

**DISCOVERY HEALTH MEDICAL SCHEME**

**MINUTES OF THE 18<sup>TH</sup> ANNUAL GENERAL MEETING OF THE DISCOVERY HEALTH  
MEDICAL SCHEME**

**WHERE AND WHEN**

The Auditorium, Ground Floor, 155 West Street, Sandton  
Thursday 21 June 2012 at 10:00

**PRESENT**

The attendance register is available at the office of the Principal Officer. 82 people, including members, Trustees, members of the Board sub- committees, auditors and other interested parties attended and signed the attendance register.

**1. Welcome and quorum**

The Chair welcomed everyone present at the 18<sup>th</sup> annual general meeting (“AGM”) of the Discovery Health Medical Scheme. The Chair declared that in terms of rule 25.1.1. there are more than 15 members present and therefore constitutes a quorum. The meeting was properly constituted and was declared open.

**2. Confirmation of the agenda for the meeting**

The Chair presented the agenda for the meeting and requested the approval thereof. The agenda was approved by Mr Thys Botha and seconded by Mr Johan Fourie.

### **3. Minutes of the 2010 AGM held on 23 June 2011**

The Chair proposed that the minutes of the 17<sup>th</sup> AGM of the members of the Discovery Health Medical Scheme held on 23 June 2011 be confirmed. A draft copy of the minutes was submitted to the Board of Trustees who expressed the opinion that the minutes were an accurate reflection of the proceedings of the AGM held on 23 June 2011. The draft minutes had also been put on the website for the information and use of members in general. The minutes were approved by Mr Shaun Osner and seconded by Mr Noel Graves.

### **4. Tabling of the annual financial statements**

The Chair requested that before he asks for the approval of the Trustees report and the annual financial statements, Mr Milton Streak (Principal Officer of DHMS) give the meeting more background on the financial highlights of the past year. Mr Streak then presented the highlights.

The Chair thanked Mr Streak for the informative presentation.

Dr Jonathan Broomberg (CEO of Discovery Health (Pty) Ltd, the administrator of the Scheme) gave the meeting a presentation on the strategies that have been put in place by the administrator.

The Chair thanked Dr Broomberg for the presentation.

The Chair proposed that the report of the Trustees and the annual financial statements for the year ended 31 December 2011 be tabled and accepted. The proposal was approved by Dr Stephen Rich and seconded by Mr John Gardner.

## **5. Governance**

The meeting was informed that the governance framework of the Scheme is based on the Medical Scheme's Act as well as the King III Code of best practice.

### **5.1. Appointment as Auditors**

The Chair proposed that PricewaterhouseCoopers Inc. (PwC) be appointed as auditors for the ensuing year. It was noted that the audit partner of PwC, who is in charge of the Scheme's audit, will be rotated for the year ahead. Mr Gabriel Le Roux approved the proposal and Mr Greg Morris seconded the proposal.

### **5.2. Confirmation of Trustees appointed by the Board during 2011**

The Chair stepped down for this agenda item, and Mr Streak addressed the meeting. He informed the meeting that the affairs of the Scheme must be managed according to the rules of the Scheme by a board of fit and proper persons of at least five but no more than eight persons. The Trustees elected and appointed during 2010 serve a term of three years in terms of the rules of the Scheme. Accordingly, there is no need for elections at this meeting. During the 2011 year, a vacancy arose due to the resignation of Dr Dhesan Moodley. In terms of Rule 17.7 Mr Michael van der Nest was appointed by the Board to fill the vacancy. The meeting was requested to approve Mr van der Nest's appointment. Mr Botha approved and Mr Osner seconded the appointment.

The Chair informed the meeting that the Scheme has the following Board committees as part of its governance structure:

- Audit and Risk Committee, with the following members: Mr Don Eriksson (Chair and independent committee member); Mr Barry Stott (Trustee); Mr Giles Waugh (Trustee); Mr Steven Green (independent committee member) and Mr Neil Novick (independent committee member).

- Investment Committee, with the following members: Mr Puke Maserumule (Chair and Trustee); Mr Barry Stott (Trustee) and Mr Giles Waugh (Trustee).
- Clinical Governance Committee, with the following members: Dr Nozipho Sangweni (Chair and Trustee) and Prof Zephne van der Spuy (Trustee).
- Remuneration Committee, with the following members: Mr van der Nest and Mr Eriksson.

## 6. Scheme Amalgamations

In terms of Rule 29.1 of the DHMS Rules, the Scheme may, subject to the provisions of section 63 of the Act, amalgamate with, transfer its assets and liabilities to, or take transfer of assets and liabilities of any other medical scheme or person, in which event the Board must arrange for members to decide by ballot whether the proposed amalgamation should be proceeded with or not.

The Trustees received a request for amalgamation from the Nampak SA Medical Scheme. The amalgamation information was published on the Scheme's website under AGM matters 21 days prior to the meeting for members to familiarize themselves with the information. Discovery Health's Chief Actuary, Mr Emile Stipp, presented the merits of the proposed amalgamation to the AGM. The Chair requested that the voting in respect of the amalgamation proposal take place after the presentation of the motions, at which point all voting will take place. It was noted that PwC were the independent auditors and the administrators for this ballot process. The Chair informed the meeting that results of the ballot will be published on the Scheme's website within the next two weeks.

## 7. Motions Received

**7.1. Motion received from Mr Gavin Bauer: Mr Bauer read out his motion, which set out the following:** In the next 12 month period the Trustees conduct a formal analysis, and report back formally at the next AGM, on the fees paid to the administrator with specific

regard to assessing the value for money relative to other alternatives in the market. This analysis should ideally, inter alia, include:

- 7.1.1.a benchmarking process of fees paid relative to the administration/managed care fees paid in the market by other open market and closed schemes.
- 7.1.2.a benchmarking process of the services offered relative to that offered by other administrators/managed care organizations.
- 7.1.3.a formal assessment to determine whether the Scheme is benefiting from the economies of scale resulting from membership growth, and if not, to formalize mechanisms to ensure that real administration and managed care fees reduce as membership increases.
- 7.1.4.a formal assessment of the benefits of regularly placing the administration and managed care contracts of the Scheme out for tender in the open market (as in the case of GEMS), thereby placing the Trustees in a position independently determine whether the fees being charged are competitive and market related.
- 7.1.5.a formal assessment of splitting the managed care and administration agreements to ensure that the Scheme is in a position to choose the 'best of breed' product supplier for each service on offer in the market.

**The motion was seconded by Mr Graves.**

**7.2 Motion from Mr Mario Compagnoni: Request for targeted reduction in Expenses for Administration (page 79 of Annual Report - 2011). Mr Compagnoni was not present and members were taken through the motion, which read as follows.** “Cognisance is taken of the excellent work done over the last few years by the Trustees and Administrator in optimising leading-edge technology and analytics to identify fraudulent claims and improving the services provided to members in a variety of ways.

**7.2.1** Whilst it is acknowledged that this is an ongoing process, which requires to be updated in order to remain at the forefront of technology, the benefits of economies of scale derived from increases in membership should be reflected in a reduction of expenses for administration as a percentage of net contribution income.

**7.2.2** It is therefore proposed and requested that the Trustees, in consultation with the Administrator, develop targeted reductions in expenses for administration as a percentage of net contribution income on a year-to-year basis for the next three years, from the current 11.46%.

(The Chair informed the meeting that the Board believed the words “net contribution income” to be a typographical error, and that it should read “gross contribution income” as this value is used by the industry to compare administration charges of medical schemes.)

**7.2.3** I understand that other relatively large-size administrators are achieving competitive ratios well into single percentage figures; and the DHMS needs to become much more transparent in its accountability to Members, particularly in view of the 'related party' status of the Administrator, by providing a more detailed analysis of how the R2,8 billion is made up, including the profit margin portion.”

**The motion was seconded by Mr Gerhard Jacobs.**

The Chair informed the meeting that the Board of Trustees had already resolved at its November 2011 board meeting to perform a governance review covering the various points raised in both proposed motions. The governance review would include a local and international review. Major consulting organisations have been requested to provide the Board with proposals. The Board will select the appropriate organisation to perform the review.

Against this background the Chair encouraged the meeting to vote in favour of both motions.

**7.3 The following issues were raised during the debate in respect of the two motions and were responded to by the Chair as indicated below:**

**7.3.1** Given that the Scheme only has four employees, the Scheme may not be sufficiently independent of the Administrator. The Chair responded that the Board of Trustees

considers that the staffing model of the Scheme is appropriate, since a larger staff complement would not necessarily make the Scheme more efficient, due to possible duplication of functions. GEMS has a much larger staff complement, but this does not necessarily mean that the GEMS model employed would be suitable to DHMS or that it would be more efficient. The Chair raised the issue whether accountability for different functions by multiple administrators or by a single one tasked with the whole, was more practical and desirable for the Scheme. The Chair pointed out that the Trustees demand extensive oversight and reporting on the operations of the Scheme from the Scheme Executive. Should it be found that the staff complement requires adjustment based on additional oversight requirements, the Trustees will ensure that the necessary requirements are met.

- 7.3.2** The Scheme appears to have very little, if any, intellectual property, as the intellectual property resides with the administrator. Dr Broomberg suggested that the bulk of the intellectual property resides with the Administrator, since there are rules as to what a medical scheme may invest its reserves in. The Chair stated that whilst the Scheme possessed intellectual property, he expected that the Administrator would also own intellectual property where it had expended its own capital and expertise.
- 7.3.3** The Scheme may be subjected to a monopolistic relationship and consideration should be given to whether the Scheme should put its services out to tender. The Chairman suggested that while putting services to tender was an option, the Trustees have consistently believed that by dealing with one integrated best of breed service provider was more efficient and effective. As raised earlier, the business model followed by GEMS for example, is not necessarily more efficient, as services are rendered in silo's and various parties would need to interact with the Trustees and management based on the split in operations of the Scheme. This model might also not maximise continuous innovation for the benefit of a scheme.
- 7.3.4** Questions were raised as to the independence of the Trustees in relation to the administrator. The Chair emphasised that the Trustees are completely independent. All have separate and independent professional careers. Upon a query from Mr Bauer regarding insight to the terms of reference for the Governance Review, Mr Streak

mentioned that the terms of reference would only be finalised by the Board of Trustees after the appointment of the consulting company which will conduct the review. The Chair asked that Mr Bauer contact Mr Streak to discuss the terms of reference.

**The members then voted in respect of the merger proposal and the two motions.**

## **8. General**

8.1. With reference to the Governance Review, Mr Edges enquired whether the Scheme operates internationally and the Chair advised that the Scheme does not have international operations, but that an international benchmarking process will be undertaken as part of the governance review.

8.2. Mr Jacobs enquired about the duration of PwC's audit services. Mr Osner informed the meeting that PwC has been conducting the Scheme's audit for a number of years, but the audit partner is being rotated for the year ahead.

8.3. Ms Gisela Goodhew raised queries regarding benefits and changes to the chronic drug formulary, which Dr Broomberg undertook to address after the meeting.

There being no further matters for discussion, the Chair closed the meeting.

Confirmed a reasonable reflection of the discussions at the meeting.

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CHAIRMAN

Date: