

TRANSMED MEDICAL FUND

Registration number: 1582

FINANCIAL REPORT

for the year ended 31 December 2019

TRANSMED MEDICAL FUND
Registration number: 1582
FINANCIAL STATEMENTS
for the year ended 31 December 2019

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FINANCIAL STATEMENTS

**STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES
for the year ended 31 December 2019**

The Trustees are responsible for the preparation, integrity and fair presentation of the financial statements of Transmed Medical Fund (the Fund). The financial statements presented on pages 19 to 53 have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Medical Schemes Act of South Africa. In addition, the Trustees are responsible for preparing the report of the Board of Trustees.

The Trustees consider that in preparing the financial statements they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates.

The Trustees are satisfied that the information contained in the financial statements fairly presents the results of operations, cash flows and financial position of the Fund at year-end. The Trustees also prepared the other information included in the annual report and are responsible for both its accuracy and its consistency with the financial statements.

No event or item has come to the attention of the Board of Trustees that indicates any material breakdown in the functioning of the key internal controls and systems during the year under review. The Trustees are responsible for such internal controls as the Trustees deem necessary to enable the preparation of the financial statements that ensure that they are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.


The going concern basis has been adopted in preparing the financial statements. The Trustees believe that the Fund will be a going concern in the foreseeable future, based on forecasts and available cash resources. These financial statements support the viability of the Fund.

The Fund's external auditor is responsible for auditing the financial statements in terms of International Standards on Auditing and the auditor's report is presented on pages 15 to 18.

The financial statements, as identified in the first paragraph, were approved by the Board of Trustees on 12 May 2020 and are signed on its behalf:



.....
F Mackenzie
CHAIRPERSON



.....
B Jonker
VICE-CHAIRPERSON



.....
PL Wassermann
PRINCIPAL OFFICER

12 May 2020

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

The Fund is committed to the principles and practice of fairness, openness, integrity and accountability in all dealings with its stakeholders. The Trustees are proposed and elected by the members of the Fund and the employers.

BOARD OF TRUSTEES

The Trustees meet regularly and monitor the performance of all its contracted service providers against their contractual obligations and service level agreements. They address a range of key issues and ensure that discussion of items of policy, strategy and performance is critical, informed and constructive.

The Trustees perform a self-evaluation to measure the performance of the Board and also evaluate the performance of the sub-committees against their terms of reference.

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

INTERNAL CONTROL

The Board of Trustees is accountable for the process of risk management and internal controls. Risks are reviewed and identified regularly and appropriate strategies are implemented.

The administrators of the Fund 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 adequately. Such controls are based on established policies and procedures and are implemented by trained personnel with the appropriate segregation of duties.

A formal internal audit function exists within the administrator, with regular reporting to the Audit Committee. The administrators of the Fund have documented and tested disaster recovery procedures and the Board is satisfied that the procedures are in place and tested.

No event or item has come to the attention of the Board of Trustees that indicates any material breakdown in the functioning of the key internal controls and systems during the year under review.



.....
F Mackenzie
CHAIRPERSON



.....
B Jonker
VICE-CHAIRPERSON



.....
PL Wassermann
PRINCIPAL OFFICER

12 May 2020

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REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2019

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

1. DESCRIPTION OF THE MEDICAL FUND

1.1 Terms of registration

The Fund is a not for profit restricted medical fund registered in terms of the Medical Schemes Act 131 of 1998 (the Act), as amended.

1.2 Benefit options within the Transmed Medical Fund

The Fund offers the following benefit options to employees and pensioners of Transnet SOC Ltd and its subsidiaries:

- Guardian;
- Link (State Plus Network until 31 December 2018);
- Select (State Plus Own Choice until 31 December 2018); and
- Prime (Private Network until 31 December 2018).

2. MANAGEMENT

2.1 Board of Trustees in office during the year under review and at the date of this report:

EMPLOYER APPOINTED TRUSTEES

Mr N Budhai	
Mr L Erasmus	Resigned 30 April 2019
Ms N Galeni	
Mr MJ Mamabolo	
Ms S Moropa	
Ms K Naicker	
Mr V Ramlugaan	Appointed 18 September 2019

MEMBER ELECTED TRUSTEES

Mr T Campher	
Mr WL Evans	Resigned as Chairperson and Trustee 6 August 2019
Mr HJ Fourie	Appointed 18 September 2019
Mr WH Goosen	
Mr B Jonker	Vice-Chairperson
Mr F Mackenzie	Chairperson
Mr M Nondywana	Appointed as Vice-Chairperson 18 September 2019 Appointed as Chairperson 18 September 2019

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**REPORT OF THE BOARD OF TRUSTEES (continued)
for the year ended 31 December 2019**

2.2 Principal Officer

Mr PL Wassermann 1st Floor Eagle Canyon Office Park Cnr Dolfyn and Christiaan de Wet Street Randparkridge Randburg 2169	Private Bag 32043 Braamfontein 2017
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2.3 Registered Office address and postal address

1st Floor Eagle Canyon Office Park Cnr Dolfyn and Christiaan de Wet Street Randparkridge Randburg 2169	Private Bag 32043 Braamfontein 2017
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2.4 Fund Administrator

Momentum Health Solutions (Pty) Ltd 5th Floor 101 De Korte Street Braamfontein 2001	P O Box 32931 Braamfontein 2017 CMS accreditation no: 13
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2.5 Managed care providers

Momentum Health Solutions (Pty) Ltd Parc du Cap Mispel Road Bellville 7530	PO Box 2212 Bellville 7535 CMS accreditation no: 59
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Universal Healthcare (Pty) Ltd Universal House 15 Tambach Road Sunninghill Park Sandton 2128	PO Box 1411 Rivonia 2128 CMS accreditation no: MCO 17
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2.6 Investment manager

Investec Asset Management Limited
36 Hans Strijdom Avenue
Foreshore
Cape Town
8001
FSP Number 587

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REPORT OF THE BOARD OF TRUSTEES (continued) for the year ended 31 December 2019

2.7 Actuaries

NMG Consultants and Actuaries (Pty) Ltd
Belvedere Office Park
Block B
Pasita Street
Tygervalley
7536

PO Box 3950
Tygervalley
7536

2.8 Auditor

Deloitte & Touche
5 Magwa Crescent
Waterfall City
Midrand
2066

Private Bag X6
Gallo Manor
2052

3. INVESTMENT STRATEGY OF THE FUND

The Fund's investment objectives are to maximise the return on its investments on a long-term basis at minimal risk. The investment strategy takes into consideration both constraints imposed by legislation and those imposed by the Board of Trustees.

The Board of Trustees ensure that:

- The Fund remains solvent;
- Investments are placed at minimum risk and at the best possible rate of return;
- Investments made are in compliance with the Regulations of the Act; and
- A risk assessment is performed with feedback to the Board of Trustees with recommendations on the risks identified.

During 2019, the Fund invested in money market instruments, which included fixed deposits, bonds and cash instruments. This was done mainly to ensure that the Fund had sufficient liquidity available.

The Fund's policy is reviewed annually, taking into consideration compliance with the Act, risk, returns of the various investment instruments and the surplus of funds available.

4. REVIEW OF THE FINANCIAL YEAR'S ACTIVITIES

4.1 Results from operations

Working Members and Pensioner (WMP) risk pool

The Trustees have implemented the actions stipulated in the business plan in order to increase the reserve ratio of the WMP risk pool in order to reach the required 25%.

The WMP risk pool consists of three options: The Prime option performed better than budget in 2019, while the Link and Select options failed to achieve budget expectations. This was mainly driven by a significant increase in the number of high cost cases in the Select option and an overall deterioration of the risk pool.

The risk profile of the risk pool deteriorated further during the year, partially as a result of the implementation of a new subsidy structure by the employer. The new subsidy structure allows members to belong to other open medical schemes, as approved by the employer. The strategic plan of the Fund is to attract new members to the risk pool in order to improve the risk profile.

The reserve ratio for WMP risk pool decreased from 5.4% at 31 December 2018 to 0.37% at 31 December 2019.

The Trustees believe that the risk pool will remain solvent and build reserves during the 2020 benefit year.

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FINANCIAL STATEMENTS**REPORT OF THE BOARD OF TRUSTEES (continued)**

for the year ended 31 December 2019

4. REVIEW OF THE FINANCIAL YEAR'S ACTIVITIES (continued)**4.1 Results from operations (continued)****SATS risk pool**

Transnet SOC Ltd will continue to fund this risk pool. Quarterly payments of R 56.6m will be made during 2020 (2019: Quarterly payments of R 42.4m).

The SATS risk pool's reserve ratio decreased from 41.8% at 31 December 2018 to 36.91% at 31 December 2019. The risk pool performed better than anticipated for the year.

Transnet SOC Ltd remains committed to fund the SATS risk pool to the reserve level required by the Act.

The Fund

The results of the Fund are set out in the financial statements. The reserve ratio decreased from 17.81% at the end of December 2018 to 11.38% at the end of December 2019. Due to the fact that the Fund's reserve ratio is below the required level of 25%, the Fund is currently under financial monitoring by the Council for Medical Schemes. The Fund has regular interactions with the Council for Medical Schemes, and constantly keeps the Council for Medical Schemes informed of developments in the Fund.

4.2 Solvency ratio

	2019	2018
	R	R
Total members' funds	76,220,911	132,370,964
Less:	(81,848)	(56,558)
Revaluation reserve gain on available-for-sale investments	-	-
Unrealised gains on financial assets at fair value through Profit or Loss	(81,848)	(56,558)
	<u>76,139,063</u>	<u>132,314,406</u>
Accumulated funds per Regulation 29	669,326,457	743,063,243
Annual gross contributions	11.38%	17.81%
Accumulated funds ratio		

4.3 Going concern

The Board of Trustees considers the Fund to be a going concern. The Board took the following into consideration in the evaluation of the Fund's going concern status:

- Available cash and investments at the end of the year amounted to R 117 727 406.
- Transnet SOC Ltd indicated that it will provide funding for the SATS pensioners to the value of R226.5m during 2020.
- A business plan has been developed by the Trustees, with the assistance of the Fund's actuary, in order to get the Fund to a reserve level of 25%.
- It is expected that the Fund's reserve ratio will increase from 11.38% at 31 December 2019 to 13.87% at 31 December 2020.
- An actuarial model was developed to assist the Trustees to consider the going concern status of the Fund. Even with the most negative assumptions on membership movements and membership risk profiles, the model indicated that the Fund will be a going concern.

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FINANCIAL STATEMENTS**REPORT OF THE BOARD OF TRUSTEES (continued)**

for the year ended 31 December 2019

4. REVIEW OF THE FINANCIAL YEAR'S ACTIVITIES (continued)**4.4 Operational statistics**

	2019				
	Link	Select	Prime	Guardian	Total
Number of members at the end of the accounting period	1,844	12,895	883	6,735	22,357
Average number of members for the accounting period	1,924	13,511	996	7,130	23,561
Average age of beneficiaries for the accounting period	45	47	66	80	55
Pensioner ratio (beneficiaries > 65 years)	22.8%	31.4%	62.2%	93.0%	45.6%
Average net contributions per member per month	R 1,620.91	R 2,216.08	R 5,937.36	R 2,356.73	R 2,367.35
Average net contributions per beneficiary per month	R 846.07	R 1,285.26	R 4,591.31	R 2,003.75	R 1,521.64
Average relevant healthcare expenditure per member per month	R 1,238.52	R 2,142.40	R 7,060.48	R 2,458.38	R 2,372.11
Average relevant healthcare expenditure per beneficiary per month	R 646.48	R 1,242.53	R 5,459.81	R 2,090.18	R 1,524.70
Average administration costs per member per month	R 177.80	R 155.59	R 437.63	R 369.89	R 234.18
Average administration cost per beneficiary per month	R 92.81	R 90.24	R 338.42	R 314.49	R 150.52
Average managed care services per member per month	R 91.88	R 65.00	R 185.04	R 89.94	R 79.82
Average accumulated funds per member at 31 December *	WMP = R 111.75			R 11,057.93	R 3,409.26
Beneficiaries per member at 31 December	1.9	1.7	1.3	1.2	1.6
Managed care services as a percentage of net contributions	6%	3%	3%	4%	3%
Risk claims as a percentage of net contributions	71%	94%	116%	101%	97%
Administration expenses as a percentage of net contributions	11%	7%	7%	16%	10%
Non-Healthcare expenses as a percentage of net contributions	11%	7%	7%	16%	10%
Return on investments					8.43%

* Accumulated funds are measured for the two risk pools, WMP and SATS, and for the Fund as a whole, but not per benefit option.

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REPORT OF THE BOARD OF TRUSTEES (continued)

for the year ended 31 December 2019

4. REVIEW OF THE FINANCIAL YEAR'S ACTIVITIES (continued)

4.4 Operational statistics

	2018				
	State plus Network	State plus Own Choice	Private Network	Guardian	Total
Number of members at the end of the accounting period	2,005	14,301	1,251	7,558	25,115
Average number of members for the accounting period	2,097	14,967	1,424	7,990	26,479
Average age of beneficiaries for the accounting period	45	47	66	80	55
Pensioner ratio (beneficiaries > 65 years)	23.7%	32.5%	62.8%	95.5%	47.2%
Average net contributions per member per month	R 1,476.88	R 2,021.07	R 5,295.96	R 2,632.55	R 2,338.53
Average net contributions per beneficiary per month	R 760.38	R 1,155.53	R 3,946.34	R 2,218.08	R 1,486.90
Average relevant healthcare expenditure per member per month	R 1,135.37	R 1,818.47	R 7,231.58	R 2,538.64	R 2,272.72
Average relevant healthcare expenditure per beneficiary per month	R 584.55	R 1,039.69	R 5,388.68	R 2,138.96	R 1,445.06
Average administration costs per member per month	R 167.07	R 146.69	R 405.95	R 339.82	R 220.52
Average administration cost per beneficiary per month	R 86.02	R 83.87	R 302.50	R 286.32	R 140.21
Average managed care services per member per month	R 91.50	R 63.49	R 139.46	R 86.87	R 76.84
Average accumulated funds per member at 31 December *	WMP = R 1 521.88			R 13,978.73	R 5,270.59
Beneficiaries per member at 31 December	1.9	1.7	1.3	1.2	1.6
Managed care services as a percentage of net contributions	6%	3%	3%	3%	3%
Risk claims as a percentage of net contributions	72%	88%	134%	94%	95%
Administration expenses as a percentage of net contributions	11%	7%	8%	13%	9%
Non-Healthcare expenses as a percentage of net contributions	11%	7%	8%	13%	9%
Return on investments					8.38%

* Accumulated funds are measured for the two risk pools, WMP and SATS, and for the Fund as a whole, but not per benefit option.

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REPORT OF THE BOARD OF TRUSTEES (continued) for the year ended 31 December 2019

4. REVIEW OF THE FINANCIAL YEAR'S ACTIVITIES (continued)

4.5 Reserve accounts

Movements in the reserves are set out in the Statement of Changes in Funds and Reserves.

4.6 Outstanding risk claims

The basis of calculation of the outstanding risk claims provision is discussed in note 6 of the financial statements and is consistent with the prior year. There have been no unusual movements that the Trustees believe should be brought to the attention of the members of the Fund.

5. ACTUARIAL SERVICES

The Fund's actuaries have been consulted in the determination of the contribution and benefit levels and provide regular reports to the Fund. Reporting also include the Incurred But Not Reported (IBNR) provision calculation.

6. GUARANTEES RECEIVED BY THE FUND FROM A THIRD PARTY

No guarantees have been received by the Fund for the year ended 31 December 2019.

7. EVENTS AFTER REPORTING DATE

The outbreak of the coronavirus during mid-January has disrupted the Global economic markets. In making their estimates and judgements as at 31 December 2019 (as disclosed in note 20), the Trustees took into consideration the economic conditions and forecasts as at that date. The Board of Trustees will continue to consider the potential impact of the outbreak on significant estimates and judgements going forward.

The following events developed since 31 December 2019:

- On 23 March 2020, the President of South Africa announced a mandatory national lockdown, which commenced on 26 March 2020, as a measure to curb the spreading of COVID-19. At the date of signing the financial statements, the lockdown has been eased to Level 4, based on the risk-adjusted approach adopted by Government.
- On 27 March 2020, the rating agency Moody's announced its decision of downgrading South Africa's long term foreign and local currency debt ratings from Ba1 to Baa3 and maintains a negative outlook of the country.

The effects of COVID-19 and the downgrade are non-adjusting subsequent events for the year ended 31 December 2019 in terms of IAS 10 Events after the Reporting Period, because the significant development and the spreading of COVID-19 did not take place until January 2020, and the announcement of the downgrade only occurred on 27 March 2020. Therefore these events only occurred after 31 December 2019. Below are the assessment of each of the Fund's significant balance sheet items:

All of the Fund's investable assets were invested in cash and local capital market instruments and will therefore be largely unaffected by these events.

Allowance for expected credit losses as at 31 December 2019 have been based on incurred events at statement of financial position date. Given that the disruptions only occurred in March 2020, the amount recognised as at 31 December 2019 remains unchanged.

Provision for outstanding claims, as disclosed in note 6, is an estimate of the ultimate costs of settling all claims incurred that have been occurred before the end of the reporting period, but have not been reported to the Fund. Given the fact that the risk claims provision as at 31 December 2019 relates to 2019 and prior, the claims provision remains unchanged.

The Board of Trustees are of the opinion that these events should not have a material impact on the Fund's solvency. This opinion is based on an actuarially sound projection and a conservative set of assumptions, which produced a case scenario impact on the Fund's expected claims expense. The worst case scenario indicated an insignificant impact on the Fund's expected claims experience and solvency level. Furthermore, the subsequent COVID-19 related claims monitoring indicated that the worst case scenario is unlikely to materialise. The Trustees will continue to consider the potential impact of the outbreak on significant estimates and judgements going forward.

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**REPORT OF THE BOARD OF TRUSTEES (continued)
for the year ended 31 December 2019**

7. EVENTS AFTER REPORTING DATE (CONTINUED)

In addition, the financial reporting impact of COVID-19 will be considered in the 2020 financial statements.

There have been no other events that have occurred between the end of the accounting period and the date of the approval of these financial statements, other than items listed above, that the Trustees consider should be brought to the attention of the members of the Fund.

8. INVESTMENTS IN AND LOANS TO PARTICIPATING EMPLOYERS OF MEMBERS OF THE MEDICAL FUND AND TO OTHER RELATED PARTIES

- The Fund holds no investments in participating employers of the Fund's members;
- Refer to the related party disclosure in note 16 of the financial statements; and
- Trustee remuneration is disclosed in note 11.1 of the financial statements.

9. MANAGEMENT OF INSURANCE RISK

The primary insurance activity carried by the Fund assumes the risk of loss from members and their dependants that are directly subject to the risk. The risk relates to the health of the Fund members. As such the Fund is exposed to the uncertainty surrounding the timing and severity of claims under contract.

The Fund manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involves pricing guidelines, pre-authorisation and case management and service provider profiling.

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

Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated with established statistical techniques. There are no changes to assumptions used to measure insurance assets and liabilities that have a material effect on the financial statements and there are no terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the Fund's cash flows.

10. AUDIT COMMITTEE

The Audit Committee was established in accordance with the provisions of the Act. The Committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. The Committee consists of five members of which two are members of the Board of Trustees. The majority of the members, including the Chairperson, are not officers of the Fund or its third party administrator. The Committee met on two occasions during the course of the year.

The Principal Officer of the Fund, Momentum Health Solutions management, the external auditors and the internal auditors attend all Audit Committee meetings and have unrestricted access to the Chairperson of the Committee.

In accordance with the provisions of the Act, the primary responsibility of the Committee is to assist the Board of Trustees in carrying out its duties relating to the Fund's accounting policies, risk management, internal control systems and financial reporting practices. The external and internal auditors formally report to the Committee on critical findings arising from audit activities.

The Committee presently comprises:

Mr N Budhai
Mr K Buthelezi (Chairperson)
Ms N Galeni
Mr G Hauptfleisch
Ms S Thomas

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FINANCIAL STATEMENTS**REPORT OF THE BOARD OF TRUSTEES (continued)**

for the year ended 31 December 2019

11. TRUSTEE MEETING ATTENDANCE

The following schedule sets out Board of Trustees meeting attendances. Trustee remuneration is disclosed in note 11.1 to the financial statements.

Trustee/Sub-Committee member	Board Meetings		Audit Committee		Benefits Committee		Ex-Gratia Committee		Management Committee		Remuneration Committee	
	A	B	A	B	A	B	A	B	A	B	A	B
Mr N Budhai	5	4	3	3								
Mr T Campher	5	5			6	6	11	10	7	7		
Mr L Erasmus	5	2										
Mr WL Evans	5	2			6	3	11	6	7	4	1	1
Mr HJ Fourie	5	1										
Ms N Galeni	5	4	3	2								
Mr WH Goosen	5	5			6	6	11	11	7	7		
Mr B Jonker	5	5			6	6	11	11	7	7		
Mr F Mackenzie	5	5			6	6	11	11	7	7	1	1
Mr MJ Mamabolo	5	4										
Ms S Moropa	5	1										
Ms K Naicker	5	3										
Mr M Nondywana	5	4			6	5			7	6		
Mr V Ramlugaan	5	2										

A - Is the number of meetings held during the year

B - Is the number of meetings attended

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FINANCIAL STATEMENTS

REPORT OF THE BOARD OF TRUSTEES (continued) for the year ended 31 December 2019

12. BOARD OF TRUSTEE COMMITTEE MEETINGS

12.1 Management Committee

The Management Committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties.

The Management Committee incorporates the functions and responsibilities in the following areas:

- Financial and investment management;
- Suppliers' management;
- Marketing management; and
- Managed care management.

12.2 Benefits Committee

The mandate of the Benefits Committee is:

- To make recommendations to the Board on the benefits that are offered to members; and
- To ensure long-term viability of the benefit options.

12.3 Remuneration Committee

The mandate of the Remuneration Committee is to:

- Do annual performance appraisals for the employee of the Fund; and
- Decide on annual increases in the remuneration for the employee of the Fund.

12.4 Ex-gratia Committee

The Ex-gratia Committee approved applications to the value of R358 385 (2018: R352 787), for ex-gratia assistance to members. Applications for assistance from members are evaluated against criteria as approved by the Board from time to time.

13. NON-COMPLIANCE WITH MEDICAL SCHEMES ACT 131 OF 1998

13.1 Outstanding contributions

Nature and impact

In terms of Section 26(7) of the Act, contributions should be received in accordance with the rules of the Fund. Per the Fund rules, contributions are required to be received at least three days after their due date. Instances were noted where contributions were received late.

Causes for the failure

The reason for this is due to the inherent nature of the business.

Corrective action

On-going communication to employer groups has occurred. The Fund also applied annually to the Council for Medical Schemes and obtained an exemption for the three day contribution rule.

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REPORT OF THE BOARD OF TRUSTEES (continued) for the year ended 31 December 2019

13. NON-COMPLIANCE WITH MEDICAL SCHEMES ACT 131 OF 1998 (continued)

13.2 Self-supporting options

Nature and impact

In terms of Section 33(2) benefit options shall be self-supporting in terms of membership and financial performance. The Select, Prime and Guardian options recorded deficits for the year ended 31 December 2019.

Causes for the failure

The Select option was expected to generate a surplus from operations. The option experienced an exceptional number of high cost cases in the earlier part of the year resulting in the option reporting a loss from operations. Due to the deteriorating risk profile of the Prime option, it was anticipated that the option would produce a loss at operating level. The funding from Transnet SOC Ltd for the Guardian option was reduced as the reserve ratio for the risk pool is well above the required level. The reduced funding for the year was the primary reason for the deficit on the option.

Corrective action

Higher contribution increases and no benefit adjustments were implemented on Select option to ensure the option is self sustaining. The Prime option is not sustainable in the long run and has been earmarked for closure as soon as the membership of the option reaches the 500 beneficiary threshold, or financial impact analysis indicates that the remaining options would remain sustainable if the option were to be closed. A business plan was developed by the Trustees to get the Fund's reserve levels back to 25%.

13.3 Reserve ratio

Nature and impact

In terms of Regulation 29, a medical scheme should have reserves of at least 25% of its gross annual contributions. At 31 December 2019, the Fund had a reserve ratio of 11.38%, which is lower than the required level.

Causes for the failure

The working member and pensioner risk profile deteriorated during the year.

Corrective action

A business plan was developed by the Trustees, with the assistance of the Fund's actuary in order to restore the Fund's reserve levels back to 25%. The Council for Medical Schemes approved the business plan.

13.4 Payment of claims within 30 days

Nature and impact

In terms of Section 59(2) a member or provider claim should be settled within 30 days of submission. Instances were noted during sample testing where settlements took more than 30 days.

Causes of failure

Delays can occur when accounts are referred for clinical audit or other investigations. These are however the exceptions, and claims are generally paid within the prescribed time.

Corrective action

The administrator is aware of the requirements and comply as far as possible. It is however an inherent part of the industry that a limited number of problematic claims may exceed the payment requirement of 30 days.

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FINANCIAL STATEMENTS**STATEMENT OF FINANCIAL POSITION**

as at 31 December 2019

	Notes	2019 R	2018 R
ASSETS			
Non-current assets		112,955,178	168,914,109
Equipment	2	115,221	214,837
Financial assets at fair value through Profit or Loss	3	112,839,957	168,699,272
Current assets		11,308,737	11,908,683
Trade and other receivables	4	6,421,288	7,915,057
Cash and cash equivalents	5	4,887,449	3,993,626
Total assets		<u>124,263,915</u>	<u>180,822,792</u>
FUNDS AND LIABILITIES			
Members' funds		76,220,911	132,370,964
Accumulated funds		76,220,911	132,370,964
Current liabilities		48,043,004	48,451,828
Outstanding risk claims provision	6	25,704,424	27,856,767
Trade and other payables	7	22,338,580	20,595,061
Total funds and liabilities		<u>124,263,915</u>	<u>180,822,792</u>

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FINANCIAL STATEMENTS**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2019

	Notes	2019 R	2018 R
Contribution income	8	669,326,457	743,063,243
Relevant healthcare expenditure		(670,672,587)	(722,153,386)
Risk claims incurred	9	(648,959,462)	(704,185,182)
Managed care services	10	(22,567,642)	(24,417,129)
Third party claims recoveries		854,517	6,448,925
Gross healthcare result		(1,346,130)	20,909,857
Administration expenditure	11	(66,209,478)	(70,069,166)
Net impairment loss on healthcare receivables	12	(106,950)	(271,031)
Net healthcare result		(67,662,558)	(49,430,340)
Other income		11,763,832	16,586,121
Investment income	13	11,708,860	16,057,369
Unrealised gains on investments at fair value through Profit or Loss		25,290	8,115
Sundry income	14	29,682	520,637
Other expenditure		(251,327)	(215,062)
Asset management fees		(156,607)	(215,062)
Loss with disposal of equipment		(94,720)	-
Deficit for the year		(56,150,053)	(33,059,281)

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FINANCIAL STATEMENTS**STATEMENT OF CHANGES IN FUNDS AND RESERVES**

For the year ended 31 December 2019

	Accumulated funds R	Revaluation reserve R	Total members' funds R
Balance as at 31 December 2017	165,381,802	48,443	165,430,245
Effect of IFRS 9 reclassification of the revaluation reserve	48,443	(48,443)	-
Opening balance as at 1 January 2018 after IFRS 9 reclassification	165,430,245	-	165,430,245
Deficit for the year	(33,059,281)	-	(33,059,281)
Balance as at 31 December 2018	<u>132,370,964</u>	<u>-</u>	<u>132,370,964</u>
Balance as at 1 January 2019	132,370,964	-	132,370,964
Deficit for the year	(56,150,053)	-	(56,150,053)
Balance as at 31 December 2019	<u>76,220,911</u>	<u>-</u>	<u>76,220,911</u>

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FINANCIAL STATEMENTS**STATEMENT OF CASH FLOWS**

For the year ended 31 December 2019

	Notes	2019 R	2018 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations before working capital changes	15	(67,709,291)	(49,053,331)
WORKING CAPITAL CHANGES			
Decrease in trade and other receivables		1,493,769	2,214,204
Increase/(decrease) in trade and other payables		1,743,519	(4,928,937)
Decrease in outstanding risk claims provision		(2,152,343)	(10,167,742)
NET CASH FLOW AFTER WORKING CAPITAL CHANGES		<u>(66,624,346)</u>	<u>(61,935,806)</u>
Interest received		<u>614,713</u>	<u>670,338</u>
NET CASH FLOW USED IN OPERATING ACTIVITIES		<u>(66,009,633)</u>	<u>(61,265,468)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to equipment	2	(96,945)	(194,777)
Proceeds with disposal of equipment		21,649	-
Additions to financial assets at fair value through Profit or Loss	3	(498,824,000)	(477,988,938)
Proceeds on disposal of financial assets at fair value through Profit or Loss	3	565,770,000	536,271,000
Management fees and transaction costs	3	32,752	36,128
NET CASH FLOW FROM INVESTING ACTIVITIES		<u>66,903,456</u>	<u>58,123,413</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		893,823	(3,142,055)
Cash and cash equivalents at beginning of year		3,993,626	7,135,681
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	<u><u>4,887,449</u></u>	<u><u>3,993,626</u></u>

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FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the annual financial statements are set out below and are in accordance with International Financial Reporting Standards (IFRS). These policies were consistently applied to all years presented, unless otherwise stated.

1.1 Basis of preparation

The annual financial statements are prepared in accordance with IFRS. IFRS comprise International Financial Reporting Standards, International Accounting Standards (IAS) and the interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC). The standards referred to are set by the International Accounting Standards Board (IASB). The annual financial statements are prepared on a going concern basis using the historical cost convention, except for financial assets investments, which are carried at fair value.

Use of estimates

The preparation of the financial statements necessitates the use of estimates and assumptions. These estimates and assumptions affect the reported amount of assets, liabilities and contingent liabilities at the reporting date as well as affecting the reported income and expenditure for the year. The actual outcome may differ from these estimates. For further information on critical estimates and judgements refer to note 20.

(a) Standards adopted in the current year

IFRS 16: Leases

IFRS 16: Leases became effective 1 January 2019. This Standard is applicable for all leases, including leases of right-of-use assets in a sublease. The Standard impacts the lease accounting for lessees. The Fund elected to apply exemptions for short term leases in relation to properties. Implementation of the Standard does not have a material impact on the Fund.

(b) The following standards, amendments to standards, improvements and interpretations are relevant but not effective for the Fund:

Effective date	Standard, amendment, improvement or interpretation	Summary of requirements
Effective for annual periods beginning on or after 1 January 2023	Amendment to IFRS 17 - Insurance contracts	IFRS 17 will impact the measurement of the contracts with members in the Fund's financial statements. The Fund will qualify for the premium allocation approach which requires the Fund to recognise a liability for remaining coverage (with reference to the premiums received) and liability for incurred claims (calculated as the expected cash outflows and a risk adjustment). The Fund expects that the boundary of the contracts with members will be one year. The Fund will be required to assess for onerous contracts at the point members elect the benefit option for the following year.

The Fund shall adopt the standards, interpretations or amendments on their effective date.

Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. As IFRS 17 is effective for annual periods beginning on or after 1 January 2021, the impact of this amendment will still be assessed by the Fund.

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FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.2 Financial instruments

Classification

The Fund classifies its financial assets into the following categories: at fair value through profit or loss, at fair value through other comprehensive income and amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

Debt investments that do not qualify for measurement at either amortised cost or fair value through other comprehensive income.

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Fund's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Fund holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

(c) *Amortised cost*

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

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FINANCIAL STATEMENTS**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2019

1. PRINCIPAL ACCOUNTING POLICIES (continued)**Recognition and measurement**

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

At initial recognition, the Fund measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

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

Subsequent measurement

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

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

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

Derecognition

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments

Subsequent measurement of debt instruments depends on the Fund's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Fund classifies its debt instruments:

Trade and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as current assets. The Fund's financial instruments at amortised cost comprises 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Fund holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise current accounts and deposits held on call with banks. Cash and cash equivalents are subsequently measured at amortised cost.

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FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Impairment of financial assets

Debt instruments that are measured subsequently at amortised cost are subject to impairment. In relation to the impairment of financial assets an expected credit loss model is required. The expected credit loss model requires the Fund 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 Fund recognises a loss allowance for expected credit losses on:

- (1) Debt investments measured subsequently at amortised cost;
- (2) Trade receivables and contract assets; and
- (3) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

The Fund measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit impaired financial asset), the Fund is required to measure the loss allowance for that financial instrument at an amount equal to 12 months ECL.

IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

Insurance payables

Insurance payables are initially measured at fair value (which approximates cost), and are subsequently measured at amortised cost, using the effective interest method.

Derecognition of assets or financial liabilities

The Fund derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Fund is recognised as a separate asset or liability.

Where the Fund neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Fund determines whether it has retained control of the financial asset. In this case:

- (i) If the Fund has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer; and
- (ii) If the Fund has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The Fund derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a current legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.3 Equipment

Equipment is reflected at historical cost less accumulated depreciation and accumulated impairments. Depreciation is charged on the straight-line basis over the estimated useful lives of the assets after taking into consideration the assets' residual value.

The estimated useful lives of equipment are as follows:

Computer equipment

- Hardware 3 years
- Software 2 years

Electronic equipment 6 years

Furniture and fittings 6 years

The useful lives, depreciation methods and residual values are reviewed annually at the reporting date and adjusted if appropriate.

Maintenance and repairs are expensed as incurred. Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Fund.

Gains and losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with its carrying amount. Gains and losses on the disposal of equipment is recognised in profit or loss.

Where components of an item of equipment have different useful lives they are accounted for as separate items.

1.4 Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Outstanding risk claims provision

Outstanding risk claims comprise provisions for the Fund's estimate of the ultimate cost of settling all risk claims incurred but not yet reported at the reporting date. Risk claims outstanding are determined as accurately as possible based on a number of factors, which include previous experience in risk claims pattern, risk claims settlement patterns, changes in the nature and number of members according to gender and age, trends in risk claims frequency, changes in the risk claims processing cycle, and variations in the nature and average cost incurred per claim. The Fund does not discount its provision for outstanding risk claims since the effect of the time value of money is not considered material.

1.5 Insurance contracts

Contracts under which the Fund accepts significant insurance risk from another party (the member) by agreeing to compensate the member or other beneficiary if a specified uncertain future event (the insured event) adversely affects the member or other beneficiary are classified as insurance contracts. Contracts issued compensate the Fund's members for health care expenses incurred.

1.6 Contribution income

Contributions on member insurance contracts are accounted for monthly when their collection in terms of the insurance contract is reasonably certain. Contributions represent gross contributions as the Fund does not have a savings account facility. The earned portion of contributions received is recognised as revenue. Contributions are earned from the date of inception of risk, over the indemnity period on a straight-line basis.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.7 Risk claims

Gross claims incurred comprise all claims arising from healthcare events that have occurred in the year and for which the Fund is responsible in terms of its registered rules, whether or not reported by the end of the year.

Net risk claims incurred comprise:

- Claims submitted and accrued for services rendered during the year, net of recoveries from members for co-payments and after taking into account recoveries from third parties and discounts received from service providers;
- Claims for services rendered during the previous year not included in the outstanding risk claims provision for that year, net of recoveries from member for co-payments;
- Over or under provision relating to prior year risk claims accruals; and
- Risk claims incurred but not yet reported.

1.8 Investment income

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 to the Fund.

Realised gains or losses on disposal of available-for-sale investments are recognised in surplus or deficit as investment income.

1.9 Relevant healthcare expenditure

Relevant healthcare expenditure consists of risk claims incurred, managed care services and third party claims recoveries. Managed care services represent the amounts paid or payable to third party administrators, related parties and other third parties for managing the utilisation, costs and quantity of healthcare services to the Fund. These fees are expensed as incurred.

1.10 Liabilities and related assets under the 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 Fund recognises the deficiency in surplus or deficit for the year.

1.11 Allocation of income and expenditure to benefit options

The following items are directly allocated to benefit options:

- Contribution income; and
- Risk claims incurred.

The remaining items are apportioned based on a percentage split calculated by the Fund's management.

- Managed care services;
- Administration fees;
- Impairment and recoveries on receivables;
- Sundry income; and
- Asset management fees.

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 For the year ended 31 December 2019

2. EQUIPMENT

	Computer equipment	Electronic equipment	Furniture & fittings	Total
	R	R	R	R
Year ended 31 December 2019				
Cost				
At the beginning of the year	466,496	257,315	1,431,817	2,155,628
Additions	84,244	12,701	-	96,945
Disposals	(348,635)	(157,633)	(1,409,017)	(1,915,285)
At the end of the year	<u>202,105</u>	<u>112,383</u>	<u>22,800</u>	<u>337,288</u>
Accumulated depreciation				
At the beginning of the year	(412,498)	(229,591)	(1,298,702)	(1,940,791)
Depreciation charge	(42,204)	(18,939)	(19,051)	(80,194)
Disposals reversed	348,629	151,148	1,299,141	1,798,918
At the end of the year	<u>(106,073)</u>	<u>(97,382)</u>	<u>(18,612)</u>	<u>(222,067)</u>
Carrying amount at the end of the year	<u><u>96,032</u></u>	<u><u>15,001</u></u>	<u><u>4,188</u></u>	<u><u>115,221</u></u>

	Computer equipment	Electronic equipment	Furniture & fittings	Total
	R	R	R	R
Year ended 31 December 2018				
Cost				
At the beginning of the year	414,803	264,313	1,281,735	1,960,851
Additions	51,693	(6,998)	150,082	194,777
At the end of the year	<u>466,496</u>	<u>257,315</u>	<u>1,431,817</u>	<u>2,155,628</u>
Accumulated depreciation				
At the beginning of the year	(381,999)	(205,625)	(1,281,735)	(1,869,359)
Depreciation charge	(30,499)	(23,966)	(16,967)	(71,432)
At the end of the year	<u>(412,498)</u>	<u>(229,591)</u>	<u>(1,298,702)</u>	<u>(1,940,791)</u>
Carrying amount at the end of the year	<u><u>53,998</u></u>	<u><u>27,724</u></u>	<u><u>133,115</u></u>	<u><u>214,837</u></u>

The carrying amounts of equipment can be reconciled as follows:

	Computer equipment	Electronic equipment	Furniture & fittings	Total
	R	R	R	R
2019				
Net carrying value at beginning of the year	53,998	27,724	133,115	214,837
Additions	84,244	12,701	-	96,945
Disposals	(6)	(6,485)	(109,876)	(116,367)
Depreciation	(42,204)	(18,939)	(19,051)	(80,194)
Net carrying value at the end of the year	<u><u>96,032</u></u>	<u><u>15,001</u></u>	<u><u>4,188</u></u>	<u><u>115,221</u></u>
2018				
Net carrying value at beginning of the year	32,804	58,688	-	91,492
Additions	51,693	-	150,082	201,775
Disposals	-	(6,998)	-	(6,998)
Depreciation	(30,499)	(23,966)	(16,967)	(71,432)
Net carrying value at the end of the year	<u><u>53,998</u></u>	<u><u>27,724</u></u>	<u><u>133,115</u></u>	<u><u>214,837</u></u>

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FINANCIAL STATEMENTS**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2019

3. AVAILABLE-FOR-SALE INVESTMENTS

	2019	2018
	R	R
Fair value of investments at the beginning of the year	-	211,622,317
Effect of reclassification of available-for-sale investments through other comprehensive income to financial assets at fair value through Profit or Loss	-	(211,622,317)
Fair value of investments at the end of the year	<u>-</u>	<u>-</u>

3. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Fair value of investments at the beginning of the year	168,699,272	-
Effect of reclassification of available-for-sale investments through other comprehensive income to financial assets at fair value through Profit or Loss	-	211,622,317
Additions	498,824,000	477,988,938
Disposals	(565,770,000)	(536,271,000)
Capitalised interest	10,609,875	15,173,207
Realised and unrealised gain on financial assets at fair value through Profit or Loss	509,562	221,938
Management fees and transaction costs	(32,752)	(36,128)
	<u>112,839,957</u>	<u>168,699,272</u>
Fair value of investments at the end of the year	<u>112,839,957</u>	<u>168,699,272</u>
Investments are summarised as follows:		
Money market instruments	85,886,648	140,387,413
Bonds	26,953,309	28,311,859
	<u>112,839,957</u>	<u>168,699,272</u>

Financial assets at fair value through Profit or Loss consists of money market instruments and bonds. A detailed register of investments is available for inspection at the registered office of the Fund. The maturity of the underlying instruments are disclosed on page 50 of the financial statements.

The weighted average interest rate received on the money market portfolio was 8.77% (2018: 7.27%).

4. TRADE AND OTHER RECEIVABLES

	2019	2018
	R	R
<i>Insurance receivables</i>		
Contributions outstanding	5,752,292	7,487,103
Member and provider debt	374,237	433,701
	<u>6,126,529</u>	<u>7,920,804</u>
Less: Allowance for expected credit losses		
Opening balance	(208,400)	(291,038)
Movement during the year	(111,526)	(291,336)
Impairment loss recognised during the year	278,770	373,974
Closing balance	<u>(41,156)</u>	<u>(208,400)</u>
<i>Loans and receivables</i>		
Sundry accounts receivable	206,496	145,341
Prepaid expenses	129,419	57,312
	<u>6,421,288</u>	<u>7,915,057</u>

The Fund establishes an allowance for impairment that represents its estimate of expected credit losses (IFRS9) in respect of insurance receivables. The collective loss allowance is determined based on asset policy, while bearing in mind historical data of payment statistics for similar financial assets.

The provision for impairment at 31 December 2019 was determined in accordance with the guidelines of the simplified approach (life time expected losses) of the expected credit loss model as required by IFRS9. It is in respect of contributions receivable as well as member and service provider debit balances recoverable by management. In order for the Fund to determine lifetime expected losses, a provision matrix was used. The provision matrix is based on historical observed default rates, adjusted for forward looking estimates. At every reporting date, the historical observed rates are updated.

The carrying amounts of trade and other receivables approximate their fair values due to the short-term maturities of these assets. The estimated future cash flow receipts have not been discounted as the effect would be immaterial.

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FINANCIAL STATEMENTS**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2019

5. CASH AND CASH EQUIVALENTS

	2019 R	2018 R
Current accounts	4,887,449	3,993,626
	<u>4,887,449</u>	<u>3,993,626</u>

The weighted average effective interest rate on the Fund's current accounts was 3.74% (2018: 4.12%).

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

6. OUTSTANDING RISK CLAIMS PROVISION

	2019 R	2018 R
Provision for outstanding risk claims	<u>25,704,424</u>	<u>27,856,767</u>
Analysis of movements in outstanding risk claims		
Balance at beginning of year	27,856,767	38,024,509
Payments in respect of prior year	<u>(29,984,428)</u>	<u>(37,826,897)</u>
(Under)/over provision in respect of prior years (note 9)	(2,127,661)	197,612
Adjustment for current year	<u>27,832,085</u>	<u>27,659,155</u>
Balance at end of year	<u>25,704,424</u>	<u>27,856,767</u>

Process used to determine the assumptions

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

Each notified risk claim is assessed on a separate, case by case basis with due regard to the claim circumstances, information available from managed care: management services and historical evidence of the size of similar risk 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 costs of the loss is difficult to estimate. The provision estimation difficulties are further complicated by risk claims complexity, volume of risk claims, the severity of risk claims, determining the occurrence date of claim and reporting lags.

The cost of outstanding risk claims is estimated using run-off triangles. Such methods extrapolate the development of paid and incurred risk claims, average cost per risk claims and ultimate risk claim numbers for each year based upon observed development of earlier years and expected loss ratios. Run-off triangles are used in situations where it takes time after the treatment date until the full extent of the risk claims to be paid is known. It is assumed that payments will emerge in a similar way in each service month. The proportional increase in the known cumulative payments from one development month to the next can then be used to calculate payments for future development months. The Fund's actuarial consultant also calculated the provision using the Bornhuetter-Ferguson (BF) Method to confirm the accuracy of the provision.

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

- Economic, legal, political and social trends (resulting in different than expected levels of inflation and/or minimum medical benefits to be provided);
- Changes in composition of members and their dependants; and
- Random fluctuations, including the impact of large losses.

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6. OUTSTANDING RISK CLAIMS PROVISION (continued)**Assumptions**

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

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

Other assumptions:

- The actual demographics of the Fund were used including all membership movements for the period.
- The effect of ageing of the population on the utilisation of health services is automatically incorporated.
- The impact on new technology and the depreciation of the Rand were taken into account.

The assumed percentages of risk claims settled at the end of the period:

Risk claims settled for services rendered in:	2019	2018
	%	%
December	28.2	27.3
November	81.1	83.6
October	96.0	94.1
September	98.2	98.7
August and prior	99.7	99.8

The impact on profit or loss of the sensitivity of these percentages are illustrated below:	2019	2018
	R	R
Effect of a 1% point change in assumptions used	2,502,577	2,495,034
Effect of a 2% point change in assumptions used	4,818,686	4,804,162
Effect of a 3% point change in assumptions used	6,240,423	6,221,613

This analysis is prepared for a change in a specific variable, namely risk claims outstanding at the end of each month, with other assumptions remaining constant.

The Fund believes that the liability for risk 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 risk claims arise.

7. TRADE AND OTHER PAYABLES	2019	2018
	R	R
Insurance liabilities		
Reported claims not yet paid	17,651,142	15,896,128
Financial liabilities		
Other payables and accrued expenses	4,687,438	4,698,933
	<u>22,338,580</u>	<u>20,595,061</u>

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

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8. CONTRIBUTION INCOME

	2019	2018
	R	R
Gross contributions	669,326,457	743,063,243
	<u>669,326,457</u>	<u>743,063,243</u>

9. RISK CLAIMS INCURRED

Current year risk claims	621,127,377	676,526,027
Movement in outstanding risk claims provisions:	27,832,085	27,659,155
- Adjustment for current year (note 6)	25,704,424	27,856,767
- Under/(over) provision in respect of prior years (note 6)	2,127,661	(197,612)
	<u>648,959,462</u>	<u>704,185,182</u>

10. MANAGED CARE SERVICES

Active disease risk management services	4,054,213	4,399,011
Disease risk management support services	1,013,553	1,100,492
Hospital benefit management services	6,754,425	7,327,741
Network management services	4,640,742	4,966,223
Pharmacy benefit management services	6,104,709	6,623,662
	<u>22,567,642</u>	<u>24,417,129</u>

11. ADMINISTRATION EXPENSES

Actuarial and consulting fees	2,652,608	2,561,788
Administrator's fees	45,801,667	49,742,254
Association fees	169,205	168,778
Audit fee	1,099,400	1,037,530
Audit committee fees	189,290	170,108
Benefit management services	484,736	666,636
Communication and other office expenses	1,313,202	1,500,412
Depreciation	80,192	71,434
Fidelity guarantee and professional indemnity insurance premium	106,375	104,944
Lease rentals	1,577,232	1,681,985
Marketing	2,828,702	3,210,889
Other expenses	921,008	876,669
Personnel expenditure	1,191,959	1,647,575
Principal Officer's fees and expenses	4,651,387	4,112,940
Registrar's levies	974,497	1,044,296
Travel and accommodation	197,739	155,868
Trustee elections	507,767	-
Trustees' remuneration and consideration expenses (Note 11.1)	1,462,512	1,315,060
	<u>66,209,478</u>	<u>70,069,166</u>

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11. ADMINISTRATION EXPENSES (continued)**11.1 Trustees' remuneration and consideration expenses - 2019**

Name	Fees for meeting attendance R	Fees for holding office R	Travel and accommodation R	Conference fees R	Telephone allowance R	Total R
Mr N Budhai	-	-	3,088	-	-	3,088
Mr T Campher	118,951	26,122	32,242	-	5,400	182,715
Mr L Erasmus	-	-	3,088	-	-	3,088
Mr WL Evans	72,535	18,940	39,501	17,450	3,150	151,576
Mr HJ Fourie	11,204	6,721	7,549	-	-	25,474
Ms N Galeni	-	-	6,638	-	-	6,638
Mr WH Goosen	122,122	26,122	188,556	-	5,400	342,200
Mr B Jonker	127,159	26,122	160,793	-	5,400	319,474
Mr F Mackenzie	154,660	32,756	42,302	14,950	-	244,668
Mr MJ Mamabolo	27,059	26,122	3,088	-	-	56,269
Mr M Nondywana	69,189	26,122	23,353	-	-	118,664
Mr V Ramlugaan	-	-	8,658	-	-	8,658
Total	702,879	189,027	518,856	32,400	19,350	1,462,512

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11. ADMINISTRATION EXPENSES (continued)**11.1 Trustees' remuneration and consideration expenses - 2018**

Name	Fees for meeting attendance R	Fees for holding office R	Travel and accommodation R	Conference fees R	Telephone allowance R	Total R
Mr N Budhai	-	-	2,445	-	-	2,445
Mr T Campher	75,617	24,644	15,205	-	5,400	120,866
Mr L Erasmus	-	-	4,237	-	-	4,237
Mr WL Evans	103,068	36,808	88,561	15,850	5,400	249,687
Ms N Galeni	-	-	2,445	-	-	2,445
Mr WH Goosen	102,117	24,644	191,694	-	5,400	323,855
Mr B Jonker	84,148	24,644	156,903	-	5,400	271,095
Mr F Mackenzie	120,951	24,644	25,731	14,650	-	185,976
Mr MJ Mamabolo	20,243	24,644	2,445	-	-	47,332
Ms Moropa	-	-	2,445	-	-	2,445
Ms K Naicker	-	-	-	-	-	-
Mr M Nondywana	71,131	24,644	8,902	-	-	104,677
Total	577,275	184,672	501,013	30,500	21,600	1,315,060

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12. NET IMPAIRMENT LOSSES ON HEALTHCARE RECEIVABLES

	2019	2018
	R	R
Trade and other receivables		
Debt not collectable:		
Movement in allowance for expected credit losses	(167,244)	(82,638)
Written off during the year	278,770	373,974
Previously written off receivables recovered	(4,576)	(20,305)
	<u>106,950</u>	<u>271,031</u>

Trade and other receivables are considered to be impaired when four months have elapsed and the outstanding amount has not been collected.

	2019	2018
	R	R
13. INVESTMENT INCOME		
Realised gain on disposal of financial assets at fair value through Profit or Loss	484,272	213,823
Interest on cash and cash equivalents	614,713	670,338
Interest on financial assets at fair value through other Profit or Loss	10,609,875	15,173,207
	<u>11,708,860</u>	<u>16,057,369</u>

14. SUNDRY INCOME

Old and unidentified credit balances written back to income	<u>29,682</u>	<u>520,637</u>
	<u>29,682</u>	<u>520,637</u>

15. CASH USED IN OPERATIONS BEFORE WORKING CAPITAL CHANGES

Net deficit for the year	(56,150,053)	(33,059,281)
Adjustments for:		
Depreciation (note 2)	80,192	71,434
Investment income (note 13)	(11,708,860)	(16,057,369)
Loss with disposal of equipment	94,720	-
Unrealised gains on investments at fair value through Profit or Loss	<u>(25,290)</u>	<u>(8,115)</u>
Cash used in operations before working capital changes	<u>(67,709,291)</u>	<u>(49,053,331)</u>

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16. RELATED PARTY TRANSACTIONS**Employer**

Transnet SOC Ltd is providing additional funding for the SATS risk pool (Guardian option) in order to cover the shortfall between member contributions and claims, and to keep the risk pool at the statutory required reserve ratio level of 25%.

Administrators and their associates

The administrators and their associates do not fall within the definition of a related party. The information below has been included due to the significance of the outsourcing relationships.

The administrator Momentum Health Solutions (Pty) Ltd has significant influence over the Fund, as Momentum Health Solutions provides financial and operational information as well as managed care services, but does not control the Fund. Momentum Health Solutions provides administration and managed care services.

Universal Health (Pty) Ltd provides administration and managed care functions on the Link Option but does not control the Fund.

Actuarial and Consultancy services company NMG Consultants and Actuaries (Pty) Ltd has significant influence over the Fund, as it provides actuarial and consultancy services but does not control the Fund.

Transactions with administrators and their associates are governed by contracts and service level agreements.

Key management personnel

The key management personnel are those persons who have the authority and responsibility for planning, directing and controlling the activities of the Fund. Key management personnel include the Board of Trustees, Principal Officer, sub-committee members, their dependants and close family members.

Transaction with related parties

The following table provides the total amount of transactions which have been entered into with related parties for the relevant year.

Key management personnel (Board of Trustees, Principal Officer and sub-committee members)

	2019	2018
	R	R
Statement of comprehensive income		
Contributions received	239,442	210,465
Claims incurred	(162,554)	(409,732)
Principal Officer's fees and expenses	(4,651,387)	(4,112,940)
Board of Trustee's fees and expenses	(1,462,512)	(1,315,060)
Audit committee fees	(189,290)	(170,108)

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16. RELATED PARTY TRANSACTIONS (continued)

Details regarding trustee remuneration is disclosed in note 11.1.

There were no ex-gratia payments made to key management during the 2019 and 2018 financial years.

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

Transaction	Nature of transactions and conditions thereof.
Contributions received	This constitutes the contributions paid by the party as a member of the Fund, in their individual capacity. All contributions were at the same terms as applicable to third parties.
Claims incurred	This constitutes the amounts claimed by related parties, in their individual capacity as members of the Fund.

Transaction with entities that have significant influence**2019****2018****R****R****Statement of comprehensive income**

Transnet SOC Ltd - funding for SATS pensioners	169,719,999	217,380,000
Momentum Health Solutions - Administration fee	45,801,667	49,742,254
Momentum Health Solutions - Managed care services	20,912,983	22,693,217
NMG Consultants and Actuaries - Actuarial services	2,633,473	2,561,788
Universal Health - Managed care services	1,654,658	1,723,913

Statement of financial position

Momentum Health Solutions - reimbursement due	237,227	713,511
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Terms and conditions of the administration agreement (Momentum Health Solutions)

The administration agreement is in terms of the rules of the Fund and in accordance with instruction given by the Board of Trustees of the Fund. The Board of Trustees reviews the performance of the service provider and renew the contract on an annual basis. The Fund has the right to terminate the agreement on 180 days notice.

Terms and conditions of the managed care agreement (Momentum Health Solutions)

The managed care agreement is in accordance with instruction given by the Trustees of the Fund. The Board of Trustees reviews the performance of the service provider and renew the contract on an annual basis. The Fund has the right to terminate the agreement on 90 days notice.

Terms and conditions of the administration and managed care agreement (Universal Health)

The Universal Health agreement is in accordance with the instruction given by the Board of Trustees of the Fund. The Board of Trustees reviews the performance of the service provider and renew the contract on an annual basis. The Fund has the right to terminate the agreement on 180 days' notice.

Terms and conditions of actuarial and consultancy contracts

The actuarial and consultancy contract is in accordance with the instruction given by the Board of Trustees of the Fund. The Board of Trustees reviews the performance of the service provider and renew the contract on an annual basis. The Fund has the right to terminate the agreement on 90 days notice.

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17. NET HEALTHCARE RESULT PER BENEFIT OPTION

2019	Link R	Select R	Prime R	Guardian R	Total R
Contribution income	37,423,481	359,298,125	70,963,325	201,641,526	669,326,457
Relevant healthcare expenditure	(28,594,900)	(347,351,631)	(84,386,810)	(210,339,246)	(670,672,587)
Risk claims incurred	(26,543,374)	(337,303,437)	(82,210,961)	(202,901,690)	(648,959,462)
Managed care services	(2,121,358)	(10,539,089)	(2,211,629)	(7,695,566)	(22,567,642)
Third party risk claims recoveries	69,832	490,895	35,780	258,010	854,517
Gross healthcare result	8,828,581	11,946,494	(13,423,485)	(8,697,720)	(1,346,130)
Administration expenditure	(4,104,987)	(25,225,809)	(5,230,549)	(31,648,133)	(66,209,478)
Net impairment losses on healthcare receivables	(6,631)	(40,748)	(8,449)	(51,122)	(106,950)
Net healthcare result	4,716,963	(13,320,063)	(18,662,483)	(40,396,975)	(67,662,558)
Other income	191,843	1,835,936	362,230	9,373,823	11,763,832
Other expenditure	(10,280)	(78,821)	(8,649)	(153,577)	(251,327)
Surplus/(deficit) for the year	<u>4,898,526</u>	<u>(11,562,948)</u>	<u>(18,308,902)</u>	<u>(31,176,729)</u>	<u>(56,150,053)</u>
Number of members at the end of the year	<u>1,844</u>	<u>12,895</u>	<u>883</u>	<u>6,735</u>	<u>22,357</u>

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17. NET HEALTHCARE RESULT PER BENEFIT OPTION

2018	State Plus Network R	State Plus Own Choice R	Private Network R	Guardian R	Total R
Contribution income	37,164,211	362,993,148	90,497,439	252,408,445	743,063,243
Relevant healthcare expenditure	(28,570,482)	(326,604,574)	(123,573,253)	(243,405,077)	(722,153,386)
Risk claims incurred	(26,781,040)	(318,863,859)	(121,520,231)	(237,020,052)	(704,185,182)
Managed care services	(2,302,535)	(11,402,799)	(2,383,112)	(8,328,683)	(24,417,129)
Third party risk claims recoveries	513,093	3,662,084	330,090	1,943,658	6,448,925
Gross healthcare result	8,593,729	36,388,574	(33,075,814)	9,003,368	20,909,857
Administration expenditure	(4,204,150)	(26,346,007)	(6,936,847)	(32,582,162)	(70,069,166)
Net impairment losses on healthcare receivables	(16,262)	(101,908)	(26,832)	(126,029)	(271,031)
Net healthcare result	4,373,317	9,940,659	(40,039,493)	(23,704,823)	(49,430,340)
Other income	390,449	3,708,130	882,518	11,605,024	16,586,121
Other expenditure	(4,677)	(45,689)	(11,422)	(153,274)	(215,062)
Surplus/(deficit) for the year	<u>4,759,089</u>	<u>13,603,100</u>	<u>(39,168,397)</u>	<u>(12,253,073)</u>	<u>(33,059,281)</u>
Number of members at the end of the year	<u>2,005</u>	<u>14,301</u>	<u>1,251</u>	<u>7,558</u>	<u>25,115</u>

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18. INSURANCE RISK MANAGEMENT

NATURE AND EXTENT OF RISKS ARISING FROM INSURANCE CONTRACTS

The Fund issues contracts that transfer insurance risk. This section summarises these risks and the manner in which the Fund manages them.

Insurance risk - description of benefit options

The types of benefits offered by the Fund in return for monthly contributions are indicated below:

Description of health benefits provided

Link

Hospitalisation: This option provides hospital benefits for PMB conditions at State facilities. Admissions in Private facilities are covered through Universal Healthcare network for emergency treatment in cases of an accident or trauma and for selected procedures.

Chronic benefits: Benefits are provided through Universal network pharmacies.

Day-to-day cover: Benefits are provided through Universal Healthcare networks and contracted providers.

Select

Hospitalisation: This option provides hospital benefits for PMB and non-PMB conditions at State facilities. Admissions in Private facilities are covered through Transmed private hospital network for emergency treatment (medical, accidents and trauma), psychiatric treatment, cancer surgery and for selected procedures.

Chronic benefits: Benefits are provided through Transmed pharmacy network.

Day-to-day cover: Benefits are provided through the member's own choice of healthcare or service provider, subject to the day-to-day limit.

Optical and dental services which are managed by the contracted providers.

Prime

Hospitalisation: This option provides private hospital benefits for PMB conditions through Transmed private hospital network.

Chronic benefits: Benefits are provided through Transmed pharmacy network.

Day-to-day cover: No day-to-day cover is provided other than out-patient care from chronic conditions.

Guardian

Hospitalisation: This option provides hospital benefits for PMB and non-PMB conditions at State facilities and for selected procedures at private facilities.

Chronic benefits: Benefits are provided through Transmed pharmacy network.

Day-to-day cover: Benefits are provided through the member's own choice of healthcare or service provider, subject to the day-to-day limit.

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18. INSURANCE RISK MANAGEMENT (continued)

Risk management objectives and policies for mitigating insurance risk

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

The Board of Trustees has developed and approved a documented policy for the acceptance and management of insurance risk to which the Fund is exposed. Reference has also been made to the requirements of the Medical Schemes Act in compiling the insurance risk management policy. This policy is reviewed annually and the benefit options provided to members are structured to fall within the acceptable insurance risk level specified. The Board of Trustees also determines the policy for entering into alternative risk transfer arrangements and/or commercial re-insurance contracts. The annual business plan is structured around the insurance risk management policy.

The Fund manages its insurance risk through:

- benefit limits and sub-limits on different categories of risk claims;
- approval procedures for transactions that involve pricing guidelines;
- pre-authorisation for procedures and hospitalisation in order to monitor and manage cost;
- case management to ensure effective and cost effective treatment;
- disease risk management, which focus on high cost individuals;
- medicine risk management programme;
- HIV and AIDS programme; and
- Home care programme.

The Fund uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analyses, scenario analyses and stress testing. The theory of probability is applied to the pricing. The principal risk is that the frequency and severity of risk claims is greater than expected. Insurance events are by their nature, random, and actual number and size of events during any one year may vary from those estimated with established statistical techniques.

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

Frequency and severity of risk claims

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

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18. INSURANCE RISK MANAGEMENT (continued)**Source of uncertainty in the estimation of future risk claims payments**

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

The Fund'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 strategy is set out in the annual business plan, which specifies the benefits to be provided by each option, the preferred target market and demographic split thereof.

All the contracts are annual in nature and the Fund has the right to change the terms and conditions of the contract at renewal. Monthly management reports are reviewed which has certain management information including risk contribution income and loss ratios by option.

Concentration of insurance risk

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

2019

Age grouping (in years)	Link	Select	Prime	Guardian	Total
< 26	941	4,981	49	40	6,011
26 - 35	146	1,488	6	5	1,645
36 - 50	716	4,318	56	47	5,137
51 - 64	920	4,398	313	461	6,092
> 65	804	6,964	698	7,352	15,818
Total	3,527	22,149	1,122	7,905	34,703

2018

Age grouping (in years)	State Plus Network	State Plus Own Choice	Private Network	Guardian	Total
< 26	1,016	5,593	72	47	6,728
26 - 35	190	1,963	11	7	2,171
36 - 50	785	4,706	91	58	5,640
51 - 64	1,046	5,162	500	569	7,277
> 65	843	7,429	969	8,250	17,491
Total	3,880	24,853	1,643	8,931	39,307

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18. INSURANCE RISK MANAGEMENT (continued)

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

2019

Age grouping (in years)	Medical specialists	General practitioner including Optical and Dental	Supplementary Health Services	Medicines	Private Hospital	Provincial Hospital	Total
	R	R	R	R	R	R	R
<26	4,151,077	781,559	1,538,072	6,874,870	3,881,009	1,358,261	18,584,848
26 - 35	3,525,310	1,305,174	601,887	2,585,353	2,443,194	2,542,552	13,003,470
36 - 50	10,364,987	5,609,684	2,642,225	15,503,544	12,385,173	4,836,849	51,342,462
51 - 65	21,147,576	7,309,222	6,946,674	30,421,297	22,945,222	4,613,401	93,383,392
>65	95,744,889	25,227,083	35,437,374	102,576,763	104,239,606	32,477,174	395,702,889
Link Optical & Dental IBNR adjustment		25,738,461					23,371,855 25,738,461 27,832,085
Total	134,933,839	65,971,183	47,166,232	157,961,827	145,894,204	45,828,237	648,959,462

2018

Age grouping (in years)	Medical specialists	General practitioner including Optical and Dental	Supplementary Health Services	Medicines	Private Hospital	Provincial Hospital	Total
	R	R	R	R	R	R	R
<26	3,313,394	2,039,102	807,246	9,470,414	3,793,822	942,555	20,366,533
26 - 35	2,489,498	2,029,132	822,783	5,511,734	2,634,836	1,475,453	14,963,436
36 - 50	9,968,103	4,084,958	2,274,145	12,535,867	9,329,316	2,154,941	40,347,330
51 - 65	28,246,113	9,671,396	7,489,606	18,914,301	29,015,883	10,881,258	104,218,557
>65	98,673,483	35,538,378	37,119,753	128,456,804	120,970,711	34,328,651	455,087,780
State Plus Network Optical & Dental IBNR adjustment		16,969,922					24,572,469 16,969,922 27,659,155
Total	142,690,591	70,332,888	48,513,533	174,889,120	165,744,568	49,782,858	704,185,182

The sensitivity analysis for insurance risk illustrates the effect of an ageing membership profile on the insured benefit payment.

An average increase of one year in the age profile of the Fund will increase insured benefits costs with 1.02% (2018:1.19%).

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18. INSURANCE RISK MANAGEMENT (continued)**Risk claims development**

Disclosure pertaining to risk claims development is not required as the uncertainty regarding the amounts and timing of risk claim payments is typically resolved within one year. At year-end the provision is made for those risk claims outstanding that are not yet reported at that date. Details regarding the provision is disclosed in note 6.

19. CAPITAL MANAGEMENT

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

The Fund monitors capital using a solvency ratio, which is accumulated funds divided by annual contributions.

The Medical Schemes Act requires the Fund to maintain a solvency ratio of 25% of contributions. The Fund's solvency ratio is 11.38% (2018: 17.81%) (Refer note 26 on page 50).

The Trustees have implemented the actions stipulated in the business plan in order to increase the reserve ratio of the Working Members and Pensioner (WMP) risk pool in order to reach the required 25% level.

The SATS risk pool's reserve ratio was 36.91% at the end of the year. The funding from Transnet SOC Ltd for the 2020 year will be enough to maintain reserves of 25%.

This measure of capital is consistent with prior years. The Fund's objective is to return to a solvency level of 25%.

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

In the process of applying the Fund's accounting policies, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

A key assumption concerning the future that has a significant risk of causing a material adjustment to the carrying amounts of liabilities in the next financial year is that used to determine the provision for outstanding risk claims (refer note 6).

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

Although the assumption is considered critical, post reporting date settlements are monitored to ensure reasonability of the original provision.

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21. FINANCIAL RISK MANAGEMENT

The Management Committee makes risk management and investment decisions, under the guidance and policies approved by the Board of Trustees. The Management Committee identifies and evaluates financial risks associated with the Fund's investment portfolio.

The Management Committee provides written principles for overall risk management, as well as written policies covering specific areas, market risk, credit risk, and investing excess liquidity. The Board of Trustees approves all of these written policies.

The Fund appointed a professional asset management company to manage the Fund's investment portfolio. The approach of the asset manager is to construct a portfolio of diversified asset classes in order to obtain an optimal risk/return mix. The strategy is to focus on strategic asset allocation rather than on timing the market. This will mitigate the risk in volatile markets.

The following summary represents the major asset classifications held by the Fund which are exposed to the financial risks as discussed:

Asset allocation summary	2019 R	2018 R
Financial assets at fair value through Profit or Loss	112,839,957	168,699,272
Cash and cash equivalents (note 5)	4,887,449	3,993,626
Trade and other receivables (note 4)	<u>6,421,288</u>	<u>7,915,057</u>
	<u><u>124,148,694</u></u>	<u><u>180,607,955</u></u>

The Fund's activities expose it to market risk. Market risk is defined as the risk that the fair value of future cash flow of financial instruments will fluctuate because of changes in market prices. Market price risk comprises three types of risk: currency risk, interest rate risk and other price risk. These risks arise from open positions in interest rates which are exposed to general and specific market movements. The Fund'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 Fund holds to meet its obligations to its members.

The following summary represents the major liabilities in the Fund.	2019 R	2018 R
Outstanding risk claims provision (note 6)	25,704,424	27,856,767
Trade and other payables (note 7)	<u>22,338,580</u>	<u>20,595,061</u>
	<u><u>48,043,004</u></u>	<u><u>48,451,828</u></u>

The Fund does not pay any interest on these liabilities.

Financial Risk Factors***Currency risk***

The Fund operates in South Africa and therefore its cash flows are denominated in South African Rand (ZAR). The Fund therefore is not exposed to currency risk.

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21. FINANCIAL RISK MANAGEMENT (continued)***Interest rate risk***

The Fund is exposed to interest rate risk through its investments in interest bearing investments.

The table below summarises the Fund's exposure to interest rate risk. Included in the table are the Fund's investments at carrying amounts, categorised by the maturity dates.

2019	Up to 1 Month	1 – 3 months	More than 3	Total
	R	R	months	
	R	R	R	R
Cash and cash equivalents	4,887,449	-	-	4,887,449
Financial assets at fair value through Profit or Loss	38,306,612	3,010,171	71,523,174	112,839,957
	<u>43,194,061</u>	<u>3,010,171</u>	<u>71,523,174</u>	<u>117,727,406</u>
2018	Up to 1 Month	1 – 3 months	More than 3	Total
	R	R	months	
	R	R	R	R
Cash and cash equivalents	3,993,626	-	-	3,993,626
Financial assets at fair value through Profit or Loss	30,834,010	3,009,493	134,855,769	168,699,272
	<u>34,827,636</u>	<u>3,009,493</u>	<u>134,855,769</u>	<u>172,692,898</u>

Sensitivity analysis – interest rate risk

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

A decrease/increase of 100 basis points in interest yields would result in an increase/decrease in members' funds of R 1 177 274 (2018: R 1 726 929).

This sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. Management monitors the reported interest rate movements on a monthly basis.

Other price risk

The Fund was not exposed to equity risk during the year.

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21. FINANCIAL RISK MANAGEMENT (continued)***Credit risk***

Credit risk is the risk of financial loss to the Fund if a counterparty to a financial instrument fails to meet its contractual obligations. The Fund's principal financial assets are cash and cash equivalents, available-for-sale investments and trade and other receivables. The Fund's credit risk is primarily attributable to its trade and other receivables.

The amounts presented in the statement of financial position are net of allowances for impairment. 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 Fund has a policy of limiting the amount of credit exposure to any one financial institution.

Trade and other receivables

The Fund's exposure to credit risk is influenced by the characteristics of each member and the demographics of the membership base. Geographically there is no concentration of credit risk.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtor's ability to pay all amounts due according to the contractual terms (for example on the basis of a credit risk evaluation or grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Contribution debtors are collected in arrears within 30 days of raising. In monitoring member credit risk, members are grouped according to their credit characteristics, including whether they are an individual, group or government member, whether the risk arises from contributions or member shortfalls. The Board has approved a credit control policy, thereby managing the credit risk to the Fund.

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

As at 31 December 2019

	Fully performing	Past due	Impaired	Total
	R	R	R	R
Contributions outstanding	5,598,101	154,191	-	5,752,292
Member and provider debt	297,374	35,707	41,156	374,237
Other receivables	335,915	-	-	335,915
	<u>6,231,390</u>	<u>189,898</u>	<u>41,156</u>	<u>6,462,444</u>

As at 31 December 2018

	Fully performing	Past due	Impaired	Total
	R	R	R	R
Contributions outstanding	7,313,533	173,570	-	7,487,103
Member and provider debt	98,538	126,763	208,400	433,701
Other receivables	202,653	-	-	202,653
	<u>7,614,724</u>	<u>300,333</u>	<u>208,400</u>	<u>8,123,457</u>

The table above illustrates the Fund's maximum exposure to credit risk.

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21. FINANCIAL RISK MANAGEMENT (continued)

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

As at 31 December 2019

	30 - 60 days	60 - 90 days	90 - 120 days	Total
	R	R	R	R
Contributions outstanding	151,000	3,231	(40)	154,191
Member and provider debt	3,247	24,174	8,286	35,707
	<u>154,247</u>	<u>27,405</u>	<u>8,246</u>	<u>189,898</u>

As at 31 December 2018

	30 - 60 days	60 - 90 days	90 - 120 days	Total
	R	R	R	R
Contributions outstanding	172,552	1,018	-	173,570
Member and provider debt	56,440	24,348	45,975	126,763
	<u>228,992</u>	<u>25,366</u>	<u>45,975</u>	<u>300,333</u>

Contribution debtors

On analysing the credit quality of contribution debtors, the Fund collected 99% of these amounts in January 2020. This indicates a high credit quality relating to debtors. Consequently no additional disclosure of credit quality is provided.

Active member claim debtors

These debtors are members of the Fund and therefore are expected to have similar credit quality to the contribution debtors. This does not imply that all amounts were collected in January 2020.

Cash and cash equivalents

The credit risk on liquid funds is limited because the counter parties are financial institutions with high credit ratings. The Fund has no significant concentration of credit risk, with exposure spread over a large number of counter parties and members.

Moody's deposit ratings	Credit Rating		2019	2018
	2019	2018		
Financial institution	2019	2018	R	R
ABSA	Baa3	Baa3	1,605,176	1,966,623
Citibank	Aa2	-	614	-
Standard Bank	Baa3	Baa3	3,085,172	2,001,023
Nedbank	Baa3	Baa3	196,487	25,980

Financial assets at fair value through Profit or Loss

The Fund limits its exposure to credit risk by investing in liquid securities and only with counterparties that have a high credit rating. The Trustees do not expect any counterparty to fail to meet its obligations. Annexure B to Regulation 30 to the Medical Schemes Act, of South Africa, as amended, prescribes the credit limits per institution which reduces the individual risk per institution. The utilisation of these limits are regularly monitored.

Fair value estimation

The carrying value of financial assets (less allowance for expected credit losses) and financial liabilities with a maturity date of less than one year, are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Fund for similar financial instruments.

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21. FINANCIAL RISK MANAGEMENT (continued)***Fair value of financial instruments***

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The hierarchy levels are defined as follows:

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

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

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

The Fund's financial instruments totalling R 112 839 957 (2018: R 168 699 272), measured at fair value at reporting date are all categorised as level 1 instruments.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Fund applies prudent liquidity risk management by maintaining sufficient cash and marketable securities so that the availability of funding through liquid holding cash positions with various financial institutions to ensure that the Fund has the ability to fund its day-to-day operations.

Management monitors rolling forecasts of the Fund's liquidity reserve which comprises of cash and cash equivalents (note 5) on the basis of expected cash flow. In addition, the Fund's liquidity management policy involves projecting cash flows for seasonal variances and considers the level of liquid assets necessary to meet these and monitoring statement of financial position liquidity ratios against external regulatory requirements.

At year-end 100% (2018: 100%) of the Fund's assets was invested in cash products to ensure that the Fund can meet its short-term liabilities.

The table below analyses the assets and liabilities of the Fund into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date:

2019	Up to 1 Month R	1 – 3 months R	More than 3 months R	Total R
Non-current assets				
Financial assets at fair value through Profit or Loss	38,306,612	3,010,171	71,523,174	112,839,957
Current assets				
Trade and other receivables	6,231,390	189,898	-	6,421,288
Cash and cash equivalents	4,887,449	-	-	4,887,449
Total assets	<u>49,425,451</u>	<u>3,200,069</u>	<u>71,523,174</u>	<u>124,148,694</u>
Current liabilities				
Trade and other payables	22,338,580	-	-	22,338,580
Outstanding risk claim provision	13,189,843	6,996,027	5,518,554	25,704,424
Total liabilities	<u>35,528,423</u>	<u>6,996,027</u>	<u>5,518,554</u>	<u>48,043,004</u>

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21. FINANCIAL RISK MANAGEMENT (continued)

2018	Up to 1 Month R	1 – 3 months R	More than 3 months R	Total R
Non-current assets				
Financial assets at fair value through Profit or Loss	30,834,010	3,009,493	134,855,769	168,699,272
Current assets				
Trade and other receivables	7,614,724	300,333	-	7,915,057
Cash and cash equivalents	3,993,626	-	-	3,993,626
Total assets	<u>42,442,360</u>	<u>3,309,826</u>	<u>134,855,769</u>	<u>180,607,955</u>
Current liabilities				
Trade and other payables	20,595,061	-	-	20,595,061
Outstanding risk claim provision	11,806,796	13,755,395	2,294,576	27,856,767
Total liabilities	<u>32,401,857</u>	<u>13,755,395</u>	<u>2,294,576</u>	<u>48,451,828</u>

22. LEGAL RISK

Legal risk is the risk that the Fund will be exposed to in respect of contractual obligations which have not been provided for. At 31 December 2019 the Fund did not consider there to be any significant concentration of legal risk that had not been provided for.

23. CONTINGENT ASSET

Road Accident Fund (RAF)

The Fund grants assistance to its members in defraying expenditure incurred in connection with a claim that is also made to the RAF, administered in terms of the Road Accident Fund Act No. 56 of 1996. If a member is reimbursed by the RAF, they are legally obliged to cede that payment to the Fund to the extent that they have already been compensated.

Due to the uncertainty over the recoverability of the risk claims lodged by the members with the RAF a contingent asset has arisen to the value of R 12 660 671 (2018: R 12 121 428). The net recoveries from RAF for the year was R 854 517 (2018: R 4 015 735).

24. PROFESSIONAL INDEMNITY AND FIDELITY GUARANTEE INSURANCE

The Fund was covered under a professional indemnity and fidelity guarantee insurance policy throughout the reporting year. The cover amounted to R 80 000 000 as at 31 December 2019 (2018: R 80 000 000).

25. EVENTS AFTER REPORTING DATE

The outbreak of the coronavirus during mid-January has disrupted the Global economic markets. In making their estimates and judgements as at 31 December 2019 (as disclosed in note 20), the Trustees took into consideration the economic conditions and forecasts as at that date. The Board of Trustees will continue to consider the potential impact of the outbreak on significant estimates and judgements going forward.

The following events developed since 31 December 2019:

- On 23 March 2020, the President of South Africa announced a mandatory national lockdown, which commenced on 26 March 2020, as a measure to curb the spreading of COVID-19. At the date of signing the financial statements, the lockdown has been eased to Level 4, based on the risk-adjusted approach adopted by Government.
- On 27 March 2020, the rating agency Moody's announced its decision of downgrading South Africa's long term foreign and local currency debt ratings from Ba1 to Baa3 and maintains a negative outlook of the country.

The effects of COVID-19 and the downgrade are non-adjusting subsequent events for the year ended 31 December 2019 in terms of IAS 10 Events after the Reporting Period, because the significant development and the spreading of COVID-19 did not take place until January 2020, and the announcement of the downgrade only occurred on 27 March 2020. Therefore these events only occurred after 31 December 2019. Below are the assessment of each of the Fund's significant balance sheet items:

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25. EVENTS AFTER REPORTING DATE (CONTINUED)

All of the Fund's investable assets were invested in cash and local capital market instruments and will therefore be largely unaffected by these events.

Allowance for expected credit losses as at 31 December 2019 have been based on incurred events at statement of financial position date. Given that the disruptions only occurred in March 2020, the amount recognised as at 31 December 2019 remains unchanged.

Provision for outstanding claims, as disclosed in note 6, is an estimate of the ultimate costs of settling all claims incurred that have been occurred before the end of the reporting period, but have not been reported to the Fund. Given the fact that the risk claims provision as at 31 December 2019 relates to 2019 and prior, the claims provision remains unchanged.

The Board of Trustees are of the opinion that these events should not have a material impact on the Fund's solvency. This opinion is based on an actuarially sound projection and a conservative set of assumptions, which produced a case scenario impact on the Fund's expected claims expense. The worst case scenario indicated an insignificant impact on the Fund's expected claims experience and solvency level. Furthermore, the subsequent COVID-19 related claims monitoring indicated that the worst case scenario is unlikely to materialise. The Trustees will continue to consider the potential impact of the outbreak on significant estimates and judgements going forward.

In addition, the financial reporting impact of COVID-19 will be considered in the 2020 financial statements.

There have been no other events that have occurred between the end of the accounting period and the date of the approval of these financial statements, other than items listed above, that the Trustees consider should be brought to the attention of the members of the Fund.

26. GOING CONCERN

The Board of Trustees considers the Fund to be a going concern. The Board took the following into consideration in the evaluation of the Fund's going concern status:

- Available cash and investments at the end of the year amounted to R 117 727 406.
- Transnet SOC Ltd indicated that it will provide funding for the SATS pensioners to the value of R226.5m during 2020.
- A business plan has been developed by the Trustees, with the assistance of the Fund's actuary, in order to get the Fund to a reserve level of 25%.
- It is expected that the Fund's reserve ratio will increase from 11.38% at 31 December 2019 to 13.87% at 31 December 2020.
- An actuarial model was developed to assist the Trustees to consider the going concern status of the Fund. Even with the most negative assumptions on membership movements and membership risk profiles, the model indicated that the Fund will be a going concern.

27. NON-COMPLIANCE WITH MEDICAL SCHEMES ACT 131 OF 1998**27.1 Outstanding contributions****Nature and impact**

In terms of Section 26(7) of the Act, contributions should be received in accordance with the rules of the Fund. Per the Fund rules, contributions are required to be received at least three days after their due date. Instances were noted where contributions were received late.

Causes for the failure

The reason for this is due to the inherent nature of the business.

Corrective action

On-going communication to employer groups has occurred. The Fund also applied to the Council for Medical Schemes and obtained an exemption for the three day contribution rule.

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27. NON-COMPLIANCE WITH MEDICAL SCHEMES ACT 131 OF 1998 (continued)

27.2 Self-supporting options

Nature and impact

In terms of Section 33(2) benefit options shall be self-supporting in terms of membership and financial performance. The Select, Prime and Guardian options recorded deficits for the year ended 31 December 2019.

Causes for the failure

The Select option was expected to generate a surplus from operations. The option experienced an exceptional number of high cost cases in the earlier part of the year resulting in the option reporting a loss from operations. Due to the deteriorating risk profile of the Prime option, it was anticipated that the option would produce a loss at operating level. The funding from Transnet Ltd for the Guardian option was reduced as the reserve ratio for the risk pool is well above the required level. The reduced funding for the year was the primary reason for the deficit on the option.

Corrective action

Higher contribution increases and no benefit adjustments were implemented on Select option to ensure the option is self sustaining. The Prime option is not sustainable in the long run and has been earmarked for closure as soon as the membership of the option reaches the 500 beneficiary threshold, or financial impact analysis indicates that the the remaining options would remain sustainable if the option were to be closed. A business plan was developed by the Trustees to get the Fund's reserve levels back to 25%.

27.3 Reserve ratio

Nature and impact

In terms of Regulation 29, a medical scheme should have reserves of at least 25% of its gross annual contributions. At 31 December 2019, the Fund had a reserve ratio of 11.38%, which is lower than the required level.

Causes for the failure

The working member and pensioner risk profile deteriorated during the year.

Corrective action

A business plan was developed by the Trustees, with the assistance of the Fund's actuary in order to restore the Fund's reserve levels back to 25%. The Council for Medical Schemes approved the business plan.

27.4 Payment of claims within 30 days

Nature and impact

In terms of Section 59(2) a member or provider claim should be settled within 30 days of submission. Instances were noted during sample testing where settlements took more than 30 days.

Causes of failure

Delays can occur when accounts are referred for clinical audit or other investigations. These are however the exceptions, and claims are generally paid within the prescribed time.

Corrective action

The administrator is aware of the requirements and comply as far as possible. It is however an inherent part of the industry that a limited number of problematic claims may exceed the payment requirement of 30 days.