



NOTICE IS HEREBY GIVEN THAT THE EIGHTY-THIRD ANNUAL GENERAL MEETING OF BP MEDICAL AID SOCIETY WILL BE HELD ON MONDAY, 23 NOVEMBER 2020, AT 11:00 VIA A VIRTUAL PLATFORM.

As a result of the ongoing Coronavirus (COVID-19) pandemic lockdown restrictions applicable to events and gatherings, the uncertainties around the progression of the pandemic, and in the best interest of our members, the Board of Trustees has agreed that the Annual General Meeting (AGM) for 2020 will be held by electronic participation only.

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

- vote prior to the virtual AGM; or
- attend and vote at the virtual AGM; or
- submit a proxy (proxy forms must reach the acting Principal Officer by no later than 11:00 on Sunday, 22 November 2020).

The Society has appointed Lumi Technologies SA (Pty) Ltd, an organisation that specialises in meeting technology, as the independent provider for the virtual AGM platform. To participate at the virtual AGM or in pre-voting, please go to <https://www.connectbylumi.com/QRZo2W> to register. Registration opens on 9 November 2020 and closes on 23 November 2020 at 09:00.

For more information on the virtual AGM platform, please refer to the virtual AGM guide included or should you require any technical support, please email supportza@lumiglobal.com quoting BP Medical Aid Society Virtual AGM.

AGENDA

1. Opening and welcome, confirmation of proper notice given and quorum present
2. Attendance and apologies
3. Address by Chairperson
4. Resolution 1 – acceptance of the Minutes of the Annual General Meeting held on 25 June 2018
5. Resolution 2 – acceptance of the Minutes of the Annual General Meeting held on 24 June 2019
6. Presentation of the Audited Annual Financial Statements for the year ended 31 December 2019
7. Resolution 3 – appointment of the External Auditors for the ensuing year
8. Disclosure of the Trustees' and Committee members' remuneration
9. Trustee election results – to announce the member-elected and Employer-appointed Trustees for the ensuing year
10. To announce the composition of the Disputes Committee for the ensuing year
11. Other business of which notice was given to the Principal Officer by 16 November 2020

By order of the Board

JANINE DANIELS
ACTING PRINCIPAL OFFICER

**BP MEDICAL AID SOCIETY
STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES
for the year ended 31 December 2019**

The Board of Trustees is 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 22 to 61 have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Medical Scheme's Act of South Africa and include amounts based on judgements and estimates made by management under the guidance and oversight of the Trustees.

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

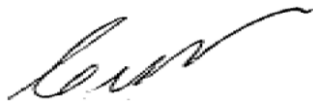
The Board of Trustees is satisfied that the information contained in the Annual Financial Statements fairly presents the results of operations for the year, the cash flow and the financial position of the Society at year-end. The Trustees are also responsible for the preparation of the other information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

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

Other than the matter disclosed in note 15 to the financial statements, no significant events have occurred subsequent to the financial year end that the Board believes should be brought to the attention of the members of the Society.

The Society's external auditors, Ernst & Young Inc, audited the Annual Financial Statements in terms of International Standards on Auditing, and their report is presented on pages 4 to 6.

The Annual Financial Statements were approved by the Board of Trustees on 31 May 2020 and are signed on its behalf by:



C McClelland
CHAIRPERSON



S Molekwa
TRUSTEE



D Stoffberg
ACTING PRINCIPAL OFFICER

31 May 2020

**BP MEDICAL AID SOCIETY
STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES
for the year ended 31 December 2019**

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

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

INTERNAL CONTROLS

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

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



C McClelland
CHAIRPERSON



S Molekwa
TRUSTEE



D Stoffberg
ACTING PRINCIPAL OFFICER

31 May 2020

**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 Financial Statements

Opinion

We have audited the financial statements of the BP Medical Aid Society (the Society), set out on pages 17 to 47, which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in funds and reserves and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of BP Medical Aid Society as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Medical Schemes Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report. We are independent of the Society in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements of the Society and in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits of the Society and in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Other information

The Trustees are responsible for the other information. The other information comprises the information included in the 47-page document titled 'BP Medical Aid Society Annual Financial Statements for the year ended 31 December 2019', which includes the Board of Trustee's Report. The other information does not include the financial statements and our auditors' report thereon.

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

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

Responsibilities of the Society's Trustees for the financial statements

The Trustees are responsible for the preparation and fair presentation of these financial statements in accordance with IFRS and the requirements of the Medical Schemes Act of South Africa, and for such internal control as the Trustees determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the Trustees are responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless either intends to liquidate the Society or to cease operations, or has no realistic alternative but to do so.

**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 Financial Statements (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

Report on other legal and regulatory requirements

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

Audit tenure

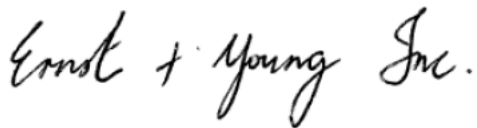
As required by the Council for Medical Schemes' Circular 38 of 2018, Audit Tenure, we report that EY has been the auditor of the BP Medical Aid Society for 52 years.

**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 Financial Statements (continued)

Audit tenure (continued)

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



Ernst & Young Inc

Director: David Christian
Registered Auditor
Chartered Accountant (SA)
3rd Floor, Waterway House
3 Dock Road
V&A Waterfront
Cape Town

31 May

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2019**

The Board of Trustees hereby presents its report for the year ended 31 December 2019.

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	Removed: 3 December 2019

Trade union representative

M Mlomo

1.2 PRINCIPAL OFFICER

T Mlotshwa Resigned: 29 February 2020

ACTING PRINCIPAL OFFICER

D Stoffberg Appointed: 8 April 2020

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

1.3 REGISTERED OFFICE ADDRESS AND POSTAL ADDRESS

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

Country of registration and domicile: South Africa

1.4 MEDICAL SCHEME ADMINISTRATOR AND MINUTE TAKING

Momentum Health Solutions (Pty) Ltd - formerly MMI Health (Pty) Ltd

268 West Avenue	PO Box 7400
Centurion	Centurion
0157	0046

Accreditation number: 13

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2019**

1. MANAGEMENT (CONTINUED)

1.5 MANAGED CARE

Momentum Health Solutions (Pty) Ltd - formerly MMI Health (Pty) Ltd

268 West Avenue Centurion 0157	PO Box 7400 Centurion 0046
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Accreditation number: MCO: 59

1.6 INVESTMENT MANAGERS

1.6.1 Alexander Forbes Investments Ltd

115 West Street Sandown 2146	PO Box 786055 Sandton 2146
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Accreditation number: FAIS 711

1.6.2 Old Mutual Wealth Trust Company (Pty) Ltd

No 1 Mutual Place 107 Rivonia Road Sandton 2196	PO Box 2444 Saxonwold Johannesburg 2132
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Accreditation number: FAIS 18427

1.7 AUDITOR

Ernst & Young Inc

3 rd floor, Waterway House 3 Dock Road V&A Waterfront 8001	PO Box 656 Cape Town 8000
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1.8 ACTUARIAL CONSULTANTS

1.8.1 Alexander Forbes Health (Pty) Ltd

40 Dorp Street Stellenbosch 7600	PO Box 700 Stellenbosch 7599
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1.8.2 3ONE (Pty) Ltd t/a 3ONE Consulting Actuaries

1st floor, Gleneagles
Fairway Office Park
52 Grosvenor Road
Bryanston
Johannesburg
2191

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2019**

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.

2.1 BENEFIT OPTIONS WITHIN THE SOCIETY

The Society offers a single, comprehensive benefit plan.

2.2 SAVINGS PLAN

There is no medical savings plan.

2.3 RISK TRANSFER ARRANGEMENTS

The Society entered into 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 other significant changes apart from those disclosed in note 7 of this report.

3. INVESTMENT STRATEGY

The Board of Trustees has a statutory and fiduciary duty to invest the Society's assets in line with the requirements of the Medical 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 STefl Call (i.e. short-term fixed interest call index) in respect of call and fixed deposits.

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2019**

3. INVESTMENT STRATEGY (CONTINUED)

Type of asset	Purpose	Allocation	Target return/objectives
Solvency reserve: Alexander Forbes Investments (AFI) Medical Schemes Real Return Focus Portfolio	These assets are required to ensure that the Society's solvency ratio meets the Board of Trustees' minimum solvency threshold target of 70%.	70% of annual contributions less the cash allocation.	CPI + 4% per annum during any rolling three- year period. Minimise the risk of capital loss during any rolling 12- month period.
Assets in excess of the Board of Trustees' solvency ratio target: The Alexander Forbes Performer Local was closed during the year, and the Domestic Balanced Fund replaced this portfolio.	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.

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2019**

5. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

5.1 OPERATIONAL STATISTICS

	2019	2018
Number of members at year-end	1 750	1 845
Average number of principal members for the year	1 767	1 867
Average number of beneficiaries for the year	3 564	3 669
Number of beneficiaries at year-end	3 532	3 594
Average number of dependants per principal member	1.02	1.05
Average age of beneficiaries	46.24	46.35
Pensioner ratio (i.e. the proportion of beneficiaries who are 65 years of age and older)	30.4%	30.2%
Continuation member ratio (i.e. all principal members not actively employed by the employer)	56.6%	56.4%
Average Continuing Financial Commitment per member (R)	1 357	1 288
Average Continuing Financial Commitment per beneficiary (R)	673	635
Average contribution per member per month (R)	4 658	4 350
Average contribution per beneficiary per month (R)	2 309	2 144
Average relevant healthcare expenditure per member per month (R)	6 078	5 492
Average relevant healthcare expenditure per beneficiary per month (R)	3 014	2 706
Average administration costs per member per month (R)	584	306
Average managed care: Management services per member per month (R)	109	106
Average accumulated funds per member at 31 December (R)	76 450	77 155
Relevant healthcare expenditure as a percentage of contributions	130.5%	126.3%
Managed care: Management services as a percentage of contributions	2.3%	2.4%
Administration expenses as a percentage of contributions	12.5%	7.0%
Amounts paid to administrator (R)	5 827 229	5 624 412
Administration fees (refer note 11) (R)	3 532 047	3 329 844
Managed care fees (refer note 10) (R)	2 295 182	2 294 568
Non-healthcare expenditure per beneficiary per month (R)	292	154
Return on investments as a percentage of investments	5.9%	6.1%

5.2 RESULTS OF OPERATIONS

The results of the Society's operations for the year under review and financial position at 31 December 2019 are set out in the Annual Financial Statements. The Trustees believe that no further clarification is required.

7. EVENTS POST THE REPORTING DATE (CONTINUED)

Coronavirus (COVID-19)

The outbreak of the coronavirus (COVID-19) during mid-January disrupted global economic markets. The Board of Trustees considered the economic conditions and forecasts in making their estimates and judgements as at 31 December 2019 (as disclosed in note 22). The Board of Trustees will continue to consider the potential impact of the outbreak on significant estimates and judgements going forward.

The following events have developed since 31 December 2019:

- On the 23 March 2020, the President of South Africa announced a mandatory, national lockdown for a period of 21 days, which commenced on the 26 March 2020, as a measurement to curb the spreading of COVID-19.
- On 27 March 2020, the rating agency, Moody's, announced its decision of downgrading South Africa's long-term foreign and local currency debt ratings from Ba1 to Baa3 and maintains a negative outlook of the country. The sovereign downgrade will further add to the prevailing financial market stress.
- On 9 April 2020, the President announced a two-week extension of the national lockdown in an effort to curb the spread of the COVID-19 until the end of April 2020.
- On 23 April 2020, the President announced that the country is moving towards a graded alert-level system. South Africa's lockdown moved to alert level 4 from 1 May 2020, which allows some activity, subject to extreme requirements. On 24 May 2020, the President announced a further relaxation of the lockdown level to level 3, effective from 1 June 2020.

The effects of the COVID-19 outbreak and the downgrading announcements are non-adjusting subsequent events for the year-end 2019 in terms of IAS 10 – events after the reporting period because the significant changes in the economic conditions occurred as a result of events only arising after 31 December 2019.

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

Scheme's investments portfolio

- As mentioned in note 19, the Society's investments are measured at fair value (an exit price in an orderly transaction), and as such the value of the investments currently disclosed are indicative of the fair value amounts as at 31 December 2019. Any conditions that existed broadly in the market would have been incorporated into a fair value measurement as at 31 December 2019. Therefore, the impact of Covid-19 since 2020, will not impact the investments balances as at 31 December 2019. The market value of the Society's total investment position was R96.7 million as at 30 April 2020, representing a 7.2% decline in unrealised value compared to 31 December 2019. At 31 December 2019 the solvency ratio was 129.6%. The unrealised gains have been assessed and even with a 40% decrease, there is still sufficient headroom in terms of Society's solvency. Therefore, the overall solvency is still in a strong position and the Society will continue to monitor this in the upcoming period.
- Furthermore, the financial risk sensitivity analysis provided in note 21 were based on the Society's best estimate of possible rate changes, however, given the continued uncertainty on the impact and duration of the COVID-19 pandemic, the analyses may not be indicative of the possible outcome in the foreseeable future.

7. EVENTS POST THE REPORTING DATE (CONTINUED)

Accounts receivables: Allowance for impairment losses of healthcare receivables

- Allowance for impairment losses as at 31 December 2019 have been based on incurred events at balance sheet date in accordance with IAS 39. Given that the disruptions to the economy only occurred in March 2020, the amount recognised as at 31 December 2019 remains unchanged. The Society is a restricted membership medical scheme. The majority of the accounts receivables relates to contribution receivables. Given that the Employer is an essential service provider, a large number of employees and continuation members qualify for a post-retirement contribution subsidy paid by BP Southern Africa (Pty) Ltd and that these balances are by nature, short-term, a minimal impact is expected on the allowance of impairment losses relating to COVID-19.

Outstanding risk claims provision

- Provision for outstanding risk claims, as disclosed in note 7, is an estimate of the ultimate costs of settling all claims incurred that have occurred before the end of the reporting period, but have not been reported to the Society. Given the fact that the risk claims provision as at 31 December 2019 relates to 2019 and prior claims, the claims provision remains unchanged.

Impact on the Society's performance since 31 December 2019, is as follows:

Contribution income

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

Investment returns

- Since the beginning of 2020, due to the volatility of the global and local markets, the Society has been experiencing unrealised losses on investments. The impact of COVID-19 on the Society's investments is still highly uncertain and thus very difficult to predict. The South African Reserve Bank (SARB) has cut interest rates in March 2020 and in April 2020 by 100 basis points. In May 2020, the SARB cut interest rates further with 50 basis points. A shock to the global and local markets continues to be experienced. Investment returns earned for the 3-month period ended 31 March 2020, was R1.8 million (31 March 2019: R2.2 million). The performance of the Society's investment portfolio continues to be monitored by the Society's Asset Manager and Board of Trustees.

Society's claims

- The Society's claims impact relating to COVID-19 is still uncertain and thus very difficult to predict. The estimated impact of COVID-19 on claims has been based on the best available statistical data available at the date of approval of the financial statements and derived from the international experience of COVID-19. The current estimates of the infection and hospital admission rates change frequently and are subject to a significant degree of uncertainty. The potential cost of treatment, especially in-hospital treatment for patients with serious symptoms, is also unknown at this stage. Potential cost scenarios were based on a range of prevalence rates and assumed costs of treatment both of which are highly uncertain. The sensitivity testing performed to ascertain the impact on the Society's solvency position and members' funds, indicated that the Society's going-concern status is not at risk.

Conclusion

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

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2019**

8. FIDELITY COVER

The Board of Trustees is covered under a Marsh (Pty) Ltd policy underwritten by Camargue Underwriting Managers. The level of cover was reviewed and on 31 December 2019 the value of the fidelity cover was R25 000 000 (2018: 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 to 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	
W Schoeman	Trustee member	

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:

- 4 April 2019;
- 1 August 2019; and
- 7 November 2019.

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	Removed: 3 December 2019

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2019**

12. INVESTMENT SUB-COMMITTEE (CONTINUED)

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:

- 10 April 2019;
- 19 June 2019 (special meeting); and
- 6 August 2019.

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 three members.

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

D Stoffberg	Independent Chairperson	Resigned: 31 December 2019
C McClelland	Trustee member	
G McGregor	Trustee member	
A Stapelberg	Trustee member	Removed: 3 December 2019

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

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

- 19 August 2019; and
- 5 November 2019.

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
N Masina	Independent/BPSA Communications Manager
C McClelland	Trustee member
G McGregor	Trustee member

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

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

- 19 August 2019; and
- 5 November 2019.

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

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2019**

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 three members.

During the year the Clinical Sub-Committee comprised:

S Manjra	Chairperson and Medical advisor	
A Stapelberg	Trustee member	Removed: 3 December 2019
S Molekwa	Trustee member	
C McClelland	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:

12 February 2019;
6 August 2019; and
4 November 2019.

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 (Momentum Health Solutions).

During the year the Operations Sub-Committee comprised:

T Mlotshwa	Principal Officer and Chairperson	Resigned: 29 February 2020
R Andrews	Fund Manager	
F Davids	HR Services Lead	
L Liebenberg	Service Manager	
M Mdakane	HR Manager	

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

13 February 2019;
19 June 2019; and
31 October 2019.

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

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2019**

17. DISPUTES COMMITTEE (CONTINUED)

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

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

18. AMALGAMATION COMMITTEE

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

- Assessing the offering of the schemes in line with 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.

During the year the Amalgamation Sub-Committee comprised:

S Manjra	Chairperson and Medical advisor
I Juhnke	Independent/Continuation member
C McClelland	Trustee member
L Mlomo	Trustee member
T Mlotshwa	Principal Officer
S Molekwa	Trustee member
T Onia	BPSA Rewards and Benefit Manager

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

5 February 2019	7 June 2019
25 February 2019	28 June 2019
29 March 2019	2 July 2019
8 April 2019	23 July 2019
17 April 2019	16 August 2019
15 May 2019	1 October 2019
20 May 2019	22 October 2019
23 May 2019	

**BP MEDICAL AID SOCIETY
REPORT OF THE BOARD OF TRUSTEES
for the year ended 31 December 2019**

19. SOCIETY'S MEETING ATTENDANCE

Principal Officer/Trustee/Sub-Committee member	Board meetings		Special/Closed Board meetings		Amalgamation Committee		Audit Committee		Investment Sub-Committee		Legal, Compliance and Contractual Sub-Committee		Communications Sub-Committee		Operations Sub-Committee		Clinical Sub-Committee	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
C McClelland (Chairperson)	6	6	12	12	15	14			3	3	2	2	2	2			2	2
S Molekwa	6	6	12	11	15	9			3	3							2	2
L Mlomo	6	6	12	11	15	6												
G McGregor	6	6	12	11					3	3	2	2	2	2				
A Stapelberg	2	2	5	5					1	1	1	1					0	0
W Schoeman	6	4	12	9			3	3										
P Khoosal	6	5	12	9			3	2										
T Mlotshwa (Principal Officer)	6	6	12	12	15	15	3	3	3	3	2	2	2	2	3	3	3	3
S Manjra (Medical Advisor)	6	4	12	12	15	15											3	3
Q Fourie*									3	3								
D Mitchell *							3	3										
B Hashim*							3	3										
I Juhnke*					15	15												
M Tshuma*							3	3										
N Masina*													2	1				
D Stoffberg *											2	2						
R Andrews													2	2	3	3		
F Davids															3	1		
L Liebenberg															1	1		
M Mdakane															2	1		

A – total possible number of meetings could have attended

B – actual number of meetings attended

* – independent members

20. NON-COMPLIANCE MATTERS

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

Nature and impact

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

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

Causes for the failure

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

Corrective action

The Society received an exemption from the Council for Medical Schemes, which was 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. As a result of the intended amalgamation in August 2019, the Society initially did not apply for the renewal of the exemption, and the engagement with Council for Medical Schemes (CMS) was made late, after the expiry of the exemption, with the result that CMS indicated that because of the pending amalgamation, the exemption would not be needed as the investments were going to be transferred to Momentum Medical Scheme, but the Scheme would be required to report the non-compliance matter. Should the amalgamation not proceed, the Scheme was informed to apply for an exemption. The Society received a court interdict against the amalgamation in April 2020 and will therefore now apply for a renewal exemption.

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 2019, there were contribution debtors outstanding for more than 30 days to the value of R358 813 (2018: R344 154) – 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 Employer 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. Timely 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.

20. NON-COMPLIANCE MATTERS (CONTINUED)

20.3 NON-COMPLIANCE WITH REGULATION 30 – EQUITY

Nature and impact

In terms of Regulation 30 of the Act, a scheme is prohibited from investing more than 40% of its investments in equity instruments. The Society holds 48.55% of its investments in equity instruments.

Causes for the failure

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

Corrective action

A motivation letter was sent on 29 July 2018 to the Council for Medical Schemes to hold equities above the specified limit of 40% in category 4(a) of Annexure B to the Medical Scheme Regulations. A follow-up with the officers at CMS revealed that they were attending to the matter.

20.4 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 three members and two 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.

Corrective action

This has reduced significantly over the years because of the efforts by the Administrator and the Society. Management will on a continual basis review the data integrity of membership details and endeavour to comply with requisite legislation.

BP MEDICAL AID SOCIETY
STATEMENT OF FINANCIAL POSITION
as at 31 December 2019

ASSETS	Notes	2019 R	201 R
Non-current assets		86 150 271	90 341 482
Financial assets at fair value*	3	86 150 271	90 341 482
Current assets		57 910 852	55 991 827
Trade and other receivables	4	10 444 522	5 906 863
Financial assets at fair value*	3	18 075 695	18 397 451
Cash and cash equivalents	5	29 390 635	31 687 513
Total assets		144 061 123	146 333 309
 FUNDS AND LIABILITIES			
Members' funds		135 086 480	139 495 503
Accumulated funds		135 086 480	139 495 503
Current liabilities		8 974 643	6 837 806
Trade and other payables	6	6 312 081	4 220 442
Outstanding claims provision	7	2 662 562	2 617 364
Total funds and liabilities		144 061 123	146 333 309

* 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 2019

	Notes	2019 R	2018 R
Contribution income	8	98 763 132	94 374 146
Relevant healthcare expenditure		(128 883 046)	(119 158 746)
Net claims incurred		(129 150 636)	(119 227 803)
Claims incurred	9	(126 933 172)	(117 146 771)
Managed care: Management services	10	(2 311 038)	(2 309 272)
Third-party claims recoveries		93 574	228 240
Net income on risk transfer arrangements	9	267 590	69 057
Risk transfer arrangement fees/premiums paid		(2 388 073)	(1 900 473)
Recoveries from risk transfer arrangements		2 655 663	1 969 530
Gross healthcare result		(30 119 914)	(24 784 600)
Administration expenses	11	(12 376 224)	(6 648 278)
Net movement in provision for doubtful debts	12	39 581	(26 119)
Net healthcare result		(42 456 557)	(31 458 997)
Other income		38 728 685	26 993 145
Investment income	13	8 209 097	8 367 763
Continuing financial commitment from Employer	14	28 777 696	27 954 415
Stale cheques written back	14	49 343	33 993
Unrealised gains/(losses) on financial assets at fair value through profit or loss	3	1 692 549	(9 363 026)
Other expenditure			
Asset management fees	3	(681 151)	(699 261)
Net deficit for the year		(4 409 023)	(5 165 113)

**BP MEDICAL AID SOCIETY
STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 December 2019**

	Accumulated funds	Members' funds
	R	R
Balance at 1 January 2018	144 660 616	144 660 616
Deficit for the year	(5 165 113)	(5 165 113)
Balance at 1 January 2019	139 495 503	139 495 503
Deficit for the year	(4 409 023)	(4 409 023)
Balance at 31 December 2019	<u>135 086 480</u>	<u>135 086 480</u>

BP MEDICAL AID SOCIETY
STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

CASH FLOWS FROM OPERATING ACTIVITIES	Notes	2019 R	2018 R
Deficit for the year		(4 409 023)	(5 165 113)
Investment income – interest on investments at fair value	13	(3 960 331)	(3 967 599)
- interest on cash and cash equivalents at amortised cost	13	(1 733 462)	(2 202 253)
- dividends on investments at fair value	13	(2 515 304)	(2 197 911)
Asset management fees	3	681 151	699 261
Unrealised losses on financial assets at fair value through profit or loss*	3	1 692 549	9 363 026
Cash flows from operations before working capital changes		(13 629 518)	(3 470 589)
Working capital changes			
- Increase in trade and other receivables		(4 537 659)	(1 862 427)
- Increase/(Decrease) in outstanding claims provision		45 198	(784 422)
- Increase in trade and other payables		2 091 639	522 885
Net cash flows from operating activities		(16 030 340)	(5 594 553)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial assets at fair value	3	12 000 000	-
Interest received on cash and cash equivalents	13	1 733 462	2 202 253
Net cash flows from investing activities		13 733 462	2 202 253
NET DECREASE IN CASH AND CASH EQUIVALENTS		(2 296 878)	(3 392 300)
Cash and cash equivalents at beginning of the year		31 687 513	35 079 813
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	5	29 390 635	31 687 513

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2019

1. PRINCIPAL ACCOUNTING POLICIES

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

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

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

1.1 BASIS OF PREPARATION

The financial statements set out on pages 22 to 61, are prepared on the historical, cost basis except for financial assets at fair value through profit or loss which are measured at fair value.

1.2 FINANCIAL INSTRUMENTS

Initial recognition and subsequent measurement

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

Financial assets

Initial recognition and measurement

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

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

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

Subsequent measurement

Financial assets at amortised cost

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

The Society's financial assets at amortised cost include non-insurance trade receivables and cash and cash equivalents in the statement of financial position.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.2 FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

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

The Society's financial instruments at fair value through profit or loss consist of investments in the statement of financial position.

Derecognition

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

- the rights to receive cash flows from the asset have expired; or
- the Society has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Society has transferred substantially all the risks and rewards of the asset, but has transferred control of the asset..

When the Society has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Society continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Society also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Society has retained.

Impairment

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

The Society applies a simplified approach in calculating expected credit losses (ECLs) for non-insurance receivables. Therefore, the Society does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Society has established a provision matrix that is based on its historical, credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of the financial assets. If, in a subsequent year, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.2 FINANCIAL INSTRUMENTS (CONTINUED)

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

Financial liabilities at fair value through profit or loss

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

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

Financial liabilities at amortised cost

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

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

Derecognition

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

Offsetting of financial instruments

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

1.3 PROVISIONS

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

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.3 PROVISIONS (CONTINUED)

Outstanding claims

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

1.4 INSURANCE CONTRACTS

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

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

Insurance receivables

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

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

1.5 CONTRIBUTIONS

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

1.6 RELEVANT HEALTHCARE EXPENDITURE

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

Claims incurred

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

Net claims incurred comprise:

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

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. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.7 LIABILITIES AND RELATED ASSETS UNDER LIABILITY ADEQUACY TEST

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

1.8 RISK TRANSFER ARRANGEMENTS

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

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

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

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

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

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

1.9 MANAGED CARE: MANAGEMENT SERVICES EXPENSES

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

1.10 REIMBURSEMENTS FROM THE ROAD ACCIDENT FUND (RAF)

The Society grants assistance to its members in defraying expenditure incurred in connection with the rendering of any relevant health service 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. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1.11 INVESTMENT INCOME

Interest is recognised on a yield-to-maturity basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Society. Dividend income is recognised when the right to receive payments is established.

1.12 FUNCTIONAL AND PRESENTATION CURRENCY

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

1.13 TAXATION

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

1.14 CONTINUING FINANCIAL COMMITMENT

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

2. NEW STANDARDS AND AMENDMENTS TO STANDARDS

Standards effective in the current year

IFRS 16: Leases

IFRS 16: Leases became effective 1 January 2019. This standard is applicable for all leases, including leases of right-of use asset in a sub-lease. The standard hugely impacts the lease accounting for lessees. As the Society does not have leases in place, there is no material impact on implementation of the standard.

IFRIC interpretation 23: Uncertainty over income tax treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 income taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The receipts and accruals of the Society are exempt from taxation under Section 10(1)(d) of the Income Tax Act and, as such, *IFRIC Interpretation 23: Uncertainty over income tax treatment* has no impact on the Society.

Standards issued, but not yet effective

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

2. NEW STANDARDS AND AMENDMENTS TO STANDARDS (CONTINUED)

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. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

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

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

Amendments to IFRS 3: Definition of a business

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

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

Amendments to IAS 1 and IAS 8: Definition of material

In October 2018, the IASB issued amendments to IAS 1 presentation of financial statements and IAS 8 accounting policies, Changes in accounting estimates and errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting Society.

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

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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	2019	2018
	R	R
3. FINANCIAL ASSETS AT FAIR VALUE		
Fair value at the beginning of the year	108 738 933	112 635 710
Capitalised interest and dividends	6 475 635	6 165 510
Asset management fees	(681 151)	(699 261)
Unrealised gain/(loss) at fair value through profit or loss	1 692 549	(9 363 026)
Sale or disposal of investment	(12 000 000)	-
Fair value at the end of the year	<u>104 225 966</u>	<u>108 738 933</u>
Non-current assets	86 150 271	90 341 482
Current assets	<u>18 075 695</u>	<u>18 397 451</u>
	<u>104 225 966</u>	<u>108 738 933</u>

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

	2019	2019
	R	R
Bonds and debentures	28 467 208	29 768 835
Listed property	5 763 686	6 155 510
Equities with primary listing on the JSE	51 919 377	54 417 137
Local cash	17 051 103	18 397 451
Foreign cash	1 024 592	-
	<u>104 225 966</u>	<u>108 738 933</u>

The investments have no fixed maturity. The fair value of the investments is based on the market value as at 31 December 2019.

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

4. TRADE AND OTHER RECEIVABLES

	2019	2018
	R	R
Insurance receivables	10 500 504	5 608 174
Contributions outstanding	4 879 506	794 347
Amounts owing by members and service providers	247 756	344 125
Prepaid expenses	-	39 769
Income receivable – BPSA refunds	5 373 242	4 429 933
Less:		
Current year provision for doubtful debts	(488 292)	(535 990)
Provision for doubtful debts	(535 990)	(509 871)
Movement in provision for doubtful debts	39 581	(26 119)
Amounts recovered during the year	8 117	-
Other receivables*	316 214	784 850
Interest receivable	147 400	784 850
Sundry receivables	168 814	-

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4. TRADE AND OTHER RECEIVABLES (CONTINUED)

	2019	2018
	R	R
Risk transfer arrangements	116 096	49 829
Share of outstanding claims provision	116 096	49 829
	10 444 522	5 906 863

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

Ageing of Insurance receivables – 2019

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

Ageing of Insurance receivables – 2018

	Current	30 days	60 days	90 days	120 days+	TOTAL
	R	R	R	R	R	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

	2019	2018
	R	R
Analysis of movements in respect of risk transfer arrangements		
Balance at the beginning of the year	49 829	47 066
Payment in respect of prior year	(49 829)	(47 066)
Over/(Under) provision in prior year	-	-
Adjustments for current year	116 096	49 826
Balance at end of year	116 096	49 826

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

Contribution debtors as well as member and provider debtors are periodically tested for impairment.

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

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

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4. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2019	2018
	R	R
Call accounts	24 719 187	10 891 685
Current accounts	4 671 448	4 295 828
Fixed deposits	-	16 500 000
Cash and cash equivalents per cash flow statement	<u>29 390 635</u>	<u>31 687 513</u>

The weighted average effective interest rate on short-term bank deposits was 5.93% (2018: 6.10%) 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

	2019	2018
	R	R
Insurance liabilities		
Claims payable	4 150 5577	3 347 833
Financial liabilities		
Accrued expenses	-	49 343
Stale cheques	481 356	454 108
Provision for audit fees	<u>6 312 081</u>	<u>4 220 442</u>

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

7. OUTSTANDING CLAIMS PROVISION

	2019	2018
	R	R
Not covered by risk transfer arrangements		
Provision for outstanding claims	<u>2 546 466</u>	<u>2 567 535</u>
Analysis of movements in outstanding claims		
Balance at beginning of year	2 567 535	3 354 720
Payments in respect of prior year	<u>(2 222 013)</u>	<u>(2 913 652)</u>
Over provision in the prior year	345 522	441 068
Over provision in respect of prior year written back	(345 522)	(441 068)
Adjustment for current year	<u>2 546 466</u>	<u>2 567 535</u>
Provision at end of year (note 9)	<u>2 546 466</u>	<u>2 567 535</u>
Covered by risk transfer arrangements		
Provision for outstanding claims for Iso Leso and Netcare 911	<u>116 096</u>	<u>49 829</u>

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7. OUTSTANDING CLAIMS PROVISION (CONTINUED)

	2019	2018
	R	R
Analysis of movements in outstanding claims		
Balance at beginning of year	49 829	47 066
Payments in respect of prior year	(49 829)	(47 066)
Over/(Under) provision in the prior year	-	-
Adjustment for current year	116 096	49 829
Provision at end of year (note 9)	116 096	49 829
Total outstanding claims provision	<u>2 662 562</u>	<u>2 617 364</u>

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 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.

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.

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 claims 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.

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7. OUTSTANDING CLAIMS PROVISION (CONTINUED)

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:	2019	2018
	R	R
December	6%	5%
November	2%	3%
October	1%	1%
September	0.5%	0.1%
August and prior	0.4%	0.2%

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

	2019	2018
	R	R
Effect of a 1% point increase in assumptions	1 216 5230	1 169 890
Effect of a 2% point increase in assumptions	1 704 653	1 623 393
Effect of a 3% point increase in assumptions	2 203 099	2 086 504

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.

8. CONTRIBUTION INCOME

	2019	2018
	R	R
Members' contributions	<u>98 763 132</u>	<u>94 374 146</u>

9. RELEVANT HEALTHCARE EXPENDITURE

Claims incurred excluding claims incurred in respect of risk transfer arrangements

Current year claims	122 218 207	113 199 982
Movement in outstanding claims provision	2 200 944	2 126 467
Over provision in prior year (note 7)	(345 522)	(441 068)
Adjustment for current year (note 7)	2 546 466	2 567 535
	<u>124 419 151</u>	<u>115 326 449</u>
Less:		
Discounts received on claims	(141 642)	(149 208)
Claims incurred excluding claims incurred in respect of risk transfer arrangements	<u>124 277 509</u>	<u>115 177 241</u>

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9. RELEVANT HEALTHCARE EXPENDITURE (CONTINUED)	2019	2018
	R	R
Claims incurred excluding claims incurred in respect of risk transfer arrangements		
Current year claims	122 218 207	113 199 982
Movement in outstanding claims provision	2 200 944	2 126 467
Over provision in prior year (note 7)	(345 522)	(441 068)
Adjustment for current year (note 7)	2 546 466	2 567 535
	<u>124 419 151</u>	<u>115 326 449</u>
Less:		
Discounts received on claims	(141 642)	(149 208)
Claims incurred excluding claims incurred in respect of risk transfer arrangements	<u>124 277 509</u>	<u>115 177 241</u>
Claims incurred in respect of risk transfer arrangements		
Current year claims	2 539 567	1 919 701
Movement in outstanding claims provision	116 096	49 829
Adjustment for current year (note 7)	116 096	49 829
	<u>2 655 663</u>	<u>1 969 530</u>
Claims incurred including claims in respect of risk transfer arrangements (Note 21)	<u>126 933 172</u>	<u>117 146 771</u>
Net income on risk transfer arrangements		
Risk transfer arrangement fees/premiums paid	2 388 073	1 900 473
Recoveries from risk transfer arrangements	(2 655 663)	(1 969 530)
Net income on risk transfer arrangements	<u>(267 590)</u>	<u>(69 057)</u>

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.

BP MEDICAL AID SOCIETY
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	2019	2018
	R	R
10. MANAGED CARE: MANAGEMENT SERVICES		
10.1 MMI HEALTH (PTY) LTD		
Disease Risk Management Programme	390 121	399 033
Electronic Benefit Management Programme	565 810	578 735
General Practitioners (GP) Network	237 338	242 760
HIV YourLife Programme	175 689	179 702
Hospital Risk Management Programme	526 822	538 856
Maternity Programme	77 732	79 507
Oncology Programme	77 732	79 507
Prescribed Minimum Benefits Programme	180 319	184 438
Specialist Network	63 619	12 030
	<u>2 295 182</u>	<u>2 294 568</u>
10.2 ISIMO HEALTH (PTY) LTD		
Oncology Programme	<u>15 856</u>	<u>14 704</u>
	<u>2 311 038</u>	<u>2 309 272</u>
11. ADMINISTRATION EXPENSES		
Actuarial fees	1 270 871	631 055
Administrator's fees	3 532 047	3 329 844
Audit fees		
- current year audit services	502 515	463 514
- services	90 818	-
Bank charges	28 355	24 769
Board of Healthcare Funders subscriptions	23 572	23,230
Consulting fees	1 975 623	421 271
Council for Medical Schemes – levies	69 850	70 070
Fidelity cover	32 852	22 500
General expenses	38 717	3 799
Printing and postages	422 869	264 621
Principal Officer (PO) costs	1 577 844	697 710
Society staff in PO office	262 814	179 200
Seminars	-	15 951
Special project – Discovery	1 150 000	-
Telephone	54,977	54 944
Travelling and entertainment	314 983	46 787
Trustees/Committee member remuneration and related costs (notes 11.1 and 11.2)	1 027 517	399 013
	<u>12 376 224</u>	<u>6 648 278</u>

BP MEDICAL AID SOCIETY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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11. ADMINISTRATION EXPENSES (CONTINUED)

11.1 BOARD OF TRUSTEES MEMBERS' REMUNERATION AND RELATED COSTS

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

	Trustee services	Trustee training	Travelling and accommodation	Total
31 December 2017	R	R	R	R
J Bush	-	-	-	-
P Dourans	92 760	-	-	92 760
D Fortune	177 116	-	785	177 901
B Hashim	-	15 951	(4 103)	11 848
G McGregor	-	-	-	-
C McClelland	-	-	-	-
	-	-	-	-
A Stapelberg**	89 527	-	-	89 527
	359 403	15 951	(3 318)	372 036

* Non-remunerated Trustees and committee members

** Mr Stapelberg's fees were up to 30 May 2019 when he was suspended from the Board

11.2 SUB-COMMITTEE REMUNERATION	Legal and Clinical Committee	Audit Committee	Total
31 December 2019	R	R	R
B Hashim	-	56 253	56 253
D Mitchell	-	17 000	17 000
P Khoosal*	-	-	-
A Rumble*	-	-	-
D Fortune*	-	-	-
M Tshuma*	-	-	-
	-	73 253	73 253

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11. ADMINISTRATION EXPENSES (CONTINUED)

11.2 SUB-COMMITTEE REMUNERATION (CONTINUED)

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

* Non-remunerated Trustees and committee members

12. NET IMPAIRMENT LOSSES ON TRADE AND OTHER RECEIVABLES

	2019	2018
	R	R
Trade and other receivables		
Contributions at risk of not being collected	(15 301)	(38 033)
Movement in provision for expected credit loss	(15 301)	(38 033)
Written off	-	-
Members' and service providers' portions at risk of not being collected	62 999	11 914
Movement in provision for expected credit loss	62 999	11 914
Written off	-	-
Less:		
Previous impairment losses recovered	(8 117)	-
	<u>39 581</u>	<u>(26 119)</u>

13. INVESTMENT INCOME

Financial assets at fair value – interest income	3 960 331	3 967 599
Financial assets at fair value – dividend income	2 515 304	2 197 911
Cash and cash equivalents – interest income	1 733 462	2 202 253
	<u>8 209 097</u>	<u>8 367 763</u>

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14. OTHER OPERATING INCOME	2019	2018
	R	R
Continuing financial commitment from Employer		
Continuation members	25 386 782	24 197 468
HIV/AIDS refunds	2 163 696	3 059 237
Principal Officer costs refunds	<u>1 227 218</u>	<u>697 710</u>
	<u>28 777 696</u>	<u>27 954 415</u>
Stale cheques written back	<u>49 343</u>	<u>33 993</u>
	<u>49 343</u>	<u>33 993</u>

15. GOING CONCERN

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

In February 2020 the Council for the Council Medical Schemes approved the amalgamation with Momentum Medical Scheme with the effective date of 1 May 2020. The Competitions Commission's approval for the amalgamation was granted in 2019. However, this is on hold as the Society received a court interdict against the amalgamation in April 2020 from going ahead on 1 May 2020

The effects of COVID-19 and the downgrading are non-adjusting subsequent events for the year-end 2019 in terms of IAS 10 – events after the reporting period, because the significant development and the spreading of COVID-19 did not take place until January 2020, and the announcement of the downgrading only happened on the 27 of March 2020. Therefore, the conditions only occurred after 31 December 2019.

The Trustees have made an assessment of the ability of the Society to continue as a going concern based on an actuarial analysis. The Trustees have no reason to believe the Society will not be a going concern in the year ahead, refer to note 16 of the notes to the financial statements for additional disclosure on events post reporting date.

16. EVENTS POST REPORTING DATE

Society amalgamation

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

In February 2020, the Council for the Council Medical Schemes approved the amalgamation with Momentum Medical Scheme with the effective date of 1 May 2020. The Competitions Commission's approval for the amalgamation was granted in 2019. However, on the 23 April 2020, the Western Cape High Court granted an interim interdict, without any hearing, which suspended the amalgamation from implementation on 1 May 2020 and the date set for the hearing of the matter in the Western Cape High Court is 30 June 2020.

16. EVENTS POST REPORTING DATE (CONTINUED)

Coronavirus (COVID-19)

The outbreak of the coronavirus (COVID-19) during mid-January disrupted global economic markets. The Board of Trustees took into consideration the economic conditions and forecasts in making their estimates and judgements as at 31 December 2019 (as disclosed in note 22). The Board of Trustees will continue to consider the potential impact of the outbreak on significant estimates and judgements going forward.

The following events have developed since 31 December 2019:

- On the 23 March 2020, the President of South Africa announced a mandatory, national lockdown for a period of 21 days, which commenced on the 26 March 2020, as a measurement to curb the spreading of COVID-19.
- On 27 March 2020, the rating agency, Moody's, announced its decision of downgrading South Africa's long-term foreign and local currency debt ratings from Ba1 to Baa3 and maintains a negative outlook of the country. The sovereign downgrade will further add to the prevailing financial market stress.
- On 9 April 2020, the President announced a two-week extension of the national lockdown in an effort to curb the spread of the COVID-19 until the end of April 2020.
- On 23 April 2020, the President announced that the country is moving towards a graded alert level system. South Africa's lockdown moved to alert level 4 from 1 May 2020, which allows some activity, subject to extreme requirements. On 24 May 2020, the President announced a further relaxation of the lockdown level to level 3, effective from 1 June 2020.

The effects of the COVID-19 outbreak and the downgrading announcements are non-adjusting subsequent events for the year end 2019 in terms of IAS 10 - events after the reporting period because the significant changes in the economic conditions occurred as a result of events only arising after 31 December 2019.

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

Scheme's investments portfolio

- As mentioned in note 19, the Society's investments are measured at fair value (an exit price in an orderly transaction), and as such the value of the investments currently disclosed are indicative of the fair value amounts as at 31 December 2019. Any conditions that existed broadly in the market would have been incorporated into a fair value measurement as at 31 December 2019. Therefore, the impact of COVID-19 since 2020, will not impact the investments balances as at 31 December 2019. The market value of the Society's total investment position was R96.7 million as at 30 April 2020, representing a 7.2% decline in unrealised value compared to 31 December 2019. At 31 December 2019 the solvency ratio was 129.6%. The unrealised gains have been assessed and even with a 40% decrease, there is still sufficient headroom in terms of Society's solvency. Therefore, the overall solvency is still in a strong position and the Society will continue to monitor this in the upcoming period.
- Furthermore, the financial risk sensitivity analysis provided in note 21 were based on the Society's best estimate of possible rate changes, however, given the continued uncertainty on the impact and duration of the COVID-19 pandemic, the analyses may not be indicative of the possible outcome in the foreseeable future.

Accounts receivables: Allowance for impairment losses of healthcare receivables

- Allowance for impairment losses as at 31 December 2019 have been based on incurred events at balance sheet date in accordance with IAS 39. Given that the disruptions to the economy only occurred in March 2020, the amount recognised as at 31 December 2019 remains unchanged. The Society is a restricted membership medical scheme. The majority of the accounts receivables relates to contribution receivables. Given that the Employer is an essential service provider, a large number of employees and continuation members qualify for a post-retirement contribution subsidy paid by BP Southern Africa (Pty) Ltd and that these balances are by nature, short-term, a minimal impact is expected on the allowance of impairment losses relating to COVID-19.

16. EVENTS POST REPORTING DATE (CONTINUED)

Outstanding risk claims provision

- Provision for outstanding risk claims, as disclosed in note 7, is an estimate of the ultimate costs of settling all claims incurred that have occurred before the end of the reporting period, but have not been reported to the Society. Given the fact that the risk claims provision as at 31 December 2019 relates to 2019 and prior claims, the claims provision remains unchanged.

Impact on the Society's performance since 31 December 2019 is as follows:

Contribution income

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

Investment returns

- Since the beginning of 2020, due to the volatility of the global and local markets, the Society has been experiencing unrealised losses on investments. The impact of COVID-19 on the Society's investments is still highly uncertain and thus very difficult to predict. The South African Reserve Bank (SARB) has cut interest rates in March 2020 and in April 2020 by 100 basis points. In May 2020, the SARB cut interest rates further with 50 basis points. A shock to the global and local markets continues to be experienced. Investment returns earned for the 3-month period ended 31 March 2020 was R1.8 million (31 March 2019: R2.2 million). The performance of the Society's investment portfolio continues to be monitored by the Society's Asset Manager and Board of Trustees.

Society's claims

- The Society's claims impact relating to COVID-19 is still uncertain and thus very difficult to predict. The estimated impact of COVID-19 on claims has been based on the best available statistical data available at the date of approval of the financial statements and derived from the international experience of COVID-19. The current estimates of the infection and hospital admission rates change frequently and are subject to a significant degree of uncertainty. The potential cost of treatment, especially in-hospital treatment for patients with serious symptoms, is also unknown at this stage. Potential cost scenarios were based on a range of prevalence rates and assumed costs of treatment both of which are highly uncertain. The sensitivity testing performed to ascertain the impact on the Society's solvency position and members' funds indicated that Society's going-concern status is not at risk.

Conclusion

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

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17. RELATED PARTY TRANSACTIONS

Parties with significant influence over the Society

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

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

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

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

The provider of consulting services, 3ONE (Pty) Ltd, has significant influence over the Society as it 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.

Transactions with related parties	2019	2018
	R	R
Statement of comprehensive income		
Gross contributions received (key personnel) - short term	373 261	347 691
Claims incurred (key personnel)	597 683	200 210
Continuing financial commitment from employer	28 777 637	27 954 415
- Continuation members	25 386 783	24 197 468
- HIV/AIDS refunds	2 163 636	3 059 237
- Principal Officer costs refunds	1 227 218	697 710
Administration fees paid to Momentum Health Solutions (Pty) Ltd	3 532 047	3 329 844
Managed care fees paid to Momentum Health Solutions (Pty) Ltd	2 295 182	2 294 568
Consulting fees paid to Alexander Forbes Health (Pty) Ltd	1 270 871	631 055
Consulting fees paid to Old Mutual Wealth Trust Company (Pty) Ltd	188 768	169 788
Consulting fees paid to 3ONE (Pty) Ltd t/a 3ONE Consulting fees	675 120	171 017
Principal Officer remuneration	1 577 844	697 710

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17. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with related parties (continued)	2019	2018
	R	R
Statement of financial position		
Momentum Health Solutions (Pty) Ltd	(1 147 472)	-
Consulting fees payable to Alexander Forbes Health (Pty) Ltd	(136 856)	(50 715)
BPSA refunds	5 373 242	4 429 933
- HIV/AIDS refunds	4 211 254	3 309 301
- Principal Officer costs refunds	1 161 988	1 120 632
Principal Officer costs payable	-	(200 000)
Old Mutual Wealth Trust Company (Pty) Ltd	(1 421)	(11 992)
3One consulting	(104 363)	-
Compensation to key management personnel		
Remuneration and related costs – short term	954 264	377 271

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

Contributions received (key personnel)

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

Claims incurred (key personnel)

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

Administration fees

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

Managed care fees

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

18. GUARANTEES AND COMMITMENTS

The Society has not given any guarantees or commitments as at 31 December 2019.

19. CONTINGENT ASSET

As at 31 December 2019 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 R295 475 (2018: R428 057).

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20. CONTINGENT LIABILITIES

There were no potential liabilities contingents on the outcome of litigation, claims, guarantees, suretyships or the like at 31 December 2019.

21. FINANCIAL RISK MANAGEMENT REPORT

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

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

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

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

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

Asset allocation summary	2019	2018
	R	R
Financial assets at fair value (note 3)	104 225 966	108 738 933
Cash and cash equivalents (note 5)	29 390 635	31 687 513
Trade and other receivables (note 4)	10 444 522	5 906 863
	<u>144 061 123</u>	<u>146 333 309</u>

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

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

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

LIQUIDITY RISK

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

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21. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

LIQUIDITY RISK (CONTINUED)

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 22.0% (2018: 22.6%) 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 2019					
Category	Total	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Over 1 year
	R	R	R	R	R
Trade and other payables	6 312 081	6 312 081	-	-	-
Outstanding claims provision	2 662 562	1 803 726	345 208	513 628	-
	8 974 643	-	-	-	-
Trade and trade receivables	10 328 426	5 472 779	297 586	4 558 061	-
Cash and cash equivalents	29 390 635	29 390 635	-	-	-
Financial assets at fair value through profit or loss investments	104 225 966	18 075 695	-	-	86 150 271
	143 945 027	-	-	-	-
Excess liquidity	134 970 384	-	-	-	-

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	-	-	-	-

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21. 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 2019	R	R	R	R
Class	Fully performing	Past due	Impaired	Total
Insurance receivables	9 354 440	657 772	488 292	10 500 504
Sundry receivables	168 814	-	-	168 814
Interest receivables	147 400	-	-	147 400

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

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

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

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

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

Fitch National Long-Term Rating

Financial institution	2019	2018	Credit rating	
	R	R	2019	2018
ABSA	1 233	3 006 916	BB+	BB+
Investec	8 644 160	8 247 947	BB+	BB+
Nedbank	8 647 006	9 135 413	BB+	BB+
Standard Bank	12 098 236	11 297 237	BB+	BB+
	29 390 635	31 687 513		

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21. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

CREDIT RISK (CONTINUED)

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

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

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

MARKET RISK

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

CURRENCY RISK

The Society is exposed to foreign exchange risk arising from its investment in the Alexander Forbes Investments portfolio. At 31 December 2019 and 31 December 2018 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.

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

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.

21. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

MARKET RISK (CONTINUED)

Interest rate risk (continued)

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

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 profit or loss income of R433 419 (2018: R415 496). An increase in 100 basis points in interest yields for a full year would result in a decrease in reserves and profit or loss of R433 419 (2018: decrease of R415 496).

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 259 438 (2018: R1 344 187). 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 monitors 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.

21. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

MARKET RISK (CONTINUED)

Risk management of the investment portfolio

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

Fair value estimation

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

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

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

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

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

	2019	2018
	R	R
Financial assets at fair value (mandatory at fair value)	104 225 966	108 738 933
Cash and cash equivalents (mandatory at amortised cost)	29 390 635	31 687 513
Trade and other receivables (mandatory at amortised cost)	10 444 522	5 906 863
- Insurance receivables	10 012 212	5 072 184
- Other receivables	316 214	784 850
- Risk transfer arrangements	116 096	49 829
Trade and other payables (mandatory at amortised cost)	(6 312 081)	(4 220 442)
Provision for outstanding claims (mandatory at cost)	(2 662 562)	(2 617 364)

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.

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21. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

MARKET RISK (CONTINUED)

Fair value estimation (continued)

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

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

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

As at 31 December 2018	Level 1	Level 2	Level 3	Reclassifi- cation
	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	-	-

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.

21. FINANCIAL RISK MANAGEMENT REPORT (CONTINUED)

MARKET RISK (CONTINUED)

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 129.6% at 31 December 2019 and 142.09% at 31 December 2018, and compares favourably to the accumulated funds ratio of 25%, as prescribed by the Medical Schemes Act.

22. INSURANCE RISK MANAGEMENT

NATURE AND EXTENT OF RISKS ARISING FROM INSURANCE CONTRACTS

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

Insurance risk - description of benefits

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

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.

22. 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 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.

22. 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.

	2019	2018
Age grouping (in years)	Total	Total
<=25	958	977
26 – 35	274	270
36 – 50	593	583
51 – 64	629	674
=> 65	1 078	1 090
Total	3 532	3 594

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22. 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.

2019

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

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22. INSURANCE RISK MANAGEMENT (CONTINUED)

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

Concentration of insurance risk (continued)

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

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.

22. INSURANCE RISK MANAGEMENT (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.

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

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

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

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

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

24. NON-COMPLIANCE MATTERS

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

Nature and impact

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

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

Causes for the failure

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

24. NON-COMPLIANCE MATTERS (CONTINUED)

24.1 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 was 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. As a result of the intended amalgamation in August 2019, the Society initially did not apply for the renewal of the exemption, and the engagement with Council for Medical Schemes (CMS) was made late, after the expiry of the exemption, with the result that CMS indicated that because of the pending amalgamation the exemption would not be needed as the investments were going to be transferred to Momentum Medical Scheme, but the Scheme would be required to report the non-compliance matter. Should the amalgamation not proceed, the Scheme was informed to apply for an exemption. The Society received a court interdict against the amalgamation in April 2020 and will therefore now apply for a renewal exemption.

24.2 CONTRAVENTION OF SECTION 26(7) OF THE MEDICAL SCHEMES ACT

Nature and impact

In terms of Section 26(7) of the Act, contributions should be received in accordance with the rules of the Society. The rules indicate that contributions should be received no later than three days after they become due. As at 31 December 2019, there were contribution debtors outstanding for more than 30 days to the value of R358 813 (2018: R344 154) – 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 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. Timely 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.

24.3 NON-COMPLIANCE WITH REGULATION 30 – EQUITY

Nature and impact

In terms of Regulation 30 of the Act, a scheme is prohibited from investing more than 40% of its investments in equity instruments. The Society holds 48.55% of its investments in equity instruments.

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.

24. NON-COMPLIANCE MATTERS (CONTINUED)

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

Corrective action

A motivation was sent to the Council for Medical Schemes on the 29 July 2018 to hold equities above the specified limit of 40% in category 4(a) of Annexure B to the Medical Scheme Regulations. A follow-up with the officers at CMS revealed that they were attending to the matter.

24.4 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 three members and two 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 taken on prior to 2015.

Corrective action

This has reduced significantly over the years because of the efforts by the Administrator and the Society. Management will on a continual basis review the data integrity of membership details and endeavour to comply with requisite legislation.

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