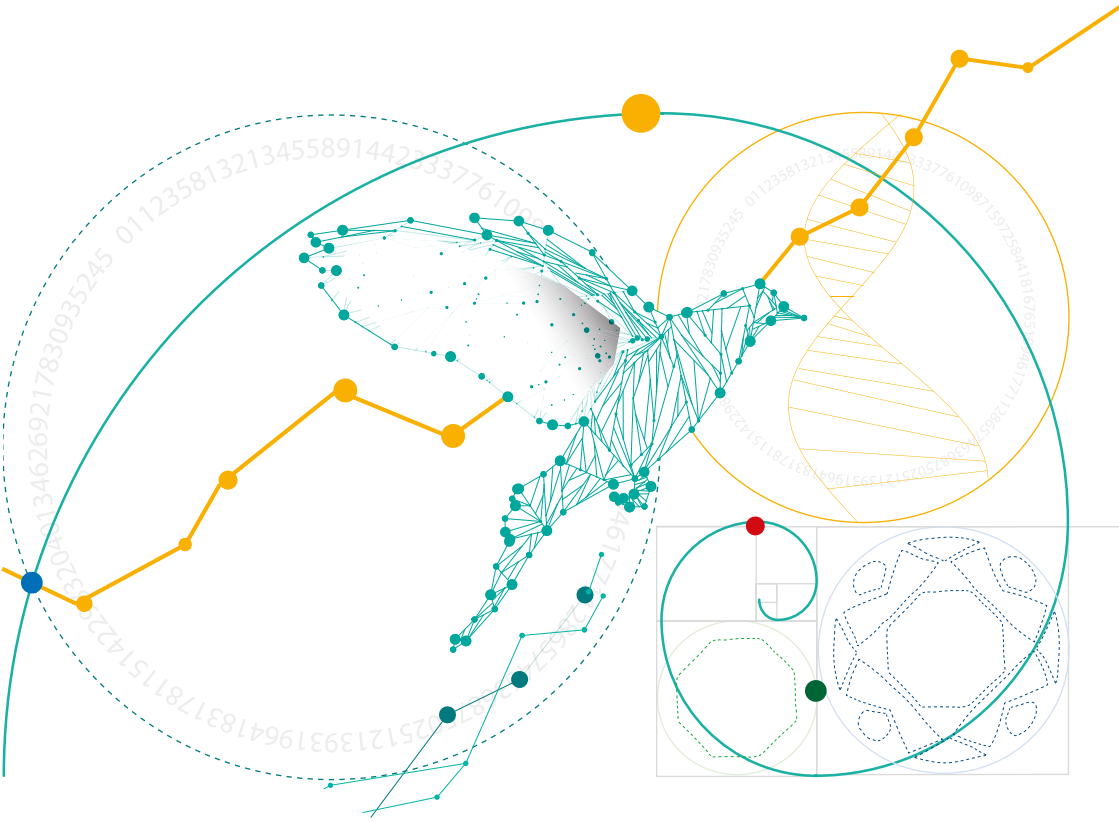
gems
Government Employees Medical Scheme



# ANNUAL INTEGRATED REPORT 2018

Working towards a healthier you

# GEMS
# CREATIVE RATIONALE

The Fibonacci sequence is an iconic shape related to the golden ratio, a proportion that occurs frequently throughout the natural world and is applied across many areas of the human endeavour throughout history.

Both the Fibonacci sequence (shown on the cover in the circle on the golden ratio) and the golden ratio are used to guide design for architecture, among other things.

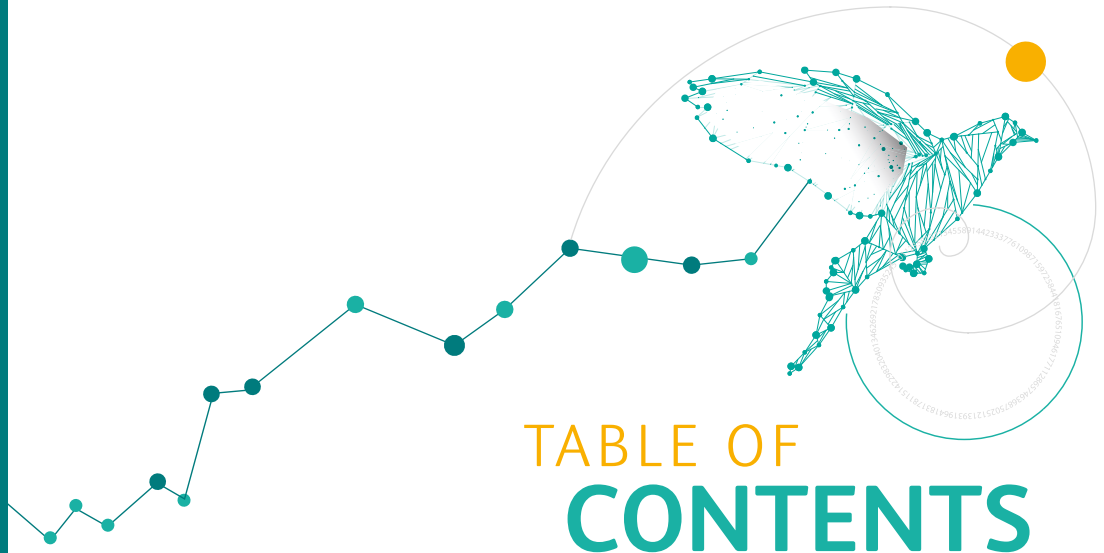
The shape of the sequence is steady and stable in the centre and grows outwardly. It is also predictable and plots a clear course forward with the set of numbers.

The graph peaking upward is a clear representation of GEMS' financial performance. Striving and moving upwards, representing growth.

The Fibonacci sequence is therefore the embodiment of both growth and stability.

The bird is a universal icon of freedom (freedom to grow) and strength (stability in flight). Birds can walk the earth and swim in the sea as humans do, but they also have the ability to soar into the sky. It is also consistently moving, always busy developing and working.

The bird displayed here shows take off, going into flight, representing growth and flying effortlessly towards stability. Birds have inspired humans throughout history with their ability to rise above.



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# 1. INTRODUCTION

*This GEMS 2018 Annual Integrated Report covers the operations of the Government Employees Medical Scheme for the financial year 1 January 2018 to 31 December 2018.*

The GEMS 2018 Annual Integrated Report is the 13th annual report issued by the Scheme, with the first report issued in the year 2007.

The report was prepared to provide members of the Scheme; the Minister for the Public Service and Administration, the Scheme's Principal; and the Scheme's stakeholders with an assessment of the Scheme's performance and impact for the 12-month period. It provides an understanding of the Scheme's strategic short- and medium-term approach to pertinent issues and the effectiveness of its approach.

The Scheme's financial year is from 1 January to 31 December. The most recent annual integrated report published by the Scheme was the GEMS 2017 Annual Integrated Report published on 5 June 2018.

There were no significant changes during the reporting period in the Scheme's business model, boundaries and supply chain. The Scheme's revised organisational structure was implemented in 2018 to optimise delivery under the Five-year Strategic Plan and four new executive positions were filled (the Scheme's leadership structure is shown on page 24).

There are no restatements of information provided in previous reports contained in this report.

The Scheme has gradually moved towards an integrated reporting approach from 2011, when a sustainability reporting section was included in the GEMS 2010 Annual Report. Prior to the introduction of the GEMS Integrated Reporting Framework in 2016, matters reported in the Scheme's annual reports was informed by the Medical Schemes Act (MSA), the Registered Rules of GEMS and South African Institute of Internal Auditors (SAICA) Accounting Guidelines for Medical Schemes: Appendix VIII – Governance and Integrated Reporting, issued by the Council for Medical Schemes (CMS).

GEMS aims to apply best practice in integrated reporting within the boundaries of the regulatory framework applicable to medical schemes.

The GEMS Board of Trustees formally adopted an Integrated Reporting Policy and Framework during 2016. GEMS' Integrated Reporting Framework is entity-specific and has as its basis the MSA, the Registered Rules of GEMS, the South African Institute of Chartered Accountants (SAICA) Accounting Guidelines for Medical Schemes, and the International Integrated Reporting Framework and Integrated Reporting Committee (IRC) of South Africa information papers. The legislation and regulation are supplemented in GEMS' Integrated Reporting Framework by GRI G4 Guidelines and King IV Report Recommended Practices. An Integrated Reporting Steering Group was established with a formal terms of reference, comprising individuals from across the business, to oversee the integrated reporting process.

GEMS Internal Audit performed a review of the GEMS Integrated Reporting Framework in 2018 and found it to be comprehensive and inclusive of the majority reporting aspects included in the International Integrated Reporting Framework. Recommendations for improvement were made based on best practice reporting. The recommendations will be implemented gradually over the next two reporting periods based on an assessment of the Scheme's readiness.

## OUR MATERIALITY DETERMINATION PROCESS.

We are committed to ensuring that our members, the Minister for the Public Service and Administration and stakeholders have access to accurate and reliable information. The GEMS Board of Trustees acknowledges its responsibility to assure the integrity of GEMS' 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 members and ensure the sustainability of the Scheme.

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

The steps taken to determine materiality for the 2018 Annual Integrated Report include the following:

### **STEP ONE:** Identifying relevant matters based on their ability to impact value creation.

A list of relevant matters was compiled with consideration to:

- The Scheme's value drivers
- Matters identified during stakeholder identification and analysis

- External matters that impacted on the Scheme
- The Scheme's internal business context
- The Scheme's performance

The matters identified typically featured in Board and committee meeting agendas, the Scheme's strategic risk register and risk appetite matrix, the Scheme's compliments and complaints reporting, and stakeholder feedback. Stakeholder feedback and input have been obtained through a range of stakeholder activities and feedback sessions and through informal interactions with various stakeholders.

### **STEP TWO:** Determining material aspects and information to disclose.

A provisional list of material aspects was submitted to the Scheme's Executive Committee and was assessed and finalised. The list was provided to the GEMS Integrated Reporting Steering Group to recommend the information to be disclosed on each material aspect. The Audit Committee reviewed the list of material aspects and information to be disclosed.

The Board of Trustees approved the list of material aspects below on 4 March 2018 on the recommendation of the Audit Committee:

| Material Aspects | Importance and Impact | Section of Report |
|---|---|---|
| Disease management | The outcomes sought through GEMS' disease management programmes are in line with the national health policy objectives of the approved NHI White Paper. GEMS disease management processes transform and increase intellectual capital and social and relationship capital. There is a positive impact on human capital for the Scheme's Principal, the Minister and Department for Public Service and Administration, in employee productivity. | Business Model and Value Creation (See page 34) Performance and Outputs (See page 80) Risk Management (See page 68) |
| Internal capability | The phased implementation of a new operating model requires the Scheme to build internal capability. Human capital and intellectual capital are transformed and increased in the process. | Strategy and Resource Allocation (See page 56) Performance and Outcomes (See page 80) Risk Management (See page 68) |
| Health Quality Assessment | The Scheme needs to balance financial performance, member satisfaction and healthcare outcomes, i.e. healthier members. Health Quality Assessment supports the measurement of health results. Through measurement, the Scheme builds intellectual capital. Healthier members improve the Scheme's social and relationship capital and contribute to strengthened financial capital. | Business Model and Value Creation (See page 34) Performance and Outcomes (See page 80 ) |
| 2017/18 CMS inspection | Inspections by the CMS can provide the Minister for the Public Service and Administration, the members of the Scheme and the Scheme's stakeholders with assurance that the Scheme is managed well. Addressing any gaps and issues revealed by an inspection can improve performance and strengthens social and relationship capital, including the regulatory relationship. | Chairperson's Overview (See page 14) Governance Report (Regulatory Intervention) (See page 231) |
| Digital First | The Scheme is building advanced information technology (IT) systems, a platform for enhanced member experience and decision-making and data-driven healthcare management. Under the digital first approach, activities are gradually digitised. As an example, the Service Management Forum initiatives look at how we can digitise for improved member services efficiency. The Scheme's digital transformation builds intellectual capital and human capital. Improved member services efficiency contributes to the building of social and relationship capital. | Strategy and Resource Allocation (See page 56) Governance Report (Data and Information Governance) (See page 230) Risk Management (See page 68) |
| Contributing to initiatives to progress broad-based black economic empowerment (B-BBEE) and address unemployment | The country's transformational agenda must be promoted in GEMS' sphere of influence through the GEMS supply chain management (SCM) system. Appropriately, driving transformational objectives improves Scheme performance and accords with the Scheme's corporate citizenship objectives. The capitals increased through the Scheme's transformational objectives are human capital, intellectual capital, and social and relationship capital. | Business Model and Value Creation (See page 34) Corporate Citizenship (See page 44) |

| Material Aspects | Importance and Impact | Section of Report |
|---|---|---|
| Member education | Informed members drive informed benefit option selection and benefit usage, reduced member awareness complaints and vigilance of possible fraud waste and abuse. Especially in the area of care coordination, improved results are achieved through better-informed members. Increased take-up of the 100% subsidy on the Sapphire option by public service employees remunerated on levels 1 to 5 improves healthcare for this group and productivity in the public service. As such, member education is important for building financial capital, and social and relationship capital. Through the development of member education initiatives, intellectual capital is increased. | Business Model and Value Creation (See page 34)<br>Performance and Outcomes (See page 80) |
| Ethical environment | A strong ethical identity and culture builds trust internally and externally. A positive impact on stakeholder collaboration means that social and relationship capital is increased. | Governance Report (Value Statement and Ethics) (See page 213)<br>Risk Management (See page 68) |
| Media matters | The Scheme is the recipient of both positive and negative media coverage. Positive coverage contributes to stakeholder trust. Negative coverage often originates from role-players wishing to exert undue pressure on the Scheme. This may undermine social and relationship capital building efforts. | Stakeholder Report (See page 50) |
| Service excellence standards | The Scheme is moving towards the adoption of international standards, in addition to standards set by the CMS, to ensure the adequacy and effectiveness of business functions, ultimately impacting on the quality of member services. The formal adoption of reference standards will drive improved performance, with a positive effect on social and relationship capital, and financial capital. Developing employees to meet reference standards builds human capital. | Business Model and Value Creation (See page 34)<br>Risk Management (See page 68) |
| Benefit adequacy and affordable contributions | Benefit enhancements and affordable contributions are major drivers towards member satisfaction. Benefit exhaustion and co-payments are frequently raised by members at lekgotlas and annual general meetings. Social and relationship capital is increased by striking an appropriate balance between benefit enhancements and the cost of contributions. Innovative benefit design initiatives build intellectual capital. | Business Model and Value Creation (See page 34)<br>Strategy and Resource Allocation (See page 56)<br>Risk Management (See page 68) |
| GEMS financial performance | Coming from an all-time low reserve ratio in 2016, the Scheme optimised and increased financial capital significantly during 2017 and 2018.<br>The Scheme's financial performance over the past two financial years had a positive impact on stakeholder trust and member satisfaction. | Business Model and Value Creation (See page 34)<br>Strategy and Resource Allocation (See page 56)<br>Performance and Outcomes (See page 80)<br>Risk Management (See page 68) |

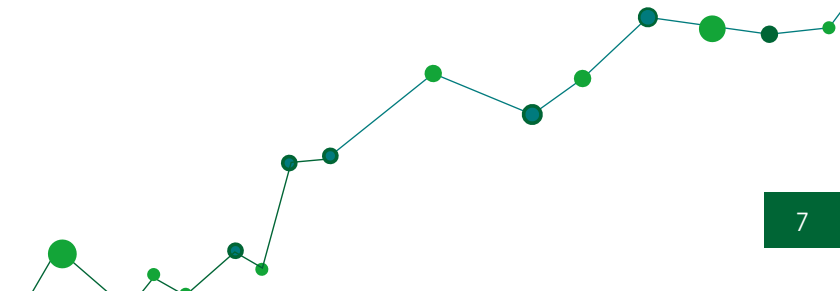
The precautionary approach is not applicable to GEMS and is not addressed.

The detailed GEMS 2018 Annual Integrated Report, inclusive of the Scheme's summarised Annual Financial Statements for the period ended 31 December 2018, is available at **www.gems.gov.za**

The Scheme's complete audited Annual Financial Statements for the period ended 31 December 2018 are also available at **www.gems.gov.za**

A summary of the key matters reported in the detailed GEMS 2018 Annual Integrated Report, inclusive of the highlights of the Scheme's financial performance, is available to members of GEMS and is accessible at **www.gems.gov.za**

The Board of Trustees received assurance from both internal and external assurance providers on the content and processes listed below and the accuracy thereof. A combined assurance approach was followed, with coverage and outcomes by the relevant assurance providers contained in the following table:



| Content and processes | Assurance provider | Outcome |
|---|---|---|
| Annual financial statements | External audit | Unqualified audit opinion |
| Reporting on greenhouse gas assessment (impact on the environment) | Sustainable IT Climate Standard | Achieved Level 2 of the Climate Standard |
| Reporting on operating surplus | External audit | Limited assurance provided |
| Reporting on the reduction in the KwaZulu-Natal risk adjusted hospital admission rate | External audit | Limited assurance provided |
| Reporting on the proportion of government employees remunerated on salary levels 1 to 5 enrolled on GEMS | External Audit | Limited assurance provided |
| Reporting on Emerald Value membership as a proportion of Emerald Option membership | External Audit | Limited assurance provided |
| Reporting on the complaints ratio | External Audit | Limited assurance provided |
| Reporting on the number of healthcare specialists contracted | External Audit | Limited assurance provided |
| Material performance information disclosed in the 2018 Annual Integrated Report | Internal Audit | Reported information was verified against source documents |

Contact person for questions on the report

- Call centre: **0860 000 4367**
- Member AGM-related questions: **enquiries@gems.gov.za.** Subject: **2019 AGM agenda**
- Stakeholder questions: **Jeannie@gems.gov.za** for the attention of Jeannie Combrink
- Media questions: **media@gems.gov.za** for the attention of Baldwin Matsimela

## STATEMENT BY GEMS BOARD OF TRUSTEES

The GEMS Board of Trustees acknowledges its responsibility to assure the integrity of 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 GEMS' Integrated Reporting Framework adopted by the Board during 2016.

**Nkosinathi Theledi**
Chairperson
Date: 29 April 2019

# 2. KEY BUSINESS
## INDICATORS 2018

The Scheme's performance on key business indicators relevant to 2018, compared to 2016 and 2017, is summarised in the table below.

| Key indicators | 2016 | 2017 | 2018 |
|---|---|---|---|
| Principal members | 694 262 | 692 092 | 705 182 |
| Beneficiaries | 1 833 137 | 1 807 538 | 1 839 193 |
| Percentage of eligible public service employees on GEMS | 56.78% | 56.51% | 71.01%* |
| Percentage of salary levels 1 to 5 public service employees on GEMS | 46.58% | 47.49% | 48.2% |
| Average age of beneficiaries | 31.01 | 31.87 | 32.12 |
| Average family size | 2.64 | 2.61 | 2.61 |
| Pensioner ratio | 14.36% | 15.25% | 16.18% |
| Applications (monthly average) | 6 317 | 5 113 | 5 031 |
| Claim lines settled | 92.2 mil | 91.0 mil | 91.7 mil |
| Claim lines rejected (%) | 11.2% | 12.0% | 13.4% |
| Average ratio of complaints to registered members | 0.24% | 0.27% | 0.17% |
| Annualised gross contributions | R31 043 708 744 | R35 496 532 752 | R38 226 079 529 |
| IBNR | R960 000 000 | R1 123 600 000 | R1 245 080 000 |
| Net surplus/(deficit) | (R484 651 051) | R3 270 200899 | R4 029 615 541 |
| Accumulated funds | R2 176 074 017 | R5 446 277 917 | R9 475 893 457 |
| Cash and cash equivalents | R3 177 474 070 | R5 488 609 210 | R2 435 200 727 |
| Investments | R1 439 145 710 | R2 476 622 535 | R9 014 154 790 |
| Non-healthcare expenditure | 5.70% | 5.60% | 4.9% |
| Reserve ratio % | 6.99% | 15.22% | 24.7% |

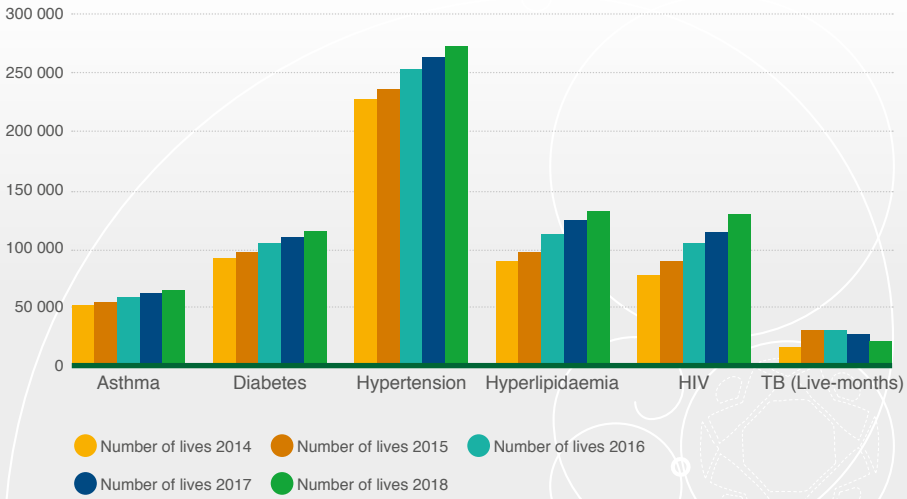
* Number based on latest PERSAL data showing 979,767 public service employees were eligible for membership of GEMS

Our cost per member across the GEMS benefit options is shown on page 120.

### Other important information for 2018:

Twenty percent of GEMS beneficiaries have asthma, diabetes, hypertension, hyperlipidaemia, HIV or TB. These beneficiaries were responsible for nearly 50% of hospital admissions in 2018. The figure below shows that the Scheme has improved coverage on disease management programmes.

*Disease Management Programmes*




Our top four claims categories and claims paid in 2018:

| Claim area | Top claim conditions | | | | |
|---|---|---|---|---|---|
| **GP Consultations 5 512 921** | Acute upper respiratory infections | Acute bronchitis | Influenza | Essential hypertension | Acute sinusitis |
| | 624 371 | 240 135 | 238 607 | 216 810 | 153 566 |
| **Specialist Consultations 949 260** | Supervision of normal pregnancy | Depressive episode | Investigations and examinations | Abdominal and pelvic pain | Essential hypertension |
| | 83 036 | 40 636 | 32 894 | 26 119 | 24 431 |
| **Medicines 45 116 675** | Analgesics | Cough and cold preparations | Antibacterials | Anti-inflammatory and antirheumatic | Agents (renin angiotensin system) |
| | 3 715 181 | 3 705 632 | 3 063 824 | 2 636 894 | 1 894 204 |
| **Hospital Admissions 442 027** | Cesarean delivery | Oesophagitis and Gastroenteritis | Cataract Procedures | Major Depression | Major Digestive Diagnosis |
| | 15 196 | 14 854 | 13 930 | 13 848 | 8 625 |

The Scheme emphasises prevention and screening initiatives as an integral part of primary healthcare. Clinical preventive services, such as disease screening and immunisation, are key to improving the health status of GEMS beneficiaries. As indicated in the tables below, the Scheme has made headway in improving coverage with screening services. Approximately 42% of members tested have two or more risks.

| Indicator | 2017 | 2018 | % improvement |
|---|---|---|---|
| Number of participating sites | 2 993 | 3 883 | + 30% |
| Number of events | 3 461 | 4 425 | + 28% |
| Number of HRA screening tests | 101 074 | 123 014 | + 22% |
| Number of HCT screening tests | 40 876 | 47 220 | + 16% |

*Screening and flu vaccine data:*

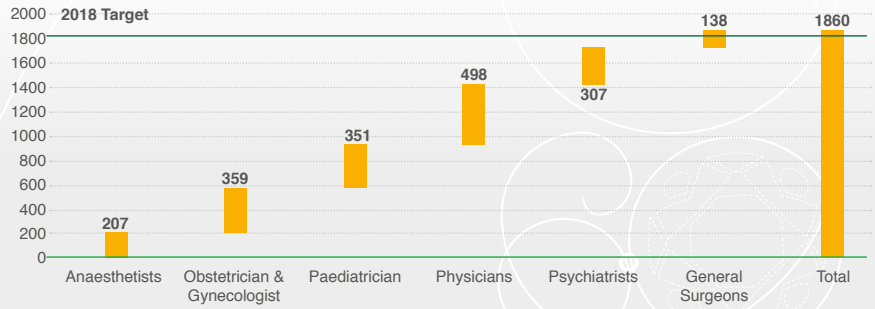
| Screening test/Vaccine | 2017 | 2018 | % improvement |
|---|---|---|---|
| Mammography | 33 879 | 34 835 | + 3% |
| Pap Smears | 86 925 | 85 333 | - 2% |
| PSA Levels | 44 350 | 49 302 | + 11% |
| Cholesterol | 49 161 | 50 274 | + 2% |
| Flu vaccine | 56 830 | 77 495 | + 36% |
| Total | 273 162 | 299 257 | + 7% |

## GEMS specialist network growth:

In 2018, the Scheme expanded its coverage of networks for the Emerald Value option, specialists, general practitioners, dental, optometry and renal dialysis. The renal dialysis network, which went live in January 2018, constitutes a designated chronic renal dialysis service provider network (SPN) comprising 21 independent providers and two large clinical technology groups. In 2018, the geographic coverage for this network was 73%.

The graph below shows the number of specialists contracted in 2018 against the overall target.

*Specialist network exceeded the 2018 target*






*Nkosinathi Theledi*

# 3. CHAIRPERSON OVERVIEW

*The Scheme completed the first phase of the current Five-year Strategic Plan period and moved into the second phase during 2018. Our strategic plan journey is depicted on page 57.*

In 2016, when the reserve ratio was at an all-time low, the success of the Scheme's strategy rollout was premised on significantly improved financial results, and these were delivered. The 24.7% reserve ratio reached by December 2018 exceeded budget expectations significantly. The Scheme's financial position provides members, the Minister for the Public Service and Administration and the Scheme's key stakeholders with assurance that the Scheme is sustainable and able to meet its claims-paying obligations.

Looking after our financial performance only will not ensure a scheme that is sustainable over the long term and the Board is mindful of member and stakeholder expectations for benefit availability and affordability, service excellence and member health outcomes. These expectations found expression in collective agreements concluded at the Public Service Coordinating Bargaining Council (PSCBC), specifically Resolutions 4 of 2017 and 1 of 2018. The Board is very supportive of the PSCBC Working Committee and is pleased with the outcome of its work. Information on the focus of the PSCBC Working Committee appears on pages 30 and 52 of the report.

In our pursuit of affordability, the Board is pleased that the average weighed GEMS contribution increase for 2019 was 7.09% and was one of the lowest in the medical schemes industry for the year. In addition to the low increase, additional benefits for 2019 valued at R832 million were given back to members, specifically those in vulnerable groups, in line with the National Health Insurance (NHI) policy approach. To this end, members of the Sapphire option benefit from extended private hospital care benefits, while a network extender benefit was made available to Emerald and Emerald Value members. Work remains to be done in benefit availability and affordability, service excellence and member health outcomes, and the second phase of the Five-year Strategic Plan period is focused on these aspects.

*A new programme called the Service Management Programme was introduced in 2018 to improve member experience and satisfaction. The programme is made up of 11 initiatives, including complaint management and initiatives to improve access to healthcare cover. The lower complaints ratio of 2018 and improvements in the Scheme's member enrolment process are early indications of progress in these areas.*

The clinical outcomes of GEMS disease management programmes were benchmarked using Organisation for Health Quality Assessment benchmarks and GEMS compares very well to the South African medical schemes industry. The improved health outcomes of members in the Emerald Value option confirm that care coordination is essential for improving members' health. GEMS healthcare screening and prevention programmes reach many members and we are pleased with the increase in the number of screening tests for 2018 (see page 12).

Considering the obligations of GEMS and its role in society, considerations of corporate citizenship are integrated into decision-making. Environmental sustainability considerations are becoming increasingly important in view of environmental factors such as climate change and air and water pollution on health.

The Scheme acquired an office building at Menlyn Maine Green Precinct in Tshwane and moved in during November 2018. The building has been designed as a 4-Green Star building, in terms of the Green Building Council of South Africa's requirements, and certification is nearing completion. This is a significant step forward for GEMS, in terms of both furthering our investment strategy to safeguard for members the financial health of GEMS and improving the Scheme's impact on the environment.

The outlook for the Scheme over the short- and medium-term is positive considering the results achieved in phase 1 of the strategic plan period and the early results of phase 2. Important developments in our external environment, specifically the planned consolidation of medical schemes towards NHI, will impact on the outlook. The consolidation process must

be well-designed and rigorously executed to prevent an adverse impact on beneficiaries. The Board recommends an extensive stakeholder consultation process led by Government.

## INSPECTION BY THE CMS

On 7 September 2017, the Scheme was advised of the CMS's intention to inspect it in terms of Section 44(4)(a) of the MSA.

The Scheme cooperated fully with the inspection and engaged the CMS on concerns. The draft inspection report was received in October 2018 and the Scheme responded formally. The final report is expected during 2019.

## ANNUAL GENERAL MEETING

The 2018 Annual General Meeting was held on 31 July 2018 in Mbombela, Mpumalanga. The Board is appreciative of the hospitality shown to Scheme officers and the overall outcome of the meeting. An action list was compiled of issues and concerns raised by members who attended the meeting. The draft minutes of the Annual General Meeting appear on page 242 of this report and a progress report on the action list on page 260.

## BOARD OF TRUSTEES

The former Minister for the Public Service and Administration notified the Scheme of the replacement of the former Board Chairperson and Deputy Chairperson in February 2018. Litigation continues between former Chairperson and the Minister.

From November 2018, the Board underwent its biannual independent board effectiveness assessment The assessment was conducted by an independent assessor, and initial indications are that the Board is operating effectively.

The Board also continues to monitor any conflicts of interest that may arise.

The Board was saddened to learn of the passing of two of its members, Mr Daniel de Villiers in September 2018 and Mr Corn Booyens in April 2019. Mr de Villiers served as the Chairperson of the Clinical Governance and Administration Committee, as well as a member of the Audit Committee. Mr Booyens served as the Chairperson of the Finance and Investment Committee as well as a member of the Human Resources and Remuneration Committee. Their valuable contribution will be sorely missed and we extend our sympathies to their spouses and families.

## BOARD COMPOSITION

Since 2010, a large body of work addressing Board composition concerns has been performed by the Scheme in line with the MSA. The issues include a lack of diversity among member-elected trustees and a request that seats on the Board be allocated to trade unions. In 2017, the PSCBC requested the Scheme to 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 direct election by principal members. This requirement was later confirmed in PSCBC Resolution 4 of 2017. To overcome the legal barrier posed by Section 57(2) of the MSA, an exemption application was submitted to the CMS, which sought to achieve:

- the appointment of four trustees by 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 on 6 November 2017 that the CMS had declined the exemption application on the grounds that the Scheme's circumstances are not sufficiently exceptional to warrant an exemption from the MSA that the current GEMS Board of Trustees is fully functional and that the Scheme is managed by persons deemed fit and proper. The Scheme resubmitted the application in December 2018 and will work with the PSCBC for a satisfactory outcome. In the interim, the terms of three member-elected trustees end in 2019 and a trustee election process has started.

## VOTE OF THANKS

I thank the Minister for the Public Service and Administration, the Department for Public Service and Administration, the PSCBC and the leadership of the Unions admitted to the PSCBC, the National Department of Health (NDoH) and National Treasury for the constructive working relations enjoyed in 2018. We believe that the partnerships formed may ultimately contribute to achieving national health objectives.

My thanks go, too, to Nontobeko Ntsinde, Chairperson of the Board until 5 February 2018, for her strong leadership and immeasurable contribution throughout her tenure at GEMS.

Nombulelo Mkhumane was Deputy Chairperson of the Board until 5 February 2018 and her contribution in steering the Scheme through various challenges is appreciated. She chaired the GEMS Finance and Investment Committee, under whose auspices the Scheme's investment performance has gone from strength to strength.

Trustees who served on the Board in 2018 were required to make complex decisions. They demonstrated their willingness to provide clear guidance and to address challenges decisively to protect the interests of all GEMS beneficiaries. The Board maintained a results-driven approach and exemplified ethical leadership. I thank you for your ongoing support in engaging stakeholders where Board-level engagement was needed.

My gratitude goes to Dr Millie Hlatshwayo, Dr Jopie Breed, Ms Michelle David and Dr Kobus van Zyl for chairing the Clinical Governance and Administration Committee, Risk Social and Ethics Committee, Dispute Committee and Human Resources and Remuneration Committee respectively during the review period. The Board also appreciates the leadership and valuable contribution to effective corporate governance provided by the Independent Chairperson of the GEMS Audit Committee, Mr Joe Lesejane.

The Board and Scheme continued to benefit from the advice and input from independent committee members who served on the GEMS Audit Committee and Dispute Committee. Their commitment, expertise and collective contribution to GEMS have been invaluable.

On behalf of the Board, thank you to Dr Gunvant (Guni) Goolab for leading the Scheme's executive management team in 2018, and for the excellent manner in which the new Five-year Strategy implementation was driven and the many challenges arising from the running of the largest restricted scheme were addressed.

The Board is pleased with the operational results achieved by the Scheme for the period ended 31 December 2018.

# 4. STATEMENT OF RESPONSIBILITY
## BY THE BOARD OF TRUSTEES

The Board of Trustees is 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 judgments and estimates by management.

Accounting policies applied by the Scheme are informed and updated, when required, according to circulars issued by the CMS, the Annual Medical Schemes Accounting Guide issued by SAICA and updates on the latest 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 judgments and estimates.

The Board adopted the King Report on Corporate Governance of Southern Africa 2016 (King IV) and seeks to apply its recommended practices 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.

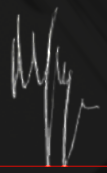
The trustees are also responsible for such internal controls as they determine are necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining an effective system of risk management.

GEMS 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.

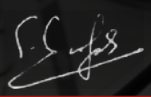
The Scheme's external auditors, Deloitte and OMA Chartered Accountants JV, are responsible for auditing the Financial Statements in terms of International Auditing Standards and their unqualified report is presented with the Scheme's Annual Financial Statements.

The Annual Financial Statements for 2018 were approved by the Board of Trustees on 29 April 2019 and are signed on its behalf by:



**Nkosinathi Theledi**
Chairperson

**Dr SM Hlatshwayo**
Deputy Chairperson



**Dr G Goolab**
Principal Officer

29 April 2019

# 5. ORGANISATIONAL
## OVERVIEW OF GEMS

### WHO **GEMS** IS

GEMS is registered as a restricted membership medical scheme in accordance with the MSA, as amended from time to time.

### **GEMS'** HEADQUARTERS

The Scheme's head office is in Menlyn Maine Precinct, c/o Amarand and Mercy avenues, Tshwane.

### BRIEF HISTORY OF **GEMS**

Cabinet gave approval for the establishment of GEMS in November 2004, followed by the registration of GEMS by the CMS from 1 January 2005. After a year of preparing the Scheme for operations, GEMS began operations on 1 January 2006. It has grown into South Africa's second-largest medical scheme overall, at approximately 1.8 million beneficiaries, and the biggest restricted membership medical scheme.

The Cabinet mandate underpinning the establishment of GEMS is summarised as follows: 'To ensure that there is **adequate provisioning of healthcare coverage** to public service employees that is **efficient, cost-effective and equitable;** and to provide **further options** for those who wish to purchase more extensive cover.'

Under the GEMS Five-year Strategic Plan (2017 to 2021), the Scheme seeks to make a meaningful contribution to the healthcare industry and universal healthcare in South Africa, with the long-term goal of becoming a blueprint for National Health Insurance. GEMS' current mandate remains relevant to the new strategic direction. There is still considerable scope to achieve the Scheme's current mandate, while pursuing the contribution that the Scheme wants to make to National Health Insurance.

**VISION**

The GEMS vision recognises the Scheme's 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 ***wellbeing.***'

**VALUES**

We strive to live up to the GEMS values of:

***'Excellence, Integrity, Member Value, Innovation, Collaboration'***



### SUMMARY OF PRINCIPAL ACTIVITIES, PRODUCTS OFFERED AND MARKETS SERVED

As a registered medical scheme, GEMS undertakes liability in return for contributions from members to:

- Provide for the obtaining of relevant health services.
- Grant assistance in defraying expenditure incurred in the rendering of relevant health services.

### OUR PRODUCT OFFERING:

GEMS offers five main benefit options and one efficiency discounted option. The benefit options were each designed using a rigorous analytical approach taking into account the requirements of the CMS, member affordability and benefit design assessment:

**SAPPHIRE:** This is the entry-level option. It provides out-of-hospital care such as visits to a general practitioner, dentist and optometrist, maternity care at private facilities, and in-hospital cover at public and private facilities. This option is inexpensive, with the 2018 average family contribution after subsidy being R74. In 2018, the percentage of members subscribing to this option was 7.0% at year end.

**BERYL:** This is an entry-level option where cover is provided by designated provider networks. It offers members comprehensive in- and out-of-hospital benefits through a network of healthcare providers in both public and private hospitals. The 2018 average family contribution after subsidy was R742 per month and 5.2% of members were on this option 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 2018 family contribution after subsidy was R1 764 per month, with 20% of this going towards the PMSA. The percentage of members on this option in 2018 was 13.0% at year end.

**EMERALD:** This option provides 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, the 2018 average family contribution after subsidy was R2 302 per month. The percentage of members on this option at year end was 61.3%.

**EMERALD VALUE:** Introduced from 1 January 2017, this is an efficiency discounted option based on Emerald. Members pays 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 2018 family contribution after subsidy was R1 867 per month, and 9.2% of members were on this option at year end.

**ONYX:** This is a top-of-the-range benefit option that offers extensive cover. The Onyx member may claim certain out-of-hospital expenses such as general practitioner and specialist visits, contraceptives or basic radiology, from their day-to-day block benefit. The average 2018 family contribution after subsidy was R3 117 per month and 4.4% of members were enrolled at year end.

## OUR MARKET

Under GEMS Rules, persons employed under the Public Service Act, Act 103 of 1994, in National Departments, Provincial Administrations, Provincial Departments or Government Components, as contemplated in Section 7(2) of the Act, are eligible to join GEMS. The Rules further allow for persons employed by employers approved by the GEMS Board of Trustees to join the Scheme. Persons who retired from the service of the relevant employers are also eligible to join GEMS.

Membership of GEMS is not compulsory for employees employed under the Public Service Act, Act 103 of 1994, but is encouraged by an employer subsidy.

The approved National Health Insurance Policy states that medical schemes covering state employees will be consolidated into GEMS. The CMS published a draft Medical Scheme Consolidation Framework in September 2018. The consolidation of state-funded restricted medical schemes forms part of a broader consolidation imperative for the medical schemes industry, also covering open medical schemes benefit options. More information on GEMS' approach is on page 28 under the Scheme's external operating context.

## STRUCTURE AND LEADERSHIP

Information on the members of the Board and the standing committees is included on page 209 of the report on governance structures and processes. Information on the Scheme's chief officers is included on page 60 in the section dealing with strategy and resource allocation.

## BOARD COMMITTEES

The governance structure enables the Board to oversee critical aspects of the Scheme and is aligned to the new Five-year Strategic Plan and the Scheme's new organisational structure. The structure below was implemented on 1 January 2018. A summary of the standing committees' terms of reference and activities in 2018 is available in the report on governance structures and processes from page 196.

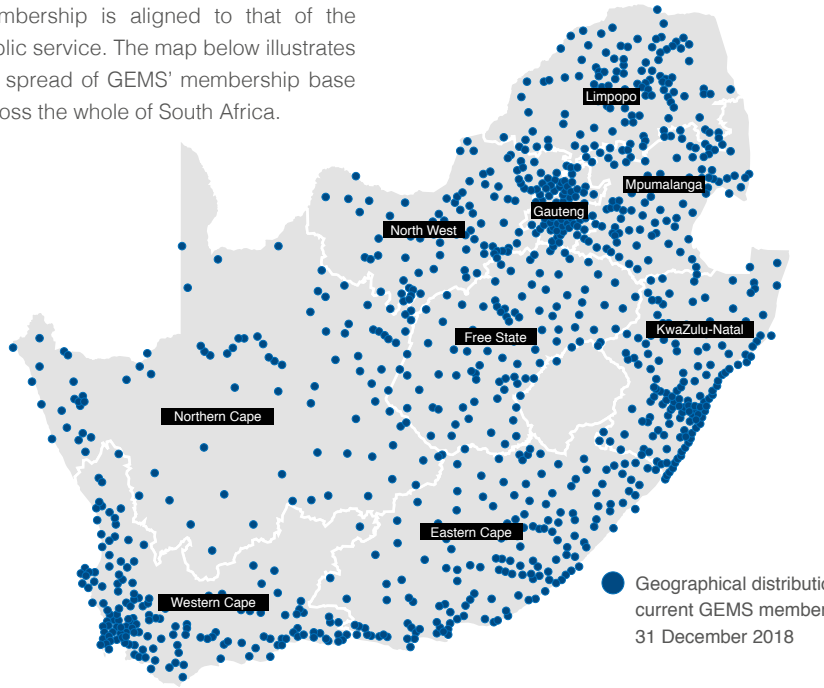
| Board of Trustees | | | | | |
|---|---|---|---|---|---|
| Audit Committee (See page 198) | Clinical Governance and Administration Committee (See page 200) | Dispute Committee (See page 202) | Risk Social and Ethics Committee (See page 201) | Finance and Investment Committee (See page 201) | Human Resources and Remuneration Committee (See page 202) |

## GEOGRAPHIC AREAS OF OPERATION

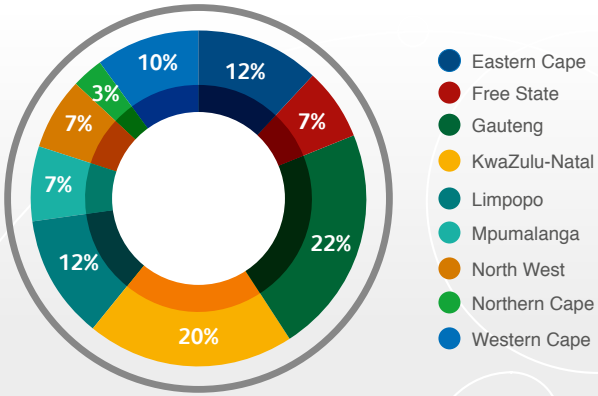
Our member servicing and communication platforms in 2018 consisted of:

- 18 walk-in centres, i.e. 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 North West.
- Extensive electronic communication capabilities, including email and sms facilities
- A GEMS member app and portal hosted on the GEMS website.
- Face-to-face member contact was also made possible at health and wellness events and roadshows.

The geographic location of the Scheme's membership is aligned to that of the public service. The map below illustrates the spread of GEMS' membership base across the whole of South Africa.



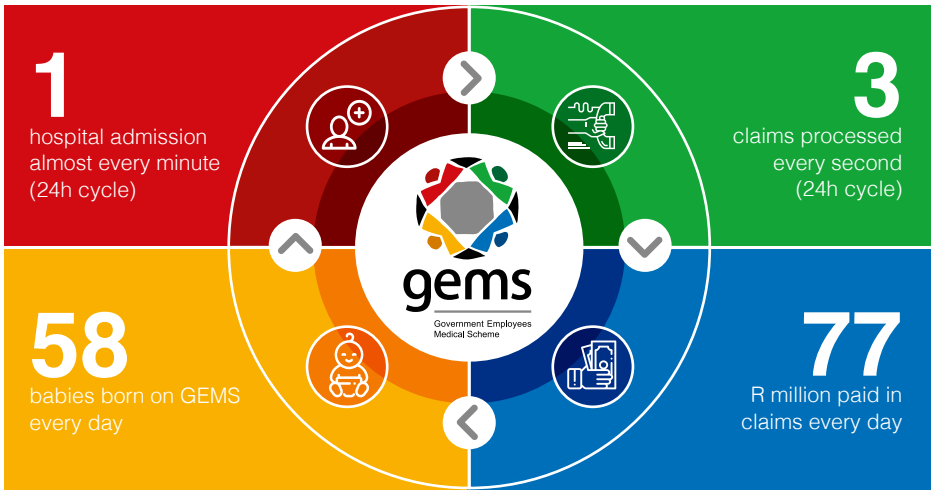

*BENEFICIARY DISTRIBUTION BY PROVINCE - 2018*




Gauteng, representing 22% of beneficiaries, accounts for the largest percentage of beneficiaries and is followed by KwaZulu–Natal with 20%. Northern Cape still accounts for the lowest number of beneficiaries, at 3% of members. These statistics are representative of the public service departments' spread across the country

## SCALE OF GEMS

*A DAY IN THE LIFE OF GEMS IN 2018*




### Our external operating context in 2018:

Important developments in the external operating context expected to have an influence on the Scheme's ability to create value are:

| Factors | Implication |
|---|---|
| The NHI impact on the medical scheme landscape | The approved NHI Policy was published in June 2017. The implementation of NHI requires GEMS to alter the way it currently conducts business, and to strategically position itself for the NHI. GEMS has, over its first decade of existence, attained a good measure of success as an effective vehicle to drive the government's agenda to expand healthcare coverage. Based on GEMS' track record, there is an opportunity for the Scheme to be an enabler and/or 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 GEMS' mandate.<br><br>GEMS' overall approach to supporting NHI is documented in the GEMS NHI Position Paper. |
| National Health Insurance Bill and Medical Schemes Amendment Bill | The National Health Insurance Bill was published for comment in June 2018. The National Health Insurance Bill details the establishment of the National Health Insurance Fund and its operations. The Scheme commented on the Bill with a view to strengthening corporate governance aspects. The Board considered the extent to which the Scheme's strategy aligns with the draft National Health Insurance Bill.<br><br>The Medical Schemes Amendment Bill was published for comment in July 2018. The Bill will have significant implications on the industry if enacted and GEMS submitted commentary on the draft legislation in September 2018. |
| Medical Schemes Consolidation Framework | In keeping with the approved NHI White Paper, schemes covering state employees will be consolidated into GEMS, thus presenting the State with a unique opportunity to continue learning and progressively strengthening its capacity to administer a large national health insurance fund. The CMS 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 start with at least one common and basic benefit option within all schemes, followed by further option consolidation within schemes, for example, potentially no more than three options (basic benefit package, savings option, richer benefit option). Changes of the magnitude foreseen should be implemented only after extensive stakeholder engagement and consultation led by Government. In this, GEMS will seek a mandate from Government, after conclusion of initial stakeholder engagements, to implement an amended scope 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. |

| Factors | Implication |
|---|---|
| PSCBC Resolutions 4 of 2017 and 1 of 2018 | The PSCBC was established in terms of Section 35 of the Labour Relations Act to provide a platform for negotiation on matters of mutual interest between the State and Employer and Trade Unions. Matters of mutual interest include the conditions of employment of public service employees, such as the medical assistance subsidy. The PSCBC resolved in 2015 to perform a review of GEMS, including the efficacy of its operating model, and to determine whether the objectives for which GEMS was established are being met. The PSCBC concluded Resolution 4 of 2017 on 4 December 2017, which concluded the initial performance review of GEMS. Under PSCBC Resolution 4 of 2017, a working committee that considers the performance of the Scheme on an ongoing basis was established in March 2018. The working committee consists of the Employer, admitted Trade Unions in the PSCBC and GEMS. The Committee's task is to consult meaningfully on:<br><br>• The strategic direction of the Scheme;<br>• The efficiency of the administration of the Scheme;<br>• Reports on the financial sustainability of the Scheme;<br>• The Scheme benefit offering relative to other schemes in the market;<br>• The bettering of the member benefit structure;<br>• Reports on member satisfaction;<br>• Ongoing member education and recruitment, and<br>• The development of a benefit product specifically for members earning on salary levels 1 to 5 that will enhance medical cover on an ongoing and accessible basis.<br><br>Also under PSCBC Resolution 4 of 2017, parties will pursue the amendment of the composition of the GEMS Board of Trustees to comprise:<br><br>• Six trustees appointed by the Minister for the Public Service and Administration;<br>• Four trustees appointed by the admitted Trade Unions in the PSCBC, and<br>• Two trustees elected directly by members.<br><br>The Public Service Summit Accord concluded in 2018 confirms the importance of addressing the composition of the Board and states that: "Parties further encouraged GEMS to ensure the transformation of the scheme and the board of trustees as to ensure a scheme reflective of the membership. This transformation should also enhance and expedite the provisions for the implementation of the NHI." |

| Factors | Implication |
|---|---|
| Fraud, waste and abuse in the medical schemes industry | The medical schemes industry, under the leadership of the CMS, is in the early stages of 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 will participate in the development of a code of good practice. GEMS is also an active participant on the Board of Healthcare Funders Health Forensics Management Unit (BHF). GEMS is committed to constructive collaboration in the interests of all medical scheme beneficiaries. |
| Review of Prescribed Minimum Benefits | The impact on GEMS of Prescribed Minimum Benefit claims is discussed from page 97 of the report.<br><br>The CMS is a reviewing the Prescribed Minimum Benefits against the background of the work underway to implement national health insurance. GEMS is participating by serving on the committees established by CMS and by making written submissions when given the opportunity. |
| 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 work towards full compliance.<br><br>The Provisional Health Market Inquiry (HMI) Report was published for commentary in 2018. GEMS supported the objective of the Health Market Inquiry by responding to submission and information requests. Submissions made by the Scheme in 2018 included detailed information on the establishment of healthcare provider networks through competitive tender processes and the results achieved by the GEMS Emerald Value option. Commentary on the Provisional HMI Report was submitted in September 2018. |

## OUR MARKET POSITIONING

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

The Scheme actuaries analysed the benefit options available in the market, comparing each GEMS option with competing options. Where competing options had income bands, the GEMS exposure was used to weigh the relative differences between the two options.

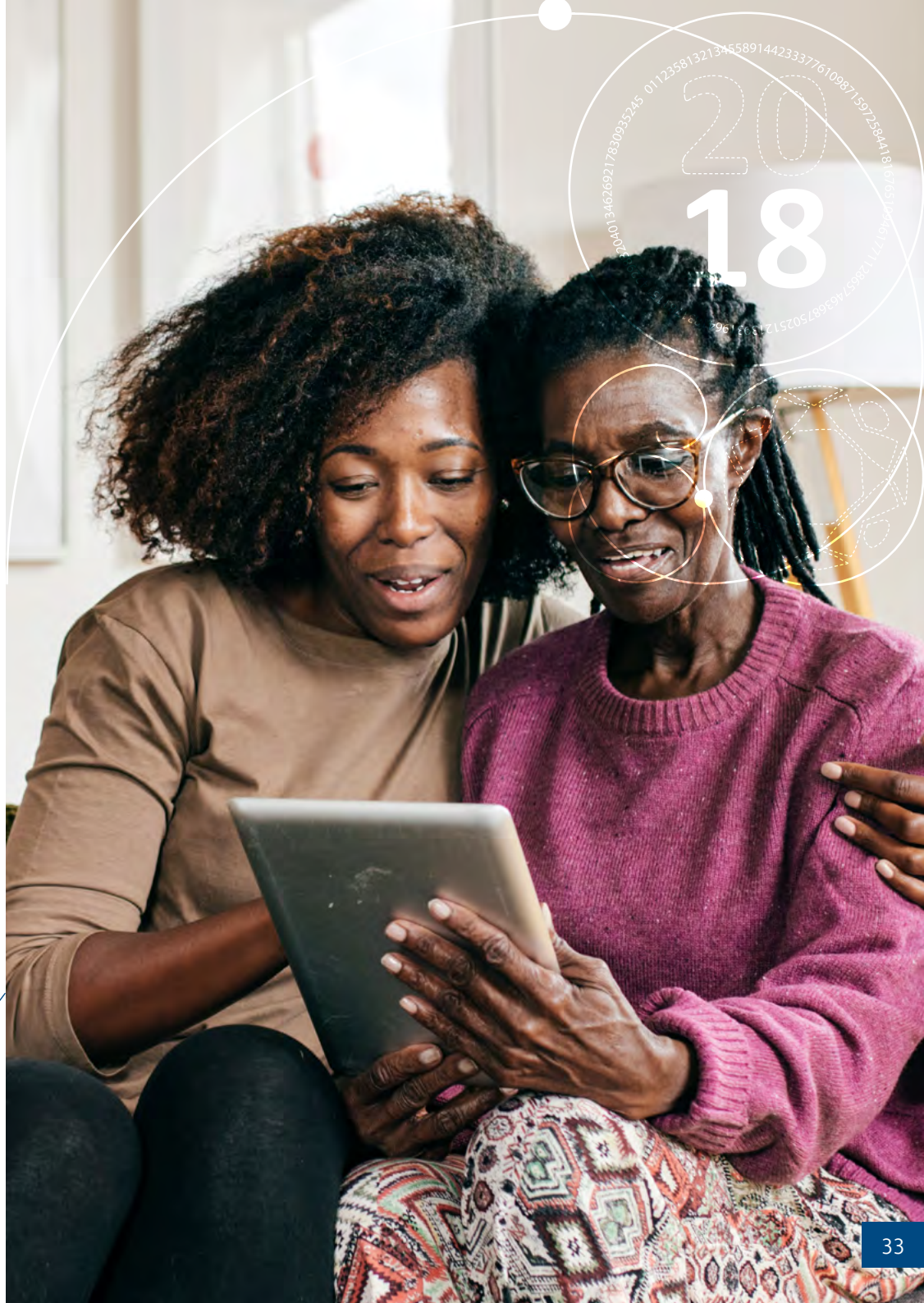
The calculated value of GEMS options compared to these competing options are shown in the table below. For example, GEMS Sapphire members, on average, enjoy a 97% higher benefit for each Rand spent on contributions (after allowing for the public service subsidy), than they would have experienced on competing options:

| Option | % difference between GEMS average family contribution and average family contribution of competing schemes before subsidy | % difference between GEMS average family contribution and average family contribution of competing schemes after subsidy |
|---|---|---|
| Sapphire | 31% | 97% |
| Beryl | 7% | 63% |
| Ruby | -2% | 50% |
| Emerald | 36% | 55% |
| Emerald Value | 33% | 67% |
| Onyx | 21% | 51% |
| All | 30% | 57% |

## OUTLOOK

It is expected that forthcoming legislative changes, including the NHI legislative framework, will be implemented gradually. A firm implementation plan and fixed timeframe have not been made available yet to the medical schemes industry. The stated future role of GEMS articulated by the Board of Trustees is that, by 2022: 'GEMS will be positioned as a blueprint for NHI and catalyst for envisaged healthcare funding/delivery reforms during the transition period, through public and private sector partnerships and collaborative initiatives; and develop a bespoke healthcare ecosystem that will position GEMS as an integral component of driving transformation of the South African healthcare industry, aligned with the requirements of NHI in the long-term.

The finalised HMI Report is expected during 2019. The recommendations in the provisional report referencing simplified benefit/service options, the optimisation of beneficiary communication and the introduction of innovative healthcare provider reimbursement strategies are already incorporated into the Scheme's product development and healthcare management plans for progressive implementation over the next three years. The PSCBC Working Committee is expected to remain an effective channel for stakeholder inclusivity during strategy implementation.



# 6. BUSINESS MODEL
## AND VALUE CREATION

### GEMS create value for members by means of:

- Disease management programmes that improves health outcomes (building intellectual capital, and social and relationship capital),
- Benefits and services for healthcare screening and disease prevention (building intellectual capital, and social and relationship capital)
- Member education and face-to-face support services (building social and relationship capital)
- Initiatives to reduce the price paid for healthcare services (building intellectual capital, and social and relationship capital)
- Sustained low non-healthcare costs (preserving financial capital)
- Fraud, waste and abuse prevention and detection programmes (building intellectual capital, and social and relationship capital; and preserving financial capital),
- A rigorous ex-gratia function to assist members in need (building intellectual capital, and social and relationship capital).

Inefficiency in service delivery, implementation challenges in care coordination on the Emerald Value option and communication delivery methods that are not optimal hampered us in achieving optimal value.

### Providers of healthcare services benefit from:

- Our expanded member base, especially members who were not previously on a medical scheme (building intellectual capital, and social and relationship capital),
- Provider engagements and benefits of network participation (building intellectual capital, and social and relationship capital)
- Our Prescribed Minimum Benefits (PMB) spend, which is 11% higher than the average spend by other medical schemes - CMS Annual Report for the 2017/18 financial year (building social and relationship capital)
- Alternative reimbursement models based on mutual benefit (building intellectual capital, and social and relationship capital),
- The ongoing simplification of benefit options (building intellectual capital, and social and relationship capital).

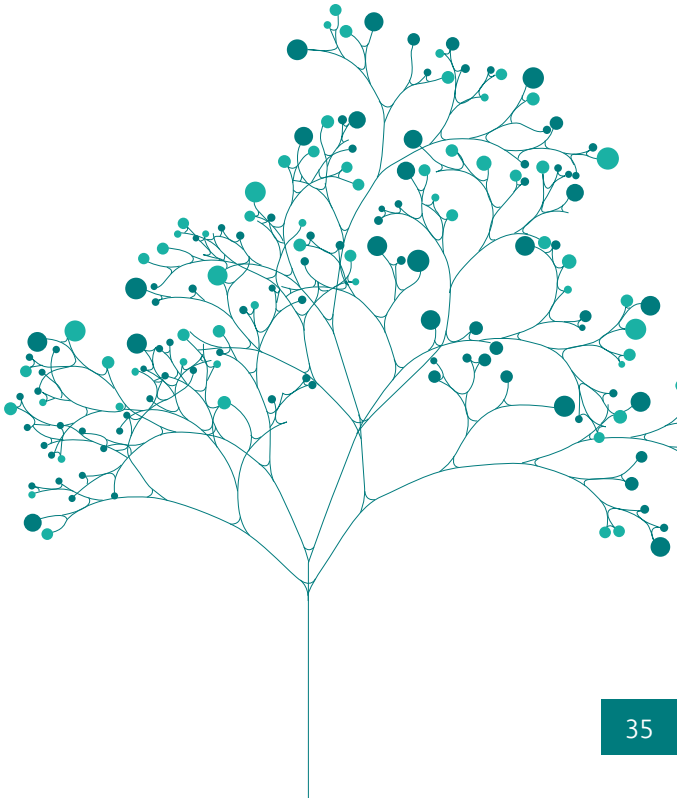
Value is eroded by complex managed-care rules and processes and administrative inefficiencies, including sub-optimal support for revenue generation by provincial health departments.

### The Minister for the Public Service and Administration and key stakeholders in government benefit from:

- Information based on the analysis of scheme data (building intellectual capital, and social and relationship capital),
- Scheme resources made available to support the development of policy (building intellectual capital, and social and relationship capital)
- Tangible support for the implementation of national health policy through participation in pilot projects (building intellectual capital, and social and relationship capital)
- Lower expenditure of the medical assistance subsidy for certain groups of employees and former employees (preserving financial capital for stakeholders and building social and relationship capital)
- Employer-based wellness events (building social and relationship capital).

Value is lost due to the fact that almost 30% of eligible public service employees are not enrolled on GEMS and pressure on stakeholders by parties who are aggrieved by instances of poor service delivery.

Over its first decade of its existence, GEMS attained a significant measure of success as an effective vehicle to drive Government's agenda to expand healthcare coverage. Based on GEMS' track record, there is an opportunity for the Scheme to be an enabler and/or catalyst for driving change and progression towards universal health coverage objectives through NHI implementation and by drawing on synergies between government policy and the aspiration of GEMS' mandate.



The relevance of the six capitals to GEMS in 2018

| Capital Name | Inputs in 2018 |
|---|---|
| 1) Financial Capital | • Contribution income (page 88)<br>• Investment income (page 102) |
| 2) Social and Relationship Capital | • Relationship with the Minister for the Public Service and Administration (page 48)<br>• Stakeholder relationship management (page 50)<br>• Development of GEMS healthcare networks (pages 12)<br>• Membership of BHF (page 47)<br>• Achieving broad-based black economic empowerment (Page 44)<br>• Member education and face-to-face support services (pages 26 and 34) |
| 3) Human Capital | • Recruitment and retention policies and systems (page 215)<br>• Employee training programmes and outcomes (page 46 and 59)<br>• Performance management policies, systems and processes (page 218)<br>• Ethics management (page 213) |
| 4) Intellectual Capital | GEMS members' health and demographic profile data and analysis (page 84)<br>Disease management programmes (page 84)<br>Healthcare screening and disease prevention services (page 12)<br>Digital first strategy (page 230)<br>Scheme policies, standard operating procedures, business processes and operational manuals, including Fraud Policy and Prevention approach and GEMS Supply Chain Management Policy and related GEMS business documents.<br>Intellectual property developed in executing scheme contracts, i.e. the development of clinical protocols of the Scheme<br>GEMS Risk Management Framework (page 68) |
| 5) Natural Capital | Use of resources such as paper, water and electricity (page 46) |
| 6) Manufactured Capital | GEMS head office building (page 15 as part of Chairperson overview))<br>Service Provider Network infrastructure<br>Client Liaison Officer Unit infrastructure |



## Value creation through the GEMS business model summarised:

### Inputs

**Financial Capital:**
Contributions and Investment Income

**Social and Relationship Capital:**
GEMS Healthcare Networks, stakeholder relationships, supplier relationships, Member satisfaction and loyalty

**Human Capital:**
Our employees – recruitment and selection, training programmes, performance management system, ethics and values

### Business model, activities and outputs

Disease management, claims adjudication and payment, financial management and reporting, investment mandate implementation, operational service provider fee negotiations

Tariff negotiations, stakeholder engagements, healthcare network management, contract SLA management, Member and healthcare complaint management, Member communication, Member roadshows, Member contact services and CLO service rendering

Recruitment and selection, employee training, performance management, ethics management processes

### Outcomes

**Financial Capital:**

Positive
- Solid investment performance
- Low non-healthcare costs
- Improved reserve ratio
- GEMS owns head office building

**Social and Relationship Capital:**

Positive
- Increased stakeholder interest and buy-in
- Improved healthcare provider relationships
- Contained PMB spend in specialist network
- Reduced number of CMS complaints
- Improved Member understanding due to CLO service rendering

**Human Capital:**

Positive
- Job creation due to the establishment of the CLO Unit
- Promotion of employment equity
- Employee training – 100% of employees
- High level of ethics awareness

### Inputs

**Intellectual Capital:**
IntelliGEMS, GEMS policies, GEMS standard operating procedures, GEMS business processes and operational manuals, GEMS Risk Management Framework

**Natural Capital:**
Paper, water and electricity

**Manufactured Capital:**
Client Liaison Officer Infrastructure (offices, mobile office, SPN infrastructure)

### Business model, activities and outputs

Procurement, contracting, fraud management, Intelligems implementation, product development and benefit design, claims containment processes, ex-gratia award process

GEMS $CO_2$ emission reduction initiatives

Used but not transformed by GEMS

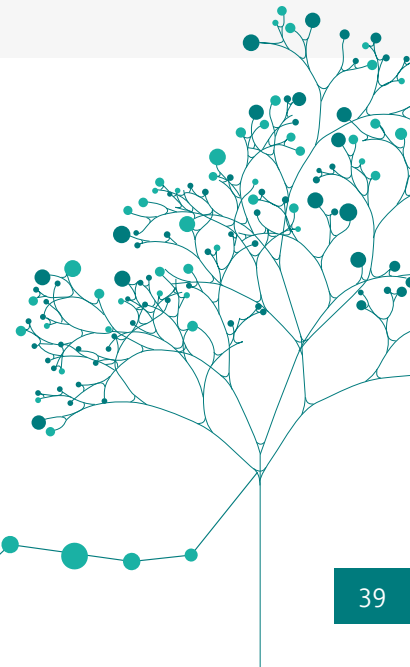
### Outcomes

**Intellectual Capital:**

Positive
- Curbing of fraud, waste and abuse
- Strong market competitiveness
- Improved disease management
- Improved care coordination
- Affordability of Member contributions
- Improved control over Scheme data
- Promotion of B-BBEE
- Ex-gratia assistance to Members in need

**Natural Capital:**

Positive
- Reduced $CO_2$ emission footprint



None of the capitals is deemed immaterial in the GEMS context. Although natural capital is not a significant input, the impact of climate change, air and water pollution on health is recognised and is progressively included in consideration of risk.

## OUR BUSINESS MODEL

The GEMS business model finds expression in three major programmes:

- Product Development and Benefit Design Programme executed by the GEMS Executive Committee.
- Claims Management Programme executed by the Claims Management Forum.
- Service Improvement Programme executed by the Service Management Forum.

The Product Development and Benefit Design Programme is led by the Principal Officer. The annual programme consists of three phases summarised below:

### Phase 01

**PRODUCT DEVELOPMENT**
February – July

- Close-off previous cycle and kick-off new cycle
- Definition of Product Development Focus in line with Strategic Focus
- Review of proposals for strategic fit and viability
- Series of workshops
- Final proposal selected for benefit design phase

### Phase 02

**BENEFIT DESIGN**
August – Mid September

- Comprehensive actuarial analyses based on cost, needs, feasibility, income band criteria
- Actuarial Peer Review
- Benefit Design Committee Meetings
- Stakeholder Communication
- Rule amendment workshops
- Board Sign-off
- Submission to the Council for Medical Schemes

### Phase 03

**YEAR-END IMPLEMENTATION**
Mid September – January

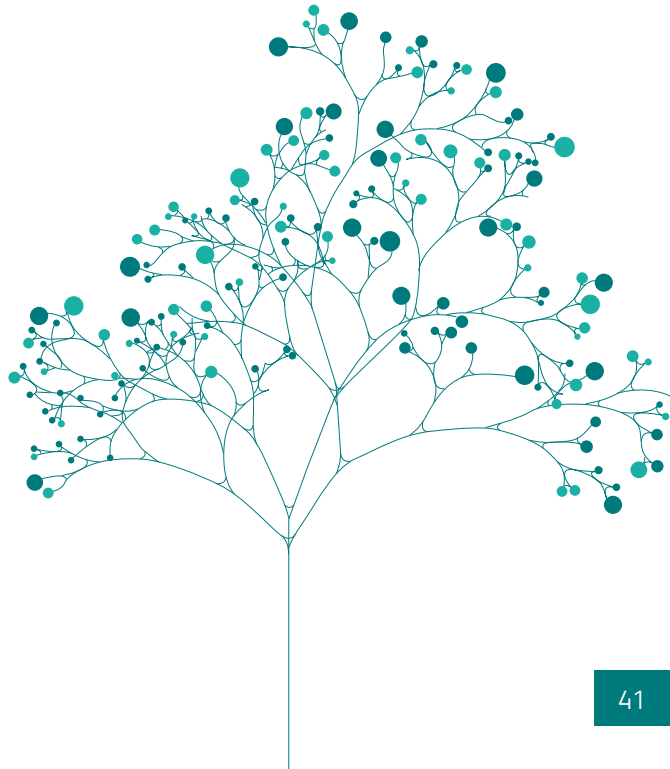
- Kick-Off
- Launch of Benefits (Interpretation Workshop)
- SPN implementation and integration process
- Progress Meetings
- Update and sign-off of mandate and standard procedures
- Tariff update process
- Option change process
- Pre-Day 1 readiness audit
- Go-Live with new benefits (01 Jan)



The Claims Management Forum comprises senior GEMS management representatives from the Finance, Healthcare Management, Risk Management and Compliance Divisions, the CEOs and senior managers from the GEMS SPN, the Scheme's actuary and Strategic Managed Care Organisation. The Principal Officer and Chief Operations Officer routinely attends the meetings of the Forum, which is supported by the GEMS Project Management Forum. A claims management working group convened by the GEMS Chief Healthcare Officer and the Scheme's Fraud Waste and Abuse programme report into the Claims Management Forum.

The success of the Claims Management Forum is underpinned by rigorous data analysis, information sharing, monitoring and discipline in execution. An early warning system is in place built on a weekly analysis of the Scheme's hospital pre-authorisation data with weekly reporting.

The Service Improvement Programme was established in 2018 and draws on the collaboration methodology developed under the Claims Management Programme. The Service Management Forum is made up of senior GEMS management representatives from the Administration and Transaction, Healthcare Management, Information and Communication Technology and Risk Management and Compliance Divisions, the CEOs and senior managers from the GEMS SPN The Service Management Forum drives 11 key initiatives to ensure the Scheme achieves a step change in member and provider satisfaction, with the ultimate goal of having GEMS independently assessed and recognised as the number one medical scheme in the country:



| KEY INITIATIVES | IMPROVEMENT FOCUS AREA |
|---|---|
| 1 Call centre | Quality of staff, staff turnover, inter-SPN transfers, IVR width and depth |
| 2 Member application process | Cumbersome, lengthy, complicated underwriting challenges and registration of dependants |
| 3 Chronic medicine | Registration process and authorisation process |
| 4 Emerald Value option | Service failures, negative experience, understanding of the product |
| 5 Renal network | Service failures, negative experience, understanding of the product |
| 6 Product development and benefit design | Benefit exhaustion, co-payments, short payments and rejections |
| 7 National Department of Health (NDoH) Revenue Generation | Simplification of pre-authorisation process, claims submission process and faster settlement |
| 8 Education and product knowledge | Drive product knowledge through marketing and training |
| 9 Face-to-face and self-help services | Walk-in centres, Client Liaison Office, member app and healthcare provider portal |
| 10 Communication campaign | Targeted to members (union and employer channels) and providers (societies and IPAs) |
| 11 Complaints management strengthening | Revision of current Principal Officer and CMS complaints business processes to strengthen processes |

## GEMS' operating model:

GEMS' current operating model is anchored in outsourcing, e.g. member administration services are outsourced to professional administrators and other service providers. The multi-party administration model was innovated and introduced by GEMS to the industry based on the requirement for expanding B-BBEE by enabling more entities to contract with GEMS and expand the pool of capable service providers. The Scheme has segmented its operations to ensure opportunities for large and small administrators and other service providers to achieve its transformation agenda. Due to this, the core business operations are outsourced and oversight carried out internally from head office.

The current strengths of the operating model include:

- GEMS has enabled introduction of new players to the market, which has encouraged competition.
- GEMS is able to leverage different strengths across the different service providers, giving it the ability to reassign a contract if one service provider is performing poorly.
- GEMS has built strong project management and contract management capabilities.

The operating model was revised with a view to building the identified core capabilities needed to implement the GEMS Five-year Strategic Plan and to address weaknesses. The GEMS Board of Trustees approved an end-state model that will be a self-contained, datacentric 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 an administrator responsible for specific functions.

The Board of Trustees made an in-principle decision to insource certain key capabilities of the Scheme through its Five-year Strategy. In 2014, the first steps were taken when the Scheme's Chief Audit Executive was appointed and established an Internal Audit function. An extensive programme for building core internal capabilities began in 2016:

- The Finance Function was one of the first key areas considered for insourcing and led to the creation of a fully functional in-house finance capability and division. This has brought better control of the management of finances, and created an improved control environment and access to financial information at a touch of a button. Processes were streamlined and automated, assisting the Scheme to implement an effective and efficient finance function.
- The Information and Communication Technology Division rolled out a new internally managed GEMS website and associated member communication channels. Infrastructure is being built to support the member app, website and portal.
- The Client Liaison Office is being transformed to perform health- and wellness-related event management functions previously sourced from contracted providers.

In September 2018, the Board approved a sourcing strategy to build internal capabilities required for the approved end-state operating model.

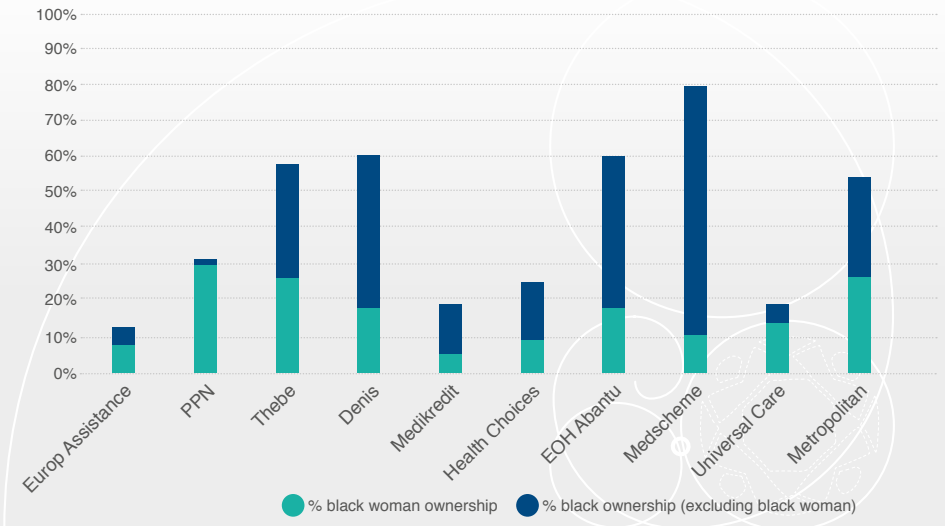
# 7. CORPORATE
## CITIZENSHIP

Our socio-economic impact is evident in the contribution made to healthcare since our inception in 2006. This includes:

- Expanding affordable access to medical aid cover for previously uninsured lives, as part of a social security safety net designed around public service employees' specific needs.
- Introducing a low-cost, multiparty outsourced operating model into the South African medical aid scheme environment. In some cases, the use of the multi-administrator model has created a more competitive upstream industry. Furthermore, GEMS is perceived to have high bargaining power, and in the case of administration costs, has benefited by achieving lower than industry average costs.
- Increasing the population of privately insured lives, so contributing to the growth of the South African medical scheme population while reducing the financial and operational burden on limited public health infrastructure and resources. GEMS has extended coverage to vulnerable groups. Members have accessibility to healthcare coverage through very competitive, creatively crafted plans.
- Creating economic opportunity through B-BBEE-driven procurement and contracting with service providers. GEMS has afforded smaller businesses an entry point into the market. Direct employment generation has also been achieved through the current procurement policy. GEMS' insistence on transformation can be demonstrated by suppliers' B-BBEE ratings. GEMS policies ensure that at least 5% of these fees are spent on sub-contractors with similar B-BBEE credentials, which has a multiplier effect, increasing the impact on the entire industry. During 2018, the average black ownership in the Scheme's SPN was 41.68%. This value has reduced from the previous year's value reported largely as a result of the amended Codes of Good Practice that came into full effect during the year, with which certain providers found it difficult to maintain their initial procurement recognition levels and some contracts that came to an end. The SPN providers still mostly have status levels of contribution of 1 to 3, with most on level 1. The Scheme works closely with its service providers to ensure that B-BBEE levels are maintained/improved, as this is a stipulated contractual condition that they have to achieve and are assessed against.

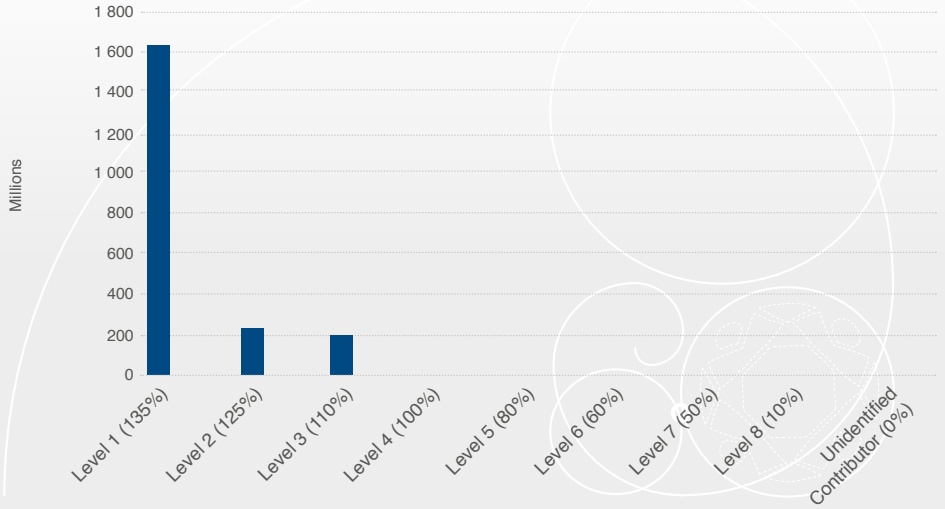
The graph below provides an overview of the black ownership of each SPN provider category, specifically black woman ownership statistics.

*AVERAGE BLACK OWNERSHIP - SPN'S*




The B-BBEE level and spend by the Scheme on these service providers are depicted below.

*B-BBEE LEVEL CONTRIBUTOR - SPN'S*



The majority of GEMS' spend on SPN contracted service providers achieved a level 1 rating which, even in the absence of any benchmark data, is considered excellent and an indication that the B-BBEE elements in the Scheme's Supply Chain Management Policy are adding value to service providers.

## INVESTING IN OUR PEOPLE

The GEMS Learning and Development Policy and the GEMS Talent Management and Succession Policy guide investment in GEMS employees. During 2018, the Scheme invested R4 749 049 in various employee training initiatives.

GEMS employees are empowered through robust learning and development initiatives to fast track and foster skills development in the medical aid industry. Noteworthy training initiatives in 2018 included a learnership programme.

The 18-month Client Liaison Officers (CLOs) Wealth Management Learnership Programme began in March 2017 across all GEMS regional offices. A total of 52 CLOs completed the first phase and received an NQF level 5 qualification from the Insurance Sector Education and Training Authority (INSETA).

## CONTRIBUTING TO ENVIRONMENTAL SUSTAINABILITY

We have an Environmental Sustainability Policy and actively seek to reduce our carbon emissions in line with the target set by the Government to reduce carbon emissions by 34% by 2020. GEMS has set its emission reduction targets at 5% year-on-year per employee for carbon dioxide emissions (CO2e) generated by travel (flights, car rentals and Scheme vehicles), electricity consumption, paper usage and water consumption.

The table below depicts the Scheme's CO2e employee (expressed as tCO2e employee) against its annual reduction targets for 2016, 2017 and 2018 respectively:

| CO2e Source | 2012 Actuals (CO2e Base Year) | 2016 Targets | 2016 Actuals | 2017 Targets | 2017 Actuals | 2018 Targets | 2018 Actuals |
|---|---|---|---|---|---|---|---|
| | tCO²e/ Employee | | | | | | |
| Scheme Vehicles | 0.101 | 0.082 | 0.453 | 0.078 | 0.282 | 0.074 | 0.424 |
| Electricity | 6.803 | 5.541 | 3.214 | 5.264 | 2.662 | 5.001 | 2.438 |
| Paper | 2.100 | 1.711 | 0.456 | 1.625 | 0.164 | 1.544 | 0.145 |
| Water | 0.036 | 0.029 | 0.019 | 0.028 | 0.013 | 0.027 | 0.011 |
| Air Travel | 1.544 | 1.258 | 1.687 | 1.195 | 1.421 | 1.135 | 0.579 |
| Car Rental | 0.068 | 0.056 | 0.157 | 0.053 | 0.082 | 0.053 | 0.113 |
| **Total** | **10.653** | **8.677** | **5.986** | **8.243** | **4.626** | **7.831** | **3.710** |

*The Scheme's efforts to reduce its CO2e impact are proving their worth, with emissions consistently below targeted reductions.*



### The Scheme's commitment to being a responsible corporate citizen is evident in:

- The results of care coordination achieved by the implementation of the Emerald Value (efficiency discounted option)
- The development and implementation of policy, procedures and systems for monitoring and curtaining fraud, waste and abuse
- Member education
- Corporate social investment: Investing in the future through donation to Umalusi Omuhle Drop-In Centre.

The centre is in Dwaleni, outside White River, Mpumalanga, where community member Angel Dzimba identified the need for a feeding programme to assist vulnerable children and founded the Umalusi Life Centre, which she operates from her home.

GEMS heard about Angel's work from the CLO in Nelspruit, and was inspired by this project that Umalusi Life Centre was made a GEMS corporate social investment project for the year.

In partnership with registered non-profit organisation Sinani, the Umalusi Life Centre is already making a significant impact on the lives of 160 children, aged between three and 18 years, providing them with nutritious meals and helping them with their homework.

When identifying a project for its annual corporate social investment outreach, GEMS considers various aspects to ensure that the funds are put to the best possible use in empowering others to reach their potential.

GEMS donated building materials for an extension to the Umalusi Life Centre, which will include a life skills area, covered open-plan area, crèche, office, storeroom, sickbay and kitchen. Fencing, rainwater tanks and water pumps were also donated to ensure availability of water, because the centre is not connected to bulk services. GEMS is donating fridges and freezers to assist the centre to keep food fresher for longer, which will allow bulk buying. It is hoped that the GEMS-provided kitchen utensils, crockery, tables and chairs will help to make this centre even more homely.

During a visit on 1 August 2018, the Scheme's Board of Trustees and GEMS staff members were pleased to see how construction was progressing and had the privilege of meeting some of the beneficiaries.

Once construction is complete, the centre will be capacitated to help more children and, in addition to assistance with homework, will teach basic life skills to help the children to live healthier lives.

GEMS is a member of the BHF and its Principal Officer serves on the Board of the organisation. We actively participate in, and encourage industry collaboration in the BHF Health Forensic Management Unit (HFMU). The HFMU provides a collaborative platform and a unique service to alert participants to potentially fraudulent activity in the private healthcare industry.

GEMS is a signatory to the Industry Charter to address Healthcare Fraud, Waste and Abuse in the private healthcare funding industry, entered into voluntarily by all participating stakeholders, including regulators, healthcare funders, administrators, industry representative bodies and professional societies and associations. The charter was signed on 1 March 2019. During 2018, GEMS was part of the steering committee that developed the draft charter.

# 8. MINISTER FOR THE PUBLIC SERVICE AND ADMINISTRATION

GEMS is registered as a restricted membership scheme under the MSA, with membership eligibility determined by employment. The Scheme is governed by an independent Board of Trustees and provides services exclusively to eligible employees. It 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 the Public Service and Administration. We seek to balance our obligations under the MSA with our obligation to serve public service employees.*

The Board of Trustees, supported by Scheme management, engaged with the former Minister Faith Muthambi and Minister Ayanda Dlodlo during the year through reports, briefing notes, correspondence and meetings. Engagements focused on the Scheme's strategic direction, financial performance, member enrolment trends and pertinent matters such as changes to the GEMS Board of Trustees and the Draft Medical Schemes Consolidation Framework published by the CMS. The Scheme's Position Paper on National Health Insurance was shared with the Ministry.

The Scheme participated in and supported the development of the Budget Vote Speech for the Public Service and Administration Portfolio.

The line department supporting the Minister is the Department of Public Service and Administration (DPSA). During the year, quarterly meetings were held with representatives from the Department, with additional meetings where needed. Quarterly meetings were combined with meetings with National Treasury and the Government Pensions Administration Agency.

The Scheme was invited to the DPSA's strategic planning session on 23 and 24 November, with the Board Chairperson and Chief Operations Officer participating.

The Scheme participated in the Centre for Public Service Innovation (CPSI) Awards in October 2018 and sponsored the health category awards.

# 9. STAKEHOLDER RELATIONSHIPS

*GEMS has multiple internal and external legitimate stakeholders, and stakeholder relationship management and engagement are crucial to its success.*

The role and responsibilities of the Board, the Clinical Governance and Administration Committee and Principal Officer in 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, i.e.

- 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 Stakeholder Management Policy, the Scheme's stakeholders and their legitimate expectations (interest) and influence (power) were identified and analysed based on available information and institutional knowledge. Stakeholders were then mapped by management to the four quadrants in a stakeholder power and influence matrix.

The matrix informs 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, informs the engagement content or subject matter for each stakeholder. Importantly, the achievement of some 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***

## Regulatory engagement

The CMS, with the Registrar of Medical Schemes, 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 on strategy implementation. Additional engagements in 2018 focused on the composition of the GEMS Board of Trustees and the inspection conducted at GEMS from 2017 to 2018.

Other key stakeholders

| Stakeholder Groupings | Material Legitimate Interests |
|---|---|
| **Stakeholders in Government and line departments:**<br>• The Minister of Health and the National Department of Health<br>• The Minister of Finance and National Treasury | - GEMS remaining sustainable<br>- Sound management of GEMS, ensuring lowest possible contributions and value for money<br>- Advancement of key health policy direction of Government, including universal access to healthcare<br>- Support for key health projects and initiatives with related pilot projects |
| **Stakeholders related to the positioning of medical assistance as an employee benefit:**<br>• PSCBC<br>• PSCBC Working Committee<br>• Unions admitted to the PSCBC | - GEMS remaining sustainable and in healthy financial position<br>- Access to affordable benefits for public service employees generally<br>- Development and introduction of suitable benefit package for employees on salary levels 1 to 5<br>- High levels of member satisfaction and effective complaints management<br>- Effective operating model<br>- Transformation of Board composition |
| **Stakeholders directly driving Scheme performance and operations:**<br>• GEMS employees<br>• GEMS SPN | - Ethical leadership<br>- Sound and constructive employment relations<br>- Fair employment policies and practices, including performance management<br>- Career advancement opportunities<br>- Effective operating model<br>- Fair and transparent procurement processes<br>- Sound contractual arrangements and contract management practices |

| Stakeholder Groupings | Material Legitimate Interests |
|---|---|
| **Stakeholders impacting on Scheme performance**<br>• Healthcare providers in their various cohorts | - Fair and transparent healthcare network procurement processes<br>- Effective healthcare network management<br>- Fair and transparent fraud, waste and abuse management practices<br>- Transparent and fair tariff negotiations<br>- Effective claims payment capabilities |

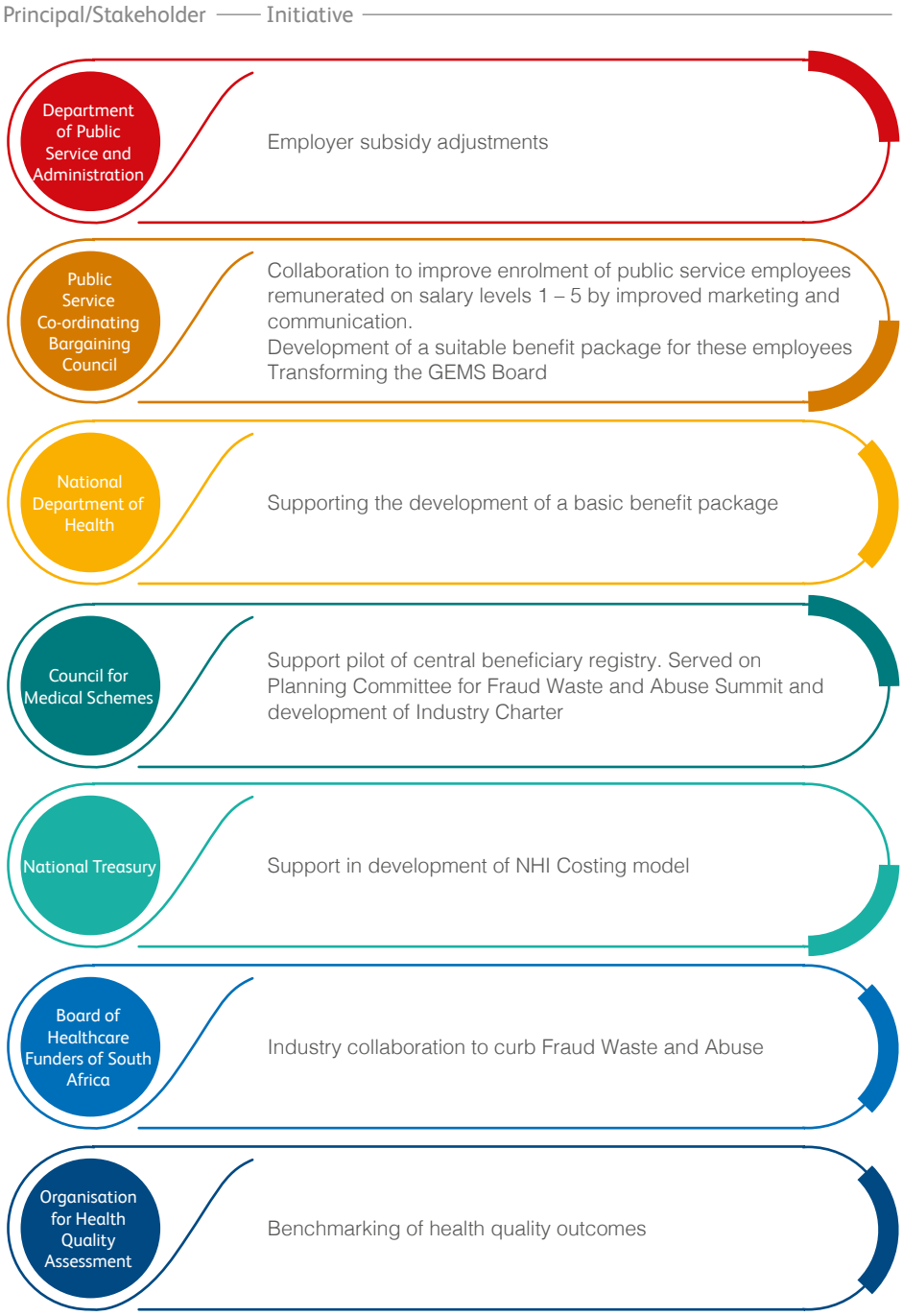
## FOCUS AREAS AND OUTCOMES

Stakeholder engagements in 2018 focused on:

- Briefing stakeholders on the GEMS Five-year Strategic Plan and progress;
- Keeping stakeholders informed of the progress made by the Scheme in addressing challenges reported in previous reporting periods;
- Consulting on product development and benefit design objectives for 2019 and beyond, and
- Strengthening GEMS' position as an integral role-player of driving transformation of the South African healthcare industry. The Scheme made extensive submissions on the NHI Bill, MSA Amendment Bill and HMI Provisional Report to inform legislative reforms required to realise universal health coverage.

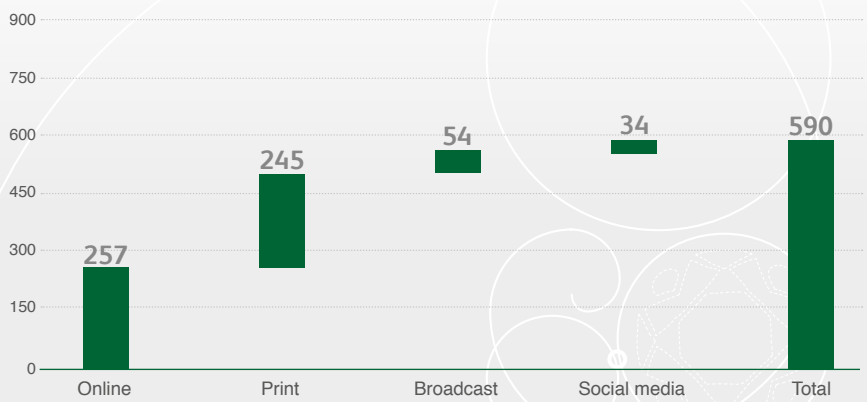
PSCBC Resolution 1 of 2018 provides for meaningful consultation in the PSCBC Working Committee on the development of a benefit product specifically for members earning on salary levels 1 to 5. This benefit product must enhance medical cover on an ongoing and accessible basis. During August and September 2018, the GEMS benefit design was discussed in the PSCBC Working Committee, including how the Sapphire option should be changed. As a first phase, private hospital benefits for members on the Sapphire option were increased from maternity benefits to benefits that increase access for children, women and the elderly, and access for mental illness. Three general surgical procedures are also covered in private hospitals for members on Sapphire from 2019. The Sapphire option will change further and the PSCBC Working Committee also discussed a new name, which will be finalised early in 2019 and introduced for the 2020 financial year.

Notably, the Scheme is involved in spearheading NHI initiatives and transformational initiatives with its principal and key stakeholders as outlined on the next page:



During 2018, GEMS featured frequently in the media.

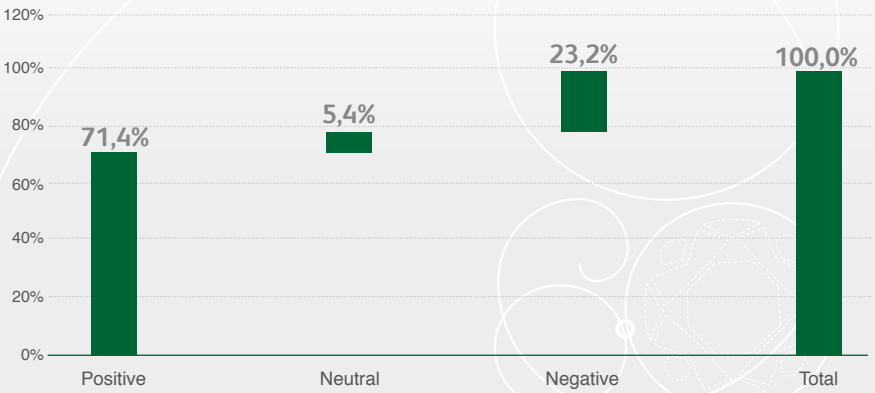
*IN 2018, GEMS APPEARED OVER 500 TIMES IN THE MEDIA*




Media enquiries were received monthly and all were addressed. The Scheme also placed informative articles in the media.

On occasion, members and stakeholders raised concerns, creating negative publicity for the Scheme. Where possible, these stakeholders were engaged on their concerns.

*MEDIA SENTIMENT*






# Significant media matters in 2018 were:

Complaints published by a new teachers union about action taken by GEMS against healthcare providers suspected of fraud. The union also published a campaign aimed at the dissolution of GEMS. The union was engaged in a stakeholder meeting and through correspondence. Complaints submitted by individual union officials who are members of GEMS were resolved.

A concern was raised on the renting of office space for the GEMS CLO in North West Province. The offices were not suitable for occupation and temporary accommodation had to be rented for the team, incurring additional costs. The renovation of the new office space was concluded and the space was occupied by GEMS in November 2018. An internal audit investigation into the additional cost was performed and the Board of Trustees considered the report in 2019.

A funding decision on specialised oncology treatment received attention in the media. Funding for the treatment was ultimately approved on recommendation of the GEMS Oncology Advisory Panel through the GEMS ex-gratia process.

The CMS's publication of the draft Medical Schemes Consolidation Framework resulted in various media queries to GEMS. All queries were referred to the CMS, as the responsible body.

# 10. STRATEGY AND RESOURCE ALLOCATION

## THE GEMS FIVE-YEAR STRATEGIC PLAN OBJECTIVES:

On 5 December 2016, the Board approved a Five-year Strategic Plan for 2017 to 2021. Aligned to government priorities, specifically those of the Minister for the Public Service and Administration, improving affordability and access to quality healthcare for public service employees forms the heart of the strategy. The overarching strategic objective is for GEMS to become the blueprint for NHI.

Engagements with the Minister for the Public Service and Administration, the PSCBC, Unions and members during roadshows were instrumental in crystallising the strategic objectives. The strategy was also informed by the unsustainability of healthcare delivery services in the public and private sector; albeit for different reasons, for example inefficiency and costly services respectively.

## STRATEGY DEVELOPMENT PROCESS

**Phase 1**

A series of internal and external facilitated consultations in preparation for, and in support of, the Board's strategic review and planning process. This step entailed a qualitative review focused on facilitating organisational introspection, surfacing of key strategic issues affecting the performance of GEMS, and a constructive dialogue to drive internal consensus on a common vision and a common set of strategic objectives to take the organisation forward.

**Phase 2**

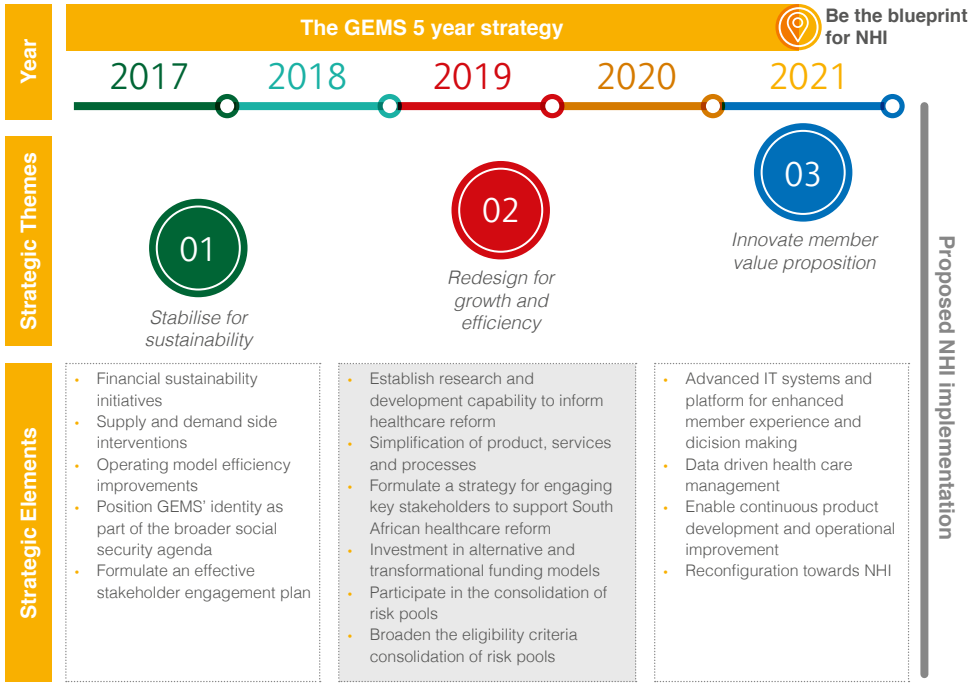
An analysis of the current strategy and the healthcare industry, and a review of the operating model that will enable GEMS to fulfil its mandate. In addition, the GEMS operating model was assessed as a means to deliver the strategy.

The strategic plan report was revised and updated in September 2018 to consider the release of the Provisional HMI Report, the draft MSA Amendment Bill and the Draft NHI Bill.

Several external stakeholders were engaged during the development of the GEMS Five-year Strategic Plan 2017 to 2021 and its annual revision. This facilitated a fundamental understanding of stakeholder perceptions on operational challenges and opportunities, and revealed expectations for GEMS' strategic direction.



The Health Market Inquiry (HMI) commissioned in 2014 and the initial NHI White Paper released in December 2015 set the context in which GEMS should operate, alter the manner in which it currently conducts business and make strategic decisions to support the realisation of the NHI. An overview of the strategy is depicted in the figure below:




In line with the strategic themes, the following strategic objectives are pursued. Key performance indicators (KPIs) designed to achieve delivery are stated in the approved Five-year Strategic Plan and were incorporated into a GEMS scorecard, which is revised annually and approved by the Board of Trustees:

| Strategic Objective | | 2018 Key Performance Indicators The approved targets linked to KPIs and main risk factors are shown in the table from page 106 |
|---|---|---|
| 1. | Be an organisation that is effective in communication, proactive in decision-making and accountable to all stakeholders | • Complaints ratio<br>• Formation of the Stakeholder Integration Forum |
| 2 | Advance financial strength and drive the Scheme to a position of long-term sustainability | • Reserve ratio<br>• Liquidity ratio<br>• Operating surplus<br>• Investment income |

| Strategic Objective | | 2018 Key Performance Indicators The approved targets linked to KPIs and main risk factors are shown in the table from page 106 |
|---|---|---|
| 3 | Shape the transformation of the healthcare industry towards universal healthcare, coordinated across the healthcare ecosystem | • Simplified core product offering<br>• A developed healthcare accountability model that progressively aligns health-care expenditure, quality and access with affordability levels<br>• Dynamic monitoring and reporting tools developed |
| 4 | Be a strategic purchaser of healthcare services by leveraging GEMS' unique positioning and relationships | • Leverage existing strategic assets towards improving member value<br>• Participation in healthcare supply side reform in line with social security agenda<br>• B-BBEE strategy designed and integrated into the business to drive transformation |
| 5 | 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<br>• Secure critical systems and intellectual property against advanced persistent threat<br>• Part insourcing of identified functions in preparation for self-administration<br>• Service delivery performance<br>• Member satisfaction: Ranking in selective comparative survey<br>• Knowledge and awareness of GEMS products, services and communication |
| 6 | Sustainably grow membership, ensuring inclusion and progressive cross subsidisation | • CLO rollout and presence<br>• Sustainable membership growth and retention |

## Important results against the strategic performance indicators in the prior year (2017):

The overall Strategic Plan phase I theme of 'stabilise for sustainability' was met through the Scheme's improved financial performance, strengthened stakeholder interaction and contribution to the social security agenda. In line with important KPIs:

- The Scheme achieved a reserve ratio target of **15.22%** against a target of **8.2%**.
- Investment returns were **R124 million** ahead of budget.
- The target of moving **5%** of Emerald members to the Emerald Value sub-option, namely to care coordination, was exceeded at **7.4%**.
- The hospital admission rate in KwaZulu-Natal was not reduced to the target of **30.5%**, with achievement at **32.1%**.
- The Scheme's complaints-to-registered-principal-members ratio was **0.27%**, which was significantly ahead of the target of **≤0.25%.**

## BUILDING A SUPPORTING ORGANISATIONAL STRUCTURE

The organisational structure of GEMS head office and regional CLOs was expanded to support the successful implementation of the Five-year Strategic Plan that began in 2017. GEMS attracted 28 permanent employees during the review period, but total staff complement decreased due to the end of the internship programme during February 2018. Some **32%** of the interns were subsequently appointed by the Scheme.

The table below depicts the total number of scheme employees since 2017 compared to the end of the previous strategic plan period, i.e. 2016:

| Total employees | 2016 | 2017 | 2018 |
|---|---|---|---|
| GEMS | 241 | 310 | 285 |
| **Employees per office** | **2016** | **2017** | **2018** |
| Head office | 123 | 150 | 133 |
| CLO | 118 | 160 | 152 |
| Total | 241 | 310 | 285 |
| **Employees per contract type** | **2016** | **2017** | **2018** |
| Contract | 11 | 19 | 19 |
| Permanent | 223 | 263 | 266 |
| Internship | 7 | 28 | 0 |
| Total | 241 | 310 | 285 |
| **Employees per gender** | **2016** | **2017** | **2018** |
| Male | 76 | 95 | 90 |
| Female | 165 | 215 | 195 |
| Total | 241 | 310 | 285 |
| | **2016** | **2017** | **2018** |
| Staff turnover | 3.9% | 5.4% | 8.2% |

An organisational rights agreement with the National Education, Health and Allied Workers Union (NEHAWU), to which 120 GEMS members – 44.38% - belong, was signed on 1 March 2019.

## EXECUTIVE MANAGEMENT

The Scheme's executive structure in 2018 consisted of the GEMS Principal Officer (Chief Executive Officer), Chief Operating Officer and eight chief officers. The positions below reflects the Scheme's top structure before implementation of the revised structure:

| Name | Position | Summarised Profile |
|---|---|---|
| **Dr Guni Goolab** | Principal Officer | 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).<br><br>Dr Goolab's public and private healthcare background spans nearly three decades. He has extensive executive experience, having led AstraZeneca, a multinational healthcare company and 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.<br><br>Since 1 August 2013, he has been Principal Officer of GEMS. Notable successes during his tenure have been:<br><br>• The Scheme's financial position has strengthened considerably achieving record reserves of R9.4 billion and the highest ever reserve ratio of 24.7%.<br>• Leading the Claims Management Programme, consisting of underwriting, hospital admission tracking, and fraud, waste and abuse initiative.<br>• The development and introduction of the Emerald Value option aligned to primary healthcare as the heartbeat of the NHI.<br>• The expansion of the CLO unit services to seven provinces.<br>• The initiation of the Service Management Programme with the goal of improving member and provider service resulting in a 34% reduction in complaints in 2018 compared to 2017.<br>• The strong focus on stakeholder engagements, including those with the DPSA, PSCBC, Unions, Department of Health, National Treasury and the CMS. |

| Name | Position | Summarised Profile |
|---|---|---|
| **Dr Stanley Moloabi** | Chief Operations Officer | Dr Moloabi rejoined GEMS on 1 June 2019 as Chief Operations Officer after a three-year spell as the Principal Officer of Medshield Medical Scheme. Prior to that, he had served GEMS for six years as the Executive: Healthcare Management.<br><br>He is a qualified medical practitioner, who obtained his primary medical degree – MB ChB - at the then Medical University of Southern Africa (Medunsa), now known as Sefako Makgato University. His other qualifications are a Diploma in Business Management with Damelin Management School, and a Certificate in HIV Management. He attended an Advanced Certificate in Private Health Sector Funding from Continuing Education at University of Pretoria and also studied towards a Master's in Family Medicine, passing his coursework final exams with Wits. He is a member of the Institute of Directors of South Africa (IODSA). During 2018, he obtained a Certificate on Global Health Delivery with Harvard University |
| **Evan Theys** | Company Secretary and Legal Counsel | Evan Theys joined GEMS on 1 February 2018 as Company Secretary and Legal Counsel. He has a BA LLB from University of Western Cape, LLM and Postgraduate Diploma in Tax Law from UCT and an MBA from Stellenbosch University. He 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. |

| Name | Position | Summarised Profile |
|---|---|---|
| **Gloria Nkadimeng** | Chief Information Officer | Gloria Nkadimeng holds a Master's Degree in Automated Management Systems acquired in Havana, Cuba, and a Certificate in Business Management from the Centre for Business Management, University of South Africa (Unisa).<br><br>Before joining GEMS, she was Group Head Information and Communication Technology at City of Johannesburg, Public Services Business Executive at Gijima, Enterprise Strategy Consultant at Microsoft and General Manager: Information Management at City of Tshwane.<br><br>Currently, Ms Nkadimeng is charged with providing strategic leadership, vision and direction to the Information and Communications Technology (ICT) Division. |
| **Molapo Masekoameng** | Chief Audit Executive | Mr Masekoameng joined the Scheme in August 2014. He holds a Postgraduate Diploma in Corporate Governance (Monash South Africa), B Tech Degree in Internal Auditing (Unisa), Diploma in Treasury Management and Trade Finance (Institute of Bankers) and International Executive Development Programme (Wits Business School). He is accredited by the Institute of Internal Auditors as a Certified Internal Auditor and Certified Financial Services Auditor.<br><br>Before 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 Head of Internal Audit, Barclays Shared Services Africa. He was also Chief Operating Officer of Absa Internal Audit and Head of Audit for Absa Retail Banking.<br><br>He is responsible for the Scheme's Internal Audit function. |



| Name | Position | Summarised Profile |
|---|---|---|
| **Dr Vuyokazi Gqola** | Chief Healthcare Officer | Dr Vuyo Gqola is a registered medical practitioner with the Health Professions Council of South Africa (HPCSA). She holds a Bachelor of Medicine and Surgery (MBChB) from the University of Cape Town, and a BSc degree and BSc Hons degree in Microbiology from the University of KwaZulu-Natal.<br><br>Dr Gqola has worked at various health institutions in the state sector, with particular experience in paediatrics and HIV management. She worked at Medscheme Holdings as a Senior Specialist: GEMS Medical Adviser since 2010, until her appointment as GEMS Executive: Healthcare Management in September 2015.<br><br>She heads the Scheme's Healthcare Management Division, which is responsible for disease risk management, medicine management, healthcare networks, provider relations, tariffs and billing (including tariff negotiations), healthcare strategic sourcing and the maternity programme. |
| **Karyna Pierce** | Chief Financial Officer | Ms Pierce qualified as a Chartered Accountant in 2004 and completed a senior management course at the University of Pretoria.<br><br>Her 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.<br><br>She joined GEMS in 2007 and was instrumental in placing the Scheme's financial management function on a sound footing.<br><br>She is 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), and direction and oversight of Scheme actuarial work. She also oversees external audits. |

| Name | Position | Summarised Profile |
|---|---|---|
| **Samuel Lewatle** | Chief Corporate Services Officer | Sam Lewatle, holds an MBA from Oxford Brookes University (UK), Bachelor of Business Administration (BBA), National Diploma in Education, certificates in macro-economics and industrial relations, Certificate in Executive and Business Coaching and a Postgraduate Certificate in Executive Leadership.<br><br>He has worked for a multinational organisation as Africa Area: Human Resources Manager and locally for the Independent Development Trust (IDT) as Senior Manager/Acting General Manager, managing members for the management/business consulting firm he established and managed for three years, and was the Executive Director: Human Capital for the National Development Agency before joining GEMS.<br><br>His career highlights include managing human resources operations in countries such as Ghana, Nigeria, Kenya and Democratic Republic of Congo, achieving the Employer Brand Management accreditation and best company to work for in 2009/10 from the Corporate Research Foundation (CRF).<br><br>Mr Lewatle joined GEMS in March 2014 as Executive: Corporate Services. He is responsible for the Corporate Service Division, driving the full human capital services that include change management, performance management, remuneration, strategic human resources planning, and offices infrastructure planning and management. |

| Name | Position | Summarised Profile |
|---|---|---|
| **Veni Singh** | Chief Administration Officer | Ms Veni Singh holds an MBA, MAP, diplomas in human resources management, training, business law and strategy, underpinned by clinical qualifications.<br><br>She has extensive experience in both private and public institutions, having been in the healthcare industry for more than three decades, two thirds of which was spent in the medical scheme sector. Her executive roles have included General Manager Strategic Managed Care for GEMS, Head of Health Risk Management and Operations at Momentum Health.<br><br>In February 2018, she joined GEMS as a Healthcare Strategist delivering strategies in line with NHI. She was appointed Chief Administration Officer in November 2018, in which capacity she is responsible for managing and providing strategy and leadership in administration and transaction services. |
| **Jeannie Combrink** | Chief Compliance Officer | Ms Combrink holds a BA Degree in State Administration, Human Resource Management, Public Administration and Political Science, and a BA Hons in Public Administration.<br><br>Before joining GEMS, she was Deputy Director: Conditions of Service in the Department of Public Service and Administration. Other highlights included serving at the Public Service Commission from 1993 to 1999 and, previously, forming part of the team that implemented PERSAL across the public service.<br><br>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. |

| Name | Position | Summarised Profile |
|---|---|---|
| **Michael Willie**<br>Resigned 1 January 2019 | Chief Research Officer | Michael Willie joined GEMS on 1 February 2018. He holds a BSc (Mathematics and Statistics) and a Master's Degree (MSc in Mathematical Statistics) from University of the Free State. He also holds postgraduate certificates in marketing management and strategic management from Unisa.<br><br>Before joining the Scheme, he was Data Scientist at Nedbank and before that was involved in analytics and data management with Liberty Corporate and Rand Mutual Assurance. Michael has worked for the CMS as a Senior Researcher and Acting Head of Department. Another previous engagement was Biostatistician with Wits Health Consortium. In 2018, he was responsible for the research and development function of the Scheme. |



Back row (from left to right): Ms Gloria Nkadimeng, Mr Samuel Lewatle, Mr Molapo Masekoameng, Mr Evan Theys, Dr Vuyo Gqola, Ms Jeannie Combrink
Front row (from left to right): Ms Veni Singh, Dr Stan Moloabi, Dr Guni Goolab (PO), Ms Karyna Pierce

# 11. 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 strategic objectives. The GEMS Risk Social and Ethics Committee reviews and assesses 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. GEMS executives are responsible and accountable for managing risks in their divisions, including the significant outsourced business processes components.

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. The Scheme is firmly committed to robust risk management as a fundamental pillar to its 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 decisions and actions to deal with and benefit from uncertainties that may be encountered while pursuing goals.

## RISK MANAGEMENT STRATEGY

GEMS' Risk Management Strategy manages internal and external risks that may impact business sustainability. Our risk management process, also covering 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.

## RISK UNIVERSE

GEMS' risk universe illustrates the specific risk environment in which it operates, which constitutes the sources of potential risks. This represents the minimum scope of application of our risk management processes, and is segmented into three 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.


**LONG-TERM SUSTAINABILITY**

- Strategic Business Fit
- Subsidisation
- Merger & Acquisition Business Case

**RESILIENCE & FINANCIAL SUSTAINABILITY**

- Claims experience
- Utilisation
- Healthcare Supply
- Solvency
- Contributions

**OPERATIONAL EXCELLENCE**

- Capabilities
- Operational Efficiency
- Stakeholder Satisfaction

**GROWTH**

- Coverage
- Member satisfaction
- Health Outcomes

**VALUE CHAIN OPERATIONS**

- Product Development
- Sales & Marketing
- Contribution & Debt
- Healthcare Management
- Claims Management

**SUPPORT FUNCTIONS OPERATIONS**

- Information
- IT
- BCM
- Compliance
- Stakeholders
- Project & Division Management
- Fraud, Waste & Abuse
- Human Capital

## RISK APPETITE

Risk appetite, tolerance and risk-bearing capacity demarcate various levels of risk that allow GEMS to escalate and deal with risk aligned to the delegation of authority. 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 and natural). 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.

## RISK MANAGEMENT CAPABILITIES

GEMS' key risk management capabilities are:

- Responsibly assume risk in pursuit of objectives
- Pursue opportunities responsibly
- Take accountability for risk response decisions
- Execute risks response strategies timeously at strategic, operational and process levels
- Integrate risk interdependencies across GEMS and outsourced service providers
- Provide reasonable assurance on risk management outcomes
- Improve risk management capabilities continuously

Our risk management capabilities are underpinned by internationally recognised processes (ISO31000) and codes of practice (King Code for Corporate Governance).

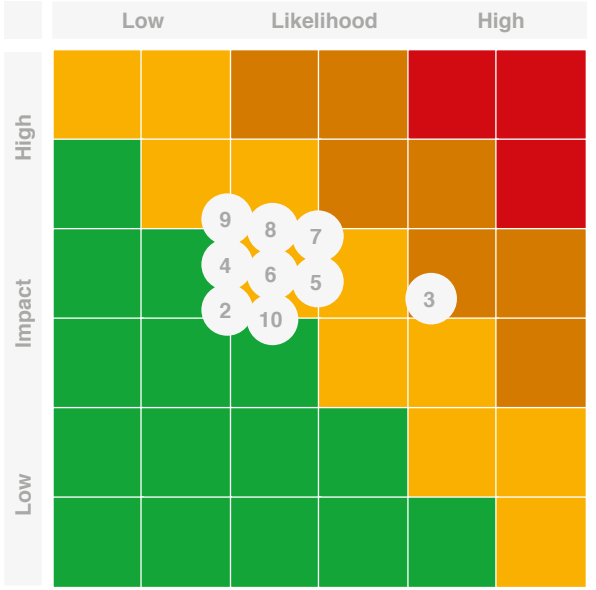
## RISK MANAGEMENT PLAN

GEMS followed a Board approved annual work plan for the 2018 financial year:

- An annual risk management maturity assessment was completed to inform strengthening of various risk management capabilities.
- The Risk management IT system was implemented.
- The Risk Management Framework and Standard Operating Procedure and Policy were significantly enhanced to ensure full alignment with the GEMS strategy and operating environment.
- The Board of Trustees conducted a formal annual risk assessment to identify the top risks faced by GEMS. The Board monitored these risks quarterly, continuously evaluating significant changes in the risk landscape and effectiveness of risk mitigations.
- Divisional risk management was conducted in a similar fashion, with an annual risk assessment and quarterly risk monitoring. In particular, risk management was conducted in the significant outsourced SPN.
- Process-level risk assessments were conducted, including budget, benefit design, year-end implementation and Annual General Meeting (AGM) risks.
- Organisational improvement initiatives, including appointment of new service providers and the GEMS strategy implementation programme, were treated through the GEMS formal project management methodology that includes project risk management.

## TOP RISKS FACING THE SCHEME

The GEMS top risks are reflected in the heatmap below and discussed further in the section below. The link to the strategic objectives outlined in the Strategy and Resource Allocation section of the report (page 56) is also shown. 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 one risk exceeds the GEMS risk tolerance level (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 MAJOR MISS-PROJECTION OF KEY INPUTS INTO GEMS' BUDGET**

**STRATEGIC OBJECTIVE:**

**Advance financial strength and drive the Scheme to a position of long-term sustainability**

This risk has occurred historically, as a result of modelling errors and variability in key assumptions. During this period, the risk did not materialise, with year-end reserves over 24% well ahead of budget. This demonstrates the robustness of our actuarial models. Budget assumptions were prudent, with a resultant better utilisation, tariffs and medicine pricing. The unforeseen increase in VAT was a detractor, but the Scheme was able to fully offset the effect.

A key and critical risk factor that remains is variability in key cost drivers. For the year, utilisation was much more favourable than budgeted, but the inherent uncertainty in utilisation remains, as evident in the large historic variability. The Scheme will continue to follow a prudent budget approach to counter this risk, and especially until major factors driving utilisation (such as fraud, waste and abuse containment) are proven and predictable. The Scheme is also negotiating with National Treasury for risk protection against excessive and unforeseen utilisation levels, and has secured commitments for acknowledgement of the pre-92 pensioner transfers that occurred without sufficient reserve transfers.

The opportunity associated with managing this risk is that GEMS is competitively resilient to financial uncertainties and to protect members fully against financial exposure.

- Robust actuarial models
- Prudent budget approach until reserves are within regulatory requirement
- Actuarial peer reviews
- Negotiation with National Treasury for excessive utilisation increases and pre-92 pensioner reserve commitments

## #2 UNSUSTAINABLE OPERATING COST INCREASE

### STRATEGIC OBJECTIVES:

**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**

This risk did not materialise during the year. The Scheme benefitted from extremely low utilisation increases, favourable tariffs, low medicine price increases, generic medicine substitution, device pricing and alternative reimbursement mechanisms (ARMs) Substantial discounts through state tender pricing were delayed. The 1% VAT increase, however, was not foreseen.

A central driver to healthcare cost is utilisation. The demand for healthcare services is driven by clinical profile, where chronic prevalence is increasing across the industry, with an increase in co-morbidities, albeit not excessively or unexpectedly. Demand is also driven by large and unexpected epidemics, but this was not experienced during the year, with the Listeriosis incident of lesser impact.

A critical risk mitigation is the Scheme's extensive claims management programme, including underwriting, protocols, peer review, and fraud, waste and abuse management. This programme has resulted in dramatic financial sustainability gains. The significantly higher utilisation in KwaZulu-Natal (linked to fraud, waste and abuse) remains a concern, where the gains seem to taper off with possible early signs of reversal.

The associated opportunity is that GEMS can offer rich benefits and highly competitive contributions.

- Strategic Sourcing and Tariff Negotiation Programme
- Claims Management Programme
- Underwriting
- Protocol review
- Peer review
- Fraud, Waste and Abuse Programme

## #3 UNABLE TO BALANCE AND RESPOND EFFECTIVELY TO STAKEHOLDER EXPECTATIONS AND REQUIREMENTS

### STRATEGIC OBJECTIVE:

**Be an organisation that is effective in communication, proactive in decision-making and accountable to all stakeholders**

The risk materialised substantially in the year. Member and provider expectations were not met, evidenced in the unfavourable member and provider satisfaction survey scores. The critical areas for improvement relate to the Scheme benefit design, service delivery and creating sufficient understanding and knowledge. Satisfaction levels are significantly lagging top schemes. Member complaint numbers remain high and are echoing the member and provider survey results, but this is showing a positive declining trend. The Scheme requires a strong approach to deal with complaints, with an optimised complaints process that includes rigorous root cause analysis is key to driving member experience, to understanding member requirements and strengthening the management of SPN service level agreements (SLAs). Related to this is the handling of CMS complaints, which dramatically improved during the year, in terms of both number of escalated complaints and turnaround times.

The Scheme has strengthened key stakeholder engagements and inclusive decision-making through the PSCBC Working Committee. The Service Management Forum is a high-priority intervention that is focused on dramatically improving member and provider satisfaction, with the aim of becoming the number 1 scheme in the country. A number of Board member changes will occur 2019, during which the Scheme will need to ensure continuity. The PSCBC Working Committee is pivotal here, and it is crucial to ensure a mutually beneficial relationship.

The benefit enhancements for 2019 are also positioned as a major driver towards member satisfaction. Here GEMS has added almost R1 billion of additional benefits to members to respond to access to both private and public hospitals, preventive care, reducing benefit depletion and enriching benefits. This was achieved with a lowest-in-industry contribution increase.

The opportunity associated with this risk is that GEMS will be strongly positioned to balance effectively a broad range of complex stakeholder requirements.

- Service Management Programme
- In-depth member and provider satisfaction surveys and research
- Implementation and adoption of 2019 benefit enhancements
- PSCBC Working Committee

## #4 SIGNIFICANT BREAKDOWN IN ALIGNMENT, INTEGRATION AND MOBILISATION OF ALL STAKEHOLDERS INTO NHI PROCESS

**STRATEGIC OBJECTIVE:**

**Shape the transformation of the healthcare industry towards universal healthcare, coordinated across the healthcare ecosystem**

This risk did not materialise during the year. Significant progress was seen in the release of the NHI Bill, MSA Amendment Bill and the Provisional HMI Report. GEMS is the only scheme that is explicitly mentioned by the Minister of Health and Minister for the Public Service and Administration, notably its Emerald Value option (EVO), as a benchmark for care-coordination, benefit optimisation and network management, with commensurate significant financial benefit to members.

Although GEMS is significantly aligned to the requirements and principles of the bills and HMI, a detractor is the unfavourable member and provider satisfaction levels, which, in large, is attributable to service excellence. This is combined with the low coverage of the mandated government employees and low uptake of Sapphire by level 1 to 5 employees.

During the year the, 'race for NHI' intensified, with other parties vying for a role, underscored by pronouncements from National Treasury and the Minister for the Public Service and Administration. This confirms that GEMS (after remediating its financial stability) must ensure that it can offer a competitive product and service – and have a viable fund and administration capability.

An emerging risk factor is amalgamation of all public sector medical schemes into GEMS as directed by the White Paper on National Health Insurance. 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 to minimise the risk of significant counter action and re-action.

GEMS also enjoys the benefit of a medical assistance subsidy forming part of the negotiated conditions of service of public service employees, noting that subsidy equalisation has been a point of debate for some time. These are crucial risk factors that must be mitigated for GEMS to be a comprehensive blueprint for NHI. Risk mitigations include the Service Management Forum to dramatically improve member and provider satisfaction. The benefit enhancements for 2019 are also fully aligned to the NHI imperative towards vulnerable groups, as well as contracting both private and public facilities. The Scheme is also supporting a number of NHI initiatives, including the beneficiary registry pilot.

The opportunity associated with effectively managing this risk is that GEMS can substantially and meaning fully contribute to realising universal healthcare.

- Service Management Programme
- Implementation and adoption of NHI-facing benefit enhancements for 2019
- Regulatory framework for Scheme amalgamations
- Support of NHI initiatives

## #5 A SIGNIFICANT LAG IN RELIABLE, SECURE BIG DATA ANALYTICAL CAPABILITY

**STRATEGIC OBJECTIVE:**

**Be an agile data-driven scheme that leverages people, systems and processes to derive value for the member**

The risk materialised partially during the year. Cybercrime has increased significantly, both locally and globally. Cybercrime and business continuity remain a challenge, especially in the SPN. GEMS is vulnerable because a large portion of its data is under the control of the SPN, but also because a major cyber-attack can lead to prolonged operational disruptions that can have a significant financial impact as a result of counterparty claims. GEMS' own ICT environment has encountered cyber threats, which were adequately remedied. These, however, are early warning signals – to implement its full internal ICT capabilities, GEMS will require a sophisticated ICT security capability.

Implementation of robust minimum standards for business continuity and cybercrime controls is a priority in the SPN and at GEMS. This may be a particular challenge with smaller SPNs, in terms of affordability. GEMS is implementing cybercrime insurance both internally and at SPN level.

The longer-term strategic plan to build in-house ICT capabilities has been delayed slightly because of the delayed completion of the Core Scheme Platform study and key decisions around building of internal capabilities operating model. The enterprise-wide resource planning system, data warehouse, GEMS website and member application were successfully implemented.

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.

- ICT security framework and standards for GEMS' ICT infrastructure and SPN-owned infrastructure
- Cybercrime insurance at GEMS and SPN
- Combined assurance over ICT security infrastructure
- Sourcing of Capabilities Programme

## #6 INEFFECTIVE INSOURCE/OUTSOURCE OPERATING MODEL

**STRATEGIC OBJECTIVE:**

**Be an agile data-driven scheme that leverages people, systems and processes to derive value for the member**

This risk materialised this year as it became more evident that the GEMS operating model, which is negatively affected by the fragmented multi-administrator model, is leading to shortcomings in service delivery. The Scheme is also experiencing challenges in the contract management process, where there are cases of contracts exceeding renewal dates.

The Core Scheme Platform project, which informs the insource/outsource roadmap, has been slightly delayed and the request for information to the market is still to be completed.

With the significant development of the Sourcing of Capabilities Programme, the risk factors in this environment are now better defined. The strategic approach calls for long-term relationships with long-term effects. It requires mutually beneficial long-term constructs between GEMS and partners. Complexity stems from an entirely new type of cooperation arrangement for the Scheme. The proposed model will not entirely remove current complex fragmentation and thus will still require integration. Ongoing innovation is required beyond the current insourced systems/processes. Capacity of dedicated resources, with the right level of experience and competency, is essential. The Scheme's B-BBEE strategy and plans are not sufficient to support Scheme growth and transformation.

In its current operating model, and with the changes required, GEMS will still be reliant on significant services from the SPN. This highlights the importance of adequate board oversight over the SPN, with adequate and robust controls. A high level of understanding of the operating realities and risks in the SPN environment is critical, informed by adequate measurements to proactively inform on service levels experienced by the members. It is also important to ensure that GEMS and the SPN are fully aligned to the significant legislative changes.

The opportunity is that GEMS can deliver superior member value, combining industry leading non-healthcare cost with seamless service delivery.

- Sourcing of Capabilities Programme
- SPN service management
- Service Management Forum
- Procurement processes

## #7 PROLONGED NEGATIVE TREND IN MEMBER RESIGNATION OR NEW MEMBER UPTAKE

**STRATEGIC OBJECTIVE:**

**Sustainably grow membership, ensuring inclusion and progressive cross-subsidisation**

This risk materialised partially this year. GEMS membership increased marginally. In particular, the coverage of all mandated government employees is relatively low (less than 60%). Also, levels 1 to 5 employee coverage is below 50% for factors including lack of awareness of the fully subsidised Sapphire benefit option, dissatisfaction with limitations of public hospitals and insufficient general practitioner and medicine benefits. These are critical drivers to positioning GEMS as a scheme of choice and a suitable blueprint for NHI, and to growing through scheme amalgamation.

The low coverage is also linked to the critically low member and provider satisfaction levels, and high complaints levels. GEMS currently also enjoys subsidies, whose revocation could further affect the Scheme's attractiveness. Switching to the flagship EVO plan is also progressing slower than planned. The key risk mitigations are the service management forum and significant benefit enhancements for 2019.

The opportunity is at the heart of GEMS' mandate, to deliver affordable healthcare to all government employees, combined with the broadest eligibility criteria.

- Implementation and adoption of benefit enhancements for 2019
- In-depth member and provider satisfaction surveys and research
- Service Management Programme
- Extensive provider and member education programmes

## #8 BREAKDOWN IN ETHICAL CULTURE INTERNALLY AND IN THE OPERATING ENVIRONMENT

**STRATEGIC OBJECTIVES:**

**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**

This risk materialised this year, as it became evident that corruption is deemed pervasive in South Africa, in both public and private sectors. GEMS has not been immune to corrupt and irregular behaviour internally. Action against GEMS employees and providers relating to tender irregularities have been concluded. It is to be noted that, as GEMS reserves have dramatically increased, it increased the potential impact of unethical behaviour, with large sums under control of the Scheme. Ethics internally is being strengthened by visible leadership, strengthening of procurement processes, a whistleblowing service, a Fraud and Forensic Investigation Unit and establishing an ethics function and capabilities.

GEMS' claims environment is significantly impacted by irregular provider and member behaviour. Although significant success has been achieved, there are early signs of the effectiveness levelling out, with possible reversal in certain areas. Here, KwaZulu-Natal remains an outlier, with significantly higher claims experience than other provinces. Several organised crimes and syndicates have been identified and action taken.

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 to building an ethical foundation for the nation.

- Ethics function
- Internal forensic investigation capability
- Whistleblowing capability
- Fraud, Waste and Abuse Programme
- Procurement policy and capabilities

## #9 UNABLE TO OPERATIONALISE A COHESIVE GEMS STRUCTURE

**STRATEGIC OBJECTIVE:**

**Be an agile data-driven scheme that leverages people, systems and processes to derive value for the member**

This risk materialised partially this year. The tier 1 structure has been substantially filled, but with key vacancies and challenges of retention. Inter-divisional movements have been substantially defined, but there have been delays. Complexity of the next tier structure design and capacitation remains. Organisational capacity is constrained to deal simultaneously with significant current challenges and transition.

The key risk factors remain the design of a structure flexible and responsive to short-, medium- and long-term growth objectives. A key risk mitigation is to drive the restructuring project through robust project management principles, with adequate prioritisation and alignment of business as usual and strategic activities. The process will also apply communication, change management and collaboration.

The opportunity in managing this risk is a highly efficient and high-performance organisation that creates value to the member.

- Functional transition
- Work study
- Capacitation and filling of vacancies

## #10 DETERIORATION IN MEMBER HEALTH OUTCOMES

**STRATEGIC OBJECTIVE:**

**Sustainably grow membership ensuring inclusion and progressive cross-subsidisation**

**Shape the transformation of the healthcare industry towards universal healthcare, coordinated across the healthcare ecosystem**

This risk materialised to a limited extent this year. Worsening clinical profiles and co-morbidities are experienced across the industry, but are realities of an ageing Scheme profile. Mitigation includes improvements in GEMS disease management programme coverage, and the systematic enhancement of screening and preventative benefits over the past two years. Member education is also positioned to increase effectiveness of the programmes.

The product development cycle is focused on improving member health in synchronisation with NHI priorities by improving access for vulnerable groups, focusing on primary, screening and preventive care. The screening benefits seek to proactively identify high-risk members with early treatment, thus preventing downstream costs. EVO is already impacting positively on member health through care coordination.

The social and environmental determinants of health (sanitation, housing, employment, climate change, air and potentially plastic pollution) are considerable and raise the question of how GEMS strategies can contribute to solving those social issues, particularly through technology to improve service delivery, cost efficiencies and communication.

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.

- Implementation of 2019 preventive care benefit enhancements
- EVO switching
- Disease management programmes
- Extensive member education programmes

# 12. PERFORMANCE AND OUTCOMES

The Scheme's improved financial performance in 2017 was maintained in 2018 through ongoing financial sustainability initiatives, while progress was made in the other strategic implementation elements of:

| Strategic Element | Strategic Objective |
|---|---|
| • Supply and demand side interventions | Be a strategic purchaser of healthcare services by leveraging GEMS' unique positioning and relationships |
| • Operating model efficiency improvements | Be an agile, data-driven Scheme that leverages people, systems and processes to derive value for the member |
| • Positioning GEMS' identity as part of the broader social security agenda | Shape the transformation of the healthcare industry towards universal healthcare, coordinated across the healthcare ecosystem |
| • Formulating an effective stakeholder engagement plan | Be an organisation that is effective in communication, proactive in decision-making and accountable to all stakeholders |

This satisfies the objective of the first phase of the GEMS Five-year Strategic Plan, i.e. 'Stabilise for sustainability'.

During 2018, the Scheme moved into the second phase of the plan, themed 'Redesign for growth and efficiency'. In this phase, the following main strategic implementation elements are being attended to:

| Strategic Element | Strategic Objective |
|---|---|
| • Establish research and development capability | Shape the transformation of the healthcare industry towards universal healthcare, coordinated across the healthcare ecosystem |
| • Simplification of products, services and processes | Be an agile, data-driven Scheme that leverages people, systems and processes to derive value for the member |
| • Formulate a strategy for engaging key stakeholders to support South African healthcare reform | Shape the transformation of the healthcare industry towards universal healthcare, coordinated across the healthcare ecosystem |
| • Investment in alternative and transformational funding models | Advance financial strength and drive the Scheme to a position of long-term sustainability |
| • Participate in the consolidation of risk pools. | Sustainably grow membership, ensuring inclusion and progressive cross-subsidisation |
| • Broaden eligibility criteria to drive member growth | Sustainably grow membership, ensuring inclusion and progressive cross-subsidisation |

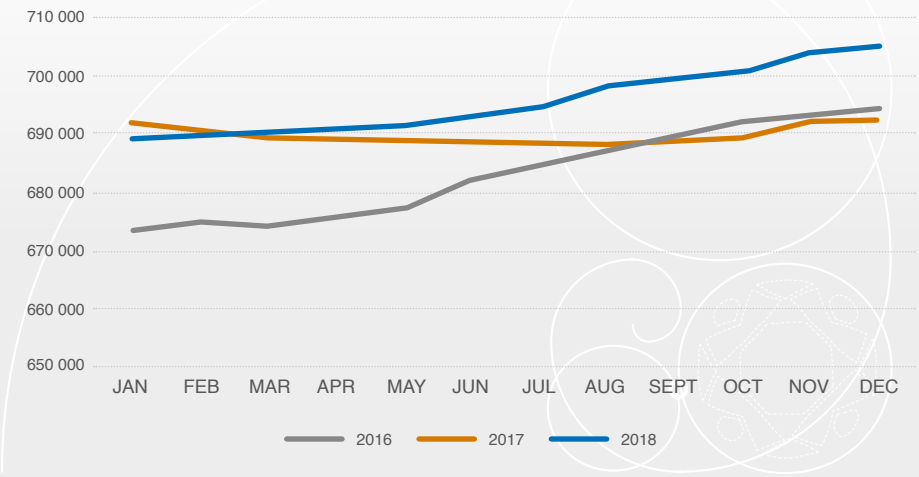
Progress against important performance targets linked to the strategic elements and objectives in the GEMS Five-year Strategic Plan (2017 to 2021) are shown in the table on page 106. The targets were selected for reporting based on the need to compare our 2018 performance to reported performance in 2017 and to provide reporting on material key performance indicators as per the list of material matters on page 4.

We aspire to track and balance trade-offs among material financial, healthcare and corporate governance performance objectives and outcomes, i.e. between the capitals and components of the capitals. A clinical governance scorecard, composed of metrics measuring financial performance, healthcare outcomes and corporate governance outcomes, is being developed. The financial module is already in use, while the healthcare module was tested in 2018. The development of the corporate governance module will be completed in 2019.

## MEMBERSHIP GROWTH PERFORMANCE

During 2018, the number of resignations from the Scheme dropped and membership application numbers increased, resulting in the Scheme reaching the highest membership since inception, at 705 192 (2017 – 692 092).

*MEMBERSHIP GROWTH*

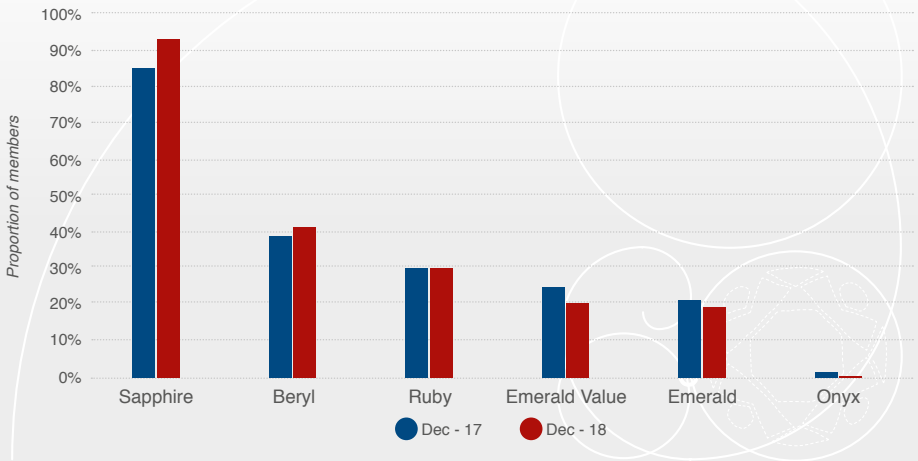


## THE SCHEME CONTINUED ITS FOCUS ON SALARY LEVELS 1 TO 5 PUBLIC SERVICE EMPLOYEES

The Scheme ended the year with 239 386 (2017: 184 119) employees remunerated on salary levels 1 to 5 split across all the options. This represents 26.8% (2017: 26.6%) of the total membership on GEMS. Employees in the public service employed on salary levels 1 to 5 typically earn between R8 000 and R15 000 per month. The Sapphire option has 93.7% members on salary levels 1 – 5, compared to 42.1% for the Beryl option. This is expected since the Sapphire option is the least expensive option and employees remunerated on levels 1 to 5 are fully subsidised on the option.

The graph below depicts the year-on-year fluctuation per option for employees remunerated on salary levels 1 to 5.

*MEMBERSHIP GROWTH*




## MEMBER SATISFACTION OUTCOMES

A key aspect of enhancing service delivery is to ensure that complaints are handled speedily and with fairness. Complaints are analysed to gain insight into the concerns and expectations of both members and providers. The Board of Trustees monitors service failures, issues and concerns raised by members, and receive quarterly and ad-hoc reporting from the Principal Officer.

A dedicated email address (complaints@gems.gov.za) is available for the submission of complaints by members, providers and any other third parties. Complaints are also received directly by the Scheme's SPN, the CLO Unit, the Principal Officer's office, and multimedia channels such as Facebook and Hellopeter. A formal complaints management standard operating procedure is in place and complaints are managed across the Scheme's SPN.

To strengthen its complaints management capability, the Scheme initiated the complaints platform project to oversee the implementation of a complaints system that is accessible by the GEMS SPN. This system will allow full visibility of all complaints and the status of these complaints within the GEMS SPNs, including:

- Monitoring of turnaround times;
- Capturing of the nature and root causes of complaints, and
- Capturing of complaint categories in a standardised way.

In addition, the Scheme will be assured that the requisite escalations are in place to ensure timeous and comprehensive delivery of responses to the CMS, the Scheme, members and providers.

The following three focus areas were identified for the project:

- Integrity of data and collaboration across parties. Capturing complaints at a single source will ensure data integrity and an integrated workflow component for collaboration across the stakeholders.
- Quality of investigations, responses and analysis.
- A reporting capability that will provide the desired insight into current states and historical trends.

In 2018, the number of complaints received decreased by 34% compared to 2017.

The complaints ratio was 0.17%, which is below the complaints ratio target of ≤0.25% set in the Scheme's Strategic Plan. The complaints ratio is calculated using the number of complaints received as a percentage of principal members.

Notably, compliment numbers increased by 125% in 2018.

The CMS referred 947 complaints to GEMS in terms of Section 47 of the MSA No 131 of 1998 - a 16.9% decrease compared to 2017.

Of the total number of complaints received from the CMS:

- 121 (12.78%) were referred directly to the CMS,
- 71 (7.50%) were unresolved by GEMS and directed to the CMS,
- 755 (79.72%) were addressed by GEMS, but disputed at the CMS.

The table below depicts the total numbers for 2018:

| Month | Referred directly to CMS without Scheme intervention | Unresolved enquiries directed to CMS | Addressed by the Scheme and disputed to CMS | Total |
|---|---|---|---|---|
| Jan-18 | 13 | 5 | 60 | 78 |
| Feb-18 | 5 | 2 | 94 | 101 |
| Mar-18 | 8 | 1 | 84 | 93 |
| Apr-18 | 14 | 4 | 45 | 63 |
| May-18 | 14 | 10 | 106 | 130 |
| Jun-18 | 10 | 8 | 79 | 97 |
| Jul-18 | 20 | 13 | 65 | 98 |
| Aug-18 | 5 | 6 | 62 | 73 |
| Sep-18 | 5 | 4 | 50 | 59 |
| Oct-18 | 10 | 8 | 27 | 45 |
| Nov-18 | 12 | 6 | 60 | 78 |
| Dec-18 | 5 | 4 | 23 | 32 |
| Total | 121 | 71 | 755 | 947 |
| Percentage | 12.78% | 7.50% | 79.72% | 100% |

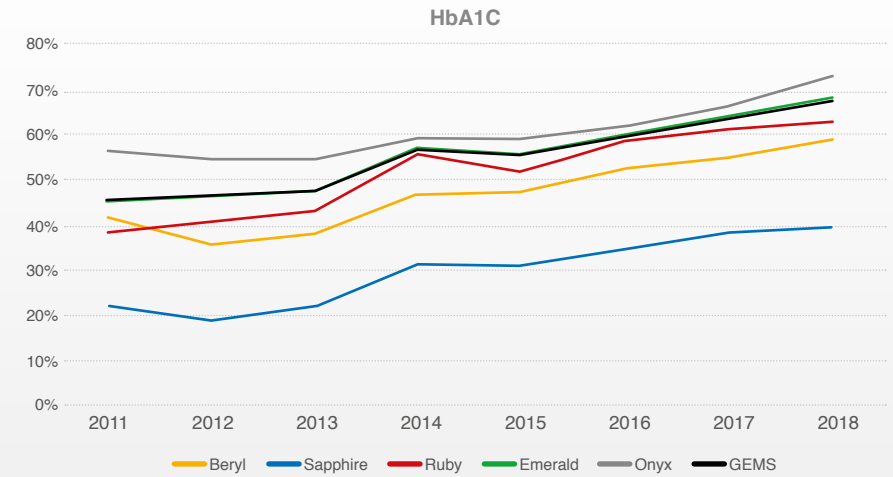
## HEALTHCARE MANAGEMENT OUTCOMES AND PERFORMANCE

GEMS subscribes to the Organisation for Health Quality Assessment (HQA). HQA, a not-for-profit company established in 2000, is governed by a board including representatives from the BHF and the SA National Consumer Union (SANCU). The CMS is also an active participant and enjoys permanent observer status.

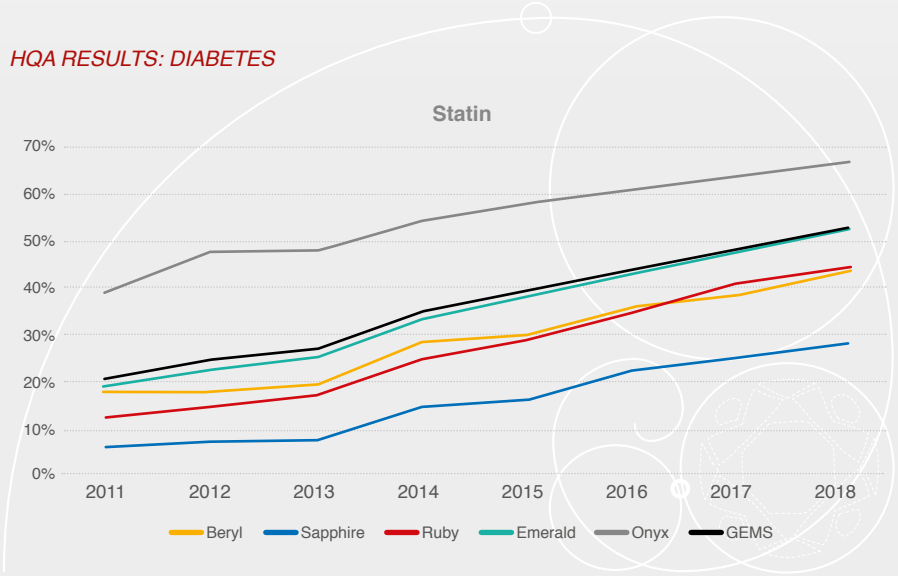
The HQA performs an annual assessment of clinical quality in healthcare offered by medical schemes through the use of healthcare quality indicators. This assists decision-makers such as trustees and management of medical schemes to evaluate and improve the quality of healthcare received by their members. The annual HQA report analyses the industry and offers a benchmark for the industry for each quality indicator.

The GEMS scheme-specific HQA report demonstrates GEMS' performance bench-marked against the industry, which assists in benefit design. The focus has been on clinical outcomes for chronic conditions, which has yielded positive results as indicated in the graphs below. GEMS also includes these indicators as part of the SLA when contracting service providers.

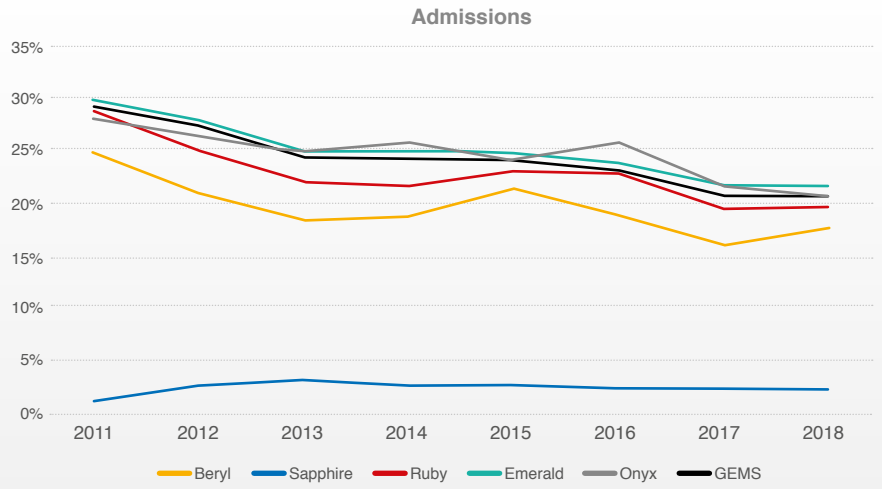
*HQA RESULTS: DIABETES*



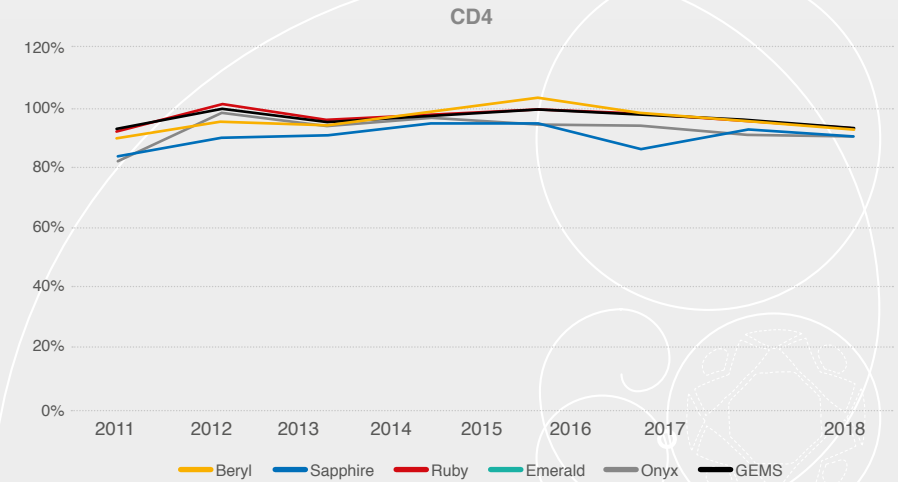

*HQA RESULTS: DIABETES*



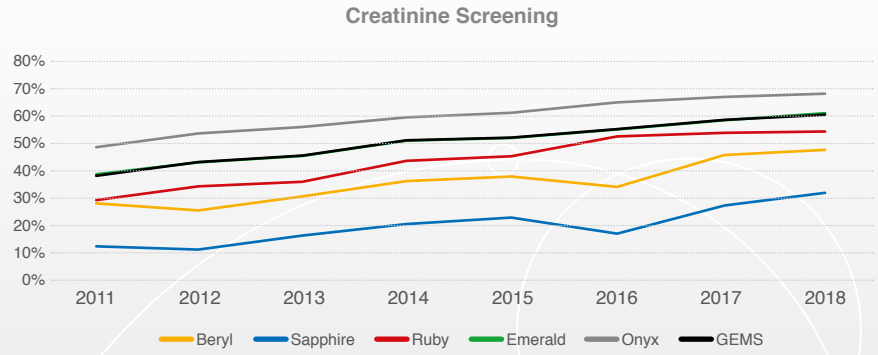
## HIV

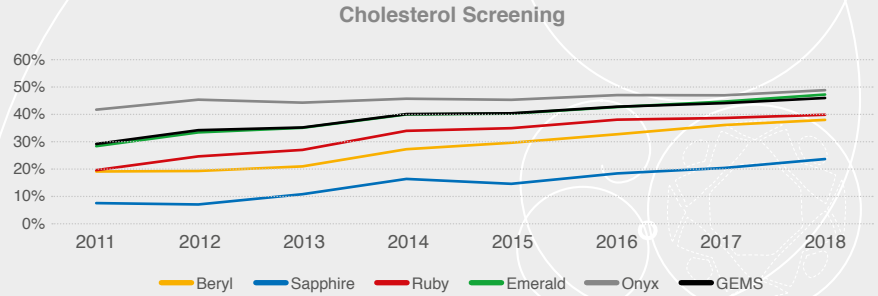



## HIV




## HYPERTENSION




GEMS introduced EVO in January 2017 to champion care coordination whilst improving access to quality healthcare. Care coordination refers to healthcare professionals working together to ensure that patients receive appropriate care. EVO is premised on a benefit design structure that necessitates that patients and healthcare providers alike embrace care coordination.

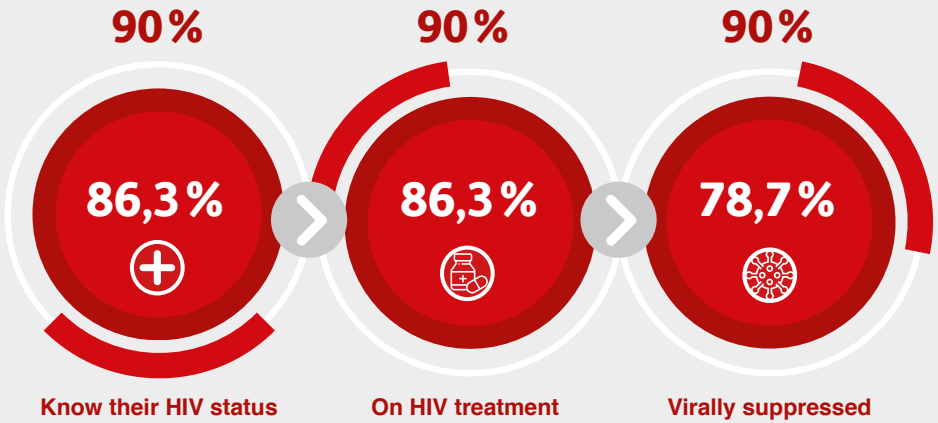
The product has performed exceedingly well in terms of its ability to contain cost of care without compromising access to care. More specifically, EVO has reduced the cost of care by 16.4%. In particular, hospital costs have reduced by 29.2%. EVO has saved approximately R340 million in healthcare costs since inception, R227 million in hospital expenditure. If applied across the medical schemes industry, it is estimated that EVO care coordination principles could save R20 billion a year, which could significantly improve affordability, access, and increase enrolment and coverage.

EVO has also contributed to significantly improved healthcare outcomes, also known as surrogate health outcomes. Improved healthcare outcomes are best illustrated through a decline in the hospital admission rate. EVO has reduced the hospital admission rate by 11.2%, with more than 3 300 avoidable admissions prevented. EVO is the fastest growing GEMS option and now caters to more than 134 000 beneficiaries.

Cost savings are passed back to members in lower contributions. EVO members benefit from contributions 15% lower the conventional Emerald option whilst enjoying the conventional Emerald benefits. Care coordination is well entrenched in the NHI White Paper, which refers extensively to the championing of primary care. General practitioner nomination and general practitioner-to-specialist referrals promote primary care and prevent unnecessary specialist care. The White Paper also refers to the procurement of services from contracted providers that meet certain predetermined cost and quality-of-care criteria.

GEMS aligns to the Joint United Nations Programme on HIV/Aids (UNAIDS) 90-90-90 targets adopted by the NDoH, and to be achieved by 2020. As indicated in the diagram below, 86.3% of GEMS members know their status, 86.3% of whom are on HIV treatment, 78.7% of whom are virally suppressed. The Scheme has put interventions in place to ensure that these targets are met by end-2020.

*HIV 90-90-90 TARGETS FOR GEMS AT DECEMBER 2018:*



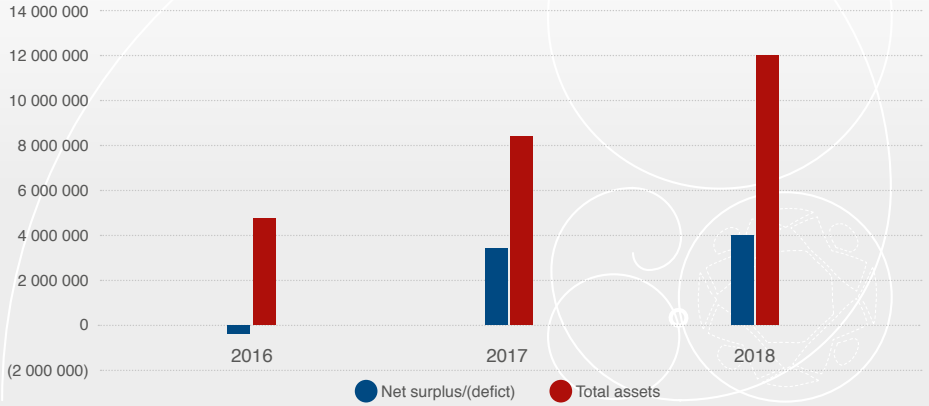

## FINANCIAL PERFORMANCE

The Scheme recorded a surplus of R4 billion for 2018 (2017 surplus R3.3 billion), which can be attributed mainly to the following factors reflected in the statement of comprehensive income:

- Risk contributions (R82 million higher than budgeted);
- Net claims incurred (R1.7 billion lower than budgeted);
- Non-healthcare cost (R285 million lower than budgeted), and
- Investment and other income (R203 million higher than budget)

**The claims ratio for GEMS overall in 2018 was 85.7% (2017: 96.6%), significantly lower than expected (90.33%).**

*IMPROVEMENT IN FINANCIAL POSITION (R'000)*



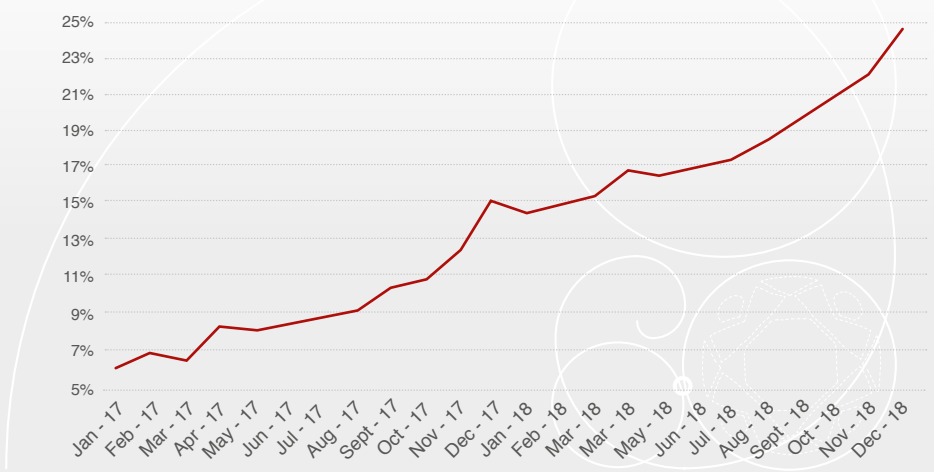

## HIGHEST RESERVE RATIO SINCE INCEPTION

In the business world, solvency is defined as the degree to which current assets exceed current liabilities, and it 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 in place and is calculated as a scheme's accumulated funds as a percentage of its annual gross contributions. The reserve ratio fluctuates across any financial year due to the formula applied. The Scheme started the year with reserves of R5.4 billion and, through the significant positive claims experience, managed to build reserves and conclude the year with reserves of R9.4 billion.

The graph below plots GEMS' reserve ratio for the last two years and shows the significant achievement made by the Scheme to increase the ratio from 6.08% in January 2017 to end the year on 24.7% (2017: 15.22%), which compared favourably to the reserve level approved by the Registrar of Medical Schemes for 2018 of 18.4%. The Scheme is now very close to the statutory required rate in the MSA of 25%, which should be reached in 2019.

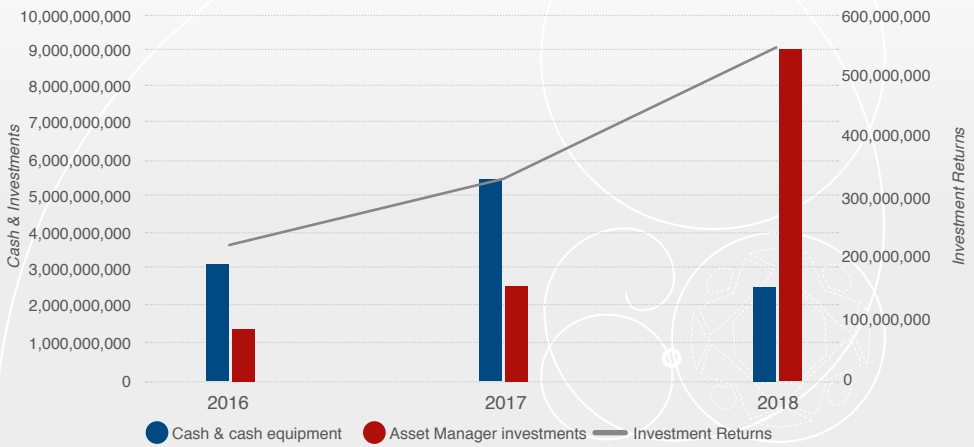
*RESERVE RATIO GROWTH*




## STRONG GROWTH IN CASH AND INVESTMENT, RESULTING IN THE HIGHEST INVESTMENT INCOME SINCE INCEPTION

With the improvement of reserves, the Scheme has significantly strengthened its liquidity position with cash and investments growing from R5.3 billion in January 2017 to R11.5 billion at end-December 2018. At the same time, the investment income of the Scheme increased from R340 million in 2017 to R550 million in 2018.

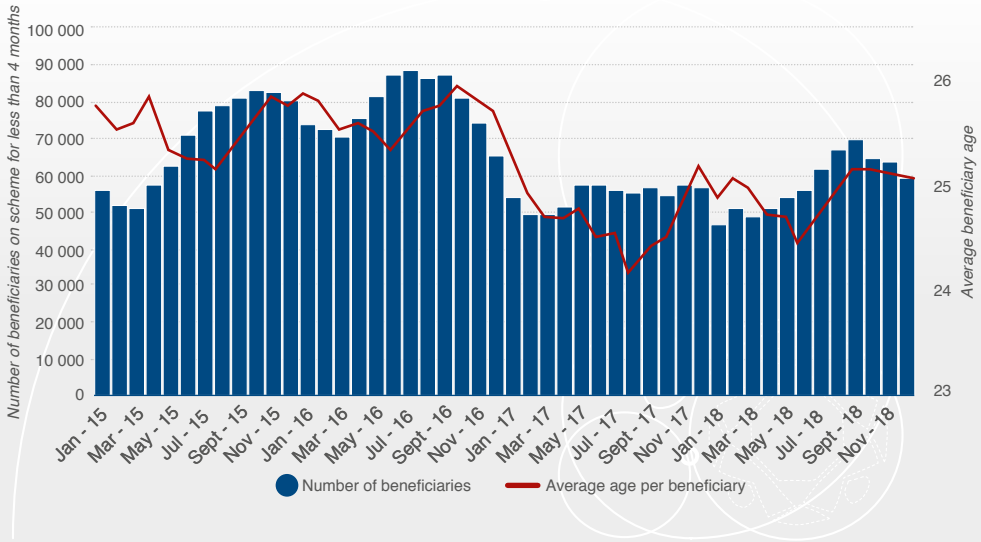
*GROWTH CASH, INVESTMENTS & RETURNS*




## WE CONTINUE TO SEE THE BENEFITS OF UNDERWRITING

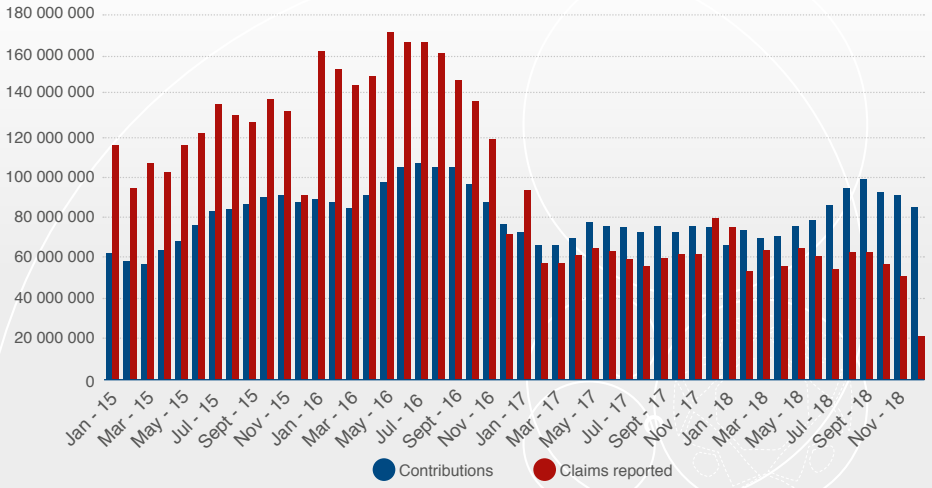
The underwriting implemented during the latter part of 2016 sees fewer new members and dependents joining and leaving the Scheme in a particular benefit year. The graph below shows the reduction in number of new entrants as well as their average age.

*NEW BENEFICIARIES JOINING THE SCHEME OVER TIME*



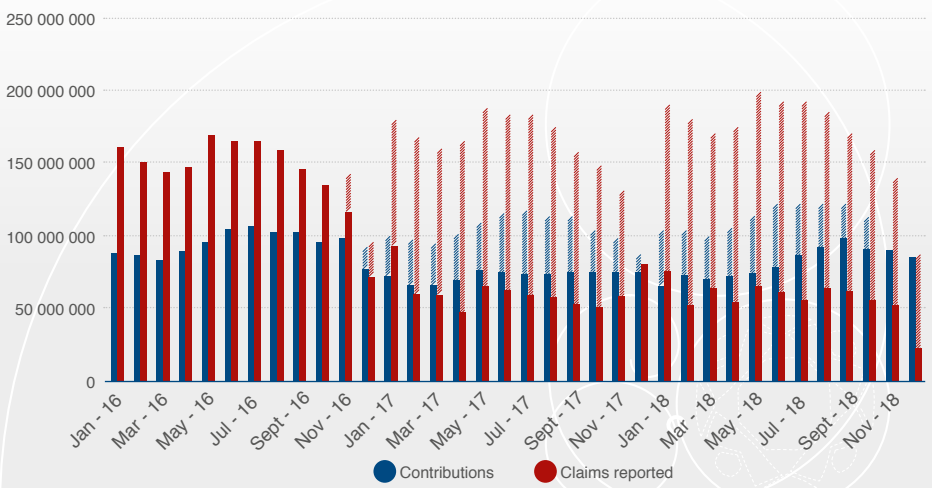
Since fewer new entrants now enter the Scheme, contributions are lower than originally anticipated, as is seen in the graph below. Of more importance is much lower claims by new beneficiaries than in previous years.

*ACTUAL CLAIMS AND CONTRIBUTIONS REPORTED BY BENEFICIARIES SHORTLY AFTER JOINING (ADJUSTED FOR IBNR)*




In the absence of underwriting, we would have anticipated a similar number of new entrants to previously and a similar claims experience (loss ratios) to what was previously reported. We show the expected contributions and claims in the shaded areas in the graph below, had underwriting not been implemented.

*EXPECTED CLAIMS AND CONTRIBUTIONS REPORTED BY BENEFICIARIES SHORTLY AFTER JOINING*



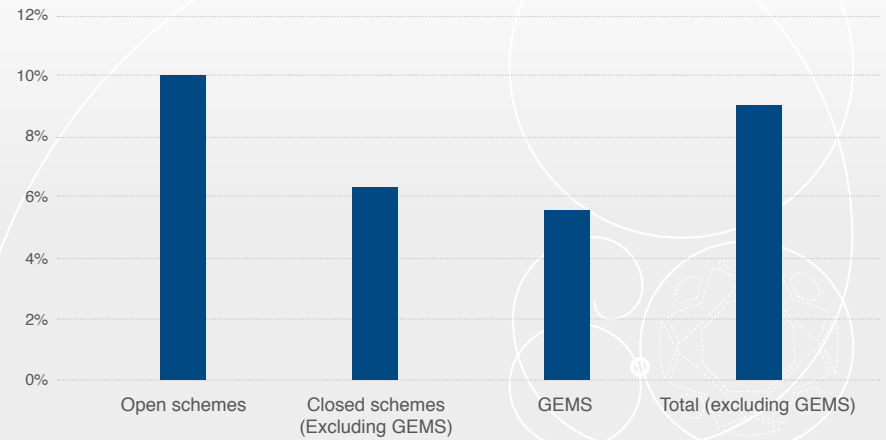

The same information is provided in the table below for the period January to December 2018. This suggests that claims are R1 366 million lower because of underwriting, while contributions collected are R350 million lower.

| | Actual 2018 experience | If previous experience continued | Difference |
|---|---|---|---|
| Contributions | 987 727 537 | 1 337 800 892 | -350 073 355 |
| Claims reported | 691 976 471 | 2 058 510 160 | -1 366 533 690 |

## WE CONTINUE TO FOCUS ON NON-HEALTHCARE COST, WHICH REMAINS ONE OF THE LOWEST IN THE INDUSTRY

GEMS has realised significant savings on non-healthcare costs. GEMS' non-healthcare costs are significantly lower than those of other schemes, representing a saving for members of approximately R1.5 billion per year. This means that compared to other schemes, GEMS has more money available to spend on members' healthcare costs.

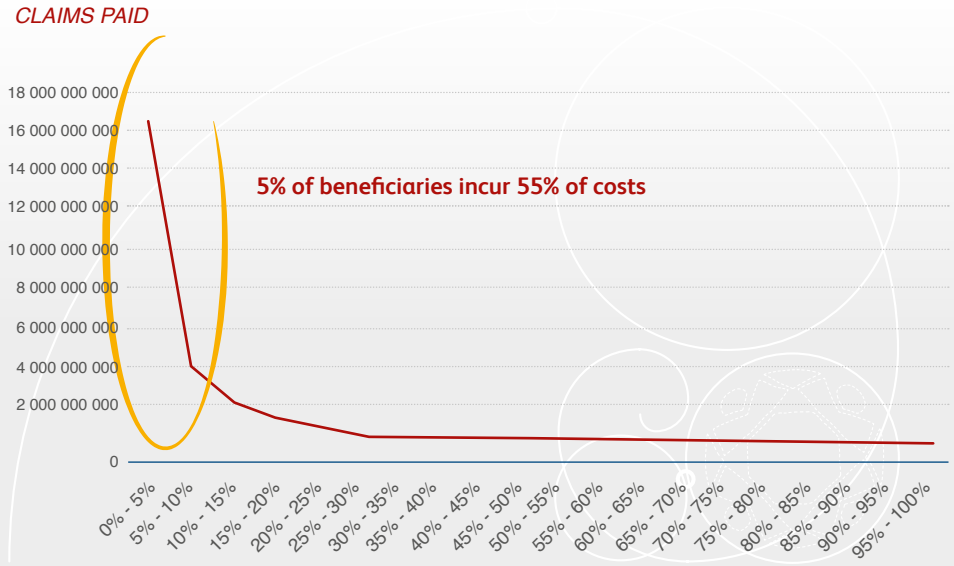
*NON-HEALTHCARE COST*




## POSITIVE CLAIMS EXPERIENCE IN 2018

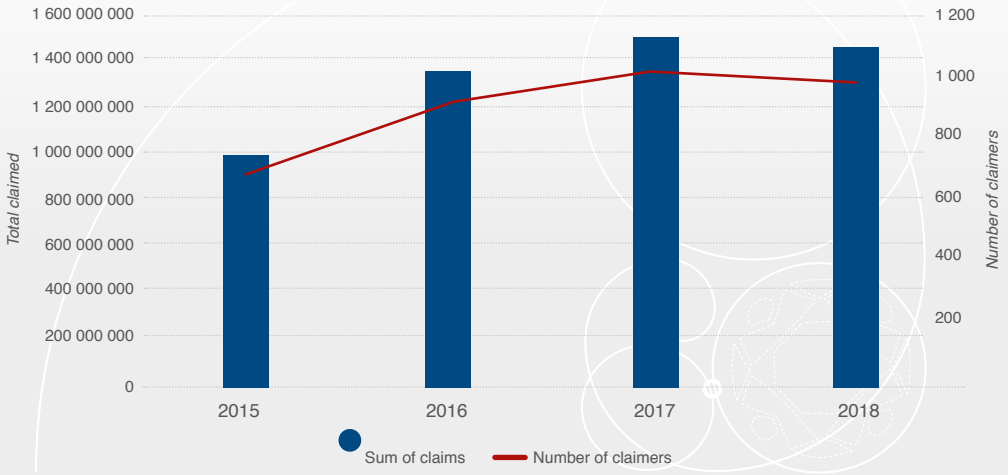
In 2018, the Scheme settled claims to the value of R30.6 billion (91.6 million claim lines). This represents a 7.0% increase from 2017, during which GEMS settled claims to the value of R28.6 billion (90.9 million claim lines) - lower than expected or budgeted for. The largest claim attributable to a single beneficiary for service dates in 2018 was R6.2 million (2017: R8.0 million), while the second largest claim cost was R4.9 million (2016: R6.1 million). The total cost of the 10 most expensive claimants in 2018 was R44.8 million (2017: R50.4 million). In line with industry trends, a small proportion of members is responsible for the majority of the claims. At GEMS, 5% of beneficiaries incur 55% of costs in a year, as demonstrated below:

*CLAIMS PAID*




The graph below shows the number of beneficiaries who claimed more than R1 million and the total claims for all beneficiaries who claimed more than R1 million. In 2018, the total amount claimed as well as the number of these high claimers were lower than in 2017.

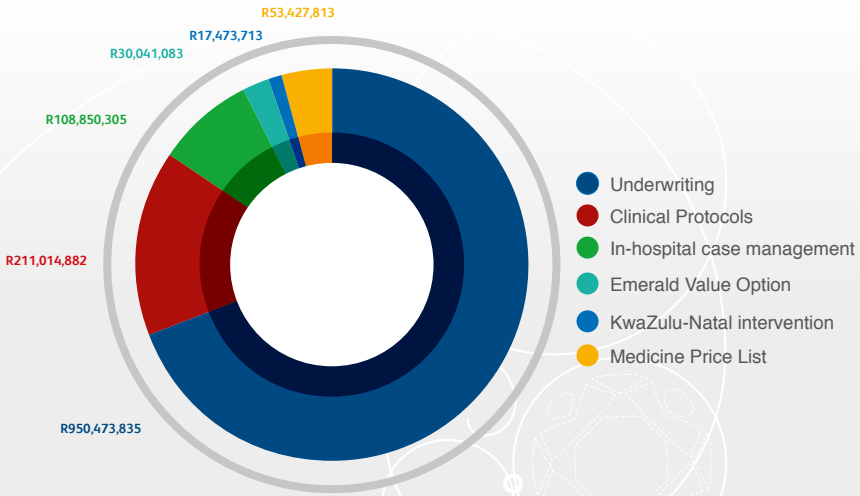
*HIGH COST CLAIMERS*



## POSITIVE IMPACT OF SCHEME CLAIMS MANAGEMENT INTERVENTIONS

The Scheme introduced a number of interventions, which have saved R1.3 billion. These are regularly reported on in the Claims Management Forum, which focuses on introducing interventions that assist the Scheme to manage claims. The table below summarises the savings the Scheme generated across the year through these interventions.

*SAVINGS AS A RESULT OF INTERVENTION*

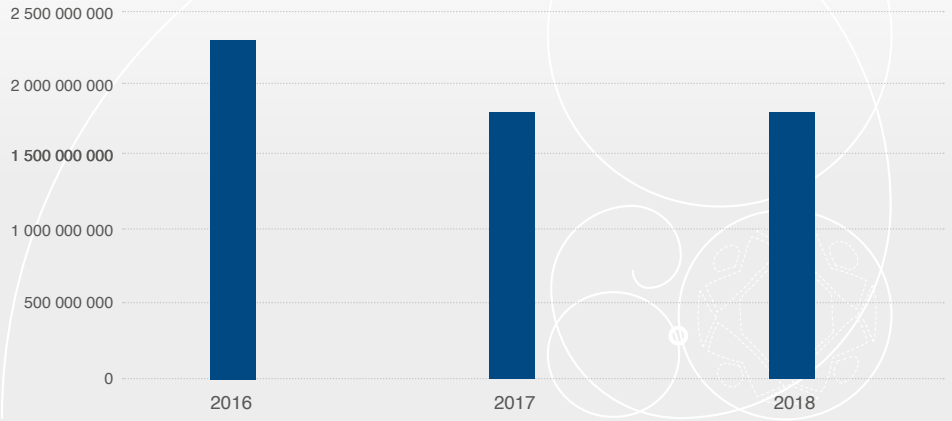



***GEMS** saved more than **R1.3 billion** through interventions introduced to manage claims costs.*

## PMB CLAIMS ABOVE SCHEME RATE

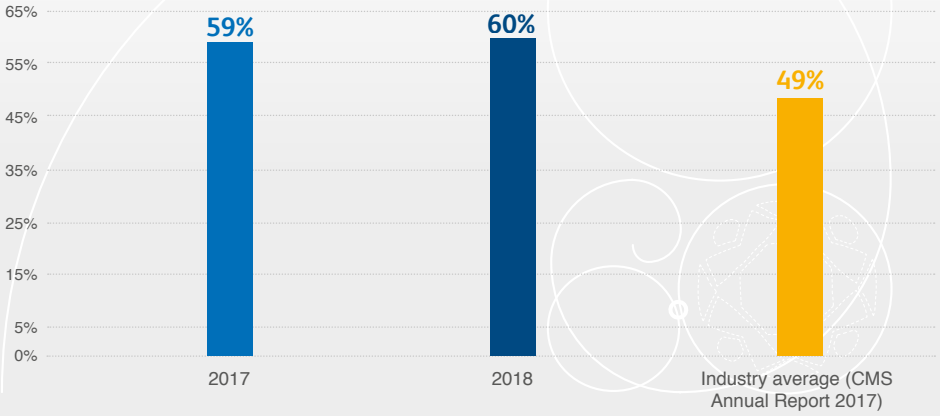
The Scheme continues to pay a considerable amount above benefit limits for PMB claims. The graph below shows PMB claims for 2018.

*PMB CLAIMS PAID ABOVE BENEFIT LIMITS*




The total paid amount for 2018 was R30.6 billion, which was R1 836 861 327 above the Scheme rate.

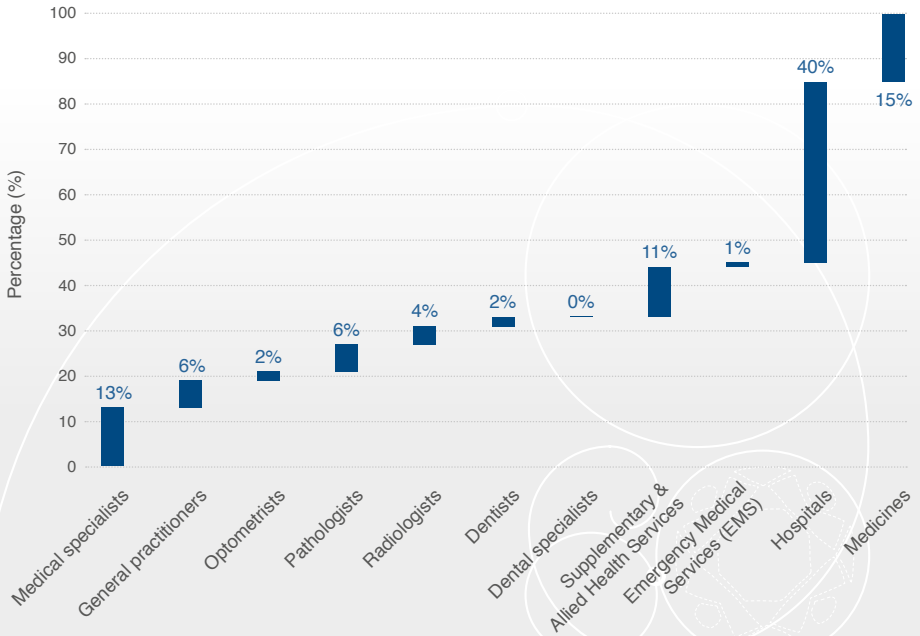
*IN 2017, GEMS PAID 11% MORE ON PMB CLAIMS THAN THE INDUSTRY AVERAGE AS PUBLISHED BY THE CMS*



## CLAIMS BREAKDOWN BY DISCIPLINE

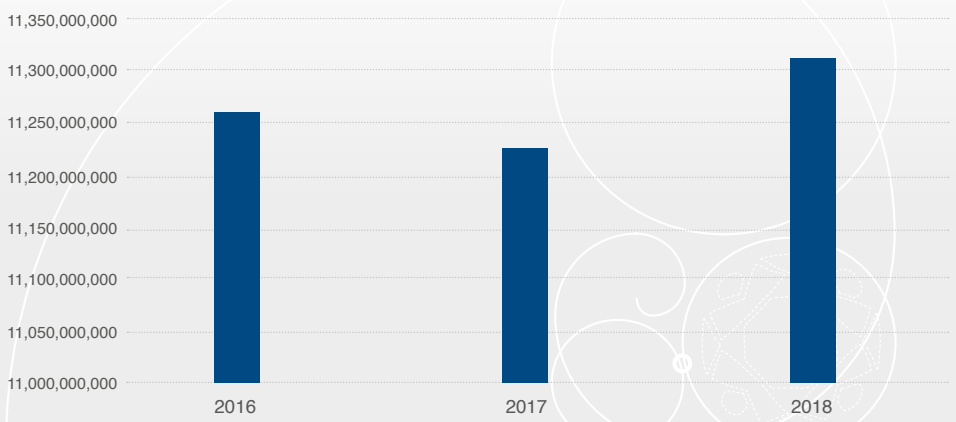
The Scheme pays claims to providers of the following disciplines and the graph below shows that the majority of claims are paid for hospitals, medicines, medical specialist and allied health service providers.

### *HOSPITAL FACILITY CLAIMS CONTINUE TO REPRESENT A SIGNIFICANT % OF CLAIMS SETTLED BY THE SCHEME*




Hospital claims represent around 40% of the total claims settled by the Scheme and totalled more than R11 billion during 2018.

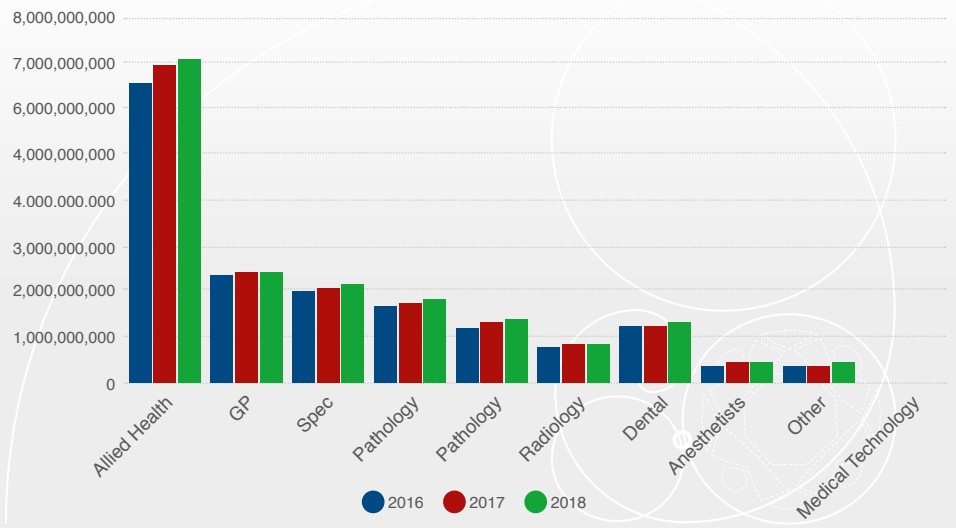
### *HOSPITAL FACILITY CLAIMS*




## OTHER CLAIMS

The graph below shows the total claim spend by high-level medical disciplines, excluding hospital facility claims, in 2018.

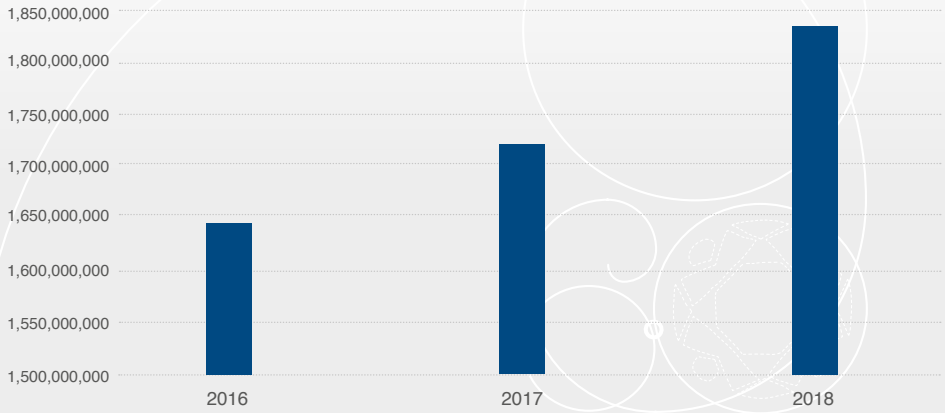
### *CLAIMS BY DISCIPLINE*



## PATHOLOGIST AND RADIOLOGIST CLAIMS CONTINUED TO INCREASE IN 2018

The graphs below shows the increase in monthly claim payments made by GEMS for pathology and radiology claims.

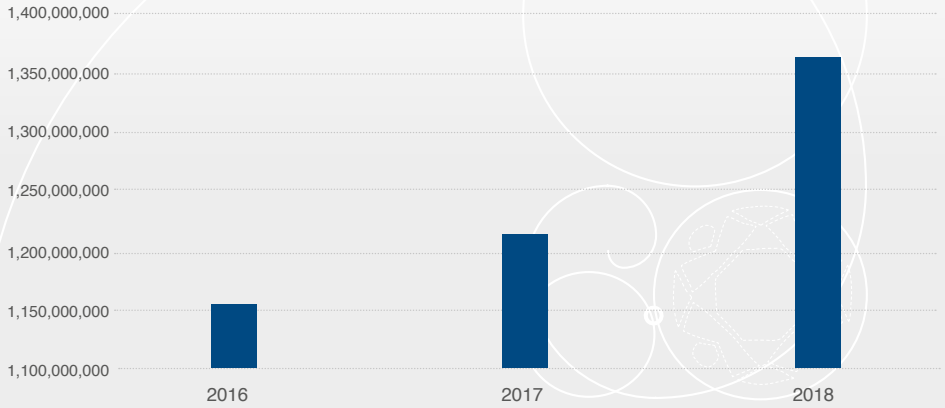
### *PATHOLOGY CLAIMS*




Pathology claims have been of concern to the Scheme over the past few years. The graph above shows the increase in claims expenditure over the period.

A similar trend is noted for radiology claims.

### *RADIOLOGY CLAIMS*



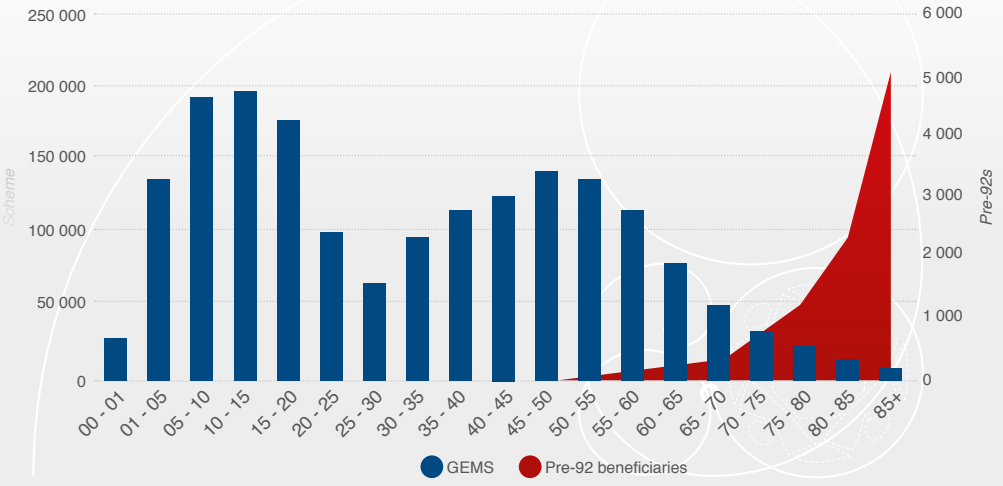

The Scheme will focus on these disciplines in 2019 to limit the significant increases seen over the last three financial years.

## 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 at 31 December 2018 to other Onyx members and Scheme members.

| | Pre-92 members | Onyx option | Scheme |
|---|---|---|---|
| Number of principal members | 8 837 | 30 886 | 705 182 |
| Average age | 84.7 | 69.6 | 48.2 |
| % male | 18.9% | 35.2% | 30.3% |
| % chronic users | 85.7% | 78.4% | 41.1% |
| % over age 60 | 99.1% | 72.2% | 16.2% |
| | | | |
| Number of beneficiaries | 10 027 | 50 730 | 1 839 193 |
| Beneficiary ratio | 1.13 | 1.64 | 2.61 |
| Average age | 83.8 | 59.8 | 32.2 |
| % adult beneficiaries | 11.7% | 27.1% | 19.7% |
| % chronic users | 85.6% | 40.7% | 23.9% |
| % over age 60 | 99.3% | 58.9% | 11.2% |

### *AGE DISTRIBUTION OF PRE-92 BENEFICIARIES*



## FINANCIAL IMPACT OF PRE-92 PENSIONERS

The table below illustrates the financial impact of the pre-92 pensioners for 2018.

| | Actual | Expected |
|---|---|---|
| Members | 9 310 | 9 327 |
| | | |
| Net contribution income | 500 129 818 | 500 129 818 |
| Claims incurred | 669 503 671 | 681 828 739 |
| Managed care | 10 251 352 | 10 251 352 |
| **Gross underwriting result** | **(179 625 205)** | **(191 950 272)** |
| Management expenses | 23 575 999 | 23 575 999 |
| Managed care | 3 208 739 | 3 208 739 |
| **Surplus/(deficit) from operations** | **(206 409 943)** | **(218 735 010)** |

At year end, the actual financial impact of the pre-92 pensioners was very close to the expected financial impact, which was based on the actuarial analysis done before these members joined GEMS. Overall, the pre-92 pensioners contributed a deficit of R206.4 million towards the financial results of the Scheme. The Scheme obtained a letter of commitment from National Treasury to assist it with the losses incurred by these members.

## GEMS INVESTMENT OUTCOMES

The GEMS Finance and Investment Committee is supported by the Scheme's Investment Consultant to ensure that maximum returns are achieved with limited risk exposure of Scheme funds. Expert advice is provided to the committee in developing an appropriate investment strategy and investment portfolio for the Scheme. This investment strategy ensures that the Scheme maintains a sound financial position, has enough liquidity to meet its liabilities as they become due and ensures compliance to all aspects of regulations 29 and 30 of the MSA, 131 of 1998, as well as Annexure B. Compliance to the regulatory requirements are reported to the Investment Committee quarterly.

The Scheme performs a review of its investment mandate and strategy annually and this process is supported by inputs received from the Investment Consultant to ensure that the investment strategy delivers optimal returns on the funds of the Scheme. As a result of the review and the success of the current asset managers, a decision was made to appoint two additional asset managers to enhance the investment strategy.

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 Finance and Investment Committee reviews the Scheme's alignment to CRISA annually.



The Scheme formulated a five-year investment strategy in 2016 aimed at gradually maturing the investment strategy, increasing the investment targets and amending the portfolio construction as the financial position of the Scheme improved and excess cash became available for investment. The strategy, now in its third year, has yielded significant additional investment income for the Scheme. The strategy was extended during 2018 to invest all excess cash with the Scheme's asset managers and to capitalise on the increased returns on offer by these managers vs bank deposits. The investment mandate is now executed by four asset management companies appointed during 2017 and 2018. The Scheme has the following investment portfolios:

1. Money market portfolio
2. Segregated absolute return portfolio
3. Excess cash portfolio
4. Enhanced cash portfolio (to be implemented in 2019)

Since the main objective of a Scheme is to provide medical benefits to members, a moderate risk appetite is adopted in investing activities.

The Scheme intends to achieve an investment return above inflation (CPI+2.5% for 2018) through a mixture of fixed deposits, investment in the money market and absolute return portfolios. The performance of the asset managers is monitored through monthly and quarterly reports to the Scheme and through feedback to the Investment Committee at least annually.

## SUMMARY OF INVESTMENTS HELD AT YEAR-END

| | 2018 R'000 | 2017 R'000 |
|---|---|---|
| Current accounts | 733 597 | 480 628 |
| Call accounts | 1 701 604 | 3 097 980 |
| Fixed deposits | - | 1 910 000 |
| Asset manager investments | 9 014 155 | 2 476 623 |
| **Total** | **11 449 356** | **7 965 232** |

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

| | 2018 | 2017 |
|---|---|---|
| Current accounts | 5.25% | 5.25% |
| Call accounts | 6.86% | 6.61% |
| Fixed deposits | - | 7.70% |
| Asset manager investments | 6.45% | 8.88% |

The Scheme was well on track to achieve the CPI+2.5% target for 2018, but the achievement was impacted by the significant adverse movements in the South African equity markets experienced during the fourth quarter. Even with the slight underperformance against this objective, the Scheme's assets for the year to 31 December 2018 outperformed the benchmark and has met the overall targets of the five-year investment strategy, with investment income increasing from R262 million in 2016 to R550 million in 2018, largely as a result of the strategy and additional cash being available for investment.

Through its asset managers, the Scheme remains conservatively positioned in asset allocation and security selection in the asset classes, based on the continued volatility in financial markets.

## Outlook for 2019

As a result of the exceptional 2018 financial performance, we were able to provide members with one of the lowest average contribution increases in the industry, at 7.09%, whilst adding significant benefit enhancements of more than R800 million in 2019.

The Scheme anticipates that 2019 will be another year of positive growth, embedded financial sustainability and improved service delivery. The year will include a significant milestone in achieving the 25% statutory required reserve level.

Membership growth may be impacted by the consolidation of public sector risk pools.

## PROGRESS AGAINST GEMS STRATEGIC PLAN PERFORMANCE INDICATORS FOR 2018 AND RELEVANT RISK FACTORS

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.

| Strategic Objective | Performance Indicator | Performance reported in 2017 Annual Integrated Report |  | Target 2018 | Performance 2018 | Target 2021 | Main Risk Factors That May Impact on Performance Outlook |
|---|---|---|---|---|---|---|---|
| Be an organisation that is effective in communication, proactive in decision making and accountable | Stakeholder satisfaction model | 0.27%<br>Measured as number of general and CMS complaints as a percentage of total number of principal members | | ≤0.25%<br>Measured as number of general and CMS complaints as a percentage of total number of principal members | 0.17% | ≤0.15% | • Quality of service delivery<br>• Effective complaints management |
| | Formation of the Stakeholder Integration Forum | All work required from the side of the Scheme was concluded. This included the development of a Terms of Reference for the Forum and stakeholder consultations. Despite various approaches by the Scheme, no names were put forward | | Review and update Terms of Reference (according to NHI White Paper imperatives)<br>The establishment of the PSCBC Working Committee in March 2018 prompted a review of this target. For 2019 and beyond, reporting will reflect progress in respect of the PSCBC Working Committee and the Combined Government Stakeholder 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 | Achieve stakeholder inclusivity by means of PSCBC Working Committee and the Combined Government Stakeholder Forum | • Individual stakeholder risk level<br>• Consolidated stakeholder risk profile<br>• Stakeholder interdependence/ interrelationship |

| Strategic Objective | Performance Indicator | Performance reported in 2017 Annual Integrated Report | | Target 2018 | Performance 2018 | Target 2021 | Main Risk Factors That May Impact on Performance Outlook |
|---|---|---|---|---|---|---|---|
| Advance financial strength and drive the Scheme to a position of long-term sustainability | Reserve ratio | 15.22% | | 18.4% | 24.7% | 24.2% | • Regulatory relationship and agreed targets<br>• Factual reserve impact from semi-permanent historical anomalies<br>• Equitability of reserves accompanying take on of large cohorts of members from outside |
| | Liquidity ratio | 2.7 | | 2:1 | 4.3:1 | 2:1 | Adverse claims experience<br>Take on of large cohorts of members |
| | Operating surplus | 8.3% | | >2% | 9.3% | ≥ 2% | • Claims performance<br>• Budget and pricing prudency |
| | Investment Income | Return ≥ CPI + 1.95%<br>R124 million ahead of budgeted investment return | | Return ≥ CPI + 2.5% | CPI+2.3% achieved<br>R204m ahead of budgeted investment return | Return ≥ CPI + 3.5% | • Budget and pricing prudency |
| Shape the transformation of the healthcare industry towards universal healthcare, coordinated across the healthcare ecosystem | Simplified core product offering | 7.4% Emerald members have moved to Emerald Value Option | | 30%<br>Emerald Members moved to Emerald Value Option<br>Detailed proposal to CMS for the movement towards 3 sustainable value options | 13.5% Emerald Members moved to the Emerald Value Option (58 141 members)<br>This information was shared with CMS via the Pricing documents, which included information around moving towards consolidation of GEMS options | >80% membership covered by 3 sustainable options. All products to have best practice care coordination. The base product should have no out-of-pocket payments at point of care | • Relative attractiveness in creating value at a cost effective price point |

| Strategic Objective | Performance Indicator | Performance reported in 2017 Annual Integrated Report | | Target 2018 | Performance 2018 | Target 2021 | Main Risk Factors That May Impact on Performance Outlook |
|---|---|---|---|---|---|---|---|
| Shape the transformation of the healthcare industry towards universal healthcare, coordinated across the healthcare ecosystem | A developed healthcare accountability model that progressively aligns healthcare expenditure, quality & access with affordability levels | A Research and Development Function was established in GEMS | | Establish Research Ethics Panel | Research unit established with staff allocated<br><br>Ethics panel to be established in 2019 | 10 Research publications in the following topics: Quality and Health Outcomes, Service, Primary Healthcare, Employees remunerated on salary level 1 to 5, the establishment of the GEMS Networks, i.e. renal network, option consolidation, Fraud Waste and Abuse – Supply Induced Demand | Resource (people, system, budget) allocations to division to enable delivery on targets |
| | A developed healthcare accountability model that progressively aligns healthcare expenditure, quality & access with affordability levels | The clinical governance and health toolkit was developed and the methodology was refined. Clinical categories were defined | | Use the framework to design Scheme Clinical Governance toolkit | Finance sustainability model fully implemented and reported on monthly<br><br>Clinical governance toolkit implemented and reported on | Use the framework to track and progressively enhance value-based healthcare, aligned to UHC goals/priorities | |
| | A developed healthcare accountability model that progressively aligns healthcare expenditure, quality & access with affordability levels | The Scheme is in the process of refining the reporting criteria for this KPI. Work that was concluded in 2017 entailed the identification of the 6 chronic conditions for which changes in overall hospital admission rates for linked patients will be reported in the future | | Disease management interventions for Top 6 chronic diseases progressively translated into increase in admission rates lower than actuarial calculation<br><br>(HIV, TB, Diabetes, Hypertension, Hyperlipidaemia, Asthma) | A -1.6% decrease in admission rate for Top 6 chronic diseases was achieved in 2018, with improved health quality outcomes | Disease management interventions for priority chronic diseases progressively translated into increase in admission rates lower than actuarial calculation (HIV, TB, Diabetes, Hypertension, Hyperlipidaemia, Asthma) | • Poor uptake of screening benefits<br>• Lack of focus on quality healthcare outcomes<br>• Poor disease risk management |

| Strategic Objective | Performance Indicator | Performance reported in 2017 Annual Integrated Report | | Target 2018 | Performance 2018 | Target 2021 | Main Risk Factors That May Impact on Performance Outlook |
|---|---|---|---|---|---|---|---|
| Be a strategic purchaser of healthcare services by leveraging GEMS' unique positioning and relationships | Leverage existing strategic assets towards improving member value | R3.75 billion identified<br>R300 million change<br>The Scheme is in the process of refining the reporting criteria for this KPI. Work concluded during 2017 included the conclusion of Acknowledgement of Debt Letters, reversal of claims and blocked payments, all of which contributed to the actual banked recoveries once the respective processes are concluded | | Fraud Waste and Abuse (FWA) targets (provider and member):<br>• Fraud identification (10% of previous financial year total claims paid)<br>• Prevention (10% of the identified claims amount)<br>• Recovery of an amount equal to 10% of the prevention target amount | • R3.62bn in claims from outlier healthcare providers identified<br>• R82.5m change in outlier behaviour achieved as calculated by the GEMS actuary<br>• R19m recovered, including both funds paid over to GEMS and the direct offset from provider's claims payment | Fraud Waste and Abuse (FWA) targets (provider and member):<br>• Fraud identification (10%)<br>• Prevention (10%, prior and post intervention)<br>• Recovery of at least 10% of the Prevention | • Criminal behaviour in internal, external and transactional environments.<br>• Adequacy of internal controls<br>• Adequacy of risk transfer provisions in outsourced service providers' contracts |
| | Participation in healthcare supply side reform in line with social security agenda<br>Consolidated purchasing across government medical schemes<br>Leverage existing strategic assets towards improving member value | 1503 specialists contracted<br>• Paediatricians: 317<br>• Obstetricians and Gynaecologists: 329<br>• Physicians: 440<br>• Psychiatrists: 265<br>• Anaesthetists: 152 | | 1800 specialists contracted | 1860 specialists contracted:<br>Paediatricians:<br>351<br>Obstetricians and Gynaecologists:<br>359<br>Physicians:<br>498<br>Psychiatrists:<br>307<br>Anaesthesiologists:<br>207<br>Surgeons:<br>138 | 3000 specialists contracted | • Supply side reforms and access to preferential rates with healthcare suppliers may not be realised<br>• Poor network growth and access. Contracted specialist not charging the agreed reimbursement rate, and not agreeing to peer review |

| Strategic Objective | Performance Indicator | Performance reported in 2017 Annual Integrated Report | | Target 2018 | Performance 2018 | Target 2021 | Main Risk Factors That May Impact on Performance Outlook |
|---|---|---|---|---|---|---|---|
| Be a strategic purchaser of healthcare services by leveraging GEMS' unique positioning and relationships | Leverage existing strategic assets towards improving member value<br><br>Consolidated purchasing across government medical schemes<br><br>Leverage existing strategic assets towards improving member value | 32.1%<br><br>Note: More information is available under the Scheme's internal operating context | | Reduce the KZN hospital admission rate relative to the national admission rate to ≤ 14% on a risk adjusted basis<br><br>(The Scheme uses pre-authorisations as an indicator of the number of hospital admissions)<br><br>Reduce the KZN risk adjusted admission rate ≤30% | The risk adjusted hospital admission rate in KwaZulu-Natal remains higher than that of other provinces<br><br>KZN hospital admission rate was 30.4% | Reduce the KZN admission rate relative to the National admission rate to 0% on a risk-adjusted basis<br><br>Reduce KZN risk adjusted admission rate ≤ 27% | • 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) |
| | Consolidated purchasing across government medical schemes<br><br>Participation in healthcare supply side reform<br><br>Leverage existing strategic assets towards improving member value | Not reported on in 2017. This target is included based on the revised list of material matters for reporting | | Implement renal dialysis network with a focus to shifting utilisation and costs, including a baseline to measure impact on healthcare costs | GEMS Renal Dialysis Network implemented in 2018 after a successful procurement process in 2017 | Monitor impact on healthcare quality and costs | Realistic discounts and supply side reforms with healthcare suppliers may not be realised. |
| | Consolidated purchasing across government medical schemes<br><br>Participation in healthcare supply side reform<br><br>Leverage existing strategic assets towards improving member value | 21.5% reduction in the cost of appliances and prosthesis | | ≥ 5% reduction in appliances and prosthesis sourcing costs | 13.3% cost reduction achieved | Maintain a deflationary cost trend for defined appliances and prosthesis (≤ CPI) | Realistic discounts, supply side reforms and access to preferential rates with healthcare suppliers |

| Strategic Objective | Performance Indicator | Performance reported in 2017 Annual Integrated Report | | Target 2018 | Performance 2018 | Target 2021 | Main Risk Factors That May Impact on Performance Outlook |
|---|---|---|---|---|---|---|---|
| Be an agile data driven Scheme that leverages people, systems and processes to derive value for the member | Control of core transactional Scheme platform<br><br>Ownership of all Scheme data to inform strategic and operational decision making | The GEMS Member APP went live in July 2017. It has a record of 4 076 downloads and 3 998 members completed the registration process for the member portal | | Adoption rate: 10% increase on baseline | The percentage increase achieved in 2018 is 101.94%. Adoption increased by 1455.70% to 58,199 Members. | At least 70% adoption rate | • Adequate and robust systems to drive outcomes<br>• Cover internal and outsourced systems |
| 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 | Not reported in 2017 | | Member Satisfaction = 68% | Achieved = 68%<br><br>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 | Internal Member Satisfaction >80% | Quality service delivery<br><br>Effective complaints management |
| Sustainably grow membership ensuring inclusion and progressive cross subsidisation | Sustainable membership growth and retention | Footprint established in 7 provinces:<br>• Gauteng: 2013<br>• KwaZulu-Natal: 2014<br>• Eastern Cape: 2015<br>• Free State: 2016<br>• Limpopo: 2016<br>• Mpumalanga: 2017<br>• North West: 2017 | | Expand CLO presence to 9 provinces<br><br>10% of CLO staff members FAIS accredited | The CLOs for the Northern Cape and Western Cape will be rolled-out in 2019<br><br>% of CLO staff members that are FAIS accredited will be reported in the 2019 integrated report | Expand CLO presence to all 9 provinces and 50% of CLO staff FAIS accredited | • Adequate and robust skills and competencies to drive outcomes<br>• Cover internal and outsourced competencies an skills |

| Strategic Objective | Performance Indicator | Performance reported in 2017 Annual Integrated Report | | Target 2018 | Performance 2018 | Target 2021 | Main Risk Factors That May Impact on Performance Outlook |
|---|---|---|---|---|---|---|---|
| | Sustainable membership growth and retention | 47.49% of public service employees earning on salary level 1 to 5 enrolled on GEMS | | 55% of public service employees earning on salary levels 1 to 5 enrolled on GEMS<br><br>(Level 1-5 employees are identified using the PERSAL indicator for salary levels) | The number of employees on salary levels 1 to 5 decreased (November 2018: 531,660; December 2018: 520,005). Of these, 239,386 employees are active members. A further 9,977 are dependents across all options; Enrolled 46.04% of Public service employees earning on salary level 1 to 5 | At least 70% of salary level 1- 5 enrolled | • Brand perception<br>• Benefit design impacting on attractiveness<br>• Target market not aware of the extent of the available subsidy |

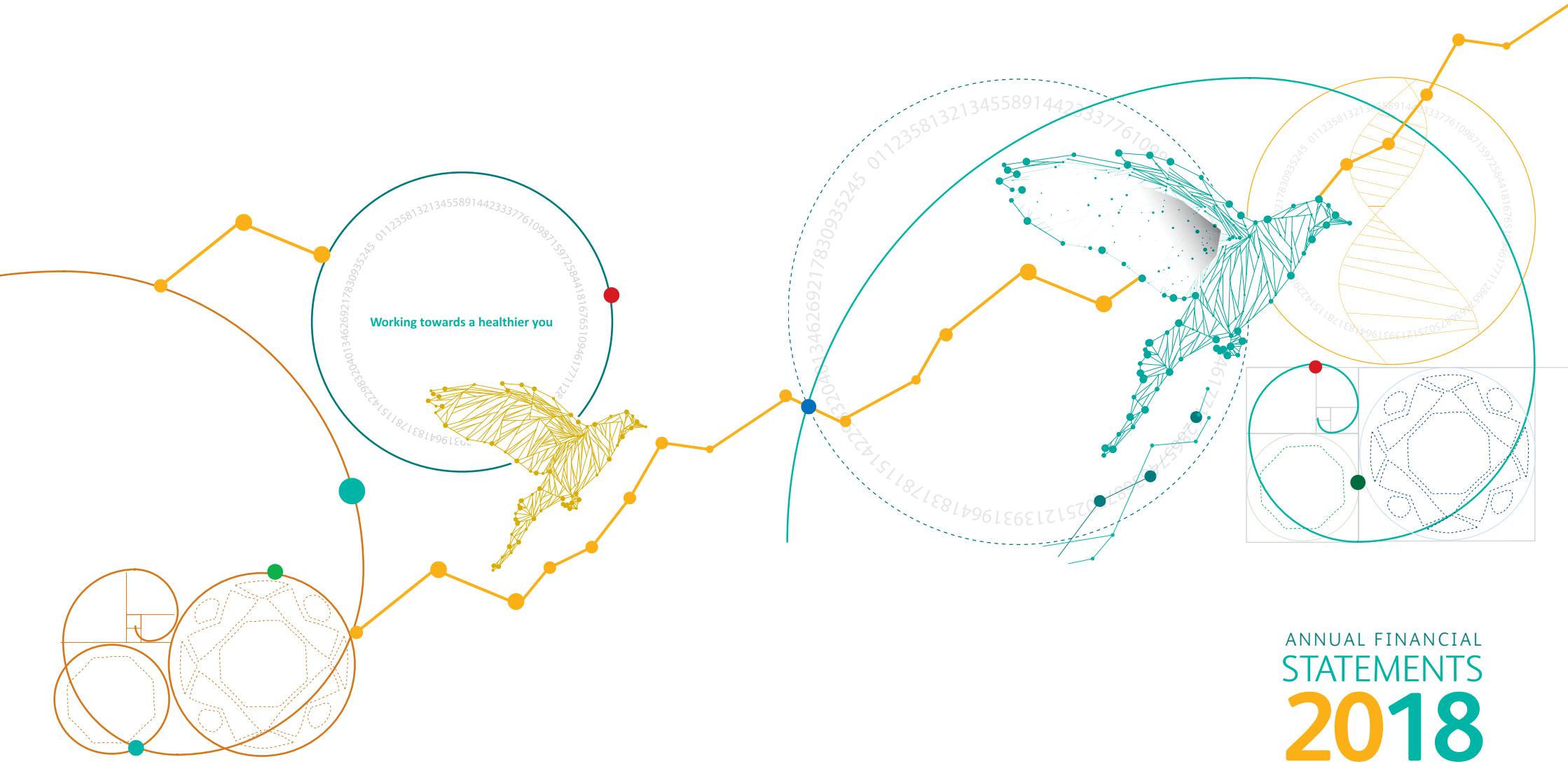
## PER MEMBER COST ANALYSIS

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

| | Sapphire Option | | Beryl Option | | Ruby Option | | Emerald Option | | Emerald Value Option | | Onyx Option | | Total Scheme | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Net contributions per member per month (average) | R2 169 | R1 997 | R2,861 | R2 603 | R3 581 | R3 297 | R4 909 | R4 550 | R4 646 | R4 379 | R5 794 | R5 238 | R4 476 | R4 191 |
| Net contributions per beneficiary per month | R676 | R622 | R1 075 | R985 | R1 336 | R1 230 | R1 910 | R1 747 | R1 663 | R1 564 | R3 505 | R3 064 | R1 717 | R1 602 |
| Healthcare management expense per member per month | R91 | R86 | R91 | R86 | R91 | R86 | R91 | R86 | R92 | R86 | R91 | R86 | R91 | R86 |
| Healthcare management expense per beneficiary per month | R29 | R27 | R34 | R32 | R34 | R32 | R36 | R33 | R33 | R31 | R55 | R50 | R35 | R33 |
| Non-healthcare expenses as a percentage of gross contributions | 10.2% | 11.9% | 7.7% | 9.2% | 5.0% | 5.8% | 4.6% | 5.2% | 4.8% | 5.5% | 3.9% | 4.7% | 4.9% | 5.6% |
| Administration cost per member per month | R221 | R237 | R221 | R238 | R224 | R241 | R227 | R238 | 222 | R242 | R227 | R248 | R226 | R239 |
| Administration cost per beneficiary per month | R69 | R74 | R83 | R90 | R84 | R90 | R88 | R92 | R79 | R86 | R137 | R145 | R87 | R91 |
| Amounts paid to administrator/s (R'000) | R66 935 | R59 904 | R49 616 | R40 536 | R128 689 | R111 999 | R635 170 | R649 165 | R80 262 | R52 326 | R45 883 | R49 868 | R1 006 556 | R963 798 |
| Number of registered new members | 7 566 | 5 044 | 7 222 | 4 951 | 11 077 | 8 625 | 21 282 | 19 739 | 3 991 | 2 597 | 1 499 | 720 | 52 637 | 41 676 |
| Number of resigning members | 602 | 518 | 990 | 958 | 3 219 | 3 732 | 10 644 | 14 263 | 1 468 | 1 251 | 1 025 | 1 040 | 17 948 | 21 762 |
| Chronic prevalence of beneficiaries | 5.6% | 5.5% | 12.1% | 12.1% | 14.8% | 14.0% | 27.0% | 25.0% | 26.9% | 28.5% | 66.8% | 62.7% | 23.9% | 23.6% |
| Average number of members during the year | 46 242 | 42 815 | 34 276 | 28 944 | 88 918 | 80 129 | 439 018 | 465 338 | 55 363 | 37 050 | 31 714 | 35 796 | 695 531 | 653 022 |
| Number of members at 31 December 2018 | 49 042 | 44 508 | 36 688 | 30 629 | 91 792 | 81 682 | 432 179 | 459 486 | 64 595 | 41 317 | 30 886 | 34 470 | 705 182 | 692 092 |
| Number of beneficiaries at 31 December 2018 | 157 448 | 142 620 | 97 825 | 80 679 | 245 394 | 217 976 | 1 107 742 | 1,192,230 | 180,594 | 115,687 | 50,730 | 58,346 | 1,839,193 | 1,807,538 |
| Dependant ratio to members at 31 December 2018 | 2.2 | 2.2 | 1.7 | 1.6 | 1.7 | 1.7 | 1.6 | 1.6 | 1.8 | 1.8 | 0.6 | 0.7 | 1.6 | 1.6 |
| Average accumulated funds per member | R13,286 | R7,808 | R13,286 | R7,808 | R13,286 | R7,808 | R13,286 | R7,808 | R13,286 | R7,808 | R13,286 | R7,808 | R13,286 | R7,808 |
| Return on investments as a percentage | 6.8% | 7.2% | 6.8% | 7.2% | 6.8% | 7.2% | 6.8% | 7.2% | 6.8% | 7.2% | 6.8% | 7.2% | 6.8% | 7.2% |
| Relevant healthcare expenditure (claims) pmpm | R644 | R630 | R2,204 | R1,980 | R2,310 | R2,156 | R4,354 | R3,988 | R4,004 | R3,847 | R7,035 | R6,466 | R3,834 | R3,604 |
| Relevant healthcare expenditure (claims) ratio | 29.7% | 31.5% | 77.1% | 76.1% | 64.5% | 65.4% | 88.7% | 87.7% | 86.2% | 87.8% | 121.4% | 123.5% | 85.7% | 86.0% |
| Non-healthcare expenditure pmpm | R221 | R237 | R221 | R238 | R224 | R241 | R227 | R238 | R222 | R242 | R227 | R248 | R226 | R239 |
| Net healthcare result (R'000) | R723,066 | R580,572 | R178,731 | R133,441 | R1,115,326 | R865,144 | R1,724,354 | R1,804,273 | R277,954 | R129,253 | (R558,890) | (R634,424) | R3,460,541 | R2,878,260 |

gems

Government Employees Medical Scheme




# ANNUAL FINANCIAL STATEMENTS 2018

# 13. ANNUAL FINANCIAL STATEMENTS (AFS)

# INDEX



**Nkosinathi Theledi**
Chairperson

**Dr SM Hlatshwayo**
Deputy Chairperson

**Dr G Goolab**
Principal Officer

29 April 2019





## Independent Auditor's Report

To the Members of Government Employees Medical Scheme

### Report on the Financial Statements

#### Opinion

We have audited the financial statements of Government Employees Medical Scheme (the Scheme), set out on pages 130 to 193, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, the statement of changes in members' funds 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 Government Employees Medical Scheme as at 31 December 2018, 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 Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional 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.

| Outstanding claim provision (IBNR) | |
|---|---|
| **Key Audit Matter** | **How the matter was addressed in the audit** |
| 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.<br><br>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.<br><br>The IBNR calculation is based on the following of factors:<br><br>• Previous experience in claims patterns;<br>• Claims settlement patterns;<br>• Changes in the nature and number of members according to gender and age;<br>• Trends in claims frequency;<br>• Changes in the claims processing cycle; and<br>• Variations in the nature and average cost per claim.<br><br>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.<br><br>The IBNR is disclosed in note 10. | In evaluating the valuation of the IBNR, we performed various procedures including the following:<br><br>• Testing the Scheme's controls relating to the preparation of the IBNR calculation;<br>• Testing the integrity of the information used in the calculation of the IBNR by performing substantive procedures;<br>• 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;<br>• Performing a retrospective review of the IBNR raised in the 2017 financial year based on actual claims paid in 2018 to verify the assumptions applied to determine the IBNR are reasonable;<br>• 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<br>• 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.<br><br>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.<br><br>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 of the Report of Board of Trustees, the Statement of responsibilities of the Board of Trustees and the Statement of corporate governance by the Board of Trustees. 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, 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 in relation 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.

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

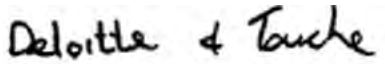
### Non-compliance with the Medical Schemes Act of South Africa

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

As required by the Council for Medical Schemes' Circular 38 of 2018, Audit Tenure, we report that Deloitte has been the auditor of Government Employees Medical Scheme for 3 years.

The engagement partner, Dinesh Munu, has been responsible for Government Employees Medical Scheme's audit for 3 years.



**Deloitte & Touche**
**Registered Auditor**

Per: Dinesh Munu
Partner
29 April 2019

# Statement of Financial Position
as at 31 December 2018

| | Notes | 2018 R '000 | 2017 R '000 |
|---|---|---|---|
| **ASSETS** | | | |
| **NonCurrent Assets** | | | |
| Property & Equipment | 3 | 255,407 | 97,906 |
| Intangible assets | 4 | 26,697 | 55,344 |
| Financial assets at fair value through profit or loss | 5 | 2,126,402 | 571,230 |
| | | **2,408,506** | **724,480** |
| **Current Assets** | | | |
| Financial assets at fair value through profit or loss | 5 | 6,887,753 | 1,905,393 |
| Trade and other receivables | 6 | 375,074 | 405,117 |
| Cash and cash equivalents | 7 | 2,435,201 | 5,488,609 |
| | | **9,698,028** | **7,799,119** |
| **Total Assets** | | **12,106,534** | **8,523,599** |
| **FUNDS AND LIABILITIES** | | | |
| **MEMBERS' FUNDS** | | | |
| Accumulated funds | | 9,475,894 | 5,446,276 |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Personal medical savings account liability | 8 | 862,691 | 759,387 |
| Trade and other payables | 9 | 521,704 | 1,193,272 |
| Outstanding risk claims provision | 10 | 1,245,080 | 1,123,600 |
| Lease escalation reserve | | 1,165 | 1,064 |
| | | **2,630,640** | **3,077,323** |
| **Member funds and Liabilities** | | **12,106,534** | **8,523,599** |





# Statement of Comprehensive Income

| | Notes | 2018 R '000 | 2017 R '000 |
|---|---|---|---|
| Risk contribution income | 12 | 37,354,261 | 34,703,985 |
| Relevant healthcare expenditure | | (32,002,171) | (29,844,481) |
| Risk claims incurred | 13 | (31,238,721) | (29,134,469) |
| Accredited managed healthcare services | 14 | (763,450) | (710,012) |
| **Gross healthcare result** | | **5,352,090** | **4,859,504** |
| Administration expenditure | 15 | (1,680,189) | (1,782,952) |
| Marketing services | | (124,669) | (121,718) |
| Impairment losses on healthcare receivables | 17 | (86,691) | (77,104) |
| **Net healthcare result** | | **3,460,541** | **2,877,730** |
| **Investment income** | 18 | 549,665 | 388,236 |
| Dividends received | | 32,215 | 8,101 |
| Interest received on financial assets at fair value through profit / (loss) | | 497,413 | 88,851 |
| Net realised gain on financial assets at fair value through profit / ( loss) | | (19,616) | 13,306 |
| Net unrealised gain on financial assets at fair value through profit / ( loss) | | (60,488) | 19,392 |
| Interest received on cash and cash equivalents | | 100,141 | 210,409 |
| Interest received on Personal medical savings account monies invested | | - | 48,177 |
| **Other income** | | 36,691 | 58,769 |
| Sundry income | | 36,691 | 58,769 |
| **Other expenses** | | (17,279) | (54,534) |
| Investment management fees | | (17,279) | (6,357) |
| Interest allocated to members' personal medical savings accounts monies | | - | (48,177) |
| **Total comprehensive surplus for the year** | | **4,029,618** | **3,270,201** |

# Statement of Changes in Equity

| | Accumulated funds R '000 | Member funds R '000 |
|---|---|---|
| **Balance at January 1, 2017** | **2,176,075** | **2,176,075** |
| Total comprehensive surplus for the year | **3,270,201** | **3,270,201** |
| **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 December 31, 2018** | **9,475,894** | **9,475,894** |





# Statement of Cash Flows

| | Notes | 2018 R '000 | 2017 R '000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash receipts from members | | 38,330,806 | 35,373,812 |
| Cash paid to suppliers, members and employees | | (35,608,033) | (32,405,293) |
| Cash generated from operations | 21 | 2,722,773 | 2,968,519 |
| **Net cash inflow from operating activities** | | **2,722,773** | **2,968,519** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property & equipment | 3 | (164,600) | (91,527) |
| Sale of property & equipment | 3 | 90 | - |
| Purchase of other intangible assets | 4 | - | (28,195) |
| Purchase of financial assets | | (6,161,336) | (1,455,343) |
| Investment income | | 549,665 | 388,236 |
| Interest received on cash and cash equivalents | | 100,141 | 210,409 |
| Income earned on financial assets at fair value through profit or loss | | 449,524 | 129,650 |
| Interest received on Personal medical savings account monies invested | | - | 48,177 |
| Interest allocated to members' personal medical savings account monies | | - | (48,177) |
| **Net cash outflow from investing activities** | | **(5,776,181)** | **(1,235,006)** |
| **Total cash movement for the year** | | **(3,053,408)** | **1,733,513** |
| Cash at the beginning of the year | | 5,488,609 | 3,755,096 |
| **Total cash at end of the year** | 7 | **2,435,201** | **5,488,609** |

# Notes to the Annual Financial Statements

## 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 annual 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 annual financial statements comply with the requirements of the 2018 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 annual 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 & 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 & 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 |
| 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.
- 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 | 3 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 reassessed 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.

### 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 shortterm 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

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## 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 (including claim handling costs) 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;

- 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.

- 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.



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## 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 losses.

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;
- Risk claims incurred;
- Savings interest.

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 the 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.



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## 2. NEW STANDARDS AND INTERPRETATIONS

### 2.1 Standards and interpretations not yet effective

The Scheme has adopted the following standards and interpretations, which have been published and are mandatory for the accounting periods beginning on or after 1 January, 2018 or later periods:

**IFRS 17 Insurance Contracts**

IFRS 17 creates one accounting model for all insurance contracts in all jurisdictions that apply IFRS.

IFRS 17 requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and take into account any uncertainty relating to insurance contracts.

The financial statements of an entity will reflect the time value of money in estimated payments required to settle incurred claims.

Insurance contracts are required to be measured based only on the obligations created by the contracts.

An entity will be required to recognise profits as an insurance service is delivered, rather than on receipt of premiums.

This standard replaces IFRS 4 – Insurance contracts.

The effective date of the standard is for years beginning on or after January 1, 2022.

The scheme will adopt the standard for the first time in the 2022 annual financial statements.

**IFRS 16 Leases**

IFRS 16 is a new standard which replaces IAS 17 Leases and introduces a single lease accounting model.

The new standard requires a lessee to recognize assets and liabilities for all leases with a term of more than 12months, unless the underlying assets is of low value. IFRS 16 also contains expanded disclosure requirements for lessees.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019 and the Scheme will adopt the standard in the first annual period beginning on or after the mandatory effective date.

At the adoption of the standard, the scheme will opt for a modified approach whereby the lease liability will be equal to the leased assets which will result in a nil effect to retained earnings as at the beginning of 2019.

### 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, and the new general hedge accounting requirements. 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 1 January 2018, with early adoption permitted.

The Scheme will adopt the standard in the first annual period beginning on or after the mandatory effective date. The impact of the adoption of IFRS 9 has not yet been estimated.

An amendments to IFRS 4 was issued 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 2022.

Management has assessed that the Scheme meets the criteria as stated in Amendments to IFRS 4 and therefore opted to utilise temporary exemption to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2022.





## 3. PROPERTY & EQUIPMENT

| R '000 | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Cost or revaluation | Accumulated depreciation | Carrying value | Cost or revaluation | Accumulated depreciation | Carrying value |
| Land | 22,819 | - | 22,819 | 22,819 | - | 22,819 |
| Buildings | 186,788 | (1,090) | 185,698 | - | - | - |
| Furniture and fixtures | 8,336 | (2,025) | 6,311 | 3,751 | (2,117) | 1,634 |
| Motor vehicles | 8,808 | (4,560) | 4,248 | 9,102 | (3,282) | 5,820 |
| Office equipment | 19,701 | (2,409) | 17,292 | 2,896 | (1,700) | 1,196 |
| IT equipment | 25,096 | (8,151) | 16,945 | 10,075 | (5,584) | 4,491 |
| Leasehold improvements | 1,157 | (366) | 791 | 3,406 | (3,248) | 158 |
| Kitchen Equipment | 1,303 | - | 1,303 | - | - | - |
| Capital Work in progress | - | - | - | 61,788 | - | 61,788 |
| **Total** | **274,008** | **(18,601)** | **255,407** | **113,837** | **(15,931)** | **97,906** |

| Reconciliation of property & equipment 2018<br>R '000 | 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 |
| IT 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** |

| Reconciliation of property & equipment 2017<br>R '000 | Opening balance | Additions | Disposals | Depreciation | Total |
|---|---|---|---|---|---|
| Land | - | 22,819 | - | - | 22,819 |
| Furniture and fixtures | 1,546 | 568 | - | (480) | 1,634 |
| Motor vehicles | 5,382 | 1,989 | - | (1,551) | 5,820 |
| Office equipment | 946 | 561 | (2) | (309) | 1,196 |
| IT equipment | 3,758 | 3,674 | (164) | (2,777) | 4,491 |
| Leasehold improvements | 311 | 128 | - | (281) | 158 |
| Capital Work in progress | - | 61,788 | - | - | 61,788 |
| | **11,943** | **91,527** | **(166)** | **(5,398)** | **97,906** |

## 4. INTANGIBLE ASSETS

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| R '000 | Cost / Valuation | Accumulated amortisation | Carrying value | Cost / Valuation | Accumulated amortisation | Carrying value |
| Computer software | 81,894 | (55,197) | 26,697 | 80,424 | (28,218) | 52,206 |
| Intangible assets under development | - | - | - | 3,138 | - | 3,138 |
| **Total** | **81,894** | **(55,197)** | **26,697** | **83,562** | **(28,218)** | **55,344** |

| Reconciliation of intangible assets 2018<br>R '000 | Opening balance | Expensed to profit and loss | Transfers | Amortisation | Total |
|---|---|---|---|---|---|
| Computer software | 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** |

| Reconciliation of intangible assets 2017<br>R '000 | Opening balance | Additions | Transfers | Amortisation | Total |
|---|---|---|---|---|---|
| Computer software | 35,774 | 25,057 | 12,245 | (20,870) | 52,206 |
| Intangible assets under development | 12,245 | 3,138 | (12,245) | - | 3,138 |
| | **48,019** | **28,195** | **-** | **(20,870)** | **55,344** |

## 5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2018 R '000 | 2017 R '000 |
|---|---|---|
| Opening balance | 2,476,623 | 861,524 |
| Additions to investments | 6,146,877 | 1,455,343 |
| Realised gains and interest | 536,081 | 150,959 |
| Unrealised gains/ (losses) | (60,488) | 20,619 |
| Investment transaction fees* | (378) | (211) |
| **Fair value of investments at year end** | **9,098,715** | **2,488,234** |
| Less Accrued interest ** | (84,560) | (11,611) |
| **Closing balance of investments** | **9,014,155** | **2,476,623** |

GEMS currently holds investments at fair value through profit or loss under IAS 39 and thus will continue to recognise investments at fair value through profit or loss when the Scheme adopt 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.

| | | |
|---|---|---|
| **Noncurrent assets** | | |
| Designated as at Fair value through profit (loss) | 2,126,402 | 571,230 |
| **Current assets** | | |
| Designated as at Fair value through profit (loss) | 6,887,753 | 1,905,393 |
| | **9,014,155** | **2,476,623** |

* 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 6, 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. Refer note 26.





## 6. TRADE AND OTHER RECEIVABLES

| | 2018 R '000 | 2017 R '000 |
|---|---|---|
| **Insurance receivables** | | |
| Contributions outstanding | 275,822 | 291,867 |
| Receivables from members and providers | 123,300 | 129,028 |
| Personal medical savings account advances (note 8) | 1,186 | 1,771 |
| Receivables balance before impairment | 400,308 | 422,666 |
| **Less: Balance of allowance for impairment at 31 December** | **(138,085)** | **(87,579)** |
| Balance as at 1 January | 87,578 | 53,967 |
| Amount recognised in the Statement of Comprehensive Income | 86,691 | 77,104 |
| Amounts utilised during the period | (36,184) | (43,492) |
| **Total insurance receivables** | **262,223** | **335,087** |
| **Financial receivables** | | |
| Accrued interest | 84,935 | 46,441 |
| Sundry accounts receivable | 27,916 | 23,589 |
| **Total financial receivables** | **112,851** | **70,030** |
| **Total trade and other receivables** | **375,074** | **405,117** |

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 26.

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 and thus the expectation is that the implementation of IFRS 9 will not have a material impact on the numbers reported by the Scheme. The impact of IFRS 9 on the financial reporting of the Scheme will be established during 2019.

## 7. CASH AND CASH EQUIVALENTS

| | 2018 R '000 | 2017 R '000 |
|---|---|---|
| Cash and cash equivalents consist of: | | |
| Call accounts | 1,709,104 | 3,097,980 |
| Current accounts | 726,097 | 480,629 |
| Fixed deposit | - | 1,910,000 |
| **Total cash and cash equivalents** | **2,435,201** | **5,488,609** |

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 26.

## 8. PERSONAL MEDICAL SAVINGS ACCOUNT

| | 2018 R '000 | 2017 R '000 |
|---|---|---|
| Gross balance of personal medical savings account at beginning of the year | 759,387 | 656,318 |
| Less: Advances on personal medical savings account at beginning of year | (1,771) | (1,333) |
| Balance of personal medical savings account at the beginning of the year | 757,616 | 654,985 |
| Savings account contributions received (note 12) | 954,187 | 792,547 |
| Transfers from other schemes in terms of Regulation 10(4) | 134 | 66 |
| Interest income earned on monies invested | - | 48,177 |
| Refunds on death or resignation in terms of Regulation 10(5) | (86,832) | (75,653) |
| Claw backs from members | 5,520 | 5,776 |
| Claims paid on behalf of members (note 13) | (769,120) | (668,282) |
| Personal medical savings account advances (note 6) | 1,186 | 1,771 |
| **Balances due to members on personal medical savings account end of the year** | **862,691** | **759,387** |

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 6). The Scheme does not charge interest on advances on personal medical savings accounts.

The effect of discounting is not material.

## 9. TRADE AND OTHER PAYABLES

| | 2018 R '000 | 2017 R '000 |
|---|---|---|
| **Insurance liabilities** | | |
| **Claims reported not yet paid** | | |
| Balance at the beginning of the year | 809,553 | 845,515 |
| Claims incurred | 31,238,721 | 29,134,469 |
| Claims settled | (31,913,407) | (29,170,427) |
| **Total liabilities arising from insurance contracts** | **134,867** | **809,553** |
| **Financial liabilities** | | |
| Trade payables | 88,102 | 99,591 |
| Administration fees payable | 161,260 | 150,924 |
| Consulting fees payable | 21,236 | 20,813 |
| Accredited managed healthcare fees due | 64,605 | 55,456 |
| Marketing services | 10,142 | 7,950 |
| Sundry payables and accrued expenses | 38,624 | 44,368 |
| Refunds due to members | 1,310 | 3,909 |
| Unallocated deposits | 1,558 | 708 |
| **Total arising from financial liabilities** | **386,837** | **383,719** |
| **Total trade and other payables** | **521,704** | **1,193,272** |

The carrying amounts of trade 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 20.26 days (2017: 25.4 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.

## 10. OUTSTANDING RISK CLAIMS PROVISION

| | 2018 R '000 | 2017 R '000 |
|---|---|---|
| **Outstanding risk claims provision** | | |
| Not covered by risk transfer arrangements | 1,245,080 | 1,123,600 |

| Reconciliation of provisions 2018 | Opening balance | Current year increase in provision | Payments in respect of prior year | Total |
|---|---|---|---|---|
| Outstanding risk claims provision | 1,123,600 | 1,333,882 | (1,212,402) | 1,245,080 |

| Reconciliation of provisions 2017 | Opening balance | Current year increase in provision | Payments in respect of prior year | Total |
|---|---|---|---|---|
| Outstanding risk claims provision | 960,000 | 1,181,100 | (1,017,500) | 1,123,600 |

| Analysis of outstanding risk claims provision 2018 | Estimated gross claims | Balance at the end of the year |
|---|---|---|
| Not covered by risk transfer arrangements | 1,245,080 | 1,245,080 |

| Analysis of outstanding risk claims provision 2017 | Estimated gross claims | Balance at the end of the year |
|---|---|---|
| Not covered by risk transfer arrangements | 1,123,600 | 1,123,600 |

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 R1.245 billion (2017: R1.123 billion) 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 cash equivalents at year end cover the outstanding risk claims provision more than eight 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. 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 22 for actuarial assumptions made.

## 11. FINANCIAL ASSETS AND LIABILITY BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

| 2018 R '000 | Fair value through profit or loss held for trading | Loans and receivables | Financial liabilities at amortised cost | Total |
|---|---|---|---|---|
| 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 savings liability account | - | - | (862,691) | (862,691) |
| Trade and other payables | - | - | (524,245) | (524,245) |
| | **9,014,155** | **2,810,275** | **(1,386,936)** | **10,437,494** |

| 2017 R '000 | Fair value through profit or loss held for trading | Loans and receivables | Financial liabilities at amortised cost | Total |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 2,476,623 | - | - | 2,476,623 |
| Trade and other receivables | - | 405,117 | - | 405,117 |
| Cash and cash equivalents | - | 5,488,609 | - | 5,488,609 |
| Personal Medical aid savings account trust liability | - | - | (759,387) | (759,387) |
| Trade and other payables | - | - | (1,193,272) | (1,193,272) |
| | **2,476,623** | **5,893,726** | **(1,952,659)** | **6,417,690** |





## 12. RISK CONTRIBUTION INCOME

| | 2018 R '000 | 2017 R '000 |
|---|---|---|
| Gross contributions per registered rules | 38,308,448 | 35,496,532 |
| Less: Personal medical savings account contributions received * | (954,187) | (792,547) |
| **Risk contribution income per statement of comprehensive income** | **37,354,261** | **34,703,985** |

* 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 8 on how the monies were utilised.

## 13. RISK CLAIMS INCURRED

| | | |
|---|---|---|
| **Claims incurred** | | |
| Current year claims per registered rules | 30,767,666 | 28,684,825 |
| Outstanding risk claims provision as at 31 December | 1,245,080 | 1,123,600 |
| Less: | | |
| Claims paid from personal medical savings accounts** | (769,120) | (668,282) |
| Discount received | (4,905) | (5,674) |
| **Total net claims incurred** | **31,238,721** | **29,134,469** |

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 86% (2017: 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 8 for a breakdown of the movement in these balances.

## 14. ACCREDITED MANAGED HEALTHCARE SERVICES

| | 2018 R '000 | 2017 R '000 |
|---|---|---|
| Chronic medicine management services | 166,788 | 156,100 |
| Dental managed care | 60,038 | 55,974 |
| HIV management | 42,612 | 39,850 |
| Managed care services | 385,264 | 356,391 |
| Pharmaceutical benefit management | 108,748 | 101,697 |
| | 763,450 | 710,012 |

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 24 for more information on managed care agreements.





## 15. ADMINISTRATION EXPENDITURE

| | 2018 R '000 | 2017 R '000 |
|---|---|---|
| Actuarial fees | 10,031 | 6,814 |
| Administration fees | 1,091,680 | 1,146,025 |
| Advertising and marketing | 21,692 | 37,824 |
| Auditors remuneration statutory fees | 3,458 | 2,701 |
| Bank charges | 3,011 | 3,157 |
| Benefit management services (Unaccredited managed care providers) | 130,999 | 132,221 |
| Board and Independent Committee fees | 6,391 | 7,686 |
| Conferences and workshops | 3,317 | 3,467 |
| Consulting fees | 100,403 | 144,638 |
| Depreciation | 33,875 | 26,268 |
| Employee costs | 185,861 | 166,352 |
| Legal expenses | 7,257 | 17,370 |
| Loss on disposal of assets | 113 | 166 |
| Motor vehicle expenses | 1,273 | 1,166 |
| Office supplies* | 9,610 | 8,086 |
| Other expenses | 2,542 | 10,268 |
| Practice Code Numbering System (PCNS) fees and CMS levies | 30,073 | 28,424 |
| Principal Officer's fees | 4,656 | 4,258 |
| Rental paid | 18,322 | 16,897 |
| Telephone and fax | 958 | 861 |
| Travel and accommodation | 9,925 | 14,999 |
| Trustees' and Independent Committee members' training | 203 | 121 |
| Trustees' and Independent Committee members' travel and accommodation | 1,398 | 1,621 |
| Water and electricity | 3,141 | 1,562 |
| | **1,680,189** | **1,782,952** |

*The increase in office supplies is due to an increase in repairs and maintenance and assets less than R5 000, both these are due to the move to the new building and vacating the old building.

## 16. TRUSTEES' AND INDEPENDENT COMMITTEE MEMBERS' REMUNERATION

### Board of Trustees' remuneration

| 2018 | Term End | Attendance Fees R '000 | Travel And Accommodation R '000 | Reimbursements And Allowances R '000 | Training R '000 | Total R '000 |
|---|---|---|---|---|---|---|
| Ms NH Mkhumane | 2018-02-05 | 11 | - | 2 | - | 13 |
| Ms N Ntsinde | 2018-02-05 | 35 | 14 | 2 | 1 | 52 |
| 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 |
| Dr. SM Hlatshwayo (Deputy Chairperson) | 2024-02-19 | 594 | 72 | 7 | 21 | 694 |
| 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 (Resigned) | 2017-12-31 | 2 | - | 3 | - | 5 |
| Mr JS Roux | 2020-07-29 | 454 | 275 | 11 | 14 | 754 |
| Mr M Erasmus Phophi | 2023-09-25 | 284 | 36 | - | 12 | 332 |
| Mr RA Manoko | 2024-02-19 | 489 | 64 | 20 | 33 | 606 |
| Mr MR Nkabinde (Removed by the Board) | 2018-09-21 | 28 | - | - | 10 | 38 |
| | | **5,631** | **1,293** | **149** | **203** | **7,276** |

| 2017 | Term End | Attendance Fees R '000 | Travel And Accommodation R '000 | Reimbursments And Allowances R '000 | Training R '000 | Total R '000 |
|---|---|---|---|---|---|---|
| Ms NH Mkhumane:(Deputy Chair person) | 2018-02-05 | 535 | 70 | 3 | 12 | 620 |
| Mr BE De Vries | 2019-07-29 | 443 | 325 | 16 | 16 | 800 |
| Mr CJ Booyens | 2019-07-29 | 641 | 91 | 24 | 3 | 759 |
| Dr C Moloko | 2022-10-28 | 448 | 74 | 9 | 16 | 547 |
| Ms N Ntsinde: (Chairperson) | 2018-02-05 | 924 | 91 | 12 | 12 | 1,039 |
| Mr D De Villiers (Deceased) | 2019-07-29 | 711 | 60 | 1 | 7 | 779 |
| Mr NL Theledi | 2019-09-26 | 478 | 74 | 7 | 7 | 566 |
| Dr IJ Van Zyl | 2020-07-29 | 502 | 111 | 32 | 16 | 661 |
| Dr JA Breed | 2020-07-29 | 523 | 122 | 27 | 1 | 673 |
| Dr CM Mini | 2020-07-29 | 845 | 73 | 27 | 7 | 952 |
| Mr JS Roux | 2020-07-29 | 658 | 367 | 15 | 9 | 1,049 |
| Mr M Erasmus Phopi | 2023-09-25 | 252 | 18 | 3 | 10 | 283 |
| | | **6,960** | **1,476** | **176** | **116** | **8,728** |

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 15).

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### Independent Committee members' remuneration

| 2018 | Term End | Attendance Fees R '000 | Travel And Accommodation R '000 | Reimbursements And Allowances R '000 | Total R '000 |
|---|---|---|---|---|---|
| Ms M David | 2019-03-31 | 34 | - | 1 | 35 |
| Ms 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 | 2019-02-19 | 310 | 22 | 3 | 335 |
| Rev Frank Chikane | 2019-03-31 | 51 | - | - | 51 |
| | | **608** | **105** | **4** | **717** |

| 2017 | Term End | Attendance Fees R '000 | Travel And Accommodation R '000 | Reimbursements And Allowances R '000 | Training R '000 | Total R '000 |
|---|---|---|---|---|---|---|
| Ms M Sukati (Resigned) | 2017-12-31 | 269 | 48 | 16 | 5 | 338 |
| Ms LR Zondi | 2017-07-31 | 27 | - | - | - | 27 |
| Ms M David | 2019-03-31 | 35 | 6 | 1 | - | 42 |
| MS P Ford | 2019-03-31 | 36 | 22 | - | - | 58 |
| Ms F Msiza | 2019-03-31 | 66 | 6 | - | - | 72 |
| Ms RHS Eksteen | 2018-11-01 | 83 | 45 | - | - | 128 |
| Rev Frank Chikane | 2020-07-31 | 18 | 17 | - | - | 35 |
| | | **534** | **144** | **17** | **5** | **700** |

Remuneration paid to independent committee members during 2018 was based on a fixed rate per meeting.

## 17. IMPAIRMENT LOSSES ON HEALTHCARE RECEIVABLES

| | 2018 R '000 | 2017 R '000 |
|---|---|---|
| Movement in the allowance account for impairment losses | 50,507 | 33,612 |
| Impairment losses recognised directly in income | 36,184 | 43,492 |
| | **86,691** | **77,104** |

## 18. INVESTMENT INCOME

**Dividend income**

**From investments in financial assets measured at fair value through profit or loss:**

Listed investments Local 32,215 8,101

**Interest income**

**From investments in financial assets:**

Interest received on financial assets at fair value through profit or loss 497,413 88,851

Net realised gains / (losses) on financial assets at fair value through profit or loss (19,616) 13,306

Net unrealised gains / (losses) on financial assets at fair value through profit or loss (60,488) 19,392

Interest received on cash and cash equivalents 100,141 210,409

Personal medical savings account - 48,177

**549,665** **388,236**

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.

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## 19. COMMITMENTS

| | 2018 R '000 | 2017 R '000 |
|---|---|---|
| **Operating leases – as lessee (expense)** | | |
| **The future minimum lease payments under a non-cancellable operating lease:** | | |
| - within one year | 6,441 | 7,202 |
| - in second to fifth year inclusive | 7,020 | 21,585 |
| | **13,461** | **28,787** |
| **Lease amounts recognised in profit or loss during the year** | | |
| Rental | 18,322 | 16,897 |

Operating lease payments represent rentals payable by the Scheme for its office properties. Leases are negotiated for an average term of five years and the lease escalation is 8% per annum over the lease period for the rental component and 8% for lease operating costs. No contingent rent is payable.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019 and the Scheme will adopt the standard in the first annual period beginning on or after the mandatory effective date.





## 20. NET HEALTHCARE RESULT PER BENEFIT OPTION

| 2018 | SAPPHIRE R '000 | BERYL R '000 | RUBY R '000 | EMERALD VALUE R '000 | EMERALD R '000 | ONYX R '000 | TOTAL 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** |

| 2017 | SAPPHIRE R '000 | BERYL R '000 | RUBY R '000 | EMERALD VALUE R '000 | EMERALD R '000 | ONYX R '000 | TOTAL R '000 |
|---|---|---|---|---|---|---|---|
| **Risk contribution income** | 1,026,181 | 903,992 | 3,170,328 | 1,946,923 | 25,406,677 | 2,249,884 | 34,703,985 |
| **Relevant healthcare expenditure** | (323,649) | (687,784) | (2,073,389) | (1,710,295) | (22,271,640) | (2,777,724) | (29,844,481) |
| Risk claims incurred | (279,605) | (658,013) | (1,990,951) | (1,672,193) | (21,792,821) | (2,740,886) | (29,134,469) |
| Managed care services* | (44,044) | (29,771) | (82,438) | (38,102) | (478,819) | (36,838) | (710,012) |
| **Gross healthcare result** | **702,532** | **216,208** | **1,096,939** | **236,628** | **3,135,037** | **(527,840)** | **4,859,504** |
| Administration expenditure | (110,765) | (74,936) | (207,093) | (96,945) | (1,200,962) | (92,251) | (1,782,952) |
| Marketing services | (7,551) | (5,104) | (14,132) | (6,562) | (82,055) | (6,313) | (121,718) |
| | **584,216** | **136,168** | **875,714** | **133,121** | **1,852,020** | **(626,404)** | **2,954,834** |
| Net impairment losses on healthcare receivables | (3,643) | (2,726) | (10,569) | (3,866) | (48,278) | (8,020) | (77,104) |
| **Net healthcare result** | **580,573** | **133,442** | **865,145** | **129,255** | **1,803,742** | **(634,424)** | **2,877,730** |
| Investment income | 21,186 | 14,352 | 39,552 | 18,782 | 228,640 | 17,542 | 340,059 |
| Personal medical savings account trust monies invested | - | - | (48,177) | - | - | - | 48,177 |
| Interest allocated to personal medical savings accounts | - | - | 48,177 | - | - | - | (48,177) |
| Other income | 3,751 | 2,571 | 6,911 | 3,462 | 39,121 | 2,952 | 58,769 |
| Investment management fees | (408) | (281) | (750) | (379) | (4,220) | (316) | (6,357) |
| **Total comprehensive surplus/ (deficit) for the year** | **605,102** | **150,084** | **910,858** | **151,120** | **2,067,283** | **(614,246)** | **3,270,201** |
| **Number of members** | **44,508** | **30,629** | **81,682** | **41,317** | **459,486** | **34,470** | **692,092** |

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 six different benefit options: 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 coordination 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 pre1992 state pensioners from Medihelp to GEMS, effective 1 April 2012. These members were registered on the Onyx option which adversely affected the financial performance of this option during the financial year.

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## 21. CASH GENERATED FROM OPERATIONS

| | 2018 R '000 | 2017 R '000 |
|---|---|---|
| Surplus / Deficit reported: | 4,029,618 | 3,270,201 |
| **Adjustments for:** | | |
| Depreciation, amortisation and impairment | 33,875 | 26,268 |
| Investment transaction fees | 378 | 211 |
| Loss on disposals of assets | 113 | 166 |
| Development costs expensed | 1,668 | - |
| **Investment income:** | | |
| Cash and cash equivalents | (100,141) | (210,409) |
| Income earned on financial assets at fair value through profit or loss | (449,524) | (129,650) |
| Interest earned on monies invested | - | 48,177 |
| Personal medical savings account monies invested | - | (48,177) |
| **Other:** | | |
| Impairment losses on healthcare receivables | 86,691 | 77,104 |
| Movements in provisions | 121,480 | 163,600 |
| **Changes in working capital:** | | |
| Trade and other receivables | (433,222) | (303,108) |
| Trade and other payables | (671,568) | 4,712 |
| Personal medical savings account | 103,304 | 69,103 |
| Lease escalation reserve | 101 | 321 |
| | **2,722,773** | **2,968,519** |





## 22. 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 2017 that have already been paid, the claims for

2018 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 2018 services paid from Jan 2019 to March 2019 R '000 | 2018 claims estimated at the time to be paid after March 2019 R '000 | 2018 Outstanding risk claims provision R '000 | % change in outstanding risk claims provision |
|---|---|---|---|---|
| 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 same analysis appears below for 31 December 2017 financial year outstanding risk claims provision, where claims paid after March 2018 for 2017 forms the basis for the sensitivity analysis.

Note that the base scenario figures below are actual's, not estimates.

| | Claims for 2017 services paid from Jan 2018 to March 2018 R '000 | 2017 claims estimated at the time to be paid after March 2018 R '000 | 2017 Outstanding risk claims provision R '000 | % change in outstanding risk claims provision |
|---|---|---|---|---|
| Base Scenario | 1,017,500 | 106,100 | 1,123,600 | - % |
| 3% increase | 1,017,500 | 109,300 | 1,126,800 | (0.28)% |
| 3% decrease | 1,017,500 | 102,900 | 1,120,400 | (0.19)% |

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 10.





## 23. 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 2018 the effective cover was R1 billion (2017: R1 billion). The Scheme's insurance contracts are reviewed for adequacy and reinstated annually.

The Scheme took additional cover during the 2018 financial year for Data protection and Cyber liability Cover. This covers any electronically stored digital or digitalised information or media, network interruption cost and cyber terrorism. The effective cover is R50 million.

## 24. 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 from 1 January 2012, 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.

### 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.

| | 2018 R '000 | 2017 R '000 |
|---|---|---|
| **Key management personnel** | | |
| **Compensation (includes remuneration and other costs)** | | |
| Short term benefits | 23,052 | 17,480 |
| Post-employment benefit | 1,471 | 1,154 |
| Bonus | 4,715 | 1,505 |
| | **29,238** | **20,139** |
| Principal Officer | 5,820 | 4,258 |
| Chief Financial Officer | 3,756 | 3,323 |
| Chief Administration Officer (Appointed 01-11-18) | 298 | 954 |
| Chief Communications and Member Affairs Officer (Resigned 30-04-18) | 346 | 699 |
| Chief Governance and Compliance Officer | 2,656 | 2,349 |
| Chief Healthcare Management Officer | 2,864 | 2,335 |
| Chief Information,Communication & Technology Officer | 2,443 | 2,005 |
| Chief Corporate Services Officer | 2,751 | 2,106 |
| Chief Audit Executive | 2,302 | 1,934 |
| Chief Research Officer | 1,433 | - |
| Chief Operation Officer | 2,520 | - |
| Company Secretary and Legal Counsel | 1,708 | - |
| **Gross contributions received (*)** | | |
| Board of Trustees | 448 | 514 |
| Principal Officer | 32 | 30 |
| Executive Committee | 470 | 364 |
| **Claims incurred (*)** | | |
| Board of Trustees | 449 | 988 |
| Principal Officer | 17 | 22 |
| Executive Committee | 225 | 162 |

(*) Gross contributions and claims incurred include contributions and claims incurred by members and their beneficiaries.





| 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 | 2018 R '000 | 2017 R '000 |
|---|---|---|
| **Statement of Comprehensive Income** | | |
| Administration fees | 1,091,680 | 1,146,025 |
| Accredited managed healthcare fees | 763,451 | 710,012 |
| Actuarial fees | 10,031 | 6,814 |
| **Trade and other payables** | | |
| Administration fees due | 87,282 | 150,924 |
| Accredited managed healthcare fees due | 64,605 | 55,456 |
| | **151,887** | **206,380** |

### 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 7 days. The Scheme has the right to terminate the agreements on 90 days' notice.

The services covered by these agreements include:

| Service | Provider 2018 | Provider 2017 |
|---|---|---|
| Contribution and Debt Services | Medscheme (Pty) Ltd | Medscheme (Pty) Ltd |
| Correspondence Services | Metropolitan Health Pty (Ltd) | Business Collaborate 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 3 to 5 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 7 days.

The services covered by these agreements include:

| Service | Provider 2018 | Provider 2017 |
|---|---|---|
| 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 |
| Telemarketing services | EOH Abantu (Pty) Ltd | EOH Abantu (Pty) Ltd |
| Health and wellness services | Healthi Choices ( Pty) Ltd | Healthi Choices ( Pty) Ltd |





## 25. 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.
- 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.
- 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.

| 2018<br>Insurance Age Grouping<br>(in years) | Hospitals<br>R '000 | Specialists<br>R '000 | Medicines<br>R '000 | General<br>Practitioners<br>R '000 | Optometry<br>R '000 | Other<br>R '000 | Total<br>R '000 |
|---|---|---|---|---|---|---|---|
| <26 | 3,699,841 | 2,425,923 | 1,782,068 | 621,755 | 213,546 | 1,336,001 | 10,079,134 |
| 26 35 | 96,641 | 53,874 | 18,498 | 17,614 | 4,425 | 20,561 | 211,613 |
| 36 50 | 1,800,393 | 1,035,554 | 524,223 | 369,538 | 78,410 | 477,522 | 4,285,640 |
| 51 65 | 4,303,689 | 2,763,145 | 2,028,061 | 970,299 | 274,092 | 1,578,616 | 11,917,902 |
| >65 | 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** | **616,786** | **3,945,694** | **30,905,297** |

| 2017<br>Insurance Age Grouping<br>(in years) | Hospitals<br>R '000 | Specialists<br>R '000 | Medicines<br>R '000 | General<br>Practitioners<br>R '000 | Optometry<br>R '000 | Other<br>R '000 | Total<br>R '000 |
|---|---|---|---|---|---|---|---|
| <26 | 107,801 | 59,210 | 21,260 | 20,553 | 4,610 | 25,387 | 238,821 |
| 26 35 | 1,784,201 | 1,014,042 | 567,218 | 380,461 | 79,419 | 503,963 | 4,329,304 |
| 36 50 | 4,102,314 | 2,592,633 | 2,045,560 | 955,069 | 265,398 | 1,547,053 | 11,508,027 |
| 51 65 | 3,283,208 | 2,082,613 | 1,632,713 | 570,576 | 189,903 | 1,181,070 | 8,940,083 |
| >65 | 1,616,056 | 952,530 | 650,723 | 126,371 | 40,738 | 468,617 | 3,855,035 |
| | **10,893,580** | **6,701,028** | **4,917,474** | **2,053,030** | **580,068** | **3,726,090** | **28,871,270** |

The information presented in this table is based on claims with a service date during the relevant year.

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 note 10 & 22.

## 26. 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.

### 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.



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The table summarises the Scheme's financial instrument exposure to market risk as at December 31, 2018 and excludes trade and other receivables and trade and other payables as they are not exposed to currency risk, price risk and interest rate risk.

| As at December 31, 2018 | Total value R '000 | Currency risk R '000 | Price risk R '000 | Interest rate risk R '000 |
|---|---|---|---|---|
| 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** |

| As at December 31, 2017 | Total value R '000 | Currency risk R '000 | Price risk R '000 | Interest rate risk R '000 |
|---|---|---|---|---|
| Cash and cash equivalents | 5,488,609 | - | - | 5,488,609 |
| Equities | 281,210 | - | 281,210 | - |
| Local bonds | 242,791 | - | 242,791 | - |
| Local money markets | 1,880,847 | - | - | 1,880,847 |
| Foreign money markets | 4 | 4 | - | - |
| Foreign bonds | 71,770 | 71,770 | - | - |
| | **7,965,231** | **71,774** | **524,001** | **7,369,456** |

### Interest rate risk

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.





| As at December 31, 2018 | Up to 3 months R '000 | 3 - 12 months R '000 | More than 12 months R '000 | Total |
|---|---|---|---|---|
| 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** |

| As at December 31, 2017 | Up to 3 months R '000 | 3 - 12 months R '000 | More than 12 months R '000 | Total |
|---|---|---|---|---|
| Cash and cash equivalents | 5,098,609 | 390,000 | - | 5,488,609 |
| Local money markets | 1,322,246 | 448,103 | 110,498 | 1,880,847 |
| | **6,420,855** | **838,103** | **110,498** | **7,369,456** |

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

| | 2018 R '000 | 2017 R '000 |
|---|---|---|
| Current accounts | 5.25% | 5.25% |
| Call accounts | 6.86% | 6.61% |
| Fixed deposits | N/A | 7.70% |
| Money market instruments carried at fair value through profit or loss | 6.45% | 8.88% |

### 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 twelve months permitted. This sensitivity analysis assumes that all other variables remain constant.

At December 31, 2018, 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 R16.2 million higher (2017: surplus would have been R15.2 million higher).

At December 31, 2018, 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 R16.2 million lower (2017: surplus would have been R14.9 million lower).

### 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 purpose of seeking investment diversification, the Scheme has invested 2.8% (2017: 2.9%) of its financial assets at fair value through profit or loss in offshore bond and cash portfolios. At December 31, 2018 this equated to R249.5 million (2017: R71.8 million).

The fair value of these contracts has been included in financial assets. Gains and losses on these arrangements are included in the surplus.

### 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 R19.9 million (2017: R12.1 million) and a 15% depreciation in the Rand would result in a gain of R31.5 million( 2017: R18.2 million). A 10% appreciation in the Rand would result in a loss of R14.8 million (2017: R11.9 million) and a 15% appreciation in the Rand would result in a loss of R19.8 million (2017: R17.7 million). 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.

| | 2018 R '000 | 2017 R '000 |
|---|---|---|
| Average rate | 13.25 | 13.27 |
| Year-end closing rate | 14.49 | 12.38 |

### 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 R875.4 million (2017: R281.21 million)





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 R74.9 million (2017: R31.8 million) and a 15% increase would result in a gain of R112.7 million (2017: R47.8 million). A 10% decrease in the price would result in a loss of R74.0 million (2017: R31.8 million) and a decrease of 15% would result in a loss of R110.6 million (2017: R47.8 million). 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.

### 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.

| At December 31, 2018<br>Category | Less than 1 month<br>R '000 | Between 1 and 3 months<br>R '000 | Between 3 months and 1 year<br>R '000 | Over 1 year<br>R '000 | Total<br>R '000 |
|---|---|---|---|---|---|
| **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 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 Assests 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** |

| At December 31, 2017<br>Category | Less than 1 month<br>R '000 | Between 1 and 3 months<br>R '000 | Between 3 months and 1 year<br>R '000 | Over 1 year<br>R '000 | Total<br>R '000 |
|---|---|---|---|---|---|
| **Insurance liabilities:** | | | | | |
| Outstanding claims provision | 621,400 | 398,200 | 104,000 | - | 1,123,600 |
| **Non-derivative financial liabilities:** | | | | | |
| Amounts owing to members and providers | 99,591 | - | - | - | 99,591 |
| Claims reported not yet paid | 809,553 | - | - | - | 809,553 |
| Sundry payables and accrued expenses | 283,420 | - | - | - | 283,420 |
| Unallocated deposits | 708 | - | - | - | 708 |
| Personal medical savings accounts trust liability | 759,387 | - | - | - | 759,387 |
| **Total liabilities** | **2,574,059** | **398,200** | **104,000** | **-** | **3,076,259** |
| Financial assets at fair value through profit or loss | 256,075 | 1,203,465 | 519,873 | 497,210 | 2,476,623 |
| Scheme monies invested | 3,578,609 | 1,520,000 | 390,000 | - | 5,488,609 |
| **Available cash and investments** | **3,834,684** | **2,723,465** | **909,873** | **497,210** | **7,965,232** |
| **Excess liquidity** | **1,260,625** | **2,325,265** | **805,873** | **497,210** | **4,888,973** |

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## 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
- 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.

| | 2018 R '000 | 2017 R '000 |
|---|---|---|
| **Cash and cash equivalents** | | |
| ABSA Bank | - | 1,200,000 |
| First National Bank | 733,597 | 488,129 |
| Investec Bank | - | 859,000 |
| Nedbank | - | 980,000 |
| Standard Bank | - | 545,000 |
| South African Reserve Bank | 1,701,604 | 1,416,480 |
| | **2,435,201** | **5,488,609** |

| **Ratings of Banks invested with:** | 2018 | 2017 |
|---|---|---|
| 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+ |





| | 2018 | 2017 |
|---|---|---|
| **The maximum exposure to credit risk for financial assets at year-end were as follows:** | | |
| Other financial assets | 9,014,155 | 2,476,623 |
| Loans and receivables (Cash and cash equivalents) | 2,435,201 | 5,488,609 |
| Loans and receivables (Trade and other receivables) | 375,076 | 405,117 |
| | **11,824,432** | **8,370,349** |

The amounts represented in the Statement of Financial Position for trade and other receivables are net of allowances for doubtful receivables.

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, 2018 | Not past due, not impaired R '000 | Past due, not impaired R '000 | Impaired R '000 | Total R '000 |
|---|---|---|---|---|
| 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 |

| As at December 31, 2017 | Not past due, not impaired R '000 | Past due, not impaired R '000 | Impaired R '000 | Total R '000 |
|---|---|---|---|---|
| Contribution debtors | 284,940 | 6,892 | 35 | 291,867 |
| Receivables from members and providers | 30,058 | 5,760 | 93,211 | 129,029 |
| Sundry accounts receivable | 23,589 | - | - | 23,589 |

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, 2018 | 3 30 days R '000 | 31 60 days R '000 | 61 90 days R '000 | Total R '000 |
|---|---|---|---|---|
| Contribution debtors | 259,673 | 6,853 | 4,806 | 271,332 |
| Receivables from members and providers | 2,409 | 2,301 | 4,612 | 9,322 |

| As at December 31, 2017 | 3 30 days R '000 | 31 60 days R '000 | 61 90 days R '000 | Total R '000 |
|---|---|---|---|---|
| Contribution debtors | 284,940 | 5,521 | 1,371 | 291,832 |
| Receivables from members and providers | 30,058 | 4,200 | 1,559 | 35,817 |

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.

| | 2018 R '000 | 2017 R '000 |
|---|---|---|
| **Receivables impaired:** | | |
| **Contribution debtors** | | |
| 120 days | 4,356 | 80 |
| **Receivables from members and providers** | | |
| 120 days | 113,729 | 87,499 |
| **Total** | **118,085** | **87,579** |

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 enrolls in another benefit plan or medical scheme without a savings account or does not enroll 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.

### Fair value of financial assets by hierarchy level

| At December 31, 2018 | Carrying amount R '000 | Total R '000 | Level 1 R '000 | Level 2 R '000 | Level 3 R '000 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 2,435,201 | 2,435,201 | - | 2,435,201 | - |
| Financial assets at fair value through profit or loss | 9,014,155 | 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** |

| At December 31, 2017 | Carrying amount R '000 | Total R '000 | Level 1 R '000 | Level 2 R '000 | Level 3 R '000 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 5,488,609 | 5,488,609 | - | 5,488,609 | - |
| Financial assets at fair value through profit or loss | 2,476,622 | 2,476,622 | 1,067,315 | 1,409,307 | - |
| Equities | 281,210 | 281,210 | 281,210 | - | - |
| Local bonds | 242,791 | 242,791 | 242,791 | - | - |
| Local money markets | 1,880,847 | 1,880,847 | 471,540 | 1,409,307 | - |
| Foreign money markets | 4 | 4 | 4 | - | - |
| Foreign bonds | 71,770 | 71,770 | 71,770 | - | - |
| | **7,965,231** | **7,965,231** | **1,067,315** | **6,897,916** | **-** |

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.

### 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:





| | Actual levels | CMS approved levels |
|---|---|---|
| 31 December 2015 | 9.46% | 10.10% |
| 31 December 2016 | 6.99% | 9.90% |
| 31 December 2017 | 15.22% | 8.20% |
| 31 December 2018 | 24.74% | 18.40% |

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.

## 27. GUARANTEES AND COMMITMENTS

The Scheme held guarantees in favor of the following instructions during the year

| | 2018 R '000 | 2017 R '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.

## 28. REGULATORY NON - COMPLIANCE

To the best of the Scheme's knowledge, the compliance matters listed below cover all of the noncompliance matters for the 2018 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 year end there were nine late paying employer groups. Subsequently these amounts have been received.

### Minimum accumulated funds

#### Nature

In terms of Regulation 29(2), (3) or (3A) of the Medical Schemes Act of 1998, a medical scheme shall maintain a minimum accumulated funds level of 25%. As prescribed by Regulation 29(4), where a medical scheme for a period of 90 days fails to comply with sub regulations 29(2), (3) or (3A) of the Medical Schemes must notify the regulator of such noncompliance.

#### Cause

The Scheme's minimum accumulated funds ratio throughout the year was below the required target of 25% as provided for in the Act and above what was subsequently approved by the Registrar on 27 March 2017. Reserves below the required 25% prescribed by the Act may be an indication that a Medical Scheme may have reserve concerns which would impact on the Scheme's ability to pay claims.





#### 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 2018 with the submission of quarterly performance reports and quarterly meetings with the CMS. The Scheme's reserve ratio level at 31 December 2018 was 24.74% (2017:15.22%).

### 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 pre1992 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 2018 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.

# 14. GOVERNANCE AND REMUNERATION

## STATEMENT OF CORPORATE GOVERNANCE

GEMS 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 and its responsibilities to each beneficiary and the wider community. The Scheme recognises that sustainability can be achieved only 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 the 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 affects 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 MSA, 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 discussions on policy, strategy, 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 required by the MSA, 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 Report on Governance (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 or when the need arises.

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 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 assesses the risk register and plans to mitigate risks. This committee reports to the Board of Trustees independently.

Annually, the Board assesses the risks facing the Scheme and determines the impact and likelihood of such risks through the development of a 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 control and systems during the year under review.

**Nkosinathi Theledi**
Chairperson

**Dr SM Hlatshwayo**
Deputy Chairperson

**Dr G Goolab**
Principal Officer

29 April 2019

## 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. The GEMS Board Charter is aligned to the provisions of the MSA, 1998, as amended; the Regulations promulgated under the Act and the registered Rules of GEMS. 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 and the role of the Board and its Chairperson, as well as the effectiveness of the Board committees. This takes place every second year.

The Board provides 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 ensures 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 and its implementation monitored through quarterly reports from Scheme management. Throughout 2018, the Board was kept appraised of the status of the business by 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 from time to time by the Registrar of Medical Schemes. A view of the Scheme's performance against the Five-year Strategic Plan for 2017 to 2021 is provided from page 80 of the Board report.

The Board of Trustees is responsible for governing 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 68 of the 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 2018 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 2018 and that risk assessments and mitigation measures aimed at safeguarding Scheme and member interests were effective.



## STRUCTURES AND OFFICERS

The Board consists of 12 trustees made up as follows:
50%, i.e. six trustees elected by the members of the Scheme; and

50%, i.e. six trustees appointed by the Minister for the Public Service and Administration.

The GEMS Board of Trustees held 11 meetings during 2018 (12: 2017) as follows:

1. 23 January 2018 (Ad hoc meeting);
2. 16 February 2018 (Urgent meeting with the Minister for the Public Service and Administration)
3. 20 February 2018 (Urgent meeting focused on appointment of Chairperson and Deputy Chairperson);
4. 06 March 2018 (Quarterly meeting);
5. 25 April 2018 (Quarterly meeting);
6. 28 June 2018 (Interim meeting focused on the AGM);
7. 30 July 2018 (Quarterly meeting);
8. 19-20 September 2018 (Strategic planning meeting);
9. 21 September 2018 (Interim meeting focused on the Scheme's 2019 benefit and pricing submission to the CMS);
10. 08 November 2018 (Quarterly meeting); and
11. 4 December 2018 (Interim meeting focused on key approvals required for 2019).

The Board of Trustees also held two half-day workshops (2: 2017) and an AGM (1: 2017), as follows:

1. 05 June 2018 (CMS relationship building meeting);
2. 31 July 2018 (AGM); and
3. 07 November 2018 (Board risk identification and assessment workshop).

### Standing committee structure and responsibilities

The Board of Trustees has established its own governance practices and standing committee structure that comply with governance and regulatory requirements. These committees fulfil key roles in ensuring good corporate governance.

The Board reviewed the standing committee structure established at end-2017 in 2018 and it remained in place for 2019. The review was informed by:

- Statutory requirements.
- The King IV Report on Corporate Governance.
- 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 2018 and 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) clarified and demarcated the standing committees' responsibility areas.

The standing committees meet at least quarterly, as indicated in the year planner approved for each year. Committee meetings are attended by Scheme management on invitation.

The committees in operation in 2018 were:

### Audit Committee

The Audit Committee 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 on 4 December 2018.

The primary responsibilities of the Audit Committee include assisting the Board of Trustees in its evaluation of the adequacy and efficiency of 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 SPN.

The Audit Committee considers and recommends the appointment of the external auditors, and monitors and reports on their independence. It 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, two of whom 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 2018, the committee members were:

| Name | Designation | Qualifications | Recent work experience |
|---|---|---|---|
| JM Lesejane | Independent member, appointed with effect from 1 January 2018 | Chartered Director South Africa (CD SA), CA (SA), Fellow Chartered Management Accountant (Global Management Accountant), BCom Hons Accounting Science, BCom Accountancy | Role in 2018: Independent Non-Executive Director, Consultant, Lecturer at Wits Business School |
| DJ de Villiers | Trustee, elected, appointed AC member from 1 January 2018 Deceased 19 September 2018 | BA (Communication Science) (Potchefstroom University), Advanced Diploma in Labour Law (University of Johannesburg/RAU) | Retired Labour Relations Deputy Director: Department of Correctional Services |
| R Eksteen | Independent Committee Member, appointed with effect from 1 November 2015 and resigned on 1 October 2018 | BCom Law, LLB, Masters in Development Finance, Certified Sustainability Assurance Practitioner, Intellectual Property Law Certificate | Role during 2018: Group Compliance Officer and Manager - Group Legal Services: Pioneer Food Group Ltd |
| RA Manoko | Trustee, appointed term began on 6 March 2018, appointed AC member from 28 June 2018 | Gradum Baccalaurei Procurations, Gradum Baccalaurei Legum, Admitted Attorney, Corporate Governance, Commercial Law | Role during 2018: Founder and MD: Manoko & Associates Inc |
| NF Msiza | Independent committee member, appointed with effect from 1 April 2013 and reappointed for a second term with effect from 1 April 2016 | Chartered Director South Africa (CD SA), BCom degree and Higher Diploma in Taxation and Masters in Business Administration | Role during 2018: Executive Director - Governance, Risk and Compliance: Raubex Group Limited Previous employers: Group Chief Audit Executive: Denel Director: Risk, Assurance and Compliance – City Power |
| MS Tonjeni (interim appointment to replace resigned member) | Independent committee member appointed on an interim basis from 1 October 2018 to 31 March 2019 | CA (SA), BCom Accounting, BCom Hons Accounting, Mining Tax Graduate Diploma, Postgraduate Diploma in Banking, INSETA Programme | Role during 2018: Chief Executive Officer: Makole Group Previous employers Financial Director: Consolidated Power Projects (Pty) Ltd – Johannesburg Principal Officer: Foskor Provident Fund |

| Name | Designation | Qualifications | Recent work experience |
|---|---|---|---|
| Dr IJ Van Zyl (interim appointment to replace deceased member) | Trustee, term as interim Audit committee Member began on 27 October 2018 | B Mil, Hons B Com (Personnel Management), MBA, PhD (Industrial Economics), Industrial Relations Development Programme | Most recent: Labour Consultant Previous employers: Chief Consultant (Labour Relations): ArcelorMittal SA; Chief Director (Labour Relations): Department of Labour |

The Audit Committee 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 six occasions in 2018 (5: 2017) as follows:

1. 07 February 2018 (Quarterly meeting);
2. 14 March 2018 (Quarterly meeting);
3. 16 April 2018 (Special meeting);
4. 12 June 2018 (Special continuation meeting);
5. 11 July 2018 (Quarterly meeting); and
6. 27 October 2018 (Quarterly meeting).

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

## Clinical Governance and Administration Committee

The primary responsibility of the committee is to assist the Board of Trustees to ensure the efficient operations of the Scheme by providing oversight, assessment and review of all administration aspects of the business. To this end, the committee assists the Board of Trustees in ensuring that seamless interaction takes place among service providers 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. In addition, it:

- Assesses, decides and reports on the approval of ex-gratia applications and payments to members of the Scheme. The committee is mandated to approve ex-gratia payments of more than R50 000 and where the condition and the withholding of therapy is life threatening, the treatment will result in improved quality of life for 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.
- Assists 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 two days, every quarter, for a total of six meetings in 2018 (8: 2017) on:

1. 20 to 21 February 2018 (Quarterly meeting);
2. 17 to 18 April 2018 (Quarterly meeting);
3. 12 to 13 July 2018 (Quarterly meeting);
4. 14 August 2018 (Special meeting focused on the Scheme's 2019 benefit design);
5. 30 to 31 October 2018 (Quarterly meeting); and
6. 06 December 2018 (Ad hoc meeting to consider urgent procurement matter).

For the year ended 31 December 2018, the committee members were:

- Dr MS Hlatshwayo (trustee, appointed, tenure began 6 March 2018)
- DJ de Villiers (trustee, re-elected, tenure began 30 July 2013, deceased 19 September 2018)
- EB de Vries (trustee, elected, tenure began 30 July 2013)
- RA Manoko (trustee, appointed, tenure began 6 March 2018)
- ME Phophi (trustee, appointed, tenure began 19 September 2017)
- NL Theledi (trustee, appointed, tenure began 27 September 2013)

## Risk Social and Ethics Committee

The committee has been mandated by the Board of Trustees to ensure sound corporate governance by providing oversight, assessment and review of the risk management, ethics management and compliance management aspects of the Scheme. Its responsibilities include ensuring compliance with the MSA and its Regulations, patent and trademark legislation, and any other legislative framework relevant to the business of the Scheme.

The committee met on four occasions in 2018 (4: 2017):

1. 15 February 2018;
2. 10 April 2018;
3. 18 July 2018; and
4. 25 October 2018.

For the year ended 31 December 2018, the committee members were:

- Dr JA Breed (trustee, elected - Chairperson, tenure began July 2014)
- Dr MS Hlatshwayo (trustee, appointed, tenure began 6 March 2018)
- Dr ETC Moloko (trustee, appointed, tenure began 28 October 2016)
- Dr IJ van Zyl (trustee, elected, tenure began 30 July 2014)
- ME Phophi (trustee, appointed, tenure began 19 September 2017)
- JS Roux (trustee, re-elected, tenure began 30 July 2014)

## Finance and Investment Committee

The Finance and Investment Committee was set up by the Board in December 2013 and began its work in March 2014. Its primary responsibility 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. It also monitors the Scheme's organisational and financial performance and provides oversight of contracting of

service providers to render scheme services. It monitors cash flow position, investment performance and compliance to the regulatory framework applicable to medical scheme investments, and oversees the ICT function and the performance of the Scheme's contracted asset consultants and managers.

The committee met on eight occasions in 2018 (4: 2017)

22 February 2018 (Quarterly meeting);
2. 05 March 2018 (Ad hoc meeting to consider urgent procurement matter);
3. 19 April 2018 (Quarterly meeting);
4. 06 June 2018 (Ad hoc meeting to consider urgent procurement matter)
5. 19 July 2018 (Quarterly meeting);
6. 16 August 2018 (Quarterly meeting);
7. 18 October 2018 (Quarterly meeting); and
8. 07 November 2018 (Ad hoc meeting to consider urgent procurement matter).

Committee members in 2018 were:

- CJ Booyens (trustee, elected, Chairperson, tenure began 30 July 2013, deceased 21 April 2019)
- Dr JA Breed (trustee, elected, tenure began July 2014)
- Dr ETC Moloko (trustee, appointed, tenure began 28 October 2016)
- JS Roux (trustee, re-elected, tenure began 30 July 2014)

## Dispute Committee

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

The Dispute Committee met on:

1. 12 February 2018 (Annual meeting);
2. 27 March 2018 (Ad hoc meeting); and
3. 11 September 2018 (Biannual meeting).

For the year ended 31 December 2018, the committee members were:

- M David (independent member, reappointed for second term with effect from 1 April 2016)
- Dr P Ford (independent member, reappointed for second term with effect from 1 April 2016)
- Rev F Chikane (independent member, appointed with effect from 1 August 2017)

## Human Resources and Remuneration Committee

The primary responsibility of this committee is to ensure sound people management of Scheme employees by providing oversight, assessment and review of the maintenance of human resources and remuneration policies of the Scheme. Its 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 six occasions in 2018 (5: 2017):

1. 06 February 2018 (Quarterly meeting);
2. 20 March 2018 (Ad hoc meeting);
3. 11 April 2018 (Quarterly meeting);
4. 10 July 2018 (Quarterly meeting);
5. 24 October 2018 (Quarterly meeting); and
6. 21 November 2018 (Special meeting).

For the year ended 31 December 2018, the committee members were:

- Dr IJ van Zyl (trustee, elected, chairperson, tenure began 30 July 2014)
- CJ Booyens (trustee, elected, began 30 July 2013)
- EB de Vries (trustee, elected, tenure began 30 July 2013)
- NL Theledi (trustee, appointed, tenure began 27 September 2013)

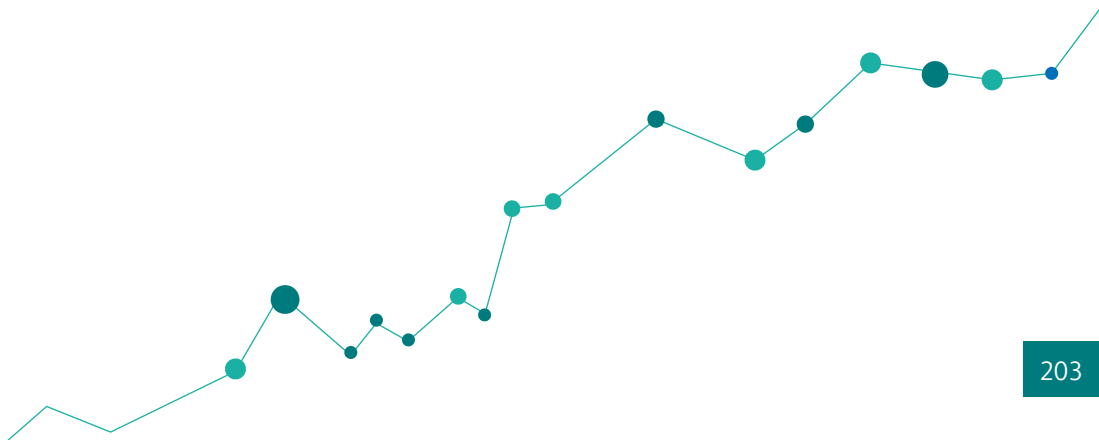
In addition to the standing committees, the Board appointed one ad hoc committee in 2018 to formulate recommendations on specific matters:

## Benefit Design Committee

The GEMS Benefit Design Committee developed recommendations for the GEMS benefits and contributions for 2019 for the Board's consideration. The committee met twice (2: 2017) on the following dates:

- 22 August 2018, and
- 13 September 2018

Attendance of Benefit Design Committee meetings was open to all trustees and most trustees attended these meetings in 2018.



## GEMS TRUSTEES AND PRINCIPAL OFFICER: 2018 SUMMARISED ATTENDANCE REGISTER

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

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

| | AGM | BOARD OF TRUSTEES MEETINGS | | AUDIT COMMITEE MEETINGS | | BENEFIT DESIGN COMMITTEE MEETINGS | | CLINICAL GOVERNANCE AND ADMINISTRATION COMMITTEE MEETINGS | | | DISPUTE COMMITTEE MEETINGS | | RISK SOCIAL AND ETHICS COMMITTEE MEETINGS | | FINANCE AND INVESTMENT COMMITTEE MEETINGS | | HUMAN RESOURCES AND REMUNERATION MEETINGS | | TRAINING | | WORK-SHOPS | | OTHER SCHEME ENGAGEMENTS | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| TRUSTEE | AGM | A | B | A | B | A | B | A | B | | A | B | A | B | A | B | A | B | A | B | A | B | A | B |
| Booyens, C | 1 | 11 | 11 | | | 2 | 2 | | | | | | | | 8 | 8 | 5 | 6 | 14 | - | 1 | - | 1 | - |
| Breed, J | 1 | 11 | 11 | | | 2 | 2 | | | | | | 4 | 4 | 8 | 8 | | | 10 | - | 1 | - | 1 | - |
| De Villiers, D | 1 | 6 | 7 | | | 2 | 2 | 4 | 6 | | | | | | | | | | 10 | - | - | - | - | - |
| De Vries, EB | 1 | 11 | 11 | | | 2 | 2 | 5.5 | 6 | | | | | | | | 6 | 6 | 15 | - | 1 | - | 1 | - |
| Hlatshwayo, MS | 1 | 10 | 10 | 3 | 3 | 2 | 2 | 5 | 6 | | | | 3 | 3 | 2 | 2 | 1 | 1 | 21 | - | - | - | 1 | - |
| Manoko, RA | 1 | 10 | 10 | 2 | 2 | 1 | 2 | 5 | 6 | | | | 1 | 1 | 1 | 1 | 1 | 1 | 20 | - | 1 | - | - | - |
| Mkhumane, NH | | - | 1 | | | | | | | | | | | | | | | | | | | | | |
| Moloko, C | 1 | 11 | 11 | | | 2 | 2 | | | | | | 4 | 4 | 7 | 8 | | | 18 | - | 1 | - | 1 | - |
| Nkabinde, R | - | 2 | 8 | - | 1 | - | 2 | - | 1 | | | | - | 1 | - | 1 | - | 1 | | - | - | - | - | - |
| Ntsinde, NM | | 1 | 1 | | | | | | | | | | | | | | | | | | | | | |
| Phophi, E | 1 | 1 | 11 | | | 1 | 2 | 4 | 6 | | | | 4 | 4 | | | | | 10 | - | - | - | - | - |
| Roux, S | 1 | 11 | 11 | | | 2 | 2 | | | | | | 4 | 4 | 8 | 8 | | | 15 | - | 1 | - | - | - |
| Theledi, N | 1 | 11 | 11 | | | 2 | 2 | 5 | 6 | | | | | | | | 5 | 6 | 10 | - | 1 | - | - | - |
| Van Zyl, K | 1 | 11 | 11 | 5 | 5 | 2 | 2 | | | | | | 4 | 4 | | | 6 | 6 | 9 | - | 1 | - | 1 | - |
| Goolab, G (Principal Officer) | 1 | 10 | 11 | 6 | 6 | 2 | 2 | 5 | 6 | | 3 | 3 | 4 | 5 | 5 | 8 | 6 | 6 | 19 | - | 1 | - | 1 | - |

## GEMS INDEPENDENT COMMITTEE MEMBERS' ATTENDANCE OF BOARD AND COMMITTEE MEETINGS

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

| | AGM | BOARD OF TRUSTEES MEETINGS | | AUDIT COMMITTEE MEETINGS | | BENEFIT DESIGN COMMITTEE MEETINGS | | CLINICAL GOVERNANCE AND ADMINISTRATION COMMITTEE MEETINGS | | | DISPUTE COMMITTEE MEETING | | RISK SOCIAL AND ETHICS COMMITTEE MEETINGS | | FINANCE AND INVESTMENT COMMITTEE MEETINGS | | HUMAN RESOURCES AND REMUNERATION COMMITTEE MEETING | | TRAINING | | WORK-SHOPS | | OTHER SCHEME ENGAGEMENTS | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Member** | **AGM** | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** | | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** | | | | |
| David, M | | | | | | | | | | | 3 | 3 | | | | | | | | | | | | |
| Eksteen, R | | | | 3 | 5 | | | | | | | | | | | | | | | | | | | |
| Ford, P | | | | | | | | | | | | | | | | | | | | | | | | |
| Lesejane, JM | 1 | 7 | 7 | 6 | 6 | | | | | | | | | | | | | | 6 | - | 1 | - | 1 | - |
| Msiza, F | 1 | | | | | | | | | | 3 | 3 | | | | | | | | | | | | |
| Chikane, F | | | | | | | | | | | 3 | 3 | | | | | | | | | | | | |

# BOARD OF TRUSTEES

Back row (from left to right): Mr EB de Vries, Mr RA Manoko, Mr EM Phophi, Mr JS Roux, Dr ECT Moloko.
Front row (from left to right): Dr IJ van Zyl, Dr SM Hlatshwayo (Deputy Chairperson), Mr NL Theledi (Chairperson), Dr JA Breed.

| Name | Elected or appointed | Qualification | Other significant positions held during 2018 |
|---|---|---|---|
|  **CJ Booyens** (25 February 1942) (Deceased) | Elected, tenure began 30 July 2013 and ends 29 July 2019 | BSc (University of Pretoria); THOD Teaching Diploma (Pretoria Teacher Training College) | Trustee: Government Employees Pension Fund (GEPF) |
|  **Dr JA Breed** (14 March 1951) | Elected, tenure began 30 July and ends 29 July 2020 | BSc (Potchefstroom University - PU for the Council for Higher Education - CHE), THOD (POK) BEd (PU for CHE), MEd (PU for CHE), PhD (North West University) | N/A |
|  **DJ de Villiers** (21 July 1955) (Deceased) | Elected, tenure began 30 July 2013 and ends 29 July 2019 | BA (Communication Science) (PU); Advanced Diploma: Labour Law (University of Johannesburg/ Rand Afrikaans University) | N/A |
|  **EB de Vries** (21 July 1943) | Elected, tenure began 30 July 2013 and ends 29 July 2019 | BEd (Port Elizabeth University); BA (Stellenbosch University); Secondary Teacher's Cert (Stellenbosch University) | N/A |

| | Name | Elected or appointed | Qualification | Other significant positions held during 2018 |
|---|---|---|---|---|
|  | **Dr SM Hlatshwayo** (9 January 1964) | Appointed, tenure began 20 February 2018 and ends 19 February 2024 | BSc (Medunsa); MB ChB (Medunsa) | Casualty Doctor: Arwyp Private and OR Tambo Travel Clinic |
|  | **Dr ECT Moloko** (16 May 1959) | Appointed 28 October 2016; tenure ends 27 October 2022 | MB ChB (Medunsa)<br>BSc (Med), Medunsa) | Chairperson: Health and Wefare Sector Education and Training Authority (HWSETA) |
|  | **RA Manoko** (6 June 1966) | Appointed, tenure began 20 February 2018 and ends 19 February 2024 | BProc (1989) (University of the North); LLB (University of the North) | Founder and MD: Manoko & Associates Inc, Attorney |
|  | **Mpfariseni Phophi** (6 October 1952) | Appointed, tenure began 26 Sept 2017 and ends 25 Sept 2023 | BA (Human Resource Management); International Labour Organisation (ILO) Course on Labour Relations and Performance Management in the Public Service; ILO Course on Advanced Negotiations Skills | Chief Negotiator for the State as Employer<br>Chairperson on National Labour Relations Forum for the Public Service<br>Chairperson of the State as Employer in the Public Service Coordinating Bargaining Council |
|  | **MR Nkabinde** (11 May 1984) | Appointed, tenure began 20 February 2018 and ended 21 September 2018 | Information and System Management Certificate | ANCYL National Treasurer (Treasurer General) |
|  | **Dr IJ van Zyl** (31 January 1951) | Elected, tenure began 30 July 2014 and ends 29 July 2020 | B Mil, Hons, B Com (Personnel Management), MBA, PhD (Industrial Economics), Industrial Relations Development Programme | N/A |
|  | **NL Theledi** (30 June 1963) | Appointed 9 September 2013, tenure ends 8 September 2019 | B Tech (Tshwane University of Technology - TUT); ND Human Resource (University of Johannesburg); Public Management and Development (Wits Graduate School of Public and Management); MTech (TUT) | Secretary General: POPCRU |
|  | **JS Roux** (08 January 1944) | Elected, tenure began 30 July 2014, ends 29 July 2020 | BSc; LSTD; BEd Stellenbosch University) | N/A |

Note: Trustees' qualifications are verified by the Scheme's annual vetting procedure.

| Name | Elected or appointed | Qualification | Other significant positions held during 2018 |
|---|---|---|---|
| **Ms NM Ntsinde** (21 December 1957) | Appointed, 30 July 2013. Tenure ended 5 February 2018 | (B. Proc (Univ. of Fort Hare); MBA (Wits Business School) | University of KwaZulu-Natal Council Member |
| **Ms NH Mkhumane** (03 June 1973) | Appointed 25 September 2014. Tenure ended 5 February 2018 | Dip. Law & Tax., IEIC (CIMA), Exec. Mgt. Dev. Prog. (WBS), Capital Proj. Mgt. Appraisal (Queens Univ. Canada), Bachelor of Commerce (UNISWA) Certificates: Board Leadership (GIBS), Corp. Gov., Audit Roles, Supply Chain Mgt. & Prop. & Asset Mgt. | Chairman: South African Diamond and Precious Metals Regulator |







## VALUE STATEMENT AND ETHICS

Good corporate governance is regarded as crucial to the success of the business of the Scheme, and the Board and Scheme management are unreservedly committed to exercising ethical and effective leadership. The Board strives to cultivate and exhibit the characteristics of integrity, competence, responsibility, accountability, fairness and transparency in all dealings by, in repect of, and on behalf of, the Scheme.

## STRUCTURES AND PROCESSES

The role of the GEMS Board of Trustees is set out in the Board Charter and the GEMS Ethics Policy. The Board is responsible for exercising 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 annually 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 for supporting the Board in ensuring effective oversight of, and reporting on organisational ethics in, GEMS. The committee is responsible specifically for supporting 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 of 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 requirements for conflict of interest applicable to trustees also apply to GEMS chief officers.

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

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

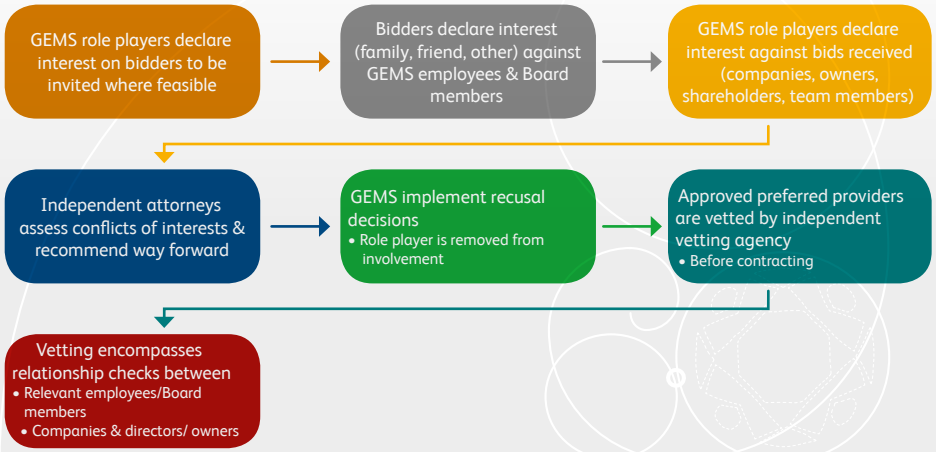
The GEMS Ethics Policy sets the tone for the various policies, measures and mechanisms used to ensure that trustees, employees and contracted service providers meet the ethics expectations of the Scheme. These include

measures to confirm that Scheme officers are fit and proper, declaration of interests and acceptance of gifts.

The Scheme's operations are based on a high level of outsourcing and this makes the GEMS Supply Chain Management Policy an important component in ethics governance. The Board reviews the policy at least annually.

Important aspects of the GEMS Supply Chain Management Policy are:

- The GEMS Supply Chain Management Ethics Procedure consisting of the Supply Chain Management Code of Conduct and a declaration of interest process for all role-players in a procurement process, i.e. a declaration process is followed for each procurement process.
- GEMS applies a procurement conflict matrix to specify which contracts may not be awarded to the same service provider. This enhances governance and is applied where there is a perception of bias if a service provider executes both contracts, where there is a conflict due to legal restrictions or conflict of interest restrictions. Examples are the internal and external audit service providers, the GEMS procurement service provider and the GEMS vetting provider.
- GEMS makes use of auditors to render procurement oversight. Adjudication of bids by the Board and the standing committees of the Board considers procurement oversight audit reports.
- A cooling-off period is applied. GEMS will not consider the bid of a person who was an employee of GEMS, a GEMS Board member or an independent committee member within a 12-month period prior to the closing date of the bid to which the person wanted to respond. This includes bids from organisations where such employee or Board/committee member is an owner/shareholder or where such person is a team member for the bid submitted.
- A vetting process specific to each procurement process is applied. The extent of vetting is reflected below:




All procurement processes for services with a value of R2 million and above, initiated and concluded during 2018, were declared free, fair, transparent and in line with the Scheme's Supply Chain Management Policy by the procurement oversight auditors.

## KEY FOCUS AREAS IN 2018

The main focus area in 2018 was to implement changes in the Scheme's policies governing supply chain management, ethics management, vetting of Scheme officers, and recruitment and selection. These policies were all subjected to revision in the previous year based on an internal gap analysis and issues reported in forensic tender investigation reports.

Specifically, a more extensive declaration of interest process was introduced, encompassing all procurement activities and the employee recruitment and selection process. Tender assessment processes were subjected to an ethics check and any ethics considerations were reported in tender evaluation reports.

A lifestyle audit procedure was developed for the Scheme in 2018 for implementation in 2019.

The Ethics Policy was subjected to further review in 2018 and the following important changes were made:

- A limitation is placed on the sharing of contracted entities' information; and
- Measures are introduced for the management of contracts by employees who declared a conflict of interest when procuring the service or subsequent to procurement.

## KEY FOCUS AREAS IN 2019

The GEMS ethics function was subjected to a maturity assessment in December 2018. The outcome of the assessment will be used to strengthen the function in 2019.

The Board monitors the strategic risk 'Breakdown in ethical culture internally and in the operating environment'. Refer to Risk Management section, page 78 of the report.

## 2018 REMUNERATION REPORT

The Board resolved on 28 February 2017 to adopt the King IV Report on Corporate Governance with effect from 1 January 2018.

The Scheme has a dedicated Board committee for overseeing remuneration, inclusive of trustee and independent committee members' remuneration, remuneration of 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 2018 is provided on page 202 of the report.

The key factors that influenced remuneration decisions during 2018:

- The financial performance of the Scheme has had an influence on the performance management process and, in turn, employee performance bonuses for senior management employees.
- The current economic climate continues to play a key role in determining annual remuneration adjustments, as this has an influence during salary benchmarking

processes. The consumer price index (CPI), the salary market and salary benchmarking also had an impact, as these factors are taken into consideration when determining annual remuneration adjustments.
- 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 managers.
- The Board of Trustees remained considerate of views expressed by the members and stakeholders of GEMS on trustee remuneration.

The key focus areas and key decisions of the Human Resources and Remuneration Committee in 2018 were:

- Review of executive remuneration in line with the new top structure.
- Determination of 2019 annual salary adjustments for GEMS employees.
- Overseeing the revision of the GEMS Performance Management Policy for employees.
- An amendment to enhance the GEMS employee performance rewards structure as part of attracting and retaining talent.
- Review of the trustee and independent committee member meeting fees.

Future focus areas include a comprehensive revision of the Trustee and Independent Committee Member Remuneration Policy to ensure that the basis for calculating fees remains fair, equitable and justifiable.

The GEMS Employee Remuneration Policy was revised in 2015 and the new policy was approved by the Board of Trustees on 8 December 2015 for implementation on 1 January 2016. No changes were made to the policy in 2018.

Remuneration consultants were used in the remuneration benchmark analyses of general staff, senior managers, executive managers and the Principal Officer under the auspices of the Human Resources and Remuneration Committee in 2018. The committee approved the terms of reference of the organisation appointed to perform the remuneration benchmark analyses. The work was allocated to an organisation that is well versed and experienced in this area and the committee was satisfied with their independence and objectivity.

## EMPLOYEE REMUNERATION

### 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 8.2% for the 2018 financial year. The GEMS performance management process further entrenches this commitment as the Scheme continues to reward high performers in 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 remaining cognisant of the economic environment. The success of the new 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 Strategic Plan. Key future areas of focus are pay structuring and the review of pay scales.

### Overview of GEMS Employee Remuneration Policy

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 ensures that employees are appropriately compensated. The Board adopted a remuneration philosophy and strategy in 2013, which 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 to achieving long-term sustainability. The GEMS Employee Remuneration Policy is also aligned to the remuneration philosophy and strategy.

GEMS is committed to developing, implementing and upholding remuneration strategies and practices that 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 appropriate remuneration for each staff member, all posts are graded based on the requirements of the position. The grading is used during the annual staff remuneration benchmarking exercise to determine if the remuneration for each position is in line with benchmarked levels. The results of the annual benchmarking exercise are considered by the Human Resources and Remuneration Committee for recommendation to the Board.
Remuneration is provided to employees in guaranteed and variable pay. Guaranteed remuneration includes basic salary and benefits, while variable remuneration is aligned to the achievement of business objectives and individual performance.

GEMS' targeted pay level for employees is up to the 50th percentile of the benchmark used for employees who meet the required qualifications, experience and other job requirements. Where necessary, for strategic reasons, the Scheme may provide a remuneration package above the 50th percentile. As part of continuing to focus on talent attraction and retention, executive-level employees are remunerated up to the 60th percentile. To this end, the Principal Officer, with the approval of the Board of Trustees, may offer a package that is above the targeted pay ranges to a candidate considered to be of strategic importance to GEMS, or who has scarce or critical skills.

The Scheme aims to attract, retain and motivate executives of the highest calibre, and to aligning their remuneration with member interests and best practice. The Scheme rewards executives for their contribution to strategic, operational and financial performance and ensures that remuneration is conducive to developing and retaining top talent and critical skills. A decision was taken by the Board on 31 October 2017 to convert the employment contracts of GEMS executives to fixed-term contracts of five years.

The Principal Officer's remuneration package is determined by the Board of Trustees with

consideration to the Scheme's financial performance, the Principal Officer's role and responsibilities, and the strategic imperatives of the appointment. The package may not exceed the remuneration packages attached to the upper quartile.

With effect from 1 January 2014, employees contribute to a compulsory retirement and risk arrangement in the form of a provident fund. Employees are allowed to choose their contribution rate on a scale of 5%, 6% or 7.5%. The employer matches the rate. Under this arrangement, employees also have funeral cover, group income protection and group life cover. A medical assistance subsidy was introduced from 1 August 2015 for GEMS employees. The medical assistance subsidy is adjusted on 1 January each year in accordance with medical price inflation.

## The GEMS 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:

- Internal business performance;
- Customer/stakeholder management performance;
- Financial performance, and
- Learning and growth.

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:

- The Principal Officer's performance is measured on the achievement of the Scheme Strategic Plan.
- Executives are measured on the achievement of divisional business plans aligned to the Scheme Strategic Plan.
- Employees below executives are measured on their job profiles and the achievement of operational business plans that are aligned to divisional business plans.

Annual employee performance contracting and assessment are done on the basis of performance scorecards 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 for key performance areas and competencies is depicted below:

| Level of management | Key performance areas | Core/managerial competencies | Total weight in % of 100 |
|---|---|---|---|
| Principal Officer | 60% | 40% | 100 |
| Executives | 70% | 30% | 100 |
| Senior management | 80% | 20% | 100 |
| Other employees | 90% | 10% | 100 |



The allocation of weightings will be adjusted in 2019 and 10% will be allocated to measure employees' performance in relation to the Scheme's values.

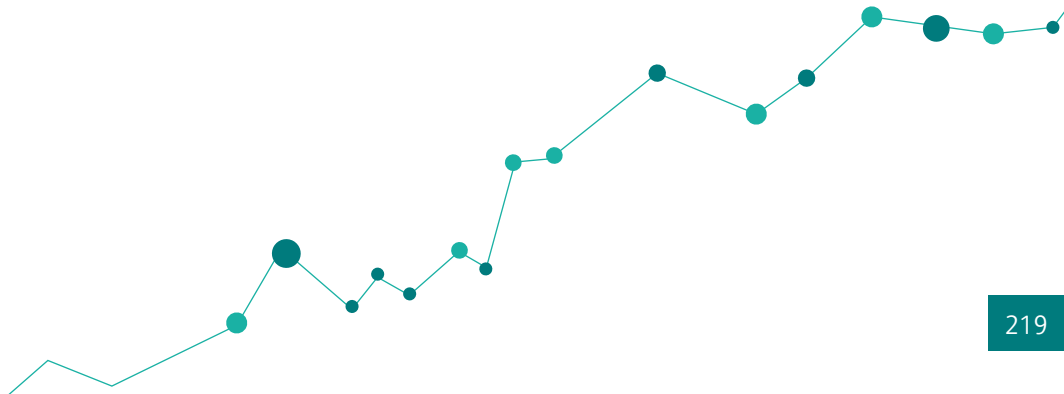
We strive to improve employee contribution to the Scheme's performance by linking rewards and recognition with performance management outputs. Employees are eligible and considered for performance rewards in recognition of sustained performance that is significantly above expectations. For the Principal Officer and executives, the awarding of performance bonuses is dependent on the achievement of a minimum individual performance rating, an unqualified audit report, 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 appears below:

| Performance bonus percentage | 0% | 10% | 30% |
|---|---|---|---|
| Total, including annual remuneration | R24 802 520 | R27 282 772 | R32 243 276 |

## Remuneration benchmarks

GEMS, as with 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 those of 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.



## Executive remuneration in 2018:

| | Annual earnings | Bonus | Total remuneration 2018 | Total remuneration 2017 |
|---|---|---|---|---|
| Jeannie Combrink | R2 213 182 | R 442 516 | R 2 655 698 | R2 097 234 |
| Guni Goolab | R4 656 049 | R 1 164 012 | R 5 820 061 | R4 434 333 |
| Vuyokazi Gqola | R2 377 406 | R 487 349 | R 2 864 755 | R2 084 730 |
| Sam Lewatle | R2 276 358 | R 474 811 | R 2 751 169 | R1 879 870 |
| Molapo Masekoameng | R1 839 739 | R 462 185 | R 2 301 924 | R1 727 662 |
| Gloria Nkadimeng | R2 028 428 | R 414 963 | R 2 443 391 | R1 790 777 |
| Karyna Pierce | R3 130 070 | R 626 014 | R 3 756 084 | R2 966 891 |
| Michael Willie* | R1 432 985 | n/a | R 1 432 985 | n/a |
| Evan Theys** | R1 484 597 | R 222 690 | R 1 707 287 | n/a |
| Ayanda Vilakazi*** | R345 802 | n/a | R 345 802 | n/a |
| Stanley Moloabi**** | R2 100 000 | R 420 000 | R 2 520 000 | n/a |
| Veni Singh**** | R297 526 | n/a | R297 526 | n/a |
| **Total** | **R24 182 141** | **R 4 714 539** | **R 28 896 680** | **R16 981 497** |

* Pro-rata salary – commenced February 2018 – Resigned December 2018
** Pro-rata salary – commenced February 2018
*** Pro-rata salary – commenced March 2018 – Resigned April 2018
**** Pro-rata salary – commenced June 2018
***** Pro-rata salary – commenced November 2018

## Compliance statement

The Scheme complied with its approved Employee Remuneration Policy in 2018 and no deviations were reported.

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 were reported.

# TRUSTEE REMUNERATION

## Overview of GEMS Trustee and Independent Committee Member Remuneration Policy

Trustees and independent committee members are remunerated for attendance of Board of Trustees meetings and meetings of committees of the Board. They may also be reimbursed for costs incurred in travelling and subsistence in the performance of their obligations. The Scheme commissions independent remuneration surveys to ensure that 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 preparation for and attendance of meetings. They are not remunerated for the following:

- Meetings not attended;
- Participating in the Scheme's annual Board effectiveness assessment;
- Attendance of training sessions;
- Attendance of Scheme events where trustees are not required to perform work, and
- 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 quarterly and interim meetings, which is based on an average meeting duration time of six hours and 12 hours' preparation time. Trustees are paid a reduced daily meeting fee for 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 attending such meetings, the fixed meeting fee is converted to an hourly fee and remuneration is calculated as follows: Number of hours in meeting plus one hour's preparation 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 was reviewed by the Board 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 was increased for the first time since 2014 through a Board decision taken on 5 December 2017. An inflationary increase of 5% was implemented with effect from 1 January 2018.

## Trustee remuneration 2018

The remuneration paid in 2018 per trustee is shown from page 125. Meeting fees, travel and accommodation costs, training costs and other disbursements are disclosed separately per trustee in accordance with Regulation 6A of the Regulations of the MSA, 1998, as amended.

The total amount of trustee remuneration paid in 2018 was R7 278 000, representing a decrease of 16.6% compared to 2017. Of the total amount paid in 2018, R5 779 000 (79%) was paid in meeting fees and the monthly stipend. The balance represents travel and accommodation costs related to the attendance of meetings and fees paid to trainers.

GEMS trustees undertook additional duties voluntarily during 2018 to represent the Scheme at important stakeholder events, to support Scheme management in important meetings with key stakeholders such as unions, the large hospital groups and the board members of some of the Scheme's contracted administrators. Board members also attended meetings with the CMS.

Trustees attended the Scheme's corporate social investment (CSI) events scheduled to coincide with the AGM and symposium. Trustees did not receive remuneration for these obligations, representing an estimated cost saving to the Scheme of R1 226 100 in 2018.

In 2018, trustee fees expressed as a percentage of contributions was 0.02% and expressed as a percentage of the Scheme's non-healthcare costs, 0.38%.

The GEMS Board of Trustees and the committees meet frequently to ensure effective oversight of the Scheme. These meetings are convened 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 stakeholder engagements considering the Scheme's complex stakeholder relations environment.

The close oversight maintained by the Board is an important factor in the Scheme's continued financial and operational performance, as evidenced by its track record of unqualified audits, sound procurement processes, responsiveness to member concerns and sound stakeholder relationships.

A further explanation on the number of meetings held is below to provide members with a view on the statutory obligations fulfilled and the value derived from the meetings.

## Board meetings

| **Board meetings: At least eight meetings are required each year to meet the requirements below:** | |
|---|---|
| Legal requirements | • Four quarterly meetings, in March, April, July and November, to review performance for the previous quarter in keeping with the registered GEMS Rules. The Board also disposes of other business requirements at the quarterly meetings, such as approving the Scheme's audited Annual Financial Statements. |
| | • An interim meeting in June to approve the AGM agenda as required by the registered GEMS Rules. The Board also disposes of other business requirements at the June meeting. |
| | • An interim meeting in September to finalise benefit design and pricing for submission to the CMS in keeping with regulated timeframes. The Board also disposes of other business requirements at the September meeting. |
| Business requirements | • A two-day strategic planning meeting in September. |
| | • An interim meeting in December to finalise the annual revision of the standing committees' terms of reference, charters and composition, the revision of Principal Officer delegations, employees' salary adjustments for the following year and operational mandates required by the Scheme. |
| | • In trustee election years, two additional meetings are required to approve election procedures and to receive the election reports required in keeping with the GEMS Rules. |
| | • Tender adjudication meetings are scheduled to coincide with existing scheduled meetings. |
| | • Special (ad hoc) meetings are scheduled from time to time to deal with urgent matters. |

## Committee meetings

In 2018, the Board of Trustees was supported by six standing committees as described on pages 197 to 203 of the Governance Report. The committees provided for in the Scheme's standing committee structure are necessary to comply with legal requirements, good corporate governance standards and business requirements, as shown below:

| **Legal requirements and King IV Report:** | |
|---|---|
| Audit Committee | Section 36 of the MSA, King IV Principle 51 |
| Dispute Committee | Section 29(j) of the MSA, GEMS Rule 30 |
| Human Resources and Remuneration Committee | King IV Report, Principle 8, Practice 65 |

| **Business requirements and good corporate governance standards** | |
|---|---|
| **Committee** | **Value creation** |
| Audit Committee | The Audit Committee supported the Board in ensuring that the Scheme's control environment is sound. It oversaw the work performed by the Scheme's assurance structures and played an important role in protecting the interests of the Scheme's beneficiaries. |

| Business requirements and good corporate governance standards | |
|---|---|
| **Committee** | **Value creation** |
| Clinical Governance and Administration Committee | The committee met every eight weeks in 2018 and meetings took place over two days due to the high case load. The work performed by this committee contributed significantly to value creation for members. In 2018, ex-gratia payments to the value of R 16.7 million were approved by the committee. The committee assisted the Board by guiding and overseeing the development of the Scheme's strategic plan and by maintaining close oversight of the Scheme's services, procurement and contracting functions. The committee monitored the Scheme's operational performance and the member communication, stakeholder management, compliments and complaints management output of the Scheme. The committee's close oversight was instrumental in maintaining the Scheme's low non-healthcare costs. The committee in collaboration with the Finance and Investment Committee, also oversaw the implementation of the Scheme's Strategic Plan Objectives relating to Healthcare Management and the development of product development and benefit design for 2019. |
| Dispute Committee | The Dispute Committee supported the Board in ensuring that the Scheme's dispute resolution process is sound and applied consistently and correctly. The Dispute Committee also plays a valuable role in ensuring that persons referring disputes for adjudication are treated fairly and equitably. |
| Risk Social and Ethics Committee | The committee met quarterly to oversee the Scheme's legal function, risk management function, ethics performance, compliance to the regulatory framework and rule review processes. The existence of this committee is in line with King IV. |



| Business requirements and good corporate governance standards | |
|---|---|
| **Committee** | **Value creation** |
| Finance and Investment Committee | The effectiveness of the Scheme's investment strategy has a significant impact on its financial and investment performance. The committee met quarterly to review the Scheme's investment activities, compliance to the MSA and investment performance. This included the investment performance of personal medical savings account funds. The committee, with the Clinical Governance and Administration Committee, assisted the Board by guiding and overseeing the development of the Scheme's Strategic Plan and by maintaining close oversight of the Scheme's services, procurement and contracting functions. The committee also reviewed the implementation of the Scheme's Supply Chain Management Policy and monitored its impact on the Scheme and the society in which the Scheme operates. The committee also monitored the Scheme's financial and operational performance. |
| Human Resources and Remuneration Committee | The Human Resources and Remuneration Committee assisted the Board in ensuring that the Scheme's remuneration, human resources policies and practices are fair, responsible and transparent. It ensured that the Board's consideration of human capital, human resources and remuneration matters are informed by objective and independent reviews. |

Five of the six standing Committees, i.e. the Audit Committee, the Risk Social and Ethics Committee, the Finance and Investment Committee, the Clinical Governance and Administration Committee and the Human Resources and Remuneration Committee, met quarterly to review performance in the quarter and to formulate recommendations for the Board's consideration. In addition, the Audit Committee, Finance and Investment Committee and the Human Resources and Remuneration Committee each conducted one additional meeting for purposes such as the finalisation of the Scheme's Annual Financial Statements and developing recommendations to the Board on annual remuneration adjustments. The Clinical Governance and Administration Committee met quarterly over two days to consider member ex-gratia applications from R50 000 and above. The Dispute Committee meets at least twice per year, with additional meetings dependent on member disputes and other urgent business.

In summary, the value realised over time by the Scheme's corporate governance structure and practices is:

- A sophisticated ex-gratia system to assist members in need;
- **A 13-year track record of unqualified audits;**
- The lowest non-healthcare costs in the industry;

- A unique business model and Supply Chain Management Policy that supports B-BBEE;
- A rigorous procurement system that supports the successful execution of the Scheme's business model;
- A rigorous strategic planning process;
- Corporate governance systems and processes that are in line with best practice, and
- A stakeholder-inclusive approach that contributes to the Scheme's sustainability over time.

## Travel and accommodation expenditure:

Five of the 12 trustees did not live in Gauteng and, therefore, travel and accommodation costs were incurred to attend meetings at the Scheme's head office:

- CJ Booyens
- Dr JA Breed
- EB de Vries
- JS Roux
- Dr IJ van Zyl

The trustees were also remunerated for incidental expenditure relating to the performance of their duties and a fixed stipend of R1 600 per month was paid in 2018.

## TRUSTEE REMUNERATION PAID IN 2018

| | Appointed or member elected | Attendance fees | | | Travel and accommodation | | Reimbursement and allowances | | Training (fees paid to trainers) | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2018 R'000 | 2017 R'000 | | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 | 2018 R'000 | 2017 R'000 |
| DJ de Villiers<br>Deceased | Elected | 416 | 711 | | 22 | 60 | - | 1 | 11 | 7 | 449 | 779 |
| JS Roux<br>Re-elected July 2014 – term expires 29 July 2020 | Elected | 454 | 658 | | 275 | 367 | 11 | 15 | 14 | 9 | 754 | 1 049 |
| NL Theledi (Chairperson)<br>Reappointed September 2013 – term expires 26 September 2019 | Appointed | 649 | 478 | | 126 | 74 | 5 | 7 | 11 | 7 | 791 | 566 |
| CJ Booyens<br>Deceased | Elected | 528 | 641 | | 39 | 91 | 29 | 24 | 11 | 3 | 607 | 759 |
| EB de Vries<br>Elected July 2013 – term expires 29 July 2019 | Elected | 557 | 443 | | 324 | 325 | 16 | 16 | 28 | 16 | 925 | 800 |
| NM Ntsinde<br>Term ended 5 February 2018 | Appointed | 35 | 924 | | 14 | 91 | 2 | 12 | 1 | 12 | 52 | 1 039 |
| Dr CM Mini<br>Appointed July 2014 – resigned 15 December 2017 | Appointed | 2 | 845 | | - | 73 | 2 | 27 | - | 7 | 4 | 952 |
| Dr JA Breed<br>Elected July 2014 – term expires 29 July 2020 | Elected | 518 | 523 | | 59 | 122 | 21 | 27 | 12 | 1 | 610 | 673 |
| Dr IJ van Zyl<br>Elected July 2014 – term expires 29 July 2020 | Elected | 594 | 502 | | 216 | 111 | 24 | 32 | 19 | 16 | 853 | 661 |
| NH Mkhumane<br>Term ended 5 February 2018 | Appointed | 11 | 535 | | - | 70 | 2 | 3 | - | 12 | 13 | 620 |
| EM Phophi<br>Appointed 26 September 2017 – term expires 25 September 2023 | Appointed | 284 | 252 | | 36 | 18 | - | 3 | 12 | 10 | 332 | 283 |
| Dr ET Moloko<br>Appointed 28 October 2016 – term expires 27 October 2022 | Appointed | 472 | 448 | | 46 | 74 | 9 | 9 | 21 | 16 | 548 | 547 |
| Dr SM Hlatshwayo (Deputy Chairperson)<br>Appointed 18 February 2018 – term expires 19 February 2024 | Appointed | 594 | - | | 72 | - | 7 | - | 21 | - | 694 | - |
| RA Manoko<br>Appointed 18 February 2018 – term expires 19 February 2024 | Appointed | 489 | - | | 64 | - | 20 | - | 34 | - | 607 | - |
| MR Nkabinde<br>Removed by the Board – 21 September 2018 | Appointed | 28 | - | | - | - | - | - | 11 | - | 39 | - |
| **Total** | | **5 631** | **6 960** | | **1 293** | **1 476** | **148** | **176** | **206** | **116** | **7 278** | **8 728** |

## 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 and contractors who support the distributed computing environment.

Key focus areas in 2018:

In keeping with the GEMS Five-year Strategic Plan for 2017 to 2021, a five-step digitisation strategy is being implemented. The first step comprises the continuation of the Scheme's Enterprise-wide Development Programme called Intelligems.

The three main milestones of the digitisation strategy are:

- Service excellence through a digital first approach for both members and providers:
  This entails the digitisation of member and healthcare provider channels to improve the quality of services that members receive, whilst giving providers access to all the requisite channels to provide members the best service in the healthcare industry.
- Establishment of an information management capability:
  This involves upscaling the information management capability of the Scheme through partnerships and/or implementation of an information management capability through digitisation of core processes.
- Repositioning for NHI through a franchise model:
  This involves the Scheme implementing a connected healthcare value-based network model of care. This would require collaboration with all stakeholders in the healthcare value chain to deliver equitable, accessible and affordable healthcare to members.

In 2018, the Scheme's business blueprint (enterprise architecture) was revisited in keeping with the organisational restructuring of the new strategic plan.

An improvement of the solutions implemented during phase 2 of Intelligems, such as the memberApp, memberPortal and the Scheme's website, went live in 2018. The adoption of the solutions, specifically the memberApp, grew significantly, by 1 409%, and contributed to better member interactions with the Scheme. Some 2 343 members used this platform to make benefit option changes, specifically to move to EVO.

An important focus area in 2018 was to digitise the Scheme's new building in Menlyn Maine to enable GEMS employees to fulfil their operational obligations. From the end user desk right to back office, connectivity and servers were deployed, including server room fit-out.

The data and information policy environment was scrutinised in 2018 and new policies were developed to govern data classification and retention.

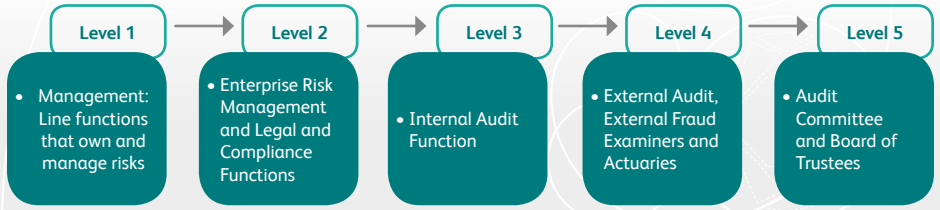
The Information and Communications Technology Division furthers modernisation of the Scheme to adopt to today's digital marketplace.

## STRUCTURES AND PROCESSES FOR COMPLIANCE MANAGEMENT AND NON-COMPLIANCE MATTERS

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 Board must ensure specifically that compliance is understood, not only as an obligation, but as a source of rights and protection.

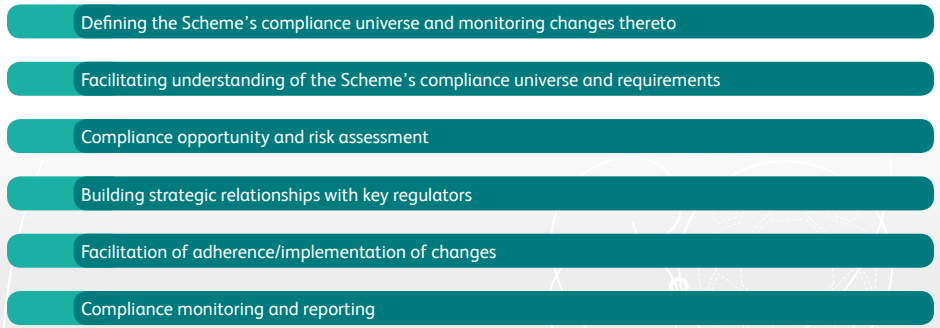
The GEMS compliance function reports to the Audit Committee and the Risk Social and Ethics Committee of the GEMS Board. More information on the composition of the Audit Committee and the Risk Social and Ethics Committee and a summary of the committees' responsibilities may be found on pages 197 to 203 of the report.

The compliance function forms part of the second line of assurance in the Scheme's combined assurance framework:




The compliance function is part of the Risk Management and Compliance Division and is represented on the Combined Assurance Forum that is convened by the Chief Audit Executive.

The broad approach to compliance management in the Scheme is outlined below:



The Scheme has established a Governance and Compliance Forum comprising all the members of the Scheme's SPN. The Forum supports the Scheme in monitoring and complying with its compliance universe, including the GEMS Rules and legislation. The Forum was convened by the Scheme quarterly and will be reconstituted in 2019 with revised terms of reference and representation by all Scheme divisions.

The main key focus areas for 2018 were:

- Preparing for compliance to POPIA.
- Improving the management of policy development and maintenance.
- Benchmarking the compliance function against the Generally Accepted Compliance Practice Framework (Compliance Institute, South Africa) and addressing gaps. The GEMS Compliance Policy and Charter were revised and a compliance strategy was approved by the Board of Trustees to address gaps.
- Providing guidance to the Scheme's SPN to ensure the correct application of the GEMS Rules.
- Supporting regulatory engagements with the CMS.

The adequacy and effectiveness of the Scheme's compliance function is assessed periodically by the Scheme's Internal Audit function. The next assessment will be conducted during 2019.

## REGULATORY ACTIONS

The CMS conducted an inspection of GEMS in terms of Section 44(4)(a) of the MSA. The inspection was initiated in September 2017 and concluded in 2018, the draft inspection report was provided to the Scheme in October 2018 and the Scheme's formal response was concluded in 2019.

The Scheme successfully appealed a decision of the Acting Registrar to impose penalties on the Scheme in terms of Section 47(1) read with Section 66(3) of the MSA, 131 of 1998.

### Matters of non-compliance

To the best of the Scheme's knowledge, the compliance matters listed below cover all the material noncompliance matters for the 2018 financial year.

Late paying employer groups

### Nature

In terms of Rule 13.2 of GEMS Rules and Section 26(7) of the MSA, members' contributions are due monthly in arrears and payable by no later than the third day of each month to prevent the Scheme losing interest, albeit a relatively small amount.

### Cause

During the review period, certain employer groups paid contributions after the third day of the month.

### 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 CMS is informed quarterly of any late payers and the Auditor General is informed annually. At year-end, there were nine late-paying employer groups. Subsequently, these amounts were received.

## MINIMUM ACCUMULATED FUNDS

### Nature

In terms of Regulation 29(2), (3) or (3A) of the MSA of 1998, a medical scheme shall maintain a minimum accumulated funds level of 25%. As prescribed by Regulation 29(4), where a medical scheme fails to comply for 90 days with sub-regulations 29(2), (3) or (3A), it must notify the Regulator.

### Cause

The Scheme's minimum accumulated funds ratio throughout the year was below the required target of 25% provided for in the Act and above what was subsequently approved by the Registrar on 27 March 2017. Reserves below the required 25% may be an indication that a medical scheme may have reserve concerns, which would impact on the Scheme's ability to pay claims.

### 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 2018, with the submission of quarterly performance reports and quarterly meetings with the CMS. The Scheme's reserve ratio level at 31 December 2018 was 24.90% (2017: 15.22%).

## BENEFIT OPTIONS

### Nature

In terms of Section 33(2) of the MSA, medical scheme options shall be self-sufficient in 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 MSA. 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 for chronic and lifestyle-related diseases. The migration of pre-1992 pensioners to this option in prior years also adversely affected financial performance 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 2018, with the submission of quarterly performance reports and quarterly meetings with the CMS. Included in the quarterly submission are actuarial reports for the option to allow CMS to see progress against the business plan and budget for the year.

# 15. REPORT OF THE AUDIT COMMITTEE

We are pleased to present our report for the financial year ended 31 December 2018.

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 and 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 external auditor reviewed the disclosure of sustainability issues raised in the report to confirm that it is reliable and does 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 2018 Annual Financial Statements, and we are of the view that they comply, in all material respects, with the MSA, 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, we were satisfied that the auditor is independent of the Scheme as set out in Section 36(3) of the MSA, 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 2018. 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 2018 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 in 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. Internal Audit forms an integral part of the Scheme's risk management process and system of internal control, and leads the combined assurance coordination within the Scheme. The Internal Audit function has an appropriate and formal charter, which was approved by the Audit Committee. 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 2018 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 considered.

## Key areas of focus during the reporting period

Timely remediation of Internal Audit findings continues to be an area of concern, with the matter having been escalated to the Board of Trustees and receiving attention from the Scheme's Principal Officer. 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 SPN. Plans and reports received by the Audit Committee for the financial year

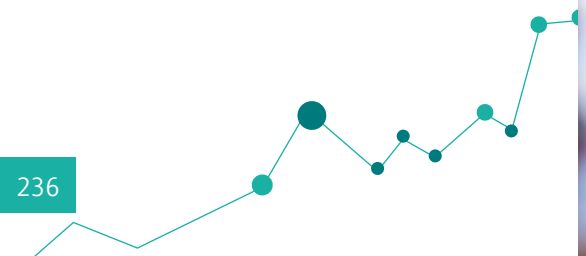
provided a view of combined assurance coverage from various assurance providers and results stemming from such assurance were presented to the Audit Committee, with any areas recommended for remediation noted and monitored for closure. Based on Internal Audit submissions, the Audit Committee is satisfied with the effectiveness of combined assurance arrangements in place.

## Conclusion

The committee has recommended the Annual Financial Statements to the Board of Trustees for approval and these will be presented to the members at the forthcoming Annual General Meeting. 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 support.

**Joe Lesejane**
Chairperson Audit Committee

Date: 29 April 2019



# 16. AGM NOTICE AND
## PRELIMINARY AGENDA

Notice is hereby given that the 13th Annual General Meeting ("the meeting") of the Members of the Government Employees Medical Scheme ("GEMS") will be held at the Mmabatho Palms, Mahikeng, North West Province on 31 July 2019 at 15h00.

Please note that registration will commence at 13h00

The preliminary agenda is below:

| AGENDA<br>13th GEMS Annual General Meeting<br>31 July 2019, 15h00 | |
|---|---|
| **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 2018 | Chairperson<br>Principal Officer |
| 4) Matters for Decision | |
| a) Confirmation and adoption of the Minutes of the 12th GEMS Annual General Meeting held on 31 July 2018 | Chairperson |
| b) 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 | Chairperson |
| i) Discussion of the highlights of the Annual Financial Statements | Mr. Motshoanedi Johannes Lesejane<br>(Independent Chairperson of the GEMS Audit Committee) |
| ii) Discussion of the external audit process | Dinesh Munu, Deloitte<br>(GEMS external auditor) |
| c) Appointment of GEMS' external auditor for the year ending 31 December 2019 in terms of GEMS Rule 27.1 | Chairperson<br><br>Mr. Motshoanedi Johannes Lesejane<br>(Independent Chairperson of the GEMS Audit Committee) |



| AGENDA<br>13th GEMS Annual General Meeting<br>31 July 2019, 15h00 | |
|---|---|
| **Item** | **Speaker** |
| 5) Matters for Noting | |
| a) Disclosure of Trustee Remuneration | Deputy Chairperson |
| b) Addressing member issues raised at the 12th GEMS Annual General Meeting | Deputy Chairperson |
| c) [To be confirmed] | Chairperson |
| d) [To be confirmed] | Chairperson |
| e) [To be confirmed] | Chairperson |
| 6) Question and Answer Session<br>(General questions only please, as there is a helpdesk at the AGM for members to submit enquiries and complaints concerning personal and confidential medical scheme issues to.) | 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 28.1.5.6 of the Rules of GEMS as reproduced hereunder:**

*"28.1.5.1 Such proposed motion or objection must reach the Principal Officer no later than five (5) weeks before the date of the AGM;*

*28.1.5.2 The proposed motion or objection must be accompanied by a written explanation, which clearly explains why the proposed motion or objection must be considered and the background giving rise to the proposed motion or objection;*

*28.1.5.3 The proposed motion or objection is not in contravention of, or in conflict with, the Act, these Rules or the objectives of the Scheme;*

*28.1.5.4 The decision as to whether or not a Member has satisfied the conditions specified in Rules 28.1.5.1 to 28.1.5.3 to allow for the addition, amendment or deletion of an item to/on/from the provisional AGM agenda, shall be that of the Principal Officer, who must make such decision in consultation and with the approval of the Board;*

*28.1.5.5 If the Principal Officer, in consultation and with the approval of the Board as contemplated by Rule 28.1.5.4, decides that a proposed motion should be added as a new item to the provisional AGM agenda, or that an existing item on the provisional AGM agenda should be amended or deleted (as the case may be), then a second notice, containing the final AGM agenda and proxy form, recording all new, amended and deleted items, must be sent to Members, to reach them by no later than three (3) weeks prior to*

*the date of the AGM. The non-receipt of such notice by a Member shall not invalidate the proceedings at the AGM, provided that the notice procedure followed by the Board was reasonable; and*

*28.1.5.6 Should the Principal Officer, in consultation and with the approval of the Board as contemplated by Rule 28.1.5.4, decide not to add a new item to the provisional AGM agenda, or not to amend or delete an existing item on/from the provisional AGM agenda, then he/she shall notify the Member of his/her decision and the reasons therefor, which notice shall be delivered to the Member no later than three (3) weeks prior to the date of the AGM. The non-receipt of such notice by the Member shall not invalidate the proceedings at the AGM, provided that the notice procedure followed by the Board was reasonable. Should the Member be aggrieved by the Principal Officer's decision, the Member may refer a dispute to the Scheme's dispute committee in terms of these Rules or to the Council for Medical Schemes in terms of the Act.*

Members wishing to propose additional motions 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 "2019 GEMS AGM Agenda". Proposed motions must reach the Scheme by 16h00 on 26 June 2019. 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 by 10 July 2019. Please make enquiries at 0860 004 367 or enquiries@gems.gov.za if you have not received the agenda and proxy form by 10 July 2019. It is also important that Members note GEMS Rule 28.1.6 which provides that motions passed at any AGM shall be by way of an ordinary majority vote of all Members present or represented by proxy at the AGM provided that only proxies received by the Scheme no later than one (1) week prior to the date of the AGM will be recognized. For this purpose, completed proxy forms must reach the Scheme by 16h00 on 24 July 2019 and 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 "2019 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 AGM will be limited to Members, Officers of the Scheme and individuals or organisations who are expressly invited by the Scheme to attend. A quorum in terms of GEMS Rule 28.2.5 is required to ensure that the meeting may proceed.

In accordance with GEMS Rule 29.6, the Board of Trustees stipulates that members attending the AGM will be required to produce their GEMS membership card and ID or valid drivers' license 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**

Date

# 17. AGM MINUTES
## AND ACTION LIST

**Minutes of the**
**12th GEMS Annual General Meeting**
**31 July 2018, 15h00**
**Southern Sun Emnotweni Arena, Riverside Mall, Government Boulevard, Mbombela, Mpumalanga.**

### 1. Opening and Welcome

1.1 The Chairperson of the GEMS Board of Trustees, Mr. Nkosinathi Theledi, opened the 12th Annual General Meeting of the Members of GEMS (**"the meeting"**) at 15h07 on 31 July 2018 and welcomed the Members present.

1.2 The Chairperson also welcomed:

1.2.1 The GEMS Board of Trustees and the Executives of the Scheme;

1.2.2 Mr Joe Lesejane, the Independent Chairperson of the GEMS Audit Committee, and Ms Felicia Msiza, also of the Audit Committee;

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

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

1.2.5 The Scheme's stakeholders, who were attending as observers, including the representatives from the Ministry for Public Service and Administration, the Department of Public Service and Administration (**"DPSA"**), the National Treasury and the Public Service Coordinating Bargaining Council (**"PSCBC"**).

1.3 The Chairperson highlighted that the Scheme's internal auditors, Entsika, 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 informed the meeting that the AGM agenda was finalised in accordance with the GEMS Rules, published on the GEMS website, mailed and distributed to Members from the first week in July 2018, and handed out to Members at the AGM Registration Desk.

2.2 The Chairperson further informed the meeting that the Scheme received proposed items for inclusion on the AGM agenda from Mr Stephen Legwabe and Mr Nduduzo Sithole. The meeting heard that, although their proposals did not meet the GEMS Rule requirements to be included as motions on the AGM agenda, they were nevertheless accommodated under "Matters for Noting". He advised that the two Members were engaged on their submissions and that the Board finalised the AGM agenda at its meeting on 28 June 2018.

2.3 The Chairperson stated that the Scheme was mindful of the importance of providing Members with feedback on pertinent matters raised at previous meetings, and highlighted that feedback on the composition of the Board would be provided as part of the agenda item dealing with the opening remarks by the Chairperson. He added that more feedback on this matter would be provided by the Deputy Chairperson under "Matters for Noting".

2.4 The Chairperson explained that the GEMS Rules required all proxies held to be declared upfront at the meeting. Accordingly, he announced that the Scheme received 107 proxy forms, of which 76 were valid.

### 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 2017

3.1 The Chairperson informed the meeting that one of the purposes of the AGM was for the Scheme to report to its Members on its previous year's performance, as required by the Medical Schemes Act and the GEMS Rules.

3.2 The Chairperson mentioned that the 2017 Financial Year was a period of change and value creation, hence special in a number of ways, including the recent legislative changes, GEMS' turnaround strategic approach emanating from a difficult and challenging time, and the Scheme's movement along its strategic journey towards becoming an integral part of the National Health Insurance.

3.3 The Chairperson highlighted that the Scheme's objective for 2017 was to improve its financial strength and to renew its commitment towards ethical leadership and accountability.

3.4 The Chairperson informed the meeting that the Scheme's financial performance improved significantly in that a surplus of R3.3 billion was reported for the 2017 Financial Year, which resulted in an average contribution increase of 8.58% for the 2018 Financial Year. He emphasized that, for members on the Emerald Value Option (**"EVO"**), an average increase after subsidy of approximately 3.5% would be applied.

3.5 The Chairperson further briefed the meeting about the forensic investigations on the 2016 tenders, which were concluded towards the end of 2017. The meeting heard that the Board, together with management, dealt with significant instances of fraud and abuse involving some contracted service providers and employees, emanating from

a whistleblower's complaint which was submitted in September 2016. He mentioned that an internal investigation was then conducted, but that the results thereof, and an article published in a newspaper in 2016, raised more concerns than the issue initially reported. The meeting heard that, during the investigations, the Scheme was supported by independent legal and forensic investigators, and that the process included a protected disclosures process with the employees, which all led to the institution of a disciplinary process against seven (7) employees, i.e. two (2) Executives, two (2) Senior Managers, two (2) Middle Managers and one (1) junior employee. The charges included tender irregularities, nepotism, soliciting donations from contracted providers, and unauthorised disclosure of confidential scheme information. The meeting noted that five (5) of these employees resigned prior to the conclusion of their disciplinary hearings in 2017 and that the remaining two (2) were dismissed after the conclusion of their disciplinary hearings. The meeting further noted that, based on legal advice, seven (7) of the Scheme's provider contracts were terminated, that the matters were all reported to the relevant statutory authorities, and that criminal charges were filed with the Directorate for Priority Crime investigations, i.e. the HAWKS.

3.6 The Chairperson further stated that the Scheme had since improved several of its policies and procedures, e.g. its Supply Chain Management Policy and Ethics Policy. In addition, he mentioned that an internal whistleblowing programme for GEMS was implemented and that complaints relating to possible fraudulent behaviour by any GEMS employee or Board member would be investigated independently. He highlighted that under the new Ethics Policy, the Scheme would be able to perform lifestyle audits.

3.7 The Chairperson briefed the meeting about the issue surrounding the composition of the GEMS Board of Trustees. He explained that, during the past few years, Members raised concerns about the lack of diversity in respect of the Member-elected Trustees, and that the Scheme received requests for seats on the Board to be allocated to trade unions. He confirmed that the Scheme attempted to address these issues by amending the GEMS Rules and the Scheme's trustee election process, specifically to increase Member participation in trustee elections. He further explained that, early in 2017, the PSCBC requested the Scheme to amend the GEMS Rules to enable the appointment of four (4) Trustees by the Unions within the PSCBC and the election of the remaining two (2) Trustees by means of direct election by Principal Members. He advised that Section 57(2) of the Medical Schemes Act (**"the Act"**) did not allow for this; hence, to overcome this legal barrier, an exemption application was submitted to the Council for Medical Schemes (**"CMS"**) in terms of Section 8(h) of the Act. The meeting heard that, on 6 November 2017, the Scheme was notified that the Council for Medical Schemes had declined the exemption application based on the CMS' view that the Scheme's circumstances were not sufficiently exceptional to warrant an exemption from the Act. Other reasons provided included that the CMS deemed the current GEMS Board of Trustees to be fully functional and that the Scheme was managed by persons who were deemed to be fit and proper, as prescribed by the Act and the GEMS Rules. The meeting noted that Scheme would work with the PSCBC to exhaust all legal remedies to achieve the desired outcome.



3.8 The Chairperson proceeded to thank Ms Nontobeko Ntsinde, who served as the Chairperson of the Board until 5 February 2018, for her strong leadership and the immeasurable contribution made during her tenure.

3.9 The Chairperson informed the meeting that Ms Nombulelo Mkhumane served as Deputy Chairperson of the Board until 5 February 2018, and thanked her for her contribution in steering the Scheme through the various challenges managed in 2017. He further informed the meeting that Ms Mkhumane chaired the GEMS Investment Committee and that under her auspices, the Scheme's investment performance went from strength to strength.

3.10 The Chairperson stated that the Trustees who served on the Board in 2017 were confronted with complex decisions and demonstrated their willingness 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. He thanked the Trustees for their ongoing support in engaging stakeholders, where Board level engagement was needed.

3.11 The Chairperson thanked Dr Clarence Mini, Mr Daniel de Villiers, Ms Lungile Zondi, Dr Kobus van Zyl and Ms Nombulelo Mkhumane for respectively chairing the Clinical Governance and Ex-gratia Committee, the Governance Risk and Ethics Committee, the Dispute Committee, the Remuneration Committee and the Investment Committee during the period under review. He mentioned that Dr Mini resigned from the GEMS Board with effect from 15 December 2017 and was now the Chairperson of the Board of the Council for Medical Schemes. The Chairperson highlighted that GEMS had benefitted from Dr Mini's expertise and deep understanding of the medical schemes industry, and that the Scheme looked forward to his impact on the whole industry in his new position.

3.12 On behalf of the GEMS Board of Trustees, the Chairperson thanked the former Independent Chairperson of the GEMS Audit Committee, Ms Mmathabo Sukati, for leading the Scheme's Audit Committee. He highlighted the Board's appreciation for her valuable contribution made towards the effective corporate governance of the Scheme. He proceeded to thank the new Independent Audit Committee Chairperson, Mr Joe Lesejane, who became part of GEMS on 1 January 2018, for taking on this critical role.

3.13 On behalf of the GEMS Board of Trustees, the Chairperson expressed the Board's sincere appreciation to the GEMS Principal Officer, Dr Gunvant Goolab, for having led the Scheme's Executive Management team in 2017. The Chairperson continued to express the Board's appreciation for the excellent manner in which the new Five-year Strategy implementation was driven, in addition to Dr Goolab's dealing with the challenges arising from the extensive tender investigations. He confirmed that the Board was pleased with the operational results achieved by the Scheme for the period ended 31 December 2017.

3.14 The Chairperson then invited the Principal Officer to give an outline of the business of the Scheme for 2017.

3.15 The Principal Officer highlighted GEMS' Mandate to ensure that there was adequate provisioning of healthcare coverage to public service employees that was efficient,

cost-effective and equitable, and to provide further options for those who wished to purchase more extensive cover.

3.16 The Principal Officer emphasised GEMS' Vision to be an excellent, sustainable and effective medical scheme that drives transformation in the healthcare industry, aligned with the principles of universal health coverage.

3.17 The Principal Officer stressed GEMS' Values, i.e. Excellence, Integrity, Member Value, Innovation and Collaboration.

3.18 The Principal Officer informed the meeting that GEMS was in its second year of its new five-year strategy, and that as part of the strategy, the Board reviewed the Vision, Mission and Values of the Scheme. With regards to GEMS' Vision, he mentioned that two changes were made in line with GEMS' Mandate by Government, i.e. driving transformation in the healthcare industry and aligning to the principles of universal healthcare (i.e. NHI). The meeting heard that, in respect of GEMS' Mission, there was an additional focus on Member well-being. He emphasized that, with regards to GEMS' Values, "Collaboration" was added, as GEMS would collaborate with all its key stakeholders to move towards the implementation of universal healthcare in South Africa.

3.19 The Principal Officer further informed the meeting that the growth and efficiency of the Scheme was aligned with the recently published Medical Schemes Amendment Bill and the Health Market Inquiry, and that GEMS would focus on the simplification of products, services and processes. The meeting heard that, towards the last period of the strategy, the Scheme would position itself on being an important contributor towards the realisation of universal healthcare, and would focus on strengthening its IT capabilities to contribute to this journey.

3.20 The Principal Officer stated the six (6) objectives of the Scheme's new strategy, i.e.:

3.20.1 To be an organisation that is effective in communication, proactive in decision making, and accountable;

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

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

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

3.20.5 To be an agile, data driven scheme that leverages people, systems and processes to derive value for its Members; and

3.20.6 To sustainably grow membership, ensuring inclusion and cross subsidisation.

3.21 The Principal Officer then proceeded to highlight the Scheme's performance against each strategic objective's Key Performance Indicator (**"KPI"**), i.e.:

3.21.1 The Scheme's Complaints Ratio;

3.21.2 The Scheme's Reserve Ratio;

3.21.3 The transfer of members from the Emerald Option to the Emerald Value Option (**"EVO"**);

3.21.4 The number of specialists contracted by the Scheme;

3.21.5 The Scheme's adoption of digital channels; and

3.21.6 The percentage of Level 1 – 5 Public Service employees enrolled on the Scheme.

3.22 The meeting heard that the Scheme's 2017 Complaints Ratio target of 0.25% was not met, given the Scheme's actual performance of 0.28%, but that the Scheme had implemented processes to deal with this matter.

3.23 With regards to the Scheme's 2017 Reserve Ratio target of 8.2%, the Principal Officer informed the meeting that the Scheme had more than doubled its reserves, i.e. from 7% in 2016 to 15.2% in 2017.

3.24 The Principal Officer further informed the meeting that the Scheme's targeted percentage of 5% for the number of Members transferred from the Emerald to the Emerald Value Option during the 2017 financial year, was exceeded in that 6.4% of such Members were transferred.

3.25 In respect of the Scheme's 2017 target of 1500 for the number of specialists contracted by the Scheme, the Scheme exceeded its target by having contracted 1503 specialists at the end of 2017.

3.26 With regards to the Scheme's 2017 target to Introduce Digital Channels, the meeting heard that the Scheme succeeded by having 38823 Members registered on Facebook and 4111 on the GEMS Member Application (**"GEMS App"**).

3.27 In respect of the Scheme's 2017 target to have 45% of the Level 1 – 5 Public Service employees enrolled on the Scheme by the end of 2017, the Principal Officer confirmed that this target was met in that 47% of such employees were enrolled. He also confirmed that further efforts were being made to improve this figure.

3.28 The Principal Officer subsequently moved to report on the Scheme's financial indicators for 2017, highlighting the improvement in the Scheme's non-healthcare expenditure, i.e. from 5.58% in 2017 to 4.93% in 2018 (YTD). The meeting heard that GEMS received unqualified audits for 12 consecutive years.

3.29 The Principal Officer informed the meeting that the Scheme implemented a Claims Management Programme to deal with fraud, waste and abuse, and that a number of focused interventions were implemented, i.e. Underwriting, protocol reviews, KZN interventions, in-hospital case reviews, and other fraud, waste and abuse initiatives, which collectively assisted in reducing the levels of fraud, waste and abuse experienced by the Scheme. He then thanked the Members who assisted the Scheme by reporting irregular claim submissions by healthcare providers, and stressed the importance of such reports in the Scheme's fight against fraud, waste and abuse.

3.30 The meeting heard that the Scheme's underwriting intervention, introduced in 2016 with the aim of preventing anti-selective beneficiaries from joining the Scheme, had delivered on its objective.

3.31 The Principal Officer proceeded to provide an overview of the steps taken by the Scheme in 2017 to deal with fraud, waste and abuse, and highlighted the results achieved.

3.32 The Principal Officer further provided an overview of the performance of the Emerald Value Option in 2017 and emphasized that it offered the same comprehensive benefits as the Emerald Option, except that it was underpinned by care coordination.

3.33 The Principal Officer advised on the healthcare services paid by the Scheme on behalf of its Members, with specific reference to the claim areas of GP Consultations, Specialist Consultations, Medicines and Hospital Admissions, as well as to the top five (5) claim conditions of each claim area.

3.34 The Principal Officer highlighted the top six (6) chronic conditions of 2017, i.e. asthma, diabetes, hypertension, hyperlipidaemia, HIV and TB; the fact that 20% of Members suffer from same and the Scheme's expenditure and admission rates associated with same. He further highlighted that these Beneficiaries accounted for almost 50% of all hospital admissions.

3.35 The Principal Officer provided the meeting with a breakdown of the claims paid, proportionate to the number of beneficiaries, in 2017.

3.36 The Principal Officer advised that less than 3% of Members deplete their benefits in any given month, and that this had remained consistent over the last 5 years. He added that more than 80% of Member benefits were preserved until the end of the year (2017). He further mentioned that, when comparing GEMS to other competing medical schemes, GEMS' benefit options were more affordable, with an average contribution of 29% less than that of other medical schemes, before subsidy. He further advised that the majority of members of GEMS pay between 0% - 10% of their gross salary towards their contributions, after subsidy.

3.37 The Principal Officer highlighted that the Scheme's Specialist Network comprised 152 Anaesthetists, 329 Obstetricians & Gynaecologists, 319 Paediatricians, 440 Physicians and 265 Psychiatrists, totalling 1503 specialists. He further highlighted that the Scheme had contracted more specialists and that, when Members visit network specialists, no co-payments would be incurred. The meeting noted that the Scheme would add general surgeons and orthopaedic surgeons to its Specialist Network in 2018.

3.38 The Principal Officer also highlighted that there were 2177 Medicine Providers in the Scheme's Medicine Provider Network (**"MPN"**), and that 84.54% of all Scheme Beneficiaries resided within a 10km radius of a MPN pharmacy.

3.39 The meeting heard that, during 2017, 634 097 Member visits were managed by the Scheme's 18 Provincial Member Walk-in Centres, 3 594 869 calls were handled by the Scheme's Call Centres, 10 916 370 emails were managed by the Scheme, and 90.9 million claim lines were processed by the Scheme.



3.40 The Principal Officer informed the meeting that the Scheme's Client Liaison Officer ("CLO") Units were operational in Limpopo, North West, Mpumalanga, Eastern Cape, Free State, Gauteng and Kwa-Zulu Natal. He highlighted that, during 2017, the CLO Units conducted 16 077 departmental visits, engaged 228 321 Members, handled 290 664 enquiries and resolved 88% thereof on-site.

3.41 The Principal Officer indicated that the Scheme's complaints ratio for 2017 was 0.28%. He mentioned that the Scheme introduced a Claims and Complaints Management process to focus on the complaints received, and that the highest complaints drivers were the new Emerald Value Option and the recently implemented Underwriting.

3.42 The meeting heard that, on 30 July 2018, the Board approved the establishment of the Service Management Forum, which would focus on a thorough assessment of the Scheme's service offering, with the aim of achieving a dramatic, step-change improvement in overall Member and provider satisfaction, with the goal of achieving the position of the best medical scheme in South Africa, as voted for by Members, by December 2019. The meeting noted that the overall theme for implementation would centre on the Thuma Mina principle, and that the key initiatives would focus on improving the Scheme's call centre services, chronic medicine services, Member application processes and procedures, face-to-face engagements with Members, and Member self-help services.

3.43 The Principal Officer advised that, during 2017, the Public Service Bargaining Council (**"PSCBC"**) resolved, by means of PSBC Resolution 4 of 2017, to perform a review of the Scheme for purposes of:

3.43.1 Assuring that GEMS was better geared towards meeting Member needs;

3.43.2 Focusing on the aspects of Member satisfaction, the administration of the Scheme, benefits, and how the Scheme listened to and addressed Members; and

3.43.3 Focusing on the challenges of Members on the Sapphire Option.

3.44 The Principal Officer assured the meeting that GEMS would work with the Unions and the Employer (in the PSCBC) in a Joint Working Committee (**"JWC"**) in order to achieve the aforesaid purposes.

3.45 The Principal Officer emphasised that the JWC would perform ongoing performance monitoring of the Scheme, i.e. in respect of:

3.45.1 GEMS' strategic direction;

3.45.2 The efficiency of the administration of the Scheme;

3.45.3 The financial sustainability of the Scheme;

3.45.4 GEMS' benefit offering relative to other schemes in the market;

3.45.5 The bettering of the Scheme's benefit structure;

3.45.6 Member satisfaction; and

3.45.7 Member education and recruitment.

3.46 The Principal Officer also highlighted that, as part of the review of GEMS, Clause 4.3 of PSCBC Resolution 4 of 2017 would be amended to include a new Clause 4.3.8, which would provide for the development of a benefit product for Members earning on salary levels 1 - 5, and which would enhance medical cover on an ongoing and accessible basis.

3.47 The Principal Officer informed the meeting about two bills that was recently published for public comment, i.e. the National Health Insurance Bill and the Medical Schemes Amendment Bill, and how the Scheme's Emerald Value Option (**"EVO"**) was well positioned in line with these bills. The meeting heard that GEMS had made submissions to the Health Market Inquiry of the Competition Commission, and that the executive summary of this report highlighted EVO as being a better option.

3.48 The Principal Officer advised that GEMS' rationale for aligning with the National Health Insurance (**"NHI"**) was the following:

3.48.1 To ensure that there was adequate provisioning of healthcare coverage to public service employees that was efficient, cost-effective and equitable; and to provide further options for those who wished to purchase more extensive cover;

3.48.2 The right of all South Africans to have access to healthcare services, which was enshrined in our Constitution;

3.48.3 The private sector spent 4.4% of GDP on health, but only provided care to 16% of the population. The public sector spent 4.1% of GDP on health, but provided care to 84% of the population. The 2025/2026 projection was that the public sector GDP spend would increase from 4.1% to 6.2%; and

3.48.4 The NHI Policy, signed on 28 June 2017, i.e. page 62 thereof, stated that: *''Schemes covering state employees will be consolidated into one scheme, the Government Employees Medical Scheme (GEMS)".*

3.49 The Principal Officer advised that the 2018 Health Market Enquiry Provisional Report, i.e. page 9, par. 32 of the Executive Summary, stated that:

3.49.1 The GEMS Efficiency Discount Option resulted in a number of efficiency savings and consumer benefits.

3.49.2 A 10% reduction in doctor hopping, a 22% reduction in specialist consultations, and a 16% reduction in hospitalisations was reported, and that combined, these stipulations resulted in 12% lower costs, despite this option having a higher risk profile.

3.49.3 A 10% discount on monthly contributions for the same level of benefits had been passed on to the Members of this option.

3.50 The Principal Officer also informed the meeting that, as part of the AGM social initiative, GEMS would be participating in a CSI event on 1 August 2018 at the Umalusi Omuhle Drop-in Centre in White River to support the facility in developing a fully operative Life Centre, where children from the community were fed, helped with homework and assisted with basic health needs.



3.51 Finally, the Principal Officer thanked:

3.51.1 The Minister of Public Service and Administration and the officials of the Department of Public Service and Administration;

3.51.2 The Minister of Health and the officials of the Department of Health;

3.51.3 The Council for Medical Schemes;

3.51.4 All GEMS' stakeholders, including the PSCBC, unions, and government departments;

3.51.5 The GEMS Board of Trustees for their continued guidance and support in running the Scheme;

3.51.6 The GEMS Executives and staff for their support, remaining focused and dedicating themselves to the sole purpose of pursuing the Scheme's operational plan;

3.51.7 The Scheme's healthcare partners and service providers that made the delivery of healthcare services possible; and

3.51.8 The Scheme's valued Members, who comprised the Scheme and placed their trust in GEMS to ensure they had cover when needed.

3.52 The Chairperson thanked the Principal Officer and asked the meeting to note their questions and comments, as same would be dealt with during the latter part of the meeting.

## 4. Matters for Decision

**4.1 Confirmation and adoption of the Minutes of the 11th GEMS Annual General Meeting held on 31 July 2017 at the Steve Biko Centre, 2429 Mbeka Street, King William's Town, 5601.**

4.1.1 The Chairperson tabled the draft Minutes of the 11th GEMS Annual General Meeting held on 31 July 2017 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 2017 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, to which a Member raised for the adoption and another seconded the move for the adoption of the Minutes, without any of the other Members at the meeting having objected to same.

**Decision**

**4.2 The Minutes of the 11th GEMS Annual General Meeting held on 31 July 2017 at the Steve Biko Centre, King William's Town were adopted by the Members of the Scheme as being a true reflection of what was discussed at that meeting, after a proposal and a secondment in favour of such adoption were received from two respective members, without any of the other Members at the meeting having objected to same.**

## 5. Receipt and adoption of the Annual Financial Statements for the year ended 31 December 2017, including the reports of the Board of Trustees and the external auditor of GEMS

5.1 The Chairperson invited the independent Chairperson of the GEMS Audit Committee, Mr Johannes (Joe) Lesejane, to comment on the Scheme's Annual Financial Statements for the year ended 31 December 2017 (**"AFS"**).

5.2 Mr Lesejane advised that the roles and responsibilities of the GEMS Audit Committee were described on pages 83-85 of the Annual Financial Statements. He further indicated that he was supported by Ms Felicia Msiza (Deputy Chairperson of the GEMS Audit Committee), Ms Karyna Pierce (GEMS Chief Financial Officer) and Mr Dinesh Munu (Deloitte & Touche and OMA Chartered Accountants Incorporated Joint Venture).

5.3 Mr Lesejane highlighted that, during the previous financial year (2016), the Scheme incurred a loss of R404m due to the high number of claims honoured during that year, and that the Scheme was currently not complying with the 25% statutory reserve ratio requirement prescribed by the Medical Schemes Act 131 of 1998 ("the Act"). The meeting noted, however, that year-on-year claims increases were well contained at 2%, that claims paid in 2017 amounted to R30bn, and that the Scheme achieved a surplus of R3.2bn for the 2017 year as a result of the introduction of various cost containment processes.

5.4 Mr Lesejane advised that, during the 2017 year, the Scheme's cash increased by R1.7bn and its investments increased by R1.6bn.

5.5 Mr Lesejane further informed the meeting that the Scheme was investing in its own building to enhance its net asset value.

5.6 Mr Lesejane highlighted that the Scheme exceeded its 8.2% reserve ratio target, approved by the Council for Medical Schemes for the 2017 financial year, by having achieved a reserve ratio of 15.2% (R5.4bn) at the end of 2017. The meeting again noted that the statutory reserve ratio requirement prescribed by the Act was 25%.

5.7 Mr Lesejane mentioned that the GEMS Audit Committee recommended the AFS to the GEMS Board of Trustees, and that same were approved for presentation at the AGM. He confirmed that the AFS were audited by Deloitte & Touche and OMA Chartered Accountants Incorporated Joint Venture and that no concerns were raised. He then requested for the AFS to be approved by the Members at the meeting.

5.8 Mr Makhanya questioned Mr Lesejane's reference to billions, instead of millions, to which Mr Lesejane responded by clarifying that the number was actually billions, but that the number was written in short (with reference to the associated heading, wherein the additional zeros comprising a billion were indicated) due to the space limitations on the relevant page. Mr Makhanya accepted the clarity and requested that this be explained in future to eliminate any confusion.

5.9 The Chairperson then called upon Mr Dinesh Munu from Deloitte & Touche and OMA Chartered Accountants Incorporated Joint Venture (the Scheme's External Auditor for the year ended 31 December 2017) to present their audit opinion in respect of the AFS.

5.10 Mr Munu presented their audit report and highlighted the Trustees' responsibility in the preparation of the financial statements. He confirmed that no unethical matters were detected, but highlighted the Scheme's non-compliance with the reserve ratio requirement of 25%. He, however, indicated that the auditors acknowledge that significant improvements were made by the Scheme during the 2017 year towards improving its solvency.

5.11 Mr Munu further mentioned that the auditors had noted minor areas of non-compliance, being the Scheme's solvency ratio and the Scheme's late receipt of Member contributions; however, he confirmed that these findings were not significant enough to warrant a report to the Independent Regulatory Board for Auditors (**"IRBA"**). The meeting noted that an unqualified audit opinion was issued to the Scheme in respect of the Annual Financial Statements for the period ending 31 December 2017, which was subsequently approved by the CMS without any issues being raised.

5.12 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 2017 by way of a show of hands, to which a Member raised for, and another seconded the move for, the adoption of the AFS without any of the other Members at the meeting having objected to same.

**Decision**

**5.13 The Annual Financial Statements of the Government Employees Medical Scheme for the financial year ended 31 December 2017 was 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 Sebuti Masemola and Ms Dimakatso Pinana, without any of the other Members at the meeting having objected to same.**

## 6. Appointment of Deloitte & Touche and OMA Chartered Accountants Inc. as GEMS' external auditors for the year ending 31 December 2018 in terms of GEMS Rule 27.1

6.1 The Chairperson called upon the Chairperson of the GEMS Audit Committee, Mr Joe Lesejane, to provide an overview on the appointment of the Scheme's external auditors.

6.2 Mr Lesejane informed the meeting that the Scheme conducted a tender process for the procurement of an independent external audit service provider, and that the GEMS Audit Committee was not involved in that process.

6.3 The meeting heard that the tender evaluation reports were subsequently submitted to the GEMS Audit Committee for recommendation to the GEMS Board of Trustees, following which the Board approved the appointment of Deloitte & Touche, with OMA

Chartered Accountants Inc. as their sub-contractor, as the Scheme's external auditors for the 2018 financial year.

6.4 Mr Lesejane recommended to the meeting the appointment of Deloitte & Touche, with OMA Chartered Accountants Inc. as their sub-contractor, as the Scheme's external auditors for the 2018 financial year.

6.5 The Chairperson then called on the Members at the meeting for the appointment of Deloitte & Touche, with OMA Chartered Accountants Inc. as their subcontractor, as the Scheme's external auditors for the financial year ending 31 December 2018 by way of a show of hands, to which Mr Sebiloane (Member) moved for, and Mr Simphiwe Gada (Member) seconded the move for, such appointment without any of the other Members at the meeting having objected to such appointment.

**Decision**

**6.6 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 2018, 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. Mr Sebiloane and Mr Simphiwe Gada, without any of the other Members at the meeting having objected to same.**

## 7. Matters for Noting

7.1 Disclosure of Trustee Remuneration

7.1.1 The Deputy Chairperson of the GEMS Board of Trustees, Dr Millicent Hlatshwayo, informed the meeting that, during previous AGMs, Members raised concerns about the unreasonably high Trustee remuneration.

7.1.2 The Deputy Chairperson highlighted that the GEMS Board of Trustees was responsible for:

7.1.2.1 Taking all reasonable steps to protect the interests of beneficiaries;

7.1.2.2 Acting with care, diligence and in good faith;

7.1.2.3 Avoiding conflicts of interest; and

7.1.2.4 Acting with impartiality in respect of all Beneficiaries.

7.1.3 The Deputy Chairperson further highlighted that 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.

7.1.4 The Deputy Chairperson advised that Trustees and Independent Committee Members prepared for and attended Board and Committee meetings, for which a fixed daily meeting fee and monthly stipend was paid, and which was determined through independent benchmarking surveys, based on 18 hours of work per meeting, i.e. preparing for and attending a meeting.

7.1.5 The Deputy Chairperson emphasized that the amount of the fixed daily meeting fee had not increased since 2014.

7.1.6 The meeting noted that the global amounts paid in respect of the Scheme's Trustees in 2017 were:

7.1.6.1 R8 632 000 for meeting fees and monthly stipends; and

7.1.6.2 R1 508 000 for travel, accommodation and training,

and that the increases in these amounts were informed by increased travel costs, trainers' fees and the number of meetings held.

7.1.7 The meeting heard that the Trustees were not remunerated for additional duties undertaken on a voluntary basis, the value of which was estimated to be around R 1 252 800, when calculated in terms of the approved meeting fee rate.

7.1.8 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.

7.1.9 The Deputy Chairperson further advised that Board meetings were driven by regulatory requirements and GEMS' business cycle and requirements.

7.1.10 The Deputy Chairperson highlighted that the 6 Committees of the Board were informed by:

7.1.10.1 Regulatory requirements (Audit Committee and Dispute Committee);

7.1.10.2 The Scheme's corporate governance benchmark with reference to the King IV Report (HR & Remuneration Committee and Risk Social & Ethics Committee);

7.1.10.3 The GEMS business model and the requirement to add value (Finance & Investment Committee and Clinical Governance & Administration Committee); and

7.1.10.4 Ex-gratia payments of R27.4 million in total to Beneficiaries in 2017 (Clinical Governance & Administration Committee).

7.2 Addressing Member issues raised a the 11th GEMS Annual General Meeting

7.2.1 The Deputy Chairperson informed the meeting that the 2017 GEMS AGM Action List comprises issues raised by Members at the 2017 GEMS AGM, and that some of the issues were already addressed during the Chairperson's presentation at that meeting. The meeting noted that two issues remained to be addressed, i.e. the Member Wellness Programme and the Board composition matters.

7.2.2 The Deputy Chairperson informed the meeting that the Member Wellness Programme were put on hold, following discussions with the CMS, and that

the Scheme would consider a different approach, as it acknowledged that Members required this feature.

7.2.3 The meeting noted that the Board composition matter was now with the PSCBC, who was looking into same with the support of the Scheme.

7.3 The Chairperson then invited the Principal Officer to present on the two items proposed by Members for inclusion on the AGM agenda:

7.3.1 The Principal Officer informed the meeting that one Member proposed that GEMS should consider moving away from its current operating model and become a self-administered medical scheme. The meeting noted that the Board considered this item and that feedback was provided to the Member. It was also noted that the Scheme, as part of its five year strategy, was focusing on improving its functions, and that the Internal Audit and Finance functions had already moved from the Scheme's Administrator and were being managed internally. He also mentioned that the incorporation of IT systems and platforms was also underway.

7.3.2 The Principal Officer informed the meeting that the second item proposed by another Member was the waving of having to obtain a General Practitioner (**"GP"**) referral to a specialist on the Emerald Value Option (**"EVO"**), it being a requirement of this option that Members should first consult a GP who would treat the Members and then refer to a specialist, should the need arise. The meeting noted that this request was contrary to the principles of care coordination, on which EVO was based.

## 8. Question and Answer Session

8.1 The Chairperson gave Members an opportunity to ask general questions about the matters discussed in the 2018 GEMS Annual Integrated Report and at this meeting.

8.2 In response, a number of Members raised the following concerns:

8.2.1 Mr Lucas Cele commended the Scheme for trying to combat fraud, waste and abuse, but noted that there has been a significant number of caesarean section births. He enquired how the Scheme would minimise this, as these were costly procedures.

*The Scheme's Chief Operations Officer, Dr Stan Moloabi, responded that the Scheme could not interfere with the clinical discretion of medical practitioners. He, however, advised that the Scheme would be initiating a programme, which was aimed at encouraging Members to give birth with the assistance of midwives, in cases where no complications were foreseen.*

8.2.2 Mr Cele also needed clarity on the difference between a "clean" and an "unqualified" audit.

*The GEMS Audit Chairperson, Mr Lesejane, clarified that a "clean" and an "unqualified" audit are the same thing, and that "clean audit" is the phrase most commonly used in the industry.*



8.2.3 Mr Patrick Mokoena implored the Scheme to refrain from printing ballot papers, which were not used, in order to eliminate wasteful expenditure.

*The Chairperson clarified that the ballot papers were not used, as no objections were tabled; but, had objections been raised, the meeting would have had to vote by way of ballot.*

8.2.4 Ms Makome raised a concern about the Scheme's alignment with the NHI, stating that Members were not clear as to where they would stand, once the NHI is implemented.

*The Principal Officer responded that the NHI Bill was publicised for public comment and that everyone was encouraged to submit their written comments on Bill to the legislature. He further added that the Scheme had noted the Member's concern regarding the uncertainty surrounding the NHI.*

8.2.5 Mr Tshabalala raised a concern on the depletion of benefits mid-year and enquired on the Scheme's long-term strategy to prevent this. He suggested that the Scheme increase the number of network service providers in order to reduce Member co-payments, and noted that there was a shortage of paediatricians, oncologists, cardiologists and pathologists on the GEMS Specialist Network.

*The Principal Officer acknowledged the concern and assured the Member that this matter would be one of the key focus areas of the benefit design processes for the following year.*

*The Chief Operations Officer indicated that the Scheme would engage more specialists and acknowledged that more network specialists were needed.*

8.2.6 Mr Tshabalala requested that the Scheme be transparent in disclosing the allowances paid to Board members and employees in order to eliminate corrupt activities and people receiving "handshakes".

8.2.7 Mr Tshabalala further requested the Scheme to benchmark itself against other medical schemes in respect of wellness issues, e.g. discounted gym memberships.

*The Principal Officer mentioned that the Scheme developed a proposal for the introduction of a loyalty programme for consideration by the Council for Medical Schemes (**"CMS"**), but that the CMS was not comfortable with same. He indicated that the Scheme's business model differed from other medical schemes; hence, it would be difficult to benchmark with other medical schemes. He, however, mentioned that the Scheme would continue to engage the CMS on how to introduce lifestyle benefits/loyalty programmes for Members.*

8.2.8 Mr Sandile Kunene implored the Scheme to forward the Minutes of the previous AGM and the Scheme's financial statements for the previous financial year to Members before the AGM.

*The Chairperson responded that the Minutes of the previous AGM and the Scheme's financial statements for the previous financial year were forwarded to Members electronically and by post, well in advance of the AGM.*

8.2.9 Mr Kunene also suggested that unutilised Member benefits should not to be forfeited at the end of a financial year, but rather carried over to the next financial year. He further requested that general meetings be held provincially, before the actual Annual General Meeting.

*The Principal Officer responded that, generally, unutilised Member benefits could not be carried over, with the exception of the Ruby benefit option that provided for some unutilised Member benefits to be accumulated and carried over to the following financial year.*

*The Chairperson clarified that the AGM was only held once a year and rotated throughout the various provinces to enable the Members in each province to engage the Scheme.*

8.2.10 Ms Pinana commended the Scheme on its proactive communication, but also raised the issue of depleted Member benefits mid-year. She implored the Scheme to look at this matter, as she was faced with about five medical bills that were not paid by the Scheme.

*The Chief Operations Officer requested Ms Pinana to engage him after the meeting, as this was an isolated matter.*

*The Principal Officer added that Members had an option to apply to the Scheme's Ex-gratia Committee for ex-gratia funding, should situations arise where their medical costs were not covered by their usual benefits.*

8.2.11 Ms Mashigo expressed her dissatisfaction with the fact that her benefits were exhausted before June each year, whilst being on the highest option, i.e. Onyx, and enquired about how the Scheme would address this issue, when on the one hand, a condition that a Member has, requires frequent blood tests, whilst on the other hand, prescribed medication and blood tests were not being paid for because of depleted benefits.

*The Principal Officer responded that the Member's concern was being addressed in that it will be one of the key focus areas of the Scheme's benefit design process for next year. He advised that the Scheme was considering the introduction of an extender benefit, which would assist in covering pathology claims, consultations and medication in instances where a Member's usual benefits were exhausted.*

8.2.12 Ms Mashigo requested the Scheme to improve its call centre's automated voice prompts, as currently it took a lot of time without a Member necessarily being assisted before his/her airtime ran out.



8.2.13 Ms Mashigo further requested the Scheme to be more specific as to how much the Trustees are remunerated, as this would attract, encourage and motivate other Members to stand for election as Trustees.

*The Chairperson clarified that this matter was addressed by the Deputy Chairperson when she presented the Trustee Remuneration Report.*

8.2.14 Ms Mashigo enquired how the issue of specialists charging at 300% of Scheme Rate and the Scheme paying at 100% of Scheme Rate was being addressed.

*The Chief Operations Officer responded that this was another case where the Scheme could not prescribe to specialists; however, he advised that the Medical Schemes Amendment Bill sought to outlaw the application of co-payments, and that the Scheme was hoping that co-payments would be eliminated once this Bill was finalised. He further mentioned that the Scheme was engaging specialists to alleviate the co-payment pressure on Members in the meantime.*

8.2.15 Ms Mundawe raised a concern of pathology claims not being paid by the Scheme, causing Members to pay same from their own pockets.

*The Principal Officer responded that this was also one of the key focus areas of the benefit design process for 2019 and that this matter would be addressed.*

8.2.16 Mr Musamanganyi raised a concern about Members' Over-the-Counter Medicine benefit, which also was depleted mid-year, and enquired why Members had to consult General Practitioners ("GPs") to get a prescription, which cost more, whilst Members could easily go to a pharmacy and receive medication over the counter, without incurring the additional cost of a GP consultation.

*The Principal Officer responded that, even when benefits are depleted, there were about 270 conditions that all medical schemes had to cover, despite the depletion, and that this was yet another key focus area of the benefit design process for 2019.*

8.2.17 Mr Musamanganyi further expressed his dissatisfaction about the fact that the Scheme paid for generic medication, but not for original medication prescribed by healthcare practitioners.

*The Principal Officer responded that generic medication was manufactured from the same pharmaceuticals as original medication, and assured the Member that it was also tested by the South African Health Products Association, which was responsible for the registration of all medication, after having tested them for safety and effectiveness. He further stated that pharmacies were by law required to inform Members of the availability of more affordable medication, i.e. generic medication.*

8.2.18 An unidentified Member commended the Scheme for the way in which it was dealing with Members' concerns. He stated that Members welcomed the report received from the Scheme in its dealing with the fraud issues raised.

He reiterated that Members expected the Scheme to recover the monies with which the Scheme was defrauded from those individuals who were implicated during the forensic investigations, despite those individuals having resigned from the Scheme.

8.2.19 He further suggested that the Scheme review the 25% reserve ratio requirement, expressing the view that the Scheme should not focus on having high reserves, whilst Members' benefits were not sufficient to cater for their needs.

8.2.20 He also commended the Scheme for honouring its social responsibility through the Umalusi Omuhle Drop-in social initiative, and requested the Scheme to engage Members on the NHI in order to dispel any fears and to enable Members to support the NHI initiatives.

*The Principal Officer responded that the Member's concerns were noted, and encouraged everyone to participate in the NHI by commenting on the NHI Bill that was recently published for public comment. He mentioned that there was a lot of work to be done around the initiatives in support of the NHI.*

*The Chairperson added that the Scheme's official position on the NHI was that it fully supported the NHI.*

## 9. Summary of Decisions

9.1 The Chairperson thanked the PSCBC and the Members for their active participation in the AGM and for supporting the Scheme.

9.2 The Chairperson confirmed that the Minutes of the meeting would reflect that:

9.2.1 The Minutes of the 11th GEMS Annual General Meeting held on 31 July 2017 at the Steve Biko Centre, 2429 Mbeka Street, King William's Town, 5601 were adopted by the Members of the Scheme as an accurate reflection of the proceedings of that meeting;

9.2.2 The Annual Financial Statements of the Government Employees Medical Scheme for the financial year ended 31 December 2017 were adopted by the Members of the Scheme; and

9.2.3 Deloitte & Touche, with OMA Chartered Accountants Inc as their sub-contractor, was re-appointed as the external auditor of the Scheme for the financial year ending 31 December 2018.

## 10. Closure

10.1 After all matters on the 2018 GEMS AGM Agenda were duly disposed of, the Chairperson closed the 12th Annual General Meeting of the Members of GEMS at 17h23 on 31 July 2018.

_____

**Date of approval by Members of the Scheme**

_____

**Chairperson**

Date: _____

**ACTION LIST ON MEMBER ISSUES RAISED AT THE 2018 GEMS AGM HELD AT THE SOUTHERN SUN EMNOTWENI ARENA, NELSPRUIT ON 31 JULY 2018 AT 15h00**

| No. | Issue (short description) | Classification of Issue | Responsible Lead | Scheme Response / Action Required | Progress | Status |
|---|---|---|---|---|---|---|
| 1. | Members raised a concern regarding the long automated voice prompts when calling the call centre, which results in their airtime being depleted and them then not being assisted. | Call Centre | CAO | The Scheme launched a Service Management Forum in 2018, which aims to address service issues, including a review of the IVR. The IVR improvements is of high priority and is scheduled to go-live in 2019. | The Scheme received a proposal on the IVR changes and is reviewing same. The implementation timelines will be reported on, once confirmed. | In Progress |
| 2. | Members urged the Scheme to review the 25% reserve-ratio requirement, as it is deemed to be too high and preventing the Scheme from affording greater benefits to members facing benefit depletion during the financial year. | Reserve Ratio Review | CFO | The 25% reserve ratio is a statutory requirement, prescribed by the MSA 131 of 1998, and is the same for all medical schemes. Accordingly, the Scheme is legally required by to comply with same and do not have the authority to review same. | Kindly refer to the adjacent column. | Finalised |

# 18. ACRONYMS/
## ABBREVIATIONS

| | |
|---|---|
| **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 |

# 19. OTHER INFORMATION

- Name, business address of Principal Officer and any changes therein since prior year
- Details of administrator, capitation providers, managed healthcare providers

## Principal Officer's office and postal address

Dr. Gunvant Goolab
Corner of Amarand & Mercy Avenues
Menlyn Maine,
Waterkloof Glen Ext 2,
Pretoria
0083

Private Bag X1
Hatfield
0028

## Registered office and postal address

Hillcrest Office Park
Corner of Amarand & Mercy Avenues
Menlyn Maine,
Waterkloof Glen Ext 2,

Private Bag X1
Hatfield
0028

## Medical Scheme administrator during the year, office and postal address

Metropolitan Health Corporate (Pty) Ltd
Town Square Building
61 St George's Mall
Cape Town
8001

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

## Audited Financial Statements

The full audited Annual Financial Statements can be obtained from the Scheme's registered office, postal address, Scheme website and by email as stated below:

## Registered Office:

Corner of Amarand & Mercy Avenues,
Menlyn Maine, Waterkloof Glen Ext 2,
Pretoria

## Postal Address:

Private Bag X1
Hatfield
0028

## Scheme website:

www.gems.gov.za

## Scheme email:

enquiries@gems.gov.za

# Notes:



# Notes:

ANNUAL INTEGRATED

# REPORT 2018

## CONTACT DETAILS


| | |
|---|---|
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| Fax: | 0861 00 4367 |
| Email: | enquiries@gems.gov.za |
| Website: | www.gems.gov.za |
| Postal address: | GEMS, Private Bag X782, Cape Town, 8000 |



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