subject in certain circumstances to maximum limits on the basis of characteristics of coverage. According to the terms of the risk transfer arrangements, the third party agrees to reimburse the ceded amount in the event the claim is paid. According to the terms of the capitation agreement, the supplier provides certain minimum benefits to all Society members, as and when required by the members.

When selecting a capitation provider, the Society considers its relative security. The security of the capitation provider is assessed from public rating information and from internal investigations, such as considering capital adequacy, solvency, capacity and appropriate resources.

23. CRITICAL ACCOUNTING JUDGEMENTS AND AREAS OF KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Society's accounting policies, management has made the following judgements that have the most significant effect on the amounts recognised in the Annual Financial Statements.

A key assumption concerning the future that has a significant risk of causing a material adjustment to the carrying amounts of liabilities in the next financial year is that used to determine the provision for outstanding claims (refer note 7).

When arriving at this provision, it is assumed that the reporting and settlement trend of claims incurred but not reported will be similar to that of the previous financial period. The provision is calculated based on percentages derived from the previous financial period and is adjusted as the claims are reported and settled.

Although the assumption is considered critical, post year-end settlements against the provision have been monitored to ensure reasonability of the original provision.

24. NON-COMPLIANCE MATTERS

24.1 Contravention of Section 35(8)(c) of the Medical Schemes Act

Nature and impact

In terms of Section 35(8) of the Act, a medical scheme shall not invest any of its assets in the business of, or grant loans to, an employer who participates in the medical scheme or any administrator or any arrangement associated with the medical scheme.

The Society holds shares in Momentum Metropolitan Holdings Ltd, Sanlam Limited, Liberty Holdings and Discovery Group Ltd. This is in contravention of this requirement of the Act.

Causes for the failure

The Society invests in a pooled portfolio and does not have control over the selection of the underlying assets.

Corrective action

The Society applied for exemption on 23 November 2020 and is still waiting on approval from the Council or Medical Schemes.

24. NON-COMPLIANCE MATTERS (CONTINUED)

24.2 Contravention of Section 26(7) of the Medical Schemes Act

Nature and impact

In terms of Section 26(7) of the Act, contributions should be received in accordance with the rules of the Society. The rules indicate that contributions should be received no later than three days after they become due. As at 31 December 2020, there were contribution debtors outstanding for more than 30 days to the amount of R216,897 (2019: R358,813), the majority of which relates to debit order pensioners, as well as pensioner employer groups in Portugal. This amount represents 0.21% of the total contributions received during the year; the delay in receipt is in contravention of Section 26(7) of the Act.

Causes for the failure

Delays were experienced in respect of receipt of payment from some of the group codes.

Corrective action

This non-compliance is a result of the following:

Section 26(7) does not adequately provide for circumstances where member contributions are remitted from other countries of residence and the Society has pensioner members who reside outside South Africa.

24.3 Claims not settled within 30 days of statutory timeframe

Nature and impact

We noted six (6) claims lines that were settled outside the 30-day statutory timeframe. These claims lines were not erroneous or unacceptable for payment.

Causes for the failure

A number of processes result in claim being placed on hold due to clinical interventions/referrals. Five (5) claims lines identified were paid late due to clinical interventions. One (1) claim line was paid late due to a three-week payment run.

Corrective action

The settlement of claims that might fall outside the statutory timeframe will be prioritised and members/service providers will be notified promptly of any reversals/rejections within a 30-day timeframe.

24.4 Non-compliance with regulation 30 – equity

Nature and impact

In terms of Regulation 30 of the Act, a scheme is prohibited from investing more than 40% of its investments in equity instruments. The Society holds 46% of its investments in equity instruments.

Causes for the failure

The Society has equities invested in managed portfolios above the 40% limit specified in category 4(a) of Annexure B to the Medical Scheme Regulations.

Corrective action

The Society will send a letter of motivation to the Council for Medical Schemes.

24. NON-COMPLIANCE MATTERS (CONTINUED)

24.5 Trustee appointment

Nature and impact

The names of the Employer-appointed Trustees shall be advised by the Employer to the Principal Officer in writing not later 30 days prior to the Annual General Meeting of each year.

Causes for the failure

The names of the Employer-appointed Trustees were submitted outside of the 30 days prior to the Annual General Meeting as stated in the rules.

Corrective action

The Employer should notify the Principal Officer 30 days before the Annual General Meeting of any Employer-appointed Trustees.

*medical
aid
society*
there when you need us.

