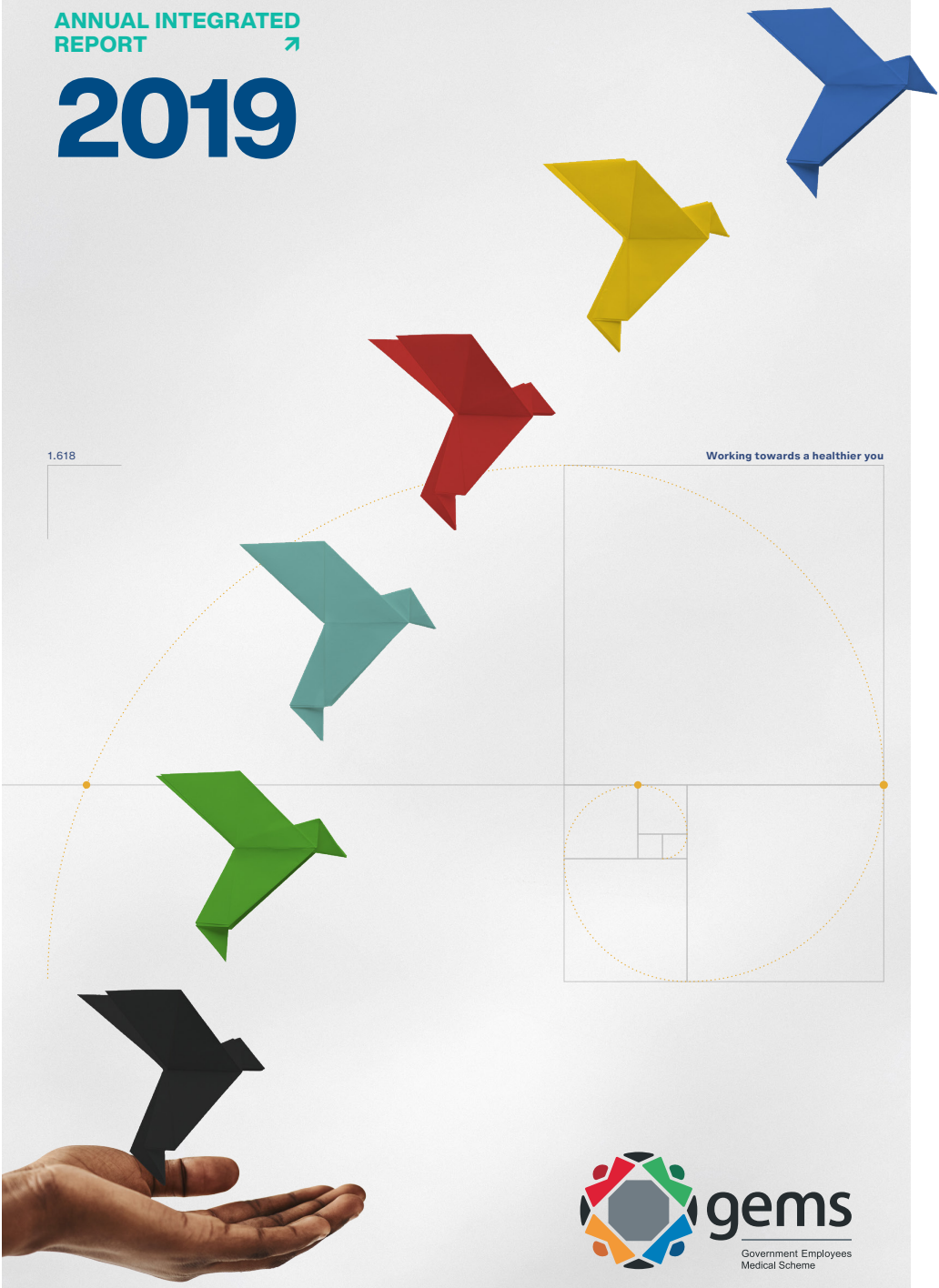
ANNUAL INTEGRATED REPORT 2019



gems
Government Employees Medical Scheme

CONTENTS

GEMS is the largest restricted membership medical scheme in South Africa with over 1.8m beneficiaries and 726 621 principal members.

1

WHO WE ARE

GEMS is the largest restricted membership medical scheme in South Africa with over 1.8m beneficiaries and 726 621 principal members. GEMS was created specifically to provide healthcare cover for public service employees.

Our purpose is to ensure that there is adequate provisioning of healthcare coverage for public service employees that is efficient, cost effective and equitable; and to provide further options for those who wish to purchase more extensive cover.

VISION

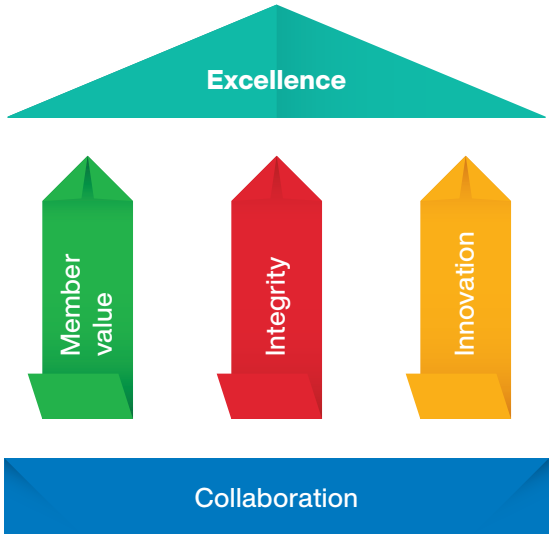
The GEMS Vision recognises our ambition to drive transformation and contribute to the wider healthcare ecosystem and is: An excellent, sustainable and effective medical scheme that drives transformation in the healthcare industry, aligned with the principles of universal health coverage.

MISSION

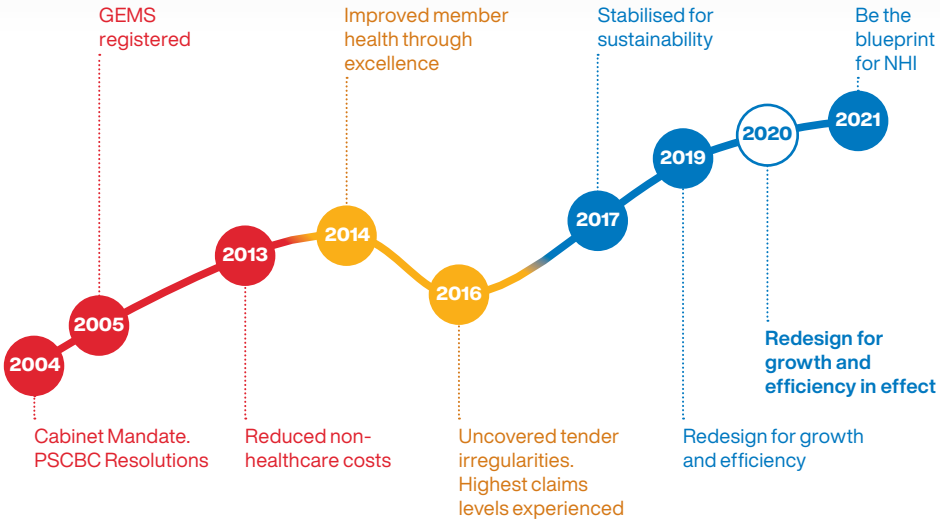
The GEMS Mission inspires and motivates us to achieve the GEMS Vision and is: To provide all members with equitable access to affordable and comprehensive quality healthcare, promoting member well-being.

VALUES

Anchored in an ethical foundation and reflected in our strategy (p51), our values are:



The establishment of GEMS was preceded by collective agreements in the Public Service Coordinating Bargaining Council (PSCBC), Cabinet approval and registration by the Council for Medical Schemes (CMS). We commenced operations on 1 January 2006, with important past and future strategic focus points being:



GEMS dealt decisively with instances of tender fraud uncovered in 2016 and undesirable behaviour in the claims fraud, waste and abuse space. At a time when the country was dealing with the impact of state capture, GEMS demonstrated the positive impact of facing up to corruption and fraud, waste and abuse.

Our performance in respect of key business indicators over the past three years confirms our upward trajectory that commenced in 2017:

Key indicators	2019	2018	2017
Principal members	726 621	705 182	692 092
Beneficiaries	1 892 295	1 839 193	1 807 538
Average age per beneficiary	32.32	32.12	31.87
Average family size	2.60	2.61	2.61
Pensioner ratio	16.96%	16.18%	15.25%
Annualised gross contributions	R41 391 877 368	R38 309 787 941	R35 496 532 752
IBNR	R1 303 080 000	R1 245 080 000	R1 123 600 000
Net surplus/(deficit) – YTD	R3 574 081 043	R4 029 621 021	R3 270 200899
Accumulated funds	R13 049 979 980	R9 475 898 937	R5 446 277917
Cash and cash equivalents	R2 449 760 522	R2 435 200 727	R5 488 609 210
Investments	R12 971 946 575	R9 014 154 790	R2 476 622 535
Non-healthcare expenditure	4.5%	4.9%	5.6%
Reserve ratio %	31.5%	24.9%	15.2%

Image: Matheus Ferrero – Unsplash

Our purpose is to ensure that there is adequate provisioning of healthcare coverage to public service employees that is efficient, cost effective and equitable.

2
ABOUT THIS REPORT

Reporting scope and boundary

This report considers the GEMS financial year 1 January 2019 to 31 December 2019. The most recent prior annual integrated report published by the Scheme is the GEMS 2018 Annual Integrated Report, published on 5 June 2019, and available from www.gems.gov.za.

This report is intended to provide our members, the Minister for Public Service and Administration and the Scheme's Stakeholders with an assessment of the Scheme's performance and impact for the 12-month period. Financial and non-financial information is provided and explained in this report. To meet stakeholder information requirements holistically, this report reviews material financial, healthcare and corporate governance performance objectives and outcomes.

As GEMS is a registered medical scheme, no other entities are covered in this report. Mention is made of the GEMS contracted service providers in relation to our business model and use of resources.

There were no significant changes during the reporting period in the size, structure, material aspects and boundaries or the GEMS supply chain. No restatements of information provided in previous reports are contained in this report.

Reporting framework

Reporting by GEMS is based on the International Integrated Reporting Framework, the Medical Schemes Act, the Registered Rules of GEMS, the South African Institute of Chartered Accountants (SAICA) Accounting Guidelines for Medical Schemes and the King IV Report on Corporate Governance for South Africa, 2016 (King IV). Information Papers issued by the Integrated Reporting Committee (IRC) of South Africa provide important guidance.

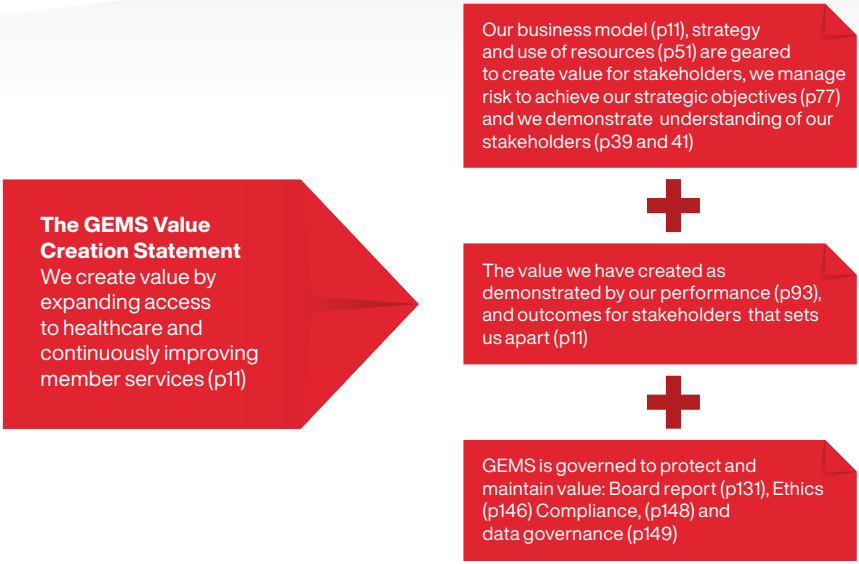
Reporting materiality

Material matters are issues that substantively impact, or have the potential to substantively impact, the GEMS strategy, governance practices, performance, prospects or important capitals such as financial capital, social and relationship capital, human capital and intellectual capital. The process used for identifying and prioritising material matters involved the identification of relevant aspects by the GEMS Integrated Reporting Steering Group and the evaluation and prioritisation of matters against criteria that included the interests of our members, the Minister for Public Service and Administration, the Council for Medical Schemes and other key stakeholders. The GEMS Value Creation Statement (p11) formed the basis for this process. Refer to p44 for full process and material matters which were identified as a result thereof.

Reporting suite

Annually GEMS publishes a single, consolidated integrated report as required by the Council for Medical Schemes and the Rules of GEMS. This integrated report includes a Board Report, the full 2019 Annual Financial Statements as well as a summary of the Annual Financial Statements. The integrated report is distributed electronically to most members, and where members have opted out of electronic communication, an abridged version is printed and posted to these members.

Reporting information linkages



Reporting feedback

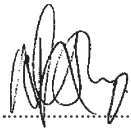
Enquiries can be directed as follows:
› Member enquiries: GEMS call centre – 860 000 4367
› AGM-related enquiries: agm@gems.gov.za for the attention of Marnus Kruger
› Stakeholder enquiries: jeannie@gems.gov.za for the attention of Jeannie Combrink
› Media enquiries: media@gems.gov.za for the attention of Baldwin Matsimela.

Statement by the GEMS Board of Trustees

The GEMS Board of Trustees acknowledges its responsibility to assure the integrity of the GEMS Annual Integrated Report.

The GEMS Board of Trustees has applied its collective mind in the preparation and presentation of this Annual Integrated Report.

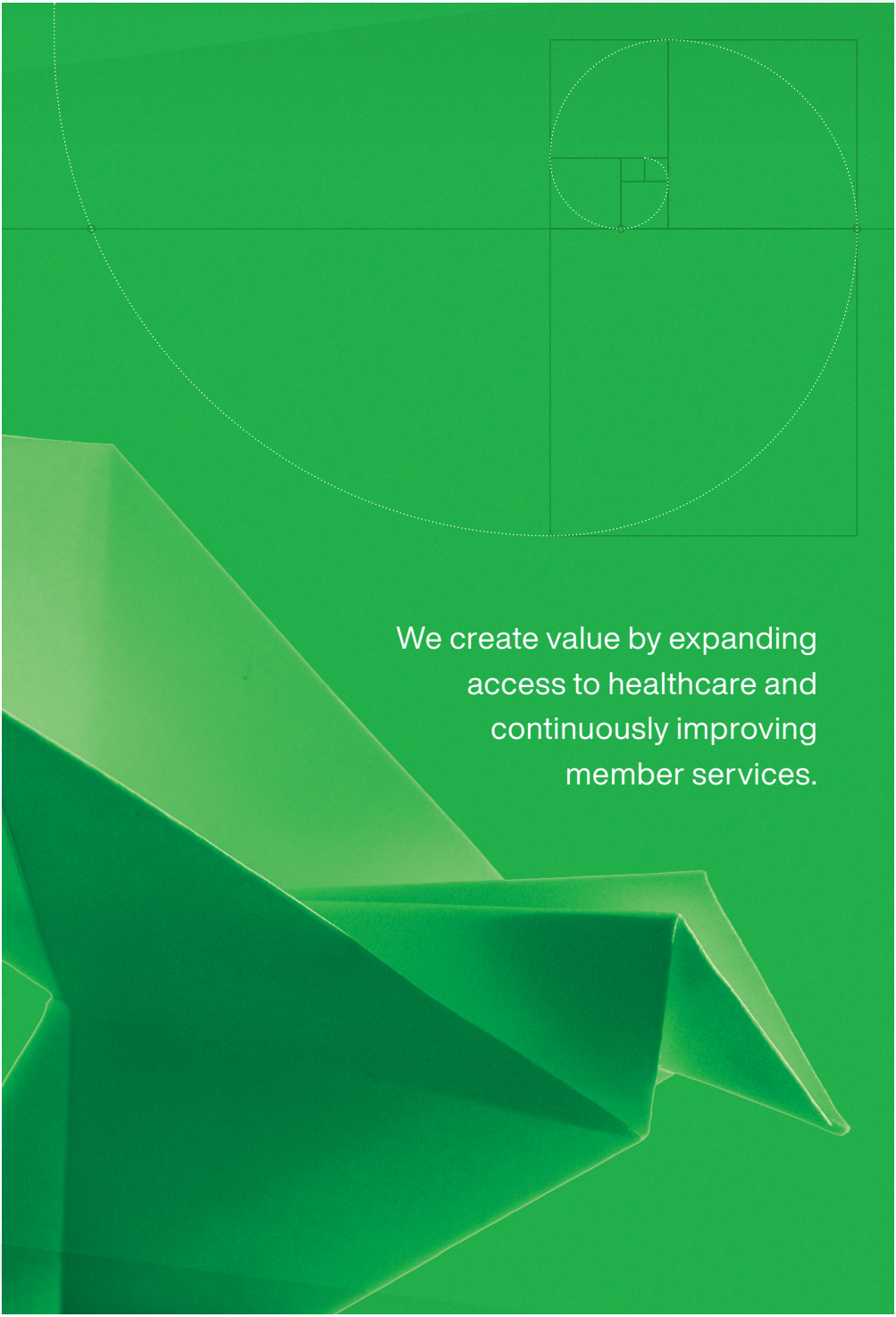
The development of this report was guided by the GEMS Integrated Reporting Framework as adopted by the Board in 2016.



Dr Millicent Hlatswayo
Chairperson

30 April 2020

Image: Vivek Kumar – Unsplash


We create value by expanding
access to healthcare and
continuously improving
member services.

3

HOW DO WE CREATE VALUE AS A MEDICAL SCHEME?

The GEMS value creation statement

We create value by expanding access to healthcare and continuously improving member services.

› Our product and benefit design process coupled with responsible claims management, maximises coverage and keeps contribution increases as low as possible, leading to greater access.
› Improved access to and correct usage of benefits contribute to healthier public service employees and a healthy reserve ratio.
› We protect value through integrated and rigorous risk management and sound corporate governance policies and systems, based on ethical values (pages 3 and 144) that are embraced across GEMS.

Image: JC Gellidon – Unsplash

Using our business model to impact value for stakeholders

Our decision-making processes and business model activities are risk-led, founded on sound project management principles and governed with dedicated oversight and monitoring. Being risk-led ensures that we allocate resources appropriately.

We are showing how we use and transform the capitals to create value for our members and other stakeholders. Capitals are stocks of value that are increased, decreased or transformed through the activities of organisations. For example, financial capital is increased when an organisation makes a profit; the quality of its human capital is improved when employees become better trained[1]. We report on financial, social and relationship, intellectual, human, manufactured and environmental capital overleaf.

1 The International Integrated Reporting Framework, as published by the International Integrated Reporting Council, 2013

Financial capital

INPUTS

- Contribution Income: R41bn
- Investment Funds: R15.4bn

HOW WE USE AND TRANSFORM FINANCIAL CAPITAL

- Claims adjudication and payment
- PMB assessment
- Claims Management Forum reviews and monitoring process (12 meetings and 12 working group meetings in 2019)
- Investment mandate and process
- Billing and tariff negotiations and tariff management
- Fraud, waste and abuse management (outlier identification, intervention, investigations and fraud recovery)

OUTPUTS

- 130.6m claim lines paid
- R34.9bn in claims paid
- R1.8bn above benefit limits paid on PMBs
- Investment return of R941m
- GEMS tariff file
- Calculated savings resulting from outlier intervention of R143m
- Fraud debt recovery of R12.4m

OUTCOMES (Positive and negative)

- Claims ratio of 88.8%
- Surplus of R3.6bn
- Reserve ratio improvement from 6.99% (2016) to 31.5% (2019)
- PMB funding at about R950 per beneficiary per month exceeds industry norm (about R750)
- Investment returns made up 27% of surplus recorded for 2019
- Lowest average industry contribution increase of 7.09% and benefit enhancements of R832m
- Global Credit Rating of A+

BENEFITING STAKEHOLDERS

- GEMS members, as well as the Minister for Public Service and Administration, PSCBC and the Regulator have been provided with comfort that GEMS is managed responsibly and is sustainable

MATERIAL ASPECTS (page 47-49)

- GEMS reserve ratio journey
- Member value delivery in 2019

GEMS members, as well as the Minister for Public Service and Administration, PSCBC and the Regulator have been provided with comfort that GEMS is managed responsibly and is sustainable

Social and relationship capital

INPUTS

- Brand and reputation building spend
- Member recruitment spend
- Stakeholder identification and assessment
- Stakeholder management strategy inclusive of healthcare provider relations strategy
- Ex gratia management process
- Socio-economic development spend: R0.7m
- Health and Wellness Events: R74m contract fees
- GEMS Days: 2019 Spend: R0.7m
- Complaints Management System development and implementation
- Procurement and contracting capability

HOW WE USE AND TRANSFORM SOCIAL AND RELATIONSHIP CAPITAL

- Structured and informal stakeholder engagements according to stakeholder management strategy
- Annual General Meeting of members
- Member and GEMS Days services
- CSI planning and events
- Service Management Forum Review and Monitoring Process (12 meetings in 2019)
- Complaints management with root cause identification and mitigation
- Member satisfaction surveys
- Healthcare provider satisfaction surveys
- Ex gratia applications and decision-making process
- Procurement and contracting processes
- B-BBEE Strategy implementation

OUTPUTS

- 3% membership increase
- PSCBC Working Committee recommendations
- CMS Complaints Response submissions
- Health and Wellness events: 5 081
- 53 Iekgotla sessions
- GEMS Days in 2019: 4
- Two CSI events held: Mahikeng Vision 2020 where spectacles were issued to learners after testing; and toiletries and a cheque of R300 000 were presented to a school
- Satisfaction survey reports:
  - 68.3% – The South African Customer Satisfaction Index (SAcsi)
  - 73% – monthly member satisfaction survey
- Ex gratia approvals of R170m
- Procurement measured spend 2019: R2.529bn with recognised spend of R3.189bn
- In 2019, 55% of our Service Provider Network achieved a contributor status of Level 1, 36% contributor status Level 2 and 9% Level 3

OUTCOMES (Positive and negative)

- Cover for 1.6m lives in households that did not belong to a medical scheme prior to joining GEMS, representing 87% of our membership; GEMS collectively paid R25.3bn in benefits to these families in 2019
- Enhanced GEMS governance rules through PSCBC working committee interaction
- Improved member satisfaction scores
- Well attended and successful AGM in 2019
- Improvement on complaints ratios from 0.20% (2018) to 0.10% (2019)
- GEMS actively contributes to transformation in the medical schemes industry and country

BENEFITING STAKEHOLDERS

- Families who, without GEMS, would not be able to find affordable cover in the open scheme market
- Members benefit through the realisation of economies of scale, as better rates can be negotiated with healthcare providers
- Members requiring financial assistance over and above scheme benefits
- Communities benefiting from CSI initiatives
- Previously disadvantaged individuals and new role players (business) in the medical schemes market

MATERIAL ASPECTS (page 47-49)

- Member value delivery in 2019
- Working in the PSCBC Working Committee to develop value for GEMS members

Intellectual capital

INPUTS

- Product knowledge and recommendations
- Member affordability and design assessment
- Contracted managed care service providers' capabilities
- Healthcare network development capabilities
- SCM policy and B-BBEE strategy
- GEMS data management capabilities

HOW WE USE AND TRANSFORM INTELLECTUAL CAPITAL

- Product development and benefit design process and innovation
- Disease Management Programmes
- Protocol development and implementation
- Multifunctional working groups
- Procurement process direction
- Healthcare network management
- NHI pilot project support

OUTPUTS

- 2020 GEMS benefit design, including Tanzanite One
- Healthcare funding decisions
- 27 healthcare protocols revised
- NHI-related data submissions
- Positive transformational direction
- 121% increase in specialists in the GEMS network
- Specialist network performance*
- EVO Hospital Network geo-coverage (50km) – 92.7% and cost coverage 90.4%

OUTCOMES (Positive and negative)

- Over R1bn in benefit enhancements to members in 2020
- Benefit option performance within target
- KZN hospital admission rate remained significantly above the national average in 2019
- GEMS outperformed the medical schemes industry on 79.5% of managed care indicators (CMS Report 2018/19)

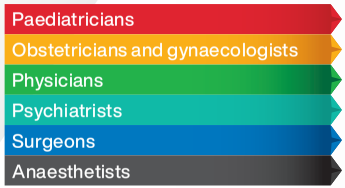
BENEFITING STAKEHOLDERS

- Members
- Public Service Coordinating Bargaining Council in giving effect to PSCBC Resolution 4 of 2017 (p44)
- Employers benefit from improved employee health outcomes
- Healthcare providers through network participation

MATERIAL ASPECTS (page 47-49)

- Member value delivery in 2019
- GEMS as the blueprint for NHI
- The GEMS digital strategy journey

***The Scheme negotiates tariffs with specialists in the network to reduce costs and to stretch member benefits. The GEMS Specialist Network includes:**



National geo-coverage average (Percentage of Scheme members within a defined distance [50km] of total network providers – this is important for member access to specialists in the network)

Cost-coverage (total percentage of costs incurred by the Scheme for network providers when compared to non-network providers – this is important as it shows how successful we are in expanding the network)

Human capital

INPUTS

- Qualified and committed Board members and independent committee members with total spend (attendance fees, travel and training fees) of **R7.6m** (trustees) and **R925 000** (Independent Audit Committee members)
- 2019 trustee election budget: R10.6m
- **309** employees with **R220m** spent on salaries and benefits
- **R6.7m** spent on employee training programmes

HOW WE USE AND TRANSFORM HUMAN CAPITAL

- 2019 trustee election process
- Annual Board training programme
- GEMS recruitment process
- SenzaKakhulu Employee Training Programme
- Ethics management programme
- Performance management
- Employee relations management
- Pool incentive development
- Policy revisions

OUTPUTS

- Three new trustees elected in 2019, voter turnout of 1.7% (12 911 votes)
- 76 employees recruited in 2019
- 62.5% of employees trained
- Seven disciplinary cases concluded in 2019
- Two ethics training sessions held for all employees and two ethics training sessions held for Compliance and Ethics Champions
- Revised remuneration and performance management policies
- Revised ethics policy and related governance documents

OUTCOMES (Positive and negative)

- Improved Board composition in respect of diversity
- Stakeholder concern expressed on low voter turnout
- Job creation due to growth, especially new graduates are employed as client liaison officers
- Employee engagement score – **66.3% Gold Status (Deloitte: Best Company to Work For Survey)**
- Employee performance improvement: Employees under performance management reduced from **4.27%** of employees (2018) to **2.32%** (2019)
- Employee turnover reduced from **8.20%** (2018) to **4.8%** (2019)

BENEFITING STAKEHOLDERS

- Members, the Minister for Public Service and Administration and other stakeholders in Government benefit from a well-governed scheme
- Members benefit from improved services by better equipped and motivated employees
- GEMS employees
- Trade union active at GEMS
- Communities and civil society in view of job creation in the GEMS client liaison offices

MATERIAL ASPECTS (page 47-49)

- Protecting value through good corporate governance, underpinned by ethical leadership
- The GEMS digital strategy journey

Manufactured capital

INPUTS	HOW WE USE AND TRANSFORM MANUFACTURED CAPITAL	OUTPUTS
› GEMS head office building office equipment spend: R2.2m	› Housing full contingent of head office employees › Hosting stakeholder meetings › Facilities management performed by Corporate Services	› Employee workspace conducive to productivity
› Rental of office space for client liaison officers: R3.7m	› Housing our client liaison officers in seven provinces	› Employee workspace conducive to productivity › Members engaged in 2019: 273 600 › Onsite resolution of member queries: 94% › Member education sessions: 9 552
› ICT infrastructure and application system investment: Capex of R4m	› ICT capability development and implementation	› Optimised MemberApp and portal for better performance and addition of a member digital card as a new feature on the App › USSD for year-end option change › Advanced video conference rooms, integrated with the latest digital technologies › Best of breed, hosted communication solution
› Multiple Internet Service Providers	› ICT fibre network infrastructure support	› ICT network connectivity

OUTCOMES (Positive and negative)	BENEFITING STAKEHOLDERS	MATERIAL ASPECTS (page 47-49)
› Positive GEMS reputation and branding › Productivity	› Employees › Members (investment in fixed property maintenance)	› Protecting value through good corporate governance underpinned by ethical leadership
› Positive GEMS reputation and branding: 75% member satisfaction score for CLO services	› Employees › Members (services rendered by the CLO Unit)	› 2019 member value offering › Protecting value through good corporate governance underpinned by ethical leadership
› Fast and easy communication access to information by members › Better services to members › Facilitation of improved collaboration for GEMS employees › Unified national communication with zero telephonic-related costs throughout head office and regional offices	› GEMS employees › GEMS members	› The GEMS digital strategy journey
› Fast, consistent internet and telephone network connections with reliable redundancy	› GEMS employees › GEMS members › GEMS Service Provider Network	› The GEMS digital strategy journey

Environmental capital (GEMS strives to conserve natural capital and considers climate change and pollution to be health threats)

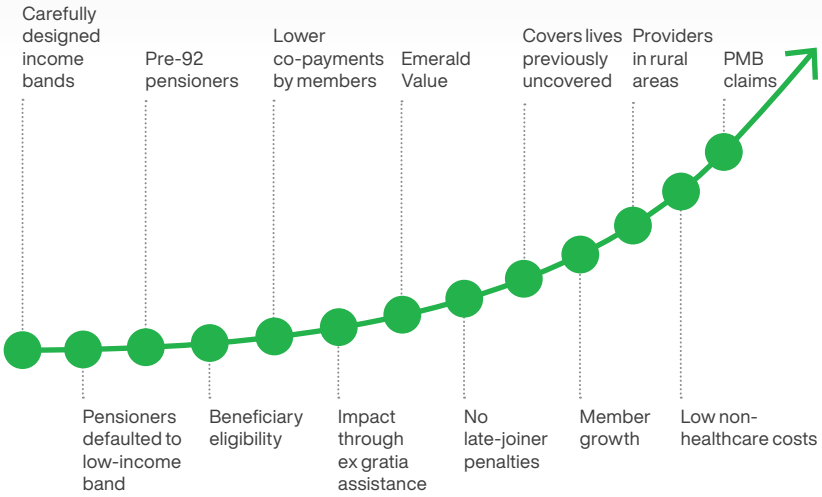
INPUTS	HOW WE USE AND TRANSFORM ENVIRONMENTAL CAPITAL	OUTPUTS
› Energy	› Daily operations › Travel	› Successful business management providing value to members and suppliers
› Water	› Office maintenance	› Clean and safe working environment

OUTCOMES (Positive and negative)	BENEFITING STAKEHOLDERS	MATERIAL ASPECTS (page 47-49)
› The Scheme's efforts to continually evaluate and reduce its energy use is in line with the societal demand to reduce the emissions of greenhouse gases (GHGs): 56% reduction per employee per annum between 2012 and 2019 › Climate change remains a key longer-term risk for GEMS. The potential risks are complex in that they include operational risks such as business continuity, health and safety as well as the potential impact on the health of GEMS members.	› Communities, traditional and civic society › Members, employees and management	› Protecting value through good corporate governance underpinned by ethical leadership
› The GEMS head office is a green building and has a water conservation plan to assist the facilities to be as water efficient as possible.	› Communities, traditional and civic society › Members, Employees and Management	› Protecting value through good corporate governance underpinned by ethical leadership

All six capitals are deemed by GEMS to be important for the sustained viability of the Scheme.

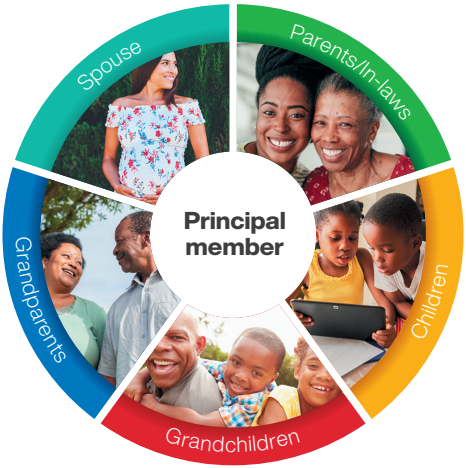
GEMS value offering

The GEMS value offering that sets us apart from other medical schemes.



Beneficiary eligibility

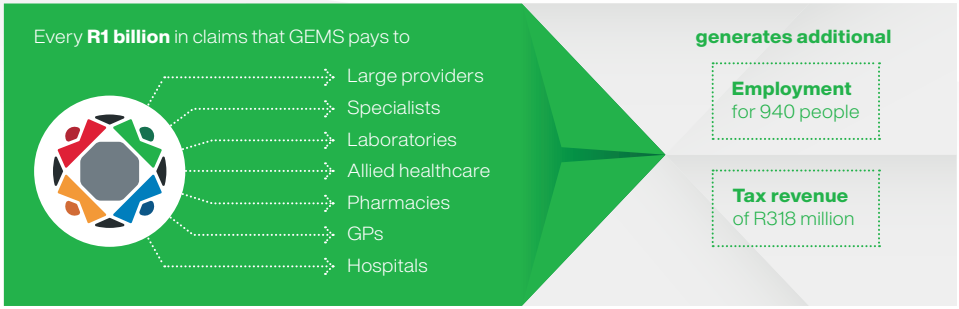
GEMS has the widest beneficiary eligibility definition of all South African medical schemes.



GEMS has 184 000 extended family dependants who would not be covered by other medical schemes. In 2019, GEMS paid R3.4bn in claims towards these beneficiaries.

Through delivering value for the healthcare sector, we deliver value for the South African economy[2]

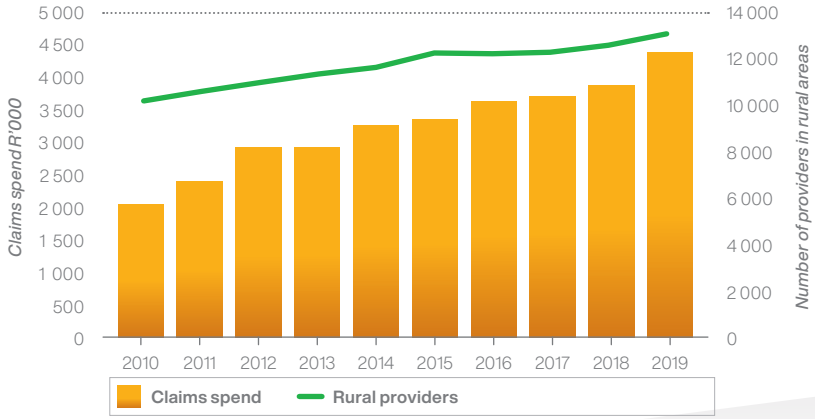
2 Calculation by Insight Actuaries and Consultants, commissioned by GEMS. These figures relate to the 2018 financial year, but are still a demonstration of value

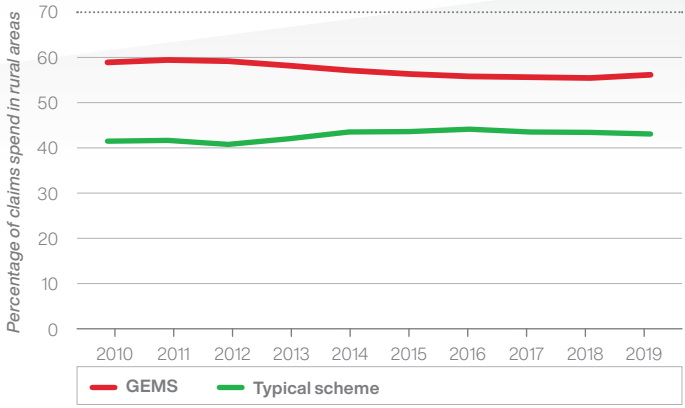


In summary, for every R100 spent by GEMS, approximately R32 flows back into the central fiscus.

Compared to the typical medical schemes in the market, GEMS pays a higher proportion of claims towards providers of primary care in rural areas:
› GEMS supports over 13 000 primary care providers in rural areas; and
› GEMS paid primary care providers in rural areas over **R4.3bn** per annum.

For example, "Dr T" is a general practitioner in Kwandengezi, a rural area in KwaZulu-Natal. This provider first claimed from GEMS in 2007. Since then, GEMS has paid a total of R12.7m in claims towards this provider. Without the Scheme, it is unlikely that this provider would have had a sustainable business.





Innovation that matters to our stakeholders

Our approach to innovation is guided by our strategy (page 51), which is geared towards:

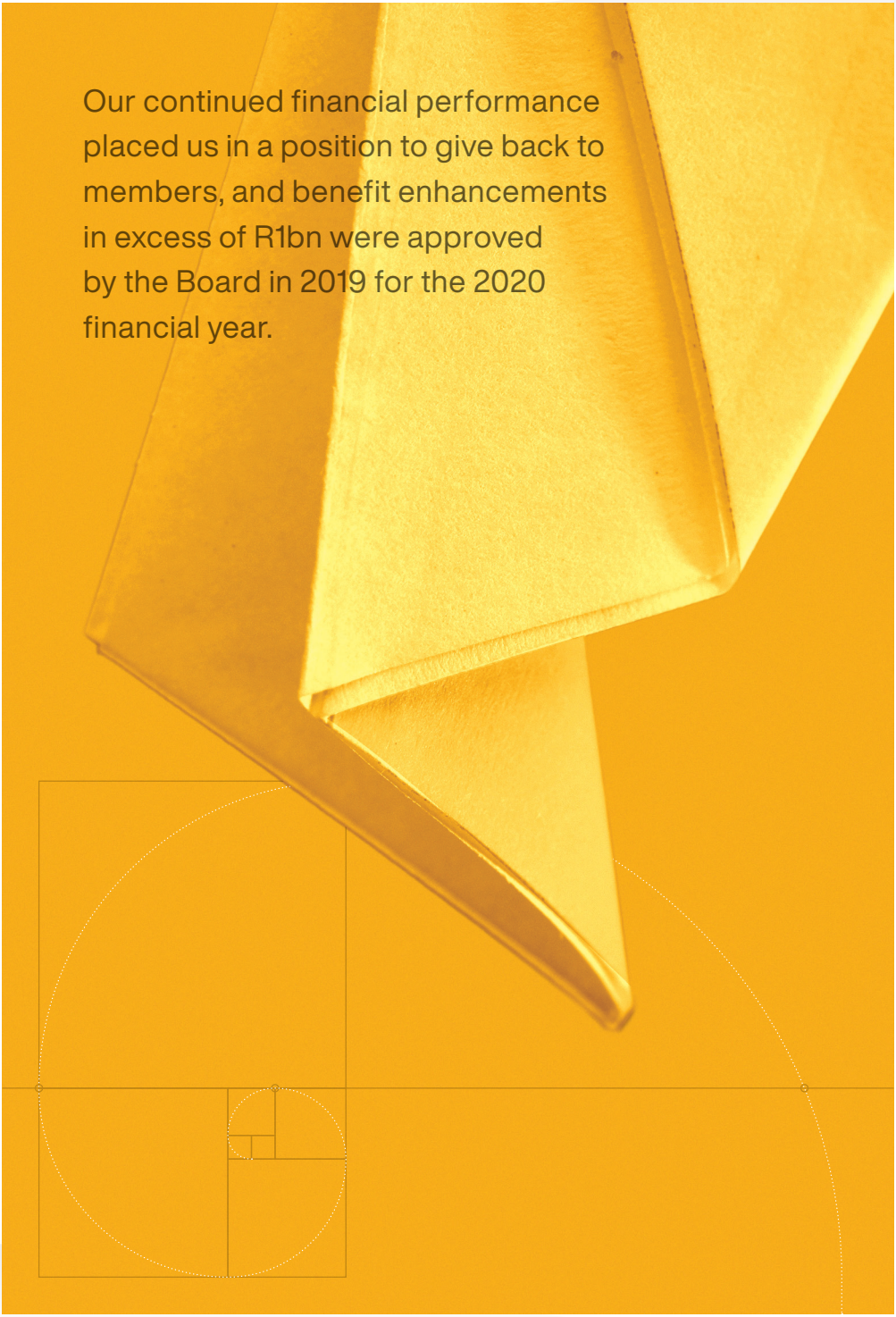
› Value creation, as evidenced by improved member access to healthcare cover and services; and

› Becoming the blueprint for the National Health Insurance (NHI).

Our product development objectives:

- **Simplification** in terms of option consolidation and alignment of benefits across options
- **NHI alignment** including the Minimum Benefit Package
- **Affordability** including contributions, co-payment and benefit depletion
- **Health promotion** in terms of preventative care and care coordination
- **Accessibility** to appropriate care
- **New technology** to drive efficiencies
- **Reimbursement relevance and fairness** of tariff, modifiers and codes

Our continued financial performance placed us in a position to give back to members, and benefit enhancements in excess of R1bn were approved by the Board in 2019 for the 2020 financial year.



4

CHAIRPERSON'S OVERVIEW

GEMS commenced the 2019 financial year on a sound footing with a reserve ratio of 24.9%; continued membership growth; healthcare outcomes that outperformed the medical schemes industry in respect of 65% of indicators; improved healthcare benefits for members to the value of R832m compared to 2018; one of the lowest average membership fee increases in the industry at 7.09%; and constructive relationships with key stakeholders.

In line with the strategic focus ***Redesign for Growth and Efficiency***, the Board's attention in 2019 was on drastically improving the quality of our services to members and the healthcare benefits available to members, while maintaining the Scheme's excellent financial position and healthcare performance through the programmes and interventions implemented in previous years.

Understanding our members' concerns on service delivery was paramount and in 2019, member satisfaction surveys were conducted by an external independent provider on a monthly basis. More frequent testing was done by the contracted GEMS administrator through the Voice of the Customer surveys. Other important indicators of our member satisfaction levels were complaints lodged directly with the Scheme and the Council for Medical Schemes.

Identified service delivery issues were addressed by the GEMS Service Management Forum. We reported a gradual improvement in our member satisfaction levels during the course of 2019 and we exceeded our targeted complaints ratio (measured all complaints as a percentage of total number of lives on the Scheme) of 0.20% by achieving a ratio of 0.10%. We further participated in the annual South African Customer Satisfaction Index, which is an industry-wide survey. GEMS was ranked fifth in the survey. Improving our member satisfaction levels remains our main focus area and we will continue driving to become the number one medical scheme in South Africa.

GEMS achieved and exceeded the statutory reserve ratio level of 25% in April 2019 and we ended the year on 31.5%. Our continued financial performance again placed us in a position to give back to members and benefit enhancements in excess of R1bn were approved by the Board in 2019 for 2020. Most noteworthy are the improvements made to the Sapphire option, which is now called Tanzanite One. Our healthcare outcomes continued to outperform the medical schemes industry in 2019 (see from page 105). The Board approved a reserving strategy of 25%+4,5% in 2019, to buffer members against the risks of unsustainable healthcare cost increases and a deterioration in member healthcare outcomes.

At the time of approving the GEMS reserving strategy, the world was not yet aware of the threat of the COVID-19 pandemic. Our members and other stakeholders can take comfort in the fact that GEMS is in a strong financial position, able to absorb the impact of the COVID-19 pandemic. The impact of the pandemic on our continued ability to create value under the current GEMS Strategic Plan for the period of 2017 to 2021, will be assessed by the Board.

The Board noted with great concern the developments that preceded the Section 59 Investigation by the Council for Medical Schemes. We have given and continue to give our full support to the investigation and take seriously the allegations of racial profiling against black healthcare providers. Our message to members and stakeholders is that GEMS is a transformative organisation. We have improved access to quality healthcare for the previously uninsured, our progressive product development and benefit design process benefits vulnerable groups in line with the National Health Insurance Policy and our procurement policies advance Broad Based Black Economic Empowerment .

During 2019, we continued to enjoy constructive and robust relationships and engagements with the Minister for Public Service and Administration and key stakeholders, such as the Public Service Coordinating Bargaining Council (PSCBC). The work done through the PSCBC Working Committee has contributed to the development of and stakeholder buy-in for the Tanzanite One option. We also enjoyed a cordial and productive relationship with our Regulator, the Council for Medical Schemes. More information on stakeholder relations and communication is available on pages 39 to 50.

We understand our corporate citizenship responsibilities and seek to contribute to a better South Africa. We have achieved and exceeded our targets for reducing our carbon emissions. During the year we have continued to support vulnerable persons and communities by means of our corporate social investment initiatives. A noteworthy initiative in 2019 was ***Mahikeng Vision 2020*** where spectacles were issued to learners following provision of eye tests.

Annual General Meeting

The 2019 Annual General Meeting was held on 31 July 2019 in Mmabatho/Mahikeng in the North West Province. The Board is appreciative of the constructive participation of members who attended the meeting and the overall outcome of the meeting. An action list was compiled in respect of the issues and concerns raised by members in attendance. The draft minutes of the Annual General Meeting can be found on page 174 of this report. A progress report on the Annual General Meeting Action List can be found on page 204.

Board of Trustees

A Trustee Election was held in 2019 and three new Trustees were elected to the Board. We have welcomed Mr Lekgema Mankge, Ms Constence Ntshane and Mr Marthinus Brand to the Board. The next Trustee Election will be held in 2021.

A Board Effectiveness Assessment was concluded in 2019 and it was found that the Board is operating effectively.

Board composition

A large body of work has been performed by the Scheme in line with the Medical Schemes Act since 2010 to address member concerns with regard to the composition of the Board. The issues include a lack of diversity in respect of member-elected trustees and a request that seats on the Board be allocated to trade unions. In 2017, the PSCBC requested that the Scheme amend the GEMS Rules to enable the appointment of four Trustees by the Unions in the PSCBC and the election of the remaining two Trustees by means of direct election by principal members. This requirement was later confirmed in PSCBC Resolution 4 of 2017. Section 57(2) of the Medical Schemes Act does not allow for this, and an exemption application was submitted to the Council for Medical Schemes. The exemption application sought to achieve:

› the appointment of four trustees by the Unions in the PSCBC;

› the election of two trustees by members; and
› the prescription of equity targets in the GEMS Rules for elected trustees.

The Scheme was notified in November 2017 that the Council for Medical Schemes (CMS) had declined the exemption application. In their response, the CMS expressed the view that the Scheme's circumstances had not been sufficiently exceptional to warrant an exemption from the Medical Schemes Act. Other reasons provided included that the CMS deemed the current GEMS Board of Trustees to be fully functional and noted that the Scheme is managed by persons who are deemed to be fit and proper. In December 2018 the Scheme resubmitted the exemption application, however it was again declined. The Scheme filed a notice of appeal in 2019 and it is expected that the matter will be heard by the CMS Appeal Board in 2020.

Outlook

GEMS is a sustainable organisation with a positive outlook.

Performance targets not met in 2019 mainly relate to the conversion of members from the Emerald option to the Emerald Value option, the enrolment of public service employees remunerated on salary levels 1-5 and a reduction in the hospital admission rate in KwaZulu-Natal (reported from page 94). A communication and marketing strategy, together with the new Tanzanite One option was implemented to remedy this. The Claims Management Forum, including the management of fraud, waste and abuse, will continue to focus on the identification of claims outliers in KwaZulu-Natal. The Scheme's established processes for managing claims and service will continue to maintain and improve performance where targets were met.

Looking towards the future, our expectation is to simplify and improve our products and services. The introduction of a standardised benefit package is planned, using our Tanzanite

One option as reference product. We believe that we can meet the challenge to reduce the number of options offered while meeting the part of our mandate that speaks to sufficient choice for members. Our risk appetite may be impacted by the COVID-19 pandemic and will be carefully considered by the Board. Members can look forward to improved services as we continuously innovate on the basis of advanced Information and Communication Technology (ICT) becoming available. We acknowledge that a significant proportion of our members still do not have access to online services and we will continue to make use of established communication and service delivery methods to provide services to these members.

Considering the medium to long term, the implementation of the **National Health Insurance** policy will affect GEMS. A scenario analysis has been developed, which considers four potential future scenarios for the Scheme. The likelihood of any of the scenarios being realised in the future will depend on factors such as the pace of the National Health Insurance implementation, which in turn will depend on the economy, the readiness of the Public Health sector and progress in respect of institutional and other reforms necessary for a successful National Health Insurance system. The impact of the COVID-19 pandemic can be expected to affect the pace of work. GEMS remains committed to being a blueprint for National Health Insurance and to supporting its implementation.

Note of thanks

I wish to thank the Minister for Public Service and Administration, the Department for Public Service and Administration, the PSCBC and leadership of the unions admitted to the PSCBC, as well as the National Department of Health and National Treasury, for the constructive working relations enjoyed in 2019. We believe that the partnerships formed may ultimately contribute to achieving national health objectives.

I wish to thank Nkosinathi Theledi, who served as the Chairperson of the Board until the end of September 2019, for his effective leadership and immeasurable contribution to the Scheme's achievements.

Trustees who served on the Board in 2019 were confronted with complex decisions. The Trustees demonstrated their willingness to provide clear guidance and to address challenges in a decisive manner to protect the interests of all GEMS beneficiaries. The Board maintained a results-driven approach and exemplified ethical leadership. I wish to thank you for your ongoing support in engaging stakeholders where Board engagement was needed.

I also wish to thank Dr Confidence Moloko, Dr Jopie Breed and Dr Kobus van Zyl for chairing the Finance and Investment Committee, Risk Social and Ethics Committee, as well as the Human Resources and Remuneration Committee respectively during the period under review. On behalf of the Board of Trustees, I wish to thank the Independent Chairperson of the GEMS Audit Committee, Mr Joe Lesejane, for leading the Scheme's Audit Committee. The Board is appreciative of his leadership and valuable contribution to the effective corporate governance of the Scheme.

The Board and Scheme continued to benefit from the advice and input from independent committee members who served on the GEMS Audit Committee. On behalf of the Board, I wish to thank them for their commitment, expertise and collective contribution to the Finance and Investment and Risk Social and Ethics Committees as co-opted members and to the Scheme at large.

On behalf of the Board, I wish to express my sincere appreciation to Dr Gunvant (Guni) Goolab for leading the Scheme's Executive Management team in 2019. The Board is appreciative of the excellent manner in which the new Five-Year Strategy implementation was driven, in

addition to dealing with the many challenges arising from the running of the largest restricted scheme. We also wish to thank Dr Stanley Moloabi for his contribution as Chief Operations Officer from the period of June 2018. Dr Moloabi was appointed as the new Principal Officer of GEMS from 1 February 2020 and continues in a dual role until the recruitment of a new COO is finalised.

The Board is very satisfied with the operational results achieved by the Scheme for the period ended 31 December 2019.

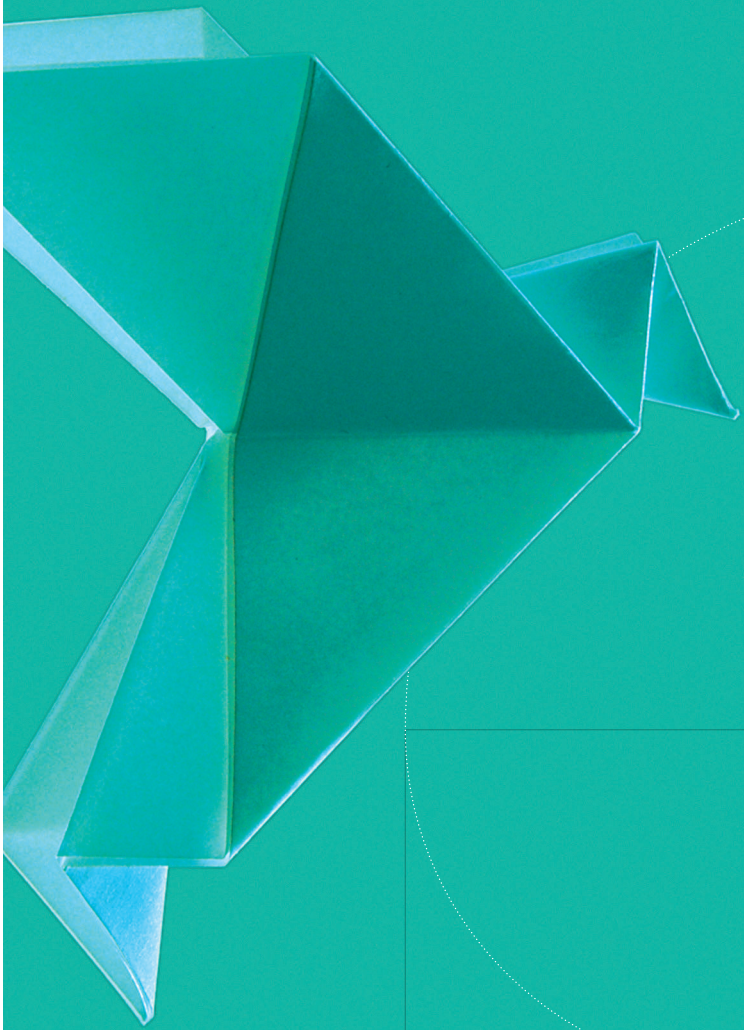
Material circumstance that has occurred between the accounting date and the date of approval of the financial statements

Since the Scheme's financial year end, COVID-19 has been declared a worldwide pandemic with its impact being felt in South Africa. As a medical scheme, this will have a direct impact on the financial results for 2020, as the Scheme is affected by this pandemic in relation to healthcare costs incurred by members.

The effect that COVID-19 has had on the equity instruments listed on the JSE, in which the Scheme has certain investments, and also the reduction in interest rates by 200bps announced by the SARB, further impact the projected financial performance of the Scheme for 2020.

The additional healthcare costs the Scheme will incur, combined with the negative impact on the investment returns due to unfavourable market conditions for 2020, were considered in formulating a view on the sustainability of the Scheme in the short and long term. Based on various scenarios considered by the Scheme (supported by detailed actuarial analysis), the impact, although significant, will not affect the going concern status of the Scheme and it is expected that the Scheme will maintain its reserve ratio for 2020 above the required CMS requirement of 25%.

GEMS is currently the largest restricted membership scheme and the second-largest medical scheme overall in the South African medical scheme environment.



5

ORGANISATIONAL OVERVIEW OF GEMS

Where and how we operate

The Scheme's head office, GEMS Vutomi House, is situated in the Menlyn Maine Precinct, on the corner of Amarand and Mercy Avenues, Tshwane.

In the year under review, member services were provided from our expansive member servicing and communication platforms, including:

› 18 walk-in centres (two per province);
› call centres operating across the Service Provider Network;
› client liaison offices in seven of the nine provinces, i.e. Gauteng, KwaZulu-Natal, Eastern Cape, Free State, Limpopo, Mpumalanga and the North West, supplemented by a mobile office;
› extensive electronic communication capabilities, including email and SMS facilities; and
› a GEMS member app and portal hosted on the GEMS website.

Face-to-face member contact was also provided by means of health and wellness events and roadshows.

Our changing approach to enhanced member services can be found on page 72.

Our member product offering

GEMS offers five main benefit options and one efficiency discounted option based on the Emerald option (see the Emerald Value option below). Our benefit option design process is part of our business model activities (page 14: Intellectual Capital).

The benefit options were each designed using a rigorous analytical approach taking into account the requirements of the Council for Medical Schemes, member affordability and benefit design assessment.

Sapphire*

This is the entry-level option. It provides out-of-hospital care such as visits to a GP, dentist and optometrist, maternity care at private facilities, and in-hospital cover at public and private facilities. This option is designed to be inexpensive, with the 2019 average family contribution after subsidy being R80. In 2019, the percentage of members participating on this option was 7.4% at year end.

Beryl

This is an entry-level option where cover is provided by designated provider networks. This product offers members comprehensive in- and out-of-hospital benefits through a network of healthcare providers in both public and private hospitals. The 2019 average family contribution after subsidy was R797. The percentage of all GEMS members on this option in 2019 was 6.0% as at year end.

Ruby

This option offers comprehensive in- and out-of-hospital benefits through a Personal Medical Savings Account (PMSA), a hospital benefit and a block benefit. The average 2019 family contribution after subsidy was R1 835 with 20% of this contribution going towards the PMSA. The percentage of members on this option in 2019 was 14.0% as at year end.

Emerald

This option is designed to provide comprehensive cover that offers access to care at the member's chosen provider, subject to benefits and Scheme rules. This is a higher-end option, with a 2019 average family contribution after subsidy of R2 445. The percentage of members on this option in 2019 was 58.7% as at year end.

Emerald Value

Introduced with effect from 1 January 2017, this option is an efficiency discounted sub-option based on Emerald. Members on this option pay discounted membership fees in exchange for adhering to care coordination rules (Family Practitioner Nomination and Specialist Referral) and are required to use the Scheme's hospital network. The average 2019 family contribution after subsidy was R1 837, and the percentage of members on this option in 2019 was 9.9% as at year end.

Onyx

This is a top-of-the-range benefit option that offers extensive cover. On the Onyx option, the member can claim certain out-of-hospital expenses such as GP and specialist visits, contraceptives or basic radiology from their day-to-day block benefit. The 2019 average family contribution after subsidy was R3 397. The percentage of members on this option in 2019 was 3.9% as at year end.

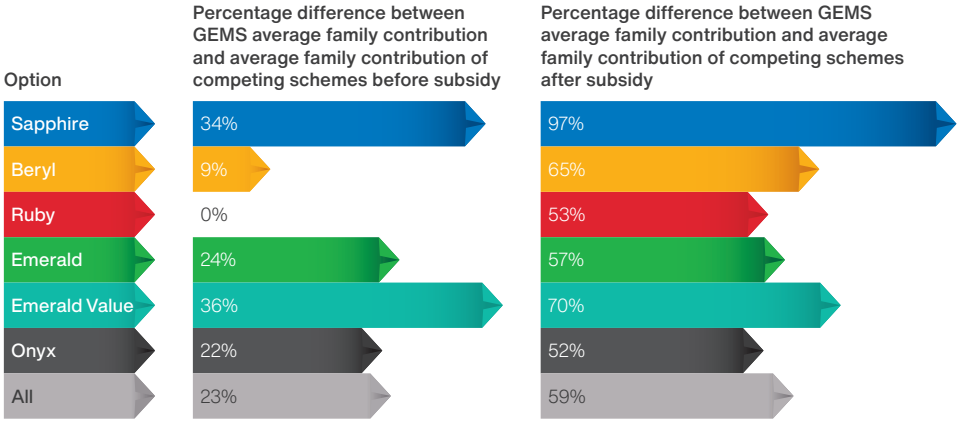
**The Sapphire option was transformed for 2020 and will be known as the Tanzanite One option from January 2020, offering members comprehensive benefits with access to private and public hospital facilities, subject to a hospital network and certain care coordination rules.*

Our market position

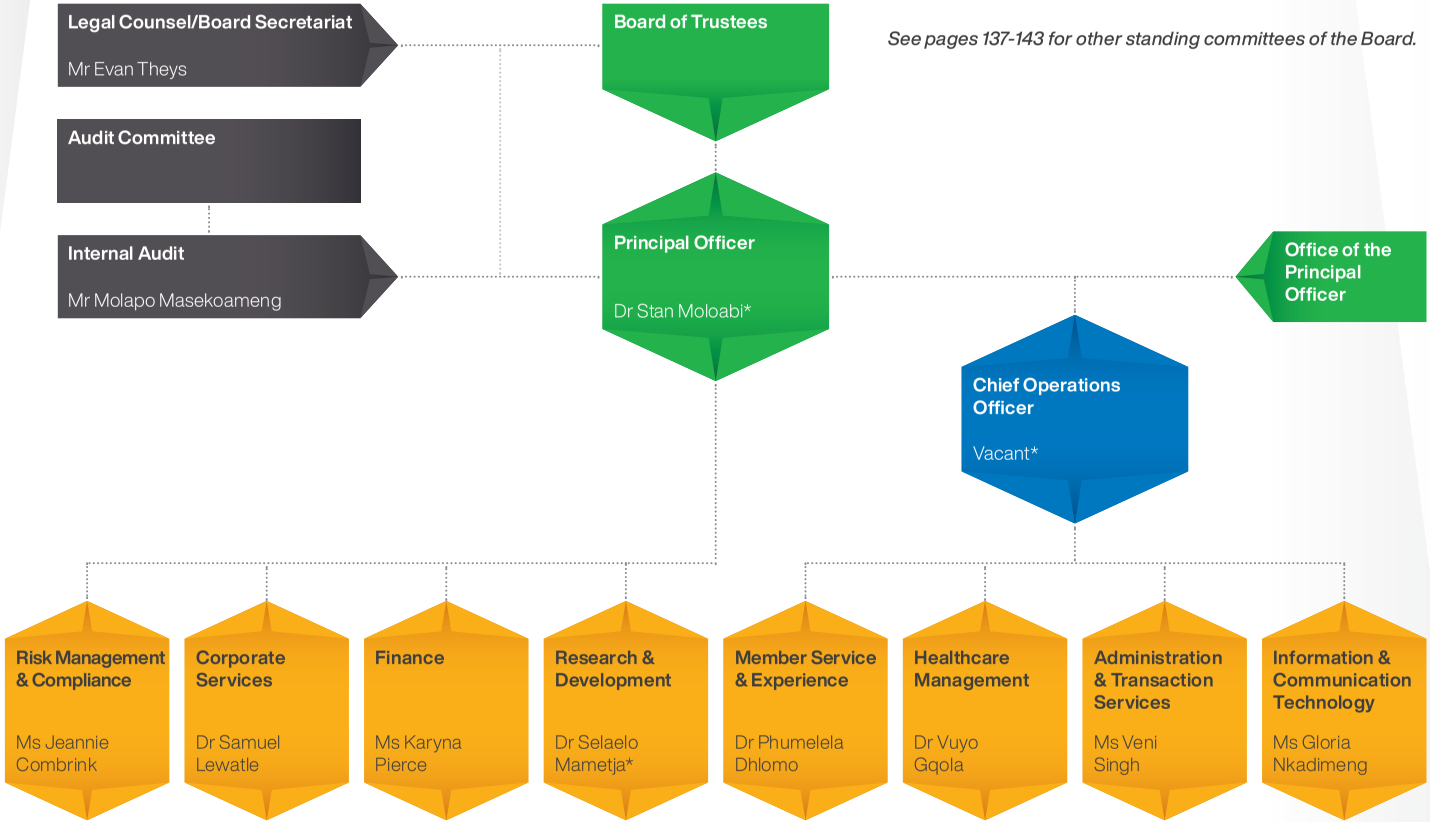
GEMS is currently the largest restricted membership scheme and the second-largest medical scheme overall in the South African medical scheme environment. This provides us with the size and scale to negotiate competitive rates with our service providers and healthcare providers in the market.

We annually perform an analysis of the benefit options available in the market, specifically those that align with the GEMS options. For the current year analysis, each GEMS option was compared with competing medical scheme options. Where competing options had income bands, the GEMS exposure was used to weight the relative differences between the two options being compared. Comparable benefit options from the largest open and closed schemes were used during the analysis.

In the table below we show the calculated value of GEMS options compared to these competing options. For example, we show that GEMS Sapphire members, on average, enjoyed a 97% higher benefit for each Rand spent on contributions (after allowing for the public service subsidy) than what they would have experienced on these competing options. Each of the GEMS options were found to be more cost effective than the competing options. On average we calculate that the relative value for money on GEMS options is 59% higher than for these competing options.



Organisational structure and leadership



See pages 137-143 for other standing committees of the Board.

For more information about our leadership, see page 55 (Executive Committee and Senior Managers), and page 134 (Trustees)

**Effective 1 February 2020. COO recruitment underway.*

Services structure

Our member services (administration and managed care) and contracted healthcare provider network are supported by effective procurement and contract management processes.

SERVICE PROVIDER NETWORK

Member administration services

- Member and claims administration
- Contribution and debt collection

Managed care services

- General managed care services
- Hospital benefit management
- Medicine management
- Dental managed care
- Optical managed care
- Active disease risk management
- Network management
- Emergency managed care services

HEALTHCARE PROVIDER NETWORKS

Ambulatory care

- Specialist networks
- Primary networks
  (GP Network, Optometry Network, Dental Network, Pharmacy Network, Emergency Medical Services, Chronic Back & Neck Rehabilitation Network)
- Courier pharmacy
- Renal network

In-hospital care

- Hospital network
- Specialist networks

External Operating Environment

Important developments in our external operating context that are expected to have an influence on our ability to create value are:

Factors	Implication
The National Health Insurance (NHI) impact on GEMS	The implementation of NHI requires GEMS to alter the manner in which it conducts business and in particular, to strategically position itself to serve the NHI. Our strategy (page 51) connects the future of GEMS to the NHI. Over the past 13 years, GEMS has proven itself to be an effective vehicle to drive the Government agenda to expand healthcare coverage. Potential scenarios for GEMS under NHI can be distilled based on possible changes to the governmental mandate to GEMS and the pace of implementation of NHI (see Outlook section on page 25). Based on the Scheme's track record, there is an opportunity for it to be an enabler and catalyst for driving the necessary change and progression towards Universal Health Coverage (UHC) objectives by drawing on synergies between government policy and the aspiration of the GEMS mandate. The Scheme's overall approach to supporting the NHI is documented in the GEMS NHI Position Paper.
Emerging legislation: National Health Insurance Bill and Medical Schemes Amendment Bill	The NHI Policy was published in June 2017, followed by the publication of the National Health Insurance Bill for comment in June 2018. The Bill was tabled in Parliament in August 2019 and the public consultation process commenced. The National Health Insurance Bill detailed the establishment of the National Health Insurance Fund and the operations thereof. GEMS made written submissions to the Portfolio Committee on Health. The Medical Schemes Amendment Bill was published in July 2018 for comment. If enacted, the Bill will have significant implications on the industry and GEMS submitted commentary on the draft legislation in September 2018. It is expected that the next iteration of the Bill will be considerate of the Health Market Inquiry Report (released on 30 September 2019).

Factors	Implication
Medical Schemes Consolidation Framework	In keeping with the approved NHI White Paper, schemes covering state employees will be consolidated into the Government Employees Medical Scheme (GEMS), thus presenting the State with a unique opportunity to continue learning and progressively strengthening its capacity to administer a large national health fund. The Council for Medical Schemes published a proposed consolidation framework in September 2018 under CMS Circular 42 of 2018. GEMS supports a phased approach in consolidation to ensure financial impacts and outcomes are well determined and understood, without compromising the sustainability of medical schemes. It would be ideal to move towards at least one common and basic benefit option within all schemes as a start, whereafter further option consolidation can take place, for example, potentially no more than three options (basic benefit package, savings option, richer benefit option). Changes of the magnitude foreseen should only be implemented after extensive stakeholder engagement and consultation led by Government. In this, GEMS seeks a mandate from Government, after conclusion of initial stakeholder engagements, to implement an amended scope in respect of the Scheme's membership eligibility rules, effectively amending the mandate from Cabinet given in 2004 for the establishment of a restricted membership medical scheme for public service employees. The Council for Medical Schemes established a Public Sector Scheme Forum in 2019 and is expected to take this work forward in 2020.

Factors	Implication
Section 59 Investigation Section 59 of the Medical Schemes Act authorises medical schemes to terminate direct payment to healthcare providers and to recover funds incorrectly or irregularly paid.	Various allegations of racial discrimination were raised by healthcare providers against medical schemes and administrators in 2019. GEMS was one of the medical schemes accused of unacceptable conduct which included the racial profiling of healthcare providers investigated for fraud. Such allegations on racial profiling are serious and prompted an investigation by the Council for Medical Schemes (CMS), i.e. the Section 59 Investigation. GEMS cooperated fully with the investigation and made extensive submissions during the course of 2019. Our overall response included expanded stakeholder engagements with the National Healthcare Professionals Association (NHCPA), which had spearheaded the allegations and the Solutionist Thinkers Group, an association of black healthcare providers that engaged with GEMS to resolve issues between GEMS and its members. GEMS appeared before the South African Human Rights Commission (SAHRC) on 3 July 2019 to attend a preliminary inquiry into the allegation. GEMS is a transformative organisation and the presence of racial discrimination in any of our value chain activities would be irrational. Universal health coverage and transformation in the industry is very important and GEMS continuously strives to find new ways to facilitate this. Other industry role-players should endeavour to do the same. Fraud, waste and abuse is common and endemic in the industry and medical schemes need to have the ability to mitigate this risk effectively. The mechanisms of suspension of payment, termination of direct payment and recoveries of illicit funds should be options that remain open to medical schemes. The report and recommendations from the Section 59 Panel will become available in 2020.
Fraud, waste and abuse in the medical schemes industry	The medical schemes industry, under the leadership of the Council for Medical Schemes, has made progress in developing and implementing an industry collaborative approach to curbing fraud, waste and abuse. GEMS is a signatory to the industry charter concluded early in 2019 and participates in the development of a Code of Good Practice. GEMS is an active participant on the Board of Healthcare Funders (HFMU). GEMS is committed to constructive collaboration in the interest of all medical scheme beneficiaries.

Factors	Implication
Review of prescribed minimum benefits	The impact of prescribed minimum benefit claims on GEMS is discussed from page 121 of this report. The Council for Medical Schemes has embarked on a process to review the prescribed minimum benefits against the background of the work underway to implement National Health Insurance. GEMS is participating in the review by serving on the committees established by the Council for Medical Schemes and by making written submissions when afforded such opportunities.
Other legislative and regulatory reform	Medical schemes and their stakeholders are preparing to comply with the Protection of Personal Information Act (POPIA). GEMS has developed a POPIA Compliance Plan to define the actions required from the Scheme and to enable it to work towards full compliance. Our strategic plan for the period 2017 to 2021 is aligned to many of the Health Market Inquiry recommendations. The Health Market Inquiry is deemed to be the most holistic and conclusive examination of the private healthcare sector to date. The final Health Market Inquiry Report was published on 30 September 2019. GEMS supported the objective of the Health Market Inquiry by responding to submission and information requests. Submissions made by the Scheme included detailed information on the establishment of healthcare provider networks through competitive tender processes, the results achieved by the GEMS Emerald Value Option, the impact of supply-induced demand and a recommendation for a standardised benefit package. The final HMI Report is positioned to provide a better environment within which a fully implemented NHI can function. This is especially true as the HMI recommendations are intended to be implemented as a package of reforms aimed at better integration, information availability for decision making, efficiency, transparency and competition in the healthcare market combined with the appropriate level of regulation. GEMS supports the implementation of the recommendations of the Health Market Inquiry.

In his keynote speech, Minister Senzo Mchunu recognised the manner in which GEMS addressed corruption and financial accountability.

6

RELATIONSHIP WITH THE MINISTER FOR PUBLIC SERVICE AND ADMINISTRATION

Minister for Public Service and Administration, Mr Senzo Mchunu

GEMS is registered as a restricted membership scheme under the Medical Schemes Act with membership eligibility determined by employment. The Scheme is governed by an independent Board of Trustees and provides services exclusively to eligible employees and as such is not an organ of state.

Under the GEMS Rules, the "Employer" is defined as the Government of the Republic of South Africa, represented by the Minister for Public Service and Administration. We seek to balance our obligations under the Medical Schemes Act with our obligation to serve public service employees and the Scheme's Principals.

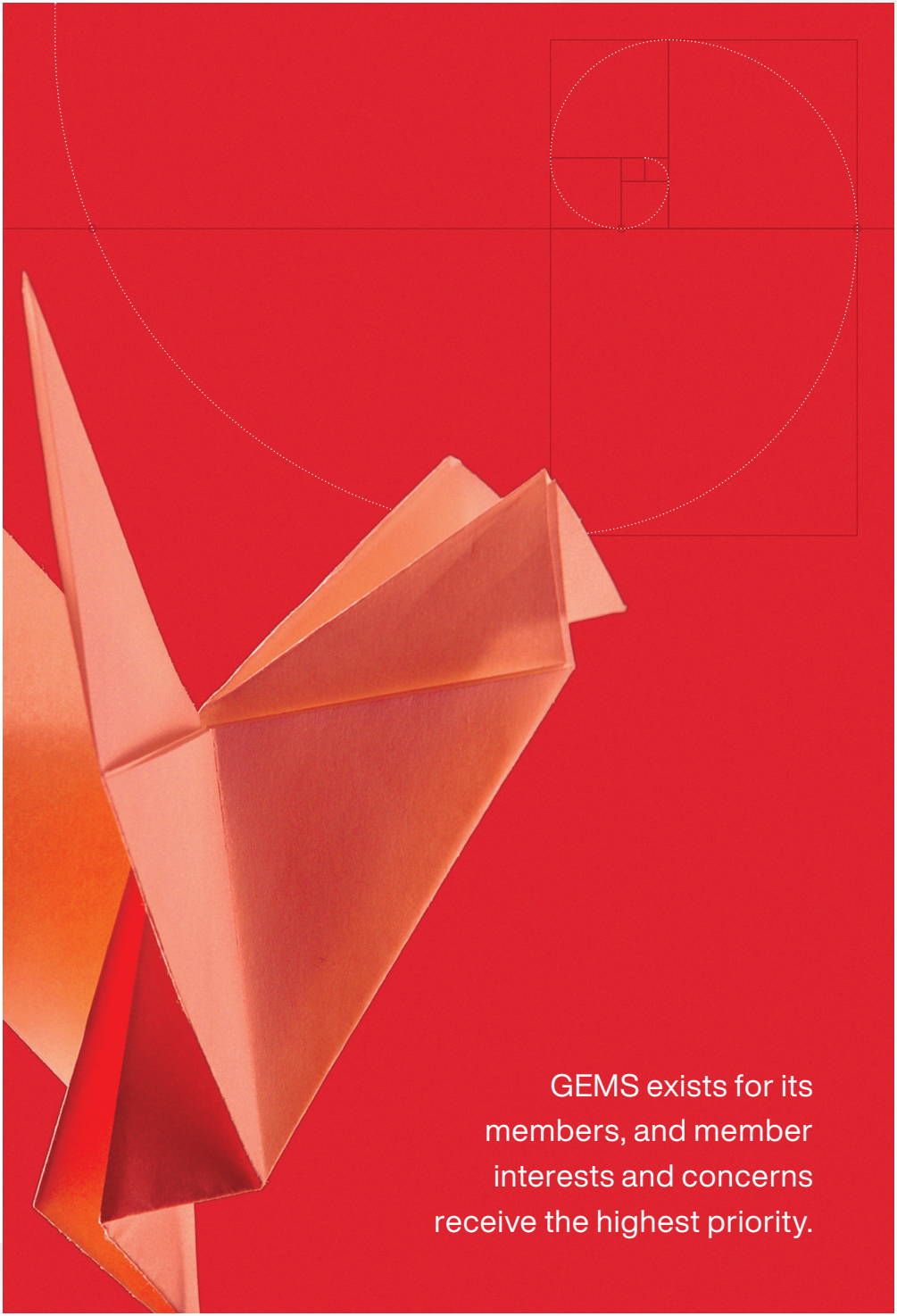
The Board of Trustees, supported by Scheme Management, engaged with the former Minister Ayanda Dlodlo and Minister Senzo Mchunu during the course of 2019 by means of reports, briefing notes, correspondence and meetings. Engagements focused on the Scheme's value proposition, strategic direction, financial performance, National Health Insurance Bill, Competition Commission Health Market Inquiry, GEMS 2020 benefit offering and other pertinent matters such as changes to the GEMS Board of Trustees. Various engagements took place with the former Minister Dlodlo to participate in the development of a handover report to Minister Mchunu.

We have participated in and supported the development of the budget vote speech for the Public Service and Administration portfolio. Our Board of Trustees attended the Minister's maiden budget vote speech on 11 July 2019. On 2 October 2019, the Minister attended the annual GEMS symposium gala dinner. In his keynote speech, Minister Mchunu recognised the manner in which GEMS addressed corruption and financial accountability. He also encouraged the Scheme to seek an active role in the National Health Insurance.

The department supporting the Minister for Public Service and Administration is the Department of Public Service and Administration. During the course of the year, quarterly meetings were held with representatives from this department and additional meetings were held as and when required. Quarterly meetings were combined with meetings with National Treasury and the Government Pensions Administration Agency. The focus of the engagements included the Scheme's work in improving the benefits of employees on salary level 1-5 and also ensuring that the Scheme's contributions were affordable for public service employees. We have sponsored and participated in various events held by the Department, such as the 17th CPSI Public Sector Innovation Awards where GEMS sponsored the **Innovation Health Award.**

On instruction of the Minister, we have:

- Commissioned a study to estimate the value contributed by GEMS to our members, stakeholders and South Africa (see pages 18-20); and
- developed a scenario analysis of the future of GEMS under the National Health Insurance (see page 26 under the Outlook section).


GEMS exists for its
members, and member
interests and concerns
receive the highest priority.

7 STAKEHOLDER RELATIONSHIPS

GEMS has multiple legitimate internal and external stakeholders, and stakeholder relationship management and engagement are deemed critical to the Scheme's success.

The role and responsibilities of the Board, the Clinical Governance and Administration Committee and Principal Officer in respect of stakeholder management are set out in the GEMS Board Charter, the Terms of Reference of the Clinical Governance and Administration Committee, the Principal Officer Delegations and the approved GEMS Stakeholder Management Policy. The Stakeholder Management Policy is reviewed every three years by the Board of Trustees.

The policy governs key stakeholder management activities with the following being salient considerations therein:

› The identification of and engagement with stakeholders;
› the disclosure of information to stakeholders;
› the management of stakeholder perceptions and satisfaction;
› the balancing of Scheme and stakeholder interests; and
› the development and implementation of the Scheme's annual Stakeholder Management Approach and Plan.

In keeping with the Scheme's approved Stakeholder Management Policy, our stakeholders and their legitimate expectations (interest) and influence (power) were identified and analysed based on available information and institutional knowledge. Stakeholders were then mapped to the four quadrants in a Stakeholder Interest and Influence Matrix. The mapping of stakeholders was based on risk assessment and management judgement.

The Stakeholder Interest and Influence Matrix informed the engagement approach, including modes of engagement, to each stakeholder. The approved GEMS Five-Year Strategic Plan, specifically the performance objectives and known stakeholder information requirements, informed the engagement content or subject matter in respect of each stakeholder. Importantly, the achievement of some of the strategic objectives may be impacted by the quality and outcomes of the GEMS stakeholder management activities.

Key stakeholders and material legitimate concerns

GEMS exists for its members, and member interests and concerns receive the highest priority – see material matters page 46.

Regulatory engagement

The Council for Medical Schemes with the Registrar of Medical Schemes (CMS) is the main regulator for the medical schemes industry. We report to the CMS in keeping with statutory obligations and engage frequently on matters where guidance is required. Routine engagements focus on the Scheme's financial performance, complaints management and progress in respect of strategy implementation. Additional engagements in 2019 focused on the composition of the GEMS Board of Trustees, Section 59 Investigation (page 36), Section 43 Inquiries (page 148) and the finalisation of the inspection conducted at GEMS between 2017 and 2018 (page 148).

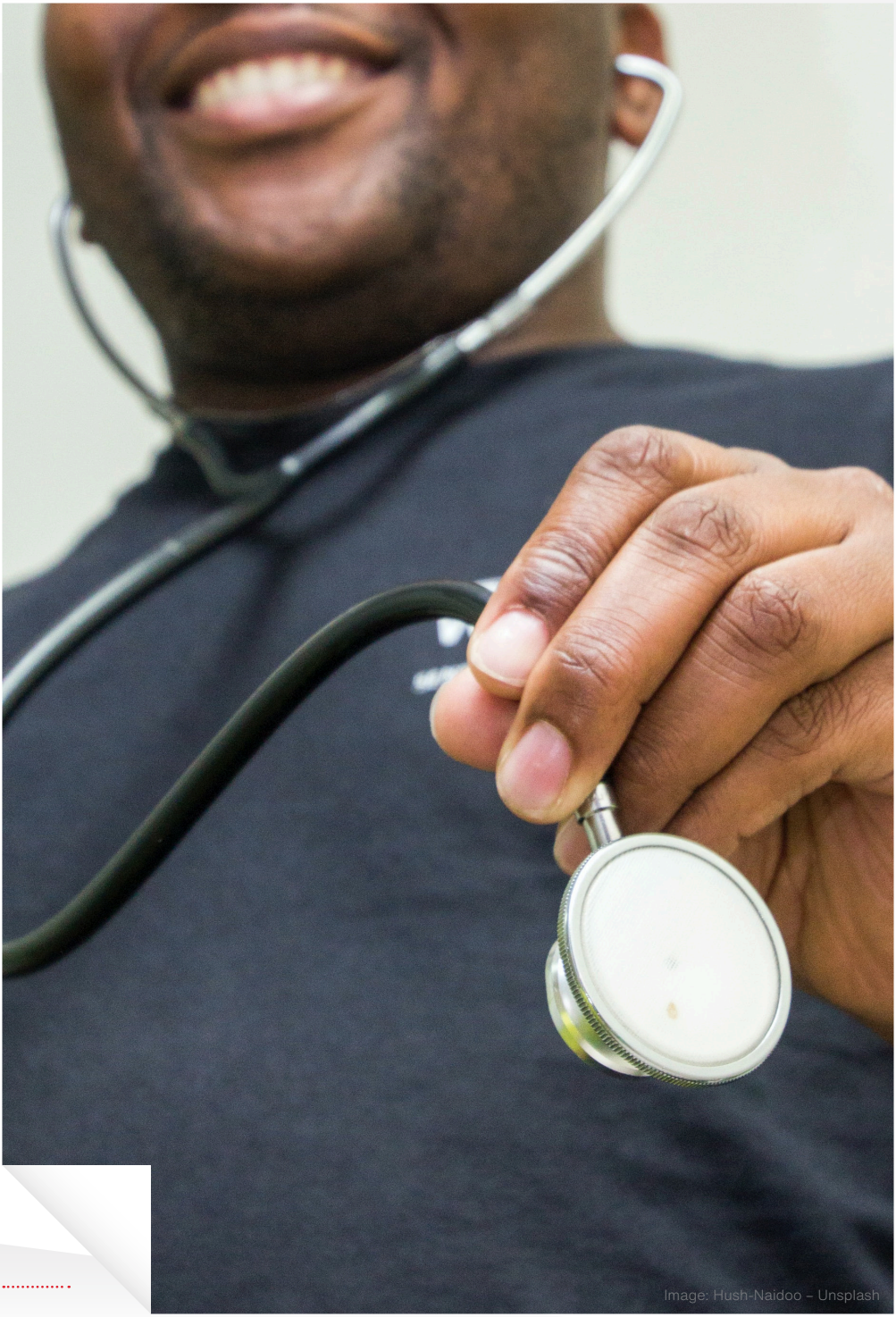


Image: Hush-Naidoo – Unsplash

Other key stakeholders based on level of influence and interest are:

Stakeholder groupings	Material legitimate interests
Stakeholders in government and line departments	
› Minister of Health and the National Department of Health › Minister of Finance and National Treasury	› GEMS remaining sustainable › Sound management of GEMS, ensuring lowest possible contributions and value for money › Advancement of key health policy direction of Government, namely universal access to healthcare › Support for key health projects and initiatives with related pilot projects
Stakeholders related to the positioning of medical assistance as an employee benefit	
› Public Service Coordinating Bargaining Council (PSCBC) › PSCBC Working Committee › Unions admitted to the PSCBC › HR Practitioners	› GEMS remaining sustainable and in healthy financial position › Access to affordable benefits for public service employees generally › Development and introduction of suitable benefit package for employees on salary levels 1-5 › High levels of member satisfaction and effective complaints management › Effective operating model › Transformation of Board composition
Stakeholders directly driving Scheme performance and operations	
› GEMS Employees › GEMS Service Provider Network	› Ethical leadership › Sound and constructive employment relations › Fair employment policies and practices, including performance management › Career advancement opportunities › Effective operating model › Fair and transparent procurement processes › Sound contractual arrangements and contract management practices
Stakeholders impacting on Scheme performance	
› Healthcare providers in their various cohorts	› Fair and transparent healthcare network procurement processes › Effective healthcare network management › Fair and transparent fraud, waste and abuse management practices › Transparent and fair tariff negotiations › Effective claims payment capabilities

Focus areas and outcomes

Stakeholder engagements in 2019 focused on:

› Briefing stakeholders on the GEMS Five-Year Strategic Plan and progress;
› Keeping stakeholders informed of progress in addressing challenges reported in previous reporting periods;
› Reporting successes achieved by the claims management forum;
› Reporting on the financial position of GEMS and its benefits offered to public service employees;
› Engaging healthcare providers on the allegations leading to the Section 59 Investigation by the CMS;
› Consulting on product development and benefit design objectives for 2020 and the development of an option for public service employees on salary level 1-5; and
› Strengthening the Scheme's position as an integral role-player of driving transformation of the South African healthcare industry.

GEMS made extensive submissions on the NHI Bill, and HMI Provisional Report to inform legislative reforms required to realise universal health coverage.

Meaningful consultation in the PSCBC Working Committee contributed to the improvement and renaming of the Sapphire option to become the Tanzanite One option and the enhancement of the GEMS governance rules.

Notably, the Scheme is involved in spearheading NHI initiatives and transformational initiatives working with our principals and key stakeholders.

Principal/Stakeholder	Initiative
Department of Public Service and Administration	› Employer subsidy adjustment
Public Service Coordinating Bargaining Council	› Collaborated on the development of the Tanzanite One option for employees on salary levels 1-5
National Department of Health	› High-cost medicines and rare diseases
Council for Medical Schemes	› Fraud, Waste and Abuse Steering Committee and Inaugural Summit › Pilot for Beneficiary Registry
Health Market Inquiry	› Submission on supply-induced demand, standardisation of benefits, healthcare network procurement.
Board of Healthcare Funders of South Africa	› UHC model development
Office of Health Standards Compliance Initiative	› Quality accreditation

GEMS materiality determination

GEMS is committed to ensuring that members, the Minister for Public Service and Administration and other stakeholders have access to accurate and reliable information. The GEMS Board of Trustees acknowledges its responsibility to assure the integrity of the Scheme's Annual Integrated Report. As such, it has taken responsibility for determining the matters that materially impact the Scheme's ability to create value for its stakeholders, and ensure the sustainability of the Scheme.

The purpose of the materiality process is to ensure that matters which substantively affect GEMS's ability to create value are identified and reported on, while keeping the integrated report concise. A material matter will usually be one that substantively impacts, or has the potential to substantively impact its strategy, governance practices, performance, prospects or important capitals such as financial capital, social and relationship capital, human capital and intellectual capital.

The steps taken to determine materiality for the 2019 Annual Integrated Report include the following:

Step one: Identifying relevant matters based on its ability to impact value creation

The GEMS Integrated Reporting Group, consisting of representatives from all Divisions, identified relevant matters and the information to be disclosed in relation to each material aspect. The identification of material aspects was done based on the steering group's collective knowledge and information on:

› The GEMS value creation statement;
› Matters raised by members;
› Matters identified during stakeholder identification, analysis and engagement;
› External matters that impacted on the Scheme in 2019;
› The Scheme's internal business context in 2019; and
› The Scheme's performance in 2019.

Stakeholder feedback and input have been obtained through the Scheme's stakeholder activities and feedback sessions, including meetings with the Public Service Coordinating Bargaining Council (PSCBC), meetings of the PSCBC Working Group, meetings with National Treasury and the Department of Public Service and Administration.

Step two: Determining material aspects and information to disclose

The matters identified were prioritised to arrive at a condensed list. Prioritisation was based on the criteria of:

› Significant Board and Committee level attention (agendas, board level discussion and direction to Scheme Management).
› EXCO level attention (agendas, EXCO level discussion and focused initiatives).
› Addressed by members (2019 AGM, Lekgotlas, focus groups, member complaints).
› Alignment to the GEMS Five-Year Strategic Plan (2017 to 2021) objectives.
› Alignment to strategic risk register.
› Addressed by or raised by the Minister for Public Service and Administration in engagements with the Scheme, the regulator and key stakeholders.
› The prioritised list was submitted to the Scheme's Executive Committee with a recommendation and was accepted. The Audit Committee reviewed the list of material aspects and information to be disclosed.
› The Board of Trustees approved the list of material aspects on 27 February 2020 on the recommendation of the Audit Committee.

Our material matters and their importance and impact for stakeholders as linked to strategic risks in 2019:

Material aspects	Importance and impact	
Member value delivery in 2019	There is a circular relationship between member value proposition, membership growth and access to healthcare. The Scheme expanded access to healthcare for members and their extended families in 2019. Outcomes of the Scheme's initiatives in 2019 were: Low contribution increases compared to market; the introduction of a second efficiency discounted option that greatly enhances access for employees remunerated on public service salary levels 1-5; the provision of benefit extender mechanisms; a reduction in avoidable member co-payments; a significant reduction in the number of members who exhausted day-to-day benefits early in the year; and membership growth. The Scheme's cost containment effects did not impact negatively on member health and GEMS **outperformed** the industry on **79.5%** of managed care metrics. The percentage of member complaints reduced from 0.15% to 0.10% in 2019. As a restricted membership scheme for public service employees, delivering member value had a positive impact on the country. Co-payments and benefit exhaustion were frequently raised by members as a concern.	
GEMS as the blueprint for NHI	National Health Insurance is projected to be introduced in 2026. The introduction of the National Health Insurance requires the massive reorganisation of both the public and private healthcare sectors. This is a complex and multifaceted endeavour that requires tremendous experience and expertise. GEMS's capabilities can be leveraged to support the implementation of NHI, i.e. GEMS is a case study at scale. The Scheme is a reckoned entity in view of its size, successful turnaround since 2016 and focused participation in the medical schemes industry and broader society. The Scheme's participation in NHI-related initiatives and broader society is intended to support the strengthening of the healthcare sector for the ultimate benefit of all users. The Scheme's strategic ideal to be the blueprint for NHI is driving development and innovation in GEMS, e.g. the Tanzanite One option. The associated project for sourcing capabilities will provide the Scheme with the ability to improve member services and reduce administration costs over the long term. The Scheme is expected to place less reliance on third parties and exert more direct control. The project positions GEMS as the blueprint for NHI.	
Working in the PSCBC Working Committee to develop value for GEMS members	The PSCBC Working Committee provides the Scheme with an effective and efficient stakeholder engagement mechanism. Robust engagements in the PSCBC Working Group contribute to the Scheme's identification, understanding of and alignment with stakeholder expectations. The work done by the Scheme in the PSCBC Working Committee enhanced the Scheme's reputation and impacted benefit design buy-in and stakeholder alignment on objectives. This was evident at the 2019 AGM and throughout the development of Tanzanite One.	

	Main value drivers in business model (from page 14)	Strategic risk/material operational risk	Section of report where more information can be found
	› Product development and benefit design › Claims management › Disease management › Service management › Fraud, waste and abuse management › The capitals used and affected positively are **financial capital, social and relationship capital and intellectual capital (product development)**	**#1** Unsustainable healthcare cost increase **#2** Unable to balance and respond effectively to stakeholder expectations and requirements **#5** Prolonged negative trend in member resignation or new member uptake **#8** Unable to operationalise a cohesive GEMS structure **#9** Deterioration in member health outcomes	› Value creation and business model (p11) › GEMS value offering – what sets GEMS apart from other medical schemes (p18) › Strategy and resource allocation: Service Management Forum and Claims Management Forum (p71) › Risk Management (p75) › Performance and Outcomes (p91)
	› Stakeholder relations strategy › Stakeholder engagements › Sourcing of internal capabilities › Product development and benefit design › NHI pilot project support › **The capitals used and affected are social and relationship capital and intellectual capital**	**#3** Significant breakdown in alignment, integration and mobilisation of all stakeholders into NHI process **#2** Unable to balance and respond effectively to stakeholder expectations and requirements **#6** Ineffective insource/outsource operating model	› Outlook (p25) › Strategy and resource allocation (p51) › Stakeholder report (p41)
	› Stakeholder relations strategy › Stakeholder engagements › The capital affected is **social and relationship capital**	**#2** Unable to balance and respond effectively to stakeholder expectations and requirements	› Strategy and resource allocation (p52) › Stakeholder report (p41)

Material aspects	Importance and impact	
Protecting value through good corporate governance underpinned by ethical leadership	The Scheme follows good corporate governance practices to protect value (including member benefits), inspire confidence and maintain legitimacy. The outcomes achieved through ethical leadership include the decisive action against senior Scheme employees and positioning the Scheme as one of the few entities that do not require additional funding from National Treasury (bailouts); the new GEMS Ethics Management Plan and GEMS initiatives to deal with fraud, waste and abuse and other undesirable behaviour, including beneficiaries acting in an unethical manner. At a time when the country is dealing with the impact of state capture, GEMS demonstrated the positive impact of facing up to corruption and fraud, waste and abuse.	
GEMS digital strategy journey	Digitisation provides a platform for enhancing member services by better access to information, improved administration efficiency and cost reduction. Building ICT capability in the Scheme improves efficiency and positions GEMS as the blueprint for NHI.	
The GEMS reserve ratio journey	The improvement in the GEMS reserve ratio from 6.99% in 2016 to 31.5% as at 31 December 2019 is remarkable. It demonstrates the Scheme's commitment to being a sustainable organisation that serves society. Seen in context of the other outcomes demonstrated in respect of member value, the reserve ratio performance demonstrates that the Scheme's business model is appropriate and geared towards creating value sustainably.	

	Main value drivers in business model (from page 14)	Strategic risk/material operational risk	Section of report where more information can be found
	› Effective governance structures › Board and employee training › Board effectiveness assessments › Sound Scheme Policies › Ethics Management Programme › The capitals affected are **social and relationship capital** and **human capital**	**#2** Unable to balance and respond effectively to stakeholder expectations and requirements **#7** Breakdown in ethical culture internally and in the operating environment	› Value creation and business model (p11) › Governance and remuneration: governance of ethics (p144)
	› ICT capability development and implementation › ICT fibre network infrastructure support › Service Management Forum driving service improvement requirements › The capitals affected are **social and relationship capital, intellectual capital** and **manufactured capital**	**#2** Unable to balance and respond effectively to stakeholder expectations and requirements **#4** A cyber crime attack **#8** Unable to operationalise a cohesive GEMS structure	› Value creation and business model (p16) › Strategy and resource allocation (p51 and 53) › Risk Management (p84) › Governance and Remuneration: IT and data governance (p146)
	› Claims Management Forum Reviews and Monitoring Process › Investment mandate and process › Billing and tariff negotiations and tariff management › Fraud, waste and abuse management (outlier identification, intervention, investigations and fraud recovery) › The capitals affected are **financial capital** and **social and relationship capital**	**#1** Unsustainable healthcare cost increase **#9** Deterioration in member health outcomes	› Value creation and business model (p11) › Outcomes and performance (p114) › Outlook (p25)

Aligned to government priorities, improving affordability and access to quality healthcare for public service employees forms the heart of our strategy.

8

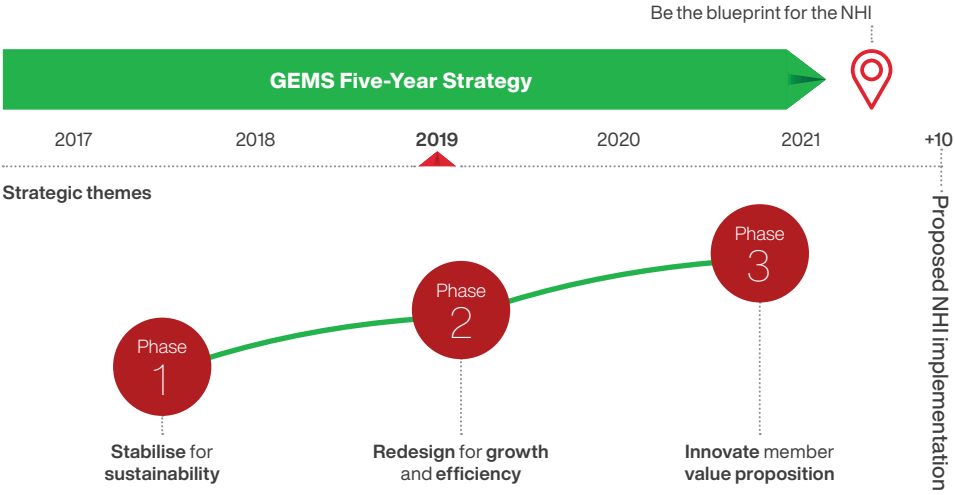
STRATEGY AND USE OF RESOURCES

Our strategy

To develop our current strategic plan, spanning the five year period from 2017 to 2021, we have engaged external stakeholders to fundamentally understand stakeholder perceptions on operational challenges and opportunities, as well as to surface expectations regarding GEMS' strategic direction for the future.

Aligned to government priorities, specifically the Minister for Public Service and Administration, **improving affordability and access to quality healthcare for public service employees forms the heart of our strategy**. The overarching strategic objective of our new Five-year Strategic Plan is for GEMS to become the blueprint for the National Health Insurance.

Our strategic journey towards becoming the blueprint is aligned to our value creation statement:



Strategic elements

- Financial sustainability initiatives
- Supply and demand side interventions
- Operating model efficiency improvements
- Position GEMS' identity as part of the broader social security agenda
- Formulate an effective stakeholder engagement plan

- Establish research and development capability to inform healthcare reform
- Simplification of product, services and processes
- Formulate a strategy for engaging key stakeholders to support South African healthcare reform
- Investment in alternative and transformational funding models
- Participate in the consolidation of risk pools
- Broaden the eligibility criteria to drive membership growth

- Advanced IT systems and platform for enhanced member experience and decision making
- Data driven health care management
- Enable continuous product development and operational improvement
- Reconfiguration towards NHI

Coming from a severely constraint financial position in 2016, the first phase of the strategy was rooted in establishing a firm financial foundation. This phase has been concluded with dramatic results, returning GEMS to a resilient financial position and achieving the regulatory reserve requirement level.

Under our phase 2 strategic theme *"Redesign for Growth and Efficiency"*, we are actively focused on:

Effective strategy execution through key focus areas

To succeed in the implementation of our strategy, we pursue six strategic objectives underpinned by key performance indicators. The strategic objectives address the short-, medium- or long-term value creation objectives of GEMS as depicted on page 51.

The key performance indicators are built into the performance scorecards of GEMS employees.

Strategic Objective		2019 Key Performance Indicators *The approved targets linked to KPIs and main risk factors are shown on pages 94-101.*
1	Be an organisation that is effective in communication, proactive in decision making and accountable to all stakeholders	› Complaints ratio › Formation of the Stakeholder Integration Forum
2	Advance financial strength and drive the Scheme to a position of long term sustainability	› Reserve ratio › Investment income
3	Shape the transformation of the healthcare industry towards universal healthcare, coordinated across the healthcare ecosystem	› Simplified core product offering (Percentage of members who moved from the Emerald option to the Emerald Value option) › Interventions to reduce co-payments › A developed healthcare accountability model that progressively aligns healthcare expenditure, quality & access with affordability levels › Percentage of GEMS beneficiaries living with HIV who know their status, receiving treatment and are virally suppressed.
4	Be a strategic purchaser of healthcare services by leveraging GEMS' unique positioning and relationships	› Leverage existing strategic assets towards improving member value › Participation in healthcare supply side reform in line with social security agenda › Leverage existing strategic assets towards improving member value: Reduce the KZN hospital admission rate relative to the national admission rate › Develop IP and strategic assets to enhance value-based healthcare purchasing for the civil service
5	Be an agile data driven Scheme that leverages people, systems and processes to derive value for the member	› High performing engaged human capital: Demographic transformation as per national requirements with diversity and equity strategy developed › Introduce advanced digital channels to increase interface with members and providers › Secure critical systems and intellectual property against advanced persistent threat › Member Satisfaction: Ranking in selective comparative survey
6	Sustainably grow membership ensuring inclusion and progressive cross subsidisation	› Client Liaison Offices roll out and presence › Sustainable membership growth and retention › Ensure a wellness program whose performance is linked to health outcomes

Our performance against pertinent key performance indicators can be found on pages 94-101.

Optimising human resources

Our strategy is implemented by teams of dedicated resources at our GEMS head office and client liaison regional offices. For service delivery to members on the ground, various services are leveraged through contracted suppliers in our service provider network (see our organisational overview on p33.

The table below depicts the total number of GEMS employees at our head office and client liaison offices since 2017:

Total Employees	2017	2018	2019
GEMS	310	285	309
Employees per Office	**2017**	**2018**	**2019**
Head Office	150	133	155
Client Liaison Office	160	152	154
Total	310	285	309
Employees per Contract Type	**2017**	**2018**	**2019**
Contract	19	19	0
Permanent	263	266	309
Internship	28	0	0
Total	310	285	309
Employees per Gender	**2017**	**2018**	**2019**
Male	95	90	98
Female	215	195	211
Total	310	285	309
Turnover	**5.40%**	**8.20%**	**4.80%**

A programme to source capabilities is underway to reconfigure GEMS towards NHI. Our top structure depicted on page 32 was put in place during 2018. A workstudy project commenced in 2019 to design and build the full new organisational structure and capacity model below the top structure. That means that we will expand our organisational structure to offer even more employment opportunities.

Union membership

An organisational rights agreement with NEHAWU was signed on 01 March 2019. A total of **182** GEMS employees belong to the union, equivalent to **58%** representation.

Leadership

Our Chief Officers making up the GEMS Executive Committee in 2019 implemented the GEMS strategy under the leadership of Dr Gunvant Goolab.

Dr. Guni Goolab[3] | Principal Officer

Qualifications

Dr Goolab is a qualified medical practitioner, who graduated from the University of Witwatersrand (Wits) in 1985 and later completed an MBA with the University of Cape Town (UCT).

Experience

Dr Goolab has an extensive public and private healthcare background spanning nearly three decades. He has extensive executive experience having led AstraZeneca, a multinational healthcare company one of the fastest growing pharmaceutical companies in South Africa. From 2008 to 2013, he led the expansion of AstraZeneca into Sub-Saharan Africa, with a particular focus on Nigeria, Ghana, Kenya and Angola.

He was Principal Officer of GEMS from 1 August 2013 to 31 January 2020.

3 Contract ended 31 January 2020

Dr Stanley Moloabi[4] | Chief Operations Officer

Qualifications

Dr Moloabi is a qualified Medical Practitioner.

He obtained his MBChB at the then Medical University of Southern Africa (MEDUNSA) now known as Sefako Makgato University. He has a Diploma in Business Management with Damelin Management School. He also obtained a Certificate on Global Health Delivery online course from Harvard University. He attended and participated in a short course on Leading in Health Systems: Integrating Effort, Improving Outcomes receiving a certificate from Harvard T.H. Chan School of Public Health and various other Continuing Professional Development attendance courses.

Experience

Dr. Moloabi rejoined GEMS on 01 June 2018. Until 31 January 2020, he held the position of Chief Operations Officer.

He started his career as a Medical Officer in the Public Sector then as a Private Family Practitioner, successfully running a Clinical Private Practice for 13 years.

He joined the Corporate Sector in August 2005 and worked at Medscheme occupying various positions including serving as a member of the Managed Care division EXCO. He then joined GEMS as the Executive of Healthcare Management. He also served as the GEMS Acting Principal Officer for a period of a year. He then left GEMS to assume duties as the Principal Officer of Medshield Medical Scheme.

He is the Principal Officer of the Government Employees Medical Scheme from 01 February 2020.

4 Principal Officer with effect from 1 February 2020

Mr Evan Theys | Company Secretary and Legal Counsel

Qualifications

Mr Theys has a BA LLB from University of Western Cape, LLM and Post Graduate Diploma in Tax Law from UCT and a MBA from University of Stellenbosch.

Experience

Mr Theys is an admitted attorney with experience in the life insurance industry and as a company secretary, and has been in various sectors of the medical schemes industry for the past 16 years.

He joined GEMS on 1 February 2018 as the Company Secretary and Legal Counsel.

Ms Gloria Nkadimeng | Chief Information Officer

Qualifications

Ms G Nkadimeng holds a Masters Degree in Automated Management Systems acquired in Havana, Cuba. Certificate in Business Management from the Centre for Business Management, UNISA.

Experience

Prior to joining GEMS, Ms G Nkadimeng was Group Head Information & Communication Technology at the City of Johannesburg, Public Services Business Executive at Gijima, Enterprise Strategy Consultant at Microsoft and General Manager Information Management at the City of Tshwane

Currently, Ms Nkadimeng is charged with providing strategic leadership, vision and direction to the ICT Division in rendering Information and Communication Technology services to GEMS.

Mr Molapo Masekoameng | Chief Audit Executive

Qualifications

Mr Masekoameng holds a Post Graduate Diploma in Corporate Governance (Monash South Africa), B Tech Degree in Internal Auditing (UNISA), diploma in Treasury Management and Trade Finance (Institute of Bankers), International Executive Development Programme (Wits Business School) and he is accredited by the Institute of Internal Auditors as a Certified Internal Auditor (CIA) and Certified Financial Services Auditor (CFSA).

Experience

Mr Masekoameng joined the Scheme in August 2014.

Prior to joining GEMS, he was the Regional Internal Audit Director for Barclays Internal Audit – Southern Africa (Overseeing internal audit services for Botswana; Mozambique; Tanzania; Zambia and Zimbabwe) and most recently as Head of Internal Audit, Barclays Shared Services Africa. Other career highlights include more than two years' experience as the Chief Operating Officer of Absa Internal Audit and two-year tenure as Head of Audit for Absa Retail Banking.

He is responsible for the Scheme's Internal Audit Function.

Dr Vuyokazi Gqola | Chief Healthcare Officer

Qualifications

MBChB (UCT), BSc (UKZN), BSc (Hons) (UKZN), Certificate in Global Health Delivery (Harvard University)

Experience

Dr Vuyo Gqola is a registered Medical Practitioner with the Health Professions Council of South Africa (HPCSA). She is currently studying towards her Masters in Business Administration (MBA) in Health Care Leadership at the University of Stellenbosch.

She has worked at various State health institutions, with particular experience in Paediatrics and HIV Management. She joined the managed care industry in 2010, and was appointed as GEMS Executive: Healthcare Management in September 2015.

She heads the Scheme's Healthcare Management Division which is responsible for managed care services, including clinical risk management, healthcare networks, provider relations, tariffs and billing, tariff negotiations, and healthcare strategic sourcing.

Ms Karyna Pierce | Chief Financial Officer

Qualifications

CA (SA)

Experience

Extensive experience in directing organisational finance, operations and compliance functions.

Career highlights include a five-year tenure as Head of Finance at the Competition Commission responsible for Strategic and Business Planning (finance area), People Management, Basic Administration and Compliance, Policy Implementation and Service Delivery.

Joined GEMS in 2007, responsible for implementing the Scheme strategy, in particular managing Scheme finances, Scheme investments, implementation and processing of financial, accounting and administrative requirements (inclusive of relevant policies and related compliance matters) as well as directing and oversight of Scheme actuarial work and external audits.

Dr Selaelo Mametja | Chief Research Officer

Qualifications

FCPHM (Colleges of medicine of South Africa), MMED Public Health (UCT), PGD in Health Management (UCT), MBBcH (Wits)

Experience

Dr Mametja is a Public Health Medicine specialist with experience in health economics and health care financing, health policy, management and bioethics and law.

Prior to joining GEMS, in February 2020 she was the Head of Knowledge Management, Research and Ethics Department in SAMA. During her tenure she served at various working groups of the World Medical Association.

She oversees product development, knowledge management and actuarial and analytical services, reinforcing the Scheme's competitiveness through innovative research and development programmes.

Mr Phumelela Dhlomo | Chief Marketing Officer

Qualifications

B.Paed (SSTD), B.Com (Hons), PDMM, MBA, Mcomm

Experience

A qualified chartered marketer (CMSA) with over 20 years' experience in corporate communications. Strategic management and brand communication. Career include working with major brands, in the African continent and globally in FMCG, Financial services, Advertising, retail, tourism and public sector. Joined the Scheme on the 1st July 2019.

Dr Samuel Lewatle | Chief Corporate Services Officer

Qualifications

Doctor of Business Administration (DBA), Master of Business Administration (MBA), National Education Diploma, Post Graduate Certificate in Executive Leadership, Certificate in Business and Executive Coaching, and Human Resource Certified Auditor. Current study Certificate in Trustee Leadership programmes. Professional registrations: with the South African Board for People Practice as a Master Human Resources Practitioner, Coaching and Mentors of South Africa, Institute of Directors of South Africa and Institute of People Management.

Experience

Over 20 years in senior and executive positions in both public and private sector organisations. International experience in working and managing in countries in South, East and West Africa.

Key roles and experience in human resources management, business research, strategy management and execution, business transformation (black economic empowerment), supply chain management, facilities management, travel management, labour relations, , business process mapping/ re-engineering, policy formulation and implementation.

Exposure to both Boards of Trustees/ Directors/ Executive Management. Travelled and received management and leadership training in USA, Germany, UK and France.

Ms Veni Singh | Chief Administration Officer

Qualifications

MBA, MAP, Diplomas in Human Resources Management, Training, Business Law and Strategy, underpinned by her clinical qualifications.

Experience

She has extensive experience in both private, public institutions and international experience having been in the Healthcare Industry for more than three decades, with more than two decades of experience gained within the Medical Scheme industry in various executive roles

In February 2018 she joined GEMS as a Healthcare Strategist delivering strategies in line with National health Insurance. She was then appointed as an Executive: Chief Administration Officer in November 2018, responsible for managing and providing strategy and leadership in rendering Administration and Transaction Services to GEMS

Ms Jeannie Combrink | Chief Compliance Officer

Qualifications

BA Degree in State Administration, Human Resource Management, Public Administration and Political Science

BA Hons in Public Administration.

Experience

Prior to joining GEMS, she worked as a Deputy Director: Conditions of Service in the Department of Public Service and Administration. Other highlights include serving at the Public Service Commission from 1993 to 1999. Prior to that, she formed part of the team that implemented PERSAL across the public service.

She was part of the team tasked with establishing GEMS and formally became a Scheme employee in 2006. She is responsible for the Scheme's Integrated Reporting; Compliance and Ethics; Fraud, Waste and Abuse and Enterprise Risk Management Functions.

Our Chief Officers are supported by a team of Senior Managers driving operational performance:

Ramola Balmakhun-Lovell | Senior Manager: Office of the Principal Officer (Fund)

Qualifications

BSc Degree in Mechanical Engineering (UCT), BEng Honours Technology Management (UP), MEng Degree in Technology Management (UP), Certificate in Strategies for Leading Successful Change Initiatives (Harvard University Extension School.)

Experience

More than 17 years professional experience. She commenced her career as a research and development railway engineer at Transnet Freight Rail (previously Spoornet), and then served as an operations and maintenance engineer at South African Breweries. Joined Deloitte in 2011 as a strategy and innovation consultant nationally and internationally at both public and private sector clients. Joined GEMS in 2017 as the Senior Manager in the Office of the Principal Officer.

Masingita Chavalala | Senior Manager: Project Management

Qualifications

PGDip in Programme Management (Cranefield), AdvDip in Project Management (Cranefield), General Management Programme (GIBS), Programme in Advanced Strategic Management (UNISA)

Experience

Extensive experience in strategy management, project portfolio management and project implementation. Ms. Chavalala started her career as a project consultant in the financial services industry and has worked in other industries including economic development, financial intelligence, communication and retail. Some of her roles prior to joining GEMS includes Senior Project Manager for the Edcon Group and Deputy Director in the Office of the Minister of Economic Development (recently merged with the Department of Trade and Industry). Joined GEMS in November 2015 as a Senior Manager responsible for the Scheme's Project Management Office

Thabo R Litabe | Senior Manager: ICT Infrastructure Services and Operations

Qualifications

B-Tech Degree in Information Technology (Application Development and Information systems) from Central University of Technology, Senior Management Programme (GIBS), COBIT 5 Certified, (02912680-02-HAL6), APMG International, ITIL Certified, (02913379-01-LWNH), APMG International.

Experience

Over 18 years of ICT technical and management experience obtained from public and private sectors. Before joining GEMS, he held various strategic managerial positions; Senior Manager/Head of ICT Department at South African Pharmacy Council, ICT officer (ICT Manager) at National Gambling Board and Technical Specialist at various Government Departments and Central University of Technology (CUT).

Joined GEMS in April 2016 and responsible for the GEMS ICT Infrastructure Services and Operations

Tshepo Given Rasekgothoma | Senior Manager: Information Technology

Qualifications

B Tech: Knowledge Management, National Diploma: Information Technology, COBIT 5 Certification, PRINCE2 Certification

Experience

Before joining GEMS he held the position of Service Delivery Manager leading an Application Development and Support team responsible for all key hospital applications or systems at Life Healthcare Group. He has over 18 years' experience in Information and Communication Technology, digital and data, having held senior positions within various organisations including State Information Technology Agency (SITA), South African Weather Services, the Department of Trade and Industry, the Department of Health, Department of Agriculture, and Road Accident Fund. He joined GEMS in 2015 as Senior Manager: Application Development and is responsible for the implementation of modern solutions which includes Enterprise Resource Planning (ERP), Customer Relationship Management (CRM), Enterprise Intelligence and Multichannel solutions such as Mobile App, Member Portal.

Selloane Noko | Senior Manager: Governance and Secretariat Services

Qualifications

SLDP (WBS); CIMB 1/2 (Gimt / Unisa); Dip: PRP (Damelin), N6 Computer Literacy and Programming (Manpower Training College/TVET);

Completed a number of Governance related courses including Dip. Company Direction; Director Development (IoDSA); Trustee Development (WBS); Advanced Trustee Development (GIBS)

Experience

Started working career in the Communications and Public Relations Practitioner field.

Spent 7 years of the 20 years' working experience in the Medical Scheme's Industry in charge of Secretariat Compliance, Corporate Governance and Corporate Advisory Services. Worked in various Private and Public Sector entities collectively responsible for Board and Committee administration, Corporate Secretariat services, company registrations, director registrations, and statutory compliance services.

Pierre Roux | Senior Manager: Legal & Compliance

Qualifications

Baccalaureus Procurationis (B.Proc) Degree (Law), UNISA and admitted as an Attorney of the High Court of South Africa

Qualified Lawyers Transfer Test, BPP Professional Education, United Kingdom

Law Society of England and Wales Management Course, BPP Professional Education, London, United Kingdom

National Diploma in Real Estate (Property Valuation), Technicon South Africa

Property Valuers Admission Examination, South African Council for the Property Valuers Profession

Experience

More than 29 years' experience in the legal profession, which includes medical scheme insurance, corporate, commercial, civil, and criminal law.

Prior to joining GEMS, served in a number of roles in the United Kingdom, the most recent of which include:
› Head of Legal Services, NHS Eastern & Coastal Kent Primary Care Trust
› Company/Commercial Solicitor, MTA Corporate Solicitors LLP, London
› Commercial Legal Advisor, Hospital Corporation of America International Ltd., London
› Lecturer in Business Law, Blake Hall College, London

Joined GEMS in October 2010, and is currently managing Legal and Environmental Sustainability functions, together with the Annual General Meeting.

Vuyokazi Belinda Madengwane | Senior Manager: Accounting

Qualifications

CA (SA)

Experience

A solid background in financial management and has gained extensive insight through working in diverse financial positions, of which the last position was as head of finance for the Southern African operations for one of the manufacturers of medical devices with global presence.

Her accounting and financial competencies include, but not limited to, maintaining financial records, managing budgets, internal controls management, risk management and business strategy support.

Morne White | Senior Manager: Finance

Qualifications

CA (SA), ACMA (CGMA), MCOM

Experience

In excess of 23 years' experience in various financial roles of which the last 10 years has been with GEMS. Previously involved in the healthcare sector working for a large hospital group in SA as well an employee wellness company.

Experience gained over the years include financial accounting, cash flow & investment management, forecasting and budgeting, financial system implementations, strategic planning and development of business plans.

Andre Cowley | Senior Manager: Risk Management

Qualifications

Bachelors Degree in Engineering (B.Eng), Masters Degree in Engineering (M.Eng), Certified Risk Management Practitioner (CRM.Prac), Certified Risk Management Professional (CRM. Prof)

Experience

More than 20 years experience in Governance, Risk, Compliance, Strategy, Engineering, Project Management, Business Intelligence, Knowledge Management, Information Management and Organisational Restructuring. Held positions as specialist, senior manager and functional manager. Involved in large and multinational organisations including medical schemes, consulting, manufacturing, construction & engineering, research & development and retail.

Ishmael Mogapi | Senior Manager: External Forensics

Qualifications

Bluris, LLB, General Management Programme (GIBS)

Experience

Over 20 years law enforcement and risk management experience obtained from roles in both the public and private sector. Held various strategic managerial position in the health administration business where he advised and coordinated the fraud risk management activities of several medical schemes. Responsible for managing the GEMS Fraud, Waste and Abuse Function.

Yashwin Singh | Senior Manager Compliance and Ethics

Qualifications

B Proc, LLM commercial law

Experience

20 years' experience in governance, legal, risk compliance and ethics.

Dr Morwesi Mahlangu | Senior Manager: Medical Advisor

Qualifications

MBChB

Experience

Experienced General Practitioner with a demonstrated history of working in the financial services industry and managed healthcare environment. Skilled in Operations Management, Communication, Airports, Emergency Medicine, Aviation Medicine and Legislation and ICAO. Strong healthcare services professional graduated from the Medical University of Southern Africa with post graduate qualifications in Travel and Aviation Medicine.

Tryphine Zulu | Senior Manager: Disease Risk and Medicines Management

Qualifications

PhD (Health Economics), MPH (Health Economics), MSc (Med) Pharmacotherapy, B.Pharm

Experience

Mrs. Zulu is a Health Economist, trained as a pharmacist with managed care experience and health policy expertise, who has worked as a Health Economist at the National Treasury and the National Department of Health, and as a clinical risk specialist in managed care at Medscheme. She joined GEMS in 2019 as a Senior Manager responsible for Disease Risk and Medicines Management. She also serves on the World Health Organization's (WHO) Advisory Group on the Governance of the Private Sector for Universal Health Coverage.

Thabiso Mphehlo | Senior Manager: Networks and Provider Relations

Qualifications

PDG Public Health, Dip. PHC, Dip. Nursing

Experience

Mr Mphehlo has worked at various health institutions in the state sector with particular experience in the Military Health Services, he also worked at Discovery Health: Integrated Care, Access and Innovation Division then at Council for Medical Schemes as a Clinical Analyst and was appointment at GEMS in 2016. He is currently a Senior Manager responsible for Networks and Provider Relations.

Ms. Kholekile Mngqibisa | Senior Manager: Strategic Sourcing

Qualifications

B. Commerce (Hons), B. Commerce, ND Medical Technology

Experience

Ms. Mngqibisa's experience is in finance and procurement. She joined GEMS in July 2015 as Senior Manager: Strategic Sourcing.

Marjorie Nqala | Senior Manager: Tariffs and Compliance

Qualifications

BSc (Physiotherapy), BTech (Business Administration),
MBA (Master of Business Administration)

Experience

Mrs Nqala, a Physiotherapist by profession, with extensive experience as a clinician in both public and private healthcare sectors. Her focus shifted to Managed Care when she joined Discovery Health as a Clinical Researcher in the Health Policy Unit. She then joined the Healthcare Management division in GEMS 2012 as a Manager: Healthcare Management where she worked in all managed care areas within the division including Tariff Management, Contract Management, Disease Risk Management and Network Management. In her appointment as a Senior Manager she is responsible for Tariffs, Billing Rules, Compliance and Alternative Reimbursement Models.

Zamakhize Mkhize | Senior Manager Clinical and Transactions

Qualifications

Diploma in Nursing (General, Community, Psychiatry) and Midwifery. (Natal College of Nursing), Bachelor of Commerce (Marketing and General Management) (UNISA), Managing For Results (GIBS), Senior Management Development Programme (University of Stellenbosch)

Experience

6 Years Professional Nursing as a Midwife. 6 years Professional Nursing ICU. 6 years in Managed care (Manager: Hospital Risk Management, Medicine Risk Management, Disease Risk Management). 2 years Manager Provider Networks (SA). 2 years Strategic Managed Care: Tariffs, Universal Healthcare. 5 years Head of Provider Management (23 African Countries).

Megan Mncube | Senior Manager: Administration and Transaction Services

Qualifications

Degree in Human Movement sciences and Psychology (Wits), Sport Science Honours Degree (UP), Commercial and Contract law certificate (UCT)

Experience

4 years' experience in client services and preauthorisation in the medical aid industry with Discovery Health, 3 years in International medical case management assistance with International SOS, 3 years' experience in Contract and Operational management with GEMS

Baldwin Matsimela | Senior Manager: Marketing and Communication

Qualifications

Diploma in Public Management and Development, Post-Graduate in Public Development and Management, Development Communication and various certificates in media and public relations from Wits School of Journalism and Public Relations Institute of Southern Africa. Masters Degree in Public Management and Development in progress (Regenesys School of Public Management)

Experience

More than 15 years in corporate communication, marketing, advertising, stakeholder management and media relations

Lindiwe Ngcobo | Senior Manager: Client Liaison Office

Qualifications

Masters Diploma in Business Administration, Postgraduate Diploma in Marketing, Postgraduate Diploma in Business Management

Experience

Extensive experience, in Sales & Marketing, Customer Service & Experiential marketing, Communications, Stakeholder Management and Project Management and Strategic Partnerships, Accounts management, Business Tourism & Marketing Destination. I have experience in working in various markets including Corporate and Government industry. I started my career at British American Tobacco in Sales & Trade Marketing, worked for Oxford University Press managing their Regional Offices, worked for International Convention Centre Durban in Sales & Marketing Portfolio. Also worked for Brand South Africa and at City of Tshwane as an Executive Director Stakeholder Relations. Joined GEMS in April 2019 as a Senior Manager: Client Liaison Office) responsible for strategy implementation and operations oversight in Regions.

Riana Bredell | Senior Manager: Procurement

Qualifications

BA Degree majoring in languages and covering a range of subjects such as Political Science

She has completed a number of relevant courses over the years and has published articles and made various public appearances and delivered many papers on the subject of procurement.

Experience

Ms. Bredell has more than 35 years' extensive local, regional and international experience in the procurement and supply chain management environments ranging from designing new procurement models and organisational structures; developing policies and procedures and inputs into legislation, capacity building in the SCM environment; rendering procurement management and support services with extensive involvement in the healthcare procurement environment.

Her focus is on B-BBEE, preferential procurement and the healthcare industry.

Riana joined GEMS in 2015 and is currently responsible for Supply Chain Management and the Scheme's B-BBEE strategy implementation.

Audrey Mareme | Senior Manager: Corporate Services

Qualifications

Diploma Human Resources, Diploma Psychology, Degree Social Science, Degree Human Resources, Honours in Psychology and Masters in Human Resources

Experience

More than 20 years' experience in various Human Resources Roles of which 12 years has been Senior Management.

Experience gained the years includes among the others; Human Capital Resourcing, Talen and Retention, Organisational Development, Employee Relations, Performance Management, Remuneration and Human Resources Information Systems.

Exposure to Global Experience as Group Organisational Development Manager at Ericsson (Sweden and Sub-Sahara)

Image: Hush Naidoo – Unsplash

Central programmes for leveraging the collective capabilities of the GEMS Service Provider Network through collaboration

The capabilities and resources of the GEMS Service Provider Network is leveraged through the **GEMS Service Management Forum** to simplify and improve our member services.

Member servicing improvements

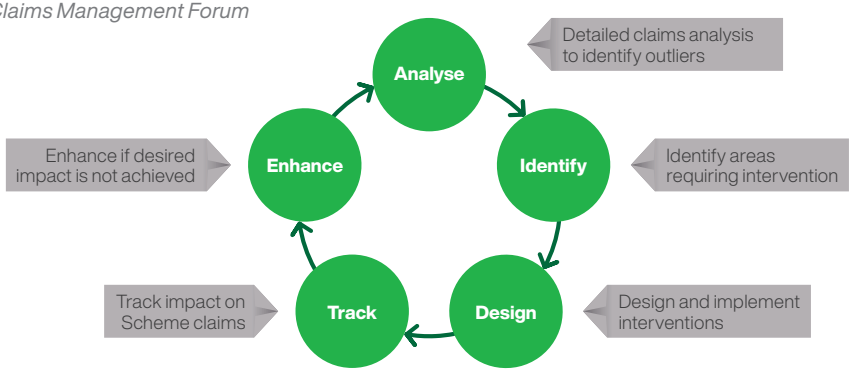
Member application
Reduction of member application to improve the application process

Call centre
Average waiting time has reduced from 16 sec in 2018 to 7 sec in 2019

Face-to-face help
Inception of the *Welcome to GEMS* initiative

The capabilities and resources of the GEMS Service Provider Network is leveraged through the **GEMS Claims Management Forum** to ensure that claims are funded appropriately.

Claims Management Forum



This process is underpinned by rigorous data analysis and information sharing and monitored by SPN and GEMS

2019 focus areas for the forum included:
1. Underwriting
2. Protocol reviews
3. In-hospital case managers
4. Medicine price list
5. Fraud, waste and abuse
6. Emerald Value option

Savings of **R1.4bn** achieved for 2019

Programme for the sourcing of capabilities

The key indicators for a long term sustainable GEMS points to significant operating model improvements to better support health transformation, membership growth, product development and industry transformation.

1

A sustainable scheme that offers class-leading products, service experience and business efficiency

2

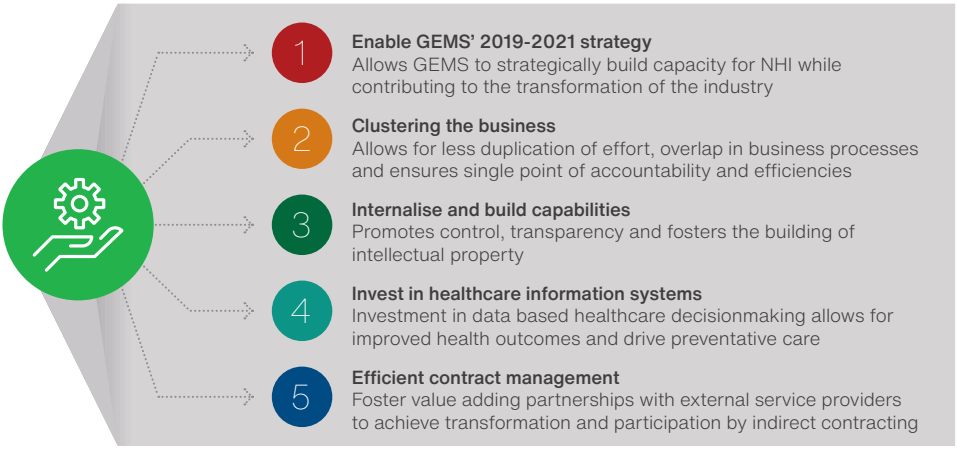
To be an integral part of the transformation of the healthcare industry towards NHI

Operational excellence
Quicker! Better! Simpler!

Collaborative innovation
Win! Win! Win!

Through our Sourcing of Capabilities programme, our operating model is changing in an incremental fashion to build the identified core capabilities needed to implement the GEMS Five-year Strategic Plan and to address weaknesses.

Sourcing of capabilities – Fit-for-purpose capability build



The GEMS Board of Trustees approved an end-state model that will be a self-contained, data-centric model that recognises the fiduciary duty of a 'fund' and its oversight of administration functions. Once the operating model is implemented fully, there will be a separate fund and administrator which will be responsible for specific functions.

The Board approved a sourcing strategy for building the internal capabilities that will be required in respect of the approved end state operating model.

Image: CDC – Unsplash

GEMS views risk management as a continuous, proactive and systematic process, built on robust principles and practices in a risk-intelligent entity.

9

RISK AND OPPORTUNITY MANAGEMENT

Governance of risk

The Board retains overall accountability for the governance of risk and is committed to effective risk management in pursuit of our strategic objectives. The GEMS Risk Social and Ethics Committee is responsible to review and assess the integrity of the risk management processes, working closely with the Audit Committee to ensure that these processes comply with the relevant governance requirements and standards and are implemented. The GEMS Chief Officers (Executives) are responsible and accountable for managing risks in their Divisions, including the significant outsourced business processes components.

The GEMS Executive Committee is the owner of risks, and is responsible for entrenching risk management, supported by the Enterprise Risk Management Function. The GEMS Enterprise Risk Management Function is the owner of the risk management framework, and is responsible for entrenching a risk management culture as well as facilitating risk management and integration across the business.

Risk management commitment

At GEMS, we understand our responsibility to balance risk and reward while pursuing our goals. We furthermore understand that managing risks effectively, opens opportunities otherwise not possible. We are firmly committed to robust risk management as a fundamental pillar to our business sustainability. Operating in the medical scheme sector in South Africa, GEMS is exposed to financial, political, legal, regulatory, technology, health and other risks that could potentially affect achievement of goals.

GEMS views risk management as a continuous, proactive and systematic process, built on robust principles and practices in a risk-intelligent entity, informing our decisions and actions to deal with and benefit from uncertainties that we may encounter while we pursue our goals.

Risk management strategy

GEMS' risk management strategy is to manage risks that may impact our business sustainability in context of our internal and external environments. Our risk management process, also covering our outsourced service providers, enables us to manage our risk profile within our risk appetite. Through combined assurance, our Management and Board of Trustees transparently report on our performance to stakeholders.

GEMS' risk universe illustrates the specific risk environment in which we operate, that constitutes the sources of risks that we may be exposed to. This represents the minimum scope of application of our risk management processes, and is segmented into 3 levels relating to our "purpose", "strategy" and "operational" realities. We continuously review and update the risk universe as an accurate representation of our strategic and operating environments. We anchor each identified risk in the relevant operational, strategic and purpose activity to enable decision-makers to contextualise and understand the interrelationships between our activities and the risks we face.


Image: Sammie Vasquez – Unsplash

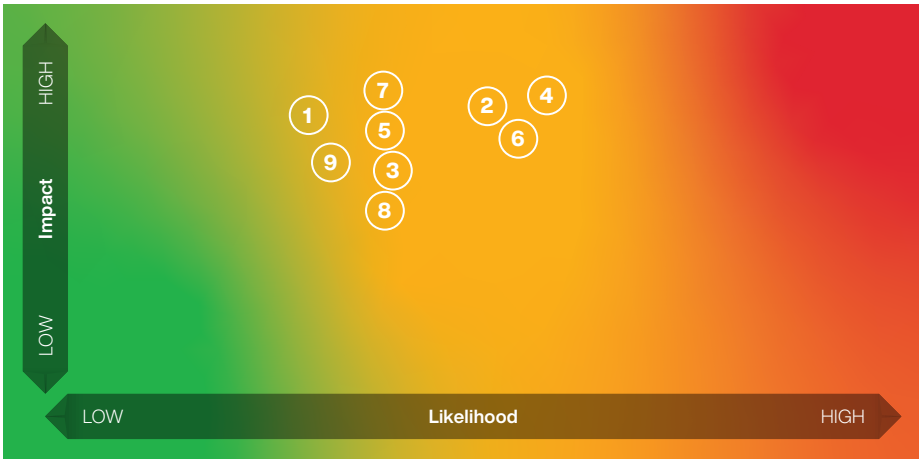
Purpose		
Long-term sustainability		
Strategic business fit	Subsidisation	Mergers and acquisitions business case
Strategy		
Resilience and financial sustainability	**Operational excellence**	**Growth**
Claims experience Utilisation Healthcare supply Solvency Contribution	Capabilities Operational efficiency Stakeholder satisfaction	Coverage Member satisfaction Health outcomes
Operations/process		
Value chain operations		
Product development Sales & marketing	Contribution & debt	Healthcare management	Claims management	Membership administration
Support functions operations		
Information ICT BCM Assurance Stakeholders Project and deviation management Fraud, waste and abuse Human capital Financial operations OHS and facility management		

Risk appetite, tolerance and risk bearing capacity demarcate various levels of risk that allows GEMS to escalate and deal with risk aligned to the delegation of authority. Risk appetite constitutes the amount of risk that the Scheme is willing to take in pursuit of our significant goals, and if breached may detract from achieving strategic objectives and targets. Risk Tolerance, represent the level of risk that if breached, may materially harm the Scheme reputation and delivery on its mandate. Risk Bearing Capacity represent the maximum amount of risk that the Scheme can accommodate, and if breached may lead to catastrophic demise and depletion of the Scheme capitals.

We recognise the importance of aligning our risk universe and risk appetite metrics with our impact on the six capitals (Financial, Manufactured, Intellectual, Human, Social and Relationship & Environmental Capitals). It allows us to deal with risk appropriately depending on the level of severity. These are reviewed annually and submitted to the Board for approval.

Top risks facing GEMS

The GEMS top risks are reflected in the heatmap below and discussed from page 78 in the context of the Strategic Objectives outlined in the Strategy and Resource Allocation Section of this report (page 53). These are monitored by the Board and it is shown that all top risks are adequately managed, with no risks exceeding the risk bearing capacity (red), while three risks exceeds the Scheme risk tolerance levels (orange). These are dealt with as priority items where risk controls are actively monitored for effectiveness, and continuously assessed for possible improved and additional risk controls.



1. Unsustainable healthcare cost increase
2. Unable to balance and respond effectively to stakeholder expectations and requirements
3. Significant breakdown in alignment, integration and mobilisation of all stakeholders into the NHI process
4. A significant cybercrime attack
5. Prolonged negative trend in member resignation and/or new members uptake
6. Ineffective insource/outsource operating model
7. Breakdown in ethical culture internally and in the operating environment
8. Unable to operationalise a cohesive GEMS structure
9. Deterioration in member health outcomes

1 Unsustainable healthcare cost increase

Strategic objectives	Material aspects (p46 and p49)
› Be a strategic purchaser of healthcare services by leveraging GEMS' unique positioning and relationships › Advance financial strength and drive the Scheme to a position of long term sustainability	› Member value delivery in 2019 › The GEMS reserve ratio journey

The associated opportunity is that GEMS can offer rich benefits and highly competitive contributions. This risk did not materialise during the year. The Scheme benefited from low utilisation rate increases, favourable tariffs, low medicine price increases, generic medicine substitution, device pricing, Alternative Re-imbursement Models and the effective Claims Management Programme interventions.

The Scheme performed better than budget on ***hospital fees***, where hospital tariff negotiations surpassed budget assumptions, driven by favourable negotiated rates. Utilisation was also contained at levels lower than budget, evident in the hospital admission rates. ***Medicine*** costs were better than budget, as a result of the favourable Medicine Single Exit Price. The Scheme benefited from interventions such as generic medicine substitution and switching to cheaper alternatives. Access to state tender pricing, and in particular for ARVs, has not been secured, which if successful will substantially support this cost driver. ***In Hospital Associated*** costs performed worse that budget expectation, and was caused by an increase in the number of claiming specialists. The experience was concentrated in specific disciplines. The Alternative re-imbursement models assisted in containing this cost element. ***Day-to-Day*** benefits performed better than budget expectation, and was supported by protocol reviews, care coordination and disease management programmes.

Although the cumulative utilisation rate across provinces were favourable, ***KZN*** remains a concern, where a significantly higher experience is noted compared to other provinces. The claims management interventions positively reduced the gap during 2017 and 2018 but the impact has since tapered off and is showing early signs of reversal. The ***country risks around corruption, constrained economic realities, inequality and unemployment*** remains a concern which may lead to unacceptable fraud waste and abuse. The Scheme has made great strides through the Fraud, Waste and Abuse interventions – however these are starting to taper off and new approaches (i.e. prevention), technologies and tools are required to combat this risk.

› ***Claims management programme***, including underwriting, protocols, peer review and fraud, waste and abuse management.
› ***Tariff and fees negotiation*** process.
› Establishment of ***healthcare networks***.

2 Unable to balance and respond effectively to stakeholder expectations and requirements

Strategic objective	Material aspects (p46)
› Be an organisation that is effective in communication, proactive in decision making and accountable to all stakeholders	› Member value delivery in 2019 › Working in the PSCBC Working Committee to develop value for GEMS members

The opportunity associated with this risk is that GEMS will be strongly positioned to balance effectively a broad range of complex stakeholder requirements. The risk substantially materialised in the year. Member and provider expectations were not met, evidenced in the unfavourable member and provider satisfaction survey score.

The Scheme continued to experience low **member satisfaction** rates, reflected in both the SACSI Survey, and the internally commissioned survey. Satisfaction levels are low in absolute terms, but furthermore lag the performance of other open and closed schemes. The GEMS benefit design has been systematically improved over the years, and notably the additional 2019 benefits enhancements of almost R1bn. Additionally GEMS members enjoyed amongst the lowest contribution increases in the industry, have the widest eligibility criteria, is materially cheaper than competitor schemes on a like-for-like basis and has the most favourable benefit depletion rate. This position is expected to further improve with the class leading Tanzanite One option and other benefit enhancements of around R1bn for 2020. During the year the Scheme did experience member satisfaction issues relating to the funding of high cost oncology drugs, which is deemed an industry wide issue. In conclusion, benefit design is currently a low risk in relation to member satisfaction.

Surveys, however, have consistently pointed out that service delivery has a materially negative impact on member satisfaction. This relates to inefficiencies in the administration processes and in particular call centres, new member applications, claims processes and chronic medicine registration. Surveys signal that members are satisfied with face-to-face engagements (Customer Liaison Offices and Walk In Centres) as well as self-help channels (kiosks and member app). A further insight from the surveys point to the need for dramatic improvements in member education and communication. Members find the benefit structures complex and hard to understand. This leads to frequent dissatisfaction with co-payments, benefit depletion and utilisation of the healthcare networks. Members also require delivery of messages on preferred channels (e-mail and SMS). A very positive trend is member complaints that have dramatically improved. Here the Scheme has significantly improved processes, systems and reporting. In particular the handling of CMS complaints, have dramatically improved during the year.

The Scheme has strengthened key stakeholder engagements and inclusive decision making through the **GEMS-PSCBC** working committee. This was strengthened through the detailed and ongoing engagements, and especially responded with the Tanzanite One product for L1-5 salaried employees.

The Scheme is also experiencing low **provider satisfaction** levels, which is also lagging leading open and closed schemes. Other than being a key stakeholder and partner of the Scheme in delivering healthcare, healthcare providers is a key interface with members though which member satisfaction can be improved. The drivers for the low provider satisfaction relate to the Scheme Claims Administration processes. A key event has been the allegations of racial

profiling levelled against medical schemes. The CMS is in progress of extensive investigation in this regard. A reality also is that where stakeholders are discontent it often reverts to multiple platforms to ventilate issues. In this particular case a complaint was also raised on public media as well as at the Human Rights Commission.

The Scheme has been subject to an extensive **CMS** inspection of almost a year, which was concluded and where GEMS has responded to the report. No high risk findings were raised. The CMS is in progress of an extensive investigation into allegations of racial profiling levelled against medical schemes. The Scheme is in process of making submissions to the Section 59 Investigation. The handling of CMS escalated complaints, have improved dramatically and the Scheme is currently fully compliant with requirements. The Scheme has reported exceptional progress on building reserves. The performance has consistently exceeded the CMS agreed targets, and during the year the Scheme has reached and exceeded the regulatory reserve ratio requirement of 25%.

The Service Management Program focused on:
- Improvement of administration processes focused on call centres, claims management processes, member applications and chronic medicine registration.
- A comprehensive marketing and education programme, focused on communicating the GEMS unique value proposition, brand positioning, educating members on benefits and processes, pro-active communication and creating widespread GEMS ambassadors.

3 Significant breakdown in alignment, integration and mobilisation of all stakeholders into NHI process

Strategic objective	Material aspects (p46)
› Shape the transformation of the healthcare industry towards universal healthcare, coordinated across the healthcare ecosystem	› GEMS as the blueprint for NHI

The opportunity associated with effectively managing this risk, is that GEMS can substantially and meaning fully contribute to realizing the imperative of Universal Healthcare. This risk did not materialise during the year. However the release of the final Health Market Inquiry Report and Draft NHI bill is assisting to more fully appreciate the risk and required risk mitigation.

Integration and mobilisation of all stakeholders into the NHI process may not progress as expected. NHI is described as a massive re-organisation of the healthcare system. This will manifest as the rate and extend of implementation, with the key drivers being:
- A change in political landscape may change the priority given to NHI.
- Passing of the NHI Bill into law may be met with legal action, including challenges on constitutional grounds.
- The slow economic growth and the pressures on the fiscus may limit or delay funding available to NHI.
- Members (together with PSCBC), may resist the NHI direction especially where it affects subsidies (conditions of employment).
- Industry players may oppose and not contribute constructively to implementation of universal health care, as a result of vested commercial interests.
- Competitive behavior (including malicious and unethical behavior) may occur between medical schemes for a position in NHI.

› The effectiveness of NHI and its impact on the overall quality of care and health outcomes may be challenged.
› There may be opposition as to the DoH capability to successfully implement NHI
› Alternative models may be promoted as part of the public participation process.
› Priority may be given to enable the public healthcare infrastructure.
› An ineffective management of change process may lead to delayed and suboptimal implementation.

GEMS may loose **focus on delivering on its current mandates**. Implementation of the NHI fund, as expressed in the bill indicate a timeline of around 2026, implying that the Scheme will need to operate under the current dispensation for quite some time. Given the complexity these timelines may even be further extended. The Scheme will need to demonstrate through its current mandate, that it is a suitable Blueprint. A significant risk at present is the very low member and provider satisfaction levels that is lagging other leading open and closed schemes. This detracts from the Scheme attractiveness at present, and will also detract from its attractiveness in the NHI context. NHI is aimed at serving a very large population. Therefore the low coverage of the currently mandated public servants must be addressed. Given the anticipated NHI fund member profile, the low coverage of L1-5 salary employees is a detractor.

To demonstrate that the Scheme is a suitable Blueprint at scale, growth in membership is essential. The strategy to consolidate all public sector schemes into the Scheme (as directed by the NHI Whitepaper), will enable growth to the required scale. This initiative is to be approached carefully, and must guard against negative impact on the Scheme reserve ratio and claims experience. However plans must be approached with caution to find solutions that are mutually beneficial to all parties, as a lack thereof poses the risk of significant counter action and re-action.

GEMS may not position itself as a **solution provider** in NHI. In the past, while the NHI direction was still more fluid, the Scheme positioned itself as a thought leader, and demonstrated its willingness to participate meaningfully in shaping the NHI future. However it is important that the Scheme ambition is not only to shape and provide the Blueprint for NHI, but to be the Blueprint. The risk is that the Scheme may not adequately position itself (through participation in the NHI workstreams) as a provider of practical and viable solutions, i.e.:
› A viable basic benefit package suitable for NHI, with limited more comprehensive options.
› Alternative insurance products and complementary cover.
› Administration capabilities aligned to the NHI operating model.
› Resilient and ethical governance capabilities.

The key risk remains that the NHI fund might elect to establish their own capabilities. While leveraging off the Scheme experience and solutions, may not allow its participation in operation of the NHI fund. Alternatively other medical schemes and administrators may be more attractive to DoH as the NHI operator of choice, based on administrative capacity, IP, products and service quality.

The **Sourcing of Capabilities Program** may not adequately position the GEMS role in NHI. The envisaged NHI fund will differ from the current way medical schemes are structured and operated. A key consideration therefore is how the insourcing program can simplify the current operating model, as well as to ensure to the envisaged NHI operating model. A mismatch will render the Scheme capabilities obsolete in the NHI context.

The current Scheme outsourced multi-administrator model is complex and is not supporting excellent service delivery – the latter being a risk to members and provider satisfaction. The sourcing of capabilities strategy is first and foremost aimed at improving service delivery,

and by extension to be attractive to NHI. The program is however a complex and resource intensive program, with the risk of delays and not achieving the desired simplification and favourable current low Non Healthcare Expenditure costs.

- The service management program focused on improving service delivery, member and provider education and communication programme, Implementation of the Tanzanite One product, and continued improvement and alignment of benefit options to NHI principles of primary and preventative care.
- The sourcing of capabilities program focused on simplifying the Scheme complex administration model and alignment to the envisaged NHI operating model.
- Continued thought leadership and provision of solutions to the NHI workstreams and pilots, and in particular, the Beneficiary registry, Basic benefit package and GP capitation.
- The Scheme growth accelerated through dramatically increasing coverage of L1-5 salary employees and consolidation of public sector schemes into GEMS.

4 A cybercrime attack

Strategic objective	Material aspects (p48)
› Be an agile, data driven Scheme that leverages people, systems and processes to derive value for the member	› The GEMS digital strategy journey

The opportunity in managing this risk, is innovative and class leading digital approaches, to significantly simplify and enhance member and provider experience, while maintaining high levels of affordability. The risk partially materialised during the year. The prevalence of cybercrime has increased significantly – locally and globally. The Healthcare sector is also deemed amongst the most targeted. The Scheme has also experienced these threats both internally and at external parties (bureaus), although these were mitigated without any adverse consequences. It does underscore the reality of this threat in the Scheme environment.

Cybercrime and business continuity remains a challenge especially since a large portion of the Scheme ICT infrastructure is under control of the SPN, as a result of the largely outsourced operating model. A major cyber attack can lead to prolonged **operational disruptions**. Such attacks may lead to prolonged interruption of the Scheme claims administration and payment systems. This in turn may lead to legal claims by members for denial of service, and from suppliers for delayed settlements. The size of the Scheme may lead to a significant exposure especially in the case of class action suits. Restoration of Scheme systems, for a large scale attack also attracts significant professional service costs.

The Scheme is deemed an information intensive organisation, where more than 80m claim lines are processed annually, and covering 1.8m beneficiaries. Furthermore, because of the Scheme outsourced operating model, information is often kept outside of the Scheme's direct control. Should the Scheme **information be breached**, significant fines may be imposed for legal non-compliance to the Protection of Personal Information Act. However the main exposure is a possible class action suit by affected members. This has in fact occurred in a global medical insurer recently, with dire consequences.

The sourcing of capabilities will imply that the Scheme will be implementing major ICT capabilities internally. The main risk factors is that the Scheme will require **sophisticated security capabilities** to match. The transition phase may also elevate the risk.

› Information security management system at the Scheme head office and at service providers.
› Insurance for Cyber Crime at the Scheme head office and at service providers.
› Information security emergency response protocol.
› Information security capabilities at Scheme aligned to Sourcing of Capabilities.

5 Prolonged negative trend in member resignation or new member uptake ↙

Strategic objective	Material aspects (p46)
› Sustainably grow membership ensuring inclusion and progressive cross subsidisation	› Member value delivery in 2019

The opportunity is at the heart of GEMS' mandate, to deliver affordable healthcare to all Government Employees, combined with the broadest eligibility criteria. This risk partially materialised this year. The Scheme has experienced membership growth levels ahead of budget and also significantly better than in prior years, but is still falling short of covering all mandated public servants. The Scheme has also not progressed on growth through consolidation.

Coverage of all **mandated government employees** is at a relatively low level (less than 60%) while the salary level 1-5 employee coverage is below 50%. Continued low coverage may harm the Scheme reputation, and whereby the employer may choose to seek alternatives. The low member satisfaction levels, coupled with an equalisation of subsidies, may entice current members to seek alternative cover.

The NHI Whitepaper positioned the Scheme as the platform into which all other **public sector Schemes will consolidate**, even though the Draft NHI Bill is silent on the matter. The Scheme strategy remains to proceed with consolidation in a considered manner – but rather than rely on regulatory intervention the Scheme must positon itself as an attractive proposition that will benefit the donor scheme officials and members alike – otherwise the risk of significant re-action is high.

The profile of potential new members as well as the accompanying reserves must be considered, to ensure no adverse impact on the Scheme financial sustainability. Importantly though, the Schemes current strong financial position opens an opportunity even to assist public sector schemes that may be in a less favourable position.

The Scheme was founded with a specific mandate around public servants. A significant growth opportunity remains to cover a much broader segment of the population through **widening of eligibility criteria.**

› The service management forum to dramatically improve member satisfaction.
› Focused brand campaign creating brand ambassadors and leveraging partnerships (PSCBC).
› Implementation of the Tanzanite One product to significantly increase coverage of level 1-5 employees.
› Scheme consolidation plan.
› Widening of Eligibility criteria.

6 Ineffective insource/outsource operating model

Strategic objective	Material aspects (p46 and p48)
› Be an agile data driven Scheme that leverages people, systems and processes to derive value for the member	› GEMS as the blueprint for NHI › The GEMS digital strategy journey

The opportunity is that GEMS can deliver superior member value, combining industry leading non-healthcare cost with seamless service delivery. This risk mostly materialised this year. The pressure is increasing to optimise the GEMS operating model, which is negatively affected by the fragmented multi-administrator model, leading to shortcomings in service delivery. Simultaneously an effective operating model is required to timeously position the Scheme as the Blueprint for NHI.

The Sourcing of Capabilities Programme may not adequately **position the GEMS role in NHI**. The current NHI Bill provides a limited role for Medical Schemes, which may be a significant reduction from the current mandates. The Bill proposes a period till 2026 where the role of Medical Schemes remain unchanged, thereafter Medical Schemes will provide complementary insurance. In spite of the intended timeframes there is uncertainty around the actual pace of NHI implementation. It is uncertain if the Sourcing of capabilities program will position GEMS as a Blueprint for NHI, for the Fund or the Administrator, given the significantly different operating model envisaged for NHI, compared to the way current medical schemes is operating.

New and alternative products may be introduced in the market, which may be significantly different to what NHI envisage and what current medical schemes are offering. Other industry players may be positioning for a role in NHI. A key challenge is the complexity of the Scheme integrating various requirements from all stakeholders. For example members (together with PSCBC), may resist the NHI direction especially where it affects subsidies (conditions of employment) and quality of care/outcomes.

The Insourcing Program may adversely affect **financial sustainability**. Operational efficiencies may be lower after Insourcing compared to the current dispensation and especially during the implementation phase. This is informed by the complexity of addressing the inefficiencies of the current fragmented operating model. The fully insourced capability model may also not attain the same level of efficiencies, as some currently outsourced services leverage a shared business model (having other clients) for cost efficiencies.

There is uncertainty whether Sourcing of Capabilities can simultaneously address **simplification and operating cost reduction**. The first financial impact is around capital cost relating to infrastructure, people, systems and IP which is also affected by the pace of insourcing. The second financial impact relates to the operating costs of the insourced model, which may not be as favourable as the current scenario, where the Scheme enjoys industry leading non-healthcare cost performance.

The Scheme may be unable to find **mutually beneficial deals**. Through negotiations the Scheme might not be able to get access to the SPN systems, in which case an alternative route is to be considered (such as RFI). This is informed by the exact benefits for both parties in the deal.

The Scheme may be unable to source **viable components** (people, processes, technology, IP). There may be delays in procurement of the appropriate transactional advisor given the technical complexity and level of detail that the transactional advisor should consider around

people processes, IP and technology. There is uncertainty whether the right capabilities, of sufficient quality, is available. In cases where capabilities are innovative, and not readily available for a Build Operate Transfer Arrangement, it will require unique internal development. Certain capabilities rely significantly on scare skills.

A particular complex area is **IP**, which includes protocols, rules and formularies. There are also further technical complexities. These includes integration and the Data interchange environment (switching), Integration of industry specific best practices and standards in the insourcing, secure data and information management capability, inter system integration, where the remaining outsourced managed care environments can effectively integrate into.

Sourced capabilities may not be effectively **integrated into the existing GEMS environment**. Insufficient alignment with the work-study may lead to ineffective integration of the insourced capabilities into the Scheme corporate structure. There is uncertainty on which resources will be internal, since the operating model may still require outsourcing of certain resource requirements. The consolidation of schemes may also impact on insourcing and also resource requirements brought about by it. The business process work done thus far may not be adequate to inform integration decisions.

Protracted implementation and switchover may occur. A number of factors may put the implementation plan at risk:

› Not planning the portfolio in an integrated manner, including critical dependencies.
› Insufficient preparation even for insourcing projects that are targeted for later.
› Underestimating the combined portfolio impact on resource capacity and required skill/ specialisation.
› Inadequate prioritization in relation to the overall GEMS project portfolio.
› Driving unrealistic timelines.
› Delaying the project to the extent that the NHI opportunity is missed.
› Not ensuring full stability of the existing environment while implementing the new environments.
› Insufficient training and change management.

› Formulate scenarios for the NHI future to inform a resilient insource/outsource operating model.
› Execute the Sourcing of Capabilities Programme under strict project governance.
› Appoint a highly qualified transactional advisor or alternatively project team (panel).
› Conduct thorough feasibility study and deal negotiation phases.
› Align the Sourcing of Capabilities program to the Scheme BBB-EE strategy and Work-study project, including mechanisms to attract and retain human capital.
› Consolidation of schemes programme.

7 Breakdown in ethical culture internally and in the operating environment

Strategic objectives	Material aspects (p46 and p48)
› Be an agile data driven Scheme that leverages people, systems and processes to derive value for the member › Be an organisation that is effective in communication, proactive in decision making and accountable to all stakeholders	› Protecting value through good corporate governance underpinned by ethical leadership › Member value delivery in 2019

The opportunity is to deliver rich products at a highly affordable point, effectively giving back to members what is gained through containment of fraud, waste and abuse, while contributing meaningfully in building an ethical foundation for the nation. This risk mostly materialised this year, with corruption deemed pervasive in RSA, both in public and private sectors. The Scheme has not been immune to corrupt and irregular behaviour internally.

The Scheme is based on a largely outsourced operating model. Large and regular **procurement** processes are undertaken, where-after these significant contracts are managed for performance outcomes. The two areas constitutes a significant risk for dishonesty. The Scheme has experienced this historically where action were instituted against Executives and Scheme officials. The Scheme has grown significantly, to the point where large sums are under management, as well as kept as reserves. Financial management therefore pose a significant risk for dishonesty.

The Scheme has experienced corrupt relationships with **Service Providers**, and as mentioned above, the size of these contracts elevate this risk. The Scheme has encountered this and responded by terminating a number of significant contracts. A related risk is to Scheme officials that lead the prosecution processes, where they may become the target. A particular concern is around assurance providers of whom various have been implicated in unethical behavior. This is material for the Scheme, as significant reliance and trust is put on these providers. It begs the question as to who will be “checking the checkers”.

The **claims environment** is significantly impacted by irregular provider and member behaviour. Although significant success has been achieved through the Claims Management Programme, this remains a significant risk across the industry. Prevalence and impact varies, but a number of organised crimes and syndicates have been identified and action taken. In particular there are early signs of the effectiveness of the Fraud, Waste and Abuse program levelling out with possible reversal in certain areas. KZN remains an outlier with significantly higher claims experience compared to other provinces. The Scheme is also challenged to conclude legal action and recover debt.

A significant event was the allegation of racial profiling and unfair treatment of Healthcare Practitioners in relation to Fraud, Waste and Abuse investigation and management practices. This has attracted widespread media attention and resulted in the Section 59 Investigation by the Council for Medical Schemes.

› Scheme policies and stance of Ethical behaviour communicated to all stakeholders and demonstrated through visible leadership.
› Ongoing strengthening of procurement processes.
› Whistleblowing service.
› Internal Fraud and Forensic Investigation Unit.
› Lifestyle audits.
› Strengthening Ethics function and capabilities.
› Claims Management Forum focused on improved detection and prevention rather than remediation.
› Review of the Fraud, Waste and Abuse processes in co-operation with BHF and the Council of Medical Schemes.

8 Unable to operationalise a cohesive GEMS structure

Strategic objective	Material aspects (p46)
› Be an agile data driven Scheme that leverages people, systems and processes to derive value for 8the member	› Member value delivery in 2019 › GEMS as the blueprint for NHI

The opportunity in managing this risk, is a highly efficient and high performance organisation that creates value to the member. This risk partially materialised this year. The tier 1 structure has been substantially filled, while inter divisional movements have been completed. Significant progress has been made to fill vacancies. However the completion of the work-study was delayed, whereby the optimal next tier structures and capacities have not been designed. Given the uncertainties around the NHI future, the related sourcing of capabilities and consolidation of schemes, the risk remains that the structure may not be sufficiently flexible and resilient to these future scenarios.

The **tier 1 structure** has been significantly filled, and in particular the critical position of Chief Marketing Officer and senior positions within the Member Service and Experience Division. This is especially important, given the significant emphasis on communication and education to drive member satisfaction levels. The Research and Development Division capacitation has not been completed. The re-alignment of business functions has been completed through inter-divisional transitioning.

The work-study initiative is critical to define the optimal structure and capacity of the Scheme. This must be performed in context of the current mandates of the Scheme, but must also be **resilient to the NHI and scheme amalgamation scenarios**.

The **capacity** of the Scheme to deliver on operational objectives, while executing on ambitious strategic imperatives remains a risk. This aspect not only relate to capacity, but also the efficiency of the Scheme processes and ability to effectively prioritise and sequence activities.

As part of the service management programme, the Scheme has also embarked on an **internal service culture** initiative. This is an essential element of driving member satisfaction, through instilling pride and product knowledge in Scheme officials.

The NHI future is still fluid, while early indications are that the NHI fund will be significantly different to current medical schemes. The timelines of implementation are a further uncertainty. In the absence of certainty, the Scheme will need to define scenarios, and test the

organisational structure for adequate flexibility and resilience to these scenarios. The next tier design, as part of the work-study, should incorporate these considerations.

The Scheme has re-affirmed the strategy to **consolidate public sector schemes into GEMS**. Such consolidation will have a direct impact on both the donor and receptor schemes, in terms of alignment of products, services and systems. Importantly in this context it will affect the head-office resources and structures. It is important that the Scheme organisational design, also considers these future scenarios, and is designed to be resilient and flexible.

The **sourcing of capabilities** constitute a major change in the Scheme operating model. Thereby it also drives significantly different organisational structures and skills requirements. The Sourcing of Capabilities program must therefore be closely linked to the work-study initiative, thereby ensuring a future orientated organisational structure.

- Execute the organisational re-alignment project under robust project management principles.
- Prioritisation and alignment of business as usual and strategic activities, cognizant of resource constraints.
- Alignment of work-study with NHI scenario plans, Scheme consolidation plans.
- Sourcing of Capabilities Programme.
- Scheme BBB-EE strategy.
- Scheme internal service culture initiative.

9 Deterioration in member health outcomes

Strategic objective	Material aspects (p46)
› Sustainably grow membership ensuring inclusion and progressive cross subsidisation › Shape the transformation of the healthcare industry towards universal healthcare, coordinated across the healthcare ecosystem	› Member value delivery in 2019

The opportunity is that GEMS will dramatically improve member health outcomes and quality of living, over and above providing excellent service and rich and affordable benefits. This risk materialised to a limited extent this year. The Scheme is experiencing, similar to the industry, worsening clinical profiles, mainly ascribed to non-communicable diseases. Yet on a comparative the Scheme is outperforming the national benchmarks on 79% of health outcome indicators. Affordability, also ensures that the Scheme can improve health outcomes for a larger portion of the population.

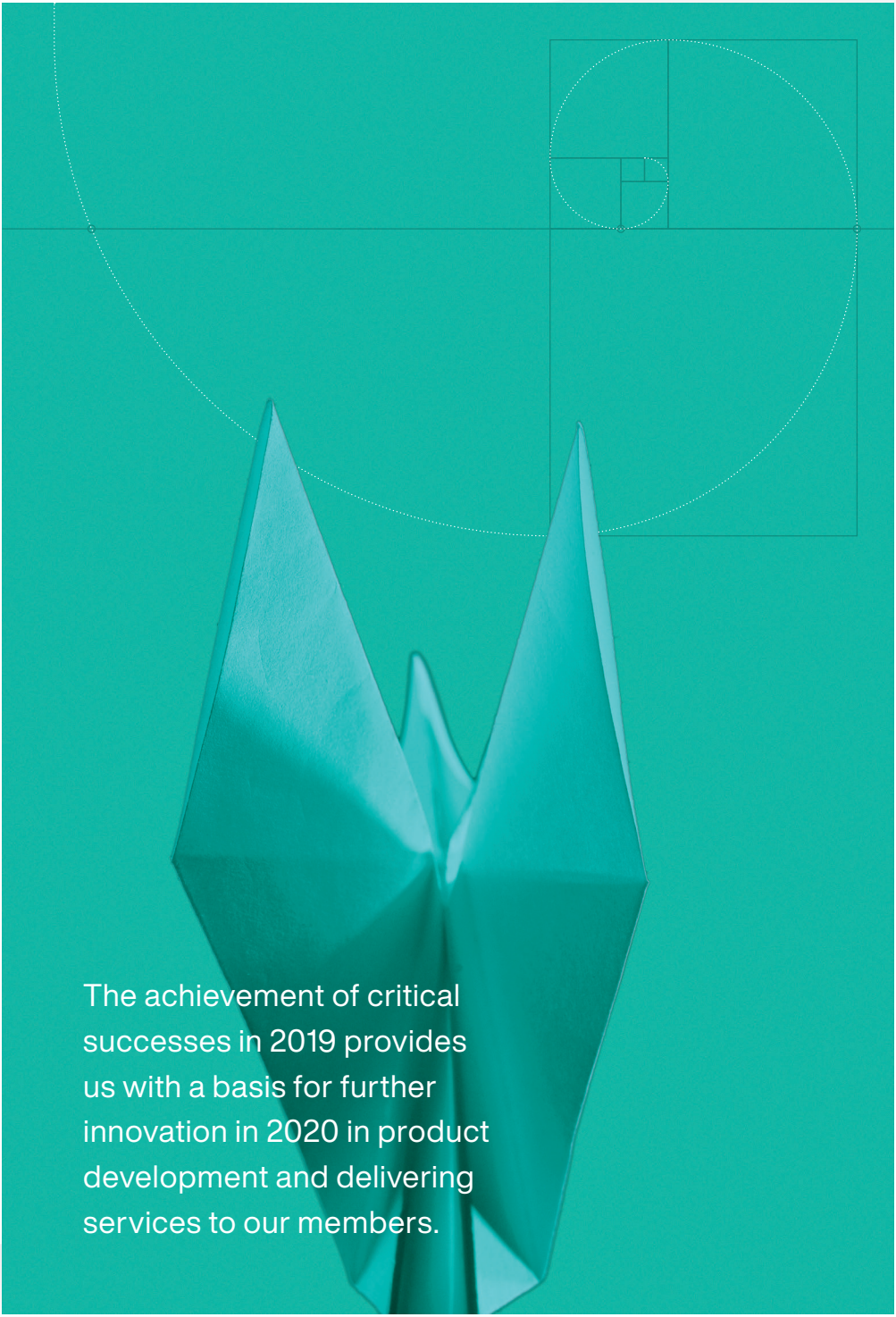
The industry is facing a marked increase in **non-communicable disease**, also referred to as "lifestyle diseases". The situation is exacerbated by the prevalence of co-morbidities. The Scheme is also experiencing an ageing population, which translates directly into higher burden of disease. **HIV** is still experienced as the main communicable disease, and attract a significant portion of healthcare cost expenditure. TB, often experienced in conjunction with HIV, is however escalating as a major disease category.

Social factors remain an important driver of health. These include sanitation, housing, climate change, air and potentially plastic pollution. In South Africa many of the factors are elevated,

because of inequality, poverty and unemployment. A key driver for deterioration in health outcomes, is the access to quality healthcare. The Scheme achieves this through a high cost and geographical coverage for healthcare facilities and practitioners.

Affordability remains a pivotal consideration to enable health outcomes. Negotiated tariffs make services highly affordable, while broad eligibility criteria puts quality healthcare within the reach of a larger portion of the population. Health outcomes is also promoted by preventative care, disease management programmes and care coordination.

- Disease management programmes.
- Benefit enhancements towards primary care and preventative care.
- Member education.
- Care co-ordination embodied in the Emerald Value and Tanzanite One options.
- Increased access to quality healthcare through quality hospital and healthcare provider networks.
- Increased affordability through efficiency discount options.
- Increased coverage though the widest eligibility definition.



The achievement of critical successes in 2019 provides us with a basis for further innovation in 2020 in product development and delivering services to our members.

10

VALUE DEMONSTRATED THROUGH PERFORMANCE AND OUTCOMES

In this section we disclose our performance against agreed key performance areas for 2019, followed by a reflection on value created for members and stakeholders in respect of increased access to healthcare, improving member satisfaction indicators, healthcare outcomes, membership growth and financial outcomes.

Message from our former principal officer, Dr Gunvant (Guni) Goolab

During 2019 and against the backdrop of high-profile governance and financial failures in both the public and private sectors in South Africa, GEMS stands proudly shining as a beacon of hope in a gloomy sea of distress.

The unprecedented levels of success in 2019 were achieved through key Scheme processes including Product Development and Benefit Design, the Claims Management Forum, the Service Management Forum, an effective stakeholder management strategy and engagement forums and the Annual Strategy Review by the Board of Trustees. The Scheme made its presence felt in various Health Market Inquiry- and National Health Insurance-related submissions and presentations, by actively participating in the Board of Healthcare Funders initiatives including the annual conference and by hosting a very successful GEMS symposium focused on the fourth industrial revolution. In addition, the development of Tanzanite One for launch in 2020, as the reference standard Basic Benefit Package is in line with both the Health Market Inquiry recommendations and the National Health Insurance policy.

All of the key Scheme processes have reporting and oversight functions by the Board and subcommittees.

The Scheme's financial performance, membership growth and performance in improving member satisfaction are discussed from page 102 of this report. What remains to be highlighted is the significant improvement in all member service contact point metrics at the Scheme's main call centres, walk-in centres, client liaison officers and self-help services.

All of this was successfully delivered with the important achievement of an unqualified audit, maintaining the GEMS track record of fourteen consecutive unqualified audits.

GEMS concluded 2019 on an absolute high point, having received the BHF Titanium Award for Access to Health, the IRMSA Health Sector Risk Award (for a second consecutive year) and having proudly moved into its own purpose built green certified building in Menlyn Maine. GEMS is a strong and successful organisation ready to take its rightful place and materially contribute to the fundamental transformation of healthcare in our country.

Message from our new principal officer, Dr Stan Moloabi

The success enjoyed by GEMS over the recent year was ultimately born from the interventions and innovation that resulted from the need to stabilise GEMS after the low point seen in 2016. The achievement of critical successes in 2019 provides us with a basis for further innovation in 2020 in product development and delivering services to our members.

We are on the threshold of drastically altering our operating model and we are looking forward to introducing new ways of work. This change process will be an incremental one

that is risk led and managed rigorously based on feasibility studies and sound project management principles.

While GEMS has a role to play in the transformation of healthcare in South Africa, our commitment to the members of GEMS and the beneficiaries registered by them remains our first priority. We will actively seek to create value in respect of access to quality care and service.

Progress against the GEMS strategic plan performance indicators for 2019 and relevant risk factors

Progress against important performance targets linked to the strategic elements and objectives in the GEMS Five-year Strategic Plan (2017 to 2021) are shown below. The targets were selected for reporting based on the need to compare our 2019 performance to reported performance in 2018 and to provide reporting on material key performance indicators (as per the list of material matters on page 46)

Strategic Objective	Performance Indicator and Measurement	Performance 2018	
Be an organisation that is effective in communication, proactive in decision making and accountable	Complaints Ratio: Number of all complaints expressed as a percentage of total enrolled lives The performance indicator reported on for 2018 was: Complaints Ratio: Measured as number of general and CMS complaints as a percentage of total number of principal members	0.15% The performance reported for 2018 was : 0.17%	
	Formation of the Stakeholder Integration Forum	Effective stakeholder consultation on the Scheme's 2019 benefit design took place in the PSCBC Working Committee in the months of August and September 2018.	
Advance financial strength and drive the Scheme to a position of long-term sustainability	Reserve ratio	24.7%	
	Investment Income	CPI+2.3% achieved R204m ahead of budgeted investment return	

Targets are set and revised as part of the annual process to revise the strategic plan and are signed-off by the Board of Trustees. The Board revised and restructured the strategic key performance indicators for the remaining two years of the current strategic plan period In September 2019.

	Target 2019	Performance 2019	Main Risk Factors That May Impact on Performance Outlook
	≤0.20% Measured as all complaints as a percentage of total number of lives.	0.10% The Scheme exceeded the target by half as a result of interventions introduced via the Service Management Forum (SMF) and more effective complaints management	› Quality of service delivery › Effective complaints management
	Achieve stakeholder inclusivity by means of the PSCBC Working Committee Formalise Combined Government Stakeholder Forum	PSCBC Working Committee Work Plan implemented with 6 meetings held under the joint working committee, 2 meetings under the sub-committee on rule review and 1 PSCBC Meeting Three meetings of Combined Government Stakeholder Forum held for 2019	› Individual stakeholder risk level › Consolidated stakeholder risk profile › Stakeholder interdependence/ interrelationship
	20.8% Revised target	31.5%	› Regulatory relationship and agreed targets. › Factual reserve impact from semi-permanent historical anomalies. › Equitability of reserves accompanying take on of large cohorts of members from outside.
	Return ≥ CPI + 3% Revised target	CPI+3.4% – Scheme exceeded the budgeted returns by R490m as a result of higher returns and higher cash balance as a result of the better than expected results for 2019	› Budget and pricing prudency

Strategic Objective	Performance Indicator and Measurement	Performance 2018	
Shape the transformation of the healthcare industry towards universal healthcare, coordinated across the healthcare ecosystem	Simplified core product offering	13.5% Emerald Members moved to the Emerald Value Option (58 141 members)	
	Interventions to reduce co-payments	Not reported for 2018	
	A developed healthcare accountability model that progressively aligns healthcare expenditure, quality & access with affordability levels	Research unit established with staff allocated Ethics panel to be established in 2019	
	A developed healthcare accountability model that progressively aligns healthcare expenditure, quality & access with affordability levels: Develop a healthcare accountability framework.	Finance sustainability model fully implemented and reported on monthly Clinical governance toolkit implemented and reported on	
	A developed healthcare accountability model that progressively aligns healthcare expenditure, quality & access with affordability levels:	A -1,6% decrease in hospital admission rate for top 5 chronic conditions achieved in 2018, with improved health quality outcomes.	
	Percentage of GEMS beneficiaries living with HIV who know their status, receiving treatment and are virally suppressed.	86.2% of GEMS population know their status, of which 87.2% are on HIV treatment, of which 78.7% are virally suppressed	

5 The GEMS Clinical Governance Scorecard is being developed to track and balance trade-offs between financial, health care and corporate governance imperatives

	Target 2019	Performance 2019	Main Risk Factors That May Impact on Performance Outlook
	30% Emerald Members moved to Emerald Value Option (21,927)	**16.93%** of 2019 target achieved EVO membership profile: › **72 266** principal members › **128 295** dependents › **200 961** total beneficiaries	› Relative attractiveness in creating value at a cost effective price point
	% co-payment reduction to 5%	2,6% reduction	Affordability and benefit design
	Establish Research Ethics Panel Four research publications in the following topics: › Basic benefit package NHI › Care-coordination EVO/EDOs › GEMS Underwriting Experience › Claims Management Forum	Establishment of Ethics Research Panel deferred to 2020 EVO publication finalised Underwriting publication finalised	Resource (people, system, budget) allocations to division to enable delivery on targets
	Use the guideline to design Scheme clinical governance scorecard[5], finance toolkit fully implemented, health toolkit at initial stages and corporate governance to define by Q4.	Health and financial models developed, governance tool underway.	Resource (people, system, budget) allocations to division to enable delivery on targets
	Disease management interventions for 5 priority chronic diseases progressively translated into increase in admission rates that is lower than 3% (HIV, diabetes, hypertension, hyperlipidaemia and asthma).	The increase in the admission rate was 1.5% for 2019, which is better than target. The Scheme has been actively participating in the Health Quality Assessment (HQA) reporting since 2015, with the aim of utilising the HQA quality and clinical outcomes-based targets to monitor the Scheme's performance as well as to set outcomes-based targets for priority chronic conditions. Through HQA participation and disease risk management interventions (including early screening, promotion of preventative care benefits, healthcare provider engagements and member education), increase in the admission rate for priority chronic remained better than target.	› Poor uptake of screening benefits. › Lack of focus on quality healthcare outcomes › Poor disease risk management.
	Interventions for the HIV Disease Management Programme to be aligned to the 90-90-90 targets.	86.81% of GEMS population know their status, of which 87.83% are on HIV treatment, of which 80.68% are virally suppressed	

Strategic Objective	Performance Indicator and Measurement	Performance 2018
Be a strategic purchaser of healthcare services by leveraging GEMS' unique positioning and relationships	Leverage existing strategic assets towards improving member value	› R3.62bn in claims from outlier healthcare providers identified. › R82.5m[6] change in outlier behaviour achieved as calculated by the GEMS actuary. › R18.1m recovered, including both funds paid over to GEMS and the direct offset from provider's claims payment.
	Participation in healthcare supply side reform in line with social security agenda	1860 specialists contracted
	Leverage existing strategic assets towards improving member value: Reduce the KZN hospital admission rate relative to the national admission rate Note: The Scheme uses pre-authorisations as an indicator of the number of hospital admissions.	The risk adjusted hospital admission rate in KwaZulu-Natal remains higher than that of other provinces. KZN hospital admission rate was 30.4%.
	Develop IP and strategic assets to enhance value-based healthcare purchasing for the civil service	13.3% cost reduction achieved
Be an agile data driven Scheme that leverages people, systems and processes to derive value for the member	High performing engaged human capital: Demographic transformation as per national requirements with diversity and equity strategy developed	Not reported in 2018

6 New calculation methodology: Reflects only providers on outlier list.
7 New calculation methodology: Reflects only providers on outlier list.

	Target 2019	Performance 2019	Main Risk Factors That May Impact on Performance Outlook
	Fraud, waste and abuse (FWA) targets (provider and member) › Fraud identification (10% of previous financial year total claims paid) **R2.96bn** › Prevention (10% of the identified claims amount) **R296m** › Recovery of an amount equal to 10% of the prevention target amount: R29.6m	› R5.0bn in claims from outlier healthcare providers identified. › R144m[7] change in outlier behaviour achieved as calculated by the GEMS actuary. › R12.4 m recovered, including both funds paid over to GEMS and the direct offset from provider's claims payment.	› Criminal behaviour in internal, external and transactional environments. › Adequacy of internal controls › Adequacy of risk transfer provisions in outsourced service providers' contracts
	2 100 specialists contracted	2 535 specialists contracted	› Supply side reforms and access to preferential rates with healthcare suppliers may not be realised. › Poor network growth and access. Contracted specialist not charging the agreed reimbursement rate, and not agreeing to peer review.
	Reduce KZN risk adjusted hospital admission rate to ≤29,5% and reduce KZN admission relative to the national admission rate to <14%.	KZN hospital admission rate was 31.7%. The Scheme has identified KwaZulu-Natal as an area of focus due to the higher than expected admission rate. Despite improvements due to the claims management interventions, the hospital admission rate in KwaZulu Natal remains 20.5% higher than the national average on a risk adjusted basis. This is a concern and will continue to be monitored.	Failure to reduce risk-adjusted KZN admission rate to national average of 26.9%. Increased hospital utilisation rates not explained by demographics. High prevalence of fraud, waste and abuse in KwaZulu-Natal (when compared to the national average.
	3% reduction in the cost of appliances and prosthesis	Savings of R5.1m have been generated on managed care interventions on innersoles, crutches and CPAP devices. A 60.1 % increase in expenditure was experienced on hearing aids, which is primarily due to increased utilisation. The Scheme is in the process of reviewing additional interventions that will be put in place in order to manage hearing aid expenditure	Realistic discounts, supply side reforms and access to preferential rates with healthcare suppliers
	1.50% recruitment of people living with disability and maintaining the national or provincial demographics	**1.60%** achieved	› Attract and retain appropriate capacity and skills

Strategic Objective	Performance Indicator and Measurement	Performance 2018	
Be an agile data driven Scheme that leverages people, systems and processes to derive value for the member	Introduce advanced digital channels to increase interface with members and providers.	The percentage increase achieved in 2018 266%. Adoption increased by 1 566% to 62 245 Members.	
Be an agile data driven Scheme that leverages people, systems and processes to derive value for the member	Secure critical systems and intellectual property against advanced persistent threat.	In 2018 the Scheme experienced two (2) ransomware attacks. The Scheme was able to recover from them.	
Be an agile data driven Scheme that leverages people, systems and processes to derive value for the member	Member satisfaction: Ranking in selective comparative survey	Achieved = 68% Information obtained from the 2018 GEMS Member Satisfaction Survey Report. The meaning of this score should be understood from the perspective that a score of 60% indicates a neutral position and a score of 80% would indicate that on average all members are satisfied. The overall score of 68% indicates that members are more positive than negative about their experience of GEMS but they cannot be said to be completely satisfied	
Sustainably grow membership ensuring inclusion and progressive cross subsidisation	Client liaison offices rollout and presence	The CLO service delivery model was revised and amended in 2018. The model will be implemented with the opening of CLO offices in the Northern Cape and Western Cape in 2019.	
	Sustainable membership growth and retention	The number of employees on salary levels 1-5 decreased (November 2018: 531 660; December 2018: 520,005). Of these, 239 386 employees are active members A further 9,977 are dependants across all options; Enrolled 46.04% of Public service employees earning on salary levels 1-5.	
Sustainably grow membership ensuring inclusion and progressive cross subsidisation	Ensure a wellness program whose performance is linked to health outcomes	Not reported in 2018	

	Target 2019	Performance 2019	Main Risk Factors That May Impact on Performance Outlook
	Adoption rate: 10% increase on baseline.	**21 306** app downloads at the end of Dec 2019 (**152%** increase) **49 822** followers on Facebook page (**3.5%** increase) **2 437 490** website hits as at the end Dec 2019 (71.46% increase) GEMS website went live on May 2018, prior to this date, the website was hosted by Metropolitan Health.	› Adequate and robust systems to drive outcomes › Cover internal and outsourced systems
	Increase security compliance to > 80% (protection of the Scheme network, applications and data).	98,2% antivirus compliance	Adequacy of cybersecurity measures
	Member Satisfaction =68%	Achieved 68.3% in elected comparative survey – external performed across medical schemes industry Achieved 73% in selected comparative survey, performed for GEMS specifically	Quality service delivery Effective complaints management.
	Expand CLO presence to 9 provinces. 20% of CLO staff members FAIS accredited.	WC and NC CLO office model deferred to the second quarter of 2020, subject to finalisation of new CLO operational model Phase 1 of FAIS accreditation programme achieved. All regions have completed phase one of three FAIS accreditation	Adequate and robust skills and competencies to drive outcomes Cover internal and outsourced competencies an skills
	60% of public service employees earning on salary levels 1-5 enrolled on GEMS.	**47.85%** of level 1-5 public service employees on GEMS (244 360) as at end Dec 2019	› Brand perception › Benefit design impacting on attractiveness › Target market not aware of the extent of the available subsidy.
	10% increase in utilisation of all wellness and preventative programmes	Utilisation of wellness programmes increased by 14.82%. Wellness screening services (YTD): › 5 081 events (YTD) › Health counselling and testing (HCT): 53 505 screenings (YTD) › Health and wellness screening service (HWSS): 120 065 screenings	› Sales and marketing not performed as per Service Level Agreements › Managed care contracts not executed correctly as per Service Level Agreements

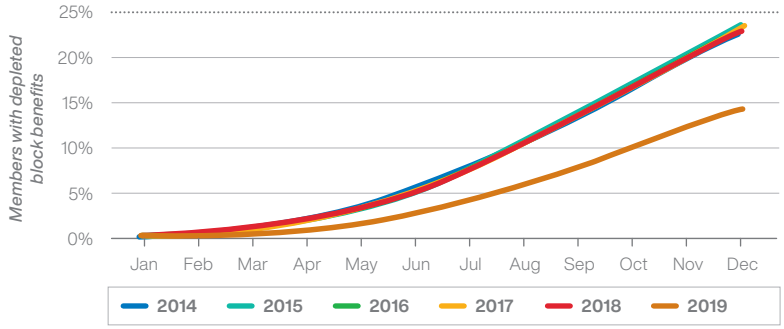
Increased access to healthcare

Reducing benefit depletion, co-payments and out of pocket expenses for members:

We are the only medical scheme in South Africa that provides an **extender benefit** to members.

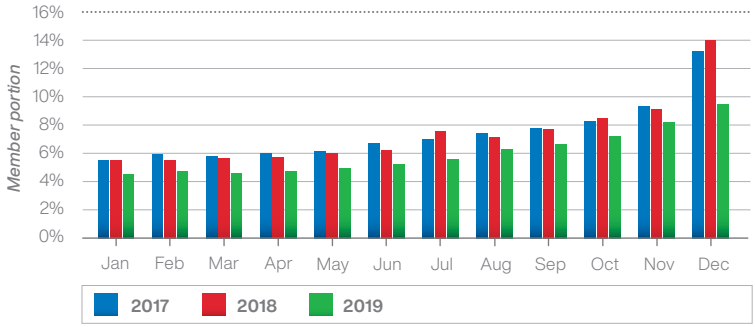
› During 2018 less than 3.5% of members depleted benefits in any given month
› In 2019, GEMS introduced the extender benefit resulting in 30% less members depleting their block benefits
› GEMS members collectively benefited by R583m during the year as a result.

Benefit depletion, co-payment and out of pocket expense reduction



In 2019 GEMS enhanced benefits to reduce member co-payments. These benefit enhancements included the introduction of several new benefits on the Sapphire option as well as enhancing primary care cover on all options. From the graph we note that members experienced a reduction in their out-of-pocket expenses as a result of these benefit improvements. GEMS members collectively benefited by R249m during the year as a result of these enhancements.

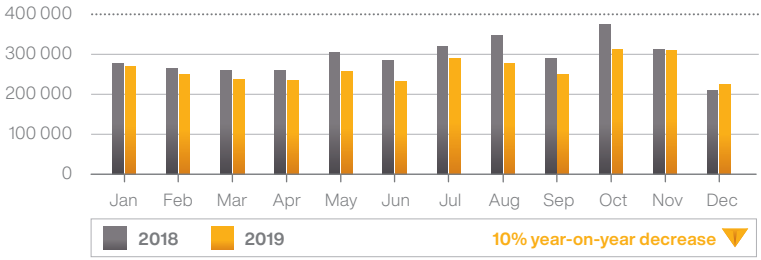
Member out-of-pocket reducing



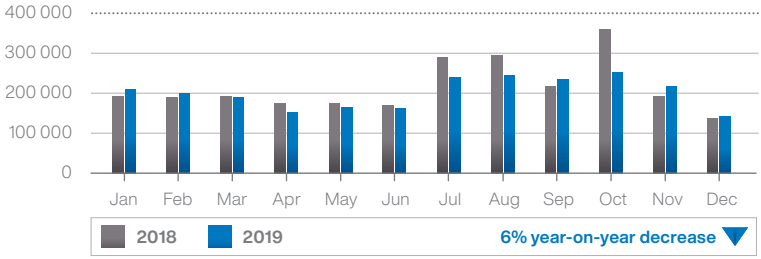
Access to services and member satisfaction outcomes

The Claims Management Forum drives the Scheme's new approach for channeling members and healthcare providers away from the call centre and walk-in centres towards self-help channels, i.e. the GEMS website, Member App and Portal and face-to-face services through the GEMS client liaison officers.

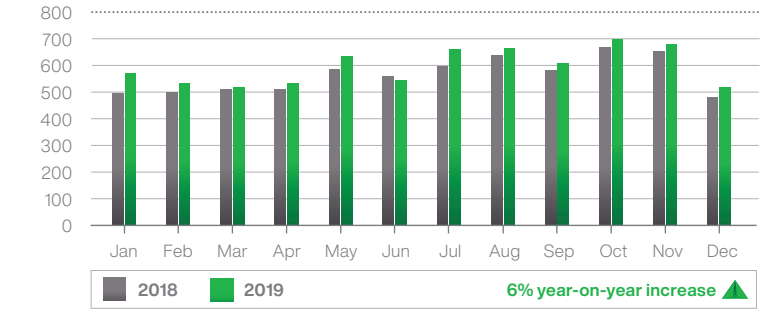
Call centre



Walk-in centre



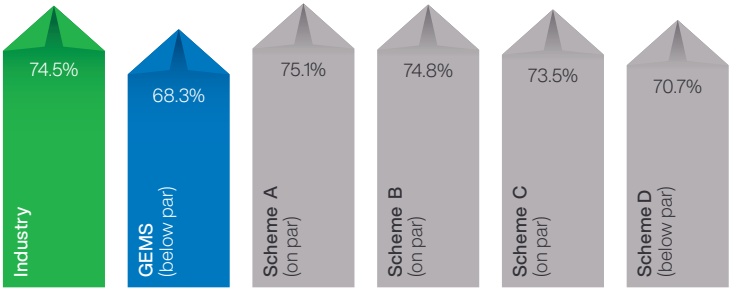
Provider portal



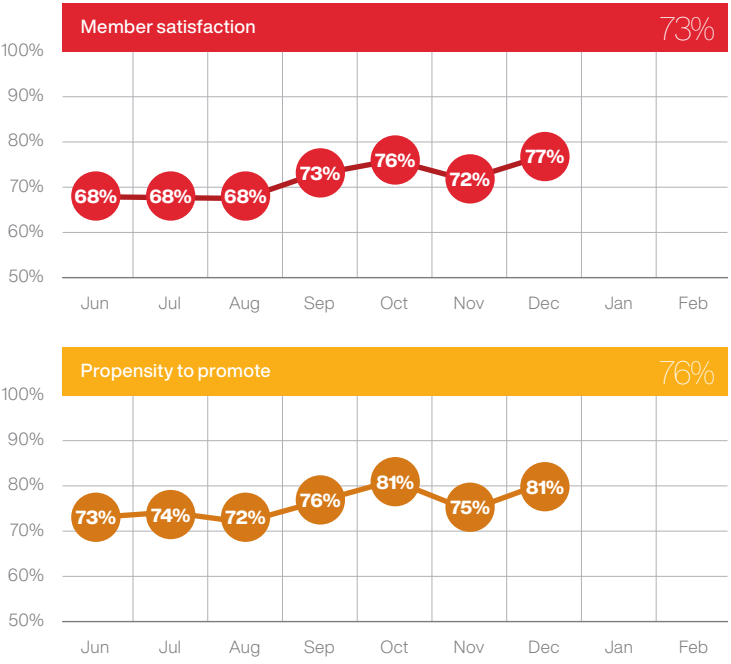
We test our members' satisfaction by participating in an annual industry survey, the South African Satisfaction Consumer Index (SA-sci) and by means of a monthly survey conducted by an independent company. The SA-sci survey result that became available in 2019 shows GEMS still below par when compared to other large schemes.

The monthly member satisfaction survey shows a positive trend which is expected to continue in 2020 as the Service Management Forum, Claims Management Forum and Product Development Process is progessing steadily in addressing the root causes of complaints.

South African Customer Satisfaction Index (SAcsi)



Citizen surveys



Healthcare outcomes

GEMS outperforms the industry on 79.5% of all managed care indicators, as published in the latest CMS Annual Report[8]. A 14% increase from 65% in 2017.

Condition	Indicator 1	Indicator 2	Indicator 3
Ischemic heart disease	Aspirin 🟠	Electrocardiogram 🟠	LDL/lipogram 🟢
Chronic renal failure	Urine protein/ creatinine ratio 🟠	Total cholesterol 🟢	Hb 🟢
Human immunodeficiency virus	ART 🟢	CD4 count 🟢	Viral Load 🟢
Diabetes mellitus type 2	Urine protein/ creatinine ratio 🟢	Two HbA1c tests 🟢	LDL/lipogram 🟢
Diabetes mellitus type 1	Urine protein/ creatinine ratio 🟢	Two HbA1c tests 🟢	LDL/lipogram 🟢
Hypertension	Electrocardiogram 🟠	Creatinine/EGFR 🟢	Total cholesterol 🟢
Congestive heart failure	Electrocardiogram 🟢	Creatinine/EGFR 🟢	Total cholesterol 🟢
COPD	Flu vaccine 🟢	Lung function 🟠	🟢
Asthma	Flu vaccine 🟢	Lung function 🟠	🟢
Hypothyroidism	TSH 🟢	Free thyroxine 🟢	🟢
Bipolar mood disorder	BUN test 🟢	Creatinine test 🟢	Mood stabilisers 🟢
Crohn's disease	Full blood count 🟢	Liver function 🟢	Faecal calprotectin 🟠
Schizophrenia	At least four psychiatrist consults 🟢	Serum electrolytes 🟢	Drug monitoring 🟢
Ulcerative colitis	Full blood count 🟠	Liver function 🟢	Faecal calprotectin 🟠

🟢 *GEMS above industry average* 🟠 *GEMS below industry average*

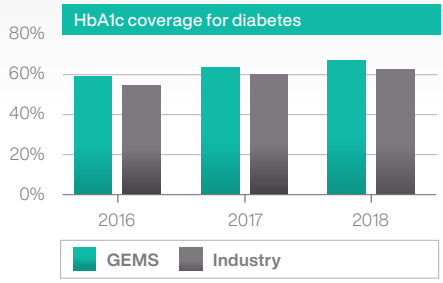
GEMS subscribes to the Organisation for Health Quality Assessment (HQA). HQA is a not for profit company, established in 2000, and is governed by a Board including representatives from: the Board of Healthcare Funders of Southern Africa (BHF) and the SA National Consumer Union (SANCU). The Council for Medical Schemes (CMS) is also an active participant and enjoys permanent observer status.

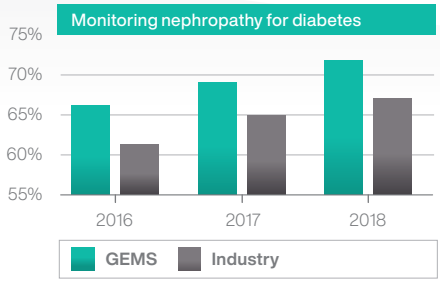
The HQA performs an annual assessment of clinical quality in healthcare offered by medical schemes through the use of healthcare quality indicators. The aim of such assessments is to assist decision-makers such as trustees and scheme management to evaluate and improve the quality of health care received by their members.

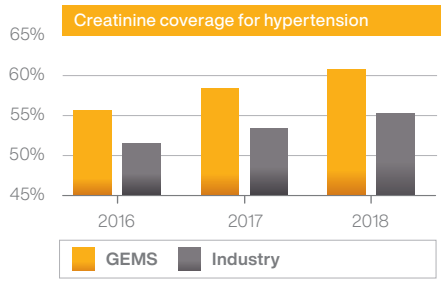
The 2019 Annual HQA Report demonstrates that GEMS performed above industry average for at least 90% of the key HQA indicators as shown below.

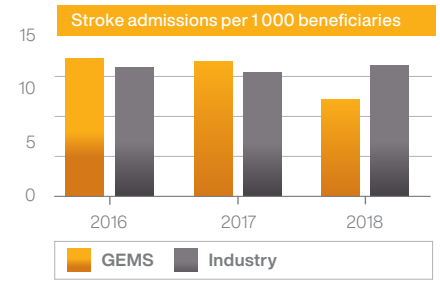
Indicator	Measure	GEMS
Overall clinical risk	**Number of beneficiaries hospitalised per 1 000 beneficiaries**	●
Preventative health	Flu vaccine coverage >65 years	●
Mental health	No. of beneficiaries that have claimed for >30 days' supply of any benzodiazepines (%)	●
	Bipolar multiple admissions for any reason'	●
	Depression multiple admissions for any reason'	●
Chronic back and neck management	Number of spinal fusion cases per 1 000 beneficiaries	●
	Spinal Fusion readmission rate within 30 days (% of total admissions)	●
Maternity	Number of caesarean section cases per 1 000 female beneficiaries	●
Chronic obstructive pulmonary disease	COPD multiple admissions for any reason	●
Ischaemic heart disease	IHD multiple admissions for any reason	●
Diabetes	HbA1c coverage for diabetic patients (%)	●
	Cholesterol related tests coverage for diabetic patients (%)	●
	Monitoring nephropathy for diabetic patients (%)	●
	Diabetes multiple admissions for any reason	●
Asthma	Asthma multiple admissions for any reason	●
HIV	CD4 coverage	●
	Viral load test coverage	●
	Proxy compliance of ARVs	●
	HIV multiple admissions for any reason	●
Chronic heart failure	Cardiac failure multiple admissions for any reason	●
	Cardiac ACE &ARB inhibitor coverage (%)	●
Hypertension	Creatinine coverage (%)	●
	Stroke admissions per 1 000 beneficiaries	●

Health Quality Assessment: Diabetes and hypertension

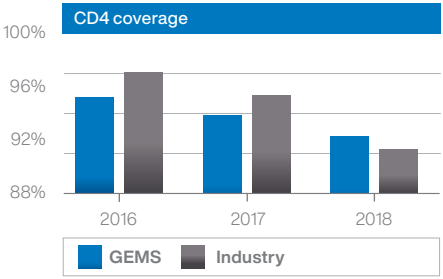


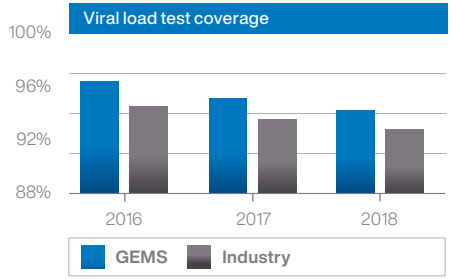


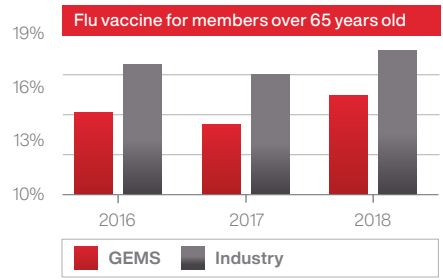


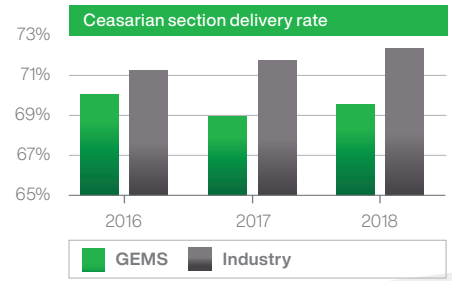


Health Quality Assessment: HIV, preventative health and maternity



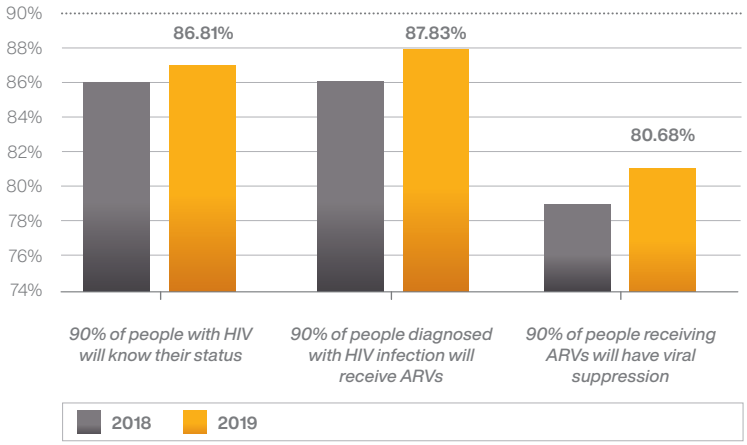




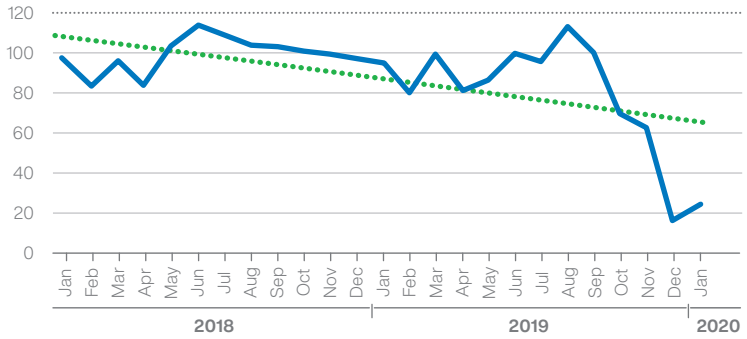


GEMS has the largest HIV disease management programme amongst medical schemes with 138 000 active participants receiving over R4bn in care per annum. We align to the UNAIDS 90-90-90 targets, as adopted by the National Department of Health, and to be achieved by 2020. As indicated in the diagram below, 86.81% of GEMS population know their status of which 87.83% are on HIV treatment of which 80.68% are virally suppressed. The Scheme has put interventions in place to ensure that these targets are met by the end of 2020.

UNAIDS 90/90/90 target achievement



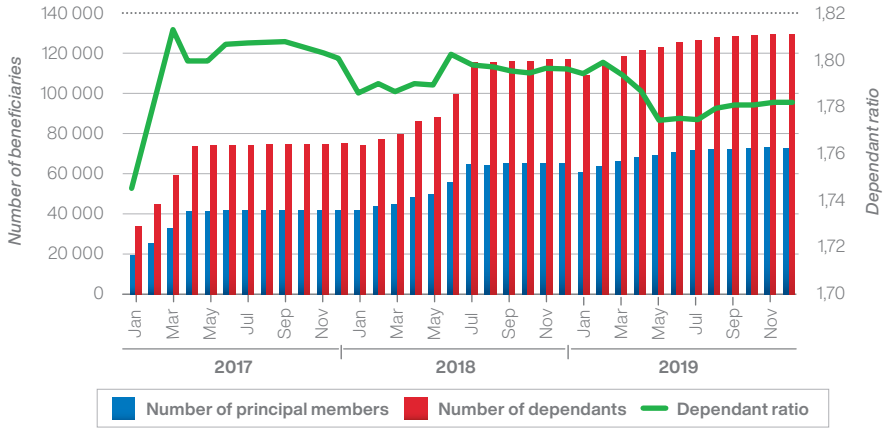
Decreasing mortality trend



Emerald Value progress

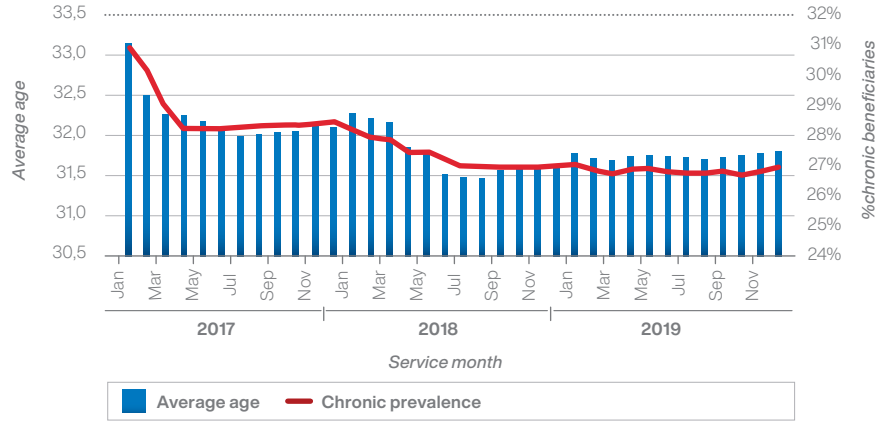
We have seen further growth on the Emerald Value sub-option. In 2019, 72 266 families participated on the sub-option covering 200 961 beneficiaries. On average, these families are larger and have a slightly lower pensioner ratio when compared to Emerald members. Emerald Value is currently the third-largest option on GEMS.

Emerald Value membership growth



The figure below shows the average age as well as chronic prevalence on Emerald Value since inception.

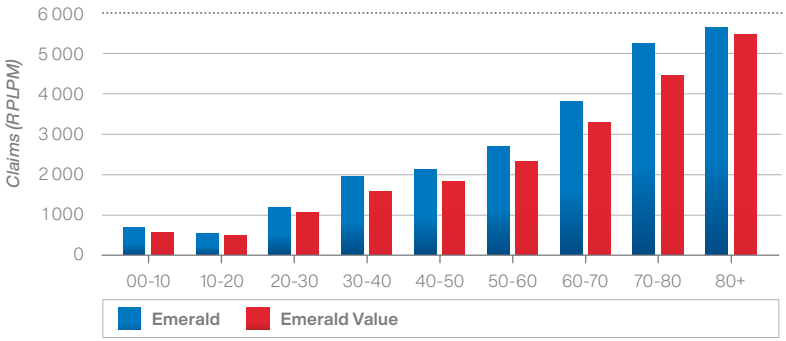
Emerald Value average age and chronic prevalence



Based on the previous two graphs we can conclude the following:
› Emerald Value has been growing over the past few years given the drive by the Scheme to move members onto the option
› The age and chronic profile on the option has improved due to this growth.

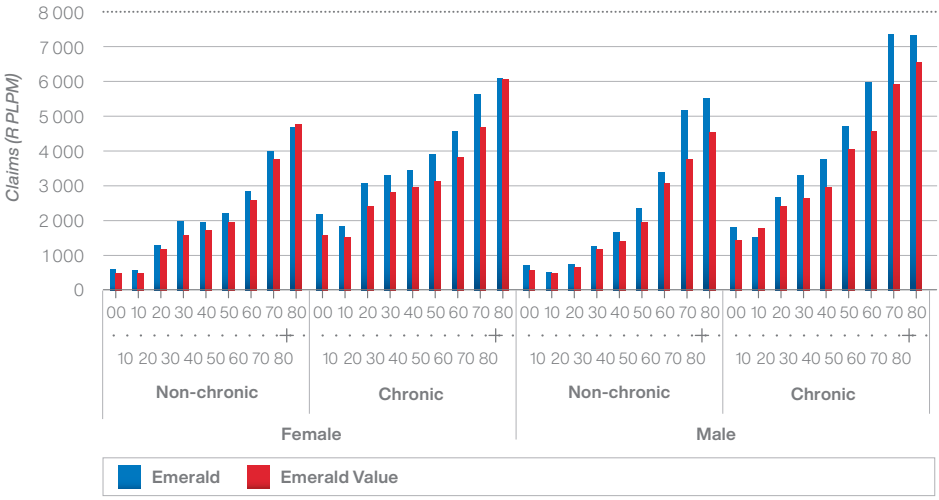
When adjusting Emerald and Emerald Value claims for age we note that claims were consistently lower on Emerald Value.

Emerald Value claims experience



The lower Emerald Value claims are further exaggerated when adjusting for the combination of age, gender and chronic status of beneficiaries participating on these options. After removing the effect of these demographic differences, we calculate an efficiency of 15.3% on Emerald Value.

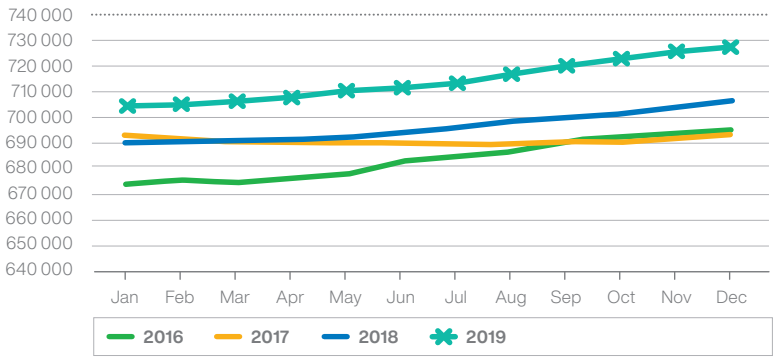
Emerald Value claims experience demographics



Membership growth outcomes

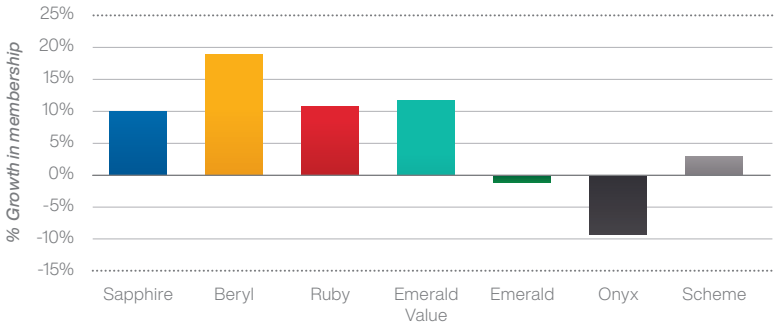
During 2019 the Scheme saw a reduction in the number of resignations and an increase in membership applications resulting in the Scheme reaching the highest membership since inception at 726 621 (2018: 705 182).

Membership growth outcomes



Overall, our membership grew by 21 439 principal members between December 2018 and December 2019. On an option level, Sapphire, Beryl, Ruby and Emerald Value grew. Both Emerald and Onyx lost members. The Emerald option lost members as a result of the targeted marketing campaign by the Scheme to switch members from the Emerald option to the Emerald Value option, which allows members to access to the same benefits at reduced contribution rates. The Onyx option membership decline is mainly due to the large percentage of pensioners (particularly the pre-92 pensioners) on this option which informs the higher mortality rate on this option than on any other of the Scheme options. The figure below shows the percentage growth in membership on an option level.

Membership growth



The Scheme ended the year with 192 377 (2018: 188 254) level 1-5 employees split across the GEMS options. This represents 26.5% (2018: 26.7%) of the total membership on GEMS. Employees in the public service employed on salary levels 1-5 typically earn between R8 500 and R17 500 per month. The Sapphire option has 85.8% of its members on salary levels 1-5 compared to 36.9% on the Beryl option. This is expected since the Sapphire option is the least expensive option and fully subsidised for these employees.

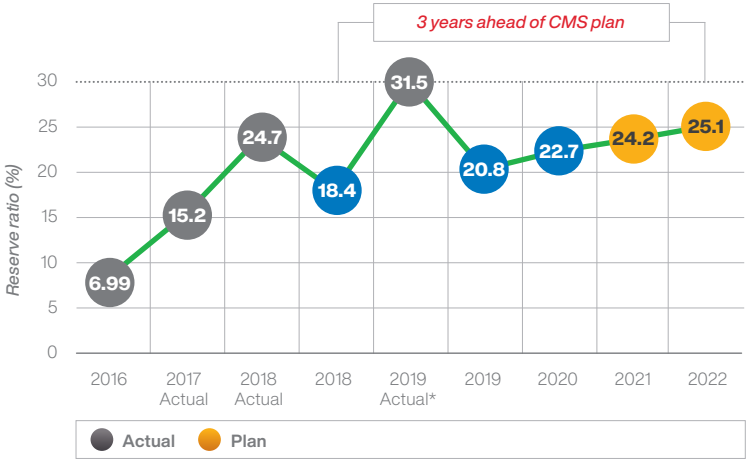
Financial outcomes

We achieved our highest reserve ratio since inception!

In the business world solvency is defined as the degree to which current assets exceed current liabilities and relates to the ability of an entity to settle its liabilities in the short term (12 months).

The reserve ratio within the medical scheme environment relates to contributions and accumulated funds that it has in place and is calculated as a scheme's accumulated funds as a percentage of its Annual Gross contributions. As such the reserve ratio fluctuates during the course of any financial year due to the formula applied. The Scheme commenced the year with reserves of R9.4bn and through the significant positive claims experience had managed to build reserves and conclude the year with reserves of R13.0bn.

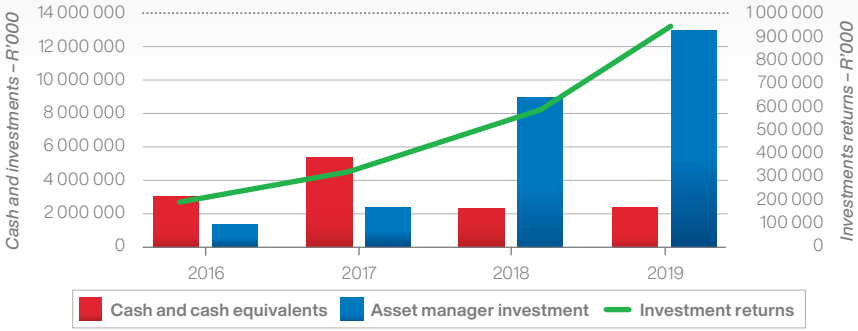
The graph below plots GEMS' reserve ratio for the last three years and shows the significant achievement made by the Scheme to increase the ratio from 6.99% in December 2016 to end the year on 31.5% (2017: 24.74%) which compared favourably to the reserve level approved by the Registrar of Medical Schemes for 2019 of 20.8%. The Scheme has now achieved the statutory reserve ratio and this was achieved 3 years ahead of the CMS approved business plan for the Scheme.



Strong growth in cash and investment resulting in the highest investment income since inception

Similar to the improvement of the reserves, the Scheme has managed to significantly strengthen the liquidity position of the Scheme with cash and investments growing from R4.6bn in December 2016 to R15.4bn at the end of December 2019. At the same time the investment income of the Scheme increased from R224m in 2016 to R941m in 2019.

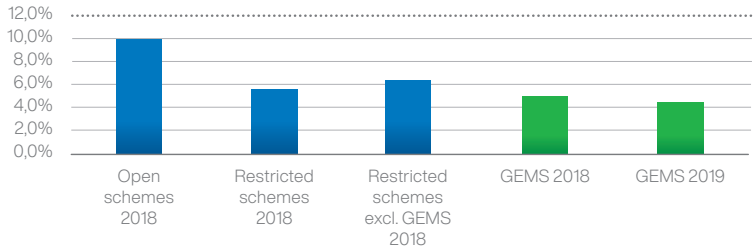
Growth cash, investments and returns



Sustained non-healthcare costs

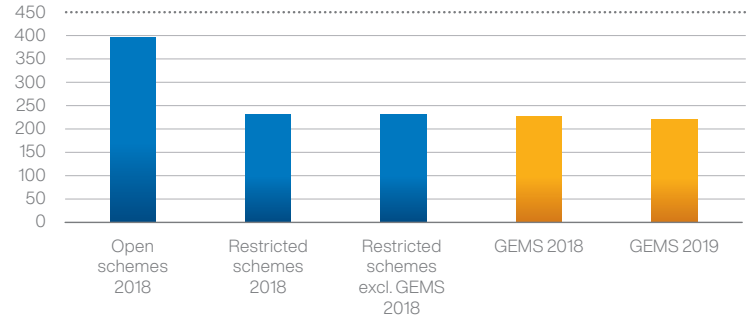
We have realised significant savings on non-healthcare costs. GEMS's non-healthcare costs are significantly lower than that of other schemes representing a saving of approximately R2.3bn per year for members. This means compared to other schemes, GEMS has more money available to spend on healthcare costs of members.

NHE as a percentage of gross contribution income



GEMS's non-healthcare expenses member per month level compared favourably to open medical schemes operating in the industry.

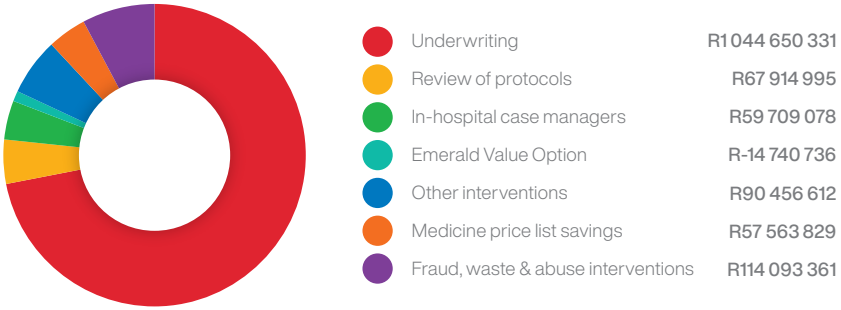
NHE (R PMPM)



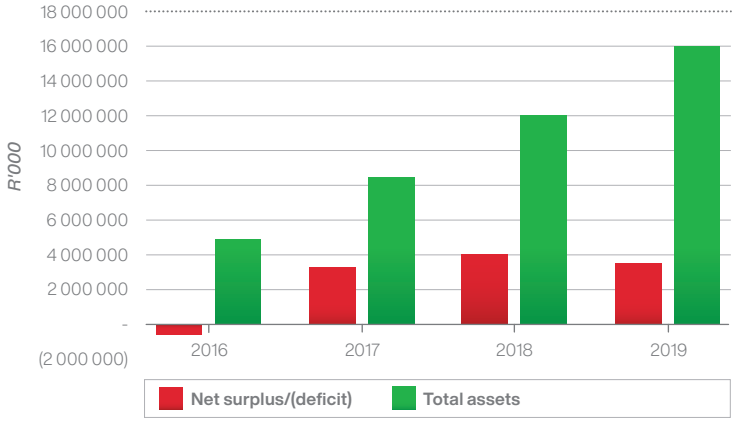
Positive impact of Scheme claim interventions

The Scheme introduced by a number of interventions which have resulted in savings. These are regularly reported on in the Claims Management Forum. The forum focuses on introducing interventions which assist the Scheme to manage claims. The Scheme saved over R1,4bn due to these interventions. The graph below illustrates the relative impact of each of the interventions.

Savings as a result of Scheme interventions



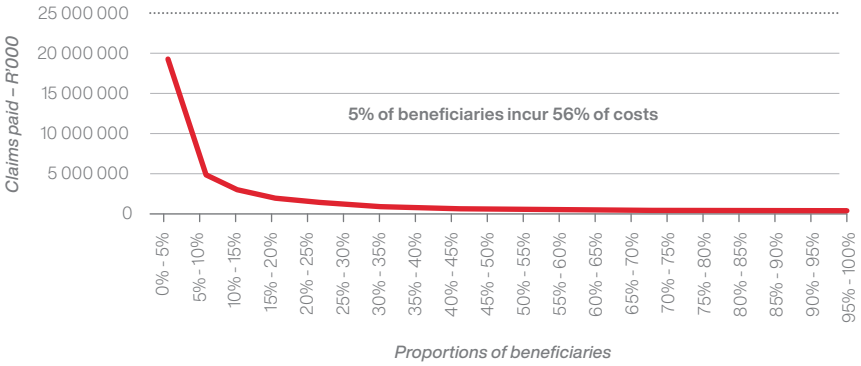
Improvement in financial position



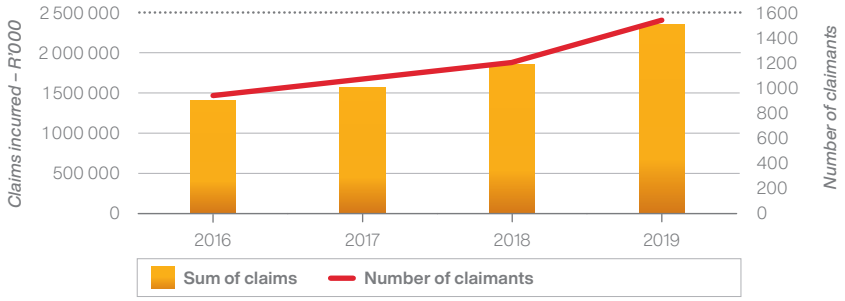
More information on our claims experience in 2019

In 2019 the Scheme settled claims to the value of R35.2bn (101m claim lines). This represents an increase of 11.6% from 2018 during which GEMS settled claims to the value of R31.0bn (91.8m claim lines) which was lower than expected. In line with industry trends a small proportion of members are responsible for a majority of the claims in any given year.

In GEMS, 5% of beneficiaries incur 56% of costs in any given year as demonstrated below:



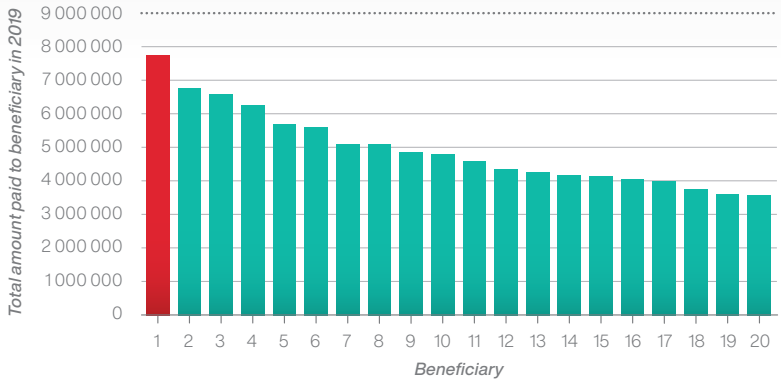
The graph below shows the number of beneficiaries who claimed over R1m as well as the total claims for all beneficiaries who claimed over R1m. In 2019, the total amount claimed as well as the number of these high claimers increased significantly when compared to 2018.



The graph below shows the claims paid to the 20 highest claiming families who joined GEMS without previously belonging to any medical scheme. These families were saved from incurring significant out-of-pocket expenses since they are on GEMS.

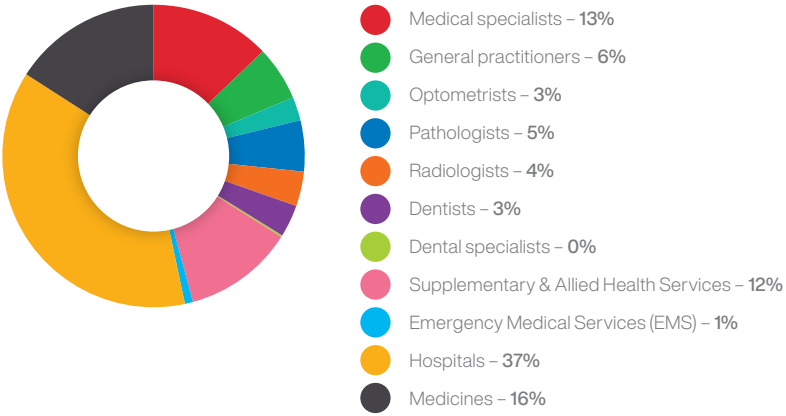
GEMS paid R7.8m in benefits to the highest claiming previously uncovered beneficiaries in 2019. The total cost of the ten most expensive claimants in 2019 amounted to over R62.9m (2018: R48.5m).

Claims paid to the 20 highest claiming families



Claims breakdown by discipline

The Scheme pays claims to providers of the following disciplines and from the graph below it is evident that the majority of claims are paid for Hospitals, Medicines, Medical Specialist and Allied Health service providers.



Claims increases experienced in 2019

The table below shows the total increase by broad claims category.

	2016	2017	2018	2019	% increase
Hospital fees	10 864	10 748	11 617	12 875	10.8%
Day-to-day	5 281	5 481	5 512	6 076	10.2%
Medication	4 383	4 757	4 912	5 186	5.6%
IH professional fees	7 599	7 667	8 720	10 315	18.3%
Total	**28 127**	**28 653**	**30 761**	**34 452**	**12.0%**

The In-hospital professional fee increase for 2019 at 18.3% is of particular concern and this is further discussed in the analysis provided below.

Significant increases experienced in In-hospital provider claims during 2019

The graphs below show the per member per month (PMPM) in-hospital provider claims up to each month in 2017, 2018 and 2019. Hospital facility claims are excluded from these claims. This shows that between 2018 and 2019, the claims paid to providers increased with 13.2% after adjusting for number of members participating on GEMS.

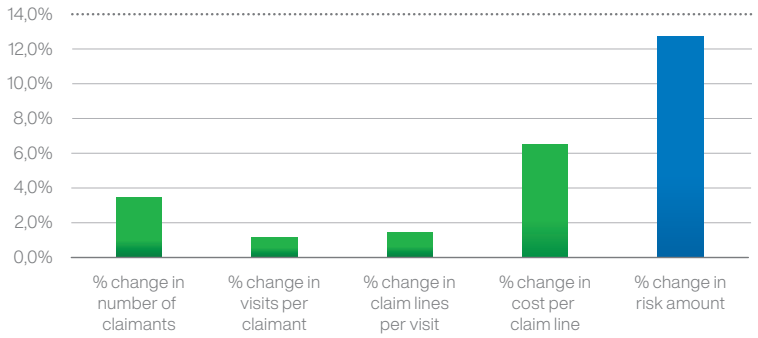
YTD (month)	2017	2018	2017 to 2018	2019	2018 to 2019
January	903	990	9.6%	1 128	14.0%
February	913	990	8.4%	1 137	14.9%
March	940	1 007	7.2%	1 150	14.1%
April	906	998	10.2%	1 150	15.2%
May	921	1 017	10.5%	1 160	14.1%
June	917	1 019	11.0%	1 155	13.4%
July	921	1 023	11.0%	1 169	14.3%
August	929	1 028	10.7%	1 174	14.2%
September	923	1 021	10.7%	1 165	14.1%
October	922	1 026	11.2%	1 169	14.0%
November	919	1 024	11.5%	1 163	13.6%
December	901	1 003	11.4%	1 136	13.2%

The increase in PMPM claims is further broken down by discipline in the next table. The increase experienced during 2019 was attributable to several disciplines. Clinical technician and anaesthetist claims have increased at a lower rate than in previous benefit years.

Discipline	2017	2018	2017 to 2018	2019	2018 to 2019
Pathologist	125	139	11.7%	157	12.7%
Radiologist	119	134	12.7%	151	12.9%
Clinical Technologist	110	117	6.9%	121	3.2%
Specialist Physicians	80	92	15.0%	106	14.4%
Anaesthetist	51	58	13.3%	64	10.3%
Surgeon	36	43	17.5%	50	16.1%
General Practitioner	35	40	14.7%	46	14.6%
Orthopaedic Surgeon	37	39	7.0%	44	13.0%
Blood Transfusion	30	35	16.3%	42	18.8%
Radio Therapist	30	31	3.4%	36	15.8%
Other	247	274	10.7%	319	16.6%
Total	**901**	**1 003**	**11.4%**	**1 136**	**13.2%**

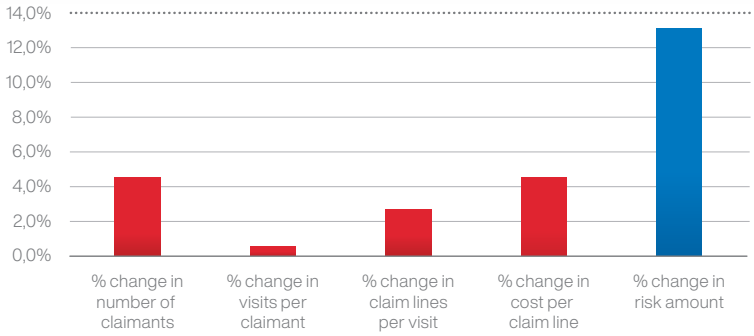
The 12.7% increase in pathology claims is attributable to an increase in number of claimants and an increase in the cost of tests performed.

Pathology



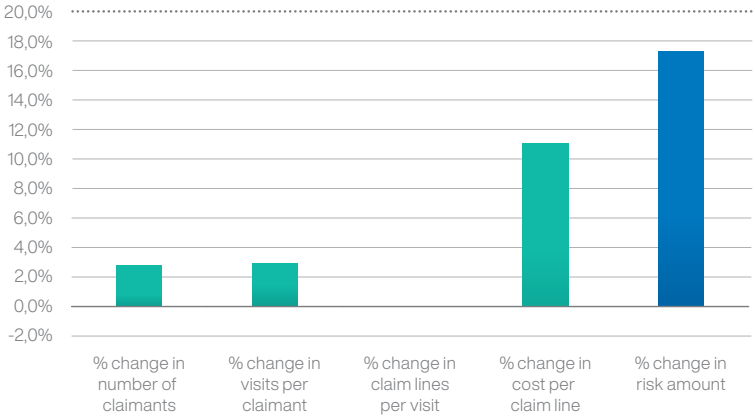
This experience is similar for radiology where we observe a significant increase in proportion of claimants during 2019.

Radiology



The increase in average cost per event is more significant at other specialities when compared to pathology or radiology. A significant part of the 17.3% increase is still attributable to the increase in average cost per claim.

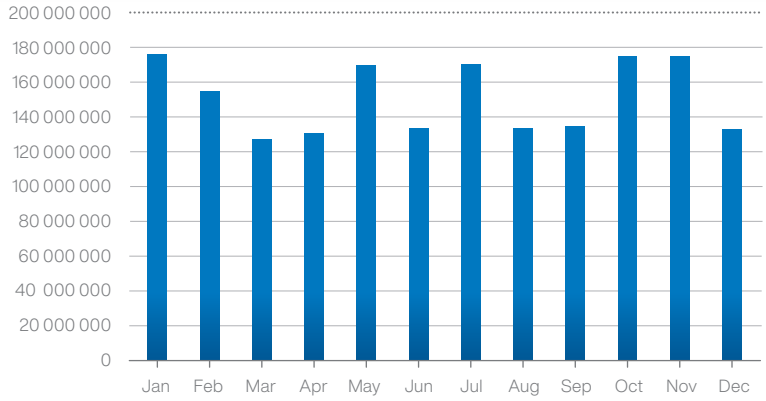
Specialists



PMB claims above Scheme rate

The graph below shows PMB claims which the Scheme paid above Scheme rates in 2019.

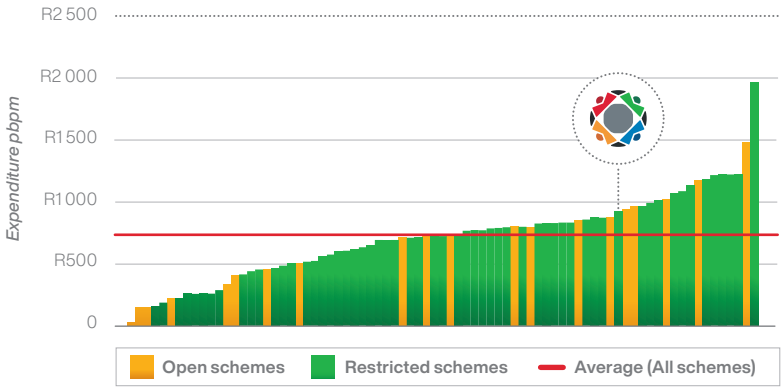
PMB claims paid above benefit limits



The total paid amount for 2019 is R34.7bn. The total amount paid over and above available benefits is R1 886 097 237. The average percentage per month is 5.4% above Scheme benefits.

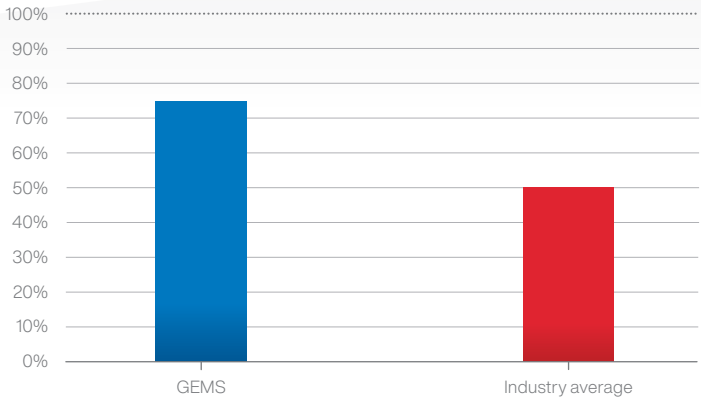
PMB claims compared to industry average

GEMS strictly adheres to Prescribed Minimum Benefit legislation and ensures that benefit provisions are honoured. GEMS funding towards Prescribed Minimum Benefits exceeds R950 per beneficiary per month. In contrast, the industry norm is less than R750.



A higher proportion of benefits paid on GEMS are due to PMB claims, contrary to most other Schemes in the country. 74.8% of benefits paid by GEMS are PMBs, on the other hand, according to the CMS report, PMBs (Prescribed Minimum Benefits) constituted 50.7% of total benefits paid by medical Schemes in 2018.

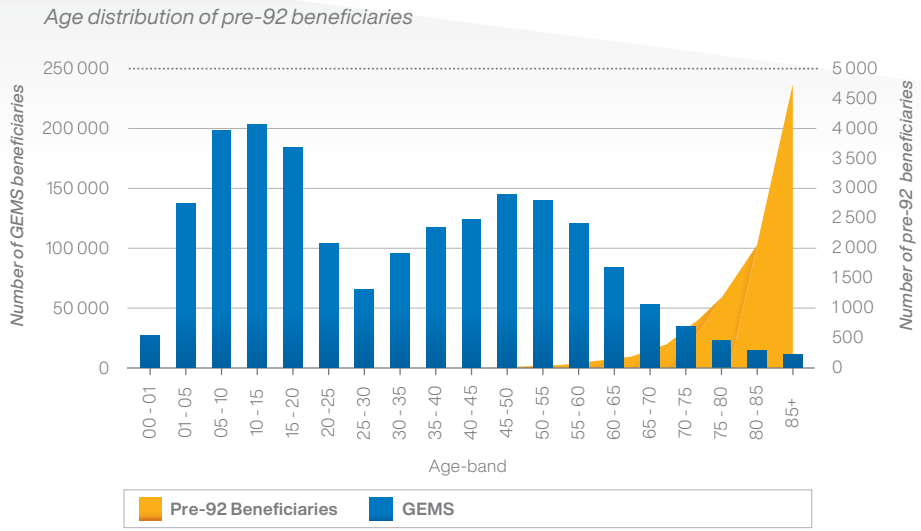
Proportion of benefits paid which are PMBs



Pre-92 pensioner impact (pensioners who migrated to GEMS from Medihelp)

In April 2012, the pre-92 pensioners were migrated to GEMS. The table below compares the membership profile of the pre-1992 pensioners as at 31 December 2019 to the rest of the Onyx members and the Scheme as a whole.

	Pre-92 members	Onyx option	Scheme
Number of principal members	7 963	28 050	726 621
Average age	84.94	70.46	48.57
Percent male	17.76%	34.98%	29.97%
Percent chronic users	85.46%	79.50%	41.89%
Percent over age 60	99.51%	74.86%	16.96%
Number of beneficiaries	8 956	44 999	1 892 295
Beneficiary ratio	1.12	1.60	2.60
Average age	84.22	61.25	32.34
Percent adult beneficiaries	10.95%	26.85%	19.78%
Percent chronic users	85.36%	42.85%	24.20%
Percent over age 60	98.53%	62.19%	11.58%



Financial Impact of pre-92 pensioners

The table below illustrates the financial impact of the pre-92 pensioners on the Scheme for 2019.

	Actual
Net Contribution Income	493 454 504
Claims Incurred	(642 720 997)
Gross healthcare results	**(149 266 493)**
Non-healthcare costs	(21 486 725)
Total Comprehensive Surplus/(Deficit)	**(170 753 218)**
Claims ratio	130.25%

At year end, the actual financial impact experienced from the pre-92 pensioners was better than expected and overall contributed a deficit of R170.8m towards the financial results of the Scheme.

GEMS investment strategy and performance

The Finance and Investment Committee was set up by the Board with a primary responsibility to assist the Board in fulfilling its oversight responsibilities of the Scheme's investment activities. The committee utilises external investment experts to assist in developing an appropriate investment strategy and monitoring investment performance.

The investment strategy aims to ensure that invested capital is preserved as far as possible, liquidity position is strengthened, investment returns are optimised and the Scheme complies with all aspects of Regulations 29 and 30 of the Medical Schemes Act as well as Annexure B. Compliance to the regulatory requirements are reported to the Scheme on a quarterly basis.

Asset allocation is managed and monitored from an asset and liability perspective to ensure that sufficient liquid funds are available to meet the claims and other liabilities as they fall due.

The Scheme revises its investment strategy and mandates annually in order to ensure optimal and sustainable rates of return on its investments. This is done in collaboration with the Scheme's Investment Consultant (p208). An enhanced cash portfolio was implemented in 2019 as part on the investment strategy in order to further diversify investment risk, enhance performance and mature the investment strategy of the Scheme.

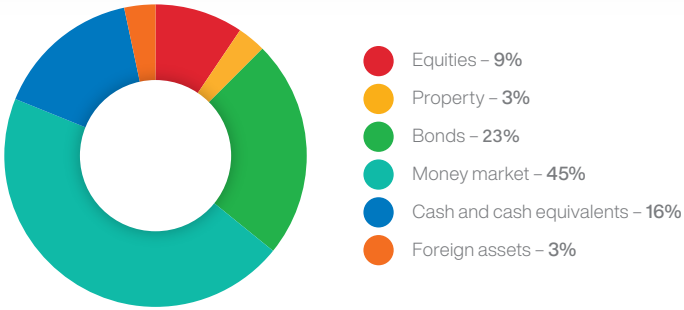
Although GEMS is not an institutional investor, the Scheme subscribes to the principles and recommended practices of the Code of Responsible Investing in South Africa (CRISA). The Investment Committee reviews the Scheme's alignment to CRISA on an annual basis

The investment mandate is executed using five Asset Managers (p209), overseen by the Scheme and the Investment Consultant, in order to leverage their diversified expertise and reduce the risk of over-concentration. The Scheme had the following investment portfolios for the year:

› Money market portfolio
› Absolute return portfolio
› Enhanced income portfolio

GEMS adopts a conservative investment approach that limits the risk of capital erosion and optimises investment returns. Below is the asset class exposure as at 31 December 2019:

Percentage of exposure



The total investment funds held at the end of the 2019 financial year was R15.4bn comprising of cash and cash equivalents of R2.4bn and R13bn held with the asset managers of the Scheme.

The Scheme achieved solid investment returns in extremely challenging market conditions with the return on investment beating the Scheme's target for 2019 of CPI+3%. The average investment rate of return achieved for the year was 8.1% (2018: 6.8%). The investment performance was largely boosted by the reversal of negative performance in emerging equity markets which was experienced in the latter part of 2018. The total monetary value of the investment return was R941m (2018: R550m). The investment income of the Scheme accounts for 27% of the surplus achieved for the year.

The investment values and average effective interest rates for the year ended 31 December were as follows:

Asset	2019 R	2018 R	2019 ROI%	2018 ROI%
Current accounts	900 956	733 597	5.18%	5.25%
Call accounts	1 548 805	1 701 604	7.11%	6.86%
Asset managers	12 971 947	9 014 155	8.30%	6.45%
Total funds invested	**15 421 708**	**11 449 356**	**8.10%**	**6.80%**

The difficult investment environment is set to continue in 2020 with the country seemingly in a declining interest rate cycle which might have an impact on the capital guaranteed investment instruments which makes up a significant portion of the investment portfolio. The equity portfolio remains subject to the market volatility but it is expected to yield solid returns in the future. The Scheme revised its investment target rate to CPI+3.5% for the 2020 financial year.

The Scheme in collaboration with its investment consultants will continue to closely monitor the performance of its asset managers to ensure that they deliver investment returns as per the mandates. It will also continue to assess and mitigate downside risks that might lead to capital erosion.

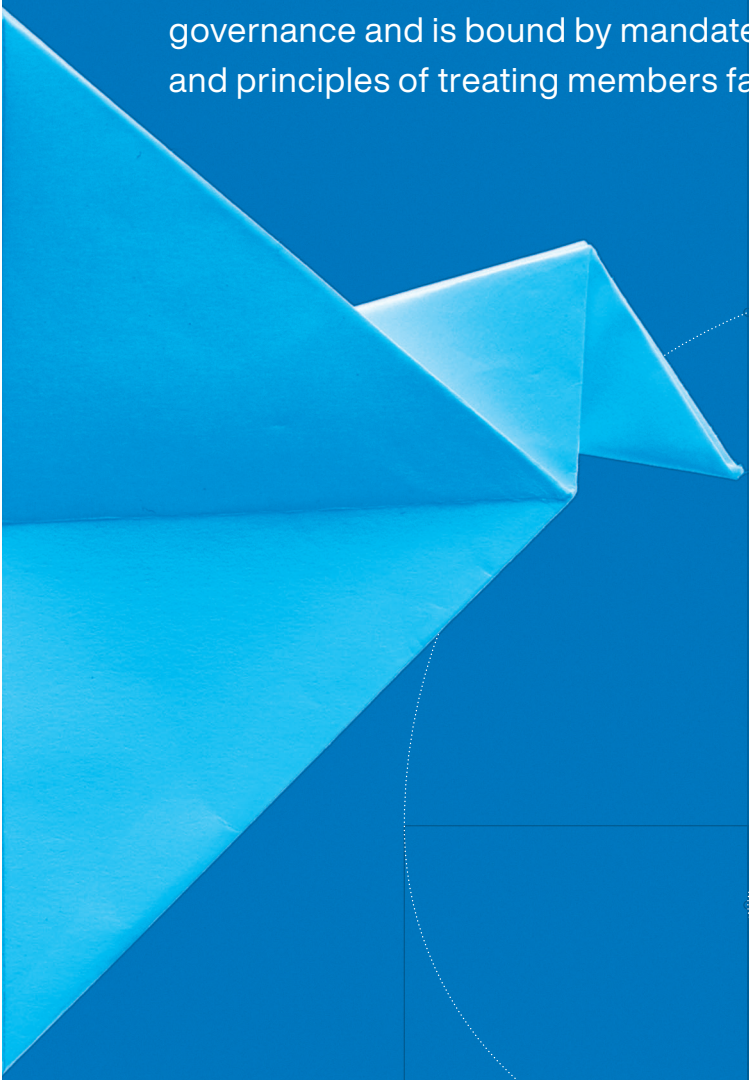
Per member cost analysis

The table below provides an analysis of the manner in which Scheme funds were allocated to healthcare and non-healthcare services. Additionally, the comparison of these parameters provides insight on the extent to which the Scheme has grown and is realising economies of scale to the benefit of its members.

	Sapphire		Beryl		Ruby	
	2019	2018	2019	2018	2019	2018
Net contributions per member per month (average)	R2 300	R2 169	R3 073	R2 861	R3 804	R3 581
Net contributions per beneficiary per month	R714	R676	R1 149	R1 075	R1 423	R1 336
Healthcare management expense per member per month	R96	R91	R96	R91	R96	R91
Healthcare management expense per beneficiary per month	R30	R29	R36	R34	R36	R34
Non-healthcare expenses as a percentage of gross contributions	9.5%	10.2%	7.1%	7.7%	6.0%	6.3%
Administration cost per member per month	R218	R221	R218	R221	R229	R224
Administration cost per beneficiary per month	R68	R69	R82	R83	R85	R84
Amounts paid to administrator/s (R'000)	R72 824	R66 935	R58 238	R49 616	R140 940	R128 689
Number of registered new members	8 305	7 566	8 672	7 222	12 131	11 077
Number of resigning members	2 028	602	2 119	990	4 543	3 219
Chronic prevalence of beneficiaries	5.8%	5.6%	12.7%	12.1%	15.3%	14.8%
Average number of members during the year	50 662	46 242	40 518	34 276	98 051	88 918
Number of members as at 31 December 2018	54 026	49 042	43 713	36 688	101 777	91 792
Number of beneficiaries as at 31 December 2018	174 524	157 448	116 853	97 825	271 671	245 394
Dependant ratio to members as at 31 December 2018	2.2	2.2	1.7	1.7	1.7	1.7
Average accumulated funds per member	R17 960	R13 438	R17 960	R13 438	R17 960	R13 438
Return on investments as a percentage	8.1%	6.8%	8.1%	6.8%	8.1%	6.8%
Relevant healthcare expenditure (claims) pmpm	R814	R644	R2 603	R2 204	R2 594	R2 310
Relevant healthcare expenditure (claims) ratio	35.4%	29.7%	84.7%	77.1%	68.2%	64.5%
Non-healthcare expenditure pmpm	R218	R221	R218	R221	R229	R224
Net healthcare result (R'000)	**R770 913**	**R723 066**	**R122 705**	**R178 731**	**R1 154 706**	**R1 115 326**

Emerald		Emerald Value		Onyx		Total Scheme	
2019	2018	2019	2018	2019	2018	2019	2018
R5 227	R4 909	R4 811	R4 646	R6 254	R5 794	R4 703	R4 476
R2 056	R1 910	R1 729	R1 663	R3 882	R3 505	R1 808	R1 717
R96	R91	R96	R92	R96	R91	R96	R91
R38	R36	R34	R33	R59	R55	R37	R35
4.2%	4.6%	4.5%	4.8%	3.6%	3.9%	4.7%	4.9%
R217	R227	R217	R222	R225	R227	R219	R226
R85	R88	R78	R79	R140	R137	R84	R87
R613 612	R635 170	R98 829	R80 262	R41 399	R45 883	R1 025 842	R1 006 556
19 576	21 282	5 778	3 991	409	1 499	54 871	52 637
17 224	10 644	2 820	1 468	1 871	1 025	30 605	17 948
28.3%	27.0%	26.8%	26.9%	68.7%	66.8%	24.2%	23.9%
426 826	439 018	68 794	55 363	28 795	31 714	713 646	695 531
426 789	432 179	72 266	64 595	28 050	30 886	726 621	705 182
1 083 287	1 107 742	200 961	180 594	44 999	50 730	1 892 295	1 839 193
1.5	1.6	1.8	1.8	0.6	0.6	1.6	1.6
R17 960	R13 438	R17 960	R13 438	R17 960	R13 438	R17 960	R13 438
8.1%	6.8%	8.1%	6.8%	8.1%	6.8%	8.1%	6.8%
R4 808	R4 354	R4 405	R4 004	R7 776	R7 035	R4 176	R3 834
92.0%	88.7%	91.5%	86.2%	124.3%	121.4%	88.8%	85.7%
R217	R227	R217	R222	R225	R227	R219	R226
R1 031 725	**R1 724 354**	**R156 175**	**R277 954**	**(R603 573)**	**(R558 890)**	**R2 632 651**	**R3 460 540**

The Scheme has adopted a stakeholder-inclusive approach to corporate governance and is bound by mandates and principles of treating members fairly.



11

BOARD REPORT ON GOVERNANCE AND REMUNERATION

Statement of corporate governance

The Government Employees Medical Scheme is committed to the principles and practice of fairness, openness, integrity and accountability in all dealings with its stakeholders. The Board conducts all its affairs according to ethical values and within a recognised governance framework.

The Scheme acknowledges its role within the medical scheme industry as well as its responsibilities to each individual beneficiary and the wider community. The Scheme recognises that sustainability can only be achieved through strong relationships with all stakeholders and responsible management of risk.

Transparency and ethics

The Scheme has adopted a stakeholder-inclusive approach to corporate governance and is bound by mandates and principles of treating members fairly. The close stakeholder relationship and the election and appointment of the Board of Trustees by the members and the Employer allow the Scheme to recognise the concerns and objectives of stakeholders in its decision-making process.

The Board of Trustees acknowledges that the perception of stakeholders affect the reputation of the Scheme.

Therefore, clear and open communication with stakeholders enhances the reputation of the Scheme. The Trustees have produced a holistic and reliable integrated report to illustrate both the financial and non-financial performance of the Scheme.

Board of Trustees

The Board of Trustees is responsible for the stewardship and governance of the Scheme. The Trustees are elected and appointed by the members of the Scheme and the Employer respectively (as defined in the Rules of the Scheme), according to the provisions of the Medical Schemes Act, No 131 of 1998, as amended, and the Rules of the Scheme. The Trustees are representatives of the Scheme's members and are legally responsible for the management and strategic direction of the Scheme on behalf of the members.

The Board meets regularly and monitors the performance of the Scheme's employees, administrators and other contracted service providers. The Board addresses a range of issues and ensures that discussion of strategy, policy, risk management, fraud management and operational performance are critical, informed and constructive. The affairs of the Scheme are managed according to the Rules of the Scheme and also adhere to all aspects of governance as required by the Medical Schemes Act 131 of 1998, as amended. The Board is also committed to the principles of the Code of Corporate Practices and Conduct as set out in the King IV Report on Corporate Governance for South Africa, 2016 (King IV).

A collective board-effectiveness evaluation and peer review is performed every second year. The Chairperson meets with individual Trustees on a one-to-one basis during induction training of new Trustees and should the need arise.

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

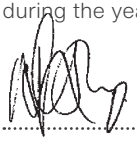
Internal controls

Management and the administrators of the Scheme maintain internal controls and systems designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain accountability for its assets. Such controls are based on established policies and procedures and are implemented by trained personnel with the appropriate segregation of duties.

The Scheme's Internal Audit service also performs an independent analysis of the controls of the Scheme as well as those of the service providers of the Scheme as part of its annual audit plan.

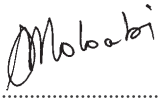
The Board-appointed Risk Social and Ethics Committee consisting of Board of Trustee members and attended by senior management of the Scheme has the duty to assess the risk registers and plans to mitigate risks. This Committee reports to the Board of Trustees independently.

On an annual basis the Board assesses the risks facing the Scheme and determines the impact and likelihood of such risks through the development of a strategic risk register. Once the risk register is approved by the Board, monitoring of the implementation of mitigation measures and internal controls takes place at least quarterly to ensure that all risks are effectively managed. No event or item has come to the attention of the Board of Trustees that indicates any material breakdown in the functioning of the key internal controls and systems during the year under review.



Dr SM Hlatshwayo
Chairperson

Mr ME Phophi
Deputy Chairperson



Dr BOS Moloabi
Principal Officer

30 April 2020

GEMS is governed to protect and maintain value

Structures and processes for governance

An independent Board of Trustees forms the core of the Scheme's corporate governance structure and is ultimately accountable and responsible for the performance and affairs of the Scheme.

The GEMS Board Charter defines the governance parameters within which the Board operates, sets out the role of the Board and specific responsibilities and duties to be discharged by the Board and Trustees collectively, as well as certain roles and responsibilities incumbent upon Trustees. As such, the GEMS Board Charter is aligned to the provisions of the Medical Schemes Act, 1998 (the Act), as amended; the Regulations promulgated under the Act, the registered Rules of GEMS and the King IV Report on Corporate Governance for South Africa, 2016 (King IV). The full Board Charter is available from www.gems.gov.za.

The Board of Trustees has a process in place to perform reviews of the effectiveness, the role of the Board and its Chairperson, as well as the effectiveness of the respective Board Committees. This takes place every second year and the most recent review commenced in 2018 and was completed in 2019. The overall conclusion of this review was that the Board and Standing Committees were functioning effectively.

The Board is responsible for providing strategic guidance and oversight to the Scheme. An annual strategic plan gives effect to the Board's responsibility to govern the affairs of the Scheme by directing the activities of the Principal Officer, management and employees, providing an effective oversight through which performance can be monitored and ensure that the business of the Scheme operates efficiently and effectively. The Scheme's Five-year Strategic Plan for 2017 to 2021 was approved by the Board on 27 September 2016. The Board monitored the implementation of the approved Strategic Plan by means of quarterly reports from Scheme Management on performance against defined key performance areas. Throughout 2019, the Board was kept appraised of the status of the business by means of standardised presentations covering key business indicators, including membership growth and financial performance.

The performance targets in the three year strategic plan are reviewed annually by the Board and are adjusted based on changing realities and interrelated plans such as the business plans approved for the Scheme by the Registrar of Medical Schemes from time to time. A view of the Scheme's performance against the Five-year Strategic Plan for 2017 to 2021 is provided from page 94 of the Board Report.

The Board of Trustees is responsible to govern the management of risk and a formal risk management process is in place in accordance with the Scheme's approved Risk Management Policy. The approach to risk management and the governance of risk management is discussed on page 75 of this report.

The Board monitored the implementation of the approved strategic and operational risk mitigation measures as well as the Scheme's changing risk environment during 2019 by means of quarterly and ad hoc reports from Scheme Management. The Board is comfortable that the residual risks facing the Scheme were managed throughout 2019 and that risk assessments and mitigation measures, aimed at safeguarding Scheme and member interests, were effective.

The Board's approach to the governance of ethics (p144), compliance (p146) and information technology and data (p146) confirms that value created for members are protected.

King IV Report on Corporate Governance for South Africa, 2016

The Board of Trustees formally adopted the King IV Report on Corporate Governance for South Africa, 2016 (King IV Report) with effect from 1 January 2018 by means of a Board Resolution. We use the Governance and Compliance Instrument (GCI), an online tool developed by The Global Platform for Intellectual Property, as recommended by the Council for Medical Schemes, to assess whether the recommended King IV Report practices are followed.

The Scheme achieved an overall 88% score in respect of the seventeen (17) principles of the King IV Report, i.e. 88% of the principles are satisfactorily applied through the Scheme's business practices. Our explanation of the GEMS business practices will be published on the GEMS website in 2020.

Structures and officers

The Board consists of 12 Trustees made up as follows:
› 50%, i.e. 6 Trustees elected by the Members of the Scheme; and
› 50%, i.e. 6 Trustees appointed by the Minister for the Public Service and Administration.

Board of Trustees:

Our Trustees in **2019** were:

Name	Elected or appointed	Other significant positions held during 2019
Mr M Brand 18 August 1947	Elected, tenure commenced 25 September 2019 and ends 24 September 2025	N/A
Mr CJ Booyens 25 February 1942	Elected, tenure commenced 30 July 2013. Deceased 21 April 2019	N/A
Dr JA Breed 14 March 1951	Elected, tenure commenced 30 July and ends 29 July 2020	N/A
Mr EB De Vries 21 July 1943	Elected, tenure commenced 30 July 2013 and ends 29 July 2019	N/A
Dr SM Hlatshwayo 9 January 1964	Appointed, tenure commenced 20 February 2018 and ends 19 February 2024	Casualty Doctor: Arwyp Private and OR Tambo Travel Clinic
Mr LJ Mankge 08 March 1970	Elected, tenure commenced 25 September 2019 and ends 24 September 2025	DoE Limpopo
Mr RA Manoko 6 June 1966	Appointed, tenure commenced 20 February 2018 and ends 19 February 2024	Founder and MD: Manoko & Associates Inc. Attorney
Dr ECT Moloko 16 May 1959	Appointed, tenure commenced 28 October 2016 and ends 27 October 2022	Chairperson: Health and Wefare Sector Education and Training Authority (HWSETA)
Ms C Ntshane 17 May 1974	Elected, tenure commenced 25 September 2019 and ends 24 September 2025	DoH Mpumalanga – Wellness Manager
Mr ME Phophi 6 October 1952	Appointed, tenure commenced 26 September 2017 and ends 25 September 2023	Chief Negotiator for the State as Employer Chairperson on National Labour Relations Forum for the Public Service Chairperson of the State as Employer in the Public Service Coordinating Bargaining Council
Dr IJ van Zyl 31 January 1951	Elected, tenure commenced 30 July 2014, and ends 29 July 2020	N/A
Mr NL Theledi 30 June 1963	Appointed, second term ended 8 September 2020. Reappointed for a final term of three years that commenced on 5 December 2019	Secretary General: POPCRU
Mr JS Roux 08 January 1944	Elected, tenure commenced 30 July 2014, ends 29 July 2020	N/A

	Qualifications (Trustees' qualifications are verified by means of the Scheme's annual vetting procedure)
	BA Stellenbosch Univ. 1968, Hons BA: History, Stellenbosch Univ. 1980, B Ed, Stellenbosch Univ.1986
	B.Sc (UP); THOD Teaching Diploma (Pretoria Teacher Training College)
	BSc (PU for CHE), THOD (POK) BEd (PU for CHE), MEd (PU for CHE), PhD (NWU)
	B.Ed (PE Univ.); BA (Stellenbosch Univ.); Secondary Teacher's Cert. (Stellenbosch Univ.)
	BSc (Medunsa); MB ChB (Medunsa)
	Dip: SPTD (Senior Primary Teachers' Dip.) – 2001 Potch/North West Univ. FDE (Further dip.: Edu. Mngt) – 2013 NMandela Metro. Univ, Dip: in Practical Labour Law – 2013 NMandela Metro. Univ, Adv. Mngt Dev. Prog. – 2015 Univ. of Limpopo in Partnership with National Sch. of Govt. RSA, Prog. in Forensic& Investigative Aud. level 6 – 2017 UNISA, Edu. Mngt-Law & Systems – 2012, Dip.: Forensic & Investigative Auditing – 2017 UNISA. Cert: Comp. Cert. – 2004 Step-Ahead Comp. Training Centre, HIV/AIDS Care & counselling – 2002 UNISA, Labour Relations Mngt – 2004, Basic Public Relations Principles – 2012 UNISA, Basic Fin. Life Skills 2012 UNISA, Personal Fin. Mngt – 2013 UNISA, Strat Mngt – 2013 UNISA.
	B.Proc (1989) (Univ of the North; LLB (Univ of the North)
	M.B.Ch.B., (MEDUNSA) B.Sc. (Med), Medical University of Southern Africa (MEDUNSA)
	BA Hon.: Social Work – UNISA – 2001, Certificates: Gender Excellence – UP, Employee Assistance Programme (EAP) – UP, Employee Wellness Programme – UP
	BA (Human Resource Management); International Labour Organization (ILO) Course on Labour Relations and performance management in the Public Service; International Labour Organization (ILO) Course on Advanced Negotiations Skills.
	B Mil, Hons B Com (Personnel Management), MBA, PhD (Industrial Economics), Industrial Relations Development Programme
	B Tech (TUT); ND. Human Resource (UJ); Public Mgt. & Dev. (Wits Graduate School of Public and Management); MTech (TUT)
	B.Sc; L.S.T.D; B.Ed. (Univ. of Stellenbosch)

Board meetings in 2019

The GEMS Board of Trustees (BOT) held 12 meetings during 2019 (11: 2018) as follows:

1) 28 January 2019 (Ad Hoc BOT Meeting);
2) 04 March 2019 (Quarterly BOT Meeting);
3) 25 April 2019 (Quarterly BOT Meeting);
4) 28 June 2019 (Interim BOT Meeting focused on the AGM);
5) 30 July 2019 (Quarterly BOT Meeting);
6) 31 July 2019 (Continuation of the Quarterly BOT Meeting focused Trustee Elections Report)
7) 14 August 2019 (Ad Hoc BOT Meeting);
8) 26-27 September 2019 (BOT Strategic Planning Meeting);
9) 27 September 2019 (Interim BOT Meeting focused on the Scheme's 2020 benefit and pricing submission to the Council for Medical Schemes);
10) 31 October 2019 (Quarterly BOT Meeting);
11) 05 December 2019 (Interim BOT Meeting focused on key approvals required for 2020); and
12) 06 December 2019 (Continuation of the Interim BOT Meeting focused on key approvals required for 2020)

The Board of Trustees also held 1 half-day workshop (2: 2018) and an Annual General Meeting in 2019 (1: 2018), and as follows:

1) 31 July 2019 (Annual General Meeting (AGM); and
2) 25 September 2019 (Board Risk Identification and Assessment Workshop).


Image: Benjamin Child – Unsplash

Standing Committee Structure and Responsibilities

The Board of Trustees (BOT) has established its own governance practices and Standing Committee Structure that comply with the applicable governance and regulatory requirements. These Committees fulfil key roles in ensuring good corporate governance.

The Board reviewed the Standing Committee Structure in 2018 and the structure as established at the end of 2017 remained in place for 2019. The review was informed by:
› Statutory requirements.
› The King IV Report on Corporate Governance for South Africa, 2016.
› The GEMS Strategic Plan Accountability and Strategic Oversight Framework.
› The GEMS operational structure.
› Cost effectiveness and value for money considerations.

The Committees listed below functioned until 31 December 2019. The Committees were mandated by the Board of Trustees by means of written terms of reference as to their membership, authority and duties.

A Standing Committee Responsibility Matrix (RACI matrix) used to clarify and demarcate the Standing Committees' responsibility areas.

The Standing Committees meet at least quarterly and as indicated in the year planner approved for each year. Committee meetings are attended by Scheme Management on invitation.

Committees in operation in 2019

Audit Committee (AC)

The Audit Committee (AC) is mandated by the Board of Trustees by means of a written Audit Committee Charter as to its membership, authority and duties. The Committee's Charter was reviewed and approved by the Board of Trustees in December 2018 for 2019 and December 2019 for 2020.

The primary responsibilities of the Audit Committee include assisting the Board of Trustees in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, financial reporting processes, financial and other reporting risks, information systems, oversight of assurance provided over external reports other than financial statements; and oversight of combined assurance processes applied by the Scheme and its its Service Provider Network. With regard to the external auditors, the Audit Committee considers and recommends the appointment of the external auditors and monitors and reports on their independence. The Committee is also responsible for the appointment, performance assessment and / or dismissal of the Chief Audit Executive, approval of the internal audit plan as well as the annual review and approval of the Internal Audit Charter.

Committee composition, including members' qualifications and experience

The Committee consisted of five members of which two were members of the Board of Trustees. The majority of the members, including the chairperson, are not trustees, officers of the Scheme or of any of its service providers. For the year ended 31 December 2019, the committee members were:

Mr Motshoanedi Johannes Lesejane
29 February 1956

Designation
Independent Member, appointed with effect from 1 January 2018

Qualifications
Chartered Director South Africa (CD SA), CA (SA), Fellow Chartered Management Accountant (Global Management Accountant), B.Com Hons Accounting Science, B.Com Accountancy.

Recent work experience
Role in 2018: Independent Non-Executive Director, Consultant, Lecturer at Wits Business School (WBS)

Ms Carolynn Chalmers
12 September 1968

Designation
Independent Committee Member, appointed with effect from 01 April 2019

Qualifications
Postgrad Dip: Marketing Management; Bachelor Sc. Honors; Comp Sc. Masters; Bachelor Comp Sc.

Recent work experience
Consultant

Ms NF Msiza
22 August 1974

Designation
Independent Committee Member, appointed with effect from 1 April 2013 and re-appointed for a second term with effect from 1 April 2016 up to 31 March 2019

Qualifications
Chartered Director South Africa (CD SA), B.Com degree and Higher Diploma in Taxation and Masters in Business Administration.

Recent work experience
Role during 2019: Executive Director – Governance, Risk and Compliance: Raubex Group Limited

Previous Employers: Group Chief Audit Executive – Denel, Director: Risk, Assurance and Compliance – City Power.

Dr Izak Jacobus Van Zyl
31 January 1951

Designation
Trustee, term as Interim Audit Committee Member commenced on 27 October 2018 (to replace Deceased Member) and subsequently re-appointed until 30 July 2020

Qualifications
B Mil, Hons B Com (Personnel Management), MBA, PhD (Industrial Economics), Industrial Relations Development Programme

Recent work experience
Most recent: Labour consultant.

Previous employers: Chief Consultant (Labour Relations) – ArcelorMittal SA, Chief Director (Labour Relations) – Department of Labour.

Mr Rakgama Andries Manoko
6 June 1966

Designation
Trustee, appointed term commenced on 06 March 2018, appointed as AC member from 28 June 2018

Qualifications
Gradum Baccalaurei Procurations, Gradum Baccalaurei Legum, Admitted Attorney, Corporate Governance, Commercial Law

Recent work experience
Role during 2019: Founder and MD – Manoko & Associates Inc.

Ms Malande Sibongile Tonjeni
15 August 1978

Designation
Independent Committee Member appointed for a final term with effect from 1 April 2019 up to 31 March 2022

Qualifications
CA (SA), BCom Acct, BCom Hons Acct, postgraduate diplomas in Mining Engineering, Mining Tax, Banking Law, INSEAD Programme.

Recent work experience
Role during 2019: Independent non-executive director and trustee; and consultant

The Audit Committee (AC) carried out its responsibilities in terms of the Board approved Audit Committee Charter. The external auditors and internal auditors reported formally to the Committee on critical findings arising from audit activities.

The Committee met on 5 occasions during the course of 2019 (6: 2018)

1) 07 February 2019 (quarterly AC meeting)
2) 14 March 2019 (special AC meeting);
3) 15 April 2019 (quarterly AC meeting);
4) 18 July 2019 (quarterly AC meeting); and
5) 17 October 2019 (quarterly meeting).

The Principal Officer, the Chief Financial Officer of the Scheme, the Chief Audit Executive, the Scheme's outsourced internal auditors and the external auditors attend Committee meetings upon invitation and have unrestricted access to the Chairperson of the Audit Committee.

Clinical Governance and Administration Committee (CGAC)

The primary responsibility of the Committee is to assist the Board of Trustees in ensuring the efficient operations of the Scheme by providing oversight, assessment and review of all administration aspects of the business of the Scheme. To this end, the Committee assists the Board of Trustees in ensuring that seamless interaction takes place between the various service providers in order to meet the operational objectives of the Scheme. The Committee also assists the Board in ensuring growth in Scheme membership and excellent member affairs by overseeing communication and marketing activities, Stakeholder Relations and the Complaints Management Function as well as to:

- Assess, decide and report on the approval of ex gratia applications and payments to members of the Scheme. The Committee is mandated to approve ex gratia payments in excess of R50 000.00 and where the condition and the withholding of therapy is life threatening, the treatment will result in the improved quality of life of the applicant, the treatment is clinically appropriate and based on internationally accepted evidence-based treatment guidelines and protocols or the applicant has proven a financial inability to afford the treatment by any other means.
- Assist the Board in ensuring the implementation of the Healthcare Management Strategic Objective namely: To improve the Scheme's clinical risk profile and contain claims experience; and
- Oversee the Scheme's product development and benefit design work.

The Committee met over 2 days, every quarter, for a total of 6 meetings in 2019 (6:2018)

1) 29-30 January 2019 (quarterly CGAC meeting);
2) 16-17 April 2019 (quarterly CGAC meeting);
3) 10-11 July 2019 (quarterly CGAC meeting);
4) 13 August 2019 (special meeting focused on the Scheme's 2020 benefit design);
5) 13 September 2019 (ad hoc meeting to finalise an urgent procurement matter); and
6) 11-12 November 2019 (quarterly CGAC meeting).

For the year ended 31 December 2019, the committee members were

- Dr MS Hlatshwayo (Trustee, appointed, tenure commenced 06 March 2018)
- Mr EB de Vries (Trustee, elected, tenure ended 29 July 2019)
- Mr RA Manoko (Trustee, appointed, tenure commenced 06 March 2018)
- Mr ME Phophi (Trustee, appointed, tenure commenced 19 September 2016)
- Mr NL Theledi (Trustee, appointed, tenure ended on 26 September 2019)

Risk Social and Ethics Committee (RSEC)

The Committee has been mandated by the Board of Trustees to ensure sound corporate governance by providing oversight, assessment and review of the corporate citizenship activities and performance, environmental sustainability performance and legal workstream of the Scheme. The Committee's responsibilities include ensuring compliance with the Medical Schemes Act and its Regulations; patent and trademark legislation; and any other legislative framework relevant to the business of the Scheme.

The Committee met on 5 occasions in 2019 (4:2018)

1) 19 February 2019 (quarterly RSEC meeting);
2) 09 May 2019 (quarterly RSEC meeting);
3) 13 August 2019 (ad hoc RSEC meeting to finalise an urgent procurement matter)
4) 20 August 2019 (quarterly RSEC meeting); and
5) 21 November 2019 (quarterly RSEC meeting).

For the year ended 31 December 2019, the committee members were

› **Dr JA Breed** (Trustee, elected – Chairperson, tenure commenced July 2014)
› **Dr SM Hlatshwayo** (Trustee, appointed, tenure commenced 06 March 2018)
› **Dr ETC Moloko** (Trustee, appointed, tenure commenced on 28 October 2016)
› **Dr IJ van Zyl** (Trustee, elected, tenure commenced on 30 July 2014)
› **Mr ME Phophi** (Trustee, appointed, tenure commenced 19 September 2016)
› **Mr JS Roux** (Trustee, re-elected, tenure commenced 30 July 2014)

Finance and Investment Committee (FIC)

The Finance and Investment Committee was set up by the Board in December 2013 and commenced its work in March 2014. The primary responsibility of the Committee is to assist the Board in fulfilling its oversight responsibilities of the Scheme's investment activities and consider issues arising from investment decisions and activities. Monitoring the Scheme's organisational and financial performance are key responsibilities of the Committee. Oversight by this Committee is necessitated by the Scheme's business model which requires ongoing review of the contracting of service providers to render Scheme services. As such, the Committee monitors the Scheme's cash flow position, investment performance and compliance to the regulatory framework applicable to medical scheme investments. The Committee oversees the Scheme's Information Technology and Communication function and is also responsible to oversee the performance of the Scheme's contracted investment consultants and asset managers.

The Committee met on 5 occasions in 2019 (8:2018)

1) 21 February 2019 (quarterly FIC meeting);
2) 23 May 2019 (quarterly FIC meeting);
3) 15 August 2019 (special meeting focused on the Scheme's 2020 benefit design);
4) 19 September 2019 (quarterly FIC meeting); and
5) 28 November 2019 (quarterly FIC meeting)

Committee members in 2019 were

› **Dr ETC Moloko** (Trustee, appointed, tenure commenced on 28 October 2016)
› **Dr JA Breed** (Trustee, elected, tenure commenced July 2014)
› **Mr RA Manoko** (Trustee, appointed, tenure commenced 06 March 2018)
› **Mr JS Roux** (Trustee, re-elected, tenure commenced 30 July 2014); and
› **Dr IJ van Zyl** (Trustee, elected, tenure commenced on 30 July 2014)

Dispute Committee (DC)

The primary responsibility of the Committee was to independently consider and preside over any dispute referred by the Principal Officer to the Dispute Committee for adjudication and to advise the Board of Trustees on the handling of disputes in general.

At its meeting held on 29 April 2019, the GEMS Board of Trustees approved a recommendation made for the Scheme to move from the current Dispute Committee structure to an alternative dispute resolution mechanism.

Should a dispute have emanated in 2019 or before the change in structure was complete, the previous two (2) Dispute Committee members would have been requested to assist with the matter. Subsequently the terms in the previous two (2) GEMS Dispute Committee would be extended for the specific period of the dispute.

The Dispute Committee met on 1 occasion in 2019 (2:2018):
1) 12 February 2019 (bi-annual meeting);

For the year ended 31 December 2019, the committee members were:
› **Rev. F Chikane** (Independent Member, appointed with effect from 1 August 2017 to 31 July 2020)
› **Ms M David** (Independent member, re-appointed for second term with effect from 1 April 2016 to 31 March 2019).
› **Dr P Ford** (Independent Member, re-appointed for second term with effect from 1 April 2016 to 31 March 2019).

Human Resources and Remuneration Committee (HRRC)

The primary responsibility of the Committee is to ensure sound people management of Scheme employees by providing oversight, assessment and review of the maintenance of relevant Human Resources and Remuneration policies of the Scheme. In addition, the Committee's responsibilities include advising the Board on the annual cost of living adjustment for Scheme employees; the criteria to be used in benchmark exercises pertaining to annual remuneration surveys, the remuneration rates applicable to employees, trustees and independent committee members; the implementation of remuneration survey results; the implementation of performance reward measures for employees and overseeing the disclosure of the remuneration of trustees, independent committee members and members of the GEMS Executive Committee in the Scheme's annual integrated report.

The Human Resources and Remuneration Committee met on 5 occasions in 2018 (6:2018):
1) 06 February 2019 (quarterly HRRC meeting);
2) 28 March 2019 (ad hoc HRRC meeting);
3) 06 June 2019 (quarterly HRRC meeting);
4) 24 October 2019 (quarterly HRRC meeting); and
5) 27 November 2019 (special HRRC meeting)

For the year ended 31 December 2019, the committee members were:
› **Dr IJ van Zyl** (Trustee, elected, chairperson, tenure commenced on 30 July 2014);
› **Mr EB de Vries** (Trustee, elected, tenure ended on 29 July 2019);
› **Dr SM Hlatshwayo** (Trustee, appointed, tenure commenced 06 March 2018); and
› **Mr NL Theledi** (Trustee, appointed, tenure ended on 26 September 2019)

In addition to the Standing Committees, the Board also appointed one ad hoc Committee in 2019 to formulate recommendations on specific matters:

Benefit Design Committee (BDC) – Committee additional to the Standing Committees

Recommendations pertaining to the GEMS Benefits and Contributions for 2020 were developed by the GEMS Benefit Design Committee for the Board's consideration.

The Committee met on 2 occasions in 2018 (2: 2018)
1) 2 August 2019; and
2) 12 September 2019

Attendance of Benefit Design Committee meetings was open to all Trustees and most Trustees attended these meetings in 2019.

Image: Evan Wise – Unsplash

GEMS Trustees and Principal Officer 2019 summarised attendance register

The numbers reported for actual meeting attended is based on signing of attendance registers and minutes of meetings. The number of meetings that could have been attended reported takes into account the appointment and tenure expiry dates of the respective individuals. The numbers are calculated based on pure attendance and tenure – irrespective of whether remunerated or not.

	AGM	BOT meetings		AC meetings		BDC meetings		CGAC meetings	
Trustee	**AGM**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Booyens, CJ	–	1	2	–	–	–	–	–	–
Brand, M	–	5	5	–	–	–	–	1	1
Breed, JA	1	12	12	–	–	2	2	–	–
De Vries, EB	1	4	4	–	–	–	–	3	3
Hlatshwayo, SM	1	12	12	–	–	2	2	6	6
Mankge, LJ	–	5	5	1	1	–	–	1	1
Manoko, RA	1	12	12	6	6	2	2	6	6
Moloko, ETC	1	11	12	–	–	2	2	1	1
Ntshane, NC	–	5	5	1	1	–	–	1	1
Phophi, ME	1	12	12	–	–	2	2	6	6
Roux, JS	1	12	12	–	–	2	2	–	–
Theledi, N	1	10	10	–	–	1	2	5	6
Van Zyl, IJ	1	12	12	6	6	1	2	–	–
Goolab, G (Principal Officer)	1	12	12	4	6	1	2	4.5	6

A – Meetings attended | B – Meetings that could be attended

GEMS independent committee members' attendance of board and committee meetings

	AGM	BOT meetings		AC meetings		BDC meetings		CGAC meetings	
Member	**AGM**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Lesejane, MJ	1	11	12	6	6	–	–	–	–
Chalmers, C	–	–	–	4	4	–	–	–	–
Msiza, F	–	–	–	2	2	–	–	–	–
Tonjeni, MS	–	–	–	6	6	–	–	–	–
Chikane, F	–	–	–	–	–	–	–	–	–
David, M	–	–	–	–	–	–	–	–	–
Ford, P	–	–	–	–	–	–	–	–	–

A – Meetings attended | B – Meetings that could be attended

	RSEC meetings		FIC meetings		HRRC meetings		Training		Workshops	
	A	B	A	B	A	B	A	B	A	B
	–	–	1	1	2	2	–	–	–	–
	1	1	1	1	1	1	5	–	1	1
	5	5	5	5	–	–	12	–	1	1
	–	–	–	–	3	3	8	–	–	–
	4	4	4	4	4	4	14	–	1	1
	1	1	1	1	1	1	6	–	1	1
	–	–	4	4	–	–	12	–	1	1
	5	5	5	5	–	–	8	–	1	1
	1	1	1	1	1	1	6	–	1	1
	5	5	–	–	–	–	9	–	1	1
	5	5	5	5	–	–	8	–	1	1
	1	1	1	1	3	3	5	–	1	1
	5	5	–	–	5	5	2	–	1	1
	5	5	5	5	5	5	14	–	1	1

	Dispute		RSEC meetings		FIC meetings		HRRC meetings		Training		Workshops	
	A	B	A	B	A	B	A	B	A	B	A	B
	–	–	–	–	–	–	–	–	6	–	1	1
	–	–	2	2	–	–	–	–	3	–	–	–
	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	2	2	–	–	4	–	–	–
	1	1	–	–	–	–	–	–	–	–	–	–
	1	1	–	–	–	–	–	–	–	–	–	–
	1	1	–	–	–	–	–	–	–	–	–	–

Structures and processes for ethics governance

› The responsibilities of the GEMS Board of Trustees in relation to the governance of ethics are set out in the Medical Schemes Act, registered GEMS Rules, Board Charter and the policies of GEMS. The Board formally adopted the King IV Report on Corporate Governance for South Africa 2016 (King IV). The Board is responsible to exercise ethical leadership and assumes responsibility for the governance of ethics by setting the direction for how ethics should be approached and addressed by the Scheme in all its dealings.
› The Board of Trustees reviews the Scheme's vision, mission and value statements on an annual basis to ensure that the Board's commitment to building and sustaining an ethical organisation is adequately reflected therein.

The responsibilities of the GEMS Risk Social and Ethics Committee are set out in the Terms of Reference of the Committee and the GEMS Ethics Policy. The Committee is responsible to support the Board in ensuring effective oversight of, and reporting on organisational ethics in GEMS. The Committee is specifically responsible to support the Board in ensuring that the Scheme's Ethics Policy, Codes of Conduct and ethics management programmes:

› Encompass the Scheme's interaction with internal and external stakeholders and society in general;
› Address the key ethical risks of the Scheme; and
› Provide for arrangements that familiarise the employees and other stakeholders with the ethical standards of the Scheme.

The Committee is further responsible for supporting the Board in exercising ongoing oversight over the management of ethics in the Scheme.

Conflict of interest, skills requirements as well as fit and proper criteria for GEMS Trustees are addressed in the registered Rules of GEMS. In the Rules, the same requirements regarding conflict of interest that are applicable to Trustees also apply to GEMS Chief Officers.

The Audit Committee is responsible to ensure that the effectiveness of the Scheme's ethics governance controls is reviewed regularly.

Scheme Management discusses ethics and values and is responsible to design and implement policies and processes to achieve sound ethics management. Scheme Management submits policies to the Board for approval and accounts to the Board in respect of the implementation of policies designed to achieve effective ethics management. Leadership collaboration and shared accountability is progressively pursued by Scheme Management and the benefits of the approach are gradually becoming apparent.

The GEMS Ethics Policy sets the tone for the various policies and measures applied to ensure that Trustees, employees, and contracted service providers meet the ethical expectations of the Scheme. These include measures to identify, assess and mitigate ethics risk, provide ethics guidance to employees, confirm that Scheme officers are fit and proper, the declaration of interests and the acceptance of gifts. The GEMS Supply Chain Management Policy and Supply Chain Management Code of Conduct sets the tone for ethics governance in procurement processes and guides Trustees, employees, as well as bidders and successful service providers through interest declaration as well as vetting.

The Board monitors the strategic risk "Breakdown in ethical culture internally and in the operating environment" Refer to Risk Management Section, page 86 of this report.

Key focus areas in 2019

The GEMS Ethics Function was subjected to a maturity assessment in December 2018. The outcome of the assessment was used to strengthen the function in 2019.

Key focus areas in 2020

› Ethics communication to external stakeholders
› Employee surveys
› External ethics risk assessment covering internal and external stakeholders
› Follow-up internal audit review and maturity assessment
› Revision of GEMS Vetting Policy and Standard Operating Procedures
› Integration of employee vetting with service provider vetting through procurement
› Adoption of revised Code of Ethics and Business Conduct.

Data and information governance

The GEMS Information and Communication Technology Division reports to the Finance and Investment Committee and the Board of Trustees. The Division is headed by the Chief information Officer who manages the function with the support of two senior managers, dedicated GEMS employees as well as contractors who support the distributed computing environment.

The adequacy and effectiveness of our technology and information management are monitored through risk management control effectiveness reviews by management supported by the GEMS risk management function. Periodic independent reviews are performed by GEMS internal audit and external assurance providers.

The successful achievement of phase III of our strategic plan themed, "innovate for member value proposition" and our overall strategic objective of becoming the blueprint for National Health Insurance, is premised on advanced ICT systems for enhanced member experience and decision making, data driven healthcare management operational improvement and risk management.

2019 Key focus Areas	Future areas of focus
› Development of an Information Management Capability › Aggregation and ownership of all GEMS data and intellectual property › Innovation through advanced analytics and real time date management › Deployment and optimisation of our infrastructure and capacity › Maintenance and enhancement of Information Security Mechanism › Management of business applications and business intelligence	› Implementation of our Digital Strategy Initiatives › Development of Business Intelligence Data Management and Digital First initiatives › Further enhancement of provider and member digital services › Complete analysis and development of the core information management programme › Development and implementation of information security management capability › Unified communication rollout at all our Client Liaison Offices › Adoption of fourth industrial revolution (4IR) technologies, such as cloud solutions, digitizing on the inside and outside and positioning for NHI

Compliance

Structures and processes for compliance management and non-compliance matters

Compliance with regulatory requirements contributes to and forms part of our business efforts towards an ethical, good corporate citizen and sustainable medical scheme. In ensuring compliance, we are committed to identifying the regulatory requirements that GEMS needs to comply with, continuously monitor the effectiveness of our compliance business practices relating to the identified regulatory requirements, and appropriately respond where change is required.

Effective management of compliance risk means meeting the GEMS compliance obligations and protecting GEMS from loss or damage, noting that it is not only an obligation but also a source of rights and protection. It improves the way GEMS does business for and with its stakeholders and as such is vital for an ethical and sustainable business. It requires a holistic view on how applicable laws and non-binding rules, codes and standards relate to one another and their ability to impact GEMS ability to create value over time.

As part of the primary responsibilities of the GEMS Board of Trustees stipulated in the GEMS Board Charter, the Board has to set and steer the Scheme's approach to the governance of compliance.

The GEMS Compliance Function reports to the Audit Committee and the Risk Social and Ethics Committee of the GEMS Board. More information on the composition of the Audit Committee and the Risk Social and Ethics Committee and a summary of the Committees' responsibilities can be found on pages 136 and 139 of this report.

The adequacy and effectiveness of the Scheme's Compliance Management Function is periodically assessed by the Scheme's Internal Audit Function.

The Compliance Function forms part of the second line of defence in the Scheme's combined assurance framework:

The Compliance Function is located within the Risk Management and Compliance Division of the Scheme and is represented on the Scheme's Combined Assurance Forum that is convened by the Chief Audit Executive.

The Scheme has established a Compliance and Ethics Forum, comprising of compliance and ethics champions from all Scheme Divisions and the Scheme's Service Provider Network. The Forum supports the Scheme in monitoring and complying with its compliance universe, including (but not limited to) the GEMS Rules and applicable legislation.

The main key focus areas for 2019 were:	Focus areas 2020:
› Aligning the Compliance Function with the Generally Accepted Compliance Practice Framework (Compliance Institute, South Africa). Our compliance governance documents were revised and streamlined into a Compliance Framework and Compliance Coverage Plan supported by a Compliance Policy. › Strengthening resource capacity. › Preparing for compliance to the Protection of Personal Information Act. › Improving the management of policy development and maintenance. › Providing guidance to the Scheme's Service Provider Network with a view to ensure the correct application of the GEMS Rules. › Supporting regulatory engagements with the Council for Medical Schemes.	› Performing the actions required under the 2020 Compliance Coverage Plan › A next level review of the GEMS Compliance Policy and Compliance Framework › Developing and implementing a compliance index for measuring our level of regulatory compliance. › Finalising and publishing our King IV Report disclosure register.

Regulatory actions and developments

- The Council for Medical Schemes conducted an inspection of GEMS in terms of section 44(4)(a) of the Medical Schemes Act. The inspection was initiated in September 2017 and substantially concluded in 2018. The final inspection report was provided to the Scheme on 5 December 2019. The Scheme's formal response will be finalised in Quarter 1 of 2020.
- Engagement with the Council for Medical Schemes in respect of two Section 43 Enquiries was ongoing as at 31 December 2019:
  - The payment of PMB claims from members' personal savings accounts; and
  - The Scheme's decision to vet Trustees in keeping with the GEMS vetting policy and procedures as opposed to vetting performed by the Council for Medical Schemes.
- GEMS supported and participated in the CMS Section 59 Investigation into allegations of racial basis in respect of fraud, waste and abuse management practices (p36).

Matters of non-compliance

To the best of the Scheme's knowledge, the compliance matters listed below cover all of the noncompliance matters for the 2019 financial year.

Late-paying employer groups

Nature

In terms of Rule 13.2 of GEMS' Scheme Rules and Section 26(7) of the Medical Schemes Act members' contributions are due monthly in arrears and payable by no later than the third day of each month.

Cause

During the period under review, certain employer groups paid over contributions on behalf of their members after the third day of the month. Late payment may result in a loss of interest earned for the Scheme; however this is not significant due to the short duration of the contributions being outstanding.

Corrective action

Scheme Management engaged with the employer groups concerned to ascertain the reasons for the late payment of contributions and to highlight the impact of this practice on members of the Scheme. The Council for Medical Schemes is informed quarterly of any late payers and the Auditor General is informed annually. At the end of December 2019 there were no late payers all funds were received by the Scheme.

Annexure B: Non-compliance of asset manager

Nature

In terms of section 7(b) Regulation 30 of the Medical Schemes Control Act No. 131 of 1998, Medical Schemes are prohibited from holding foreign listed instruments

Cause

One of the appointed asset managers had loaded the incorrect classification of the instrument in their pre trade compliance system when the instrument was set up. This incorrect classification of the instrument resulted in the portfolio being considered eligible for the instrument when the pre trade checks were conducted when this was not the case.

Corrective action

The asset manager sold out of this instrument as soon as the non-compliance was identified and the portfolio incurred no costs or fees relating to the purchase or sale of the instruments. As a result the asset manager has implemented changes to their processes for loading of new instruments for trading. All new instrument classification set ups in the system will have additional checks and sign off by appropriately authorised and skilled managers. The increased oversight will ensure that the human error risk on pre trade classification is eliminated. No trade will be permitted until the additional sign offs have been completed.

Benefit options

Nature

In terms of Section 33(2) of the Medical Schemes Act, medical scheme options shall be self-sufficient in terms of membership and financial performance.

Cause

The Scheme's Onyx option did not meet the self-sufficiency requirement in terms of Section 33(2) of the Medical Schemes Act. Loss making options adversely affect the financial performance of the Scheme and the reserve ratio. The claims on the Onyx option were driven by the option's older demographic profile, which resulted in higher claims being incurred relating to chronic and lifestyle related diseases. The migration of the pre 1992 pensioners to this option in prior years also resulted in the financial performance being adversely affected during the financial year.

Corrective action

The Scheme is however accumulating funds in accordance with a business plan approved by the Registrar. The Registrar was notified of the Scheme's performance throughout 2019 with the submission of quarterly performance reports and quarterly meetings with the CMS. Part of the quarterly submission are actuarial reports for the specific option in order for CMS to see progress of the options against the business plan and budget for the year. However during the 2019 financial year Onyx performed better than expected.

Prescribed minimum benefits paid from member savings

Nature

Regulation 8(1) of the Medical Schemes Act No. 131 of 1998 states that the Scheme must pay in full, without copayment or the use of deductibles, the diagnosis, treatment and care costs of the prescribed minimum benefit (PMB) conditions. Whilst regulation 10(6) states that the funds in a member's medical savings account shall not be used to pay for the cost of a PMB.

Cause

During the financial year, certain instances of non-compliance with the above regulation have been identified.

Corrective action

Additional controls have been put in place to flag non-compliance and ensure that corrective action is taken.

Remuneration 2019

Introduction

The Scheme has a dedicated Board Committee that is responsible for overseeing remuneration, inclusive of Trustee and Independent Committee members' remuneration, remuneration of remuneration of chief officers (executives) and general staff and related matters. Information on the mandate, composition and attendance of meetings held by the Human Resources and Remuneration Committee in 2019 is provided on page 140 of this report.

The key factors that influenced remuneration decisions during 2019

Scheme performance

The financial performance of the Scheme has had an influence on the performance management process and in turn performance bonuses for senior managerial employees.

Relevant industry data

The Consumer Price Index (CPI), the current economic climate and salary benchmarking had an impact as these factors are taken into consideration when determining annual remuneration adjustments. The salary determination process is also influenced by negotiations with NEHAWU for employees below senior management level.

Key principles

The responsibility of the Board to ensure that remuneration is fair, equitable and justifiable found expression in the approval of salary increases based on a sliding scale for general staff, senior managers and executive management.

Stakeholder considerations

The Board of Trustees remained considerate of views expressed by the members and stakeholders of GEMS in respect of the trustee remuneration.

The key focus areas and key decisions of the Remuneration Committee in 2019 summarised

1. A review of the executive remuneration pay scale
2. 2020 annual salary adjustments for GEMS employees
3. Appointment of the principal officer
4. Pool incentive and pay progression as part of the implementation
5. A review of the trustee and independent commitee member meeting fees
6. A revision of the GEMS Employee Remuneration Policy in 2019

A remuneration salary survey was used for the remuneration benchmark performed in relation to General Staff, Senior Managers, Executive Management and the Principal Officer under the auspices of the Human Resources and Remuneration Committee in 2019. The work was allocated to an organisation that is well versed and experienced in this area and the Remuneration Committee is satisfied with their independence and objectivity.

Remuneration benchmarks

GEMS like other organisations strives to attract and retain key talent thereby driving forward business strategy with the right people. The risk of losing key talent is high in most organisations. Variations in pay is one of the key determinants in retaining or losing key individuals. It is not possible for organisations to determine if pay practices are aligned with other organisations if a benchmarking exercise is not completed. The need for benchmarking therefore becomes important in identifying pay practices in the market and aligning those to the GEMS pay practices. The GEMS benchmarking process is conducted against the Healthcare, Financial and National Industries as our products and services compare well to these.

Key remuneration policy principles

The Board of Trustees determines the remuneration and reward structures of GEMS employees in keeping with the provisions of the GEMS Employee Remuneration Policy and has the duty to ensure that employees are appropriately compensated. The Board adopted a remuneration philosophy and strategy in 2013. The Scheme's remuneration philosophy reflects GEMS commitment to attracting and retaining highly skilled, high performing employees that enable the Scheme to maintain and improve on its performance. The remuneration philosophy is aligned to the Scheme's business strategy, objectives, values and achieving long term sustainability. The GEMS Employee Remuneration Policy is also aligned to the Scheme's remuneration philosophy and strategy.

Meeting the stated remuneration policy objectives:

The GEMS Employee Remuneration Policy has met its stated policy objectives in that it supports the Scheme's commitment to attracting and retaining highly skilled talent. The total reward packages and benefits offered contributed to attracting and retaining key talent. This can be seen from the low staff turnover rate of 4.8% that was recorded for the 2019 financial year. The GEMS performance management process further entrenches this commitment as we continue to reward high performers within the organisation.

Future areas of focus:

The GEMS Employee Remuneration Policy continues to evolve as the Scheme seeks to ensure that employees are paid according to market standards while also being cognisant of the current economic environment. The success of the GEMS Five-year Strategic Plan is dependent on the Scheme's ability to attract and retain highly skilled talent. GEMS strives to be an employer of choice and the policy is under review to ensure that it optimally supports the implementation of the Scheme's Five-year Strategic Plan. Key future areas of focus are the review of pay scales and talent retention.

Financial and non-financial benefits

GEMS is committed to developing, implementing and upholding remuneration strategies and practices which support the vision, mission, values and strategic objectives of the Scheme; while pursuing the best interests of GEMS. The Scheme seeks to ensure that remuneration is fair, equitable and justifiable.

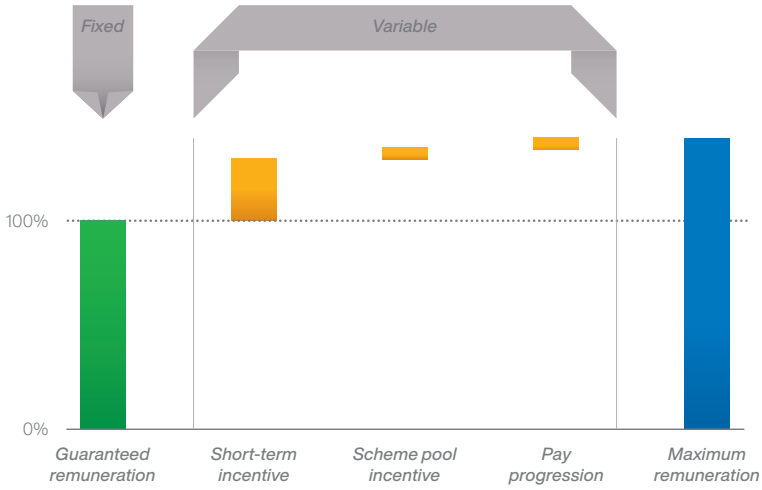
In determining the appropriate level of remuneration:

- Job grading is based on the job content
- Pay scales are designed and aligned with remuneration benchmarking
- Employees paid up to the 50th/60th percentile based on job requirements

Remuneration is provided to employees in the form of guaranteed and variable pay. Guaranteed remuneration includes basic salary and benefits. Variable remuneration is aligned to the achievement of business objectives and individual performance.

Pay structure

In addition to market-related remuneration, GEMS employees can earn an additional 40% of guaranteed pay.

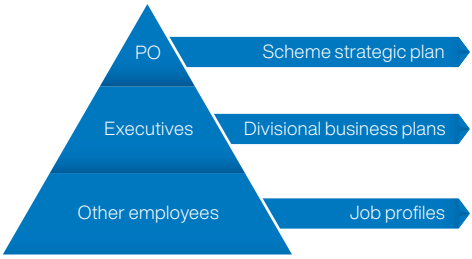


The performance framework and measures

To assess the achievement of strategic objectives and positive outcomes, the Scheme uses a standardised and integrated Three-tiered Performance Management System. A standardised balanced scorecard is used to measure performance in four areas namely:

The GEMS balanced scorecard is a key performance management tool to measure outputs and results against key performance indicators that are linked to the GEMS strategic objectives.

The system ensures that performance is measured holistically at three organisational levels i.e. Scheme level, divisional level and individual employee level as follows:



Annual employee performance contracting and assessment is done on the basis of performance scorecards made up of key performance areas and competencies. Key performance areas are aligned to the Scheme's strategic objectives and competencies are based on occupational levels. The allocation of weightings in respect of key performance areas and competencies is depicted below:

Level of Management	Key performance areas	Core/managerial competencies	Values	Total weight in % of 100
Principal officer	40	50	10	100
Executives	60	30	10	100
Senior management	80	10	10	100
Other employees	80	10	10	100

We strive to improve employee contribution to the Scheme's performance by linking rewards and recognition with performance management outputs. Employees are eligible

and considered for performance rewarding in recognition of sustained performance that is significantly above expectations. For the principal officer and chief officers, the awarding of performance bonuses is dependent upon the achievement of a minimum individual performance rating, an unqualified audit report, the achievement of a surplus and a complaints ratio approved by the Board.

An illustration of the potential consequences on the total remuneration for executive management of applying the GEMS Performance Management Policy under minimum, on-target and maximum performance outcomes is below:

Performance Bonus Percentage	0%	10%	30%
Total Including Annual Remuneration	R28 815 711	R31 697 282	R37 460 424

Executive remuneration in 2019

	Annual Earnings	Bonus***	Total remuneration 2019	Total remuneration 2018
Jeannie Combrink	R2 345 337	R351 801	R2 697 138	R2 655 698
Karyna Pierce	R3 317 874	R497 681	R3 815 555	R3 756 084
Guni Goolab	R4 656 049	R1 396 815	R6 052 864	R5 820 061
Gloria Nkadimeng	R2 199 303	R219 930	R2 419 233	R2 443 391
Sam Lewatle	R2 753 592	R219 930	R3 067 842	R2 751 169
Molapo Masekoameng	R2 004 492	R501 123	R2 486 936	R2 301 924
Vuyokazi Gqola	R2 753 592	R413 039	R3 095 529	R2 864 755
Evan Theys	R1 716 734	–	R1 716 734	R1 707 287
Stanley Moloabi*	R4 062 000	R960 000	R5 022 000	R2 520 000
Veni Singh	R2 004 492	R300 674	R2 258 405	R297 526
Phumelela Dhlomo**	R1 002 246	R150 337	R1 143 231	n/a
Total	**R28 815 711**	**R5 204 439**	**R33 775 467**	**R27 117 895**

** Pro-rata salary – commenced Transition to Principal Officer – 01 October 2019*
*** Pro-rata salary – commenced July 2019*

Compliance statement

The Scheme complied with its approved Employee Remuneration Policy in 2019 and no deviations from the policy were reported. There are currently no voting results for the GEMS Remuneration Policy.

The GEMS Performance Management Policy is still being implemented. The Scheme complied with the components of the policy that have been implemented and no deviations from the policy were reported.


June 2019

Trustee remuneration in 2019

Overview of GEMS Trustee and Independent Committee Member Remuneration Policy

The close level of oversight maintained by the Board is critical to the Scheme's continued financial and operational performance as evidenced by the Scheme's track record of unqualified audits, sound procurement processes, responsiveness to member concerns and sound stakeholder relationships. The performance and effectiveness of our Board directly impacts on our ability to create value for our members, the Minister for Public Service and Administration and other stakeholders.

The GEMS Board of Trustees and the Committees meet frequently to ensure effective oversight of the Scheme. The meetings held by the GEMS Board of Trustees and the Committees appointed by the Board are all necessary and convened in order to:

› Meet the Scheme's statutory obligations;
› Adhere to corporate governance standards;
› Address matters related to the Scheme's business model and requirements;
› Guide Scheme Management in respect of stakeholder engagements considering the Scheme's complex stakeholder relations environment.

Trustee Remuneration Policy

Trustees and Independent Committee Members are remunerated for attendance of Board of Trustees meetings and meetings of Committees of the Board. Trustees and Independent Committee Members may also be reimbursed for costs incurred in respect of travelling and subsistence in the performance of their obligations. The Scheme commissions independent remuneration surveys to ensure that the remuneration paid is commensurate with the fiduciary obligations assumed by Trustees and the expertise of Trustees and Independent Committee members.

Trustees and independent committee members are remunerated for the preparation for, and attendance of, meetings. Trustees and independent committee members are *not* remunerated for the following:

› Meetings *not* attended;
› Participating in the Scheme's annual Board Effectiveness Assessment;
› The attendance of training sessions;
› The attendance of Scheme events where trustees are not required to perform work; and
› The attendance of member and stakeholder information and communication sessions such as lekgotlas.

Trustees and independent committee members are paid a fixed daily meeting fee for each day spent in a meeting for quarterly and interim meetings. The fixed daily meeting fee is based on an average meeting duration time of 6 hours and 12 hours preparation time. Trustees are paid a reduced daily meeting fee for the attendance of ad hoc meetings.

For meetings with the Minister for the Public Service and Administration and stakeholders, the fixed meeting fee is not applied. To remunerate Trustees for the attendance of such meetings, the fixed meeting fee is converted to an hourly fee and remuneration is calculated as follows: Number of hours in meeting + 1 hour preparation time for each hour spent in the meeting.

Trustees receive a monthly stipend to cover expenses such as stationery, telephone and internet fees.

The remuneration of the Chairperson of the Board and Chairpersons of the Committees (including the Independent Chairpersons of the Audit Committee and the Dispute Committee) is calculated as the trustee fixed daily meeting fee x 1.5.

The GEMS Trustee and Independent Committee Member Remuneration Policy is reviewed by the Board every three years with the last review performed in 2017.

Remuneration benchmarks:
Trustee Remuneration benchmarking is conducted using the comparisons of remuneration from at least 10 of the largest closed and open medical schemes in the Industry.

The fixed daily meeting fee of Trustees has been increased for the first time since 2014 by means of a Board decision taken on 5 December 2017. An inflationary increase of 5% was implemented with effect from 1 January 2018.

Trustee Remuneration 2019
The remuneration paid in 2019 per Trustee is shown from page 158. Meeting fees, travel and accommodation costs, training costs and other disbursements are disclosed separately per trustee in accordance with Regulation 6A of the Regulations made under the Medical Schemes Act, 1998, as amended.

The total amount of trustee remuneration paid in 2019 was **R7 682 000** (2018: R7 276 000), representing an increase of 5.6% compared to 2018. Of the total amount paid in 2019, R6 157 000 (84%) was paid in respect of meeting fees and the monthly stipend. The balance represents travel and accommodation costs related to the attendance of meetings and fees paid to trainers.

The GEMS Trustees undertook additional duties on a voluntary basis during the course of 2019 to represent the Scheme at important stakeholder events and to support Scheme Management in important engagements with key stakeholders such as unions. Board members also attended engagements with the Council for Medical Schemes.

Trustees attended the Scheme's CSI events scheduled to coincide with the AGM and Symposium. Trustees did not receive remuneration for undertaking these obligations, representing an estimated cost saving of R475 800 in 2019 to the Scheme.

In 2019, trustee fees expressed as a percentage of contributions was 0.02%. Expressed as a percentage of the Scheme's non-healthcare costs, it was 0.41%.

	Appointed or member elected	Attendance fees	
		2019 R'000	2018 R'000
Mr DJ De Villiers Deceased	Elected	-	416
Mr JS Roux Re-Elected July 2014 – term expires 29 July 2020	Elected	478	454
Mr NL Theledi Term ended 26 September 2019 and recommenced on 5 Dec 2019 for 3 years ending on 4 Dec 2022	Appointed	623	649
Mr CJ Booyens Deceased	Elected	96	528
Mr EB De Vries Term ended – 29 July 2019	Elected	306	557
Ms NM Ntsinde Term ended 5 February 2018	Appointed	-	35
Dr CM Mini Appointed July 2014 – resigned 15 Dec 2017	Appointed	-	2
Dr JA Breed Elected July 2014 – term expires 29 July 2020	Elected	587	518
Dr IJ van Zyl Elected July 2014 – term expires 29 July 2020	Elected	712	594
Ms NH Mkhumane Term ended 5 February 2018	Appointed	-	11
Mr ME Phophi (Deputy Chairperson) Appointed 26 September 2017 – term expires 25 September 2023	Appointed	601	284
Dr ETC Moloko Appointed 28 October 2016 – term expires 27 October 2022	Appointed	549	472
Dr SM Hlatshwayo (Chairperson) Appointed 18 February 2018 – term expires 19 February 2024	Appointed	836	594
Mr RA Manoko Appointed 18 February 2018 – term expires 19 February 2024	Appointed	688	489
Mr MR Nkabinde Removed by the Board – 21 September 2018	Appointed		28
Ms NC Ntshane Appointed 25 September 2019 – term expires 24 September 2025	Elected	133	-
Mr Lekgema Mankge Appointed 25 September 2019 – term expires 24 September 2025	Elected	136	-
Mr Marthinus Brand Appointed 25 September 2019 – term expires 24 September 2025	Elected	194	-
Total		**5 939**	**5 631**

	Travel and accommodation		Reimbursement and allowances		Training (fees paid to trainers)		Total	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000	2019 R'000	2018 R'000	2019 R'000	2018 R'000
	-	22	-	-	-	11	-	449
	305	275	20	11	34	14	837	754
	69	126	9	5	13	11	714	791
	14	39	5	29	11	11	126	607
	228	324	11	16	17	28	562	925
		14		2		1	-	52
		-		3			-	5
	148	59	32	21	63	12	830	610
	107	216	29	24	13	18	861	852
		-		2			-	13
	67	36	24	0	24	12	716	332
	69	46	8	9	22	21	648	548
	99	72	7	7	22	21	964	694
	82	64	28	20	20	33	818	606
						10	-	38
	8		18		17		176	
	14		21		17		188	
	25		6		17		242	
	1 235	**1 293**	**218**	**149**	**290**	**203**	**7 682**	**7 276**

The Committee has fulfilled its responsibilities in accordance with its charter for the reporting period

12
AUDIT COMMITTEE REPORT

We are pleased to present our report for the financial year ended 31 December 2019.

The mandate of the Audit Committee requires it to adhere to high-quality standards of corporate accountability, to oversee the quality of the financial reporting process, control systems and to maintain a high degree of integrity in both the external and internal audit processes.

The Committee has reviewed the Annual Integrated Report and considered all factors that may impact on the integrity of the report. The Scheme's Internal and External Auditors reviewed key performance measures included in this report to confirm that they are reliable and do not conflict with the financial information contained in the report.

Significant matters considered in relation to the Annual Financial Statements

The going concern basis has been adopted in preparing the Annual Financial Statements. Based on the forecasts and available cash resources the Audit Committee has no reason to believe that the Scheme will not be a going concern in the foreseeable future. These Annual Financial Statements support the viability of the Scheme.

We have reviewed and discussed with the external auditor and management the audited 2019 Annual Financial Statements, and we are of the view that they comply, in all material respects, with the Medical Schemes Act, No 131 of 1998, and International Financial Reporting Standards. The Committee received assurance that sound financial controls are in place and that the fraud and ICT risks as they relate to financial reporting have been adequately addressed.

External auditor independence and quality

The Committee was involved in the appointment of the external auditor and following the Committee's assessment of the auditor, the Committee was satisfied that the appointment of the auditor is in compliance with Section 36(3) of the Medical Schemes Act, No 131 of 1998, as amended. Furthermore, the Committee approved the External Auditor's engagement letter, audit plan and budgeted fees for the year ended 31 December 2019. The Scheme maintains the Non-Audit Services and Consulting Services policy, which describes prohibited services by the External Audit and those requiring prior approval of the Audit Committee. We are satisfied that other than the Audit Committee approved limited assurance of selected Key Performance Indicators included in this Integrated Report, the Scheme's External Auditor has not performed any prohibited work for the 2019 financial year. Both the Scheme's audit firms (Deloitte & Touche and OMA Chartered Accountants) and the designated external audit partner have only provided external audit services to the Scheme since 2016 and as such partner rotation was not deemed necessary for the period under review. Requisite assurance was sought and provided by the auditor that internal governance processes within the audit firm support and demonstrate its claim to independence.

Effectiveness of the chief audit executive and arrangements for internal audit

The Scheme's Chief Audit Executive reports functionally to the Audit Committee and administratively to the Principal Officer. The Internal Audit function has an appropriate and formal charter which was approved by the Audit Committee in 2019. We are satisfied that the Internal Audit function of the Scheme is independent and has the relevant skills and resources to perform its duties. In addition to utilisation of in-house resources to deliver on the Internal Audit mandate, the Scheme's Internal Audit division is supplemented by specialists from the panel of Internal Audit service providers where required. Internal Audit has provided quarterly reporting to the Audit Committee on assurance results and progress against its strategic objectives.

Design and implementation of internal financial controls

The Scheme's Internal Audit function performed a review of the design and operating effectiveness of Internal Financial Controls and the overall conclusion of the audit was that "some improvements are required" with the overall objectives of the controls tested being achieved. Controls tested by Internal Audit did not identify any failures that led to material financial errors or losses, fraud and corruption. Based on this assurance by Internal Audit, we are satisfied that the finances and system of internal control are appropriately managed. Furthermore, the External Auditors have issued an unqualified opinion that the 2019 Annual Financial Statements are a fair reflection of the Scheme's activities and accounting practices have been applied appropriately. International Standard on Assurance Engagements (ISAE) 3402 – Assurance Reports issued by Service Auditors at the Scheme's administrators were received and their findings, which did not present material exposure to the Scheme, were considered accordingly.

Key areas of focus during the reporting period

The Committee's key focus, amongst others, has been on Cyber Security controls and oversight thereof, with a member of the Audit Committee that has Information and Communication Technology expertise being appointed to the Risk, Social and Ethics to assist with oversight of information and technology related risks as they affect the Scheme. The Committee receives reports from Internal Audit on the implementation progress of forensic investigation (stemming from the 2017 tender investigations) recommendations by management.

Effectiveness of the chief financial officer and the finance function

The Committee has reviewed the expertise, resources and experience of the Scheme's finance function and believes that the Chief Financial Officer and other relevant finance staff have the required competence and skills. Financial reporting has been of a high standard throughout the financial year as evidenced by an unqualified External Audit opinion.

Combined assurance

The Scheme's Chief Audit Executive is charged with the responsibility for leading the Scheme's combined assurance model. GEMS' assurance providers coordinated during the period under review included external providers such as Internal Audit functions of the Scheme's Service Provider Network. Plans and reports received by the Audit Committee for the financial year provided a view of combined assurance coverage from various assurance providers and results stemming from such assurance were presented to the Audit Committee,

with any areas recommended for remediation noted and monitored for closure. Based on Internal Audit submissions, the Audit Committee is satisfied with the effectiveness of combined assurance arrangements.

Conclusion

The Committee has recommended the Annual Financial Statements to the Board of Trustees for approval. We are satisfied that the Committee has fulfilled its responsibilities in accordance with its Charter for the reporting period. The Committee wishes to thank the Board of Trustees for its continued support.

Assurance on this report:

The Board received assurance on the content and processes listed below and the accuracy thereof from both internal and external assurance providers, overseen by the Audit Committee. Coverage and outcomes by the relevant assurance providers is in the table below.

Content and processes	Assurance provider	Outcome
Annual financial statements	External audit	Unqualified audit opinion
Reporting on greenhouse gas assessment (Impact on the environment)	SustainableIT Climate Standard	SustainableIT audited GEMS's GHG emissions and confirmed that same has been reduced by 56% per employee per annum between 2012 and 2019
Reporting on the reduction in the hospital admission rate for chronic diseases	External audit	Limited assurance provided
Reporting on the reduction in member co-payments	External audit	Limited assurance provided
Reporting on fraud, waste and abuse targets for identifying outliers, changing behaviour and recovery of loss	External audit	Limited assurance provided
Reporting on the recruitment of people with disabilities and maintaining the national or provincial demographics	External audit	Limited assurance provided
Reporting on the increase in the adoption of digital channels by members	External audit	Limited assurance provided
Reporting on the percentage increase in the utilisation of all wellness and preventative programmes	External audit	Limited assurance provided
Material performance information disclosed in the 2019 Annual Integrated Report	Internal audit	Reported information was verified against source documents

Based on the forecasts and available cash resources the Trustees have no reason to believe that the Scheme will not be a going concern in the foreseeable future.

13

ANNUAL FINANCIAL STATEMENTS AND STATEMENT OF RESPONSIBILITY

The Board of Trustees are responsible for the preparation, integrity and fair presentation of the Annual Integrated Report and Financial Statements of the Government Employees Medical Scheme. The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and include amounts based on judgements and estimates by Management.

Accounting policies applied by the Scheme are informed and updated, when required, based on Circulars issued by the Council for Medical Schemes, the Annual Medical Schemes Accounting Guide issued by SAICA and updates on the latest International Financial Reporting Standards (IFRS) developments. The Trustees consider that in preparing the Annual Financial Statements they have used the most appropriate accounting policies, consistently applied these policies and supported the application of these policies with reasonable and prudent judgements and estimates.

The Board adopted the King IV Report on Corporate Governance for South Africa, 2016 (King IV) and seek to apply the recommended practices thereof where appropriate to the business of a medical scheme and its trustees.

The Trustees are satisfied that the information contained in the Annual Integrated Report fairly presents the results of operations for the year and the financial position of the Scheme at year-end. The Trustees also prepared the other information included in the annual report and are responsible for both its accuracy and consistency with the Annual Financial Statements.

The Trustees are responsible for ensuring that adequate accounting records are maintained. The accounting records disclose with reasonable accuracy the financial position of the Scheme, which enables the Trustees to ensure that the Annual Financial Statements comply with the relevant legislation.

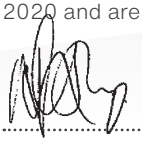
The Trustees are also responsible for such internal controls as the Trustees determine are necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining an effective system of risk management.

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

The going concern basis has been adopted in preparing the Annual Financial Statements. Based on the forecasts and available cash resources the Trustees have no reason to believe that the Scheme will not be a going concern in the foreseeable future. These Annual Financial Statements support the viability of the Scheme.

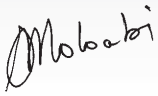
The Scheme's External Auditors, Deloitte and OMA Chartered Accountants JV, are responsible for auditing the Financial Statements in terms of International Auditing Standards and their unqualified report is presented with the Scheme's Annual Financial Statements.

The Annual Financial Statements for 2019 were approved by the Board of Trustees on 25 April 2020 and are signed on its behalf by:



Dr SM Hlatshwayo
Chairperson

Mr ME Phophi
Deputy Chairperson



Dr BOS Moloabi
Principal Officer

30 April 2020

Annual financial statements

The Scheme recorded a surplus of R3.6bn for 2019 (2018 surplus R4.0bn). This can mainly be attributed to the following factors which are reflected in the Statement of Comprehensive Income:

› Risk contributions (R208m higher than budgeted);
› Net claims incurred (R903m lower than budgeted);
› Non-healthcare cost (R459m lower than budgeted); and
› Investment and other income (R521m higher than budget)

The claims ratio for GEMS overall was 88.8% (2018: 86.0%) for 2019, lower than expected at 91.54%.

The Financial information presented from page 167 has been extracted from and is in agreement with the audited Annual Financial Statements of the Scheme for the 2019 financial year.

Statement of Financial Position as at December 31, 2019

	Notes	2019 R'000	2018 R'000
ASSETS			
Non-Current Assets			
Property and Equipment	3	240 231	255 407
Right-of-use assets	4	7 639	-
Intangible assets	5	13 373	26 697
Financial assets at fair value through profit or loss	6	4 654 020	2 126 402
		4 915 263	**2 408 506**
Current Assets			
Financial assets at fair value through profit or loss	6	8 317 926	6 887 753
Trade and other receivables	7	335 754	375 074
Cash and cash equivalents: Scheme cash invested	8	2 449 761	2 435 201
		11 103 441	**9 698 028**
Total Assets		**16 018 704**	**12 106 534**
FUNDS AND LIABILITIES			
Member's Funds			
Accumulated Funds		13 049 975	9 475 894
Liabilities			
Non-Current Liabilities			
Lease liability	4	3 577	-
		3 577	**-**
Current Liabilities			
Personal medical savings account liability	9	1 010 902	862 691
Lease liabilities	4	4 582	-
Trade and other payables	10	646 588	521 704
Outstanding risk claims provision	11	1 303 080	1 245 080
Lease Escalation Reserve		-	1 165
		2 965 152	**2 630 640**
Total Liabilities		**2 968 729**	**2 630 640**
Member Funds and Liabilities		**16 018 704**	**12 106 534**

Statement of Comprehensive Income

	Notes	2019 R '000	2018 R '000
Risk contribution income	13	40 273 184	37 354 261
Relevant healthcare expenditure		(35 763 229)	(32 002 171)
Risk claims incurred	14	(34 945 266)	(31 238 721)
Accredited managed healthcare services	15	(817 963)	(763 450)
Gross healthcare result		**4 509 955**	**5 352 090**
Administration expenditure	16	(1 714 456)	(1 680 189)
Marketing services		(125 855)	(124 669)
Impairment losses on healthcare receivables	18	(36 078)	(86 691)
Net healthcare result		**2 633 566**	**3 460 541**
Investment income	19	941 276	549 665
Dividends received		49 429	32 215
Interest received on financial assets at fair value through profit/(loss)		833 486	497 413
Net realised gain on financial assets at fair value through profit/(loss)		71 086	(19 616)
Net unrealised gain on financial assets at fair value through profit/(loss)		(62 044)	(60 488)
Interest received on cash and cash equivalents		49 319	100 141
Other income		31 525	36 691
Sundry income		31 525	36 691
Other expenses		(32 285)	(17 279)
Investment management fees		(31 369)	(17 279)
Interest expense		(916)	-
Total comprehensive surplus for the year		**3 574 082**	**4 029 618**

Statement of Changes in Equity

	Accumulated Funds R '000	Member Funds R '000
Balance at January 1, 2018	5 446 276	5 446 276
Total comprehensive surplus for the year	4 029 618	4 029 618
Balance at January 1, 2019	9 475 893	9 475 893
Total comprehensive surplus for the year	3 574 082	3 574 082
Balance at December 31, 2019	13 049 975	13 049 975

Image: Markus Winkler – Unsplash

14

AGM NOTICE

Notice is hereby given that the 14th Annual General Meeting ("the meeting") of the Members of the Government Employees Medical Scheme ("GEMS") will be held within a period of 90 days after the lockdown and/or the restrictions pertaining to the COVID-19 pandemic are lifted.

Agenda

14th GEMS Annual General Meeting

Meropa Casino & Entertainment World
Plot 59, Sterkloop, Roodepoort Road, Polokwane, 0700, Limpopo

Item	Speaker
1. Opening and welcome	**Chairperson**
2. Announcement of agenda as finalised in accordance with GEMS Rules 28.1.5.1 to 28.1.5.6	**Chairperson**
3. Opening remarks by Chairperson followed by a presentation by the Principal Officer on the business of the Scheme for the financial year ended 31 December 2019	**Chairperson** **Principal Officer**
4. Matters for decision	
a. Confirmation and adoption of the Minutes of the 13th GEMS Annual General Meeting held on 31 July 2019 at Mmabatho Palms Hotel Casino and Convention Resort, Cnr. Nelson Mandela and Albert Luthuli Drives, Mmabatho/Mahikeng, North West Province	**Chairperson**
b. Receipt and adoption of the Annual Financial Statements for the year ended 31 December 2019, including the reports of the Board of Trustees and the external auditor of GEMS	**Chairperson**
i. Discussion of the highlights of the Annual Financial Statements	**Mr. Motshoanedi Johannes Lesejane** Independent Chairperson of the GEMS Audit Committee
ii. Discussion of the external audit process	**Mr. Dinesh Munu** Deloitte (GEMS external auditor)
5. Matters for noting	
a. Disclosure of Trustee Remuneration	**Deputy Chairperson**
b. Addressing member issues raised at the 13th GEMS Annual General Meeting	**Deputy Chairperson**
c. Appointment of GEMS' external auditor for the year ending 31 December 2020 in terms of GEMS Rule 27.1	**Chairperson** **Mr. Motshoanedi Johannes Lesejane** Independent Chairperson of the GEMS Audit Committee
6. Question and answer session *General questions only please, as there is a helpdesk at the AGM, at which members may submit enquiries and complaints concerning personal and confidential medical scheme issues.*	**Chairperson**
7. Summary of decisions	**Chairperson**
8. Closure	**Chairperson**

The attention of Members who wish to place or object to matters for discussion and/or resolution on the agenda of the meeting, is respectfully drawn to the provisions of rules 28.1.5.1 to 28.1.5.7 of the Rules of GEMS as reproduced hereunder:

"28.1.5.1 such proposed resolution or objection must reach the Principal Officer no later than five (5) weeks before the date of the meeting;

28.1.5.2 the proposed resolution or objection must be accompanied by an explanatory memorandum which clearly explains why the proposed resolution or objection must be considered and the background giving rise to the proposed resolution or objection;

28.1.5.3 the proposed wording of any resolution to be passed must be submitted;

28.1.5.4 no proposed resolution which is in contravention of or in conflict with the Act, the Regulations or these Rules shall be placed on the agenda for consideration at the Annual General Meeting;

28.1.5.5 the decision as to whether or not a Member has satisfied the conditions specified in Rules 28.1.5.1 to 28.1.5.4 to allow for the inclusion, amendment or deletion of a matter or proposed resolution on/from the agenda of the Annual General Meeting, shall be that of the Principal Officer, who must make such decision in consultation and with the approval of the Board;

28.1.5.6 if the Principal Officer, in consultation and with the approval of the Board as contemplated by Rule 28.1.5.5, decides that a matter or proposed resolution should be included on, amended, or deleted from the agenda of the Annual General Meeting, then a second notice must be sent to Members, to reach them by no later than three (3) weeks prior to the date of the Annual General Meeting, recording all new, amended and deleted matters and proposed resolutions which have been placed on the agenda of the Annual General Meeting; and

28.1.5.7 should the Principal Officer, in consultation and with the approval of the Board as contemplated by Rule 28.1.5.5, decide not to place, amend or delete a matter or proposed resolution on/from the agenda of the Annual General Meeting, he or she shall notify the Member of his/her decision and the reasons therefore, which notice shall be delivered to the Member no later than three (3) weeks prior to the date of the Annual General Meeting. Should the Member be aggrieved by the Principal Officer's decision, the Member may refer a dispute to the Dispute Committee in terms of these Rules or to the Council for Medical Schemes in terms of the Act."

Members wishing to propose additional agenda items or to object to any existing agenda items are required to submit proposals to the Scheme by post to Private Bag X782, Cape Town, 8000, email to agm@gems.gov.za or by facsimile to 0861 00 4367 for the attention of the Principal Officer under reference "2020 AGM Agenda". Proposed resolutions must reach the Scheme on a date to be specified. Members are further encouraged to submit additional agenda items or to object to any existing agenda items in full compliance with the GEMS Rules reproduced above. Member proposals that do not comply cannot be placed on the agenda of the AGM as we are compelled to adhere to the registered Rules of GEMS.

An updated agenda and proxy form will be sent to members. Please make enquiries at 0860 004 367 or enquiries@gems.gov.za if you have not received the agenda and proxy form on a date to be specified. It is also important that members note GEMS Rule 28.1.6, which provides that resolutions passed at any annual general meeting shall be by way of an ordinary majority vote of all members present or represented by proxy at the annual general meeting provided that only proxy forms received by the Scheme no later than one (1) week prior to the date of

the annual general meeting will be recognised. For this purpose, completed proxy forms can either be posted to Private Bag X782, Cape Town, 8000, emailed to agm@gems.gov.za or sent by facsimile to 0861 00 4367 for the attention of the Principal Officer under reference "2020 GEMS AGM Proxy". To ensure timeous delivery, members are advised to fax or email their AGM proxy forms to the Scheme.

In keeping with the Rules of GEMS, attendance at annual general meetings will be limited to members, officers of the Scheme and individuals or organisations who are expressly invited by the Scheme to attend. A quorum of 60 members is required to ensure that the meeting may proceed.

In accordance with GEMS Rule 29.5, the Board of Trustees stipulates that members attending the AGM will be required to produce their **GEMS membership card** and **ID or valid driver's licence** at the registration desk. Individuals who are unable to produce the required confirmation of their eligibility to attend will not be admitted to the meeting.

By order of the Board of Trustees.

.....

Chairperson

Minutes of the 13th GEMS Annual General Meeting held on 31 July 2019, 15h00 at the Mmabatho Palms Hotel Casino and Convention Resort, (Cnr. Nelson Mandela and Albert Luthuli Drives, Mmabatho/Mahikeng, North West Province)

1. Opening and Welcome

1.1 The Chairperson of the GEMS Board of Trustees, Mr Nkosinathi Theledi, opened the 13th Annual General Meeting of the members of GEMS ("**the meeting**") at 15h00 on 31 July 2019 and welcomed the members in attendance**.**

1.2 He conveyed the Board's special greetings to the members in attendance, and on behalf of the entire staff complement of GEMS, extended a message of kind wishes.

1.3 The Chairperson stated that an occasion such as the Annual General Meeting presented an opportunity for amicable interaction between the Scheme and its members, to account and exchange ideas; hence, the Agenda's main features were well structured for this purpose.

1.4 The Chairperson welcomed:

1.4.1 The Deputy Chairperson and members of the GEMS Board of Trustees, the Principal Officer and Chief Officers of the Scheme, as well as the Scheme's distinguished guests;

1.4.2 The Member of the Executive Committee for Health in Bokone Bophirima;

1.4.3 Mr Dinesh Munu, from Deloitte & Touche, who is the external auditor of the Scheme in collaboration with OMA Chartered Accountants Incorporated;

1.4.4 Mr Bonaventure Thamsanqa Diniso from the Council for Medical Schemes ("**CMS**"); and

1.4.5 The Scheme's stakeholders, who were attending as observers, including (but not limited to) the Public Service Coordinating Bargaining Council ("**PSCBC**").

1.5 The Chairperson highlighted that the Scheme's internal auditors, Entsika Consulting Services (Pty) Ltd, were also present to observe the proceedings and to provide assurance that the meeting was conducted in keeping with the GEMS Rules.

2. Announcement of Agenda as finalised in accordance with GEMS Rules 28.1.5.1 to 28.1.5.6

2.1 The Chairperson presented the Agenda for the 13th GEMS Annual General Meeting and informed the meeting that one of the purposes of the AGM was for the Scheme to report to its members on the previous year's performance since the 2018 GEMS AGM held in Nelspruit, Mpumalanga, as required by the Medical Schemes Act 131 of 1998 ("**the Act**") and the GEMS Rules.

2.2 The Chairperson (during the final closure of the 2019 GEMS AGM) confirmed that the Scheme had a total of 711 747 (seven-hundred-and-eleven-thousand-seven-hundred-and-forty-seven) principal members as at the start of the 2019 GEMS AGM; hence, for the meeting to be properly constituted, a quorum of 71 members

was required. He further confirmed that the final number of members in attendance was 341, causing the meeting to be quorate.

3. Opening remarks by the Chairperson followed by a presentation by the Principal Officer on the business of the Scheme for the financial year ended 31 December 2018

3.1 The Chairperson reiterated that one of the purposes of the AGM was for the Scheme to report to its Members on the previous year's performance since the 2018 GEMS AGM held in Nelspruit, Mpumalanga, as required by the Act and the GEMS Rules.

3.2 The Chairperson provided the meeting with an overview of the Scheme's performance and activities for 2018, and highlighted the Scheme's aim was to be the number one medical scheme in South Africa that members could be proud of.

3.3 In addressing the meeting, the Chairperson highlighted the following aspects:

3.3.1 The Scheme's current five-year strategic plan was in line with the government's policy position.

3.3.2 During 2016, the Scheme's reserve ratio was critically low, which led to it being treated as a top priority. Accordingly, at the end December 2018, the Scheme exceeded its budget expectations and reached a reserve ratio of 24.7%, which was just short of the 25% reserve ratio requirement prescribed by the Act.

3.3.3 By reaching the aforementioned reserve-ratio requirement, the Scheme assured its Members, the Minister for Public Service and Administration, and the Scheme's key stakeholders that GEMS was sustainable and able to meet its claims disbursing obligations.

3.3.4 In order for the Scheme to be sustainable over the long term, member and stakeholder expectations on benefit availability and affordability, service excellence as well as member health outcomes was being addressed and would continue to be focus areas.

3.3.5 The Scheme, with the support of the Board, was working with the PSCBC on various matters within the framework of an established joint working committee, which thus far focused on improving medical benefits for Public Service employees on salary levels 1-5.

3.3.6 In pursuit of affordability, the Board was pleased that the average weighted GEMS contribution increase for 2019 was just above 7%, which was the lowest of its kind in the entire medical scheme industry for 2019. Moreover, additional benefits to the value of R832m were allocated to Members for 2019, with a focus on vulnerable groups, in line with the National Health Insurance ("**NHI**") policy approach.

3.3.7 During 2019, Members on the Sapphire Option were benefitting from the expanded private hospital care benefits, whilst a network extender benefit was made available to Members on the Emerald Option and the Emerald Value Option ("**EVO**").

3.3.8 Reference was made to the new Service Management Programme, introduced in 2018 to improve member experience and satisfaction. Through this programme complaints management was improved, with the added aim of improving access to healthcare cover.

3.3.9 The healthcare outcomes of the Scheme's Disease Management Programmes were benchmarked using the Organisation for Health Quality Assessment benchmarks, which showed that GEMS compared very well with the rest of the South African medical schemes industry.

3.3.10 The Scheme's Healthcare Screening and Prevention Programmes reached many Members. When compared to 2017, the number of screening tests for 2018 increased. These benefits were available on all the GEMS Options and Members were encouraged to make use of these as much as possible.

3.3.11 In an attempt to reduce the Scheme's non-healthcare costs, the Scheme invested in a 4 Green Star office building by constructing same, thereby also aiming to improve the Scheme's impact on the environment. This building was an important financial investment for Members. The Scheme was in the process of naming the building and requested Members to submit names for the Scheme's consideration. It was anticipated that this process would be finalised on 14 August 2019.

3.3.12 As far as governance and regulatory matters were concerned, following the CMS' completion of their inspection of the Scheme in 2018, the Scheme commented on their draft report and now awaited receipt of the final report.

3.3.13 In February 2018, the composition of the Board of Trustees was unexpectedly changed by the former Minister for Public Service and Administration, by the replacement of the former Board Chairperson and Deputy Chairperson. The replacement of the former Board Chairperson was still the subject of litigation, which was being monitored by the Scheme. The Members were given the comfort that the new Board was functioning well and would always seek to act in the best interest of all of the Scheme's beneficiaries.

3.3.14 On a sad note, the meeting was informed of the passing of Mr Daniel de Villiers in September 2018 and Mr Corn Booyens in April 2019, both Trustees of the Scheme. The Board appreciated the times enjoyed in their company and extended the Scheme's sympathies to their friends and families.

3.3.15 The important matter of the Board's composition remains unresolved, despite efforts over the past few years to address same, i.e. the issue of diversity and the fact that the GEMS Rules did not allow for labour movements in the PSCBC to elect Trustees to the Board. The Scheme submitted two applications to the Council for Medical Schemes for an exemption from the Medical Schemes Act, but these were declined. The Scheme had since lodged a formal appeal in this regard. In the interim, the Scheme was working with the PSCBC Working Committee to develop new Rules.

3.3.16 An area of critical importance for Members to take cognisance of was that Members of the Scheme, from all corners of South Africa, were required to

take the electoral process seriously. Therefore, to effect change through the Scheme's processes, Members should fully participate in these processes, as complacency would not achieve the required outcomes.

3.3.17 The Scheme had committed itself to be part of, and positively contribute to, the transformation of the healthcare industry in South Africa.

3.4 The Chairperson thanked the Minister for Public Service and Administration, the PSCBC, the leadership of the various trade unions within the PSCBC, the National Department of Health and the National Treasury for constructively working with GEMS in 2018. He confirmed GEMS' belief that the partnerships formed would ultimately contribute to achieving the national health objectives.

3.5 The Chairperson advised that, during 2018, the Board of Trustees was confronted with difficult decisions, but demonstrated their willingness to provide clear guidance and to address challenges in a decisive manner to protect the interests of the GEMS beneficiaries. He confirmed that the Board maintained a results-driven approach and illustrated ethical leadership. He expressed his gratitude for the Board's ongoing support to engage stakeholders where Board level engagements were needed.

3.6 The Chairperson thanked the Chairpersons of the Board's sub-committees for the valuable leadership provided in their various areas of operation, to enhance the work of the Board, and for their contribution to the effective corporate governance of the Scheme.

3.7 On behalf of the Board of Trustees, the Chairperson expressed his sincere appreciation to the Principal Officer, Dr Gunvant (Guni) Goolab, for leading the Scheme's Executive Management team. He confirmed that Dr Goolab would be exiting the Scheme at the end of January 2020, and took the opportunity to thank him for the positive role played in driving the governance, operations and strategic direction of the Scheme. He stated that the Board was proud of the position in which Dr Goolab would be leaving the Scheme.

3.8 Due to the imminent departure of Dr Goolab, the Chairperson formally announced that the Board resolved to appoint Dr Stanley Moloabi to take over the baton from Dr Goolab. The meeting was advised that Dr Moloabi was currently the Scheme's Chief Operations Officer and a dedicated and results-driven healthcare executive leader with a highly successful background in implementing Board-led healthcare strategies. It was noted that Dr Moloabi's transition from Chief Operations Officer to Principal Officer would commence on 01 October 2019, and that he would fully take the reins of the Scheme on 01 February 2020.

3.9 The Chairperson referred to the 2019 GEMS Trustee Election, which was conducted over the last three months to replace those Trustees whose terms had ended. He confirmed that the Board received a preliminary report on 30 July 2019 from the EleXions Agency, responsible for conducting the entire process, and that a final report would be issued in due course. The meeting heard that the Board engaged the auditors, appointed by the Scheme to oversee the counting of the ballots in terms of the GEMS Rules, and that, although the auditors' preliminary report was issued this morning prior to the AGM, their final report would be circulated to the Board during that coming week. The Chairperson informed the Members that the trustee election results would be announced to Members within

seven days of the Board's receipt of the final election report from the Scheme's auditors, as prescribed by the GEMS Rules.

3.10 Finally, the Chairperson confirmed that the 2019 GEMS Annual General Meeting was officially open, and invited Members to participate in the proceedings.

3.11 The Chairperson then invited the Principal Officer to give an overview of the business of the Scheme for 2018.

3.12 The Principal Officer welcomed all in attendance and stated that it was an honour and privilege to provide Members with an operational overview of the Scheme, and to elaborate on the several points mentioned by the Chairperson in brief.

3.13 The Principal Officer reflected on the Scheme's strategy, its performance and outcomes for 2018 (with some updates in respect of 2019), as well as the CSI initiative and the work done in collaboration with the PSCBC, in line with the relevant PSCBC resolutions.

3.14 He highlighted that the Mandate of GEMS required the Scheme to provide Public Service employees with healthcare cover that was efficient, cost-effective and equitable.

3.15 In respect of the Scheme's Vision, Mission and Values, the Principal Officer emphasised:

3.15.1 GEMS' Vision: To be aligned with the global focus on universal healthcare, which all winning nations were pursuing, and in the context of South Africa, the National Health Insurance ("**NHI**");

3.15.2 GEMS' Mission: In addition to focusing on affordable and quality care, to increase the emphasis on member well-being, and ensuring prevention and health; and

3.15.3 GEMS Values: To ensure that Excellence, Integrity, Member Value, Innovation and Collaboration remained the Scheme's key priorities.

3.16 The Principal Officer informed the meeting that GEMS was in the third year of its five-year strategy, and in the first year of the second phase of its strategy, with a key focus on growth and efficiency. As part of this phase, the Scheme's priorities would include:

3.16.1 Simplifying its products, services and processes;

3.16.2 Supporting stakeholder efforts towards healthcare reform in South Africa; and

3.16.3 Consolidating options and risk pools in the medical scheme environment, in the lead-up to the NHI.

3.17 The Principal Officer made reference to the six objectives of the Scheme's strategy, i.e.:

3.17.1 To be an organisation that was effective in communication, proactive in decision-making and accountable;

3.17.2 To advance financial strength and drive the Scheme to a position of long-term sustainability;

3.17.3 To shape the transformation of the healthcare industry towards NHI, coordinated across the healthcare ecosystem;

3.17.4 To be a strategic purchaser of healthcare services by leveraging GEMS' unique positioning and relationships;

3.17.5 To be an agile data-driven Scheme that leveraged people, systems and processes to derive value for its Members; and

3.17.6 To sustainably grow membership, ensuring inclusion and progressive cross subsidisation.

3.18 The Principal Officer proceeded to highlight the Scheme's performance against the Key Performance Indicator ("**KPI**") of each of the aforementioned objectives. The meeting heard that, as at the end of 2018:

3.18.1 The Scheme had achieved a Complaints Ratio of 0.17%, thereby exceeding its target of 0.25% in respect of same.

3.18.2 The Scheme had achieved a Reserve Ratio of 24.6%, thereby exceeding its target of 18.4% in respect of same.

3.18.3 The Scheme, however, did not meet its target of 30% in respect of member transfers from the Emerald Option to the Emerald Value Option ("**EVO**") in that 14.9% was achieved.

3.18.4 The Scheme exceeded its target of 1 800 in respect of the number of specialists contracted, having contracted 1 860.

3.18.5 The Scheme exceeded its target of 40 000 Members in respect of its Facebook following, having achieved 48 343 Members.

3.18.6 The Scheme exceeded its target of 10% of baseline in respect of the number of Members making use of its Member App, having achieved 70 390.

3.18.7 The Scheme, however, did not meet its target of 55% in respect of the percentage of level 1-5 employees enrolled on the Scheme, in that 48.2% was achieved.

3.19 The Principal Officer discussed the 2018 Scheme Profile and highlighted that, during 2018, the Scheme's:

3.19.1 Principal membership exceeded 700 000 (i.e. 705 182 as at the end of 2018) for the first time in the Scheme's history;

3.19.2 Coverage of public servants increased;

3.19.3 Average age per beneficiary increased from 31.87 to 32.12 years; and

3.19.4 Pensioner ratio increased from 15.25% to 16.18%.

3.20 The Principal Officer referred to the challenges and issues faced by the Scheme during 2018, and informed the Members that:

3.20.1 The Scheme's coverage of level 1-5 employees remained a priority, which was dealt with through engagements with the PSCBC and which culminated into PSCBC Resolution 01 of 2018. During 2019, the Scheme enhanced the benefits comprising the Sapphire Option, which resulted in

the creation of a new benefit option, which the Scheme aimed to launch in 2020, with a focus on level 1-5 employees.

3.20.2 In respect of complaints management, the Scheme developed a Complaints Management Turnaround Plan with a focus on PMBs (i.e. PMB Query Management and Escalation). This resulted in a significant complaints reduction of 34% and an increase in compliments of 125%.

3.20.3 From an affordability perspective, during the 2018 GEMS Product Development and Benefit Design process, the Scheme made several significant benefit enhancements to the total value of approximately R8.3m, coupled with one of the lowest contribution increases to date.

3.20.4 With regards to the issue of service standards, the Scheme established a Service Management Forum in an attempt to achieve service excellence through a variety of service interventions.

3.20.5 In a recent media publication, serious allegations of racial profiling of healthcare providers by medical schemes and administrators were made. In response, GEMS made a formal submission to the Council for Medical Schemes and was participating fully in the CMS Section 59 Inquiry, which commenced on 29 July 2019 and to which GEMS would be making presentations.

3.21 In respect of the allegations of racial profiling and the subsequent CMS Section 59 Inquiry, the Principal Officer proceeded to give an overview of GEMS' approach to each investigative point identified by the CMS:

3.21.1 Practice Audits: Claim irregularities by healthcare providers were mainly identified through member tip-offs via the confidential member hotline and through system analytics. This information was then used to identify healthcare providers for audit.

3.21.2 Settlement Agreements: GEMS' emphasis was not on the recovery of monies lost as a result of irregular claims by healthcare providers, but on reporting such providers to the relevant authorities and ensuring that only valid claims were paid.

3.21.3 Racial Profiling: Race was not recorded on the GEMS system in relation to healthcare providers, nor was it included in the healthcare provider's file of the Board of Healthcare Funders (BHF). Decisions to sanction healthcare providers was not taken by one individual, but by a forum.

3.21.4 Payment of Services Declined: The GEMS Rules and Section 59(2) of the Medical Schemes Act placed an obligation on the Scheme to be aware of possible irregular claims and to prevent further loss by suspending payment, or terminating direct payment to healthcare providers.

3.21.5 Sanctioning of Providers: Where there was *prima-facie* evidence of irregular claims, the implicated healthcare provider was approached and given the opportunity to respond to the anomalies, prior to a decision of sanctioning.

3.22 The Principal Officer informed the meeting that Members repeatedly, through various sources, including member surveys and AGMs, requested the Scheme to focus on certain key areas, i.e. affordability, access to clinically appropriate

and preventative healthcare, high quality healthcare and improved healthcare outcomes and effective and efficient service delivery.

3.22.1 With regards to the issue of affordability, the Principal Officer advised that:

3.22.1.1 The Scheme was financially secure and strong.

3.22.1.2 At the end of 2018, the sum of member contributions held by the Scheme in reserve was just over R9bn, which was slightly below the statutory reserve-ratio requirement of 25%.

3.22.1.3 In June 2019, however, the Scheme exceeded the 25% statutory reserve-ratio requirement and currently held a total of R10.6bn of member contributions in reserve.

3.22.1.4 Since GEMS' inception to date, the Scheme received unqualified audits.

3.22.1.5 A reserve ratio of 25% or more was typically indicative of the Scheme's sustainability. This meant that the Scheme was able to pay any unexpected, high claims (e.g. hospital claims) on behalf of its Members. This also provided the Scheme with the ability to increase benefits and reduce contributions over time.

3.22.1.6 The trend found in most medical schemes (including GEMS) was that, in any given year, about 5% of beneficiaries were responsible for almost 50% of the claim costs. The top 10 hospital admission costs for 2018 totalled almost R50m.

3.22.1.7 At the 2018 GEMS AGM, Members expressed their concern about the rate at which their benefits were exhausted during the year. In response, the Scheme introduced the Primary Care Extender Benefit on the Emerald Option, the Emerald Value Option ("**EVO**") and the Ruby Option, which resulted in a 50% reduction of the benefit exhaustion rate during the first six months of 2019. This trend was anticipated to continue for the remainder of 2019.

3.22.1.8 In 2017, the Scheme introduced the Emerald Value Option ("**EVO**"), which was underpinned by care coordination and in line with the government's White Paper on National Health Insurance (NHI). At present, EVO had just under 200 000 beneficiaries. A member on EVO at the end of 2018, who remained on same for 2019, experienced no contribution increase, after subsidy. Should a member move from the Emerald Option to EVO, a contribution saving of up to 15% could be achieved. Members on EVO experienced a significant increase in positive health outcomes, when measured in terms of hospital admissions.

3.22.1.9 A key differentiator of GEMS was its ability to provide medical aid cover to Public Service employees and their dependents, who could previously not afford same.

3.22.1.10 GEMS had the unique ability to accommodate up to five generations of family members as beneficiaries on the Scheme.

3.22.2 With regards to the issue of access to clinically appropriate and preventative care, the Principal Officer advised that:

3.22.2.1 When compared to 2017, 2018 saw a 7% increase in preventative health screenings and vaccinations. Almost 300 000 screenings and vaccinations were conducted, with specific emphasis on cancer, cholesterol screenings and flu vaccinations.

3.22.2.2 GEMS' Primary Healthcare Network was already amongst the broadest. However, over the past few years, the Scheme focused on increasing its Specialist Network. At the end of 2018, the Scheme exceeded its 2018 target of 1 800 contracted specialists. In June 2019, the Scheme again exceeded its 2019 target by having just over 2 100 contracted specialists. During 2019, the Scheme specifically focused on increasing the number of general surgeons and anaesthetists on its Specialist Network.

3.22.2.3 During 2018, the Scheme paid approximately R5.5m for GP consultations, R1m for specialist consultations, 45m medicine prescriptions, and 438 000 hospital admissions (translated into 1 200 admissions per day for every day of the year).

3.22.2.4 Most hospital admissions related to asthma, diabetes, high blood pressure, high cholesterol, TB and HIV. One in four of the Scheme's beneficiaries had one or more of these conditions.

3.22.2.5 The Scheme had the largest HIV programme outside of government, and was committed to the 90-90-90 strategy of the World Health Organisation by ensuring that at least 90% of patients identified with HIV were adequately treated by the end of 2020. GEMS was on track to achieve this goal.

3.22.3 With regards to the issue of high quality healthcare and improved healthcare outcomes, the Principal Officer advised that:

3.22.3.1 During a Health Quality Assessment, GEMS was compared to other leading medical schemes such as POLMED, Bonitas and Discovery. The assessment concluded that GEMS' management of HIV conditions exceeded the industry average. In addition, it was concluded that GEMS was ahead of the industry in managing hypertension and diabetes.

3.22.3.2 Across 13 conditions, with three outcome measures, hence almost 40 outcome measures, in respect of 65% of them, or two out of every three, GEMS performed better than the industry average.

3.22.3.3 Across the key focus areas highlighted by Members, i.e. affordability, access, quality and service, the Scheme added almost R6.5bn worth of value for its Members, when compared to other medical schemes. This translated into savings of R1 100.00 per member per month, and covered the wide beneficiary definition, low non-healthcare costs, income-based

contributions, lower benefit depletion, EVO savings, lower co-payments, and pensioners on lowest income band.

3.22.4 With regards to the issue of effective and efficient service delivery, the Principal Officer advised that:

3.22.4.1 In 2018, the Scheme introduced the Service Management Forum with the goal of becoming the number one medical scheme in South Africa over the next 12 – 18 months.

3.22.4.2 Over the last 12 months the GEMS Call Centre showed significant improvement, as confirmed by the independently measured Voice of the Customer results.

3.22.4.3 In 2018, the Scheme had significant access to Members through its walk-in centres, call centre and electronic communication, and paid just over 91m claim lines on behalf of Members.

3.22.4.4 Client Liaison Officers ("**CLOs**") were present in seven provinces to service department sites. The Scheme planned to reach the remaining two provinces in 2020. During 2018, the CLOs handled a significantly higher number of services and enquires, and on-site resolutions were reported at 89%.

3.22.4.5 Members were encouraged to access the Scheme's digital platforms through the GEMS website, member app and portal. A similar approach was followed with healthcare providers in respect of the GEMS provider app and portal. As at the end of June 2019, a substantial increase in access through all of these channels was reported.

3.22.4.6 The GEMS Member Application Form was reduced from 16 to 10 pages, and a digital application process introduced on the GEMS website.

3.22.4.7 The aforementioned enhancements achieved a significant reduction in the turnaround time for processing member applications. This translated into an increase in member enrolment from just over 700 000 to 711 000 Members as at the end of June 2019. The Scheme anticipated that this amount would increase to 720 000 Members by the end of 2019.

3.22.4.8 Complaints decreased by 34% and compliments increased by 125%.

3.23 The Principal Officer advised that a Working Committee, comprising the Department of Public Service and Administration, the unions within the PSCBC and GEMS, was constituted and subsequently adopted the following resolutions:

3.23.1 Resolution 4 of 2017, which focused on the Scheme's strategy, administrative efficiency, financial sustainability, member satisfaction, benefit offering, and member education and recruitment.

3.23.2 Resolution 1 of 2018, which focused on the development of a benefit product, specifically for Members on salary level 1-5, that would enhance medical cover on an ongoing and accessible basis.

3.24 The Principal Officer informed the meeting that, to date, the Scheme had seen a significant improvement in the member uptake of the Sapphire Option and its enhanced benefits, as well as in the Working Committee's uptake of the work towards the new benefit option for 2020. The meeting heard that the GEMS Rules were reviewed to accommodate the new 2020 benefit option and would be submitted to the Council for Medical Schemes at the end of Quarter 3 of 2019 for approval and registration.

3.25 The Principal Officer highlighted the benefit enhancements of the Sapphire Option, which included unlimited access to General Practitioner ("**GP**") coverage, improved medicine benefits, and private hospital care for 20 specified conditions (in addition to public hospital care). He indicated that, in developing the new 2020 benefit option, the option would be benchmarked against the leading products in the marketplace across Discovery, POLMED and Bonitas, with the intention to offer, whether in terms of GP-, specialist- or hospital benefits, better access to healthcare than any other medical scheme option for salary level 1-5 employees in South Africa. In addition, the Scheme believes that the new 2020 benefit option would set the benchmark for the basic benefit package for the NHI. The meeting heard that, when comparing the utilisation of the 2018 Sapphire benefits with that of the enhanced 2019 Sapphire benefits, a utilisation increase of 78% as at 30 June 2019 was reported.

3.26 The Principal Officer reported on the Scheme's progress towards internalising capabilities by highlighting the following:

3.26.1 In 2014, the Scheme insourced a number of activities, including Internal Audit, ICT and Corporate Services;

3.26.2 In 2015, the Scheme established the Office of the Principal Officer;

3.26.3 In 2016, the Scheme expanded its CLO units nationally;

3.26.4 In 2017, the Scheme built its own financial system and established the Research and Development Division;

3.26.5 In 2018, the Scheme established the Office of the Chief Operations Officer;

3.26.6 In 2019, the Scheme established the Risk Management and Compliance Division; and

3.26.7 From 2020 onwards, the Scheme would insource the following services (in whole or in part);

3.26.8 Phase 1: Events Management, Security and Cleaning;

3.26.9 Phase 2: Provider Liaison Office, Actuarial and Administration; and

3.26.10 Phase 3: Telemarketing and Health & Wellness Screening.

3.27 The Principal Officer indicated that, during the recent Board of Healthcare Funders ("**BHF**") Conference held in July 2019, GEMS won the prestigious Titanium Award for excellence in creating access to healthcare. The meeting heard that the Scheme subsequently received a letter from the PSCBC General Secretary, Mr Frikkie de Bruin, congratulating it on receiving this "...well-deserved accolade..."

3.28 The Principal Officer reported on the Scheme's current Corporate Social Investment ("**CSI**") initiative in the Mahikeng area. He informed the meeting that,

in line with the National Health Insurance ("**NHI**") pilot work, it was identified, specifically in quintile 1 to 5 schools, that many children were having difficulty with eyesight and were not able to see writing on the school-classroom board. The meeting heard that, since 16 July 2019, in preparation for the 2019 GEMS AGM, the Scheme conducted eyesight screening of 2 500 primary school learners in underprivileged schools in Mahikeng and surrounding areas, and that, from tomorrow, 01 August 2019, the Scheme would issue spectacles to those learners that were identified with this difficulty. The Principal Officer advised that the eyesight screening would continue for the remainder of 2019 and that the Scheme anticipated that it would assist 1 000 school learners in and around the Mahikeng area with spectacles.

3.29 From this perspective, the Principal Officer referred to the Chairperson's comments in respect of the inequalities in healthcare in South Africa, and stated that the transformation towards the realisation of universal healthcare was a fundamental priority for South Africa.

3.30 The Principal Officer highlighted that, the President of South Africa, in his 2019 State of the Nation Address ("**SONA**"), indicated that we all needed to come together to form a new social compact across government, business, labour, communities and civil society in order to address the triple-challenge of poverty, inequality and unemployment. He advised that yesterday, 30 July 2019, it was announced that South Africa's unemployment rate reached a record-high of 29%, the highest since 2002. Accordingly he stated that this placed a responsibility on each of us and all of us.

3.31 In closing, Dr Goolab referred to this being his last AGM as the Principal Officer of this great Scheme, the Government Employees Medical Scheme, and closed with thanks and appreciation on behalf of GEMS to:

3.31.1 Firstly, to the Minister of Public Service and Administration and the officials of the Department of Public Service and Administration;

3.31.2 The Minister of Health and the officials of the Department of Health;

3.31.3 The Council for Medical Schemes, who was represented at the meeting;

3.31.4 All GEMS' key stakeholders, including the PSCBC, the union representatives within the PSCBC, and government departments;

3.31.5 The GEMS Board of Trustees and its Chairperson and Deputy Chairperson;

3.31.6 The Executives and staff of GEMS;

3.31.7 The Scheme's healthcare partners and service providers; and

3.31.8 Most importantly, the Scheme's valued Members, who comprised the Scheme and have placed their trust in GEMS.

4. Matters for Decision

4.1 Confirmation and adoption of the Minutes of the 12th GEMS Annual General Meeting held on 31 July 2018 at the Southern Sun Emnotweni Arena, Riverside Mall, Government Boulevard, Riverside Park, Nelspruit, Mpumalanga, 1200

4.1.1 The Chairperson tabled the draft Minutes of the 12th GEMS Annual General Meeting held on 31 July 2018 for consideration by the meeting and

mentioned that it would be taken as read by the Members at the meeting, given that the Minutes formed part of the abridged 2018 GEMS Annual Integrated Report that was distributed to Members for consideration well in advance of the meeting.

4.1.2 The Chairperson then called on the Members at the meeting for the adoption of the Minutes by way of a show of hands.

4.1.3 Mr Simphiwe Gada, a Member of GEMS in good standing, indicated that he was present at the 2018 GEMS Annual General Meeting held on 31 July 2018 in Nelspruit, and moved for the adoption of the Minutes of the 2019 GEMS Annual General Meeting, as presented.

4.1.4 An unidentified male speaker, however, enquired whether the 2019 GEMS AGM was in fact quorate, as the GEMS Rules state this was an absolute requirement in order for the meeting to be recognised as valid.

4.1.5 The Chairperson confirmed the current, total GEMS membership as approximately 710 000 Members. Therefore, according to the formula provided for in the GEMS Rules, the number of Members required to be in attendance at the AGM to ensure that was quorate, in other words, validly constituted, was 71 Members. The Chairperson indicated that it was not possible to give the exact number of Members in attendance at the AGM, as some Members were delayed and were still registering outside the main meeting hall. He confirmed, however, that the quorum was reached when the first 71 Members were registered, and that the number of Members registered thereafter would not make a difference to the fact that the quorum was reached. The Chairperson indicated that, once the final number of Members in attendance at the AGM was made available to him, he would inform the meeting accordingly.

4.1.6 An unidentified male speaker, who attended the previous AGM in Nelspruit and who was a Member of GEMS in good standing, seconded the adoption of the Minutes of the 2018 GEMS AGM, without any of the other Members present at the AGM having objected to same.

Decision

The Minutes of the 12th GEMS Annual General Meeting held on 31 July 2018 at the Southern Sun Emnotweni Arena, Riverside Mall, Government Boulevard, Riverside Park, Nelspruit, Mpumalanga, were adopted by the Members of the Scheme as being a true reflection of what was discussed at that meeting, after a motion and a secondment in favour of such adoption was received from two respective Members, in good standing with the Scheme, without any of the other Members at the meeting having objected to same.

4.2 Receipt and adoption of the Annual Financial Statements for the year ended 31 December 2018, including the reports of the Board of Trustees and the external auditor of GEMS

4.2.1 **Discussion of the highlights of the Annual Financial Statements**

4.2.1.1 The Chairperson called upon the Independent Chairperson of the GEMS Audit Committee, Mr Johannes (Joe) Lesejane,

to provide an overview of the Scheme's Annual Finance Statements for the year ended 31 December 2018 ("**AFS**").

4.2.1.2 Mr Lesejane thanked the Members for the opportunity to provide feedback on the financial performance of the Scheme and indicated that he was supported by Ms Malande Tonjeni (GEMS Audit Committee Member), Ms Karyna Pierce (GEMS Chief Financial Officer) and Mr Dinesh Munu (External Auditor, Deloitte & Touche, with OMA Chartered Accountants Incorporated).

4.2.1.3 Mr Lesejane referred the Members to the audited AFS and proceeded to provide the rationale behind the numbers.

4.2.1.4 Mr Lesejane advised that the Scheme membership increased by 2% in 2018 and reiterated the importance of the Scheme's sustainability.

4.2.1.5 Mr Lesejane confirmed that, during the 2017 financial year, the Scheme had incurred losses, largely due to fraudulent claims. However, he assured the Members that the Scheme's claims management processes were strengthened, thereby minimising the effect of fraudulent claims.

4.2.1.6 Mr Lesejane highlighted that the 2018 financial year saw a 7% increase in claims, when compared to 2017, which resulted in claim payments of R31.2bn. He further highlighted that, at the end of the 2018 financial year, a surplus of R4bn was recorded, which contributed significantly to the sustainability of the Scheme.

4.2.1.7 Mr Lesejane advised that the Scheme's investment strategy was developed in 2015, and that during the 2018 financial year, its cash and investments increased by R3.5bn, which ultimately resulted in higher returns. With reference to the Chairperson's comments on the new GEMS building, Mr Lesejane informed the Members that it was acquired at a cash price of approximately R209mm. He emphasised that the increase in value of the building over time would be an advantage in that, should the Scheme ever need some cash, the building could be sold for more than it was bought for.

4.2.1.8 Mr Lesejane advised that the Scheme's investment income increased from R161m per annum as at the end of 2017 to R500m per annum as at the end of 2018.

4.2.1.9 Mr Lesejane referred to the 25% reserve-ratio requirement prescribed by the Medical Schemes Act 131 of 1998, which was aimed at ensuring the Scheme's sustainability. He highlighted that, should any challenge arise, the Scheme should have sufficient funds to continue paying claims and run its operations until such time as the challenge was overcome.

4.2.1.10 Mr Lesejane emphasised that GEMS managed to achieve a phenomenal turnaround in its reserve ratio by having increased

same from 6% in January 2017 to 24.7% at the end of December 2018. He, however, reiterated the earlier statement by the Principal Officer that the resultant 24.7% did not fully meet the statutory 25% reserve-ratio requirement at the time. Notwithstanding this, he proceeded to highlight that the Scheme continued to not only fully meet, but exceed, the statutory requirement in June 2019. He added that, going forward, the Scheme would limit contribution increases in order to lighten the financial burden on Members, whilst still ensuring its compliance with the aforementioned statutory requirement.

4.2.1.11 Mr Lesejane informed the meeting that, as at 31 December 2018, member funds had increased to R9.5bn, which comprised cash, investments, the GEMS building and all monies owed to the Scheme.

4.2.1.12 Mr Lesejane highlighted that GEMS' non-healthcare costs, e.g. salaries and administrative expenses, were significantly lower than those of other medical schemes, representing a saving of approximately R1.5bn per year for Members. He explained that, when compared to other medical schemes, GEMS had more money available to spend on the healthcare costs of its Members.

4.2.1.13 Mr Lesejane advised that the Scheme made a loss of R484m in 2016, largely due to fraudulent claims, particularly in the KwaZulu-Natal area. He confirmed that the Scheme was continuously finding ways to limit fraud, waste and abuse in order to protect member funds. The meeting heard that the Claims Management Forum, comprising Scheme Officials and service providers, was established by the Scheme in 2016 in order to monitor claims behaviour and to focus on fraud, waste and abuse. The meeting noted that the work of this forum was one of the main reasons behind the Scheme's improved performance in 2017 and 2018.

4.2.1.14 Mr Lesejane emphasised that, as a result of the improved financial position of the Scheme, GEMS was able to provide Members with one of the lowest contribution increases in the industry in 2019, i.e. 7.09%, whilst adding an additional R832m in member benefits. He proceeded to highlight some of the benefit additions, i.e.:

4.2.1.14.1 The benefit limit increases across all of the Scheme's benefit options;

4.2.1.14.2 The introduction of a Contraceptive benefit for Members on the Sapphire and Beryl Options;

4.2.1.14.3 The enhancement of the medical conditions that Members on the Sapphire Option would receive private hospital treatment for, which was aimed at the elderly, woman, children and the mentally ill;

4.2.1.14.4 The introduction of an Extender Benefit to cover shortfalls experienced by Members in respect of General Practitioners ("**GPs**"), acute medicine and pathology tests; and

4.2.1.14.5 The introduction of additional screening tests for childhood hearing and childhood optometry.

4.2.1.15 Mr Lesejane indicated that the GEMS Audit Committee, after due consideration of the AFS, recommended same to the GEMS Board of Trustees for approval. The meeting heard that the AFS was subsequently approved by the Board as well as the Council for Medical Schemes.

4.2.1.16 Mr Lesejane confirmed that the external auditor's opinion on the AFS was provided to Members as part of the 2018 GEMS Annual Integrated Report.

4.2.1.17 Finally, Mr Lesejane requested the Members to note and approve the AFS.

4.2.2 Discussion of the external audit process

4.2.2.1 The Chairperson then called upon Mr Dinesh Munu from Deloitte & Touche, with OMA Chartered Accountants Incorporated, the Scheme's External Auditors for the year ended 31 December 2018, to present their audit opinion in respect of the AFS.

4.2.2.2 Mr Munu introduced himself as the Audit Partner responsible for the audit of GEMS and thanked the Scheme for a successful audit. He proceeded to congratulate the Scheme for having met the 25% reserve ratio requirement, as prescribed by the Medical Schemes Act 131 of 1998, and wished the Scheme a bright future.

4.2.2.3 Mr Munu confirmed that Deloitte & Touche, with OMA Chartered Accountants Inc., were comfortable that the Scheme was being well managed and therefore recommended that the Members approve the AFS. He emphasised that Deloitte & Touche, with OMA Chartered Accountants Inc., believed the overall governance of the Scheme to be of a high standard.

4.2.2.4 Mr Munu informed the meeting that Deloitte & Touche would have a black African female leading up the audit of GEMS, the second largest scheme in South Africa. He extended her gratitude towards the Scheme for the privilege of being the audit senior and thanked the Scheme on her behalf for the opportunity.

4.2.2.5 Mr Munu discussed the AFS and highlighted that the Scheme had R12bn worth of assets with a surplus of R9bn, which gave him significant comfort that the Scheme was well managed.

4.2.2.6 Mr Munu advised that the purpose of the audit was for Deloitte & Touche, with OMA Chartered Accountants Inc., to provide an

audit opinion on the Scheme's financial statements, statutory return and compliance with the Medical Scheme Act.

4.2.2.7 Mr Munu confirmed that the audit did not produce any significant findings, hence, none were reported to the GEMS Audit Committee and the Council for Medical Schemes.

4.2.2.8 Mr Munu informed the Members that, for a Scheme the size of GEMS, having more than 700 000 Members, a data-driven audit was performed with reliance on computer systems. Therefore, Deloitte & Touche, with OMA Chartered Accountants Inc., tested the computer systems used by the Scheme's administrators, but did not record any significant findings.

4.2.2.9 Mr Munu emphasised that the GEMS Board of Trustees was responsible for the preparation of the Scheme's financial statements. He confirmed that the Scheme's Internal Auditors had given Deloitte & Touche, with OMA Chartered Accountants Inc., the assurance that there were no significant control findings, hence, from the combined assurance provided by the Scheme's Internal Auditors, Audit Committee, Risk Social and Ethics Committee and External Auditors, there were no significant findings.

4.2.2.10 Mr Munu confirmed that, since his appointment as the Audit Partner for GEMS three years ago, Deloitte & Touche, with OMA Chartered Accountants Inc., had issued clean audit opinions on GEMS, for which he congratulated Management and the Members. He also confirmed that there were no reportable irregularities, that Deloitte & Touche, with OMA Chartered Accountants Inc., were comfortable with the ethics of Management and the GEMS Board of Trustees, and that there were no significant disagreements with Management.

4.2.2.11 In conclusion, Mr Munu reiterated that the Scheme had a clean audit and did very well throughout the process.

4.2.2.12 The Chairperson thanked Mr Munu for his presentation and confirmed that the Scheme's Audit Committee was responsible for conducting day-to-day audit checks. In addition, he confirmed that the Scheme's External Auditors, i.e. Deloitte & Touche, with OMA Chartered Accountants Inc., were responsible for conducting external audits on the Scheme.

4.2.2.13 The Chairperson then called on the Members at the meeting for the adoption of the Annual Financial Statements for the financial year ended 31 December 2018. A member of GEMS in good standing, Mr Mangwani Mashao, moved, and another, Ms Sheila Budaza, seconded the move for the adoption of the AFS, without any of the other Members at the meeting having objected to same.

Decision

The Annual Financial Statements of the Government Employees Medical Scheme for the financial year ended 31 December 2018 were adopted by the Members of the Scheme, after a proposal and a secondment in favour of such adoption was received from two respective Members, i.e. Mr Mangwani Mashao and Ms Sheila Budaza, in good standing with the Scheme, without any of the other Members at the meeting having objected to same.

4.3 Appointment of Deloitte & Touche, with OMA Chartered Accountants Inc., as the Scheme's external auditors for the year ending 31 December 2019 in terms of GEMS Rule 27.1.

4.3.1 The Chairperson called upon the Chairperson of the GEMS Audit Committee, Mr Johannes (Joe) Lesejane, to provide an overview on the appointment of the Scheme's external auditors.

4.3.2 Mr Lesejane confirmed that the external auditors were recused for this part of the AGM, due to the confidential nature of this discussion with the Members.

4.3.3 Mr Lesejane referred to the assurance provided to Members at the previous AGM in Nelspruit that the Scheme conducted a competitive bidding process and invited external auditors to bid for the position of External Auditor of the Scheme. He confirmed that, as part of its considerations, the Scheme considered the credibility and capacity of each bidder to audit a scheme of GEMS's size as well as the credibility of its Audit Partner. He reminded the Members that the Council for Medical Schemes was also satisfied that an accredited external auditor was appointed by the Scheme.

4.3.4 Mr Lesejane confirmed that Deloitte & Touche was appointed as the Scheme's external auditors, together with their B-BBEE partners, OMA Chartered Accountants Inc.

4.3.5 Mr Lesejane referred to the five-year contract between the Scheme and its external auditors, which provide for an annual review of their performance.

4.3.6 Mr Lesejane emphasised that, over the past year, the Scheme evaluated the efficiency, independence, objectivity and other professional qualities of its contracted external auditors and found it to be satisfactory; hence, the Scheme concluded and recommended that Deloitte & Touche, with OMA Chartered Accountants Inc., be allowed to serve as the Scheme's external auditors for another year.

4.3.7 The Chairperson thanked Mr Lesejane for the presentation and invited the Members to interact.

4.3.8 Ms Amelia Mahlatsi, a Member of GEMS in good standing, expressed her approval of the presentation and recommendation made by Mr Lesejane and stated that the members should not hesitate to adopt the proposal for the continuation of the good work being done by the current external auditors.

4.3.9 Mr William Sefuti, another GEMS member in good standing, commented that the Board's appointment of the external auditors were unfair

to members. He explained that the members should have made the appointment, not the Board. He contended that the bids of the tendering companies should have been brought before the AGM for the members to select the preferred bidder. He further contended that, in his understanding of the regulations, external auditors were only permitted to serve as such for three years, following which the external audit services should be re-procured. He explained that the current external auditors already served as such for three years and that this year will be the fourth. He reiterated that the Board's continued appointment of the Scheme's current external auditors would be unfair to members and should not be allowed.

4.3.10 The Chairperson responded that Mr Lesejane duly explained the procurement and appointment processes in respect of the Scheme's external auditors, and reiterated that the procurement and appointment of the Scheme's external auditors were executed in line with the Scheme's policies. He confirmed that the Scheme's external auditors were appointed contractually for five years, subject to annual renewal by the Scheme; hence, the Scheme's fourth renewal of same. The Chairperson indicated that, should the Scheme at any time be dissatisfied with the performance of the external auditors for whatever reason, the Scheme could terminate the contract.

4.3.11 Mr Lunga, a Member of GEMS in good standing, indicated to the members that the rules were clear and that the Scheme was well within its rights to renew the contract with the current external auditors for a fourth year. He confirmed that the members understood that it was within their right to reject or approve the reappointment of the external auditors for the year 2019. He further confirmed that the members took note of the "sweetener" introduced by the external auditors by appointing a black African female to lead the external audit for 2019, which was appreciated. He warned, however, that only if this gesture did not constitute "fronting", should the members second the appointment of the Scheme's current external auditors for the year 2019.

4.3.12 The Chairperson thanked the members and confirmed the appointment of Deloitte & Touch, with OMA Chartered Accountants Inc., as the Scheme's external auditors for the year 2019, without any of the other members at the meeting having objected to such appointment.

Decision

The appointment of Deloitte & Touche, with OMA Chartered Accountants Inc. as their sub-contractor, as the Scheme's external auditors for the financial year ending 31 December 2019, was approved by the members of the Scheme, after a proposal and a secondment in favour of such appointment were received from two respective members, i.e. Ms Amelia Mahlatsi and Mr Lunga, in good standing with the Scheme, without the other members at the meeting, with the exception of Mr William Sefuti, having objected to same.

5. Matters for Noting

5.1 Disclosure of Trustee Remuneration

5.1.1 The Chairperson invited the Deputy Chairperson to brief the members on the Matters for Noting.

5.1.2 The Deputy Chairperson of the GEMS Board of Trustees, Dr Millicent Hlatshwayo, presented an overview of the remuneration of the GEMS Board of Trustees and provided feedback on the progress made against the Action List that emanated from the 2018 GEMS Annual General Meeting held in Nelspruit.

5.1.3 The Deputy Chairperson highlighted that the GEMS Board of Trustees' fiduciary duties include:

5.1.3.1 Taking all reasonable steps to protect the interests of the Scheme's beneficiaries;

5.1.3.2 Acting with due care, skill, diligence and in good faith;

5.1.3.3 Avoiding conflicts of interest; and

5.1.3.4 Acting with impartiality in respect of all of the Scheme's beneficiaries.

5.1.4 The Deputy Chairperson further highlighted that the Board members were jointly and severally liable and took on significant personal risk when conducting the business of the Scheme on behalf of its members.

5.1.5 Furthermore, the Deputy Chairperson reflected on the Board members' core values of taking care of the overall oversight of Scheme issues, and as far as competitive outsourcing was concerned, to ensure that people that were competitive in their field were requested to assist the Scheme.

5.1.6 The Deputy Chairperson noted that the Scheme was trying to insource some of the services currently provided by external service providers, and not to outsource. The Scheme was a low non-healthcare cost scheme, accordingly, non-healthcare costs were kept to the minimum, ensuring that members got as much as possible out of their contributions. The Scheme advanced Broad-Based Black Economic Empowerment (B-BBEE) and ensured that medium to large companies that were awarded tenders, empowered small Black-owned companies. In addition, the Scheme was also enabling new entrants, panels of providers, joint ventures and contracting restrictions.

5.1.7 The Deputy Chairperson referred to the Remuneration Policy and advised that the Trustees and Independent Committee Members were remunerated for preparing and attending Board and Committee meetings, for which a fixed daily meeting and a monthly stipend was paid. Thus, should a Board member be off sick during any such engagements, he/she could not be paid, based on the 'no-work-no-pay' principle. Furthermore, the Trustees were remunerated for 18 hours of work per meeting, which daily fee had not increased since January 2018.

5.1.8 The meeting noted that the global amounts paid in respect of the Scheme's Trustees for 2018 were:

5.1.8.1 R5.7m for meeting fees and monthly stipends; and

5.1.8.2 R1.5m for travelling, accommodation and training fees.

5.1.9 The meeting further noted that the fees listed above had decreased by 16.6%, when compared to 2017.

5.1.10 The Deputy Chairperson confirmed that Trustees were not remunerated for additional duties undertaken on a voluntary basis. The meeting heard that, if Trustees were to be remunerated as such, same would have amounted to R1.2m for the year 2018.

5.1.11 The Deputy Chairperson advised that the global expenditure was informed by the number of Board and Committee meetings and the number of Committees supporting the Board. The Trustees' fees, expressed as a percentage, contributed to about 0.02% of the Scheme's non-healthcare expenditure.

5.1.12 The Deputy Chairperson further advised that the Board was driven by regulatory requirements, as well as the business cycle and requirements of the Scheme.

5.1.13 The Deputy Chairperson highlighted that the six Committees of the Board were informed by:

5.1.13.1 Regulatory requirements (i.e. the Audit Committee and the Dispute Committee);

5.1.13.2 Corporate governance, as informed by the King IV Report (i.e. the Human Resources and Remuneration Committee and the Risk Social and Ethics Committee); and

5.1.13.3 The GEMS business model and the requirement to add value (i.e. the Finance and Investment Committee and the Clinical Governance and Administration Committee).

5.2 Addressing member issues raised at the 12th GEMS Annual General Meeting

5.2.1 The Deputy Chairperson informed the meeting that the 2018 GEMS AGM Action List comprised the issues raised by members at the 2018 GEMS AGM.

5.2.2 The Deputy Chairperson proceeded to provide members with a high-level overview of the Scheme's progress in respect of same:

5.2.2.1 In respect of the issue relating to member education and communication, i.e. the issue of members exhausting their cell phone airtime due to the length of the Scheme's automated voice prompts, the Deputy Chairperson reported that the Scheme significantly reduced the length of its automated voice prompts.

5.2.2.2 With regards to the issue of the need for the Scheme to have a 25% reserve ratio, the Deputy Chairperson confirmed that this percentage was a statutory requirement, prescribed by the Medical Schemes Act 131 of 1998, as extensively explained to members by the Chairperson and the Principal Officer.

5.2.2.3 In respect of the issue relating to the quality of Scheme's service delivery, i.e. the issue of members exhausting their benefits during the course of a financial year, the Deputy Chairperson confirmed the introduction of the GP Extender Benefit, which would afford members greater access to GPs.

5.2.3 The Chairperson thanked the Deputy Chairperson for the presentation on the Matters for Noting and for the transparency and disclosure thereof to the AGM.

6. Question and Answer Session

6.1 The Chairperson gave members the opportunity to ask general questions for clarification and requested them, for the sake of their own privacy, to address any personal issues to the GEMS Member Helpdesk, situated outside of the main meeting hall. Accordingly, the Chairperson indicated that members were welcome to pose questions of a more strategic nature relating to the Scheme.

6.2 Mr Oupa Sebiloane thanked the Deputy Chairperson for her presentation and the opportunity to ask questions. He also thanked the Scheme for taking members' issues seriously and effectively dealing with them, as it would be a waste of members' time to attend the AGM to complain and then the Scheme did nothing. He commented that the report was promising, but that he believed that more could be done.

6.3 Mr Sebiloane highlighted that, from the presentations of the Chairperson and the Principal Officer, it was important for the meeting to note that the Scheme was growing in transparency and democracy. He commented that the Scheme's new building was worth celebrating and encouraged the members at the AGM, who were called upon to make nominations or submissions for the name of the new building by 14 August 2019, to take this opportunity seriously, because GEMS, much as it is not necessarily where members would want it to be, was the only hope for public servants.

6.4 Mr Sebiloane further encouraged the members to participate in the Scheme's Trustee elections, as this would be in the interest of transformation of the Scheme.

6.5 Mr Sebiloane welcomed the Scheme's achievement of the statutory 25% reserve ratio, but stressed that the Scheme was expected to translate it into affordable benefits for its members. He thanked the Scheme for same, knowing that it was not easy. He advised that, in 2016, when the Scheme was written off, to say, because of corruption, the PSCBC stood by the Scheme because it knew the Scheme's agenda to be correct. He further advised that the PSCBC challenged the Scheme to continue to champion the principles of ushering in the NHI in South Africa, without fail.

6.6 Mr Sebiloane, however, expressed his concern about the Scheme's slow response to the request of the members who attended the AGM in Nelspruit, for a system, alerting members when their benefits were running low, so as to avoid members only becoming aware of same when their benefits were already depleted.

6.7 Mr Sebiloane indicated that the PSCBC was satisfied that GEMS was not part of the problem of racial profiling. He, however, expressed his discontent with any medical scheme that should be found to have subjected black professionals to racial profiling for claims payment purposes.

6.8 Mr Sebiloane noted the benefit enhancements made by the Scheme, but called for the further simplification of benefits to assist members' understanding of same.

6.9 Mr Sebiloane called on the members to be active participants as members of the Scheme. He also called on the PSCBC and the Scheme to ensure the amendment of the GEMS Rules in order to usher the NHI, and to work with other medical schemes to ensure that, at the time when the NHI came into being, there were less challenges and a seamless transition.

6.10 In conclusion, Mr Sebiloane thanked the Scheme for having developed a low-cost benefit package to serve as a benchmark towards the implementation of NHI.

6.11 The Chief Operations Officer acknowledged Mr Sebiloane's comments and confirmed that the simplification of member benefits was a key priority of the Scheme, as was evident from its engagements with the PSCBC and the work done in respect of the Sapphire Option. He further confirmed that the Service Management Forum would undertake various education initiatives, e.g. through member newsletters and other forms of member communication, to better explain the Scheme's benefit offering and to ensure members' understanding of same.

6.12 Ms Tiny Moreosele, a Member of GEMS in good standing, enquired whether independent surveys are ever conducted to gauge the Scheme's performance levels.

6.13 The Chief Operations Officer responded that the Scheme regularly subjected itself to various independent surveys, which it then used to improve on areas of concern.

6.14 Ms Moreosele enquired as to the number of disadvantaged schools and learners that benefitted from the Scheme's AGM CSI initiative for the provision of eyesight screening and spectacles.

6.15 The Chief Operations Officer responded that:

6.15.1 The Scheme has various CSI initiatives.

6.15.2 The main CSI initiative took place on an annual basis in the area where the AGM was held.

6.15.3 Upon completion of a CSI initiative, the Scheme reported on same to members via member newsletters.

6.15.4 In preparation for the 2019 GEMS AGM, the Scheme conducted eyesight screening of 2 500 primary school learners in four (4) underprivileged schools in Mahikeng and surrounding areas. From tomorrow, 01 August 2019, the Scheme would issue spectacles to those learners that were identified with this difficulty. He reiterated that the eyesight screening would continue for the remainder of 2019, and that an estimated 10 000 school learners in North West would be tested by the end of 2019.

6.16 Ms Moreosele enquired as to what informed the Scheme's increases of member contributions.

6.17 The Chief Operations Officer responded that:

6.17.1 GEMS endeavoured to remain as affordable as possible.

6.17.2 Member inputs at AGMs were duly considered when developing the Scheme's benefit offering for the following year.

6.17.3 By way of example, the GP Extender Benefit was derived from members' inputs during previous AGMs.

6.17.4 Member inputs received by the Scheme, issues affecting access to health, inflation and economic challenges were among the issues considered by the Scheme during its product development and benefit design process, when contribution increases were determined.

6.17.5 Based on the aforementioned and other relevant information, the Scheme's actuaries calculated the extent of the benefit and contribution increases required.

6.17.6 The Scheme's product development and benefit design process, as well as the outcome thereof, was overseen by the Council for Medical Schemes.

6.18 Ms Desiree Mafulako commended GEMS on its healthcare screening programme and enquired whether the de-identified screening outcomes could be shared with the relevant government departments, either quarterly or every two years, as it would greatly assist the persons responsible for the development and management of the departments' employee health and wellness programmes.

6.19 The Chief Operations Officer responded that the Scheme was appreciative of Ms Mafulako's comments made in respect of GEMS' screening programmes, and advised that:

6.19.1 The Scheme, in collaboration with the Department of Public Service and Administration, shared some of the reports from GEMS' screening programmes, upon consolidation thereof and upon request from the provinces to provide feedback on same.

6.19.2 Following a screening event, it was common practice for the Scheme to submit a summary of same to the department where the screening took place.

6.19.3 The issue raised by Ms Mafulako would be followed-up to ensure that the reports from GEMS' screening programmes was adequately shared.

6.20 Ms Ntombizodwa, a Member of GEMS in good standing, enquired whether the Scheme had ever considered introducing a health and wellness programme through which members' gym membership fees could be subsidised by the Scheme, as GEMS should be supportive of members taking proactive steps towards living a healthy lifestyle.

6.21 The Principal Officer responded by agreeing that prevention was better than cure, and that more should be done towards members' health and wellness. He informed the meeting that the Scheme's health-screening benefits were amongst the most comprehensive, but that the Scheme should evaluate its research methodology to evidence that health screenings were making a difference. He committed the Scheme to work harder towards publishing more data in the public domain around prevention, screening and making members healthier.

6.22 With regards to the request for the Scheme to subsidise members' gym membership fees, the Principal Officer responded that the Scheme previously

attempted to introduce a lifestyle programme, but that the Council for Medical Schemes ("**CMS**") did not approve of same, as they believed such a programme to fall outside the scope of business of a medical scheme, as defined by the Medical Schemes Act 131 of 1998, and would therefore be in conflict with same. He advised that other medical schemes had administrators that independently provided lifestyle programmes to medical scheme members as part of these administrators' independent product offering, as these administrators were not prohibited by the Act from doing so. These administrators were separate business entities from the medical schemes whose members they provided these lifestyle programmes to, and were therefore not bound by the same restrictions as medical schemes. However, the Principal Officer indicated that the issue of a lifestyle programme would again be taken up with the CMS going forward in order to determine whether there was a way, within the Medical Schemes Act, that GEMS, as a medical scheme, could provide same.

6.23 Mr Ignatius Musoki, a Member of GEMS in good standing, commended GEMS for the progressive move in supporting the National Health Insurance ("**NHI**"). He stated that, when the time came, GEMS should be the one to administer the NHI, not any other company in South Africa.

6.24 The Principal Officer responded that:

6.24.1 GEMS was actively involved with the Council for Medial Schemes and a pilot project around the beneficiary registry.

6.24.2 The Scheme was working directly with the Department of Health to assist the Department in defining the basic benefit package for the NHI.

6.24.3 The Scheme, in collaboration with the PSCBC, was working on a new benefit option, aimed at salary level 1-5 Public Service employees, with the belief that this new benefit option would become a reference product for the NHI.

6.24.4 GEMS was recently approached by the Department of Health to assist with defining how to contract with GPs in an NHI environment.

6.24.5 Based on the above, it was evident that GEMS was already actively involved in supporting this very important goal of universal healthcare for all citizens of South Africa.

6.25 Mr Musoki commented that most members wanted to participate in the 2019 GEMS Trustee Elections, but were prevented from doing so due to the following issues:

6.25.1 The inefficiency of the SMS voting platform;

6.25.2 The late receipt of ballot papers by members; and

6.25.3 The Scheme's failure to bring the election process to members' workstations, as promised.

6.26 Mr Musoki further commented that, in 2013, the Scheme informed the candidates that participated in the GEMS Trustee Elections of their performance prior to the AGM, but did not do so in 2019. He enquired whether this practice deviation could be clarified, and specifically, why the final result of the 2019 GEMS Trustee Elections could not be announced at the AGM today.

6.27 The Chairperson responded that the reason for the Scheme's inability to announce the final result of the 2019 GEMS Trustee Elections at the AGM today, was shared with the meeting during his opening statement. However, he proceeded to highlight that:

6.27.1 The Scheme, in collaboration with the PSCBC, attempted to create greater access to the member-voting process in order for as many members as possible to participate in the elections.

6.27.2 The Scheme enabled all its offices across South Africa to assist member voting. However, it was not feasible for the Scheme to visit every member workstation across South Africa.

6.27.3 Given the short space of time between the Scheme's interaction with the PSCBC (to ensure maximum member participation in the elections) and the closing date of the elections, the Scheme's implementation of the additional member-voting mechanisms negatively impacted on the electoral-process timelines. Accordingly, the EleXions Agency was only able to finalise their counting of the votes during the evening of 29 July 2019 and could therefore only provide the GEMS Board of Trustees with their preliminary report during the Board meeting on 30 July 2019.

6.27.4 The processes comprising the GEMS Trustee Elections was quite involved; hence, the Scheme wanted to ensure that the integrity of these processes was not undermined in any way.

6.28 Mr Lekgema Mankge acknowledged the good work done by the Principal Officer during his exciting journey with the Scheme. He commended the Principal Officer for his patience during the extensive member engagements and in dealing with the matters raised, and thanked him on behalf of the members for the good work that he, himself physically has done for members.

6.29 Mr Mankge stated that the members welcomed the decision of the GEMS Board of Trustees to appoint Dr Moloabi as the Scheme's new Principal Officer, and wished him all the best in his new position.

6.30 Mr Mankge suggested that, in future, the Scheme should consider announcing the outcome of the GEMS Trustee Elections to the members at the AGM, as this would afford members the opportunity to openly respond to same.

6.31 The Chairperson thanked Mr Mankge for his comments and suggestions, and informed the meeting that the Scheme requested the EleXions Agency and the auditors to provide it with their final elections reports by next week Thursday (08 August 2019) and Friday (09 August 2019) respectively. He confirmed that, within seven (7) days of its receipt of these reports, the GEMS Board of Trustees would interact with same in terms of the GEMS Rules in order to finalise the trustee elections, and should there be any issues, same would be communicated to the Scheme's members.

6.32 Dr Lekgetho, a Member of GEMS in good standing, referred to the Scheme's financial statements, as presented, and in particular, to the R4bn surplus, and enquired as to the consequences of dividing the surplus between the members.

6.33 The Principal Officer responded by reminding Dr Lekgetho that the surplus was in fact R10bn, not R4bn. He explained that the surplus could only be distributed

amongst members if the Scheme is liquidated in terms of the Medical Schemes Act. He, however, reiterated that the function of the surplus was to:

6.33.1 Ensure the Scheme's sustainability;

6.33.2 Enable the Scheme to pay any unexpected, high claims, i.e. hospital claims, on behalf of its members;

6.33.3 Enable the Scheme to increase benefits and, over time, reduce membership contributions; and

6.33.4 Protect members in case of serious illnesses, e.g. ICU hospitalisation, cancers or motor vehicle accidents.

6.34 Dr Lekgetho then enquired as to the Scheme's reasons for the latest membership contribution increases, given the available surplus.

6.35 The Principal Officer responded that, in light of the fact that the Scheme had now reached the statutory 25% reserve ratio requirement, the only reason for future membership contribution increases would be the escalating costs associated with the Scheme's benefit provision and enhancements. He highlighted that the Scheme had big plans to enhance the position of salary level 1-5 Public Service employees, but that it would cost a significant amount of money.

6.36 Dr Lekgetho enquired whether the Scheme took any action in respect of the fraudulent claims in KwaZulu-Natal, whether the culprits and victims were identified, and whether there were any consequences?

6.37 The Principal Officer responded that irregular activities were reported to the Health Professions Council, the Nursing Council, the Medical Council, the South African Policy Services, the Hawks and the National Prosecuting Authority (as the case may be). He also advised that same was confirmed in the Scheme's submission to the Council for Medical Schemes ("**CMS**") as part of the CMS' enquiry into medical schemes' application of Section 59 of the Medical Schemes Act 131 of 1998.

6.38 Mr Oupa Sebiloane, a Member of GEMS in good standing, congratulated the Scheme on winning the Titanium Award. He acknowledged that GEMS had one of the largest HIV programmes in South Africa and that life expectancy in South Africa improved significantly due to the important role played by GEMS in this regard. He endorsed the view that member benefits should be transparent in that members should be notified by the Scheme prior to their benefits being depleted. He requested the Principal Officer to strongly pursue the members' plea for the Scheme to subsidise their gym membership fees.

6.39 An unidentified female speaker introduced herself as being a wellness manager in the Department of Health and confirmed her receipt of an award from GEMS, signed by Dr Goolab, for being a key stakeholder and a Member of GEMS in good standing for 10 years. She congratulated the Scheme for the improvements made to the Sapphire Option, especially in the area of mental health, where patients now had access to private hospitals. She requested the Scheme to improve members' oncology benefits due to the various challenges faced by members suffering from cancer. She also requested the Scheme to ensure the delivery of high quality healthcare to members, and to curb the unethical business practices of healthcare providers.

6.40 The Chairperson responded by requesting the aforementioned speaker to provide the information in support of her requests to the Principal Officer, as it could assist the Scheme in curbing some of her concerns raised.

6.41 Ms Siphiwe Nyamango, a Member of GEMS in good standing, highlighted some of the inadequacies of the Scheme's lower benefit options, e.g. Emerald, where members were required to make co-payments and pay for X-rays, some medicines and vitamins.

6.42 An unidentified female speaker applauded the Chairperson and the GEMS Board of Trustees for their good work, but stated that there was room for improvement. She reiterated the comments and concerns raised by the previous speaker, Ms Nyamango. She highlighted that members on salary level 1-5 were required to pay for maternity services in advance, which could range between R5 000 to R7 000. She requested the Scheme to consult the salary level 1-5 Public Service employees when developing the new benefit option for 2020.

6.43 The Chief Operations Officer responded that:

6.43.1 One of the key focus areas of the Scheme relating to the simplification of its product offering to members, particularly the Sapphire Option, was the minimisation of member co-payments.

6.43.2 GEMS had a network of doctors, contracted to render healthcare services to members at rates covered by the Scheme, thereby avoiding member co-payments. However, the challenge facing the Scheme was that not all doctors wanted to be part of the GEMS Network, causing them to render healthcare services to members at rates higher than those covered by the Scheme, thereby resulting in member co-payments.

6.43.3 The Scheme was investing a significant amount of time and effort into growing the GEMS Network, specifically at general practice level, optometry, dentists and even hospitals. The Chief Operations Officer encouraged members to make use of the healthcare providers on the GEMS Network, which were widely accessible.

6.43.4 The issue of co-payments arose as a result of a court case, which nullified the Reference Price List ("**RPL**"), which was intended to regulate the fees charged by healthcare practitioners. Accordingly, in the absence of the RPL and a Network Agreement with the Scheme, healthcare providers could charge any fee they deemed fit. The Chief Operations Officer again encouraged members to make use of the healthcare providers on the GEMS Network, as these providers charged the rate covered by the Scheme, thereby avoiding member co-payments.

6.44 The Principal Officer responded to Ms Nyamango's request for the Scheme to fund vitamins, by advising that the Scheme would duly consider the request, and to the extent appropriate, fund same.

6.45 In closing, the Principal Officer thanked the members for the kind words as he was leaving the Scheme, and emphasised that it was much appreciated and very good to hear.

6.46 Finally, the Principal Officer congratulated Dr Moloabi on his appointment as the new Principal Officer of GEMS.

7. Summary of Decisions

7.1 The Chairperson thanked the members for their active participation in the AGM and for supporting the Scheme.

7.2 The Chairperson confirmed that the Minutes of the 2019 GEMS AGM would reflect that:

7.2.1 The Minutes of the 12th GEMS Annual General Meeting held on 31 July 2018 at the Southern Sun Emnotweni Arena, Riverside Mall, Government Boulevard, Riverside Park, Nelspruit, Mpumalanga, were adopted by the members of the Scheme as being a true reflection of the proceedings of that meeting;

7.2.2 The Annual Financial Statements of the Government Employees Medical Scheme for the financial year ended 31 December 2018 were adopted by the members of the Scheme; and

7.2.3 Deloitte & Touche, with OMA Chartered Accountants Inc. as their sub-contractor, were re-appointed as the external auditors of the Scheme for the financial year ending 31 December 2019.

7.3 The Chairperson also confirmed that the Minutes of the 2019 GEMS AGM would reflect:

7.3.1 The disclosure of the remuneration of the GEMS Board of Trustees for the year 2018;

7.3.2 The actions taken by the Scheme in respect of the issues raised by members during the 2018 GEMS AGM; and

7.3.3 The questions raised by members at the 2019 GEMS AGM and the responses provided by the Scheme.

8. Closure

After all matters on the 2019 GEMS AGM Agenda were duly disposed of, the Chairperson thanked the members for their patience, attendance and participation, and closed the 13th Annual General Meeting of the Members of GEMS at 17h37 on 31 July 2019.

Action list on member issues raised at the 2019 GEMS AGM
held at the Mmabatho Palms Hotel Casino and Convention Resort, Mmabatho/Mahikeng on 31 July 2019 at 15h00

No.	Issue (short description)	Classification of Issue	Responsible Lead	
1	Members requested the Scheme to consider developing and implementing system alerts to notify members when their benefit limits are almost depleted, as such alerts will assist members when deciding whether or not to access healthcare services at a particular time.	System Changes	CAO	
2	Members urged the Scheme to simplify its benefit structures in order to assist members' understanding and use of same.	Product Development & Benefit Design	CRO CFO	
		Member Communication	CMO	
3	Members encouraged the Scheme to conduct regular member satisfaction surveys in order to identify and address any issues that may exist.	Member Communication	CMO	
4	Members requested the Scheme to consider sharing the de-identified outcomes of healthcare screenings with those government departments responsible for employee health and wellness, as it will inform departmental programmes aimed at managing the health of government employees.	Healthcare Data Sharing	CHO	
5	Members requested the Scheme to consider subsidising their gym membership fees.	Gym Membership Fee Subsidy	CRO CFO	

Scheme Response /Action Required	Progress	Status
The Scheme will investigate the feasibility of this proposal and revert to members in due course.	The Scheme implemented a system alert to notify members prior to their depletion of the benefit limit of three (3) Out-of-Hospital, non-Nominated Network Family Practitioner visits, afforded to members on the Tanzanite One benefit option. The Scheme will determine the feasibility of implementing system alerts in respect of all benefit limits, and if found to be feasible, consider the implementation of same.	IN PROGRESS
The Scheme is working with the PSCBC and other stakeholders on a continuous basis in order to simplify the Scheme's benefit structures. During 2019, the Scheme specifically focused on the simplification of the benefit structures and the enhancement of the benefits of the Sapphire (new Tanzanite One) and Beryl benefit options. The Rule changes in respect of same were submitted to the Council for Medical Schemes on 01 October 2019 for approval and registration.	The simplification and standardisation of the Scheme's benefit structures commenced with the 2020 Product Development & Benefit Design, and will continue in future years. The Rule changes in respect of the Sapphire (new Tanzanite One) and Beryl benefit options, providing for the simplification of the benefit structures and the enhancement of the benefits of these benefit options, were registered by the CMS on 15 November 2019 and 20 January 2020 respectively.	IN PROGRESS
One of the initiatives forming part of the Service Management Programme is member education in respect of the Scheme's benefit structures. The GEMS website, member newsletters and other member communication channels will be used for this purpose.	GEMS publishes a quarterly newsletter for member communication and education on benefit structures. An EVO toolkit was developed for members on the Emerald Value Option to aid their understanding of their benefits. The Scheme employed a dedicated resource to enhance the GEMS website and update content for member and stakeholder education.	FINALISED
The Scheme conducts regular member satisfaction surveys in order to identify and address any issues that may exist.	The Scheme develops its marketing and communication activities to address issues identified through member satisfaction surveys.	FINALISED
The Scheme shares some of its consolidated healthcare screening and disease prevalence reports with national and provincial government departments, upon request.	The Scheme will continue to share data on consolidated healthcare screening and disease prevalence with national and provincial government departments, upon request.	FINALISED
The Scheme developed a Lifestyle Programme, which was rejected by the Council for Medical Schemes due to concerns surrounding its compliance with the Medical Schemes Act 131 of 1998. The Scheme will continue to explore the possibilities in this regard.	The Lifestyle Programme project was closed. However, preventative care benefits continue to be enhanced in line with the "Business of a Medical Scheme", as defined in the Medical Schemes Act 131 of 1998. Other alternatives may be considered in future product development processes.	IN PROGRESS

Action list on member issues raised at the 2019 GEMS AGM held at the Mmabatho Palms Hotel Casino and Convention Resort, Mmabatho/Mahikeng on 31 July 2019 at 15h00				
No.	**Issue (short description)**	**Classification of Issue**	**Responsible Lead**	
6	Members urged the Scheme to simplify the voting mechanisms to be used by members during trustee elections, and to make them more accessible to members.	Trustee Elections	CSLC	
7	Members encouraged the Scheme to continue its efforts to minimise member co-payments to the extent possible.	Product Development & Benefit Design	CRO CFO	
8	Members requested the Scheme to consider funding vitamins under certain circumstances.	Product Development & Benefit Design	CRO CFO	

	Scheme Response /Action Required	Progress	Status
	During the 2019 GEMS Trustee Elections, members were empowered to vote by means of USSD (SMS), email and postal ballots, and the GEMS website. The Scheme will continue to simplify the voting mechanisms to be used by members during trustee elections, and to make them more accessible to members.	As stated in the adjacent column, the Scheme will continue to simplify the voting mechanisms to be used by members during trustee elections, and to make them more accessible to members. In order to achieve the aforementioned objectives, the Scheme will liaise with its Stakeholders for any comments, suggestions and recommendations that they may have.	IN PROGRESS
	During the 2020 GEMS Product Development & Benefit Design, the Scheme took great care to ensure that member co-payments were kept to the minimum. During the 2021 GEMS Product Development & Benefit Design, the Scheme will again do its utmost to ensure that member co-payments are minimised.	The “Extender Benefit” was further enhanced for the 2020 benefit year, which will further minimise members’ exposure to co-payments and benefit depletion.	IN PROGRESS
	During the 2021 GEMS Product Development & Benefit Design, the Scheme will consider funding vitamins under certain circumstances.	During the 2020 GEMS Product Development & Benefit Design, a number of enhancements were made in terms of chronic and acute medication and related formularies.	IN PROGRESS

Other information

Principal Officer's office and postal address

Dr. BOS Moloabi
GEMS Votumi House,124 Mercy Avenue
Menlyn Maine, Precinct

Private Bag X1
Hatfield
0028

Registered office and postal address

GEMS Vutomi House
124 Mercy Avenue
Menlyn Maine Precinct

Private Bag X1
Hatfield
0028

Medical Scheme administrator during the year, office and postal address

Metropolitan Health Corporate (Pty) Ltd
Parc du Cap
Building 6
7 Mispel Avenue

P.O. Box 4313
Cape Town
8001

Actuaries' office and postal address

Insight Actuaries and Consultants (Pty) Ltd
Block J, Central Park
400 16th Road
Midrand
1682

Auditors' office and postal address

Deloitte & Touche
Deloitte Place,
Building 8,
The Woodlands,
20 Woodlands Drive,
Woodmead,
2052

Independent Investment Consultant details

Mentenova (Pty) Ltd
3rd Floor, Oxford and Glenhove Building 2
114 Oxford Road
Rosebank
2198

Asset Managers' details

1. **Taquanta Asset Managers (Pty) Ltd**
   7th Floor, Newlands Terraces
   8 Boundary Road
   Newlands
   Cape Town
   7700

2. **Investec Asset Management (Pty) Ltd**
   36 Hans Strijdom Avenue
   Foreshore
   Cape Town
   8001

3. **FutureGrowth Asset Management (Pty) Ltd**
   3rd Floor, Great Westerford Building
   240 Main Road
   Rondebosch
   Cape Town
   7700

4. **Coronation Asset Management (Pty) Ltd**
   7th Floor, MontClare Place
   Cnr Campground & Main Road
   Claremont
   Cape Town
   7708

5. **Prudential Investment Managers South Africa (Pty) Ltd**
   7th Floor, Protea Place
   40 Dreyer Street
   Claremont
   Cape Town
   7735

Audited Financial Statements

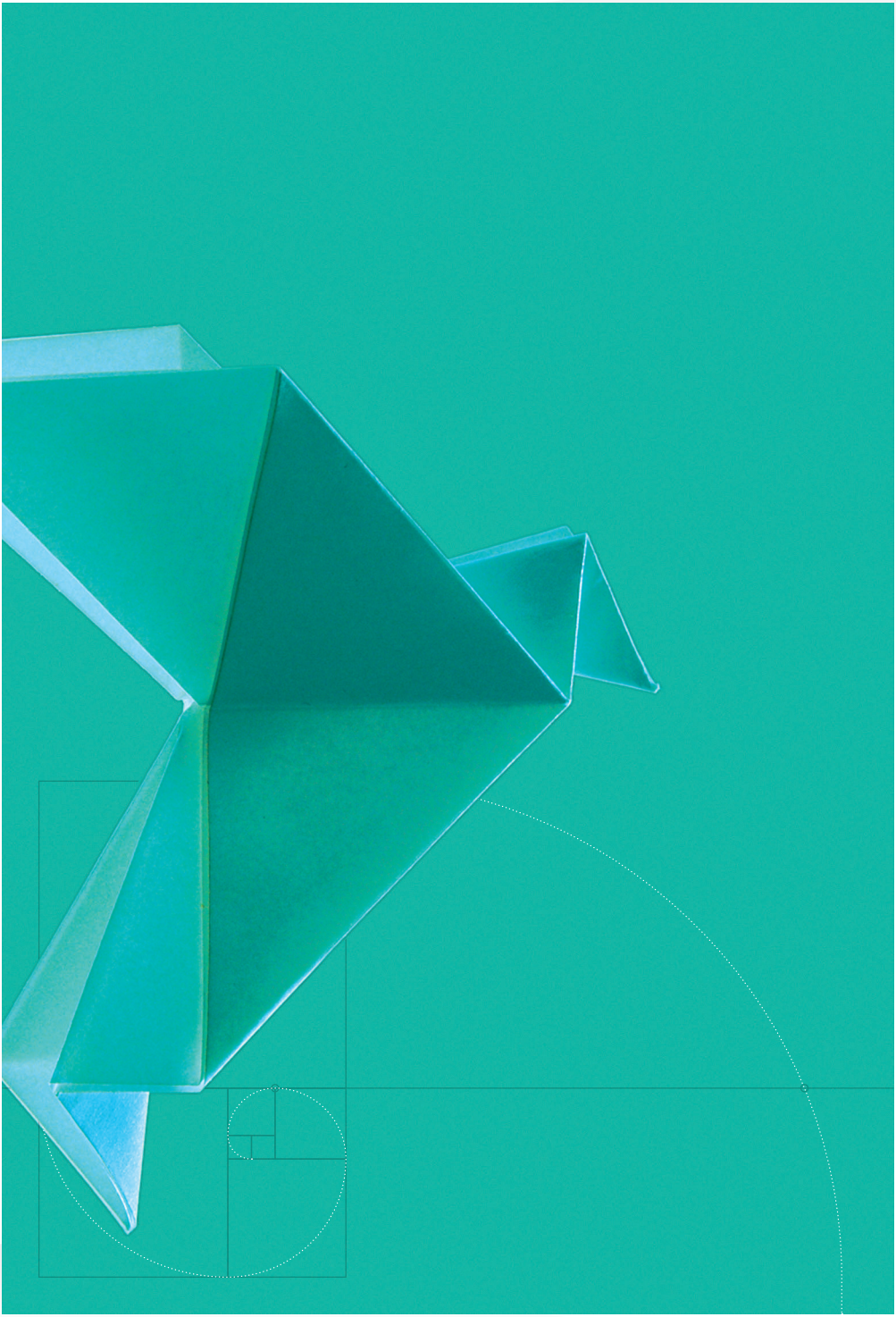
The full audited Annual Financial Statements can be obtained from the Scheme's registered office, postal address, website and by email as stated below:

Registered office
GEMS Vutomi House
124 Mercy Avenue,
Menlyn Maine Precinct,
Waterkloof Glen Ext 2,
Pretoria

Postal address
Private Bag X1
Hatfield
0028

Scheme website
www.gems.gov.za

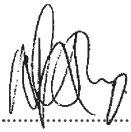
Scheme email
enquiries@gems.gov.za



15

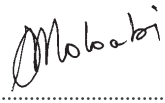
FINANCIAL STATEMENTS

for the year ended 31 December 2019



Dr SM Hlatshwayo
Chairperson

Mr ME Phophi
Deputy Chairperson



Dr BOS Moloabi
Principal Officer

30 April 2020

TO THE MEMBERS OF THE GOVERNMENT EMPLOYEES MEDICAL SCHEME

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of the Government Employees Medical Scheme (the Scheme), set out on pages 209 to 276, which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Government Employees Medical Scheme as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Scheme in accordance with the 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 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 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed in the audit
Outstanding claim provision (IBNR)	
The outstanding risk claims provision ("IBNR") comprise provisions for the Scheme's estimate of the ultimate cost of settling all claims incurred but not yet reported at the reporting date. The determination of the IBNR requires the Scheme's Trustees to make assumptions in the valuation thereof, which is determined with reference to an estimation of the ultimate cost of settling all claims incurred but not yet reported at the Statement of Financial Position date. The Trustees make use of an independent actuarial specialists for the estimation of the IBNR. The IBNR calculation is based on the following factors: › 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 per claim. Certain of the above mentioned factors require judgement and assumptions to be made by the Schemes Trustees and therefore we identified the valuation of the IBNR as a key audit matter. The IBNR is disclosed in note 11.	In evaluating the valuation of the IBNR, we performed various procedures including the following: › Testing the Scheme's controls relating to the preparation of the IBNR calculation; › Testing the integrity of the information used in the calculation of the IBNR by performing substantive procedures; › With the assistance of our internal actuarial specialists we performed an independent calculation of the estimate of the provision using historical claims data and trends, and using this estimate as a basis of assessing the reasonableness of the trustee's estimate of the provision; › Performing a retrospective review of the IBNR raised in the 2018 financial year based on actual claims paid in 2019 to verify the assumptions applied to determine the IBNR are reasonable; › Performing tests of detail on the current year IBNR including testing actual claims experienced subsequent to year end and to as close as possible to audit completion date; and › Assessing the presentation and disclosure in respect of the IBNR and considered whether the disclosures reflected the risks inherent in the accounting for the IBNR. The assumptions applied in the IBNR are appropriate and we are satisfied that the movement of the IBNR in the Statement of Comprehensive Income is appropriate. The related disclosure of the IBNR and assumptions are appropriate.

Other information

The Scheme's trustees are responsible for the other information. The other information comprises the Statement of Responsibility by the Board of Trustees, the Statement of Corporate Governance by the Board of Trustees and the Report of the Board of Trustees as required by Medical Schemes Act of South Africa which we obtained prior to the date of this report. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Scheme's Trustees for the Financial Statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Scheme's trustees.
- Conclude on the appropriateness of the Scheme's trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the Scheme's trustees with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on other legal and regulatory requirements

Non-compliance with the Medical Schemes Act of South Africa

As required by the Council for Medical Schemes, we report that there are no material instances of non-compliance with the requirements of the Medical Schemes Act of South Africa, that have come to our attention during the course of our audit.

Audit tenure

In terms of CMS Circular 38 of 2018 Audit tenure, we report that Deloitte has been the auditor of the Government Employees Medical Scheme for four years.

The engagement partner, Dinesh Munu, has been responsible for the Government Employees Medical Scheme's audit for four years.

Deloitte & Touche
Registered Auditor
Per: Dinesh Munu
Partner

14 May 2020

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2019

	Notes	2019 R'000	2018 R'000
ASSETS			
Non-Current Assets			
Property and Equipment	3	240 231	255 407
Right-of-use assets	4	7 639	-
Intangible assets	5	13 373	26 697
Financial assets at fair value through profit or loss	6	4 654 020	2 126 402
		4 915 263	**2 408 506**
Current Assets			
Financial assets at fair value through profit or loss	6	8 317 926	6 887 753
Trade and other receivables	7	335 754	375 074
Cash and cash equivalents: Scheme cash invested	8	2 449 761	2 435 201
		11 103 441	**9 698 028**
Total Assets		**16 018 704**	**12 106 534**
FUNDS AND LIABILITIES			
Member's Funds			
Accumulated Funds		13 049 975	9 475 894
Liabilities			
Non-Current Liabilities			
Lease liability	4	3 577	-
		3 577	**-**
Current Liabilities			
Personal medical savings account liability	9	1 010 902	862 691
Lease liabilities	4	4 582	-
Trade and other payables	10	646 588	521 704
Outstanding risk claims provision	11	1 303 080	1 245 080
Lease Escalation Reserve		-	1 165
		2 965 152	**2 630 640**
Total Liabilities		**2 968 729**	**2 630 640**
Member Funds and Liabilities		**16 018 704**	**12 106 534**

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2019 R'000	2018 R'000
Risk contribution income	13	40 273 184	37 354 261
Relevant healthcare expenditure		**(35 763 229)**	**(32 002 171)**
Risk claims incurred	14	(34 945 266)	(31 238 721)
Accredited managed healthcare services	15	(817 963)	(763 450)
Gross healthcare result		**4 509 955**	**5 352 090**
Administration expenditure	16	(1 714 456)	(1 680 189)
Marketing services		(125 855)	(124 669)
Impairment losses on healthcare receivables	18	(36 078)	(86 691)
Net healthcare result		**2 633 566**	**3 460 541**
Investment income	19	941 276	549 665
Dividends received		49 429	32 215
Interest received on financial assets at fair value through profit/(loss)		833 486	497 413
Net realised gain on financial assets at fair value through profit/(loss)		71 086	(19 616)
Net unrealised gain on financial assets at fair value through profit/(loss)		(62 044)	(60 488)
Interest received on cash and cash equivalents		49 319	100 141
Other income		31 525	36 691
Sundry income		31 525	36 691
Other expenses		(32 285)	(17 279)
Investment management fees		(31 369)	(17 279)
Interest expense		(916)	-
Total comprehensive surplus for the year		**3 574 082**	**4 029 618**

STATEMENT OF CHANGES IN EQUITY

	Accumulated Funds	Member Funds
	R '000	R '000
Balance at January 1, 2018	5 446 276	5 446 276
Total comprehensive surplus for the year	4 029 618	4 029 618
Balance at January 1, 2019	9 475 893	9 475 893
Total comprehensive surplus for the year	3 574 082	3 574 082
Balance at December 31, 2019	13 049 975	13 049 975

STATEMENT OF CASH FLOWS

	Note(s)	2019 R'000	2018 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from members		41 564 645	38 330 806
Cash paid to suppliers, members and employees		(39 345 856)	(35 608 033)
Cash generated from operations	22	2 218 789	2 722 773
Interest expense		(849)	-
Net cash inflow from operating activities		**2 217 940**	**2 722 773**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	3	(7 775)	(164 600)
Sale of property and equipment	3	84	90
Net purchase of financial assets		(3 132 708)	(6 161 336)
Investment income		941 276	549 665
Interest received on Scheme cash invested		49 319	100 141
Income earned on financial assets at fair value through profit or loss		891 957	449 524
Net cash from investing activities		**(2 199 123)**	**(5 776 181)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment on lease liabilities		(4 257)	-
Total cash movement for the year		**14 560**	**(3 053 408)**
Cash at the beginning of the year		2 435 201	5 488 609
Total cash at end of the year	8	**2 449 761**	**2 435 201**

1. SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies applied in the preparation of the financial statements are set out below. The policies are consistent with those of the prior year. Refer to note 2 for the new standards and interpretations.

1.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Medical Schemes Act no. 131 of 1998, as amended (the Act). In addition the Statement of Comprehensive Income is prepared in accordance with Circulars 41 of 2012 and 56 of 2015 of the Council for Medical Schemes that sets out their interpretation of IFRS as it relates to the Statement of Comprehensive Income for Medical Schemes in South Africa.

1.2 Basis of preparation

The financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective at the time of preparing these annual financial statements.

These financial statements comply with the requirements of the 2019 SAICA Medical Scheme Accounting Guide as issued by the Accounting Practices Committee and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council.

The financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in Rands, which is the Scheme's functional currency.

These accounting policies are consistent with the previous period.

1.3 Property and Equipment

Property and Equipment is measured at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged on the straight line basis over the estimated useful lives of assets after taking into consideration an asset's residual value. Land will be carried at cost and not depreciated.

The useful lives of items of property and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		Infinite Useful Life
Buildings	Straight line	20 years
Furniture and fixtures	Straight line	5 years
Motor vehicles	Straight line	5 years
Office equipment	Straight line	5 years
Computer equipment and software	Straight line	3 years
Kitchen equipment	Straight line	3 years
Leasehold improvements	Straight line	Over the unexpired period of the applicable lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

The residual value, depreciation method and the estimated useful life of each asset is reviewed at the end of each reporting period and adjusted where appropriate. The effects of any changes in estimates are accounted for on a prospective basis.

The Scheme capitalises leasehold improvements, as specified in the lease contracts, and these improvements are depreciated.

Repairs and maintenance, which neither materially add to the value of assets nor appreciably prolong their useful lives, are recognised in surplus or deficit. Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Scheme and the cost of the item can be measured reliably. Costs directly attributed to the acquisition, development and installation of software are capitalised.

An item of asset is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of asset, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in surplus or deficit when the item is derecognised.

1.4 Intangible assets

An intangible asset is recognised when:

- It is probable that the expected future economic benefits that are attributable to the asset will flow to the scheme; and
- The cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- It is technically feasible to complete the asset so that it will be available for use or sale;
- There is an intention to complete and use or sell it;
- There is an ability to use or sell it;
- It will generate probable future economic benefits;

- There are available technical, financial and other resources to complete the development and to use or sell the asset; and
- The expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Software	4 years

1.5 Financial instruments

Classification

The Scheme classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were acquired and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

Initial recognition and measurement

Financial instruments are recognised initially when the Scheme becomes a party to the contractual provisions of the instruments.

The Scheme classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through profit or loss are recognised in the Statement of Comprehensive Income.

Subsequent measurement

Financial instruments at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in profit or loss for the period.

Dividend income is recognised in profit or loss as part of other income when the Scheme's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Derecognition

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

Impairment of financial assets

At each reporting date the Scheme assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the Scheme, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity as a reclassification adjustment to other comprehensive income and recognised in profit or loss.

Impairment losses are recognised in profit or loss.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been, had the impairment not been recognised.

Reversals of impairment losses are recognised in profit or loss except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in profit or loss within operating expenses.

When such assets are written off, the write off is made against the relevant allowance account.

Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial instruments designated as at fair value through profit or loss

The Scheme classifies a financial asset at fair value through profit or loss when any of the following conditions are met:

- The asset is acquired principally for the purpose of selling in the near term.
- It is part of a portfolio of identified financial assets that are managed together and for which there is evidence of a recent pattern of short-term profit.
- Upon initial recognition the Scheme designated the asset as at fair value through profit or loss.

A group of financial assets is designated as at fair value through profit or loss if it is managed and its performance is evaluated on a fair value basis, in accordance with the Scheme's documented risk management strategy, and information about the group of assets is provided internally on that basis to the Scheme's key management personnel.

The fair value of the financial instruments traded in an active market is determined by using quoted market prices or dealer quotes. The fair value of financial instruments not traded in an active market is determined by using valuation techniques that maximise the use of observable market data and rely as little as possible on entity specific estimates.

Gains or losses arising from subsequent changes in fair value, including any interest or dividend income, are recognised under Investment Income in the Statement of Comprehensive Income within the period in which they arise.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Interest income is recognised by applying the effective interest method, except for short term receivables when the recognition of interest would be considered immaterial. In line with the Scheme Rules, no interest is charged on overdue receivable balances.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise deposits held on call with banks, cash on hand and other short term liquid investments. These deposits are readily convertible, to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value. Cash and cash equivalents are classified as loans and receivables.

Financial liabilities measured at amortised cost

Financial liabilities are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Offset

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Scheme has a legally enforceable right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. No offsetting is currently applied in the financial statements.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been, had the impairment not been recognised.

Financial assets that the Scheme has the positive intention and ability to hold to maturity are classified as held to maturity.

1.6 Leases

The Scheme leases various properties and has implemented a single accounting model, requiring lessees to recognise assets and liabilities for all leases excluding exceptions listed in the IFRS 16 standard. The Scheme elected to apply exemptions for short term leases in relation to properties.

The Scheme recognises a right-of-use asset and a lease liability at the commencement date of the lease contract for all leases conveying the right to control the use of an identified assets for a period of time. The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.

The right-of-use assets are initially measured at cost, which comprises:

- Any lease payments made at or before the commencement date, less any lease incentives;

- Any initial direct costs incurred by the lessee;
- An estimate of costs to be incurred by the lessee in dismantling and removing the underlying assets or restoring the site on which the assets are located; and
- The amount of the initial measurement of the lease liability.

Subsequently the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the lease term on a straight-line basis.

Depreciation is calculated using the straight-line method over the estimated useful lives, as follows:
- Leased Properties – over the remaining lease agreement period.

Leases are recognised, measured and presented in line with IFRS 16 'Leases'.

1.7 Insurance contracts

Contracts under which the Scheme accepts significant insurance risk from another party (the member or other beneficiaries) by agreeing to compensate the member or other beneficiaries if a specified uncertain future event (the insured event, i.e. occurrence of a medical expense) adversely affects the member or their dependents are classified as insurance contracts. In terms of these contracts the Scheme is obligated to compensate its members for the healthcare expenses they have incurred.

1.8 Risk claims incurred

Risk claims incurred comprise the total estimated cost of all claims arising from healthcare events that have occurred in the year and for which the Scheme is responsible in terms of its registered rules, whether or not reported by the end of the year.

Net risk claims incurred comprise of the following:
- Claims submitted and accrued for services rendered during the year, net of discounts received, recoveries from members for co-payments and personal medical savings accounts; and
- Movements in the outstanding risk claims provision.

1.9 Impairment of assets

The Scheme assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Scheme estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the Scheme also:
- Tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period; and
- Tests goodwill acquired in a business combination for impairment annually.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.10 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 Scheme recognises the deficit in profit or loss for the year.

1.11 Outstanding risk claims provision

Outstanding risk claims comprise provisions for the Scheme's estimate of the ultimate cost of settling all claims incurred by not yet reported at the reporting date. Outstanding risk claims are determined as accurately as possible on the basis of a number of factors, which includes previous experience in claims patterns, claims settlement patterns, changes in the 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.

Estimated co-payments and payments from personal medical savings accounts are deducted in calculating the outstanding risk claims provision. The Scheme does not discount its outstanding risk claims provision, since the effect of the time value of money is not considered material.

A standard operating procedure governing the calculation of the provision as agreed with the Scheme is followed by the Scheme's actuaries to ensure consistency in the application and interpretation of results.

1.12 Risk Contribution Income

Contributions on member insurance contracts are accounted for monthly when their collection in terms of the insurance contract is reasonably certain. Risk contributions represent the gross contributions per the registered rules after the unbundling of savings contributions. The earned portion of risk contributions received is recognised

as revenue. Risk contributions are earned from the date of attachment of risk, over the indemnity period on a straight line basis. Risk contributions are presented before the deduction of broker service fees and other acquisition costs.

1.13 Employee benefits

Short term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the relevant service is provided.

Post employment benefits

Obligations for contributions to post employment benefits to defined contribution plans are measured on an undiscounted basis and are expensed as the relevant service is provided.

1.14 Provisions and contingencies

Provisions are recognised when:

- The Scheme has a present obligation as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation. Provisions are not recognised for future operating gains.

The expected future cash flows are discounted and reflects current market assessments of the time value of money and the risks specific to the liability.

The unwinding of the discount is recognised as a finance cost.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account risks and uncertainties surrounding the obligation.

1.15 Accredited managed healthcare services

These expenses represent expenditure and amounts paid or payable to accredited managed care organisations contracted by the Scheme for management of the utilisation costs and quality of healthcare services supplied to the Scheme and its members. These fees are expensed as incurred. The services provided by these organisations include hospital pre-authorisation, disease management programmes, optical and dental managed care services and pharmaceutical benefit and network management.

1.16 Investment Income

The Scheme's investment income includes:

- Dividends on investments;
- The net realised gains or losses on financial assets at fair value through profit or loss;
- The net unrealised gains or losses on financial assets at fair value through profit or loss; and
- The net interest on investments and cash and cash equivalents.

Interest income 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.Dividend income is recognised when the right to receive payment is established.

1.17 Unclaimed benefits

Unclaimed benefits are written back to income after a period of three years. Unclaimed benefits consist of member credits and unidentified deposits in line with the Scheme's debt management policy.

1.18 Impairment losses

Non-derivative financial assets

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) that can be estimated reliably had an impact on the estimated future cash flows of that asset.

Financial assets measured at amortised cost: Loans and receivables

The Scheme considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific and collective asset level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Scheme uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Scheme's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised as an expense.

The recoverable amount of other assets is the greater of their fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

1.19 Allocation of revenue and expenditure to benefit options

Revenue and expenditure is allocated to benefit options on a direct basis where this is determinable. Where revenue and expenditure is not directly attributable to a specific benefit option, the revenue or expense is allocated on the basis of the benefit option's membership proportionate to the Scheme's overall membership base. Investment income and investment management fees are allocated on the basis of the benefit option's contribution income proportionate to that of the overall Scheme.

The following items are directly allocated to benefit options:

- Risk contributions; and
- Risk claims incurred.

The remaining items are apportioned based on the number of members on each option:

- Other administration expenditure;
- Other income;
- Other expenditure;
- Managed care services; and
- Administration fees.

1.20 Road Accident Fund (RAF) Recoveries

Amounts received from the RAF are not recognised in profit or loss and recognised as accounts payable. These amounts are refunded to members.

1.21 Relevant healthcare expenditure

Relevant healthcare expenditure consists of net claims incurred and managed care services.

1.22 Personal Medical Savings Account

The personal medical savings account, which is managed by the Scheme on behalf of its members, represents savings contributions (which are a deposit component of the insurance contracts), net of any savings claims paid on behalf of members, in terms of the Scheme's registered rules.

The deposit component of the insurance contracts has been unbundled, since the Scheme can measure the deposit component separately. The deposit component is recognised in accordance with IAS 39 and is measured at fair value through profit or loss and subsequently measured at fair value, with gains and losses arising from changes in fair value being included in profit or loss for the period. The insurance component is recognised in accordance with IFRS 4, Insurance Contracts.

Unspent savings at year end are carried forward to meet future expenses for which members are responsible. In terms of the Medical Schemes Act 131 of 1998, as amended, balances standing to the credit of members are refundable only in terms of Regulation 10 of the Act.

Advances on savings contributions are funded from the Scheme's funds and the risk of impairment is carried by the Scheme.

1.23 Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are

directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes.

- Restricted activities;
- A narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;
- Insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and
- Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

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

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

2. NEW STANDARDS AND INTERPRETATIONS

2.1 Standards and interpretations not yet effective

The following new standards and interpretations have been published and are not yet effective for the current financial year. The Scheme has not opted for an early adoption of the new standards and as such, it will be implemented in later periods as indicated below:

The aggregate impact of the initial application of the statements and interpretations on the Scheme's financial statements is expected to be as follows:

IFRS 17 Insurance Contracts

IFRS 17 will impact the measurement of the contracts with members in the Scheme's financial statements. The Scheme will qualify for the premium allocation approach which requires the Scheme to recognise a liability for remaining coverage (with reference to the premiums received) and a liability for incurred claims (calculated as the expected cash outflows and a risk adjustment). The Scheme expects that the boundary of the contracts with members will be one year. The Scheme will be required to assess for onerous contracts at the point members elect the benefit option for the following year. IFRS 17 creates one accounting model for all insurance contracts in all jurisdictions that apply IFRS.

This standard replaces IFRS 4 – Insurance contracts.

The effective date of the standard is for years beginning on or after 01 January 2023.

The Scheme will adopt the standard for the first time in the 2023 annual financial statements.

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the

classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 01 January 2018, with early adoption permitted.

The Scheme will not be adopting the standard for the first annual period after mandatory effective date, as the Scheme have opted to defer implementation. The mandatory effective date was 01 January 2018.

As per the option in terms of 39B of IFRS 4 which provides a temporary exemption that permits insurers to apply IAS 39 Financial Instruments: Recognition and Measurement rather IFRS9 Financial Instruments for annual periods beginning before 1 January 2023.

Management has assessed that the Scheme meets the criteria as stated in IFRS 4 and therefore opted to utilise temporary exemption to apply IAS 39 rather than IFRS 9 for annual periods beginning before 01 January 2023.

The Scheme applied paragraph (39B) of IFRS 4 to derive a conclusion that it qualifies for the temporary exemption from IFRS 9. The temporary exemption from IFRS 9 is applicable if, and only if:

a. The Scheme has not previously applied IFRS 9; and
b. The activities of the Scheme are predominantly connected with insurance, which is assessed on the basis of the following two criteria;
    i. The Scheme has a significant amount of liabilities arising from contracts within the scope of IFRS 4 due to claims payable to members; and
    ii. The percentage of the Scheme's liabilities connected with in terms of short term medical insurance business relative to all its liabilities meets a specified threshold. The percentage of the Scheme's liabilities connected with insurance relative to its total amount of liabilities are greater than 90 of the total liabilities of the Scheme.

3. PROPERTY AND EQUIPMENT

	2019			2018		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
Land	22 819	-	22 819	22 819	-	22 819
Buildings	188 040	(10 437)	177 603	186 788	(1 090)	185 698
Furniture and fixtures	6 692	(2 028)	4 664	8 336	(2 025)	6 311
Motor vehicles	8 808	(6 102)	2 706	8 808	(4 560)	4 248
Office equipment	21 501	(5 780)	15 721	19 701	(2 409)	17 292
Computer equipment	28 042	(12 538)	15 504	25 096	(8 151)	16 945
Leasehold improvements	1 260	(1 211)	49	1 157	(366)	791
Kitchen equipment	1 303	(138)	1 165	1 303	-	1 303
Total	**278 465**	**(38 234)**	**240 231**	**274 008**	**(18 601)**	**255 407**

Reconciliation of property and equipment – 2019

	Opening balance	Additions	Disposals	Depreciation	Total
Land	22 819	-	-	-	22 819
Buildings	185 698	1 252	-	(9 346)	177 603
Furniture and fixtures	6 311	101	(356)	(1 392)	4 664
Motor vehicles	4 248	-	-	(1 542)	2 706
Office equipment	17 292	2 259	(22)	(3 808)	15 721
Computer equipment	16 945	4 064	(127)	(5 378)	15 504
Leasehold improvements	791	99	-	(841)	49
Kitchen equipment	1 303	-	-	(138)	1 165
	255 407	**7 775**	**(505)**	**(22 445)**	**240 231**

Reconciliation of property and equipment – 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	22 819	-	-	-	-	22 819
Buildings	-	125 000	-	61 788	(1 090)	185 698
Furniture and fixtures	1 634	5 403	(121)	-	(605)	6 311
Motor vehicles	5 820	-	(40)	-	(1 532)	4 248
Office equipment	1 196	16 805	-	-	(709)	17 292
Computer equipment	4 491	15 018	-	-	(2 564)	16 945
Leasehold improvements	158	1 071	(42)	-	(396)	791
Kitchen equipment	-	1 303	-	-	-	1 303
Capital – Work in progress	61 788	-	-	(61 788)	-	-
	97 906	**164 600**	**(203)**	**-**	**(6 896)**	**255 407**

4. RIGHT OF USE OF ASSETS

The Scheme leases buildings in various provinces with an average lease term of three years. Details pertaining to leasing arrangements, where the Scheme is lessee, are presented below.

The Scheme adopted IFRS 16 for the first time in the current financial period. Comparative figures for the 2018 financial year have been accounted for in accordance with IAS 17 (refer to note 20). The information presented in this note for right-of-use assets relate to the current financial period.

	2019	2018
	'000	'000
Net carrying amounts of right-of-use assets		
The carrying amounts of right-of-use assets are as follows:		
Buildings	7 639	-
Depreciation recognised on right-of-use assets		
Depreciation recognised on each class of right-of-use assets, is presented below. It includes depreciation which has been expensed in the total depreciation charge in profit or loss.		
Buildings	4 710	-
Other disclosures		
Interest expense on lease liabilities	864	-
Expenses on short term leases included in operating expenses	1 187	-
Lease liabilities		
The maturity analysis of lease liabilities is as follows:		
Year 1	4 582	-
Year 2	2 605	-
Year 3	972	-
	8 159	-
Less : finance charges component	(864)	-
	7 295	**-**
Non-current liabilities	3 577	-
Current liabilities	4 582	-
	8 159	**-**

5. INTANGIBLE ASSETS

	2019			2018		
	Cost/ Valuation	Accumulated amortisation	Carrying value	Cost/ Valuation	Accumulated amortisation	Carrying value
Computer software	81 087	(67 714)	13 373	81 894	(55 197)	26 697

Reconciliation of intangible assets – 2019

	Opening balance	Amortisation	Total
Computer software, other	26 697	(13 324)	13 373

Reconciliation of intangible assets – 2018

	Opening balance	Expensed to profit and loss	Transfers	Amortisation	Total
Computer software, other	52 206	-	1 470	(26 979)	26 697
Intangible assets under development	3 138	(1 668)	(1 470)	-	-
	55 344	**(1 668)**	**-**	**(26 979)**	**26 697**

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
	'000	'000
Opening balance	9 014 155	2 476 623
Additions to investments	3 132 708	6 146 877
Realised gains and interest	1 038 560	536 081
Unrealised gains/ (losses)	(62 044)	(60 488)
Investment transaction fees*	(564)	(378)
Fair value of investments at year end	**13 122 815**	**9 098 715**
Less Accrued interest **	(150 868)	(84 560)
Closing balance of investments	**12 971 947**	**9 014 155**

GEMS currently holds investments at fair value through profit or loss under IAS 39 and will continue to recognise investments at fair value through profit or loss when the Scheme adopts IFRS 9.

GEMS holds no debt instruments that will need to be measured at amortised cost.

The adoption of IFRS 9 will not have a financial impact on the values of the Scheme investments presented. Refer to note 2 for more details.

Non-current assets		
Designated as at Fair value through profit (loss)	4 654 020	2 126 402
Current assets		
Designated as at Fair value through profit (loss)	8 317 926	6 887 753
	12 971 946	**9 014 155**

**Investment transaction fees are deducted directly from investment portfolio balances and are included as part of investment management fees.*

*** Accrued interest is not capitalised and is included with Accrued Interest on note 7, Trade and other receivables.*

Financial assets at fair value through profit or loss consist of money market instruments, bonds and equities. Financial assets at fair value through profit or loss are categorised as Levels 1 and 2. Also refer to note 27.

7. TRADE AND OTHER RECEIVABLES

	2019	2018
	'000	'000
Insurance receivables		
Contributions outstanding	163 951	275 822
Receivables from members and providers	62 817	123 300
Personal medical savings account advances (note 9)	818	1 186
Receivables balance before impairment	227 586	400 308
Less: Balance of allowance for impairment at 31 December	**(53 585)**	**(138 085)**
Balance as at 1 January	138 085	87 578
Amount recognised in the Statement of Comprehensive Income	36 078	86 691
Amounts utilised during the period	(120 578)	(36 184)
Total insurance receivables	**174 001**	**262 223**
Financial receivables		
Accrued interest	150 868	84 935
Sundry accounts receivable	10 885	27 916
Total financial receivables	**161 753**	**112 851**
Total trade and other receivables	**335 754**	**375 074**

Trade and other receivables disclosed above are classified as loans and receivables and are measured at amortised cost. The carrying amounts of receivables approximate their fair value due to the short term maturities of these assets. No interest is charged on overdue balances in line with Scheme Rules.

The Scheme has recognised an allowance for impairment of 100% against all receivables from deceased members and categories of receivables outstanding for longer than 120 days based on historical experience.

For an analysis of the ageing of receivables refer to note 27.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Scheme to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised

The current provision policy provides for all receivables 120 days and older. The Scheme performed an impact assessment to determine the impact should IFRS9 have been implemented and it is reflected in the table below which indicates that the impact is not material on the numbers reported by the Scheme.

7. TRADE AND OTHER RECEIVABLES *continued*

	2019	2018
	'000	'000
Financial Asset – Trade Receivables		
Carrying amount in terms of IAS 39	173 183	261 037*
Carrying amount in terms of IFRS 9	186 750	296 785
Difference	**13 567**	**35 748**

*The financial assets are not graded and are not considered as low risk assets.

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:		
Call accounts	1 556 305	1 709 104
Current accounts	893 456	726 097
Total cash and cash equivalents	**2 449 761**	**2 435 201**

The carrying amounts of cash and cash equivalents approximate their fair values due to the short term maturities of these assets. Fair value is determined to be equal to the carrying value of the deposit.

For an analysis of the average interest rates and maturity refer to note 27.

9. PERSONAL MEDICAL SAVINGS ACCOUNT LIABILITY

	2019	2018
	'000	'000
Gross balance of personal medical savings account at beginning of the year	862 691	759 387
Less: Advances on personal medical savings account at beginning of year	(1 186)	(1 771)
Balance of personal medical savings account at the beginning of the year	861 505	757 616
Savings account contributions received (note 13)	1 118 739	954 187
Transfers from other schemes in terms of Regulation 10(4)	90	134
Refunds on death or resignation in terms of Regulation 10(5)	(77 954)	(86 832)
Claw backs from members	5 991	5 520
Claims paid on behalf of members (note 14)	(898 287)	(769 120)
Personal medical savings account advances (note 7)	818	1 186
Balances due to members on personal medical savings account end of the year	**1 010 902**	**862 691**

In accordance with the Rules of the Scheme, the savings plan is underwritten by the Scheme.

The personal medical savings account liability contains a demand feature that any credit balance on the savings account will be transferred to the member in terms of the Medical Schemes Act and the Scheme Rules when a member registers on another benefit option or medical scheme which does not have a savings account or when a member resigns from the Scheme.

As at year end the carrying amount of the members' personal medical savings accounts were deemed to be equal to its fair value, which is the amount payable on demand. The amounts were not discounted due to the demand feature.

Advances on personal medical savings accounts are funded by the Scheme and are included in trade and other receivables (refer note 7). The Scheme does not charge interest on advances on personal medical savings accounts.

10. TRADE AND OTHER PAYABLES

	2019	2018
	'000	'000
INSURANCE LIABILITIES		
Claims reported not yet paid		
Balance at the beginning of the year	134 867	809 553
Claims incurred	34 945 266	31 238 721
Claims settled	(34 852 267)	(31 913 407)
Total liabilities arising from insurance contracts	**227 866**	**134 867**
FINANCIAL LIABILITIES		
Trade payables	179 930	88 102
Administration fees payable	100 142	161 260
Consulting fees payable	2 523	21 236
Accredited managed healthcare fees due	69 460	64 605
Marketing services	10 848	10 142
Accrued expenses	53 157	38 624
Refunds due to members	832	1 310
Unallocated deposits	1 830	1 558
Total arising from financial liabilities	**418 722**	**386 837**
Total trade and other payables	**646 588**	**521 704**

The carrying amounts of trade and other payables approximate their fair values due to the short term maturities of these liabilities. Fair value is equal to the face value of the amount invoiced by the creditor. The average payment terms for trade payables are 22.06 days (2018: 20.26 days).

The Scheme has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms and no interest is incurred on outstanding balances.

11. OUTSTANDING RISK CLAIMS PROVISION

	2019	2018
	'000	'000
Outstanding risk claims provision		
Not covered by risk transfer arrangements	1 303 080	1 245 080

	Opening balance	Current year increase in provision	Payments in respect of prior year	Total
Reconciliation of provisions – 2019				
Outstanding risk claims provision	1 245 080	1 321 420	(1 263 420)	1 303 080
Reconciliation of provisions – 2018				
Outstanding risk claims provision	1 123 600	1 333 882	(1 212 402)	1 245 080

	Estimated gross claims	Balance at the end of the year
Analysis of outstanding risk claims provision 2018		
Not covered by risk transfer arrangements	1 245 080	1 245 080

This provision, known as the outstanding risk claims provision, is determined by way of statistically sound analyses of a number of factors, which include previous experience in claim patterns, claim settlement patterns, changes in the number of members according to gender and age, trends in claim frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim. The provision is net of estimated recoveries from members for co-payments.

The actuaries followed a standard operating procedure governing the calculation of the provision as agreed with the Scheme to ensure consistency in application and interpretation of results. The Scheme does not discount its outstanding risk claims provision since the effect of the time value of money is not considered material. The adequacy of the provision is assessed on a monthly basis, through reviews of past experience and consideration of changes in fundamentals such as claims processing and composition. Furthermore, the Scheme has standardised the provision calculation methodology and any deviation to this is adequately supported. An actuarial peer review of the provision calculation is in place and the Scheme considers the outstanding risk claims provision of R1.303bn (2018: R1.245bn) to be adequate. The estimation of the provision gives an indication of whether the Scheme would have adequate assets to cover the potential liability from the Scheme's insurance contracts, as required by accounting policy. The Scheme has sufficient assets to cover any potential liability from insurance contracts as the cash and investments at year end cover the outstanding risk claims provision more than eleven times.

Each notified claim is assessed on a separate, case by case basis with due regard to the claim circumstances, information available from managed care organisations and historical evidence of the quantum 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 affecting the ultimate cost of the loss is difficult to estimate.

11. OUTSTANDING RISK CLAIMS PROVISION *continued*

The provision estimation also accommodates the processing and adjudication of different categories of claims (i.e. in hospital, chronic and above threshold benefits). This is caused by differences in the underlying insurance contract, claim complexity, the volume of claims, the individual severity of claims, the determination of the occurrence date of a claim, and reporting lags.

Members must submit all claims for payment within four months of seeking medical treatment (i.e. the date of service). The cost of outstanding claims at the reporting date is estimated with reference to the actual claims submitted within the first three months after the reporting date that relates to the period before the reporting date. The claims to be submitted in the fourth month, relating to the reporting period, are then extrapolated using the bootstrapping, chain ladder, expected minus actual and the Bornheutter Ferguson method.

The Bornheutter Ferguson method was the preferred actuarial method for estimating the provision for the year under review and the prior year. This method of calculating the outstanding risk claims provision is in line with the standard operating procedure (SOP) for the Scheme. Refer to note 23 for actuarial assumptions made.

12. FINANCIAL ASSETS AND LIABILITY BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

	Fair value through profit or loss – held for trading	Loans and receivables	Financial liabilities at amortised cost	Total
2019				
Financial assets at fair value through profit or loss	12 971 947			12 971 947
Trade and other receivables	-	336 693	-	336 693
Cash and cash equivalents	-	2 449 761	-	2 449 761
Personal medical aid savings account trust liability	-	-	(1 010 902)	(1 010 902)
Trade and other payables	-	-	(647 219)	(647 219)
	12 971 947	**2 786 454**	**(1 658 121)**	**14 100 280**
2018				
Financial assets at fair value through profit or loss	9 014 155	-	-	9 014 155
Trade and other receivables	-	375 074	-	375 074
Cash and cash equivalents	-	2 435 201	-	2 435 201
Personal medical aid savings account trust liability	-	-	(862 691)	(862 691)
Trade and other payables	-	-	(524 245)	(524 245)
	9 014 155	**2 810 275**	**(1 386 936)**	**10 437 494**

13. RISK CONTRIBUTION INCOME

	2019	2018
	'000	'000
Revenue from contracts with customers		
Gross contributions per registered rules	41 391 923	38 308 448
Less: Savings contributions received*	(1 118 739)	(954 187)
Risk contribution income per statement of comprehensive income	**40 273 184**	**37 354 261**

**The savings contributions are received by the Scheme in terms of Regulation 10(1) and the Scheme's registered Rules and held on behalf of its members. Refer to note 9 on how the contributions were utilised.*

14. RISK CLAIMS INCURRED

Claims incurred		
Current year claims per registered rules (including under provision of prior year outstanding risk claims provision)	34 545 487	30 767 666
Outstanding risk claims provision as at 31 December	1 303 080	1 245 080
Less:		
Claims paid from personal medical savings accounts**	(898 287)	(769 120)
Discount received	(5 014)	(4 905)
Total net claims incurred	**34 945 266**	**31 238 721**

The claims ratio is calculated as claims incurred expressed as a percentage of risk contributions received. The Scheme recorded a claims ratio for the current financial year of 89% (2018: 86%).

***Claims are paid on behalf of the members from their personal medical savings accounts in terms of Regulation 10(3) and the Scheme's registered benefits. Refer to note 9 for a breakdown of the movement in these balances.*

15. ACCREDITED MANAGED HEALTHCARE SERVICES

	2019	2018
	'000	'000
Chronic medicine management services	179 015	166 788
Dental managed care	64 178	60 038
HIV management	45 641	42 612
Managed care services	412 486	385 264
Pharmaceutical benefit management	116 643	108 748
	817 963	**763 450**

Fees are contractually determined per member per month, reducing any upfront capital outlays and reducing as membership grows, resulting in improved economies of scale.

Refer to note 25 for more information on managed care agreements.

16. ADMINISTRATION EXPENDITURE

	2019	2018
	'000	'000
Actuarial fees	11 689	10 031
Administration fees	1 025 842	1 091 680
Advertising and marketing	25 521	21 692
Auditors remuneration – statutory fees	1 760	3 458
Bank charges	2 972	3 011
Benefit management services (Unaccredited managed care providers)*	151 578	130 999
Board and Independent Committee fees	6 123	6 391
Conferences and workshops	4 266	3 317
Consulting fees	107 236	100 403
Depreciation	40 478	33 875
Employee costs	228 093	185 861
Legal expenses	10 735	7 257
Loss on disposal of assets	458	113
Motor vehicle expenses	1 429	1 273
Office supplies	9 577	9 610
Other expenses	4 839	2 542
Practice Code Numbering System (PCNS) fees and CMS levies	32 740	30 073
Principal Officer's fees	4 656	4 656
Rental paid**	1 186	18 322
Telephone and fax	992	958
Travel and accommodation***	38 071	9 925
Trustees' and Independent Committee members' training	323	203
Trustees' and Independent Committee members' travel and accommodation	1 430	1 398
Water and electricity	2 462	3 141
	1 714 456	**1 680 189**

**The increase in benefit management services fee is due to the growth in membership of the Scheme.*

***The decrease in rental expense is due to the rental expense of properties being recognised under IFRS 16 (note 4).*

****The increase in travel and accommodation is due to the growth within the Scheme and the annual Symposium that took place in October of 2019.*

17. TRUSTEES' AND INDEPENDENT COMMITTEE MEMBERS' REMUNERATION

Board of Trustees' remuneration – 2019

	Term end	Attendance fees	Travel and accommodation	Reimbursements and allowances	Training	Total
		R'000	R'000	R'000	R'000	R'000
Mr BE De Vries	2019-07-29	306	228	11	17	562
Mr CJ Booyens	2019-07-29	96	14	5	11	126
DR C Moloko	2022-10-22	549	69	8	22	648
Dr SM Hlatshwayo (Chairperson)	2024-03-05	836	99	7	22	964
Mr M Brand	2025-09-24	194	25	6	17	242
Mr NL Theledi	2019-09-08	623	69	9	13	714
Dr IJ Van Zyl	2020-07-29	712	107	29	13	861
Dr JA Breed	2020-07-29	587	148	32	63	830
Mr L Mankge	2025-09-24	136	14	21	17	188
Mr JS Roux	2020-07-29	478	305	20	34	837
Mr ME Phophi (Deputy Chairperson)	2023-09-23	601	67	24	24	716
Mr RA Manoko	2024-03-05	688	82	28	20	818
Ms C Ntshane	2025-09-24	133	8	18	17	176
		5 939	**1 235**	**218**	**290**	**7 682**

17. TRUSTEES' AND INDEPENDENT COMMITTEE MEMBERS' REMUNERATION *continued*

Board of Trustees' remuneration – 2018

	Term end	Attendance fees	Travel and accommodation	Reimbursements and allowances	Training	Total
		R'000	R'000	R'000	R'000	R'000
Dr SM Hlatshwayo (Deputy Chairperson)	2024-02-19	594	72	7	21	694
Ms NH Mkhumane	2018-02-05	11	-	2	-	13
Mr BE De Vries	2019-07-29	557	324	16	28	925
Mr CJ Booyens	2019-07-29	528	39	29	11	607
Dr C Moloko	2022-10-28	472	46	9	21	548
Ms N Ntsinde	2018-02-05	35	14	2	1	52
Mr D De Villiers (deceased)	2018-09-19	416	22	-	11	449
Mr NL Theledi (Chairperson)	2019-09-26	649	126	5	11	791
Dr IJ Van Zyl	2020-07-29	594	216	24	18	852
Dr JA Breed	2020-07-29	518	59	21	12	610
Dr CM Mini	2017-12-31	2	-	3	-	5
Mr JS Roux	2020-07-29	454	275	11	14	754
Mr ME Phopi	2023-09-25	284	36	-	12	332
Mr RA Manoko	2024-02-19	489	64	20	33	606
Mr Nkabinde (removed by the Board)	2018-09-21	28	-	-	10	38
		5 631	**1 293**	**149**	**203**	**7 276**

The Trustee remuneration should be seen in relation to the attendance of meetings as reported in the Board of Trustees report as well as the term of office applicable to each trustee. It is worth noting that not all Trustees reside in Gauteng and therefore travel and accommodation costs are incurred.

The total of the Trustees and Independent Committee fees disclosed in this note is included in the Board and Committee fee line items as disclosed in Administration Expenditure (refer note 16).

17. TRUSTEES' AND INDEPENDENT COMMITTEE MEMBERS' REMUNERATION *continued*

Independent committee members' remuneration – 2019

	Term end	Attendance fees	Travel and accommodation	Reimbursements and allowances	Training	Total
		R '000	R '000	R '000	R '000	R '000
Ms F Msiza	2019-03-31	37	-	-	-	37
Dr P Ford	2019-03-31	18	17	-	-	35
Ms M David	2019-03-31	37	5	2	-	44
Rev F Chikane	2020-07-31	19	12	-	-	31
Mr J Lesejane (Audit Committee Chairperson)	2020-12-31	388	45	3	22	458
Ms M Tonjeni	2022-03-31	186	26	3	9	224
Ms Chalmers	2022-03-31	137	107	-	-	244
		822	**212**	**8**	**31**	**1 073**

Independent committee members' remuneration – 2018

	Term end	Attendance fees	Travel and accommodation	Reimbursements and allowances	Training	Total
		R '000	R '000	R '000	R '000	R '000
Ms M David	2019-03-31	34	-	1		35
Dr P Ford	2019-03-31	46	30	-		76
Ms F Msiza	2018-03-03	120	7	-		127
Ms RHS Eksteen (Resigned)	2018-09-14	47	46	-		93
Mr J Lesejane (Audit Committee Chairperson)	2019-02-19	310	22	3		335
Rev Chikane	2020-07-31	51	-	-		51
		608	**105**	**4**		**717**

Remuneration paid to independent committee members during 2019 was based on a fixed rate per meeting.

18. IMPAIRMENT LOSSES ON HEALTHCARE RECEIVABLES

	2019	2018
	'000	'000
Movement in the allowance account for impairment losses	(84 500)	50 507
Impairment losses recognised directly in income	120 578	36 184
	36 078	**86 691**

19. INVESTMENT INCOME

Dividend income		
From investments in financial assets measured at fair value through profit or loss:		
Listed investments – Local	49 429	32 215
Interest income		
From investments in financial assets:		
Interest received on financial assets at fair value through profit or loss	833 486	497 413
Net realised gains / (losses) on financial assets at fair value through profit or loss	71 086	(19 616)
Net unrealised gains / (losses) on financial assets at fair value through profit or loss	(62 044)	(60 488)
Interest received on cash and cash equivalents	49 319	100 141
	941 276	**549 665**

Interest income is comprised of interest earned from short term fixed deposits, current accounts and money market instruments. This interest is recognised on a yield to maturity basis, taking into account the principal amount outstanding and the effective interest rate over the period to maturity.

20. COMMITMENTS

Operating leases – as lessee (expense) (IAS 17)

The future minimum lease payments under a non cancellable operating lease:		
- within one year	-	6 441
- in second to fifth year inclusive	-	7 020
	–	**13 461**
Lease amounts recognised in profit or loss during the year		
Rental	-	18 322

IFRS 16 is effective for annual reporting periods beginning on or after 01 January 2019 and the Scheme has adopted the standard in the first annual period beginning on or after the mandatory effective date.

Refer to note 4 for the current year disclosure.

21. NET HEALTHCARE RESULT PER BENEFIT OPTION

2019	Sapphire	Beryl	Ruby	Emerald Value	Emerald	Onyx	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Risk contribution income	1 397 990	1 494 393	4 475 962	3 971 934	26 771 790	2 161 115	40 273 184
Relevant healthcare expenditure	(494 618)	(1 265 607)	(3 052 332)	(3 636 227)	(24 627 432)	(2 720 012)	(35 763 229)
Risk claims incurred	(436 548)	(1 219 161)	(2 939 946)	(3 557 360)	(24 138 240)	(2 687 010)	(34 945 266)
Managed care services	(58 070)	(46 446)	(112 386)	(78 867)	(489 192)	(33 002)	(817 963)
Gross healthcare result	**903 372**	**228 786**	**1 423 630**	**335 707**	**2 144 358**	**(558 897)**	**4 509 955**
Administration expenditure	(121 864)	(97 490)	(235 759)	(165 612)	(1 025 491)	(69 155)	(1 714 456)
Marketing services	(8 939)	(7 150)	(17 296)	(12 140)	(75 256)	(5 076)	(125 855)
	772 569	**124 146**	**1 170 575**	**157 955**	**1 043 611**	**(633 128)**	**2 669 644**
Net impairment losses on healthcare receivables	(1 655)	(1 441)	(15 870)	(3 619)	(10 821)	(1 607)	(36 078)
Net healthcare result	**770 914**	**122 705**	**1 154 705**	**154 336**	**1 032 790**	**(634 735)**	**2 633 566**
Investment income	66 792	53 368	129 325	92 069	563 288	69 285	941 276
Finance cost	(68)	(55)	(128)	(91)	(538)	(36)	(916)
Other income	2 344	1 896	4 416	3 135	18 516	1 218	31 525
Investment management fees	(2 332)	(1 887)	(4 394)	(3 120)	(18 425)	(1 211)	(31 369)
Total comprehensive surplus/(deficit) for the year	**837 650**	**176 027**	**1 283 924**	**246 329**	**1 595 631**	**(565 479)**	**3 574 082**
Number of members	**54 026**	**43 713**	**101 777**	**72 266**	**426 789**	**28 050**	**726 621**

21. NET HEALTHCARE RESULT PER BENEFIT OPTION *continued*

2018	Sapphire	Beryl	Ruby	Emerald Value	Emerald	Onyx	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Risk contribution income	1 203 839	1 176 591	3 820 985	3 086 099	25 861 792	2 204 955	37 354 261
Relevant healthcare expenditure	(357 437)	(906 567)	(2 465 231)	(2 660 131)	(22 935 656)	(2 677 149)	(32 002 171)
Risk claims incurred	(306 675)	(868 941)	(2 367 628)	(2 599 333)	(22 453 801)	(2 642 341)	(31 238 721)
Managed care services*	(50 762)	(37 626)	(97 603)	(60 798)	(481 855)	(34 808)	(763 450)
Gross healthcare result	**846 402**	**270 024**	**1 355 754**	**425 968**	**2 926 136**	**(472 194)**	**5 352 090**
Administration expenditure	(111 753)	(82 845)	(214 838)	(133 888)	(1 060 294)	(76 571)	(1 680 189)
Marketing services	(8 272)	(6 129)	(15 926)	(9 850)	(78 797)	(5 695)	(124 669)
	726 377	**181 050**	**1 124 990**	**282 230**	**1 787 045**	**(554 460)**	**3 547 232**
Net impairment losses on healthcare receivables	(3 155)	(2 475)	(9 665)	(4 276)	(62 693)	(4 427)	(86 691)
Net healthcare result	**723 222**	**178 575**	**1 115 325**	**277 954**	**1 724 352**	**(558 887)**	**3 460 541**
Investment income	34 268	25 079	65 841	63 592	337 131	23 754	549 665
Other income	2 552	1 908	4 776	3 361	22 537	1 557	36 691
Investment management fees	(1 177)	(1 202)	(2 249)	(1 582)	(10 590)	(479)	(17 279)
Total comprehensive surplus/(deficit) for the year	**758 865**	**204 360**	**1 183 693**	**343 325**	**2 073 430**	**(534 055)**	**4 029 618**
Number of members	**49 042**	**36 688**	**91 792**	**64 595**	**432 179**	**30 886**	**705 182**

21. NET HEALTHCARE RESULT PER BENEFIT OPTION *continued*

Revenue and expenditure are allocated to benefit options on a direct basis where this is determinable. Where revenue and expenditure are not directly attributable to a specific benefit option, the revenue or expense is allocated on the basis of the benefit option's membership proportionate to the Scheme's membership base. Investment income is allocated on the basis of the benefit option's contribution income proportionate to that of the overall Scheme.

The Scheme offers its members five different benefit options and one efficiency option: Sapphire, Beryl, Ruby, Emerald Value, Emerald and Onyx.

Sapphire and Beryl are the entry level options where cover is provided by designated provider networks. Sapphire was specifically designed to be inexpensive and it achieves this by providing out of hospital care at private facilities and in hospital cover mainly at public facilities. Beryl provides in hospital cover at both public and private facilities.

Ruby offers members a savings account for day-to-day medical expenses as well as a hospital benefit. Savings contributions portion is comprised of 20% of contribution income of the Ruby option.

Emerald Value is a fairly new option which offers benefits through the use of the Gems networks with specific care co-ordination principles. Emerald is the traditional option and the majority of the membership population is part of this option.

Onyx is the comprehensive option. Following engagements and approval from the Department of Public Service and Administration (DPSA) and National Treasury (NT) the Scheme migrated the pre-1992 state pensioners from Medihelp to GEMS, effective 01 April 2012. These members were registered on the Onyx option which adversely affected the financial performance of this option during the financial year.

22. CASH GENERATED FROM OPERATIONS

	2019	2018
	'000	'000
Surplus / Deficit reported:	3 574 044	4 029 618
Adjustments for:		
Depreciation, amortisation and impairment	40 478	33 875
Investment transaction fees	564	378
Losses on disposals, scrappings and settlements of assets and liabilities	458	113
Development costs expensed	-	1 668
Investment income:		
Cash and cash equivalents	(49 319)	(100 141)
Interest income	(891 957)	(449 524)
Other:		
Interest expense	916	-
Impairment losses on healthcare receivables	36 078	86 691
Movements in provisions	58 000	121 480
Changes in working capital:		
Trade and other receivables	(822 404)	(433 222)
Trade and other payables	124 884	(671 568)
Personal medical savings account liability	148 212	103 304
Lease Escalation Reserve	(1 165)	101
	2 218 789	**2 722 773**

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

In the process of applying the Scheme's accounting policies, management has made no judgements that have a significant effect on the amounts recognised in the financial statements, other than the outstanding risk claims provision, the impairment allowance for trade and other receivables, as explained further in this note.

Impairment of trade and other receivables

Objective evidence of the impairment of trade and other receivables includes the Scheme's past experience of collecting payments, trade and other receivables outstanding for 120 days or more and receivables due from deceased members. Refer to note 1.18 for more detail with regards to the accounting policy for impairment losses.

Outstanding risk claims provision

This provision has been calculated on the standard operating procedure as agreed between the Scheme and its actuaries.

The assumptions that have the greatest effect on the measurement of the outstanding risk claims provision are the expected claims development for the most recent benefit months for the day-to-day, in hospital, acute and chronic benefit categories of claims.

There is some estimation uncertainty that has to be considered in the provision for the estimate of the liability arising from outstanding claims i.e. the cost of healthcare benefits that have occurred before the end of the accounting period but have not been reported to the Scheme by that date.

Sources of unreported claim payments include:
› Unknown and hence unreported claims; and
› Closed claims that later become reopened and have additional payments made.

If no or insufficient allowance is made for these claims, the result is that the Scheme is likely to hold insufficient funds aside for paying claims. This in turn impacts the Scheme's cash flow and ability to honour claims.

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

The following table illustrates the quantum of uncertainty inherent to the outstanding risk claims provision estimates. As opposed to claims for 2018 that have already been paid, the claims for 2019 estimate to be paid (or reopened) in future payment months are still subject to uncertainty. This quantity forms a useful basis for a sensitivity analysis. The table below illustrates the effect of a 3% increase and decrease in this amount.

	Claims for 2019 services paid from January 2020 to March 2020	2019 claims estimated at the time to be paid after March 2020	2019 outstanding risk claims provision	Percentage change in outstanding risk claims provision
	R'000	R'000	R'000	
Base Scenario	1 075 220	227 860	1 303 080	– %
3% increase	1 075 220	234 700	1 309 920	0.52 %
3% decrease	1 075 220	221 020	1 296 240	(0.52)%

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

The same analysis appears below for 31 December 2018 financial year outstanding risk claims provision, where claims paid after March 2019 for 2018 forms the basis for the sensitivity analysis. Note that the base scenario figures below are actuals, not estimates.

	Claims for 2018 services paid from January 2019 to March 2019	2018 claims estimated at the time to be paid after March 2019	2018 outstanding risk claims provision	Percentage change in outstanding risk claims provision
	R'000	R'000	R'000	%
Base scenario	1 028 869	216 110	1 245 060	- %
3% increase	1 028 869	222 677	1 251 546	0.52
3% decrease	1 028 869	209 705	1 238 574	(0.52)

The Scheme monitors each month's initial outstanding risk claims provision over a four month period as subsequent claims are received. The variances have been monitored to be within a range of 1% to 3% over time.

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

Additional comments are provided in note 11.

24. PROFESSIONAL INDEMNITY AND FIDELITY INSURANCE

In accordance with the Scheme rules, the Scheme has Professional Indemnity and Fidelity insurance to cover the events of fidelity, trustees and officers' errors and omissions and medical scheme reimbursements. On 31 December 2019 the effective cover was R1bn (2018: R1bn). The Scheme's insurance contracts are reviewed for adequacy and reinstated annually.

The Scheme renewed its additional cover during the 2019 financial year for data protection and cyber liability. This covers any electronically stored digital or digitalised information or media, network interruption cost and cyber terrorism. The effective cover is R50m.

25. RELATED AND OTHER SIGNIFICANT PARTIES

Related parties with significant influence over the Scheme

The Minister for Public Service and Administration is responsible for appointing 50% of the Board of Trustees and for determining the medical subsidy policy in the public service and thus has significant influence over the Scheme, but does not control it.

The Scheme engages with the Department of Public Service and Administration (DPSA) who is responsible for implementing and maintaining the medical subsidy policy. The DPSA therefore has significant influence over the Scheme, but does not control it.

Metropolitan Health Corporate (Pty) Ltd (MHC) provides membership and claims management services, operational information and recommendations, through its administration agreement with the Scheme, on which policy decisions are based, and therefore it has significant influence over the Scheme, but does not control it.

Medscheme Holdings (Pty) Ltd provides contribution and debt management services through its administration agreement with the Scheme, on which policy decisions are based, and therefore it has significant influence over the Scheme, but does not control it.

Medscheme Holdings (Pty) Ltd provide managed care information on which benefit design decisions are based and therefore they have significant influence over the Scheme, but do not control it.

Insight Actuaries (Pty) Ltd provides actuarial and consulting services to the Scheme and therefore has significant influence over the Scheme, but do not control it.

The Scheme has multiple other Administration and Managed care providers that it contracts with, but none of these have significant influence over the Scheme or control over the Scheme.

Key management personnel and their close family members

Key management personnel are those persons who have authority and responsibility for planning, directing and controlling the activities of the Scheme. Key management personnel include the Board of Trustees, the Principal Officer and members of the Executive Committee. This disclosure deals with full time personnel that are compensated on a salary basis (Principal Officer and Executive Committee) and part time personnel that are compensated on a fee basis (Board of Trustees). Close family members include family members of the Board of Trustees, Principal Officer and members of the Executive Committee.

25. RELATED AND OTHER SIGNIFICANT PARTIES *continued*

Transactions with related parties

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year.

	2019	2018
	'000	'000
KEY MANAGEMENT PERSONNEL		
Compensation (includes remuneration and other costs)		
Short term benefits	26 734	23 052
Post employment benefit	1 721	1 471
Bonus	5 204	4 715
	33 659	**29 238**
Principal Officer	6 053	5 820
Chief Finance Officer	3 816	3 756
Chief Administration and Transaction Services	2 258	298
Chief Communications and Member Affairs Officer	1 143	346
Chief Governance and Compliance Officer	2 697	2 656
Chief Healthcare Management Officer	3 096	2 864
Chief Information,Communication and Technology Officer	2 419	2 443
Chief Corporate Services Officer	3 068	2 751
Chief Audit Executive	2 486	2 302
Chief Research Officer (vacant position)	-	1 433
Chief Operations Officer	5 022	2 520
Company Secretary and Legal Counsel	1 717	1 708
Gross contributions received (*)		
Board of Trustees	702	448
Principal Officer	35	32
Executive Committee	634	470
Claims incurred (*)		
Board of Trustees	678	449
Principal Officer	8	17
Executive Committee	364	225

**Gross contributions and claims incurred include contributions and claims incurred by members and their beneficiaries.*

25. RELATED AND OTHER SIGNIFICANT PARTIES *continued*

Transactions with related parties *continued*

Transaction	Nature of transactions and terms and conditions thereof
Gross contributions received	This constitutes the contributions paid by the related party as a member of the Scheme in their individual capacity. All contributions were at the same terms as applicable to third parties.
Claims incurred	This constitutes amounts claimed by the related parties in their individual capacity as members of the Scheme. All claims were paid out in terms of the rules of the Scheme as applicable to third parties.

Parties with significant influence over the Scheme, but not control

	2019 '000	2018 '000
Statement of Comprehensive Income		
Administration fees	1 025 842	1 091 680
Accredited managed healthcare fees	817 963	763 451
Actuarial fees	11 689	10 031
Trade and other payables		
Administration fees due	88 700	87 282
Accredited managed healthcare fees due	69 460	64 605
	158 160	**151 887**

Terms and conditions of the administration agreement

Administration fees are calculated on an arm's length basis on the number of members in good standing for the month. These contracts are renewable annually.

The outstanding balance bears no interest and is settled within seven days. The Scheme has the right to terminate the agreements on 90 days' notice.

The services covered by these agreements include:

Service	Provider 2019	Provider 2018
Contribution and Debt Services	Medscheme Holdings (Pty) Ltd	Medscheme Holdings (Pty) Ltd
Correspondence Services	Metropolitan Health (Pty) Ltd	Metropolitan Health (Pty) Ltd
Administration Services	Metropolitan Health Corporate (Pty) Ltd (MHC)	Metropolitan Health Corporate (Pty) Ltd (MHC)

Terms and conditions of the managed care agreements

The Scheme has entered into managed care agreements in order to manage the costs of delivering healthcare services to its members while ensuring the highest quality of care.

All contracts are tendered for a maximum contract period of three to five years. The Scheme has the right to terminate the agreements on 90 days' notice. In respect of hospital pre-authorisation and HIV and disease management, managed care and pharmaceutical benefit management fees are calculated based on the number of members in good standing for the month. The outstanding balance bears no interest and is settled within seven days.

25. RELATED AND OTHER SIGNIFICANT PARTIES *continued*

Terms and conditions of the managed care agreements *continued*

The services covered by these agreements include:

Service	Provider 2019	Provider 2018
Chronic medicine management services	Universal Care (Pty) Ltd	Universal Care (Pty) Ltd
Dental managed care	Denis (Pty) Ltd	Denis (Pty) Ltd
HIV disease management services	Thebe Health Risk Management	Thebe Health Risk Management
Managed health care services	Medscheme Holdings (Pty) Ltd	Medscheme Holdings (Pty) Ltd
Maternity programme services	Healthi Choices (Pty) Ltd	Healthi Choices (Pty) Ltd
Emergency medical dispatch services	Europ Assist (Pty) Ltd	Europ Assist (Pty) Ltd
Pharmaceutical benefit management services	Medikredit (Pty) Ltd	Medikredit (Pty) Ltd

26. INSURANCE RISK MANAGEMENT

Risk management objectives and policies for mitigating insurance risk

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

The Scheme manages its insurance risk through benefit limits and sub limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation and case management, service provider profiling, centralised management of risk transfer arrangements as well as monitoring of emerging issues.

The Scheme uses several methods to assess and monitor insurance risk exposure both for individual types of risks insured and overall risks. The Scheme analyses the distribution of claims per category of claim, average age of members per member group, average age per benefit option, actual number of members per benefit option and the geographic distribution of members.

The Scheme uses the average age per member and claims per category of benefits to analyse its insurance risk. Income bands and geographical spread are not good indicators as the Scheme's risk is not concentrated in a specific income band or geographical location. Analyses based on the ageing of members indicate specific risks and behaviours that result in increased claims and these can be further analysed in different categories to inform the Scheme's interventions of which managed care is key.

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.

The table below summarises the concentration of risk, with reference to the carrying amount of the insurance claims incurred (before and after risk transfer arrangements), by age group and in relation to the type of cover/benefit provided where:

› Hospital benefits cover all costs incurred by members, while they are in hospital to receive pre-authorised treatment for certain medical conditions;

26. INSURANCE RISK MANAGEMENT *continued*

Risk management objectives and policies for mitigating insurance risk *continued*

› Specialist benefits cover the cost of all visits by members to specialists and of the out of hospital procedures performed by specialists. Specialist benefits also include radiology and pathology benefits provided to members;
› Medicine benefits cover the cost of all medicines prescribed to members; and
› General Practitioner and Optometry benefits cover the cost of all visits by members to these practitioners and the procedures performed by them, up to a prescribed annual limit per member.

The Scheme profiles members' risk exposure by using their age. Of the various other indicators available, age provides a better indication of who is most likely to claim.

2019	Hospitals	Specialists	Medicines	GPs	Optometry	Other	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Insurance age grouping							
<26 years old	95 924	56 363	16 629	18 008	3 880	20 263	211 067
26-35 years old	1 880 348	1 124 019	503 925	392 452	71 851	519 573	4 492 168
36-50 years old	4 669 433	3 124 822	2 069 180	1 063 589	271 783	1 780 946	12 979 753
51-65 years old	4 315 559	2 957 912	1 969 662	721 785	226 146	1 585 177	11 776 241
>65 years old	2 150 755	1 383 961	815 945	172 532	52 021	639 710	5 214 924
	13 112 019	**8 647 077**	**5 375 341**	**2 368 366**	**625 681**	**4 545 669**	**34 674 153**

2018							
Insurance age grouping**							
<26 years old	96 641	53 874	18 498	17 614	4 255	20 562	211 444
26-35 years old	1 800 393	1 035 554	524 223	369 538	78 410	477 521	4 285 639
36-50 years old	4 303 689	2 763 145	2 028 061	970 299	274 092	1 578 616	11 917 902
51-65 years old	3 699 841	2 425 923	1 782 068	621 755	213 546	1 336 001	10 079 134
>65 years old	1 823 855	1 133 713	726 375	147 758	46 313	532 994	4 411 008
	11 724 419	**7 412 209**	**5 079 225**	**2 126 964**	**616 616**	**3 945 694**	**30 905 127**

***Certain amounts were reallocated.*

The information presented in this table is based on claims with a service date during the relevant year.

26. INSURANCE RISK MANAGEMENT *continued*

Risk management objectives and policies for mitigating insurance risk *continued*

The Scheme's strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome.

The reporting of claims by age group is impacted by members who join and leave in the same month.

Claims development

Claims development tables are not presented since the uncertainty regarding the amount and timing of claim payments is typically resolved within one year and the majority of cases, within four months. At year end, a provision is made of those claims outstanding that are not yet reported at that date. Details regarding the subsequent claim development in respect thereof have been disclosed in notes 11 and 23.

27. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

The Scheme's activities expose it to credit risk, liquidity risk and market risk, including the effects of interest rate changes. The Scheme'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 that the Scheme holds to meet its obligation to its members.

The Board of Trustees has an overall responsibility for the establishment and oversight of the Scheme's risk management framework.

The Scheme manages the financial risks as follows:

- The Finance and Investment Committee, a committee of the Board of Trustees, determines, recommends, implements and maintains investment policies and procedures. The Investment Committee advises the Board of Trustees on the strategic and operating matters in respect of the investment of Scheme funds and meets at least quarterly.
- The Scheme has appointed reputable external asset managers to manage its investments and their performance is monitored regularly.
- An external asset consulting company has been appointed to assist in formulating the investment strategy and to provide ongoing reporting and monitoring of the asset managers.
- Investment strategy is guided by or within the risk appetite and risk tolerance set by the Board.

Risk management and investment decisions are carried out by the executive management, under the guidance of policies approved by the Board of Trustees. The Board of Trustees approves all these written policies and there has been no change in these policies from previous financial years.

27. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT *continued*

Market risk

Market risk is the risk that changes in market variables will affect the Scheme's income or the value of its holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on investment.

The table summarises the Scheme's financial instrument exposure to market risk as at 31 December 2019 and excludes trade and other receivables as well as trade and other payables as they are not exposed to currency risk, price risk and interest rate risk.

As at December 31, 2019	Total value	Currency risk	Price risk	Interest rate risk
	R '000	R '000	R '000	R '000
Cash and cash equivalents	2 449 761	-	-	2 449 761
Equities	1 764 546	-	1 764 546	-
Local bonds	1 838 773	-	1 838 773	-
Local money markets	8 714 722	-	-	8 714 722
Foreign money markets	53	53	-	-
Foreign bonds	653 852	653 852	-	-
	15 421 707	**653 905**	**3 603 319**	**11 164 483**
As at December 31, 2018				
Cash and cash equivalents	2 435 201	-	-	2 435 201
Equities	875 430	-	875 430	-
Local bonds	876 070	-	876 070	-
Local money markets	7 013 131	-	-	7 013 131
Foreign money markets	21	21	-	-
Foreign bonds	249 502	249 502	-	-
	11 449 355	**249 523**	**1 751 500**	**9 448 332**

The Scheme is exposed to interest rate risk as it places funds in call accounts and money market instruments. This risk is managed by maintaining an appropriate mix between the Scheme's money market portfolio, call account investments as guided by the investment policy.

Cash and cash equivalents comprise deposits held on call with banks, cash on hand and other short term liquid investments. These deposits are readily convertible to a known amount of cash and are subject to insignificant risk of change in value. Cash and cash equivalents are classified as loans and receivables.

The table summarises the Scheme's total exposure to interest rate risks as at 31 December. Included in the table are the Scheme's investments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

27. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT *continued*

Interest rate risk

As at December 31, 2019	Up to 3 months	3 -12 months	More than 12 months	Total
	R '000	R '000	R '000	R '000
Cash and cash equivalents	2 449 761	–	–	2 449 761
Local money markets	5 193 542	2 474 670	1 046 511	8 714 723
	7 643 303	**2 474 670**	**1 046 511**	**11 164 484**
As at December 31, 2018				
Cash and cash equivalents	2 435 201	–	–	2 435 201
Local money markets	4 758 795	1 696 543	557 793	7 013 131
	7 193 996	**1 696 543**	**557 793**	**9 448 332**

The average effective interest rates for the year ended 31 December were as follows:

	2019 '000	2018 '000
Current accounts	5.18%	5.25%
Call accounts	7.11%	6.86%
Money market instruments carried at fair value through profit or loss	8.30%	6.45%

Interest rate risk sensitivity analysis

The information below illustrates the impact that the fluctuation in investment income would have on interest income for the period and on the cash and cash equivalent balance. A rate of 0.50% interest rate variance has been used to illustrate the sensitivity.

Based on past experience and a reasonable possible change in interest rate within the life of the investment, the rate of 0.50% is considered appropriate in measuring the sensitivity of the Scheme's interest bearing instruments. The Scheme's investments are short term in nature with a maximum investment period of 12 months permitted. This sensitivity analysis assumes that all other variables remain constant.

At 31 December 2019, if interest rates had been 50 basis points higher with all other variables held constant, the surplus for the year and accumulated funds would have been R15.2m higher (2018: surplus would have been R16.2m higher).

At 31 December 2019, if interest rates had been 50 basis points lower with all other variables held constant, the surplus for the year and accumulated funds would have been R15.2m lower (2018: surplus would have been R16.2m lower).

27. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT *continued*

Currency risk

The Scheme operates in South Africa and its cash flows are denominated in South African Rand. However through its investments, the Scheme is exposed to a direct currency risk.

For the purpose of seeking investment diversification, the Scheme has invested 5% (2018: 2.8%) of its financial assets at fair value through profit or loss in offshore bond and cash portfolios. At December 31, 2019 this equated to R653.9m (2018: R249.5m).

The fair value of these contracts has been included in financial assets. Gains and losses on these arrangements are included in the profit or loss.

Currency risk sensitivity analysis

Based on past experience and a reasonable possible change in currency, 10% and 15% change in currency is considered appropriate in measuring the Scheme's currency risk sensitivity. A 10% depreciation in the Rand would result in a gain of R36.5m (2018: R19.9m) and a 15% depreciation in the Rand would result in a gain of R57.9m (2018: R31.5m).

A 10% appreciation in the Rand would result in a loss of R27.7m (2018: R14.8m) and a 15% appreciation in the Rand would result in a loss of R37.6m (2018: R19.8m). This impact would be recognised in the surplus and accumulated funds. The sensitivity is based on the assumption that the Rand has strengthened or weakened against the US Dollar by 10% or 15% considered as the reasonable possible change, with all other variables held constant.

The following US Dollar exchange rate was applied:

	2019	2018
	'000	'000
Average rate	14.45	13.25
Year end closing rate	14.04	14.49

Price risk

The Scheme is exposed to equity securities price risk due to equity investments held by the Scheme that are classified at fair value through profit and loss. The Scheme is indirectly exposed to equity risk through its investments in listed equities. The value of the equity investments was R1.8bn (2018: R875.4m)

The Scheme manages the price risk arising from investments in equity securities, through the diversification of its investment portfolios.

Diversification of the portfolios is performed by asset managers in accordance with the mandate set by the Scheme.

Equity price risk sensitivity analysis

Based on past experience and a reasonable possible change in equity prices, 10% and 15% change in equity prices is considered appropriate in measuring the Scheme's equity price risk sensitivity. A 10% increase in the price of equities within the equity portfolios would result in a gain of R153.7m (2018: R74.9m) and a 15% increase would result in a gain of R231.2m (2018: R112.7m). A 10% decrease in the price would result in a loss of R152.1m (2018: R74.0m) and a decrease of 15% would result in a loss of R227.5m (2018: R110.6m). This impact would be recognised in the surplus and accumulated funds. The sensitivity is based on the assumption that equity prices had increased or decreased by 10% or 15% considered as the reasonable possible change, with all other variables held constant.

27. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT *continued*

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. The availability of liquid cash holdings positions with various financial institutions ensures that the Scheme has the ability to fund its day-to-day operations. The Scheme manages liquidity risk by monitoring forecast cash flows and ensuring that adequate reserves are maintained. This approach ensures that the Scheme will have sufficient liquidity to meet its obligations when due, under both normal and stressed market conditions, without incurring losses that would threaten the Scheme's going concern status. The Scheme's available funds were invested in cash products to ensure that the Scheme can meet its short term obligations. The table below reflects the Scheme's liquidity requirements to meet its financial obligations.

As at December 31, 2019	Up to 3 months	Between 1 and 3 months	Between 3 months and 1 year	Over 1 year	Total
	R '000	R '000	R '000	R '000	R '000
CATEGORY					
Insurance liabilities:					
Outstanding claims provision	810 490	335 480	157 110	-	1 303 080
Non-derivative financial liabilities:					
Amounts owing to members and providers	170 930	-	-	-	170 930
Claims reported not yet paid	227 866	-	-	-	227 866
Sundry payables and accrued expenses	236 962	-	-	-	236 962
Unallocated deposits	1 830	-	-	-	1 830
Personal medical savings accounts liability	1 010 903	-	-	-	1 010 903
Total liabilities	**2 458 981**	**335 480**	**157 110**	**-**	**2 951 571**
Cash and cash equivalents	2 449 761	-	-	-	2 449 761
Financial assets at fair value through profit or loss	263 471	5 591 718	2 505 418	4 611 340	12 971 947
Available cash and investments	**2 713 232**	**5 591 718**	**2 505 418**	**4 611 340**	**15 421 708**
Excess liquidity	**254 251**	**5 256 238**	**2 348 308**	**4 611 340**	**12 470 137**

As at December 31, 2019	Up to 3 months	Between 1 and 3 months	Between 3 months and 1 year	Over 1 year	Total
	R '000	R '000	R '000	R '000	R '000
CATEGORY					
Insurance liabilities:					
Outstanding claims provision	722 800	399 440	122 840	-	1 245 080
Non-derivative financial liabilities:					
Amounts owing to members and providers	88 102	-	-	-	88 102
Claims reported not yet paid	134 867	-	-	-	134 867
Sundry payables and accrued expenses	297 177	-	-	-	297 177
Unallocated deposits	1 558	-	-	-	1 558
Personal medical savings accounts trust liability	862 691	-	-	-	862 691
Total liabilities	**2 107 195**	**399 440**	**122 840**	**-**	**2 629 475**
Cash and cash equivalents	2 435 201	-	-	-	2 435 201
Financial assets at fair value through profit or loss	150 235	5 056 354	1 696 543	2 111 023	9 014 155
Available cash and investments	**2 585 436**	**5 056 354**	**1 696 543**	**2 111 023**	**11 449 356**
Excess liquidity	**478 241**	**4 656 914**	**1 573 703**	**2 111 023**	**8 819 881**

27. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT *continued*

Credit risk

Credit risk is the risk of financial loss to the Scheme, if a counterpart to a financial instrument fails to meet its contractual obligations. Key areas where the Scheme is exposed to credit risk are:

› Financial assets at fair value through profit or loss;
› Cash and cash equivalents; and
› Trade and other receivables.

The Scheme only deposits cash with registered banks per the South African Reserve Bank's Supervision Unit with high quality credit standing and limits the exposure to any one financial institution.

Financial assets are valued at fair value through profit or loss, comprise money market and bond instruments entered into, to fund the obligations arising from its insurance contracts and to invest surplus funds to maintain the statutory reserve requirement. The Scheme is exposed to the issuer's credit standing on these instruments. Exposure to credit risk is monitored and minimum credit ratings for these investments are set. Reputable asset managers have been appointed to manage these instruments.

	2019	2018
	'000	'000
Cash and cash equivalents		
First National Bank	900 956	733 597
South African Reserve Bank	1 548 805	1 701 604
	2 449 761	**2 435 201**
Ratings of banks invested with		
Absa Bank	BB	BB
First National Bank	BB	BB
Investec Bank	BB	BB
Nedbank	BB	BB
Standard Bank	BB	BB
South African Reserve Bank	A	A
Rand Merchant Bank	BB	BB
The maximum exposure to credit risk for financial assets at year end were as follows		
Other financial assets	12 971 947	9 014 155
Loans and receivables (Cash and cash equivalents)	2 449 761	2 435 201
Loans and receivables (Trade and other receivables)	335 754	375 076
	15 757 462	**11 824 432**

The amounts represented in the Statement of Financial Position for trade and other receivables are net of allowances for doubtful receivables.

27. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT *continued*

Credit risk *continued*

An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The ageing of insurance receivables at year end was:

As at December 31, 2019	Not past due, not impaired	Past due, not impaired	Impaired	Total
	R'000	R'000	R'000	R'000
Contribution debtors	156 577	4 149	3 225	163 951
Receivables from members and providers	5 842	6 633	50 342	62 817
Sundry accounts receivable	10 885	-	-	10 885
As at December 31, 2018				
Contribution debtors	259 673	11 659	4 490	275 822
Receivables from members and providers	2 409	6 913	113 978	123 300
Sundry accounts receivable	26 364	-	-	26 364

The table below provides an age analysis of the receivables that are not yet impaired.

Amounts outstanding for 30 days are not impaired as they are within the normal expected recovery period. The credit quality of financial assets that are neither past due nor impaired has been assessed on the basis of historical information. This information indicated that the majority of debt is settled just after year end and within the rules of the Scheme. The amounts not past due have been collected shortly after year end.

The carrying amount of these financial instruments best represents the maximum exposure to credit risk.

As at December 31, 2019	3-30 days	31-60 days	61-90 days	Total
	R'000	R'000	R'000	R'000
Contribution debtors	156 577	2 651	1 498	160 726
Receivables from members and providers	5 841	5 117	1 516	12 474
As at December 31, 2018				
Contribution debtors	259 673	6 853	4 806	271 332
Receivables from members and providers	2 409	2 301	4 612	9 322

Management information reported to the Scheme includes details of allowances for impairments on receivables. The table below provides an analysis of receivables that were impaired.

27. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT *continued*

Credit risk *continued*

	2019	2018
	'000	'000
Receivables impaired:		
Contribution debtors		
120 days	3 226	4 356
Receivables from members and providers		
120 days	50 342	113 729
Total	**53 568**	**118 085**

The amounts represented in the Statement of Financial Position are net of impairment receivables, estimated by the Scheme's management based on outcomes of recovery processes, prior experience and the current economic environment.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Scheme is the current closing price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. Specific valuation techniques used to value financial instruments include quoted market prices or dealer quotes for similar instruments.

The carrying value, less impairment provision of trade receivables, and payables are assumed to approximate their fair values due to their short-term nature.

The members' personal medical savings accounts contain a demand feature. In terms of Regulation 10 of the Act, any credit balance on a member's personal medical savings account must be taken as a cash benefit when the member terminates his or her membership of the Scheme or benefit plan and enrols in another benefit plan or medical scheme without a savings account, or does not enrol in another medical scheme. Therefore the carrying values of the members' personal medical savings accounts are deemed to be equal to their fair values, which is the amount payable on demand.

27. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT *continued*

Fair value of financial assets by hierarchy level

At December 31, 2019	Carrying amount	Total	Level 1	Level 2	Level 3
	R'000	R'000	R'000	R'000	R'000
Cash and cash equivalents	2 449 761	2 449 761	-	2 449 761	-
Financial assets at fair value through profit or loss	12 971 947	12 971 947	7 479 823	5 469 859	22 265
Equities	1 764 546	1 764 546	1 764 546	-	-
Local bonds	1 838 773	1 838 773	1 838 773	-	-
Local money markets	8 714 722	8 714 723	3 222 652	5 469 806	22 265
Foreign money markets	53	53	-	53	-
Foreign bonds	653 852	653 852	653 852	-	-
	15 421 707	**15 421 708**	**7 479 823**	**7 919 620**	**22 265**
At December 31, 2018					
Cash and cash equivalents	2 435 201	2 435 201	-	2 435 201	-
Financial assets at fair value through profit or loss	9 014 154	9 014 153	3 590 671	5 407 628	15 854
Equities	875 430	875 430	875 430	-	-
Local bonds	876 070	876 070	876 070	-	-
Local money markets	7 013 131	7 013 130	1 589 669	5 407 607	15 854
Foreign money markets	21	21	-	21	-
Foreign bonds	249 502	249 502	249 502	-	-
	11 449 355	**11 449 354**	**3 590 671**	**7 842 829**	**15 854**

The fair value assets are classified using a fair value hierarchy that reflects the significance of the inputs used in determining the measurements.

The fair value hierarchy has the following levels:
Level 1 – These are assets measured using quoted prices in an active market.
Level 2 – These are assets measured using inputs other than quoted prices included within Level 1, that are either directly or indirectly observable.
Level 3 – These are assets measured using inputs that are not based on observable market data.

27. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT *continued*

Capital adequacy risk

Capital adequacy risk is the risk that there may be insufficient reserves to provide for adverse variations in actual future benefit liabilities. In terms of Regulation 29(3)A of the Medical Schemes Act, a medical scheme registered for the first time must maintain reserves of no less than:

First year of operations	**10.00 %**
Second year of operations	13.50 %
Third year of operations	17.50 %
Fourth year of operations	22.00 %
Fifth year of operations	25.00 %

The Registrar of Medical Schemes, in terms of the business plan submitted by the Scheme in 2017, agreed to revise the required reserve levels which will apply to the Scheme for each related year of operation:

Heading	Actual levels	CMS-approved levels
31 December 2016	6.99 %	9.90 %
31 December 2017	15.22 %	8.20 %
31 December 2018	24.74 %	18.40 %
31 December 2019	31.53 %	20.80 %

The Scheme monitors and manages the capital adequacy risk through the following means:

- The capital adequacy risk is documented on the risk register that is regularly reviewed by the Board of Trustees.
- Scheme management reviews the monthly management accounts where the Scheme's financial performance is monitored.
- Monthly management accounts and the Scheme's quarterly performance reports are submitted to and discussed with the Council for Medical Schemes.
- The annual budgeting process, long term projections and planning allows the Scheme to review its capital adequacy and reserve levels to ensure continuity of operations and sustainability.

28. GUARANTEES AND COMMITMENTS

The Scheme held guarantees in favour of the following instructions during the year:

	2019	2018
	'000	'000
Council for Medical Scheme	2 500	2 500
South African Post Office	5 000	5 000
	7 500	**7 500**

The guarantee in favour of the Council for Medical Schemes has been issued in terms of Section 24(5) of the Medical Schemes Act, 1998. The Act prescribes that the Registrar may demand from the person who manages the business of a medical scheme such financial guarantees as will, in the opinion of the Council, ensure the financial stability of the medical scheme.

The guarantee in favour of the South African Post Office allows the Scheme to transact directly with the service provider for the provision of postal services, rather than procuring these services on an agency basis.

29. INVESTMENT IN UNCONSOLIDATED STRUCTURED INVESTMENT

The Scheme's investments in segregated portfolios and collective investment schemes are subject to the terms and conditions of the respective fund's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those funds. The investment manager makes investment decisions after extensive due diligence of the underlying fund, its strategy and the overall quality of the underlying fund's manager. All of the funds in the investment portfolio are managed by portfolio managers who are compensated by the respective fund for their services. Such compensation generally consists of an asset-based fee and is reflected in the valuation of the Scheme's investment in each of the funds.

The Scheme has the right of redemption of its investments in the funds.

The exposure to investments in the funds at fair value, by strategy employed, is disclosed in the following table.

These investments are included in financial assets at fair value through profit or loss in the statement of financial position.

29. INVESTMENT IN UNCONSOLIDATED STRUCTURED INVESTMENT *continued*

Name and description	2019 fair value of Scheme funds invested	Fair value of investee	Percentage of net assets attributable to the Scheme	Fund
	R'000	R'000	R'000	
Collective investment schemes	37 880	43 756 848	0.09 %	Nedgroup Investment Core Incom Fund – Class C1
	51 231	13 510 113	0.38 %	Nedgroup Investment Money Market Fund – Class C1
	64 810	8 759 971	0.74 %	Prudential Corporate Bond Fund
	492 857	8 335 721	5.91 %	Prudential Global Fixed Income – Fund C
	844 236	9 206 392	9.17 %	Prudential High Interest Fund – Class B

***This represents the Scheme's percentage interest in the total net assets of the funds.*

The Scheme's maximum exposure to loss from its interests in the funds is equal to the total fair value of its investments in the funds.

Once the Scheme has disposed of its shares in a fund, it ceases to be exposed to any risk from that fund.

30. REGULATORY NON-COMPLIANCE

To the best of the Scheme's knowledge, the compliance matters listed below cover all of the non-compliance matters for the 2019 financial year.

Late-paying employer groups

Nature

In terms of Rule 13.2 of GEMS' Scheme Rules and Section 26(7) of the Medical Schemes Act members' contributions are due monthly in arrears and payable by no later than the third day of each month.

Cause

During the period under review, certain employer groups paid over contributions on behalf of their members after the third day of the month. Late payment may result in a loss of interest earned for the Scheme; however this is not significant due to the short duration of the contributions being outstanding.

Corrective action

Scheme Management engaged with the employer groups concerned to ascertain the reasons for the late payment of contributions and to highlight the impact of this practice on members of the Scheme. The Council for Medical Schemes is informed quarterly of any late payers and the Auditor General is informed annually. At the end of December 2019 there were no late payers and all funds were received by the Scheme.

Annexure B: Non-compliance of asset manager

Nature

In terms of section 7(b) Regulation 30 of the Medical Schemes Control Act No. 131 of 1998, Medical Schemes are prohibited from holding foreign listed instruments

30. REGULATORY NON-COMPLIANCE *continued*

Annexure B: Non-compliance of asset manager *continued*

Cause

One of the appointed asset managers had loaded the incorrect classification of the instrument in their pre-trade compliance system when the instrument was set-up. This incorrect classification of the instrument resulted in the portfolio being considered eligible for the instrument when the pre-trade checks were conducted when this was not the case.

Corrective action

The asset manager sold out of this instrument as soon as the non-compliance was identified and the portfolio incurred no costs or fees relating to the purchase or sale of the instruments. As a result the asset manager has implemented changes to their processes for loading of new instruments for trading. All new instrument classification set-ups in the system will have additional checks and sign-off by appropriately authorised and skilled managers. The increased oversight will ensure that the human error risk on pre-trade classification is eliminated. No trade will be permitted until the additional sign-offs have been completed.

Benefit options

Nature

In terms of Section 33(2) of the Medical Schemes Act, medical scheme options shall be self sufficient in terms of membership and financial performance.

Cause

The Scheme's Onyx option did not meet the self sufficiency requirement in terms of Section 33(2) of the Medical Schemes Act. Loss making options adversely affect the financial performance of the Scheme and the reserve ratio. The claims on the Onyx option were driven by the option's older demographic profile, which resulted in higher claims being incurred relating to chronic and lifestyle related diseases. The migration of the pre-1992 pensioners to this option in prior years also resulted in the financial performance being adversely affected during the financial year.

The Scheme is however accumulating funds in accordance with a business plan approved by the Registrar. The Registrar was notified of the Scheme's performance throughout 2019 with the submission of quarterly performance reports and quarterly meetings with the CMS. Part of the quarterly submission are actuarial reports for the specific option in order for CMS to see progress of the options against the business plan and budget for the year. However during the 2019 financial year Onyx performed better than expected.

Prescribed minimum benefits paid from member savings

Nature

Regulation 8(1) of the Medical Schemes Act No. 131 of 1998 states that the Scheme must pay in full, without co-payment or the use of deductibles, the diagnosis, treatment and care costs of the prescribed minimum benefit (PMB) conditions. Whilst regulation 10(6) states that the funds in a member's medical savings account shall not be used to pay for the cost of a PMB.

Cause

During the financial year, certain instances of non-compliance with the above regulation have been identified.

Corrective Action

Additional controls have been put in place to flag non-compliance and ensure that corrective action is taken.

31. EVENTS AFTER THE REPORTING PERIOD

Since the Schemes financial year end, COVID-19 has been declared a worldwide pandemic with a number of cases confirmed in South Africa. As a Medical Scheme, this will have a direct impact on the financial results for 2020 as the Scheme is affected by this pandemic in relation to the healthcare costs incurred by members. Based on projections performed by the Scheme's actuaries, the potential financial cost to the Scheme is estimated at worst to be R1.2bn. Contrary to the additional cost, potential savings are projected due to a significant reduction in other healthcare services utilised, in particular hospital admissions, which could potentially negate any negative COVID-19 financial impact.

The impact that COVID-19 has had on the equity instruments listed on the JSE, in which the Scheme has certain investments and the reduction in interest rates by the SARB, will impact on the projected investment income of the Scheme for 2020.

Based on analysis performed, the Asset Managers of the Scheme expects no capital losses on investments over a 12 month period and if markets stabilise, to achieve a real return of between 2-3%.

The additional healthcare costs the Scheme will incur, combined with the potential negative impact on the investment returns due to unfavorable market conditions for 2020, was considered in formulating a view on the sustainability of the Scheme in the short and long term. Based on various scenarios considered by the Scheme (supported by detailed actuarial analysis) the impact, although significant, will not affect the going concern status of the Scheme and it is expected that the Scheme will maintain its reserve ratio for 2020 above the required CMS requirement of 25%.

16 GLOSSARY

AGM	Annual General Meeting
B-BBEE	Broad-Based Black Economic Empowerment
BBA	Bachelor of Business Administration
BHF	Board of Healthcare Funders
CAO	Chief Audit Officer
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CLO	Client Liaison Officer
CMS	Council for Medical Services
CRF	Corporate Research Foundation
DPSA	Department of Public Service and Administration
EVO	Emerald Value Option
GEMS	Government Employees Medical Scheme
GP	General Practitioner
HFMU	(BHF) Health Forensic Management Unit
HMI	Health Market Inquiry
HPCSA	Health Practitioners Council of South Africa
HQA	Organisation for Health Quality Assessment
IDT	Independent Development Trust
IBNR	Outstanding Risk Claims Provision
ICT	Information and Communications Technology
IFRIC	International Financial Reporting Interpretations Committee
IODSA	Institute of Directors of South Africa
IFRS	International Financial Reporting Standards
IRBA	Independent Regulatory Board for Auditors
IT	Information Technology
KPI	Key Performance Indicator
MBA	Master of Business Administration
MPN	Medicine Provider Network
MSA	Medical Schemes Act
NDoH	National Department of Health
NEHAWU	National Education, Health and Allied Workers Union
NHI	National Health Insurance
PCNS	Practice Code Numbering System
POPIA	Protection of Personal Information Act
PSCBC	Public Service Coordinating Bargaining Council
RAF	Road Accident Fund
SAICA	South African Institute for Chartered Accountants
SCM	Supply Chain Management
SOP	Standard Operating Procedure
SPN	Service Provider Network
UCT	University of Cape Town
UNAIDS	United Nations Programme on HIV/Aids
Unisa	University of South Africa