

**BMW EMPLOYEES MEDICAL AID SOCIETY**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED**

**31 DECEMBER 2019**

## **BMW EMPLOYEES MEDICAL AID SOCIETY**

**(Registration no. 1526)**

### **FINANCIAL STATEMENTS**

for the year ended 31 December 2019

<b>TRUSTEES</b>			
	C Hector	Chairman - Employer Representative	
	D Radebe	Employer Representative	
	E Hlophane	Employee Representative	
	C Louw	Employee Representative	- resigned 31 Aug 2019
	S Sohan	Employee Representative	
	K Madumo	Employee Representative	
	C McCrea-Phillips	Employer Representative	- resigned 20 Nov 2019
	S Hoon	Employer Representative	
	J Meiring	Pensioner Alternative Representative	
	JP Fegbeutel	Pensioner Member Representative	
	V Vatsa-Mahlaba	Co-opted Employer Representative	
	T Harakhchand	Alternative Employer Representative	
	J Selumane	Alternative Employer Representative	- resigned 14 Nov 2019
	M Gounden	Alternative Employer Representative	
	G Shafee	Alternative Employer Representative	
	D Govender	Alternative Employer Representative	- appointed 14 Nov 2019

#### **PRINCIPAL OFFICER**

AR Kelbrick

#### **AUDITOR**

Deloitte & Touche

#### **ADMINISTRATOR**

Discovery Health Proprietary Limited  
1 Discovery Place  
Sandton  
2146

#### **REGISTERED OFFICE**

Discovery Health Proprietary Limited  
1 Discovery Place  
Sandton  
2146

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## **BMW EMPLOYEES MEDICAL AID SOCIETY**

(Registration no. 1526)

### **FINANCIAL STATEMENTS**

for the year ended 31 December 2019

### **TRUSTEES' RESPONSIBILITY AND APPROVAL**

The Trustees are responsible for the preparation and fair presentation of the financial statements of BMW Employees Medical Aid Society, which comprise the statement of financial position at 31 December 2019, the statement of comprehensive income, the statement of changes in funds and reserves and the statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, 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 are also responsible for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

Subsequent to the reporting date and prior to the date the financial statements were authorised for approval, the President of South Africa declared a national state of disaster as a result of the global COVID-19 pandemic on 15 March 2020. Even though South Africa is in the early stage of the outbreak, and there exist uncertainties about the potential impact of COVID-19 on the Scheme and its members, various possible scenarios, including stress test scenarios, have been considered to assess the potential impact of COVID-19 on the Scheme.

Based on the most likely scenario, and it is not envisaged that it will have an impact on the Scheme's ability to pay claims as they arise, the Scheme's strong financial position and reserve levels allows the Scheme to absorb the potential negative impact of COVID-19, with a potential negligible impact on the Scheme's 2020 solvency level, The Trustees also concluded that there was no need to adjust the 2019 Financial Statements.

On the basis of this review and in light of the current financial position and available resources, the Trustees have no reason to believe that the Scheme will not be a going concern for the foreseeable future.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

### **Approval of the annual financial statements**

The annual financial statements of BMW Employees Medical Aid Society, as identified in the first paragraph, were approved by the Trustees on 6 May 2020 and are signed on their behalf by:



CHAIRMAN  
C HECTOR



TRUSTEE  
S SOHAN



PRINCIPAL OFFICER  
AR KELBRICK

## **BMW EMPLOYEES MEDICAL AID SOCIETY**

(Registration no. 1526)

### **FINANCIAL STATEMENTS**

for the year ended 31 December 2019

### **STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES**

The BMW Employees Medical Aid Society (the Scheme) is committed to the principles and practice of responsibility, accountability, fairness and transparency with its dealings with all stakeholders and applies good governance principles.

The Scheme is committed to ensure compliance with recognised framework and conducting affairs in accordance with ethical values, to ensure the adoption of risk assessment, evaluation and management processes with regular monitoring of third party administrators and providers in accordance with the service level agreements. This includes evaluating the performance of the Board and of the Board sub-committees against agreed terms of reference and performance targets, establishment and management of internal controls by assessing the adequacy and effectiveness through the reports of the internal auditors and calling on expert and professional advice when required. The Trustees are either appointed by the respective employers or elected by the members of the Scheme.

### **BOARD OF TRUSTEES**

The Trustees meet regularly and monitor the performance of the Administrator and other service providers. They address a range of key issues and ensure that discussion of items of policy, strategy and performance is critical, informed and constructive.

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

### **INTERNAL CONTROL**

The Administrator of the Scheme maintains 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.

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



CHAIRMAN  
C HECTOR



TRUSTEE  
S SOHAN



PRINCIPAL OFFICER  
AR KELBRICK

6 May 2020

AUDIT REPORT

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**BMW EMPLOYEES MEDICAL AID SOCIETY****(Registration no. 1526)****STATEMENT OF FINANCIAL POSITION**

at 31 December 2019

	Notes	2019 R	2018 R
<b>ASSETS</b>			
<b>Non-current assets</b>			
Available-for-sale investments	2	157,814,529	127,942,836
<b>Current assets</b>			
Trade and other receivables	3	2,134,279	3,778,596
Cash and cash equivalents	4	49,287,991	51,026,753
<b>Total assets</b>		<b>209,236,799</b>	<b>182,748,185</b>
<b>FUNDS AND LIABILITIES</b>			
<b>Members' funds</b>			
Accumulated funds		183,056,654	163,388,998
Available-for-sale reserve		20,490,572	12,300,016
<b>Current liabilities</b>			
Outstanding risk claims provision	5	3,000,000	4,000,000
Personal medical savings account liability	6	107,772	107,828
Trade and other payables	7	2,581,801	2,951,343
<b>Total funds and liabilities</b>		<b>209,236,799</b>	<b>182,748,185</b>

**BMW EMPLOYEES MEDICAL AID SOCIETY**

(Registration no. 1526)

**STATEMENT OF COMPREHENSIVE INCOME**

for the year ended 31 December 2019

	Notes	2019 R	2018 R
<b>Risk contribution income</b>	8	<b>186,164,161</b>	<b>172,756,552</b>
<b>Relevant healthcare expenditure</b>		<b>(159,848,860)</b>	<b>(138,938,536)</b>
Risk claims incurred	9	(157,516,264)	(138,149,864)
Managed care: management services	12	(3,921,454)	(3,670,088)
Claims recoveries from third parties	10	1,561,977	2,050,256
Net income on risk transfer arrangement		26,881	831,160
Risk transfer arrangement fees	11	(322,602)	(272,914)
Recoveries from risk transfer arrangement	11	349,483	1,104,074
<b>Gross healthcare results</b>		<b>26,315,301</b>	<b>33,818,016</b>
Administration expenditure		(8,123,370)	(7,602,488)
Other operating expenses	13	(658,464)	(678,967)
Net impairment on healthcare receivables	14	(2,571,664)	(1,945,106)
<b>Net healthcare results</b>		<b>14,961,803</b>	<b>23,591,455</b>
<b>Other income</b>		<b>5,446,759</b>	<b>9,672,285</b>
Investment income	15	5,446,935	9,643,204
Sundry (expenses) / income	16	(176)	29,081
<b>Other expenditure</b>		<b>(740,905)</b>	<b>(690,142)</b>
Expenses for asset management services rendered	2	(740,905)	(690,142)
<b>Net surplus for the year</b>		<b>19,667,656</b>	<b>32,573,598</b>
<b>Other comprehensive income / (loss)</b>		<b>8,190,556</b>	<b>(6,225,842)</b>
Fair value adjustment on available-for-sale investments	2	8,190,556	(994,322)
Realised (gain) on available-for-sale investments	2	-	(5,231,520)
<b>Total comprehensive income</b>		<b>27,858,213</b>	<b>26,347,756</b>

**BMW EMPLOYEES MEDICAL AID SOCIETY****(Registration no. 1526)****STATEMENT OF CHANGES IN FUNDS AND RESERVES**

for the year ended 31 December 2019

	<b>Accumulated funds R</b>	<b>Available-for-sale reserve R</b>	<b>Members' funds R</b>
<b>Balance at 1 January 2018</b>	<b>130,815,400</b>	<b>18,525,858</b>	<b>149,341,258</b>
Total comprehensive income for the year	32,573,598	(6,225,842)	26,347,756
Net surplus for the year	32,573,598	-	32,573,598
Other comprehensive expense	-	(6,225,842)	(6,225,842)
Changes in fair value of available-for-sale investments	-	(994,322)	(994,322)
Realised (gains) on disposal of available-for-sale investments	-	(5,231,520)	(5,231,520)
<b>Balance at 31 December 2018</b>	<b>163,388,998</b>	<b>12,300,016</b>	<b>175,689,014</b>
Total comprehensive income for the year	19,667,656	8,190,556	27,858,213
Net surplus for the year	19,667,656	-	19,667,656
Other comprehensive income	-	8,190,556	8,190,557
Changes in fair value of available-for-sale investments	-	8,190,556	8,190,556
Realised losses on disposal of available-for-sale investments	-	-	-
<b>Balance at 31 December 2019</b>	<b>183,056,654</b>	<b>20,490,572</b>	<b>203,547,227</b>

**BMW EMPLOYEES MEDICAL AID SOCIETY****(Registration no. 1526)****STATEMENT OF CASH FLOWS**

for the year ended 31 December 2019

	Notes	2019 R	2018 R
<b>Cash flows from operating activities</b>			
Cash flows from operations before working capital changes	17	16,817,109	24,777,060
Working capital changes			
- (Decrease) in trade and other receivables		(952,831)	(1,912,505)
- (Decrease) in trade and other payables		(369,542)	(603,973)
- (Decrease) / increase in outstanding risk claims provision		(1,000,000)	1,000,000
- (Decrease) in medical savings account liability		(56)	(108,798)
Cash generated by operations		<u>14,494,680</u>	<u>23,151,784</u>
- Income from investments		5,447,695	4,372,479
<b>Net cash inflows generated from operating activities</b>		<b><u>19,942,375</u></b>	<b><u>27,524,263</u></b>
<b>Cash flows from investing activities</b>			
(Additions) to available-for-sale investments	2	(22,422,042)	(46,480,886)
Proceeds on disposal of investments	2	740,905	27,581,650
<b>Net cash outflow from investing activities</b>		<b><u>(21,681,137)</u></b>	<b><u>(18,899,236)</u></b>
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(1,738,762)</b>	<b>8,625,027</b>
Cash and cash equivalents at beginning of the year		51,026,753	42,401,726
<b>Cash and cash equivalents at end of the year</b>	4	<b><u><u>49,287,991</u></u></b>	<b><u><u>51,026,753</u></u></b>
Current, short term deposits and money market accounts		<u>49,287,991</u>	<u>51,026,753</u>

# BMW EMPLOYEES MEDICAL AID SOCIETY

(Registration no. 1526)

## 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 these financial statements are set out below, and are consistent with last year unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The notes to the financial statements set out those areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the Scheme's financial statements.

#### 1.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Medical Schemes Act of South Africa (the Act). The financial statements are prepared on the going concern principle using the historical cost basis, except for available-for-sale investments held at fair value.

These financial statements are presented in Rand, which is the Scheme's functional currency. Rounding of all amounts to the nearest Rand.

*New standards, amendments and interpretations effective in 2019 and relevant to the Scheme*

Title	Effective date - financial year commencing on
<p><b>IFRS 9 Financial Instruments</b> - IFRS 9, on 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. This standard will have a significant impact on the Scheme, which will include changes in the measurement bases of the Scheme's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the Scheme.</p> <p>The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, while early adoption is permitted.</p> <p>IFRS 4 provides a temporary exemption that permits, but does not require, the scheme to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023.</p> <p>A scheme may apply the temporary exemption from IFRS 9 if, and only if:</p> <ul style="list-style-type: none"><li>• it has not previously applied any version of IFRS 9</li><li>• its activities are predominantly connected with insurance at its reporting date.</li></ul> <p>The Scheme meets both the criteria and has decided to apply the exemption to defer the application of IFRS 9 to 1 January 2023.</p>	1 January 2018

## BMW EMPLOYEES MEDICAL AID SOCIETY

(Registration no. 1526)

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

#### *New standards, amendments and interpretations not yet effective in 2019 and relevant to the Scheme:*

Title	Effective date - financial year commencing on
<p><b>IFRS 17 Insurance Contracts</b> - IFRS 17 supersedes IFRS 4 Insurance Contracts and aims to increase comparability and transparency about profitability. The new standard introduces a new comprehensive model (“general model”) for the recognition and measurement of liabilities arising from insurance contracts. In addition, it includes a simplified approach and modifications to the general measurement model that can be applied in certain circumstances and to specific contracts, such as:</p> <ul style="list-style-type: none"><li>• Reinsurance contracts held;</li><li>• Direct participating contracts; and</li><li>• Investment contracts with discretionary participation features.</li></ul> <p>Under the new standard, investment components are excluded from insurance revenue and service expenses. Entities can also choose to present the effect of changes in discount rates and other financial risks in profit or loss or OCI.</p> <p>The new standard includes various new disclosures and requires additional granularity in disclosures to assist users to assess the effects of insurance contracts on the entity’s financial statements. The entity is in the process of determining the impact of IFRS 17 and will provide more detailed disclosure on the impact in future financial statements. The standard is effective for annual periods beginning on or after 1 January 2023. Early adoption is permitted.</p>	1 January 2023

The Scheme has not yet addressed the impact of these new standards and amendments.

#### **1.2 Classification, recognition, presentation and derecognition of financial instruments**

The Scheme recognises a financial instrument when, and only when, it becomes a party to the contractual provisions of the instrument. The Scheme has the following financial instrument categories: available-for-sale investments, loans and receivables and financial liabilities. The Scheme has grouped its financial instruments into the following classes:

- Available-for-sale investments;
- Trade and other receivables;
- Cash and cash equivalents;
- Trade and other payables; and
- Members' medical account liability.

The classification depends on the purpose for which the financial instruments are acquired. Management determines the classification of financial instruments at initial recognition. All purchases and sales of financial instruments are recognised on the trade date, which is the date on which the Scheme commits to purchase the financial asset or assumes the financial liability.

##### *Offsetting financial instruments*

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

##### *Derecognition of financial assets and liabilities*

The Scheme derecognises an asset when the contractual rights to the asset expire, where there is a transfer of the contractual rights that comprise the asset, or the Scheme retains the contractual rights of the asset but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

Where the Scheme retains substantially all the risks and benefits of ownership of the financial asset, the Scheme continues to recognise the financial asset.

The Scheme derecognises a financial liability when the contractual obligations are discharged, cancelled or expire.

## BMW EMPLOYEES MEDICAL AID SOCIETY

(Registration no. 1526)

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

#### 1.3 Financial assets: initial and subsequent measurement

*Financial instruments are recognised when the Scheme becomes a party to the contractual provisions of the instrument.*

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs, for instruments not at fair value through profit or loss.

##### *Available-for-sale investments*

Subsequent to initial recognition, available-for-sale investments are carried at fair value. Gains and losses arising from changes in the fair value of the available-for-sale investments are taken directly to the available-for-sale reserve. Once an available-for-sale investment is sold, the related cumulative fair value gain or loss is transferred out of the reserve to profit or loss.

##### *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 reporting date. These are classified as non-current assets. The Scheme's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

Subsequently loans and receivables are measured at amortised cost using the effective interest method, less impairment. An impairment of trade receivables is established when there is objective evidence that the Scheme will not be able to collect all amounts due according to the original terms of the receivables. Receivables arising from healthcare insurance contracts with members are also classified in this category and are reviewed for impairment as part of the impairment review conducted per note 1.5.

##### *Insurance receivables*

Insurance receivables are carried at cost less impairment losses. Impairment losses on insurance receivables are recognised and determined in a similar manner to impairment losses on financial assets carried at amortised cost (refer to note 1.5).

##### *Cash and cash equivalents*

In the statement of cash flows, cash and cash equivalents comprise:

- Money on call and short notice deposits; and
- Balances with banks.

Cash and cash equivalents include items held for the purpose of meeting short-term cash commitments. Cash and cash equivalents have a maturity of less than three months and an insignificant risk of changes in fair value. Subsequently, cash and cash equivalents are measured at amortised cost which approximates fair value.

## BMW EMPLOYEES MEDICAL AID SOCIETY

(Registration no. 1526)

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

#### 1.4 Financial liabilities

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity. Financial liabilities include trade payables. The Scheme is not permitted to borrow in terms of Section 35(6)(c) of the Medical Schemes Act, of South Africa. The Scheme therefore has no long-term financial liabilities.

##### *Trade and other payables*

Trade and other payables are measured initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

##### *Insurance payables*

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

##### *Members' medical savings accounts: monies managed by the Scheme on behalf of its members*

The members' medical savings account, which is managed by the Scheme on behalf of its members, represents savings contributions (which are a deposit component of the insurance contracts) and accrued interest thereon, net of any savings claims paid on behalf of members in terms of the Scheme's registered rules.

The deposit component of the insurance contracts has been unbundled, since the Scheme can measure the deposit component separately. The insurance component is recognised as an insurance liability.

Unspent savings at the year-end are carried forward to meet future expenses for which the members are responsible. In terms of the Medical Schemes Act, 131 of 1998, as amended, balances standing to the credit of members are refundable only in terms of Regulation 10 of the Act.

Advances on savings contributions are funded by the Scheme's funds, and the risk of impairment is carried by the Scheme.

From 1 January 2017 the Scheme discontinued the MSA component of the benefit option. MSA balances owing to members are being refunded accordingly. The Scheme is attempting to refund all unpaid balances with assistance from the employer.



## **BMW EMPLOYEES MEDICAL AID SOCIETY**

**(Registration no. 1526)**

### **NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2019

#### **1.5 Impairment of financial assets**

##### *Financial assets carried at amortised cost*

The Scheme assesses at each reporting date whether there is objective evidence that a financial asset is impaired. A financial asset, or group of financial assets, is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that the loss event (or events) has an adverse impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The Scheme first assesses whether objective evidence of impairment exists, individually for financial assets that are individually significant, such as service provider debtors. In the case of assets which are not individually significant, such as contribution debtors, financial assets are grouped on the basis of similar credit characteristics, such as asset type and past-due status. These characteristics are used in the estimation of future cash flows recoverable.

If there is objective evidence that an impairment loss on a financial asset has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised through profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

#### **1.6 Outstanding risk claims provision**

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

Estimated co-payments and payments from medical savings accounts (MSA) are deducted in calculating the outstanding risk claims provision.

Claims handling expenses are not separately accounted for as this service is provided by the Administrator and a fixed fee is paid for the full administration service including claims handling. No provision for claims handling expenses is required as the Scheme has no further liability to the Administrator at year end.

The Scheme does not discount its provision for outstanding risk claims since the effect of the time value of money is not considered material.

#### **1.7 Member insurance contracts**

Contracts under which the Scheme accepts significant insurance risk from another party (the member and his/her registered dependants) 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.

The contracts issued compensate the Scheme's members for healthcare expenses incurred and are detailed in note 21.

## **BMW EMPLOYEES MEDICAL AID SOCIETY**

**(Registration no. 1526)**

### **NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2019

#### **1.8 Risk contribution income**

Gross contributions comprise of risk contributions.

Risk contributions on member insurance contracts are accounted for monthly when their collection in terms of the insurance contract is reasonably assured. Risk contributions are earned from the date of attachment of insurance risk, over the indemnity period on a straight-line basis and are recognised as revenue.

#### **1.9 Relevant healthcare expenditure**

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

##### **1.9.1 Risk claims incurred**

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

Net risk claims incurred (net of claims from members' medical savings accounts, recoveries from members for co-payments, recoveries from third parties (e.g. Motor Vehicle Accident and fraud recoveries) and discounts received from service providers) comprise:

- Claims submitted and accrued for services rendered during the year;
- Payments under provider contracts (managed care) for services rendered to members;
- Over or under provisions relating to prior year claims;
- Claims incurred but not yet reported; and
- Claims settled in terms of risk transfer arrangements.

##### **1.9.2 Managed care: management services fees**

Managed care: management services fees comprise amounts paid or payable to a third party for managing the utilisation, costs and quality of healthcare services to the members of the Scheme. Managed care: management services fees are expensed as incurred.

## **BMW EMPLOYEES MEDICAL AID SOCIETY**

**(Registration no. 1526)**

### **NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2019

#### **1.9.3 Risk transfer arrangements**

Risk transfer arrangements are contractual arrangements whereby a third party undertakes to indemnify the Scheme against all or part of the loss that the Scheme may incur as a result of carrying on the business of a medical scheme. Risk transfer arrangements do not reduce the Scheme's primary obligations to its members and their dependants, but the arrangements only decrease the loss the Scheme may incur as a result of carrying on the business of a medical scheme.

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

Risk transfer claims and benefits reimbursed are presented in profit or loss and in the statement of financial position on a gross basis. Only contracts that give rise to a significant transfer of insurance risk are accounted for as an insurance contract. Amounts recoverable under such contracts are recognised in the same year as the related claim.

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

Amounts recoverable under risk transfer arrangements are assessed for impairment at each reporting date. These assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Scheme may not recover all amounts due. The Scheme gathers the objective evidence that a risk transfer arrangement asset is impaired using the same process adopted for financial assets held at amortised cost. These processes are described in note 1.5.

#### **1.10 Liability adequacy test**

At the reporting date, liability adequacy tests are performed to ensure the adequacy of the member insurance contract liability.

Liabilities for insurance contracts are tested for adequacy by discounting current estimates of all future cash flows and comparing this amount to the carrying amount of the liabilities net of any related assets. Where a shortfall is identified, an additional provision is made and charged to profit or loss.

#### **1.11 Investment income**

Investment income comprises of dividends, interest income and realised gains or losses on the disposal of investments.

Interest income is recognised using the effective interest method.

Dividend income from investments is recognised when the right to receive payment is established.

#### **1.12 Unallocated funds**

Unallocated funds arise on the receipt of unidentified deposits in favour of the Scheme.

Unallocated funds older than three years have legally prescribed and are included under other income in profit or loss.

#### **1.13 Income tax**

In terms of section 10(1)(d) of the Income Tax Act, No 58 of 1962, as amended, receipts and accruals of a benefit fund are exempt from normal tax. A medical scheme is included in the definition of a benefit fund and consequently the Scheme is exempt from income tax.

## BMW EMPLOYEES MEDICAL AID SOCIETY

(Registration no. 1526)

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

	2019 R	2018 R
<b>2. AVAILABLE-FOR-SALE INVESTMENTS</b>		
Fair value at the beginning of the year	127,942,836	110,037,922
Additions	22,422,042	46,480,886
Unrealised gain / (loss) on revaluation of available-for-sale investments	8,190,556	(6,225,842)
Realised gain on disposal of available-for-sale investments	-	5,231,520
Investment management fees	(740,905)	(690,142)
Disposals	-	(26,891,508)
Fair value at the end of the year	<u>157,814,529</u>	<u>127,942,836</u>
Non-current	<u>157,814,529</u>	<u>127,942,836</u>
	<b><u>157,814,529</u></b>	<b><u>127,942,836</u></b>
The investments included above represent investments in:		
Collective Investment Schemes	32,231,106	25,894,672
Linked Insurance Policies	125,583,422	102,048,164
	<u>157,814,529</u>	<u>127,942,836</u>

Available-for-sale investments are classified as non-current assets, unless they are expected to be realised within twelve months of the reporting date or unless they will need to be realised to raise operating capital.

### 3. TRADE AND OTHER RECEIVABLES

#### Insurance receivables

Contributions outstanding	703,230	655,002
Amounts recoverable from members and suppliers	1,044,604	2,820,559
Amounts due	8,376,833	7,556,401
Impairment losses	(7,332,229)	(4,735,842)
<b>Total receivables arising from insurance contracts</b>	<b><u>1,747,834</u></b>	<b><u>3,475,561</u></b>

#### Loans and receivables

Interest receivable	302,277	303,037
Sundry accounts receivable	84,168	-
<b>Total loans and receivables</b>	<b><u>386,445</u></b>	<b><u>303,036</u></b>
<b>Total trade and other receivables</b>	<b><u>2,134,279</u></b>	<b><u>3,778,596</u></b>

#### Reclassification of prior year presentation

Certain amounts for prior year have been reclassified for consistency with the current year presentation. This change in classification does not affect previously reported Total trade and other receivables. The total 2018 balance for Sundry Accounts Receivable of R2 619 552 was reclassified to Amounts Recoverable from members and suppliers.

At 31 December 2019 the carrying amounts of trade and other receivables approximate their fair values due to the short-term maturities of these assets.

## BMW EMPLOYEES MEDICAL AID SOCIETY

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### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

	2019 R	2018 R
<b>4. CASH AND CASH EQUIVALENTS</b>		
<b>CURRENT, SHORT TERM DEPOSITS AND MONEY MARKET ACCOUNTS</b>		
Current accounts	1,782,859	10,926,204
Short-term deposits and money market accounts	47,505,132	40,100,549
<b>Total cash and cash equivalents per statement of financial position</b>	<b>49,287,991</b>	<b>51,026,753</b>

The weighted average interest rate on cash and cash equivalents was 6.99% (2018: 7.31%).

At 31 December 2019, the carrying amounts of cash and cash equivalents approximate their fair values.

### 5. OUTSTANDING RISK CLAIMS PROVISION

Outstanding risk claims provision - not covered by risk transfer arrangements

3,000,000	4,000,000
-----------	-----------

#### *Analysis of movement in outstanding risk claims*

Balance at beginning of year

4,000,000	3,000,000
-----------	-----------

Payments in respect of prior year

(3,712,579)	(2,879,435)
-------------	-------------

Over provision in respect of prior year

287,421	120,565
---------	---------

Adjustment for current year

2,712,579	3,879,435
-----------	-----------

**Balance at end of year**

<b>3,000,000</b>	<b>4,000,000</b>
------------------	------------------

#### *Analysis of outstanding risk claims provision*

Estimated gross claims

3,000,000	4,000,000
-----------	-----------

**Balance at end of year**

<b>3,000,000</b>	<b>4,000,000</b>
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The Scheme's rules provide that risk claims may only be paid if the Scheme is notified of the risk claim and documentation is submitted within 4 months of the date of rendering the healthcare service.

## **BMW EMPLOYEES MEDICAL AID SOCIETY**

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### **NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2019

#### **5. OUTSTANDING RISK CLAIMS PROVISION (continued)**

The outstanding risk claims provision is an estimate of the proportion of the risk claims liability incurred in the current financial year that is expected to be reported and paid only after the reporting date. The cost of outstanding risk claims is estimated using an incurred but not reported (IBNR) analysis of data methodology. These methods extrapolate the development of paid and incurred claims and ultimate claims numbers for each benefit year based on observed development of earlier years and expected loss ratios. Runoff tables are used in situations where it takes time after the treatment date until the full extent of the claims to be paid is known. It is assumed that payments will emerge in a similar way in each service month. The proportional increase in the known cumulative payments from one development month to the next can then be used to calculate payments for future development months.

#### **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 annually. 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.

This is done via a sophisticated multi-simulation actuarial model which incorporates updated demographic and claims data. The outstanding risk claims provision is calculated as the difference between the risk claims projected for the period less the risk claims paid up to the end of that period. This process is done on a monthly basis and regularly reconciled with the actual experience.

#### **Assumptions**

The assumptions that have the greatest effect on the measurement of the outstanding risk claims provision are the expected claims ratios for the most recent benefit years for the In-hospital, Chronic and Above Threshold categories of claims. These are used for assessing the outstanding risk claims provisions for the 2019 and 2018 benefit years.

The assumptions used in estimating the risk claims incurred for the Scheme are as follows:

At year-end, the process used to calculate the provision for outstanding claims includes the evaluation of the claims paid during the first two months subsequent to year-end in respect of 2019 treatment claims as well as the determination of key variables and assumptions most likely to result in a reliable estimate of the outstanding claims provision.

The most significant key variables and assumptions used in determining the outstanding claims provision are:

- the previous experience in claims processing patterns; and
- average claims paid in the run-off period from March each year end based on historical data.

#### **Sensitivity analysis**

An analysis of sensitivity around various scenarios for the general medical insurance business provides an indication of the adequacy of the provision. As opposed to claims for 2019 that have already been paid, the claims for 2020 estimated to be paid (or reopened) in future payment months are still subject to uncertainty. This quantity forms a useful basis for a sensitivity analysis in note 21.

## BMW EMPLOYEES MEDICAL AID SOCIETY

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### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

	2019 R	2018 R
<b>6. PERSONAL MEDICAL SAVINGS ACCOUNT LIABILITY</b>		
Balance on savings account liability at the beginning of the year	107,828	216,626
Add:		
- Prior year adjustment	-	(108,152)
	<u>107,828</u>	<u>108,474</u>
Less:		
- Claims paid to or on behalf of members (note 9)	(56)	(320)
- Bank charges and investment management fees incurred	-	(326)
<b>Balance on savings account liability at the end of the year</b>	<b><u>107,772</u></b>	<b><u>107,828</u></b>

The medical savings accounts contain a demand feature. In terms of Regulation 10 of the Medical Schemes Act, of South Africa, any credit balance on a member's personal medical savings account must be taken as a cash benefit when the member terminates his or her membership of the Scheme or benefit option, and enrolls in another medical scheme without a personal medical savings account or does not enrol in another medical scheme.

The carrying amount of the medical savings accounts approximates their fair values, since it is payable on demand. The amounts were not discounted due to the demand feature.

From 1 January 2017 the Scheme discontinued the MSA component of the benefit option. MSA balances owing to members are being refunded accordingly. The Scheme is attempting to refund all unpaid balances with assistance from the employer.

### 7. TRADE AND OTHER PAYABLES

#### Insurance liabilities

Member and supplier liability - stale cheques	-	11,090
Member and supplier liability - unpresented cheques	-	29,796
Reported claims not yet paid	1,227,304	1,469,123
Amounts due to members	382,345	420,591
Amounts due to suppliers	844,959	1,048,532
<b>Total liabilities arising from insurance contracts</b>	<b><u>1,227,304</u></b>	<b><u>1,510,009</u></b>

#### Other liabilities

Amounts owing to Administrator (note 20)	1,021,304	993,311
Unallocated receipts	7,677	12,909
Accruals	325,516	435,114
Total	<u>1,354,497</u>	<u>1,441,334</u>
<b>Total trade and other payables</b>	<b><u>2,581,801</u></b>	<b><u>2,951,343</u></b>

At 31 December 2019 the carrying amounts of other liabilities approximate their fair values due to the short-term maturities of these liabilities.

**BMW EMPLOYEES MEDICAL AID SOCIETY****(Registration no. 1526)****NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2019

	<b>2019</b>	<b>2018</b>
	<b>R</b>	<b>R</b>
<b>8. RISK CONTRIBUTION INCOME</b>		
Gross contributions per registered rules	186,164,161	172,756,552
Net contribution income	<u>186,164,161</u>	<u>172,756,552</u>
<b>9. RISK CLAIMS INCURRED</b>		
Current year claims	158,516,320	137,150,184
Claims not covered by risk transfer arrangements	158,166,837	136,046,110
Claims covered by risk transfer arrangements	349,483	1,104,074
Movement in outstanding claims provision	(1,000,000)	1,000,000
Over provision in prior year (note 5)	287,421	120,565
Adjustment for current year	(1,287,421)	879,435
	<u>157,516,320</u>	<u>138,150,184</u>
Less: Claims paid from members' savings accounts *	(56)	(320)
Risk claims incurred	<u>157,516,264</u>	<u>138,149,864</u>
* Claims are paid on behalf of members from their personal medical savings accounts in terms of Regulation 10(3) and the Scheme's registered benefits. Refer to note 6 to the financial statements for a breakdown of the movement in these balances.		
<b>10. CLAIMS RECOVERIES FROM THIRD PARTIES</b>		
Motor Vehicle Accident recoveries	58,860	98,656
Hospital discounts	-	125,973
Forensic recoveries	1,503,117	1,825,627
	<u>1,561,977</u>	<u>2,050,256</u>



## BMW EMPLOYEES MEDICAL AID SOCIETY

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### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

	2019 R	2018 R
<b>11. NET INCOME ON RISK TRANSFER ARRANGEMENT</b>		
<b>The Scheme had the following risk transfer arrangement transactions during the year:</b>		
Capitation fees paid	(322,602)	(272,914)
Recoveries under risk transfer arrangements	349,483	1,104,074
	<u>26,881</u>	<u>831,160</u>

#### Netcare 911 Proprietary Limited

Netcare 911 Proprietary Limited provided emergency medical advice, emergency medical response and transportation to the members of the Scheme. The contract is renewed annually unless either party gives 60 days written notice of termination of the agreement.

- Claims experience and resulting calculations on ground ambulance and flight claims were supplied by Netcare 911 Proprietary Limited.
- Netcare 911 Proprietary Limited applied estimated non-capitated fee information to these utilisation statistics, to determine the estimated cost to the Scheme. These claims included data on claims payments made in 2019 for 2018, claim payments for 2019 in respect of 2019 claims and claims incurred but not yet reported.

#### 12. MANAGED CARE: MANAGEMENT SERVICES

Pharmaceutical benefit management	392,312	367,133
Specialist, hospital referrals and pre-authorisations	1,215,751	1,137,532
Disease management	1,254,982	1,174,495
Network management	1,058,409	990,928
	<u>3,921,454</u>	<u>3,670,088</u>

**BMW EMPLOYEES MEDICAL AID SOCIETY**

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**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2019

	<b>2019</b>	<b>2018</b>
	<b>R</b>	<b>R</b>
<b>13. OTHER OPERATING EXPENSES</b>		
Audit fees	307,893	255,579
Audit services - current year	287,500	255,579
Audit services - prior year under provision	20,393	-
Bank charges	72,694	69,363
Board of Healthcare Funders	7,972	6,791
Council for Medical Schemes - levies	140,759	118,759
Council for Medical Schemes - rule amendments	165	11,660
Fidelity guarantee and professional indemnity insurance premium	22,000	20,025
Motor Vehicle Accident administration and legal fees	24,540	35,905
Meeting Facilitation costs	425	-
Printing costs	79,628	126,327
Training costs	-	28,500
Trustee reimbursements (note 20)	2,389	6,058
	658,464	678,967
<b>14. NET IMPAIRMENT ON HEALTHCARE RECEIVABLES</b>		
<b>Insurance receivables</b>		
Members' and service providers' portions not recoverable	2,571,664	1,945,106
Increase in impairment	2,596,387	1,846,666
(Written off) / reversal	(24,723)	98,440
	2,571,664	1,945,106
<b>15. INVESTMENT INCOME</b>		
Income from investments		
Interest on cash and cash equivalents	217,703	180,390
Income from investments	5,229,232	4,231,294
Realised gains on disposal of available-for-sale investments	-	5,231,520
	5,446,935	9,643,204
<b>16. OTHER OPERATING INCOME</b>		
Prescribed debt (written off) / written back	(540)	38,708
Stale cheques prescribed	-	(9,627)
Prescribed unallocated deposit	364	-
	(176)	29,081

## BMW EMPLOYEES MEDICAL AID SOCIETY

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### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

#### 17. CASH FLOWS FROM OPERATIONS BEFORE WORKING CAPITAL CHANGES

	2019 R	2018 R
Net surplus for the year	19,667,656	32,573,598
Adjustments for:		
- Movement in provision for impairment losses	2,596,387	1,846,666
- Income from investments	(5,446,935)	(4,411,684)
- Realised gains on disposal of available-for-sale investments	-	(5,231,520)
<b>Cash flows from operations before working capital changes</b>	<u>16,817,109</u>	<u>24,777,060</u>

#### 18. COMMITMENTS AND OTHER CONTINGENT LIABILITIES

The Scheme does not have any commitments or contingent liabilities outstanding at 31 December 2019.

#### 19. EVENTS AFTER THE REPORTING DATE

At the reporting date, there were no cases of COVID-19 identified in South Africa, and the decline in the fair value of investments occurred after the reporting date. These events are non-adjusting events after the reporting date and no adjustments were made to the amounts recognised in the financial statements as at 31 December 2019.

Subsequent to the reporting date and prior to the date the financial statements were authorised for signature, the President of South Africa declared a national state of disaster as a result of the global COVID-19 pandemic on 15 March 2020. Even though South Africa is in the early stage of the outbreak, and there exist uncertainties about the potential impact of COVID-19 on the Scheme and its members, the Scheme has considered various possible scenarios, including stress test scenarios, to assess the potential impact of COVID-19. The results of the scenarios indicate that the Scheme's claims for 2020 could either decrease by approximately 2.4% or increase by approximately 6.5%.

The Board of Trustees are of the view that the Scheme's strong financial position and reserve levels will allow the Scheme to absorb the potential direct and indirect negative impact of COVID-19 with a reduction of less than 1% in the 2020 solvency level, based on the most likely scenario, and it is not envisaged that it will have an impact on the Scheme's ability to pay claims as they arise.

COVID-19 has also had a dramatic impact on the South African and global investment markets resulting in a decline in the fair value of investments between the reporting date and the date when the financial statements were authorised for signature. The Trustees and investment advisor continue to monitor this impact.

The Trustees have considered various benefit initiatives to ensure that members' healthcare requirements are adequately addressed, while also ensuring the sustainability of the Scheme. Amongst these are costs associated with diagnostic and treatment interventions for COVID-19, which are covered in accordance with the Prescribed Minimum Benefit requirements as well as the parameters outlined in the registered Scheme Rules.

## **BMW EMPLOYEES MEDICAL AID SOCIETY**

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### **NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019**

#### **20. RELATED PARTY TRANSACTIONS**

The Scheme is controlled by the Board of Trustees who are appointed by the employers and elected by the members of the Scheme.

*Parties with significant influence over the Scheme:*

*Administrator and managed care organisation*

Discovery Health Proprietary Limited has significant influence over the Scheme as Discovery Health Proprietary Limited participates in the Scheme's financial and operating policy decisions, but does not control the Scheme. Discovery Health Proprietary Limited provides administration and managed care services.

The Scheme has contracted Discovery Third Party Recovery Services Proprietary Limited (DTPRS), a wholly owned subsidiary of Discovery Health Proprietary Limited, to manage the identification and collection of third party recoveries from the Road Accident Fund.

*Key management personnel*

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Scheme. Key management personnel include the Board of Trustees and the Principal Officer.

Close family members include family members of the Board of Trustees and Principal Officer.

*BMW Financial Services (SA) Proprietary Limited and BMW (SA) Proprietary Limited*

BMW Financial Services (SA) Proprietary Limited and BMW (SA) Proprietary Limited are the two employer companies. Both these companies are considered related parties as they participate in the Scheme's financial and operating policy decisions, but do not control the Scheme.

## BMW EMPLOYEES MEDICAL AID SOCIETY

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### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

#### 20. RELATED PARTY TRANSACTIONS (continued)

##### Transactions with key management personnel

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

	2019 R	2018 R
<i>Key management personnel</i>		
Contributions and claims (Trustees and their beneficiaries)		
- Statement of comprehensive income		
Gross contributions received	936,043	910,352
Gross claims incurred	(792,829)	(652,616)
Trustee reimbursements		
- Statement of comprehensive income		
Trustee training	-	(28,500)
Travel reimbursements	(2,389)	(6,058)

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

Transaction	Nature of transactions and terms and conditions thereof
Contributions received	This constitutes the contributions paid by the related parties as members of the Scheme in their individual capacity. All contributions were on the same terms as those applicable to other members.
Claims incurred	This constitutes amounts claimed by the related parties in their individual capacity as members of the Scheme. All claims were paid out in terms of the rules of the Scheme, as applicable to other members.

## BMW EMPLOYEES MEDICAL AID SOCIETY

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### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

#### 20. RELATED PARTY TRANSACTIONS (continued)

	2019 R	2018 R
<b>Transactions with parties that have significant influence over the Scheme</b>		
<i>Discovery Health Proprietary Limited - administrator</i>		
Statement of comprehensive income		
Administration fees paid	(8,123,370)	(7,602,488)
<i>Discovery Health Proprietary Limited - managed care organisation</i>		
Statement of comprehensive income		
Managed care fees paid	(3,921,454)	(3,670,088)
Statement of financial position		
Balance due to Discovery Health Proprietary Limited (note 7)	(1,021,304)	(993,311)

The terms and conditions of the transactions with entities with significant influence over the Scheme were as follows:

#### *Administration and managed care management service agreements*

The administration and managed care management service agreements are in terms of the rules of the Scheme and in accordance with instructions given by the Board of Trustees. The agreements are automatically renewed each year unless notification of termination is received or following the cancellation of the Administrator's accreditation or the issue of a lawful directive to this effect by the Council for Medical Schemes in terms of the Medical Schemes Act, of South Africa. The Scheme and the Administrator/Managed Healthcare Organisation shall be entitled to terminate the agreement by giving notice in writing of not less than 90 days and not more than 180 days. The outstanding balance bears no interest and is due within 7 days.

#### *BMW Financial Services (SA) Proprietary Limited and BMW (SA) Proprietary Limited*

Statement of comprehensive income (note 8)		
Gross contributions	186,164,161	172,756,552
Statement of financial position (note 3)		
Risk contribution debtors	703,230	655,002

## **BMW EMPLOYEES MEDICAL AID SOCIETY**

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### **NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2019

#### **21. INSURANCE RISK MANAGEMENT REPORT**

##### **Nature and extent of risks arising from insurance contracts**

The primary insurance activity carried out by the Scheme indemnifies covered members and their dependants against the risk of loss arising as a result of the occurrence of a health event (i.e. an event relating to the health of the Scheme member and his or her registered dependants). As such, the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contract. Insurance events are, by nature, random and the actual number and size of events during any one year may vary.

This section summarises these risks and the way they are managed.

##### **Insurance risk**

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Scheme faces under its insurance contracts is that the actual claim payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency and/or severity of claims are greater than estimated.

Factors that aggravate insurance risk include changes in membership distribution and major unanticipated demographic movements, chronic claims, member profile, pensioner ratio, adverse experience regarding the cost of prescribed minimum benefits and unusually adverse experience due to seasonal patterns.

##### **Risk management objectives and policies for mitigating insurance risk**

The Scheme's annual budget is prepared under strict actuarial supervision which determines the contributions against claims projections, taking the statutory solvency requirements into account. The performance against the budget is closely monitored by the Board of Trustees and appointed sub-committees. Should any deviations occur, they are investigated with the necessary interventions implemented.

The methods employed by the Scheme to monitor and manage its insurance risk, inherent in the medical scheme environment, include the following:

- The Board of Trustees monitor and review all financial and operational performance on a monthly basis;
- All claims and demographic movements are monitored on a monthly basis via a multi-simulation actuarial model;
- Actuarial projections of the Scheme's year-end financial position are done monthly;
- The Scheme also applies a number of managed care programmes to monitor and manage the appropriateness, cost and quality of the healthcare services provided to the beneficiaries of the Scheme; and
- The need for re-insurance is considered on an ongoing basis within the existing regulatory environment.

## **BMW EMPLOYEES MEDICAL AID SOCIETY**

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### **NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2019

#### **21. INSURANCE RISK MANAGEMENT REPORT (continued)**

##### **Insurance risk - description of benefit option**

The Scheme offers members one benefit option. The types of benefits offered by the Scheme in return for monthly contributions are indicated below:

##### *Prescribed Minimum Benefits (PMBs)*

This benefit covers the benefits contemplated in section 29(1)(o) of the Act and consists of the provision of the diagnosis, treatment and care costs of the diagnosis and treatment pairs listed in Annexure A of the Regulations, subject to any limitations specified therein and any emergency medical condition.

The Scheme applies guidelines and protocols for appropriate clinical management under Designated Service Provider (DSP) agreements.

##### *Major Medical Expenses (insured benefits)*

###### Hospital Benefit

The hospital benefit covers medical expenses incurred if members are admitted to hospital and the Scheme has authorised the treatment.

Clinical protocols and provider contracting are applied to pre-authorisations and the management of the benefit.

The Administrator negotiates hospital tariffs annually on behalf of the Scheme to allow for benefit of scale.

###### Chronic Illness Benefit (CIB)

The chronic illness benefit covers approved medication for up to 48 listed conditions. These are the 27 Prescribed Minimum Benefit chronic conditions and other non-prescribed chronic conditions.

This benefit and approval are managed by an appointed accredited Managed Care Organisation for drug utilisation, medicine management and adherence to compliance with regard to the Prescribed Minimum Benefit conditions.

###### Other services (insured procedure benefits)

These services provide cover for non-hospital expenses, subject to prior approval from the Scheme, which is managed and monitored by an appointed clinical committee.



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### NOTES TO THE FINANCIAL STATEMENTS

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#### 21. INSURANCE RISK MANAGEMENT REPORT (continued)

##### Hospital Benefit risk

###### *Frequency and severity of claims*

The frequency and severity of claims can be affected by several factors. The most significant factor is the admission rate which has a direct impact on the cost of claims.

A 2% increase or decrease in the admission rate is estimated to increase or decrease the Scheme's loss ratio by 1.41%. The introduction of new hospital technologies could also increase variability of claims. In some instances, the new technology has a beneficial impact on costs, whether in-hospital or consequent costs. In other instances the new technologies will increase costs.

The change in the admission rate is shown in the following table.

Plan type	2019 Admission rate	2018 Admission rate	% Increase/ (decrease)
BMW Employees Medical Aid Society	24%	22%	7.10%

Other factors that impact on hospital claims are shown below.

Key indicators	2019	2018	% Increase/ (decrease)
Length of stay	3.70 days	3.44 days	-4.97%
Average cost per event *	R 24,680	R 22,628	9.07%
Hospital cost per life per month *	R 485	R 416	16.59%

\* After adjusting for IBNR, case mix and excluding the cost of professionals attending in-hospital.

Initiatives used by the Scheme to manage the risk associated with admission rate include:

- The development of protocols around admissions, including funding protocols for various treatments and procedures;
- The "See Your Doctor First" initiative which requires members to see their doctor prior to an elective admission; and
- The amendment to the pre-authorisation length of stay benchmarks.

##### Chronic Illness Benefit (CIB) risk

###### *Frequency and severity of claims*

The main factors impacting the frequency and/or severity of chronic claims are the number of claimants and the cost per claimant. An increase in the number of claimants results in an increase in the frequency and/or severity of claims. Higher increases in claimants can be attributed to increases in the number of claimants at older ages. Increases in the number of items per claimant drives up the cost of chronic claims per claimant.

The mix between the various chronic conditions impacts the frequency and severity of claims. The following table shows the change in the chronic prevalence for key measures.

Measures	2019	2018	% Increase/ (decrease)
Cost per claimant	R 4,489	R 4,890	-8.19%
Claimants per 1 000 lives	16	15	3.32%
Per life per month cost	R 70	R 74	-5.15%

## BMW EMPLOYEES MEDICAL AID SOCIETY

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### NOTES TO THE FINANCIAL STATEMENTS

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#### 21. INSURANCE RISK MANAGEMENT REPORT (continued)

##### Day-to-day benefit risk

###### *Frequency and severity of claims*

The risk to the Scheme is limited up to an annual limit per benefit per family as prescribed by the rules of the Scheme.

##### Concentration of insurance risk

The following table summarises the concentration of insurance risk, with reference to the carrying amount of the insurance claims incurred (net of adjustments per beneficiary) for service years 2019 and 2018, by age group and in relation to the type of risk cover/benefits provided.

###### *Claims incurred for 2019 service year per beneficiary*

Age grouping (in years)	Avg number of beneficiaries	In-hospital R	Chronic R	Day-to-day R	Total R
< 26	3,625	5,090	261	4,923	10,274
26 – 35	1,776	8,124	265	9,567	17,956
36 – 50	1,927	11,166	1,301	11,117	23,585
> 50	1,023	20,944	2,993	15,632	39,570

###### *Claims incurred for 2018 service year per beneficiary*

Age grouping (in years)	Avg number of beneficiaries	In-hospital R	Chronic R	Day-to-day R	Total R
< 26	3,513	4,572	351	4,538	9,461
26 – 35	1,748	6,144	356	8,125	14,625
36 – 50	1,872	8,933	1,232	10,405	20,570
> 50	1,023	19,684	2,970	15,083	37,736

Contracts with providers are negotiated by the Administrator on behalf of the Scheme to benefit from scale and ultimately the rates. Such contracts are reviewed annually.

##### Risk transfer arrangements

The Scheme has a capitation agreement to cover specific risks. The Scheme has contracted with the Netcare 911 Proprietary Limited for emergency medical response.

##### Risk in terms of risk transfer arrangements

According to the terms of the capitation agreement, the provider provides certain benefits to Scheme members, as and when required by the members. The Scheme does however remain liable to its members if the supplier should fail to meet its obligations.

## BMW EMPLOYEES MEDICAL AID SOCIETY

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### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

#### 21. INSURANCE RISK MANAGEMENT REPORT (continued)

##### Claims development

Claims development tables are not presented as the uncertainty regarding the amount and timing of claim payments is typically resolved within one year and in the majority of cases within four months. At year end, a provision is made for those claims outstanding that are not yet reported at that date. Details regarding the subsequent development in respect thereof have been disclosed in note 5.

##### Outstanding risk claims provision

There are some sources of uncertainty that need to be considered in the estimate of the liability that the Scheme will ultimately pay for claims made under insurance contracts.

##### *Process used to determine the assumptions*

Refer to note 5.

##### *Changes in assumptions and sensitivities to changes in key variables*

The table below outlines the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process. It should be noted that this is a deterministic approach with no correlations between the key variables. For each sensitivity illustrated, all other assumptions have been left unchanged.

Where variables are considered to be immaterial, no impact has been assessed for insignificant changes to these variables. Particular variables may not be considered material at present. However, should the materiality level of an individual variable change, assessment of changes to that variable in the future may be required.

An analysis of the sensitivities around various scenarios for the general medical insurance business provides an indication of the adequacy of the Scheme's estimation process. The Scheme believes that the liability for claims reported in the statement of financial position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.

The impact on the liability and reported profits caused by changes in key variables are as follows:

	Change in variable %	Increase in 2019 R	Increase in liability 2018 R
Risk claims incurred	10% increase in claims cost	300,000	400,000

The Scheme is most vulnerable to changes in membership distribution and changes in the underlying rate of inflation which drives a number of assumptions.

##### **Sensitivity of the Scheme's profit or loss and reserves to changes in variables that have a material effect on them**

The Scheme's profitability, reserves and therefore solvency are most sensitive to changes in claims development patterns. Other assumptions that are considered include assumptions regarding utilisation trends, the impact of new technology and the expected demographic profile of the Scheme membership.

## **BMW EMPLOYEES MEDICAL AID SOCIETY**

**(Registration no. 1526)**

### **NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2019

## **22. FINANCIAL RISK MANAGEMENT REPORT**

### **Overview**

The Scheme is exposed to financial risk through its financial assets, financial liabilities and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets may not be sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are market risk, credit risk and liquidity risk. The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Scheme's statutory solvency requirement.

The Board of Trustees has overall responsibility for the establishment and oversight of the Scheme's risk management framework.

The Scheme manages these risks through various risk management processes. These processes have been developed to ensure that the long-term investment return on assets supporting the insurance liabilities is sufficient to fund members' reasonable benefit expectations.

An Audit and Risk Committee has been established by the Board of Trustees to assist in the implementation and monitoring of these risk management processes.

### **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Scheme's income or the value of its holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

#### *Currency risk*

The Scheme operates in South Africa and therefore its cash flows are denominated in South African Rand (ZAR). In terms of the diversified investment strategy operated by the Investment Committee. The Scheme is indirectly exposed to currency risk through pooled vehicles.

#### *Price risk*

The Scheme is exposed to equity security price risk because of investments held by the Scheme. To manage its price risk arising from investments in equity securities, the Scheme diversifies its portfolio. Diversification of the portfolio is done by the relevant asset managers through the investments held in collective investment schemes and linked insurance policies.

The Scheme continues to pursue a more growth-orientated investment strategy, in accordance with the Act and Regulations thereto.

## BMW EMPLOYEES MEDICAL AID SOCIETY

(Registration no. 1526)

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

#### 22. FINANCIAL RISK MANAGEMENT REPORT (continued)

##### *Interest rate risk*

The Scheme is exposed to interest rate risk as it places funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate investments within the Scheme's cash and cash equivalents.

The table below summarises the Scheme's exposure to interest rate risks. Included in the table are the Scheme's cash and cash equivalents, categorised by the earlier of contractual repricing or maturity dates.

	Up to 1 month	1 to 3 months	3 and more months	Total
As at 31 December 2019	R	R	R	R
Cash and cash equivalents	49,287,991	-	-	49,287,991
<b>Total</b>	<b>49,287,991</b>	<b>-</b>	<b>-</b>	<b>49,287,991</b>

  

	Up to 1 month	1 to 3 months	3 and more months	Total
As at 31 December 2018	R	R	R	R
Cash and cash equivalents	51,026,753	-	-	51,026,753
<b>Total</b>	<b>51,026,753</b>	<b>-</b>	<b>-</b>	<b>51,026,753</b>

The following table below summarises the effective interest rate for monetary financial instruments:

	2019	2018
Current, short term deposits and money market accounts	6.99%	7.31%

##### *Sensitivity analysis for available-for-sale investments and cash and cash equivalents*

##### *Sensitivity analysis: Cash*

##### **Basis:**

The sensitivity analysis determines different levels of the closing market value as compared to the actual closing market value based on different levels of interest (see table below). i.e. +1% suggests the closing market value could have been R86,221,647 if the interest had been higher by 1% during 2019 as compared to the actual interest rate. A one percent increase in the interest at the reporting date would have increased cash by R798,423 (2018 an increase of R606,111). An equal change in the opposite direction would have decreased cash by R798,423 (2018 a decrease of R606,111).

% Change	Return of Index	Adjusted Closing Value R	Difference R
2%	8.99%	87,020,069	1,596,845
1%	7.99%	86,221,647	798,423
0%	6.99%	85,423,224	-
(1%)	5.99%	84,624,802	(798,423)
(2%)	4.99%	83,826,379	(1,596,845)

## BMW EMPLOYEES MEDICAL AID SOCIETY

(Registration no. 1526)

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

#### 22. FINANCIAL RISK MANAGEMENT REPORT (continued)

##### *Sensitivity analysis: Bonds*

###### **Basis:**

The sensitivity analysis determines different levels of the closing market value as compared to the actual closing market value based on different levels of investment performance (see table below). i.e. +1% suggests the closing market value could have been R51,693,736 if the investment performance had been higher by 1% during 2019 as compared to the market investment performance. A one percent increase in the investment return at the reporting date would have increased bonds by R464,365 (2018 an increase of R508,247). An equal change in the opposite direction would have decreased bonds by R464,365 (2018 a decrease of R508,247).

<b>% Change</b>	<b>Return of Index</b>	<b>Adjusted Closing Value R</b>	<b>Difference R</b>
2%	12.32%	52,158,101	928,730
1%	11.32%	51,693,736	464,365
0%	10.32%	51,229,371	-
(1%)	9.32%	50,765,006	(464,365)
(2%)	8.32%	50,300,641	(928,730)

##### *Sensitivity analysis: Equity*

###### **Basis:**

The sensitivity analysis determines different levels of the closing market value as compared to the actual closing market value based on different levels of investment performance (see table below). i.e. +2% suggests the closing market value could have been R71,707,452 if the investment performance had been higher by 2% during 2019 as compared to the market investment performance.

All equity investments are listed on the JSE. A two percent increase in the investment return at the reporting date would have increased equity by R1,257,521 (2018 a increase of R1,294,542); an equal change in the opposite direction would have decreased equity by R1,257,521 (2018 a decrease of R1,294,542).

The change will have an impact on the revaluation reserve and/or the profit/loss depending on the investment type.

<b>% Change</b>	<b>Return of Index</b>	<b>Adjusted Closing Value R</b>	<b>Difference R</b>
4%	16.05%	72,964,979	2,515,054
2%	14.05%	71,707,452	1,257,527
0%	12.05%	70,449,925	-
(1%)	10.05%	69,192,398	(1,257,527)
(2%)	8.05%	67,934,871	(2,515,054)

## BMW EMPLOYEES MEDICAL AID SOCIETY

(Registration no. 1526)

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

#### 22. FINANCIAL RISK MANAGEMENT REPORT (continued)

##### Credit risk

Credit risk is the risk of financial loss to the Scheme if a counterparty to a financial instrument fails to meet its contractual obligations.

The Scheme's principal financial assets are cash and cash equivalents, trade and other receivables and available-for-sale investments.

##### *Trade and other receivables*

Trade and other receivables comprises of insurance receivables and loans and receivables. The main components of insurance receivables are in respect of:

- Receivables for contributions due from members; and
- Receivables for amounts recoverable from service providers and members in respect of claims debt.

The Scheme manages credit risk by:

- Actively pursuing all contributions after 3 days of becoming due, as required by S26(7) of the Medical Schemes Act, of South Africa;
- Suspending benefits on members' accounts whose contributions have not been received for 30 days;
- Terminating benefits on members' accounts whose contributions have not been received for 60 days; and
- Ageing and pursuing unpaid accounts on a monthly basis.

The Scheme establishes an allowance for impairment that represents its estimate of losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have not been yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Details of the process to estimate the impairment provision are included in note 1.5.

##### *Cash and cash equivalents*

The Scheme has no significant concentration of credit risk. Cash transactions are limited to financial institutions with a high credit rating. The Scheme has a policy of limiting the amount of credit exposure to any one financial institution.

The table below shows the credit limit and balances of cash and cash equivalents held at 5 major counterparties at year end which is in compliance with Annexure B of the Regulations. The statutory credit limit is calculated as 35% of the aggregate fair value of liabilities and accumulated funds less trade and other receivables.

Counterparty	2019		2018	
	Credit limit R	Balance R	Credit limit R	Balance R
1	72,485,882	22,061,814	58,334,350	20,371,128
2	72,485,882	16,572,854	58,334,350	12,806,822
3	72,485,882	14,319,676	58,334,350	6,268,941
4	72,485,882	23,304,983	58,334,350	14,403,468
5	72,485,882	3,710,883	58,334,350	4,367,813

No credit limits were exceeded during the reporting period and the Trustees do not expect any losses from non-performance of these counterparties.

##### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure.

## BMW EMPLOYEES MEDICAL AID SOCIETY

(Registration no. 1526)

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

#### 22. FINANCIAL RISK MANAGEMENT REPORT (continued)

##### Exposure to credit risk (continued)

###### Impairment

The ageing of insurance receivables at year end was:

	2019		2018	
	Gross R	Impairment R	Gross R	Impairment R
Not past due	1,653,816	-	727,282	-
Past due, not impaired	94,018	-	128,727	-
Past due, impaired	7,332,229	(7,332,229)	4,735,842	(4,735,842)
	<u>9,080,063</u>	<u>(7,332,229)</u>	<u>5,591,851</u>	<u>(4,735,842)</u>

The movement in the allowance for impairment during the year was as follows:

	2019 R	2018 R
Balance at the beginning of the year	(4,735,842)	(2,889,176)
Increase in impairment	(2,571,664)	(1,846,666)
Amounts recovered during the period	(24,723)	-
Balance at the end of the year	<u>(7,332,229)</u>	<u>(4,735,842)</u>

Based on past experience, the Scheme believes that no allowance is necessary in respect of insurance receivables that are past due and outstanding for less than 90 days.

###### Available-for-sale investments

The Scheme 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, prescribes the credit limits per institution which reduces the individual risk per institution. The utilisation of these limits are regularly monitored.

##### Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	2019 R	2018 R
<i>Insurance receivables</i>		
Counterparties without external credit ratings		
Contribution debtors	703,230	655,002
Member and provider claims receivables	8,376,833	7,556,401
	<u>9,080,063</u>	<u>8,211,403</u>



## BMW EMPLOYEES MEDICAL AID SOCIETY

(Registration no. 1526)

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

#### 22. FINANCIAL RISK MANAGEMENT REPORT (continued)

##### *Contribution debtors*

On analysing the credit quality of contribution debtors, the Scheme collected 100% of these amounts in January. This indicates a high credit quality rating of these debtors.

##### *Active member claims debtors*

These debtors are members of the Scheme and therefore are expected to have a similar credit quality to the contribution debtors.

##### *Provider claim debtors*

These debtors are the healthcare providers of the Scheme. The amounts due to the Scheme are offset against future payments to be made to these providers.

		<b>2019</b>	<b>2018</b>
		<b>R</b>	<b>R</b>
<i>Counterparties with external credit ratings (Moody's)</i>			
<i>Cash and cash equivalents</i>			
FNB Current Accounts	Baa2	1,782,859	10,926,204
Nedbank Money Market	Baa2	25,136,474	13,779,419
Investec Money Market	Baa2	22,368,658	26,321,130
		<u>49,287,991</u>	<u>51,026,753</u>

##### *Available-for-sale investments*

##### Collective Investment Scheme:

Aluwani Capital Partners Proprietary Limited	17,568,838	16,096,331
Mazi Asset Management Proprietary Limited	14,662,269	9,798,341

##### Linked Insurance Policy:

27Four Life Limited	39,377,015	22,000,957
Allan Gray Life Limited	18,700,349	17,591,819
Prudential Portfolio Managers (South Africa) Life Limited	30,705,002	28,766,838
Sanlam Life Insurance Limited	36,801,056	33,688,549
		<u>157,814,529</u>
		<u>127,942,836</u>

##### *Asset allocation of Scheme*

Asset Class	2019	2018
	R	R
Cash	85,423,224	65,031,955
Bonds	51,229,371	54,730,708
Equity	70,449,925	59,206,926
<b>Total</b>	<b>207,102,520</b>	<b>178,969,589</b>

## BMW EMPLOYEES MEDICAL AID SOCIETY

(Registration no. 1526)

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

#### 22. FINANCIAL RISK MANAGEMENT REPORT (continued)

##### Liquidity risk

Liquidity risk is the risk that the Scheme will not be able to meet its financial obligations as they fall due. The Scheme's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Scheme's reputation.

Approximately 99% of the Scheme's insurance liabilities are settled within four months after the claim was incurred and the remaining liability is settled within eight months.

A maturity analysis for financial liabilities, including insurance liabilities is provided below:

As at 31 December 2019	Up to 1 month	2-12 months	Total
Outstanding risk claims provision (note 5)	1,975,633	1,024,367	3,000,000
Members' savings accounts (note 6)	107,772	-	107,772
Trade and other payables (note 7)	2,581,801	-	2,581,801

  

As at 31 December 2018	Up to 1 month	2-12 months	Total
Outstanding risk claims provision (note 5)	2,976,239	1,023,761	4,000,000
Members' savings accounts (note 6)	107,828	-	107,828
Trade and other payables (note 7)	2,951,343	-	2,951,343

To further enhance disclosure, a more detailed maturity analysis has been presented for financial liabilities at 31 December 2019. Accordingly, prior year disclosure was presented on the same basis.

##### Legal risk

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

##### Capital management

The Scheme is subject to the capital requirement imposed by Regulation 29(2) to the Medical Schemes Act, of South Africa, which requires a minimum solvency ratio of accumulated funds expressed as a percentage of gross contributions to be 25%.

The Scheme's objectives when managing capital are to maintain the requirements of the Medical Schemes Act, of South Africa, and to safeguard the Scheme's ability to continue as a going concern in order to provide benefits for its stakeholders.

The calculation of the regulatory capital requirement is set out below.

	2019 R	2018 R
Total members' funds per statement of financial position	203,547,226	175,689,014
Less: Cumulative unrealised net gain on remeasurement to fair value of investments	(20,490,572)	(12,300,016)
Accumulated funds per Regulation 29	<u>183,056,654</u>	<u>163,388,998</u>
Annualised gross contributions	186,164,161	172,756,552
Solvency margin		
= Accumulated funds/annualised gross contribution income x 100	<u>98.33%</u>	<u>94.58%</u>

## BMW EMPLOYEES MEDICAL AID SOCIETY

(Registration no. 1526)

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

#### 22. FINANCIAL RISK MANAGEMENT REPORT (continued)

##### Investment risk

The Scheme invests excess funds in line with the Medical Schemes Act of South Africa.

The Scheme's investment objectives are to maximise the return on its investments on a long-term basis at acceptable risk, subject to any constraints imposed by legislation or the Trustees. The Scheme continues to diversify its investment portfolio by investing in collective investment schemes and linked insurance policies.

Continuous monitoring takes place to ensure that appropriate assets are held where the Scheme's liabilities are dependent upon the performance of the investment portfolio and that a suitable match of assets exists for all liabilities.

##### *Breakdown of investments*

The assets of the portfolio must be invested in accordance with Annexure B of Regulation 30 to the Medical Schemes Act, of South Africa.

The investments for the purposes of the financial statements comprise of available-for-sale investments and cash and cash equivalents.

	<b>2019</b>	<b>2018</b>
	<b>R</b>	<b>R</b>
Available-for-sale investments are made up of the following:		
Collective Investment Schemes	32,231,106	25,894,672
Linked Insurance Policies	125,583,423	102,048,164
	<u>157,814,529</u>	<u>127,942,836</u>

Cash and cash equivalents are made up of the following:

Current accounts	1,782,859	10,926,204
Money market instruments	47,505,132	40,100,549
	<u>49,287,991</u>	<u>51,026,753</u>

## BMW EMPLOYEES MEDICAL AID SOCIETY

(Registration no. 1526)

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

#### 22. FINANCIAL RISK MANAGEMENT REPORT (continued)

##### Fair value estimation

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

##### *Analysis of carrying amounts of financial assets and financial liabilities per category*

The following table compares the fair value and carrying amounts of financial assets and liabilities per class of financial asset and financial liability. The carrying amount approximates the fair value.

	Available-for-sale investments R	Loans and receivables/ (other financial liabilities) R	Insurance receivables and payables R	Total carrying amount R
<b>31 December 2019</b>				
Cash and cash equivalents	-	49,287,991	-	<b>49,287,991</b>
Trade and other receivables	-	386,445	1,747,834	<b>2,134,279</b>
Trade and other payables	-	(1,354,497)	(1,227,304)	<b>(2,581,801)</b>
Available-for-sale investments	157,814,529	-	-	<b>157,814,529</b>
Members' savings account liability	-	(107,772)	-	<b>(107,772)</b>
	<b>157,814,529</b>	<b>48,212,168</b>	<b>520,530</b>	<b>206,547,225</b>
<b>31 December 2018</b>				
Cash and cash equivalents	-	51,026,753	-	<b>51,026,753</b>
Trade and other receivables	-	303,036	3,475,561	<b>3,778,597</b>
Trade and other payables	-	(1,441,334)	(1,510,009)	<b>(2,951,344)</b>
Available-for-sale investments	127,942,836	-	-	<b>127,942,836</b>
Members' savings account liability	-	(107,828)	-	<b>(107,828)</b>
	<b>127,942,836</b>	<b>49,780,626</b>	<b>1,965,552</b>	<b>179,689,014</b>

#### 23. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

##### *Critical accounting estimates and assumptions*

The Scheme makes estimates and assumptions concerning the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The resulting accounting estimates will, by definition, rarely equal the related actual result. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

##### *Outstanding risk claims provision*

The critical estimates and judgements relating to the outstanding claims provision are set out under note 5.

##### *Other risk transfer arrangements*

The critical estimates and judgements relating to other risk transfer arrangements are set out under note 11.

##### *Impairment of financial assets*

The critical estimates and judgements relating to the impairment of assets are set out under note 1.5.

## **BMW EMPLOYEES MEDICAL AID SOCIETY**

**(Registration no. 1526)**

### **NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2019

#### **23. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**

##### *Valuation of financial instruments*

The Scheme's accounting policy on fair value measurements is discussed in accounting policy 1.3.

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

All the Scheme's financial instruments at fair value (available-for-sale investments) are categorised as level 1.

#### **24. NON-COMPLIANCE MATTERS**

##### **24.1 Contributions not received within three days of them becoming due**

In terms of Section 26(7) of the Medical Schemes Act, of South Africa ("the Act"), all subscriptions or contributions shall be paid directly to a medical scheme not later than three days after payment thereof becoming due.

Although the majority of contribution payments were made within the stipulated payment deadlines, there were a small number of instances where the Scheme received contributions after three days of becoming due. These contributions equate to 0.20% (2018: 0.29%) of the gross contributions billed and were received within the month of them becoming due. Such arrear payments are outside the agreed contribution collection agreements with paying parties and are actively addressed as and when they occur.

The procedures that the Scheme follows for collection of these arrear contributions are aligned with its credit risk management policies.

## **BMW EMPLOYEES MEDICAL AID SOCIETY**

**(Registration no. 1526)**

### **NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2019

#### **24. NON-COMPLIANCE MATTERS (continued)**

##### **24.2 Investment in participating employers and medical scheme administrators**

At 31 December 2019, the Scheme indirectly held investments in Momentum Metropolitan Holdings Limited, Liberty Holdings Limited, Standard Bank Group Limited and Discovery Holdings Limited.

Ordinarily this would be in contravention of Section 35(8) of the Act, which, inter alia, prohibits a medical scheme from investing any of its assets in an employer that participates in that scheme. However, as funds in these specific portfolios are structured at the sole discretion of the asset manager in a manner that maximizes the return on investment, and neither the Scheme nor these employers provide input into the structuring of the portfolio.

The Scheme has received exemption from the Council for Medical Schemes, from compliance this section of the Act.

##### **24.3 Claims payments in excess of 30 days**

In terms of Section 59(2) of the Medical Schemes Act, of South Africa ("the Act"), a medical scheme shall, in the case where an account has been rendered, subject to the provisions of this Act and the rules of the medical scheme concerned, pay to a member or a supplier of service, any benefit owing to that member or supplier of service within 30 days after the day on which the claim in respect of such benefit was received by the medical scheme

Instances were identified where claims that were processed on time had not passed for payment within 30 days. These are isolated cases and thus do not have a material effect on the Scheme.

The error is not expected to re-occur as internal quality assurance checks have been implemented to ensure payments are released timeously.

##### **24.4 Prescribed minimum benefits**

Section 29(1)(o) and Regulation 8 provide the scope and level of minimum benefits that the Scheme must provide to members and dependants. During the year under review there were isolated instances where the Scheme did not pay claims in accordance with the scope and level of minimum benefits. The claims are being reprocessed to ensure correctly paid.

## **BMW EMPLOYEES MEDICAL AID SOCIETY**

**(Registration no. 1526)**

### **REPORT OF THE BOARD OF TRUSTEES**

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

#### **1 DESCRIPTION OF THE SCHEME**

##### **1.1 Terms of registration**

The BMW Employees Medical Aid Society is a not-for-profit restricted membership Scheme registered in terms of the Medical Schemes Act, of South Africa.

##### **1.2 Benefit options within the BMW Employees Medical Aid Society**

The Scheme offers one (1) benefit option.

##### **1.3 Savings plan**

From 1 January 2017 the Scheme discontinued the MSA component of the benefit option. MSA balances owing to members are being refunded accordingly. The Scheme is attempting to refund all unpaid balances with assistance from the employer.

## BMW EMPLOYEES MEDICAL AID SOCIETY

(Registration no. 1526)

### REPORT OF THE BOARD OF TRUSTEES (continued)

#### 2 MANAGEMENT

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

C Hector	Chairman - Employer Representative	
D Radebe	Employer Representative	
E Hlophane	Employee Representative	
C Louw	Employee Representative	- resigned 31 Aug 2019
S Sohan	Employee Representative	
K Madumo	Employee Representative	
C McCrea-Phillips	Employer Representative	- resigned 20 Nov 2019
S Hoon	Employer Representative	
J Meiring	Pensioner Alternative Representative	
JP Fegbeutel	Pensioner Member Representative	
V Vatsha-Mahlaba	Co-opted Employer Representative	
T Harakhchand	Alternative Employer Representative	
J Selumane	Alternative Employer Representative	- resigned 14 Nov 2019
M Gounden	Alternative Employer Representative	
G Shafee	Alternative Employer Representative	
D Govender	Alternative Employer Representative	- appointed 14 Nov 2019

2.2 Principal Officer

AR Kelbrick

2.3 Registered office address and postal address

1 Discovery Place	PO Box 786722
Sandton	Sandton
2146	2146

2.4 Scheme administrator during the year

Discovery Health Proprietary Limited

1 Discovery Place	PO Box 786722
Sandton	Sandton
2146	2146





**BMW EMPLOYEES MEDICAL AID SOCIETY**

(Registration no. 1526)

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

**4 REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES**

4.1 Operational statistics

	<b>2019</b>	<b>2018</b>
Number of members at the end of the accounting period	3,295	3,640
Number of beneficiaries at the end of the accounting period	8,087	8,512
Average number of members for the accounting period	3,488	3,441
Average age of beneficiaries for the accounting period	28.04	27.86
Pensioner ratio (beneficiaries > 65 years)	2.47%	2.20%
Average net contributions per member per month	R 4,447.73	R 4,183.78
Average net contributions per beneficiary per month	R 1,918.35	R 1,691.30
Average claims incurred per member per month	R 3,819.02	R 3,364.78
Average claims incurred per beneficiary per month	R 1,647.18	R 1,360.22
Average administration costs per member per month	R 209.81	R 200.56
Average administration costs per beneficiary per month	R 90.49	R 81.08
Average managed care: Management services per member per month	R 93.69	R 88.88
Accumulated funds per member at 31 December	R 55,555.89	R 44,887.09
Beneficiary ratio at 31 December	2.45	2.34
Net claims as a percentage of net contributions	85.86%	80.42%
Managed care: Management services as a percentage of gross contributions	2.11%	2.12%
Administration expenses as a percentage of gross	6.10%	5.92%

4.2 Results of operations

The results of the Scheme are set out in the financial statements and the Trustees believe that no further clarification is required.

4.3 Accumulated funds ratio

	<b>2019</b>	<b>2018</b>
	<b>R</b>	<b>R</b>
The accumulated funds ratio is calculated on the following		
Total members' funds per statement of financial position	203,547,226	175,689,014
- Less: Available-for-sale reserve **	(20,490,572)	(12,300,016)
(Refer to 4.3)		
Accumulated funds per Regulation 29	<u>183,056,654</u>	<u>163,388,998</u>
Annualised gross contributions	<u>186,164,161</u>	<u>172,756,552</u>
Accumulated funds ratio		
= Accumulated funds/annualised gross contribution income x 100	<u>98.33%</u>	<u>94.58%</u>

## BMW EMPLOYEES MEDICAL AID SOCIETY

(Registration no. 1526)

### REPORT OF THE BOARD OF TRUSTEES (continued)

#### 4.3 Accumulated funds ratio (continued)

\*\* Cumulative net gains on re-measurement to fair value are calculated as follows:

	2019 R	2018 R
Net cumulative gain at the beginning of the period	12,300,016	18,525,858
Unrealised gain / (loss) on revaluation of available-for-sale investments included in accumulated funds	8,190,556	(994,322)
Realised (gains) on derecognition of available-for-sale investments	-	(5,231,520)
<b>Cumulative net gain on remeasurement to fair value of available-for-sale investments included in accumulated funds</b>	<b>20,490,572</b>	<b>12,300,016</b>

#### 4.4 Reserve accounts

Movements in the reserves are set out in the statement of changes in funds and reserves. There have been no unusual movements that the Trustees believe should be brought to the attention of the members of the Scheme.

#### 4.5 Outstanding risk claims

Movements on the outstanding risk claims provision are set out in note 5 to the financial statements. There have been no unusual movements that the Trustees believe should be brought to the attention of the members of the Scheme.

## 5 ACTUARIAL SERVICES

The Scheme's actuaries have been consulted in the determination of the contribution and benefit levels. The Scheme's actuaries also calculate the annual budget and monthly actuarial reports of the Scheme, including the monthly incurred but not yet reported (IBNR) claims provision.

## 6 EVENTS AFTER THE REPORTING DATE

At the reporting date, there were no cases of COVID-19 identified in South Africa, and the decline in the fair value of investments occurred after the reporting date. These events are non-adjusting events after the reporting date and no adjustments were made to the amounts recognised in the financial statements as at 31 December 2019.

Subsequent to the reporting date and prior to the date the financial statements were authorised for signature, the President of South Africa declared a national state of disaster as a result of the global COVID-19 pandemic on 15 March 2020. Even though South Africa is in the early stage of the outbreak, and there exist uncertainties about the potential impact of COVID-19 on the Scheme and its members, the Scheme has considered various possible scenarios, including stress test scenarios, to assess the potential impact of COVID-19. The results of the scenarios indicate that the Scheme's claims for 2020 could either decrease by approximately 2.4% or increase by approximately 6.5%.

The Board of Trustees are of the view that the Scheme's strong financial position and reserve levels will allow the Scheme to absorb the potential direct and indirect negative impact of COVID-19 with a reduction of less than 1% in the 2020 solvency level, based on the most likely scenario, and it is not envisaged that it will have an impact on the Scheme's ability to pay claims as they arise.

## BMW EMPLOYEES MEDICAL AID SOCIETY

(Registration no. 1526)

### REPORT OF THE BOARD OF TRUSTEES (continued)

#### 6 EVENTS AFTER THE REPORTING DATE (continued)

COVID-19 has also had a dramatic impact on the South African and global investment markets resulting in a decline in the fair value of investments between the reporting date and the date when the financial statements were authorised for signature. The Trustees and investment advisor continue to monitor this impact.

The Trustees have considered various benefit initiatives to ensure that members' healthcare requirements are adequately addressed, while also ensuring the sustainability of the Scheme. Amongst these are costs associated with diagnostic and treatment interventions for COVID-19, which are covered in accordance with the Prescribed Minimum Benefit requirements as well as the parameters outlined in the registered Scheme Rules.

#### 7 RELATED PARTY TRANSACTIONS

Discovery Health Proprietary Limited is the administrator of the Scheme.

Payments are made in terms of the administration and managed care agreements, reviewed for 2019 at the end of 2018, with Discovery Health (Pty) Ltd. Fees were paid as follows:

	<b>2019</b>	<b>2018</b>
	<b>R</b>	<b>R</b>
Discovery Health Proprietary Limited	12,044,824	11,272,576
Administration fees	8,123,370	7,602,488
Managed care: management services fees	3,921,454	3,670,088

#### 8 AUDIT AND RISK COMMITTEE

An Audit and Risk Committee (the 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 six members of which two are members of the Board of Trustees. The Committee met on two occasions during the course of the year as follows:

- 10 April 2019
- 7 November 2019

The Administrator attend all Committee meetings and has unrestricted access to the Chairman of the Committee. The external auditor of the Scheme attend meetings on invitation only. The Chairman of the Board of Trustees has unrestricted access to the Chairman 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 Scheme's accounting policies, internal control systems and financial reporting practices. The external auditor formally reports to the Committee on critical findings arising from audit activities.

This Committee also acts as a risk committee.

The Committee presently comprises:

S Moodley	Independent - Chairman	- resigned 31 October 2019
C Bathauer	Independent	- resigned 30 June 2019
J Badenhorst	Independent	
S Bisnath	Independent	
C Dorasamy	Independent	
C Hector	Employer Trustee	
S Sohan	Employer Trustee	

## **BMW EMPLOYEES MEDICAL AID SOCIETY**

**(Registration no. 1526)**

### **REPORT OF THE BOARD OF TRUSTEES (continued)**

#### **9 NON-COMPLIANCE MATTERS**

##### **9.1 Contributions not received within three days of them becoming due**

In terms of Section 26(7) of the Medical Schemes Act, of South Africa ("the Act"), all subscriptions or contributions shall be paid directly to a medical scheme not later than three days after payment thereof becoming due.

Although the majority of contribution payments were made within the stipulated payment deadlines, there were a small number of instances where the Scheme received contributions after three days of becoming due. These contributions equate to 0.20% (2018: 0.29%) of the gross contributions billed and were received within the month of them becoming due. Such arrear payments are outside the agreed contribution collection agreements with paying parties and are actively addressed as and when they occur.

The procedures that the Scheme follows for collection of these arrear contributions are aligned with its credit risk management policies.

##### **9.2 Investment in participating employers and medical scheme administrators**

At 31 December 2019, the Scheme indirectly held investments in Momentum Metropolitan Holdings Limited, Liberty Holdings Limited, Standard Bank Group Limited and Discovery Holdings Limited.

Ordinarily this would be in contravention of Section 35(8) of the Act, which, inter alia, prohibits a medical scheme from investing any of its assets in an employer that participates in that scheme. However, as funds in these specific portfolios are structured at the sole discretion of the asset manager in a manner that maximizes the return on investment, and neither the Scheme nor these employers provide input into the structuring of the portfolio.

The Scheme has received exemption from the Council for Medical Schemes, from compliance this section of the Act.

##### **9.3 Claims payments in excess of 30 days**

In terms of Section 59(2) of the Medical Schemes Act, of South Africa ("the Act"), a medical scheme shall, in the case where an account has been rendered, subject to the provisions of this Act and the rules of the medical scheme concerned, pay to a member or a supplier of service, any benefit owing to that member or supplier of service within 30 days after the day on which the claim in respect of such benefit was received by the medical scheme

Instances were identified where claims that were processed on time had not passed for payment within 30 days. These are isolated cases and thus do not have a material effect on the Scheme.

The error is not expected to re-occur as internal quality assurance checks have been implemented to ensure payments are released timeously.

##### **9.4 Prescribed minimum benefits**

Section 29(1)(o) and Regulation 8 provide the scope and level of minimum benefits that the Scheme must provide to members and dependants. During the year under review there were isolated instances where the Scheme did not pay claims in accordance with the scope and level of minimum benefits. The claims are being reprocessed to ensure correctly paid.

**BMW EMPLOYEES MEDICAL AID SOCIETY****(Registration no. 1526)****REPORT OF THE BOARD OF TRUSTEES (continued)****10 MEETING ATTENDANCE**

The following schedules set out Board of Trustee meeting attendances and attendances by members of Sub-Committees:

<b>Board of Trustees meetings</b>	<b>Number of meetings</b>
<b>Number of meetings for the year</b>	<b>6</b>
C Hector	3
D Radebe	3
E Hlophane	5
C Louw - resigned 31 Aug 2019	2
S Sohan	5
K Madumo	4
J Meiring	5
JP Fegbeutel	6
V Vatsha-Mahlaba	4
C McCrea-Phillips - resigned 20 Nov 2019	3
T Harakhchand	2
J Selumane - resigned 14 Nov 2019	-
S Hoon	4
M Gounden	4
G Shafee	3
D Govender - appointed 14 Nov 2019	-
<b>Attendees:</b>	
AR Kelbrick - Principal Officer	6

**BMW EMPLOYEES MEDICAL AID SOCIETY**

**(Registration no. 1526)**

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

**10 MEETING ATTENDANCE (continued)**

<b>Audit and Risk Committee meetings</b>	<b>Number of meetings</b>
<b>Number of meetings for the year</b>	<b>2</b>
S Moodley - resigned as at 31 Oct 2019	1
C Bathauer - resigned as at 30 June 2019	1
J Badenhorst	2
S Bisnath	2
C Dorasamy	2
C Hector	-



.....  
CHAIRMAN  
C HECTOR

*Sudash Sohan*

.....  
TRUSTEE  
S SOHAN



.....  
PRINCIPAL OFFICER  
AR KELBRICK

6 May 2020