Parc du Cap, 7 Mispel Road, Bellville 7530
PO Box 5324 Cape Town 8000
Enquiries: Tel 021 480 4610 or 0800 001 607 Fax 021 480 4969
E-mail: bpmas@mhg.co.za
www.bpmas.co.za

medical aid society
there when you need us.

bp

NOTICE IS HEREBY GIVEN THAT THE EIGHTY-SECOND ANNUAL GENERAL MEETING OF BP MEDICAL AID SOCIETY WILL BE HELD ON MONDAY, 24 JUNE 2019, AT 10:00 IN THE COLLABORATION ROOM, BP WATERFRONT, PORTSWOOD RIDGE, DOCK ROAD, V&A WATERFRONT, CAPE TOWN.

AGENDA

1. Opening and welcome

2. Apologies

3. To adopt the Minutes of the Annual General Meeting held on Monday, 25 June 2018

4. To adopt the Annual Report of the Chairperson of the Board for the year ended 31 December 2018

5. To adopt the Annual Financial Statements for the year ended 31 December 2018

6. To note the member-elected and employer-appointed Trustees for the ensuing year

7. To note the composition of the Disputes Committee for the ensuing year

8. To note the appointment of the Auditors for the ensuing year

9. To report back on matters raised by members at the 2018 Annual General Meeting

10. To record results of the Amalgamation vote

11. To transact any other business of which notice was given to the Principal Officer by 17 June 2019

By order of the Board

THABISIWE MLOTSHWA
PRINCIPAL OFFICER

The future

By the time that you read this, you will be aware that your Board of Trustees decided that it would be in the best long-term interests of members for the Society to amalgamate with Momentum Health and, as required by the rules of the Society, has asked members to vote on the matter.

You should also be aware of the outcome of the vote. Since I'm writing this report to meet the deadline for the publication of our 2018 annual report, I do not yet know the outcome of the vote. I do know that whichever way the vote goes your future needs will be met either in the Momentum Health stable or in a restructured Society.

2018 results

Claims in 2018 totalled R119.2 million, which is up from R 113.2 million in 2017.

Though there was a 5.3% increase, it was a satisfactory result given that in 2018 there were more high claims than had been expected. One claim was in excess of the Society's annual limit.

Your Trustees continue to believe that you are looking after your health and making use of the Society's managed health programmes and comprehensive range of screening and early detection benefits and that this is playing a role in containing the level of claims.

As we are a Society that only covers 3 594 lives (down from 3 759 in 2017) and has a high average membership base age profile, we can expect significant variations in claims year by year.

I need to comment on the overall results for 2018 and I draw attention to the net healthcare result. In 2018 there was a deficit of R31.5 million, which is some R10 million more than the 2017 deficit of R21.6 million.

This was one of the factors that drove the need for the contribution increase I cover below, as this level of deficit needed to be addressed.

Income bands

In 2018 the number of income bands was reduced from 15 to nine.

While it had been the intention of the Trustees to continue the process of reducing the number of income bands, in light of the potential amalgamation, this has not been done for 2019.

Should the amalgamation not take place, the process of reducing the number of income bands will be likely to continue in 2020.

2019 contribution increases

Whereas in 2018 the total contributions were reduced by 1.8%, for 2019 they are being increased by 9.5%.

This increase is very much in line with the overall increases in the market for 2019 – and means an average of some 4% per annum for the two-year-period.

In deciding on the 9.5% increase, the Trustees were cognisant that the amalgamation could not take place for a number of reasons. They therefore decided on an increase that would help to ensure the sustainability of the Society should no amalgamation come to pass. Had the Trustees not taken the possibility of an amalgamation into consideration, the increase would have been much higher.

Unlike 2018, when the income bands were not increased, this year they have been increased in line with salary inflation.

Specialist network

With effect from 1 January 2016 a specialist network was set up as a preferred provider so members would be able to avoid having to make payments out of their own pockets when they visit a network specialist.

It was the intention of the Trustees that the next step would follow later, i.e. to make the network a designated service provider, where use of a network specialist network would be mandatory and use of a non-network specialist would not be covered in full by the Society if the specialist charges more than the Society rate.

Specialist network (continued)

However, this step has been deferred, as there have been some problems in making this network as effective as the Trustees would like it to be.

Company support

We all owe a debt of gratitude to the Company for its continued financial support of the Society. In essence, this support is set at an approximate rate of 50% of the contributions of continuation members and in 2018 it amounted to R24.2 million. It helps to offset the cost of the added disease burden that results from our membership profile, where the average age is higher than for almost all other medical schemes in South Africa. Medical expenses typically rise with age.

In addition to its continued financial support, the Company also covers HIV/AIDS costs and certain operating costs.

The road ahead on benefit design

Should the amalgamation not take place, your Trustees will, as has been indicated, investigate making changes to the benefit design of the Society to ensure (within the regulatory constraints within which the Society operates) both future sustainability and a more attractive benefit offering to younger members.

Broader issues

The Trustees, through the Audit and Risk Sub-Committee and its advisers, maintain a watching brief on wider issues affecting the healthcare industry.

These include the ultimate introduction of a national health insurance scheme, which is still some way off as yet, the Competition Commission's market inquiry into private healthcare, where we provided extensive data to the Commission, and proposals for the introduction of a low-cost private healthcare funding plan, which have been withdrawn for the time being.

The Society remains a member of the Board of Healthcare Funders, which is an industry body made up of a number of medical schemes and service providers.

Council for Medical Schemes (CMS)

As you might be aware, the CMS has made it known that as part of the preparations for the introduction of the national health insurance scheme, it is looking at both a reduction in the number of options offered by schemes (which does not affect the Society, as it only has one option) and the amalgamation of smaller schemes with larger ones or under an umbrella-type structure, which is very common in the retirement fund space. This potentially affects the Society as one of the smaller schemes in terms of the number of members and one of the highest membership base age profiles. This could mean that, should a decision be made not to amalgamate, the CMS may ask the Society to amalgamate despite this decision.

Principal Officer and Board membership

Ms Thabisiwe (Thabi) Mlotshwa continues to serve as our Principal Officer. Thabi is continuing to play her role with great success. I am indebted to her for all she does.

2018 was an election year

Mr Guy McGregor was the successful candidate in the 2018 election, being re-elected for a further term of office. We thank Guy for being willing to continue to serve as a Trustee.

Mr Michael Petersen's term of office as the union representative ended in June 2018. He was replaced by Mr Jeffrey Hlambisa, albeit for a brief period. Mr Hlambisa in turn left the Board, as he moved to a non-union position in August 2018. Mr Luyanda Mlomo was appointed in Mr Hlambisa's place. We thank Mr Petersen for the contribution he made to the Society. We also thank Mr Hlambisa and welcome Mr Mlomo, who is making a valuable contribution to our debates.

The company made no changes to its appointed members.

Thanks

On behalf of all of our members I would like to express thanks to many people and entities associated with the Society;

- Our Principal Officer, Thabi Mlotshwa, and our Project Coordinator, Janine Daniels, who joined the team in 2018
- The Trustees who served in 2018 – Solly Molekwa, Guy McGregor, Michael Petersen, Andre Stapelberg, Welmie Schoeman, Prinisha Khoosal, Jeffrey Hlambisa and Luyanda Mlomo; a special thank you to the Trustees who have left the Board
- Our Medical Adviser and Chairperson of the Clinical Sub-Committee – Dr Shuaib Manjra
- The Chairperson of our Audit and Risk Committee --- Ms Bahijah Hashim
- The Chairperson of our Legal and Contractual and Compliance Sub-Committee --- Ms Danel Stoffberg
- The members of our Committees and Sub-Committees – Audit, Clinical, Legal Compliance and Contractual, Investment, Operations, Communications and Disputes
- Our service providers:
  - Our Administrator – MMI Health
  - Alexander Forbes Health, our healthcare actuarial consultants
  - MMI Health – our managed healthcare providers
  - Our designated and preferred service providers --- Mediclinic hospital group, Life Healthcare hospital group, Dis-Chem, Clicks Retail, Clicks Group, Independent Clinical Oncology Network, Iso Leso, Netcare 911 and Medirite
  - Our investment managers – Alexander Forbes Investment and Old Mutual Wealth Trust
  - Our external Auditors, Ernst and Young Inc,

I have earlier expressed our thanks to the company for their vital support.

Closure

As I did last year, I ask that you take some time to read the Report of the Board of Trustees on page 9. This report gives a lot more information on the affairs of the Society, such as the work of the sub-committees, key statistical data and the investment strategy. And, of course, to take the time to review just two pages of the Annual Financial Statements: the Statement of Financial Position on page 23 and the Statement of Comprehensive Income on page 24, which are both quite easy to follow.

I hope that all members enjoy the best of health in 2019, but that should illnesses strike, the Society and, if the vote is in favour of the amalgamation, Momentum Health, will be there to hold your hand and give you peace of mind that the cost of serious illness will be taken care of.

C McClelland
CHAIRPERSON

April 2019

BP MEDICAL AID SOCIETY
STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES
for the year ended 31 December 2018

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 23 to 58 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 consider 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 are satisfied that the information contained in the Annual Financial Statements fairly presents the results of operations for the year, 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 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.

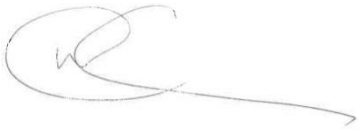
The going-concern basis has been adopted in preparing the Annual Financial Statements. The Board of Trustees have no reason to believe that the Society will not be a going concern in the foreseeable future, based on forecasts and available cash resources. These Annual Financial Statements support the viability 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 17 April 2019 and are signed on its behalf by:

C McClelland
CHAIRPERSON

S Molekwa
TRUSTEE



T Mlotshwa
PRINCIPAL OFFICER

17 April 2019

BP MEDICAL AID SOCIETY
STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES
for the year ended 31 December 2018

The BP Medical Aid Society (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 monitor 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.

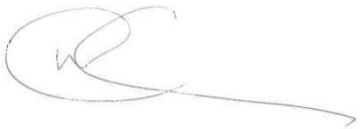
INTERNAL CONTROLS

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.

C McClelland
CHAIRPERSON

S Molekwa
TRUSTEE



T Mlotshwa
PRINCIPAL OFFICER

17 April 2019

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

Report on the Audit of the Annual Financial Statements

Opinion

We have audited the Annual Financial Statements of BP Medical Aid Society, set out on pages 16 to 45, which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, the statement of changes in funds and reserves and statement of cash flows for the year then ended, and notes to the Annual Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying Annual Financial Statements present fairly, in all material respects, the financial position of BP Medical Aid Society as at 31 December 2018, 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 Annual Financial Statements section of our report. We are independent of BP Medical Aid Society in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of Annual Financial Statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). 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 judgment, were of most significance in our audit of the Annual Financial Statements of the current period. We have determined that there are no key audit matters to communicate in our report.

Other information

The Society's Trustees are responsible for the other information. The other information comprises the Statement of Responsibility by the Board of Trustees, the Statement of Corporate Governance by the Board of Trustees and the Report of the Board of Trustees. The other information does not include the Annual Financial Statements and our auditor's report thereon.

Our opinion on the Annual 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 Annual Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Annual 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 Annual Financial Statements

The Trustees are responsible for the preparation and fair presentation of these Annual 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 Annual Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Annual 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 Annual Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the Annual 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 Annual Financial Statements.

As part of an audit in accordance with ISAs, we exercise professional judgment 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 Annual 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 Annual Financial Statements, including the disclosures, and whether the Annual 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 Annual 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 23 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 51 years.

The engagement partner, Tareq Carrim, has been responsible for the BP Medical Aid Society's audit for 1 year.

Ernst & Young Inc
Director: Tareq Carrim
Registered Auditor
Chartered Accountant (SA)

Date: 17 April 2019
Cape Town

The Board of Trustees hereby presents its report for the year ended 31 December 2018.

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
S Molekwa
W Schoeman

Member elected

C McClelland	Chairperson
G McGregor	
A Stapelberg	

Trade union representative

M Mlomo	Appointed: 1 August 2018
J Hlambisa	Appointed: 26 June 2018 (Resigned: 31 July 2018)
M Petersen	Resigned: 25 June 2018

1.2 PRINCIPAL OFFICER

T Mlotshwa

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

1.3 REGISTERED OFFICE ADDRESS AND POSTAL ADDRESS

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

Country of registration and domicile: South Africa

1.4 MEDICAL SCHEME ADMINISTRATOR AND MINUTE TAKING

MMI Health (Pty) Ltd

268 West Avenue	PO Box 7400
Centurion	Centurion
0157	0046

Accreditation number: 13

1. MANAGEMENT (CONTINUED)

1.5 MANAGED CARE

MMI Health (Pty) Ltd

268 West Avenue
Centurion
0157

PO Box 7400
Centurion
0046

Accreditation number: MCO: 59

1.6 INVESTMENT MANAGERS

1.6.1 Alexander Forbes Investments Ltd

115 West Street
Sandown
2146

PO Box 787240
Sandton
2146

Accreditation number: FSB 711

1.6.2 Old Mutual Wealth Trust Company (Pty) Ltd (formerly Acsis Ltd)

93 Grayston Drive
Umnotho Building
2nd Floor
Sandton
2196

PO Box 2444
Saxonwold
Johannesburg
2132

Accreditation number: FSB 588

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
52 Grosvenor Road
Johannesburg
2191

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) and employees of any other associated employer to whom membership has been extended and to the dependants of such employees.

2. DESCRIPTION OF THE MEDICAL SCHEME (CONTINUED)

2.1 BENEFIT OPTIONS WITHIN THE SOCIETY

The Society offers a single, comprehensive benefit plan.

2.2 SAVINGS PLAN

There is no savings plan.

2.3 RISK TRANSFER ARRANGEMENTS

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

2.4 OPERATING ENVIRONMENT

There have been no significant changes in the Society's operating environment.

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 Schemes Act, 131 of 1998 (as amended) and in a responsible manner in order to protect the Society's accumulated funds and reserves.

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 accounts, call accounts and fixed deposits	Ensure sufficient cash is available to pay claims and other operational expenses. These cash assets are managed by both MMI Health (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.	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 STefI 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.

3. INVESTMENT STRATEGY (CONTINUED)

Type of asset	Purpose	Allocation	Target return/objectives
Assets in excess of the Board of Trustees' solvency ratio target: Alexander Forbes Performer Local and Pure Equity Portfolio	Enhances 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 the 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.

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 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.

5. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

5.1 OPERATIONAL STATISTICS

	2018	2017
Number of members at year-end	1 775	1 845
Average number of principal members for the year	1 808	1 867
Average number of beneficiaries for the year	3 669	3 819
Number of beneficiaries at year-end	3 594	3 759
Average dependants per principal member	1.03	1.05
Average age of beneficiaries	46.35	45.69
Pensioner ratio (i.e. the proportion of beneficiaries who are 65 years of age and older)	30.2%	29.0%
Continuation member ratio (i.e. all principal members not actively employed by the employer)	56.4%	56.6%
Average Continuing Financial Commitment per member (R)	1 288	1 192
Average Continuing Financial Commitment per beneficiary (R)	635	583
Average contribution per member per month (R)	4 350	4 370

5. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES (CONTINUED)

5.1 OPERATIONAL STATISTICS (CONTINUED)

	2018	2017
Average contribution per beneficiary per month (R)	2 144	2 137
Average relevant healthcare expenditure per member per month (R)	5 492	5 055
Average relevant healthcare expenditure per beneficiary per month (R)	2 706	2 471
Average administration costs per member per month (R)	306	261
Average managed care: Management services per member per month (R)	106	103
Average accumulated funds per member at 31 December (R)	68 992	69 578
Relevant healthcare expenditure as a percentage of contributions	126.3%	115.7%
Managed care: Management services as a percentage of contributions	2.4%	2.4%
Administration expenses as a percentage of contributions	7.0%	6.0%
Amounts paid to administrator (R)	5 624 412	5 518 064
- Administration fees (refer note 11) (R)	3 329 844	3 223 254
- Managed care fees (refer note 10) (R)	2 294 568	2 294 810
Non-healthcare expenditure per beneficiary per month (R)	154	130
Return on investments as a percentage of investments	6.1%	5.2%

5.2 RESULTS OF OPERATIONS

The results of the Society's operations for the year under review and financial position at 31 December 2018 are set out in the Annual Financial Statements. The Trustees believe that no further clarification is required.

5.3 ACCUMULATED FUNDS RATIO

	2018 R	2017 R
The accumulated funds ratio is calculated on the following basis:		
Total accumulated funds per the Statement of Financial Position	139 495 503	129 901 812
Less: Cumulative unrealised gains on financial assets at fair value through profit or loss	(5 395 778)	-
Accumulated funds per Regulation 29	134 099 725	129 901 812
Annual contributions	94 374 146	97 912 342
Accumulated funds ratios:		
Accumulated funds/annual contributions X 100%	142.09%	132.67%

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. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES (CONTINUED)

5.5 RESERVES

The Society adopted IFRS 9 during 2018. As a result thereof, the Society's investments were classified as financial assets at fair value through profit or loss. The Revaluation Reserve was reclassified to the Accumulated Funds and any unrealised gains on the Society's investments were disclosed in the statement of comprehensive income.

5.6 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

BPSA agreed to pay additional amounts to assist in funding the shortfall arising from the ageing membership. These additional amounts are reflected as a continuing financial commitment, as provided for in the agreement between the Society and BPSA dated 22 October 2002, which ensures the sustainability of the Society.

7. EVENTS POST THE REPORTING DATE

The Board of Trustees explored the option of an amalgamation with an open scheme following indications from the Employer 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 elected Momentum Health as the amalgamation partner scheme.

The proposed date of the amalgamation is 1 July 2019 and is subject to a member vote according to the Society's Rule 30.1 as well as regulatory approval per Section 63 of the Medical Schemes Act. The process to get the requisite approvals has commenced.

8. FIDELITY COVER

The Board of Trustees are covered under a Marsh (Pty) Ltd policy underwritten by Camargue Underwriting Managers. The level of cover was reviewed and on 31 December 2018 the value of the fidelity cover was R15 000 000 (2017: R 15 000 000).

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 16 of the Annual Financial Statements for other related-party transactions.

11. AUDIT COMMITTEE

A representative Audit Committee was appointed and has five members of whom two are members of the Board of Trustees.

During the year the Audit Committee comprised:

B Hashim	Independent Chairperson	
D Mitchell	Independent member	
M Tshuma	Independent member	Appointed: 1 September 2018
P Khoosal	Trustee member	
A Stapelberg	Trustee member	Resigned: 30 June 2018

11. AUDIT COMMITTEE (CONTINUED)

W Schoeman	Trustee member	Appointed: 1 July 2018
A Rumble	Independent member	Resigned: 31 August 2018

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:

- 28 March 2018;
- 31 July 2018; and
- 8 November 2018.

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. This Sub-Committee has five members.

During the year the Investment Sub-Committee comprised:

G McGregor	Chairperson
C McClelland	Trustee member
S Molekwa	Trustee member
Q Fourie	Independent member
A Stapelberg	Trustee 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:

7 February 2018;
6 March 2018; and
2 August 2018.

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. This Sub-Committee has four members.

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

D Stoffberg	Independent Chairperson
G McGregor	Trustee member
C McClelland	Trustee member
A Stapelberg	Trustee member

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

13. LEGAL, COMPLIANCE AND CONTRACTUAL SUB-COMMITTEE (CONTINUED)

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

28 February 2018;
31 May 2018; and
8 November 2018.

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. This Sub-Committee has four members.

During the year the Communications Sub-Committee comprised:

S Molekwa	Chairperson	
C McClelland	Trustee member	
G McGregor	Trustee member	
M Petersen	Trade union representative	Resigned: 25 June 2018

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:

5 February 2018;
1 August 2018; and
22 October 2018.

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

During the year the Clinical Sub-Committee comprised:

S Manjra	Chairperson and Medical Advisor	
J Bush	Independent member	Resigned: 30 June 2018
W Schoeman	Trustee member	Resigned: 30 June 2018
A Stapelberg	Trustee member	Appointed:: 1 July 2018
S Molekwa	Trustee member	
C McClelland	Trustee member	

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:

6 February 2018;
29 May 2018;
24 July 2018; and
23 October 2018.

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 comprises the Principal Officer and operational staff from the Employer (BPSA) and the Administrator (MMI Health).

During the year the Operations Sub-Committee comprised:

T Mlotshwa	Principal Officer and Chairperson
R Andrews	Appointed: 1 August 2018
F Davids	
A English	Resigned: 31 July 2018
S Motapanyane	
M Mdakane	
M Petersen	Resigned: 25 June 2018
N Stofile	Resigned: 30 June 2018
V Qumba	Appointed: 1 June 2018

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

5 February 2018;
7 May 2018;
1 August 2018; and
22 October 2018.

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. This Committee has three members.

During the year the Disputes Committee comprised:

T Matlhare
C Germeshuys
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.

No matters were referred to the Committee and therefore the Committee was not required to meet during the course of the year.

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 BPMAS 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.
- 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 scheme offering and new employer subsidy.

18. AMALGAMATION COMMITTEE (CONTINUED)

During the year the Amalgamation Committee comprised:

S Manjra	Chairperson and Medical Advisor
I Juhnke	Independent/continuation member
C McClelland	Trustee member
L Mlomo	Trade union representative
T Mlotshwa	Principal Officer
S Molekwa	Trustee member
T Onia	BPSA representative

19. TRUSTEE MEETING ATTENDANCE

The following schedule sets out attendance at Board of Trustee meetings and other committee meetings by members of the Board and independent members.

Principal Officer/ Trustee/Sub-Committee member	Board meetings		Closed Board meetings		Amalgamation Committee		Audit Committee		Investment Sub-Committee		Legal, Compliance and Contractual Sub-Committee		Communi-cations 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
R Andrews													2	2	2	2		
J Bush																	2	2
F Davids															4	3		
A English													2	2	2	2		
Q Fourie*									3	3								
B Hashim							3	2										
I Juhnke					5	5												
S Manjra (Medical Advisor)	7	7	4	4	5	5											4	4
J Hlambisa			1	0														
C McClelland (Chairperson)	7	7	4	4	5	5			3	3	3	3	3	3			4	4
G McGregor	7	7	4	4					3	3	3	2	3	3				
M Mdakane															4	2		
D Mitchell *							3	3										
L Mlomo	5	3	2	2	5	5												
T Mlotshwa	7	7	4	4	5	5	3	3	3	3	3	3	3	3	4	4	4	4
S Molekwa	7	7	4	4	5	4			3	3			3	3			3	3
S Motapanyane															1	0		
T Onia					5	5												
M Petersen	4	4	1	1									1	1	2	1		

19. TRUSTEE MEETING ATTENDANCE (CONTINUED)

Principal Officer/ Trustee/Sub-Committee member	Board meetings		Closed Board meetings		Amalgamation 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**
P Khoosal	7	4					3	2										
A Rumble *							2	2										
W Schoeman	7	4	4	3			2	1									2	1
T Sebela															4	1		
A Stapelberg	7	7	4	4			1	1	3	2	3	3					2	1
N Stofile															3	3		
V Qumba															1	1		
M Tshuma							1	1										
D Stoffberg *											3	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

The Society holds shares in MMI Holdings Ltd, Sanlam Ltd and Discovery Group Ltd. This is in contravention of Section 35(8) of the Act, as the Society is not allowed to hold shares in the holding company of any administrator.

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 received an exemption from the Council for Medical Schemes, which is valid until 31 August 2019 from complying with Section 35(8)(c), insofar as it relates to investments placed with asset managers who invest on behalf of the Society and where such investment choices are not influenced by the Society.

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 by no later than three days after they become due. As at 31 December 2018, there were contribution debtors outstanding for more than 30 days to the value of R344 154 (2017: R574 598) – the majority of which relates to debit order pensioners as well as pensioner employer groups in Portugal. This amount represents 0.36% of the total contributions received during the year, but the delay in receipt is in contravention of Section 26(7) of the Act.

Causes for the failure

Delays were experienced in respect 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.

Retirees of the BPSA Provident Fund pay their contributions via monthly debit order. Timeous receipt of these contributions are dependent upon factors beyond the control of the Society. Established processes of pursuing responsible parties are followed when member contributions are not received.

20.3 CONTRAVENTION OF REGULATIONS TO MEDICAL SCHEMES ACT, 131 OF 1998, CHAPTER 2, SECTION 3(1)(B)

Nature and impact

In terms of the rules of the Society, all registered members must have valid South African identity numbers. There are currently four members and four dependants of the Society who do not have valid identity numbers on the Administrator's system. This constitutes non-compliance with the rules of the Society.

Causes for the failure

Historically identity numbers were not a requirement to register on the Society. This is a legacy problem as it relates to beneficiaries who joined before 2015.

20. NON-COMPLIANCE MATTERS (CONTINUED)

20.3 CONTRAVENTION OF REGULATIONS TO MEDICAL SCHEMES ACT, 131 OF 1998, CHAPTER 2, SECTION 3(1)(B) (CONTINUED)

Corrective action

Management will on a continual basis review the data integrity of membership details and endeavour to comply with requisite legislation.

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.

Causes for the failure

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

Corrective action

A motivation was sent to the Council for Medical Schemes on 29 July 2018 to hold equities above the specified limit of 40% in category 4(a) of Annexure B to the Medical Scheme Regulations.

BP MEDICAL AID SOCIETY
STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

ASSETS	Notes	2018 R	2017 R
Non-current assets		90 341 482	91 391 343
Financial assets at fair value*	3	90 341 482	91 391 343
Current assets		55 991 827	60 368 616
Trade and other receivables	4	5 906 863	4 044 436
Financial assets at fair value*	3	18 397 451	21 244 367
Cash and cash equivalents	5	31 687 513	35 079 813
Total assets		146 333 309	151 759 959
FUNDS AND LIABILITIES			
Members' funds		139 495 503	144 660 616
Accumulated funds		139 495 503	129 901 812
Revaluation reserve		-	14 758 804
Current liabilities		6 837 806	7 099 343
Trade and other payables	6	4 220 442	3 697 557
Outstanding claims provision	7	2 617 364	3 401 786
Total funds and liabilities		146 333 309	151 759 959

* Prior year accounted for under IAS 39 as available-for-sale investments

BP MEDICAL AID SOCIETY
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

	Notes	2018 R	2017 R
Contribution income	8	94 374 146	97 912 342
Relevant healthcare expenditure		(119 158 746)	(113 245 619)
Net claims incurred		(119 227 803)	(113 676 520)
Claims incurred	9	(117 146 771)	(111 367 412)
Managed care: Management services	10	(2 309 272)	(2 309 108)
Third-party claims recoveries		228 240	-
Net income on risk transfer arrangements	9	69 057	430 901
Risk transfer arrangement fees/premiums paid		(1 900 473)	(1 871 660)
Recoveries from risk transfer arrangements		1 969 530	2 302 561
Gross healthcare result		(24 784 600)	(15 333 277)
Administration expenses	11	(6 648 278)	(5 849 707)
Net impairment losses on trade and other receivables	12	(26 119)	(403 577)
Net healthcare result		(31 458 997)	(21 586 561)
Other income		26 993 145	34 462 107
Investment income	13	8 367 763	7 734 090
Continuing financial commitment from Employer	14	27 954 415	26 704 231
Stale cheques written back	14	33 993	23 786
Unrealised losses on financial assets at fair value through profit or loss	3	(9 363 026)	-
Other expenditure			
Asset management fees	3	(699 261)	(479 996)
Net (deficit)/surplus for the year		(5 165 113)	12 395 550
Other comprehensive (loss)/income			
Items that will be reclassified to surplus or deficit on realisation			
Fair value adjustment on available-for-sale investment*	3	-	6 074 193
Total comprehensive (deficit)/income for the year		(5 165 113)	18 469 743

* Prior year accounted for under IAS 39 as available-for-sale investments

BP MEDICAL AID SOCIETY
STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 December 2018

	Accumulated funds	Revaluation reserve	Members' funds
	R	R	R
Balance at 1 January 2017	117 506 262	8 684 611	126 190 873
Surplus for the year	12 395 550	-	12 395 550
Unrealised gains on revaluation of financial assets at fair value through other comprehensive income	-	6 074 193	6 074 193
Balance at 1 January 2018	129 901 812	14 758 804	144 660 616
Deficit for the year	(5 165 113)	-	(5 165 113)
Transfer from revaluation reserve*	14 758 804	(14 758 804)	-
Balance at 31 December 2018	139 495 503	-	139 495 503

* This is an IFRS 9 transition adjustment

BP MEDICAL AID SOCIETY
STATEMENT OF CASH FLOWS
for the year ended 31 December 2018

CASH FLOWS FROM OPERATING ACTIVITIES	**Notes**	**2018**	**2017**
		R	**R**
(Deficit)/surplus for the year		(5 165 113)	12 395 550
Investment income – interest on investments at fair value	13	(3 967 599)	(3 645 271)
- interest on cash and cash equivalents at amortised cost	13	(2 202 253)	(2 205 655)
- dividends on investments at fair value	13	(2 197 911)	(1 883 164)
Asset management fees	3	699 261	479 996
Unrealised losses on financial assets at fair value through profit or loss*	3	9 363 026	-
Cash flows from operations before working capital changes		(3 470 589)	5 141 456
Working capital changes			
- Increase in trade and other receivables		(1 862 427)	(267 909)
- Decrease in outstanding claims provision		(784 422)	(2 138 510)
- Increase in trade and other payables		522 885	2 476 679
Net cash flows from operating activities		(5 594 553)	5 211 716
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial assets at fair value	3	-	(10 000 000)
Interest received on cash and cash equivalents	13	2 202 253	2 205 655
Net cash flows from investing activities		2 202 253	(7 794 345)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(3 392 300)	(2 582 629)
Cash and cash equivalents at beginning of the year		35 079 813	37 662 442
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	5	31 687 513	35 079 813

* Prior year accounted for under IAS 39 as available-for-sale investments

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.

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 Annual Financial Statements have been prepared in accordance with International Financial Reporting Standard (IFRS), as issued by the International Accounting Standards Board (IASB) and the requirements of the Medical Schemes Act, 131 of 1998. They have been prepared on the historical cost basis, except for financial assets at fair value through profit or loss. The presentation currency is the rand, rounded to the nearest rand.

Amendments to standards adopted in the current year

IFRS 9 financial instruments

This standard includes changes in the measurement basis of the Society's financial assets to either amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

A key consideration for determining if a financial asset is classified as amortised cost, fair value through other comprehensive income or fair value through profit or loss is whether:

- the contractual terms of the financial asset give rise to cash flows of the asset using the solely payment of principal and interest (SPPI); and
- the business model within which the asset is held (the business model test).

The Society's non-equity financial assets of trade and other receivables were considered and it is concluded they are held to obtain contractual cash-flows and they are all held for the collection of SPPI and as such it is appropriate to classify as amortised cost financial assets.

IFRS 9 requires all equity assets held for trading to be measured at FVTPL. This application is consistent with the measurement applied under IAS 39 and requires no change by the Society.

With IFRS 9, a new method of assessing impairment of financial assets is applied. Under IAS 39, an entity only considered those impairments that arise as a result of 'incurred loss' events. The effects of possible future loss events cannot be considered, even when they are expected whereas the IFRS 9 impairment model has been changed to an 'expected credit loss' (ECL) model and led to consideration in the Society for a provision for bad debts. The Society assessed the nature of receivables and impact of a move to an ECL model. The move to an ECL model did not have a material impact on the Society.

The standard has been applied prospectively. The only impact on the Society on initial adoption of IFRS 9 has been that available-for-sale investment carried at FVOCI under IAS 39 has been classified as financial assets at FVTPL under IFRS 9. This has resulted in the revaluation reserve previously carried under IAS 39 being reclassified to the general reserve on the date of adoption of IFRS 9 being 1 January 2018.

The implementation of IFRS 9 by the Society during 2018 has resulted in certain available-for-sale investments which were previously measured at fair value through other comprehensive income to be measured as investments at FVTPL. The revaluation reserve was reclassified to the accumulated funds. The new expected credit loss model for calculating impairment on financial assets did not have a material impact on the Society.

There is no change in the carrying amount on financial assets as the results of the transition from IAS 39 to IFRS 9. Trade receivable and trade payables will continue to be accounted for at amortised costs.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.2 FINANCIAL INSTRUMENTS

Classification

The Society classifies its financial assets in the following categories: at FVTPL and amortised cost. The classification depends on the purpose for which the financial assets were acquired. The Trustees determines the classification of its financial assets at initial recognition.

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

Debt investments that do not qualify for measurement at either amortised cost or FVOCI.

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

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

(b) *Amortised cost*

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

Recognition and measurement

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

At initial recognition, the Society measures 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 that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

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

Subsequent measurement

Despite the aforegoing, the Society may make the following irrevocable election/designation at initial recognition of a financial asset:

The Scheme may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and

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

Trade and other receivables

Trade and other receivables are measured on initial recognition at fair value, plus directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest rate method, less impairment. An appropriate allowance for estimated irrecoverable amounts is recognised in surplus or deficit when there is objective evidence that the asset is impaired. Objective evidence would include the probability of insolvency or significant financial difficulties of the debtor.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.2 FINANCIAL INSTRUMENTS (CONTINUED)

Trade and other receivables (continued)

This allowance is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flow, as discounted at the effective interest rate compounded at initial recognition. The carrying amount of the asset is reduced by use of an allowance account. Permanent impairments are written off to surplus or deficit when identified.

Short duration receivables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest would be significant.

Trade and other receivables are classified as financial instruments held at amortised costs.

Cash and cash equivalents

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

Cash and cash equivalents are classified as financial instruments held at amortised cost.

Financial liabilities

Financial liabilities are initially measured at fair value plus in the case of loans and borrowings, directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

The only financial liabilities held by the Society are loans and borrowings comprising trade and other payables.

Offsetting of financial instruments

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

1.3 DE-RECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Society retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; or
- the Society has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

1.4 IMPAIRMENT LOSSES

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.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.4 IMPAIRMENT LOSSES (CONTINUED)

The Society recognises an allowance for expected credit losses (ECLs) on financial assets. ECLs are based on the difference between contractual cash flows due in accordance with the contract and all the cash flows that the Society expects to receive, discounted at an approximation of the original effective interest rate. The amount of expected credit losses is updated at each reporting date. An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of the financial assets.

For trade receivables the Society applies a simplified approach in calculating ECLs. 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. The provision matrix is initially based on the Society's historical observed default rates. The Society will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year, which can lead to an increased number of defaults in contributions owed to the Society, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The Society writes off a receivable when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. Any recoveries made are recognised in profit or loss.The Society first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If, 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.

1.5 PROVISIONS

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

Outstanding claims

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.

1.6 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.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.7 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.

1.8 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.

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.

1.9 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.

1.10 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.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.11 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.

1.12 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 in the case of a road accident. 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/she is contractually obliged to refund that payment to the Society to the extent that he/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.

1.13 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.

1.14 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.

1.15 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.

1.16 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

Accounting standards issued, but not yet effective

Standards issued but not yet effective up to the date of the end of the accounting period are listed on the next page. These listings include standards and interpretations issued, which the Society reasonably expects to be applicable to its activities and operations, at a future date. The Society will adopt this standard when it becomes effective.

2. NEW STANDARDS AND AMENDMENTS TO STANDARDS (CONTINUED)

Accounting standards issued, but not yet effective (continued)

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. 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. The impact of this amendment is still being assessed by the Society.

Effective: 1 January 2022

3. FINANCIAL ASSETS AT FAIR VALUE

	2018 R	2017 R
Fair value at the beginning of the year	112 635 710	91 513 078
Capitalised interest and dividends	6 165 510	5 528 435
Asset management fees	(699 261)	(479 996)
Unrealised gain at fair value through other comprehensive income	-	6 074 193
Unrealised loss at fair value through profit or loss	(9 363 026)	-
Additions to investments	-	10 000 000
Fair value at the end of the year	108 738 933	112 635 710
Non-current assets	90 341 482	91 391 343
Current assets	18 397 451	21 244 367
	108 738 933	112 635 710

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.

	2018 R	2017 R
Bonds and debentures	29 768 835	29 129 357
Listed property	6 155 510	6 372 976
Equities with primary listing on the JSE	54 417 137	55 889 010
Local cash	18 397 451	21 244 367
	108 738 933	112 635 710

The investments have no fixed maturity. The fair value of the investments is based on the market value as at 31 December 2018.

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

4. TRADE AND OTHER RECEIVABLES

	2018 R	2017 R
Insurance receivables	5 608 174	3 879 847
Contributions outstanding	794 347	1 096 823
Amounts owing by members and service providers	344 125	544 266
Prepaid expenses	39 769	-
Income receivable - BPSA refunds	4 429 933	2 238 758
Less:		
Provision for expected credit losses	(535 990)	(509 871)
Carrying amount at beginning of the period	(509 871)	(106 294)
Net increase in the provision for expected credit loss	(26 119)	(403 577)
Written off during the year	-	-
Amounts recovered during the year	-	-

4. TRADE AND OTHER RECEIVABLES (CONTINUED)

	2018 R	2017 R
Other receivables	784 850	627 394
Interest receivable	784 850	627 394
Risk transfer arrangements	49 829	47 066
Share of outstanding claims provision	49 829	47 066
	5 906 863	4 044 436

Ageing of insurance receivables – 2018

	Current R	30 days R	60 days R	90 days R	120 days+ R	TOTAL R
Contributions outstanding	450 193	57 132	35 716	1 809	249 497	794 347
Amounts owing by members and service providers	32 675	7 871	37 053	4 133	262 393	344 125
Prepaid expenses	39 769	-	-	-	-	39 769
Income receivable - BPSA refunds	683 582	44 205	85 135	518 039	3 098 972	4 429 933
	1 206 219	109 208	157 904	523 981	3 610 862	5 608 174

Ageing of insurance receivables – 2017

	Current R	30 days R	60 days R	90 days R	120 days+ R	TOTAL R
Contributions outstanding	524 225	146 073	161 641	53 420	211 464	1 096 823
Amounts owing by members and service providers	193 102	12 822	67 128	14 657	256 557	544 266
Income receivable - BPSA refunds	411 800	40 930	525 817	37 895	1 222 316	2 238 758
	1 129 127	199 825	754 586	105 972	1 690 337	3 879 847

	2018 R	2017 R
Analysis of movements in respect of risk transfer arrangements		
Balance at the beginning of the year	47 066	38 557
Payment in respect of prior year	(47 066)	(38 557)
Over/(under) provision in prior year	-	-
Adjustments for current year	49 829	47 066
Balance at end of year	49 829	47 066

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

4. TRADE AND OTHER RECEIVABLES (CONTINUED)

Analysis of movements in respect of risk transfer arrangements (continued)

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

	2018	2017
	R	R
Call accounts	10 891 685	13 997 891
Current accounts	4 295 828	4 581 922
Fixed deposits	16 500 000	16 500 000
Cash and cash equivalents per cash flow statement	31 687 513	35 079 813

The weighted average effective interest rate on short-term bank deposits was 6.10% (2017: 5.23%) 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

	2018	2017
	R	R
Insurance liabilities		
Claims payable	3 347 833	2 744 107
Financial liabilities		
Accrued expenses	369 158	448 574
Stale cheques	49 343	84 372
Provision for audit fees	454 108	420 504
	4 220 442	3 697 557

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

7. OUTSTANDING CLAIMS PROVISION

	2018 R	2017 R
Not covered by risk transfer arrangements		
Provision for outstanding claims	2 567 535	3 354 720
Analysis of movements in outstanding claims		
Balance at beginning of year	3 354 720	5 501 739
Payments in respect of prior year	(2 913 652)	(5 414 421)
Over provision in the prior year	441 068	87 318
Over provision in respect of prior year written back	(441 068)	(87 318)
Adjustment for current year	2 567 535	3 354 720
Provision at end of year (note 9)	2 567 535	3 354 720
Covered by risk transfer arrangements		
Provision for outstanding claims for Iso Leso and Netcare 911	49 829	47 066
Analysis of movements in outstanding claims		
Balance at beginning of year	47 066	38 557
Payments in respect of prior year	(47 066)	(38 557)
Over/(under) provision in the prior year	-	-
Adjustment for current year	49 829	47 066
Provision at end of year (note 9)	49 829	47 066
Total outstanding claims provision	2 617 364	3 401 786

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 medication 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 claims 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.

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:	**2018**	**2017**
December	5%	42%
November	3%	2%
October	1%	1%
September	0.1%	0.3%
August and prior	0.2%	0.3%

The impact of the sensitivity of the assumptions are set out below:

	2018	**2017**
	R	**R**
Effect of a 1% point increase in assumptions	1 169 890	1 672 023
Effect of a 2% point increase in assumptions	1 623 393	1 950 179
Effect of a 3% point increase in assumptions	2 086 504	2 595 519

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 that could differ when claims arise.

		2018 R	2017 R
8.	**CONTRIBUTION INCOME**		
	Members' contributions	94 374 146	97 912 342
9.	**RELEVANT HEALTHCARE EXPENDITURE**		
	Claims incurred excluding claims incurred in respect of risk transfer arrangements		
	Current year claims	113 199 982	105 821 926
	Movement in outstanding claims provision	2 126 467	3 267 402
	Over provision in prior year (note 7)	(441 068)	(87 318)
	Adjustment for current year (note 7)	2 567 535	3 354 720
		115 326 449	109 089 328
	Less:		
	Discounts received on claims	(149 208)	(24 477)
	Claims incurred excluding claims incurred in respect of risk transfer arrangements	115 177 241	109 064 851
	Claims incurred in respect of risk transfer arrangements		
	Current year claims	1 919 701	2 255 495
	Movement in outstanding claims provision	49 829	47 066
	Adjustment for current year (note 7)	49 829	47 066
		1 969 530	2 302 561
	Claims incurred including claims in respect of risk transfer arrangements (note 21)	117 146 771	111 367 412
	Net income on risk transfer arrangements		
	Risk transfer arrangement fees/premiums paid	1 900 473	1 871 660
	Recoveries from risk transfer arrangements	(1 969 530)	(2 302 561)
	Net income on risk transfer arrangements	(69 057)	(430 901)

The Society entered into a risk transfer agreement with Iso Leso Optics Ltd on 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 to beneficiaries on behalf of the Society, for which the Society pays a fixed fee in respect thereof.

		2018 R	2017 R
10.	**MANAGED CARE: MANAGEMENT SERVICES**		
10.1	***MMI Health (Pty) Ltd***		
	Disease Risk Management Programme	399 033	386 503
	Electronic Benefit Management Programme	578 735	560 286
	General Practitioners (GP) Network	242 760	234 931
	HIV YourLife Programme	179 702	174 039
	Hospital Risk Management Programme	538 856	521 862
	Maternity Programme	79 507	77 062
	Oncology Programme	79 507	91 360
	Prescribed Minimum Benefits Programme	184 438	121 104
	Specialist Network	12 030	127 663
		2 294 568	2 294 810
10.2	***Isimo Health (Pty) Ltd***		
	Oncology Programme	14 704	14 298
	Managed care: Management services	**2 309 272**	**2 309 108**
11.	**ADMINISTRATION EXPENSES**		
	Actuarial fees	631 055	458 204
	Administrator's fees	3 329 844	3 223 254
	Audit fees		
	- current year audit services	463 514	428 978
	- audit services	-	100 554
	Bank charges	24 769	30 520
	Board of Healthcare Funders subscriptions	23 230	22 265
	Consulting fees	421 271	64 499
	Council for Medical Schemes – levies	70 070	65 300
	Fidelity cover	22 500	22 500
	General expenses	3 799	-
	Multiply Wellness Rewards Programme	-	84 792
	Printing and postage	264 621	323 446
	Principal Officer (PO) costs	697 710	460 818
	Society staff in PO office	179 200	-
	Seminars	15 951	50 750
	Telephone	54 944	74 100
	Travelling and entertainment	46 787	51 831
	Trustees/committee member remuneration and related costs (note 11.1 and 11.2)	399 013	387 896
		6 648 278	5 849 707

11. ADMINISTRATION EXPENSES (CONTINUED)

11.1 BOARD OF TRUSTEES MEMBERS' REMUNERATION AND RELATED COSTS

31 December 2018	Trustee services R	Trustee training R	Travelling and accommodation R	Total R
P Khoosal	-	-	-	-
G McGregor	92 760	-	-	92 760
C McClelland	177 116	-	785	177 901
S Molekwa	-	15 951	(4 103)	11 848
M Mlomo	-	-	-	-
W Schoeman	-	-	-	-
M Tshuma	-	-	-	-
M Petersen	-	-	-	-
A Stapelberg	89 527	-	-	89 527
	359 403	15 951	(3 318)	372 036

31 December 2017	Trustee services R	Trustee training R	Traveling and accommodation R	Total R
J Bush	32 430	-	-	32 430
D Fortune	-	-	-	-
B Hashim	-	-	-	-
G McGregor	72 906	-	-	72 906
C McClelland	126 850	10 995	-	137 845
S Molekwa	-	-	26 533	26 533
M Petersen	-	-	-	-
A Stapelberg	32 303	10 995	-	43 298
	264 489	21 990	26 533	313 012

11.2 SUB-COMMITTEE REMUNERATION

31 December 2018	Legal and Clinical Committee R	Audit Committee R	Total R
D Mitchell	-	21 741	21 741
J Bush	5 236	-	5 236
P Khoosal	-	-	-
A Rumble	-	-	-
D Fortune	-	-	-
B Hashim	-	-	-
	5 236	21 741	26 977

11. ADMINISTRATION EXPENSES (CONTINUED)

11.2 SUB-COMMITTEE REMUNERATION (CONTINUED)

31 December 2017	Legal and Clinical Committee	Audit Committee	Total
	R	R	R
D Mitchell	-	35 627	35 627
J Bush	39 257	-	39 257
N Harris	-	-	-
P Khoosal	-	-	-
A Rumble	-	-	-
D Fortune	-	-	-
B Hashim	-	-	-
	39 257	35 627	74 884

12. NET IMPAIRMENT LOSSES ON TRADE AND OTHER RECEIVABLES

	2018 R	2017 R
Trade and other receivables		
Contributions at risk of not being collected	(38 033)	(129 009)
Movement in provision for expected credit loss	(38 033)	(129 009)
Written off	-	-
Members' and service providers' portions at risk of not being collected	11 914	(274 568)
Movement in provision for expected credit loss	11 914	(274 568)
Written off	-	-
Less:		
Previous impairment losses recovered	-	-
	(26 119)	(403 577)

13. INVESTMENT INCOME

Financial assets at fair value – interest income	3 967 599	3 645 271
Financial assets at fair value – dividend income	2 197 911	1 883 164
Cash and cash equivalents – interest income	2 202 253	2 205 655
	8 367 763	7 734 090

14. OTHER OPERATING INCOME

Continuing financial commitment from Employer		
Continuation members	24 197 468	24 677 643
HIV/AIDS refunds	3 059 237	1 565 770
Principal Officer costs refunds	697 710	460 818
	27 954 415	26 704 231
Stale cheques written back	33 993	23 786
	33 993	23 786

15. EVENTS POST THE REPORTING DATE

The Board of Trustees explored the option of an amalgamation with an open scheme following indications from the Employer 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 elected Momentum Health as the amalgamation partner.

The proposed date of the amalgamation is 1 July 2019 and is subject to a member vote according to the Society's rule 30.1 as well as regulatory approval as per Section 63 of the Medical Schemes Act. The process to get the requisite approvals has commenced.

16. RELATED PARTY TRANSACTIONS

Related party relationships

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, MMI Health (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, MMI Health (Pty) Ltd, a wholly-owned subsidiary of MMI 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 advises the Society on matters relating to the potential amalgamation partner.

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.

16. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with related parties	2018 R	2017 R
Statement of comprehensive income		
Gross contributions received (key personnel) – short term	347 691	438 129
Claims incurred (key personnel)	200 210	208 378
Continuing financial commitment from employer	27 954 415	26 704 231
- Continuation members	24 197 468	24 677 643
- HIV/AIDS refunds	3 059 237	1 565 770
- Principal Officer costs refunds	697 710	460 818
Administration fees paid to MMI Health (Pty) Ltd	3 329 844	3 223 254
Managed care fees paid to MMI Health (Pty) Ltd	2 294 568	2 294 811
Consulting fees paid to Alexander Forbes Health (Pty) Ltd	631 055	484 379
Consulting fees paid to Old Mutual Wealth Trust Company (Pty) Ltd	169 788	64 499
Consulting fees paid to 3ONE (Pty) Ltd t/a 3ONE Consulting fees	171 017	-

	2018 R	2017 R
Statement of financial position		
MMI Health (Pty) Ltd	-	(139 663)
Consulting fees payable to Alexander Forbes Health (Pty) Ltd	(50 715)	(37 962)
BPSA refunds	4 429 933	2 238 758
- HIV/AIDS refunds	3 309 301	1 815 836
- Principal Officer costs refunds	1 120 632	422 922
Principal Officer costs payable	(200 000)	-
Old Mutual Wealth Trust Company (Pty) Ltd	(11 992)	-
Compensation to key management personnel		
Remuneration and related costs – short term	377 271	326 094

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.

17. GUARANTEES AND COMMITMENTS

The Society has not given any guarantees or commitments as at 31 December 2018.

18. CONTINGENT ASSET

As at 31 December 2018 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 R428 057 (2017: R256 897).

19. CONTINGENT LIABILITIES

There were no potential liabilities contingent on the outcome of litigation, claims, guarantees, suretyships or the like at 31 December 2018.

20. 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.

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

Asset allocation summary	**2018** **R**	**2017** **R**
Financial assets at fair value (note 3)	108 738 933	112 635 710
Cash and cash equivalents (note 5)	31 687 513	35 079 813
Trade and other receivables (note 4)	5 906 863	4 044 436
	146 333 309	151 759 959

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.

20. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

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 22.6% (2017: 29.2%) 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 2018					
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	4 220 442	4 220 442	-	-	-
Outstanding claims provision	2 617 364	1 074 092	1 543 272	-	-
	6 837 806	-	-	-	-
Trade and trade receivables	5 857 034	1 231 454	122 916	4 502 664	-
Cash and cash equivalents	31 687 513	31 687 513	-	-	-
Financial assets at fair value through profit or loss investments	108 738 933	18 448 293	-	-	90 290 640
	146 283 480	-	-	-	-
Excess liquidity	139 445 674	-	-	-	-

As at 31 December 2017					
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	3 697 557	3 697 557	-	-	-
Outstanding claims provision	3 401 786	1 741 863	1 659 923	-	-
	7 099 343	-	-	-	-
Trade and trade receivables	4 505 355	1 730 501	68 077	2 706 777	-
Cash and cash equivalents	35 079 813	35 079 813	-	-	-
Available-for-sale investments	112 635 710	21 244 367	-	-	91 391 343
	152 220 878	-	-	-	-
Excess liquidity	145 121 535	-	-	-	-

20. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

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; and
- 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 2018	**R**	**R**	**R**	**R**
Class	**Fully performing**	**Past due**	**Impaired**	**Total**
Insurance receivables	4 416 580	655 604	535 990	5 608 174
Interest receivables	784 850	-	-	784 850

As at 31 December 2017	**R**	**R**	**R**	**R**
Class	**Fully performing**	**Past due**	**Impaired**	**Total**
Insurance receivables	2 446 212	923 762	509 871	3 879 845
Interest receivables	627 394	-	-	627 394

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

As at 31 December 2018	**R**	**R**	**R**	**R**
Class	**30 – 60 days**	**60 – 90 days**	**90 – 120 days**	**Total**
Insurance receivables	65 003	78 711	511 890	655 604

As at 31 December 2017	**R**	**R**	**R**	**R**
Class	**30 – 60 days**	**60 – 90 days**	**90 – 120 days**	**Total**
Insurance receivables	158 895	296 846	468 021	923 762

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

Fitch National Long-Term Rating

Financial institution	**2018**	**2017**	**Credit rating**	
	R	**R**	**2018**	**2017**
Standard Bank	11 297 237	11 441 994	BB+	BB+
ABSA	3 006 916	4 529 707	BB+	BB+
Rand Merchant Bank	-	1 500 000	BB+	BB+
Investec	8 247 947	10 590 283	BB+	BB+
Nedbank	9 135 413	7 017 829	BB+	BB+
	31 687 513	**35 079 813**		

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.

20. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

CREDIT RISK (continued)

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 2018 and 31 December 2017 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.

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.

2018	**Up to 1 month**	**1 –3 months**	**3 –12 months**	**1 – 5 years**	**Total**
	R	**R**	**R**	**R**	**R**
Cash and cash equivalents	31 687 513	-	-	-	31 687 513
Financial assets at fair value through profit or loss investments					
- Bonds and debentures	-	-	-	29 768 835	29 768 835
- Cash	18 397 451	-	-	-	18 397 451
Total	50 084 964	-	-	29 768 835	79 853 799

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.

2017	**Up to 1 month**	**1 –3 months**	**3 –12 months**	**1 – 5 years**	**Total**
	R	**R**	**R**	**R**	**R**
Cash and cash equivalents	35 079 813	-	-	-	35 079 813
Available-for-sale investments					
- Bonds and debentures	-	-	-	29 129 357	29 129 357
- Cash	21 244 367	-	-	-	21 244 367
Total	56 324 180	-	-	29 129 357	85 453 537

20. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

Interest rate risk (continued)

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 increase in reserves and other comprehensive income of R415 496 (2017: R468 358). An increase in 100 basis points in interest yields for a full year would result in a decrease in reserves and other comprehensive income of R415 496 (2017: decrease of R468 358) .

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.

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 thus 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 5% in the JSE All Share Index would result in an increase in reserves of R1 344 187 (2017: R1 040 453). 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.

20. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

Fair value estimation (continued)

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

	2018	2017
	R	R
Financial assets at fair value (mandatory at fair value)	108 738 933	112 635 710
Cash and cash equivalents (designated at amortised cost)	31 687 513	35 079 813
Trade and other receivables (mandatory at amortised cost)	5 906 863	4 044 436
- Insurance receivables	5 072 184	3 369 976
- Other receivables	784 850	627 394
- Risk transfer arrangements	49 829	47 066
Trade and other payables (designated at amortised cost)	(4 220 442)	(3 697 557)
Provision for outstanding claims (mandatory at amortised cost)	(2 617 364)	(3 401 786)

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 bonds and debentures, property and local cash instruments have been re-assessed in the current financial year as level 2 instruments. This is based on an assessment by the Trustees in the current financial year as it more accurately reflects the nature of the instruments on a look-through basis at year end. Cash and trade and other receivables are classified as financial instruments at amortised cost.

As at 31 December 2018	Level 1	Level 2	Level 3	Reclassification
	R	R	R	R
Financial assets at fair value through profit or loss*				
Bonds and debentures	-	29 768 835	-	-
Property	-	6 155 510	-	-
Equities with primary listing on the JSE	54 417 137		-	-
Local cash	-	18 397 451	-	-
Total	54 417 137	54 321 796	-	-

As at 31 December 2017	Level 1	Level 2	Level 3	Reclassification
	R	R	R	R
Available-for-sale-investments				
Bonds and debentures	29 129 357	-	-	-
Property	6 372 976	-	-	-
Equities with primary listing on the JSE	55 889 010	-	-	-
Local cash	21 244 367	-	-	-
Total	112 635 710	-	-	-

* Prior year accounted for under IAS 39 as available-for-sale investments

20. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

Fair value estimation (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 142.09% at 31 December 2018 and 132.67% at 31 December 2017, and compares favourably to the accumulated funds ratio of 25%, as prescribed by the Medical Schemes Act.

21. 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 is 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.

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.

21. INSURANCE RISK MANAGEMENT (CONTINUED)

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

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

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

For 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.

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.

21. INSURANCE RISK MANAGEMENT (CONTINUED)

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

Concentration of insurance risk

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

	2018	2017
Age grouping (in years)	**Total**	**Total**
<=25	977	1 043
26 – 35	270	324
36 – 50	583	616
51 – 64	674	680
=> 65	1 090	1 096
Total	3 594	3 759

21. INSURANCE RISK MANAGEMENT (CONTINUED)

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

Concentration of insurance risk (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.

2018

Age grouping	General practitioners	Medical specialists	Dentistry	Medicines	Hospital	Other	Optometry	Total
	R	R	R	R	R	R	R	R
<=25	972 101	1 940 412	501 892	1 152 113	3 125 434	628 847	-	8 320 799
26 – 35	473 246	1 101 299	255 607	650 147	1 578 166	470 310	-	4 528 775
36 – 50	1 092 537	2 581 218	578 159	1 993 728	4 278 318	1 548 176	-	12 072 136
51 – 64	1 024 747	6 503 417	865 025	4 758 335	9 349 107	3 226 659	-	25 727 290
=>65	2 125 664	16 708 905	1 308 414	8 871 380	26 399 545	6 987 866	-	62 401 774
Iso Leso	-	-	-	-	-	-	1 472 530	1 472 530
Netcare 911	-	-	-	-	-	497 000	-	497 000
	5 688 295	28 835 251	3 509 097	17 425 703	44 730 570	13 358 858	1 472 530	115 020 304
IBNR – current year								2 567 535
IBNR – prior year over provision								(441 068)
TOTAL								117 146 771

21. INSURANCE RISK MANAGEMENT (CONTINUED)

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

Concentration of insurance risk (continued)

2017

Age grouping	General practitioners	Medical specialists	Dentistry	Medicines	Hospital	Other	Optometry	Total
	R	R	R	R	R	R	R	R
<=25	994 223	1 657 560	431 177	1 170 907	2 284 853	620 026	-	7 158 746
26 – 35	532 470	1 099 095	282 591	993 445	1 668 932	591 043	-	5 167 576
36 – 50	1 010 883	2 780 835	516 014	2 295 892	4 156 746	1 618 944	-	12 379 314
51 – 64	1 102 424	5 807 296	866 571	4 547 364	8 565 465	3 244 205	-	24 133 325
=>65	1 998 321	14 926 063	1 193 078	9 249 377	23 614 404	5 977 245	-	56 958 488
Iso Leso	-	-	-	-	-	-	1 897 163	1 897 163
Netcare 911	-	-	-	-	-	405 398	-	405 398
	5 638 321	26 270 849	3 289 431	18 256 985	40 290 400	12 456 861	1 897 163	108 100 010
IBNR – current year								3 354 720
IBNR – prior year over provision								(87 318)
TOTAL								111 367 412

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 payments are typically resolved within one year.

21. INSURANCE RISK MANAGEMENT (CONTINUED)

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

Concentration of insurance risk (continued)

Risk transfer arrangements

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

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

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.

22. 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.

23. NON-COMPLIANCE MATTERS

23.1 CONTRAVENTION OF SECTION 35(8)(C) OF THE MEDICAL SCHEMES ACT

Nature and impact

The Society holds shares in MMI Holdings Ltd, Sanlam Limited and Discovery Group Ltd. This is in contravention of Section 35(8) of the Act, as the Society is not allowed to hold shares in the holding company of any administrator.

Causes for the failure

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

23. NON-COMPLIANCE MATTERS (CONTINUED)

23.1 CONTRAVENTION OF SECTION 35(8)(C) OF THE MEDICAL SCHEMES ACT (CONTINUED)

Corrective action

The Society received an exemption from the Council for Medical Schemes, which is valid until 31 August 2019 from complying with Section 35(8)(c), insofar as it relates to investments placed with asset managers who invest on behalf of the Society and where such investment choices are not influenced by the Society.

23.2 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 2018, there were contribution debtors outstanding for more than 30 days to the value of R344 154 (2017: R574 598) – the majority of which relates to debit order pensioners as well as pensioner employer groups in Portugal. This amount represents 0.36% 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 employer groups.

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.

Retirees of the BPSA Provident Fund pay their contributions via monthly debit order. Timeous receipt of these contributions is dependent upon factors beyond the control of the Society. Established processes of pursuing responsible parties are followed when member contributions are not received.

23.3 CONTRAVENTION OF REGULATIONS TO MEDICAL SCHEMES ACT 131 OF 1998, CHAPTER 2 SECTION 3(1)(B)

Nature and impact

In terms of the rules of the Society, all members registered must have valid South African identity numbers. There are currently four members and four dependants of the Society who do not have valid identity numbers on the system. This constitutes non-compliance with the rules of the Society.

Causes for the failure

Historically identity numbers were not a requirement to register on the Society. This is a legacy problem as these relate to beneficiaries taken on prior to 2015.

Corrective action

Management will on a continual basis review the data integrity of membership details and endeavour to comply with requisite legislation.

23.4 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.

23. NON-COMPLIANCE MATTERS (CONTINUED)

23.4 NON-COMPLIANCE WITH REGULATION 30 – EQUITY (CONTINUED)

Causes for the failure

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

Corrective action

A motivation was sent to the Council for Medical Schemes on 29 July 2018 to hold equities above the specified limit of 40% in category 4(a) of Annexure B to the Medical Scheme Regulations.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