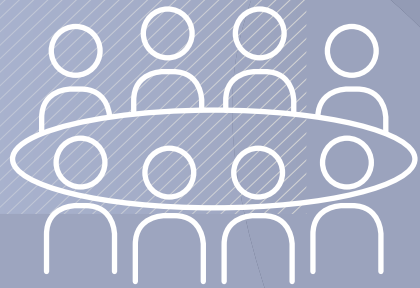


# 4 GOVERNANCE





<b>OUR CHAIRPERSON'S STATEMENT</b>	46
<b>HOW WE ARE GOVERNED</b>	47
Governance framework and Board responsibility	47
Board evaluations	48
Board composition, attendance, rules and independence	49
Governance and management structures	50
<b>OUR BOARD COMMITTEES</b>	52
Audit Committee	54
Clinical Governance Committee	55
Disputes Committee	57
Investment Committee	57
Non-healthcare Expenses Committee	59
Nomination Committee	60
Product Committee	60
Remuneration Committee	61
Risk Committee	62
Stakeholder Relations and Ethics Committee	64
<b>DISCOVERY HEALTH MEDICAL SCHEME BOARD AND BOARD COMMITTEE MEMBER REMUNERATION POLICY</b>	66
<b>REGULATORY AND INDUSTRY MATTERS DEALT WITH IN 2017</b>	70

# OUR CHAIRPERSON'S STATEMENT



**The King IV Report on Corporate Governance for South Africa 2016 reinforces the view that organisations are required to adopt a holistic approach to governance and be transparent to their stakeholders.**

**Accordingly, the Discovery Health Medical Scheme Board of Trustees adopted this latest governance code, which became applicable in the Scheme in January 2018.**

It seeks to ensure an ethical culture, good performance and effective control to support the creation of value for, and service to, our members.

The governance ecosystem of the Board of Trustees (the Board or the Trustees) is informed by the Medical Schemes Act 131 of 1998, as amended (the Act), its Regulations, the Scheme Rules and the King IV Report on Corporate Governance for South Africa 2016 (King IV). Conducted in 2017, an external review of the operational model of the

Scheme Office confirmed that its primary focus and expertise is governance best practice in supporting excellent and affordable healthcare for all our members.

The Discovery Health Medical Scheme (DHMS or the Scheme) supports the objectives of universal health coverage and we will support the government's National Health Insurance (NHI) policy to ensure DHMS activities complement the objectives of government policy.

We look forward to the conclusion of the Competition Commission's Health Market Inquiry (HMI), for which the final report is expected in August 2018. The Scheme has participated fully and diligently in the HMI, and our expectation is that it will result in the attainment of a more integrated and cost-effective private healthcare sector that is focused on quality.

The Trustees note the appointment of the new Council of the Council for Medical Schemes (CMS) and wish them a successful tenure. The Scheme engages extensively and transparently with the CMS on various governance and regulatory matters, and we remain committed to continue developing trust and building on our constructive relationship.



During 2017, the Board finalised a new set of administration and managed care agreements with our Administrator and Managed Care Provider, Discovery Health (Pty) Ltd (Discovery Health), for implementation in January 2018. The new contracts support our objective of achieving maximum value for our members while improving their healthcare outcomes and easing their administration burden. In addition, the agreement focuses on the continued investment in incremental innovation by Discovery Health for the benefit of the Scheme and its members. The Board believes this will strengthen DHMS's position as the leading medical scheme in South Africa.

**PAGE REFERENCE**

Read more about Discovery Health's innovations for the Scheme on **pages 89 – 93** and in the Stakeholders section on **pages 35 – 36** and **pages 38 – 39**.

The Trustees sought independent expert opinion from Deloitte to confirm quantitatively that the Scheme does achieve significant value for money from its contracts with Discovery Health. In 2017, Deloitte verified that Discovery Health added R2.00 of value for every R1.00 paid to them in 2016, up from R1.85 in 2015.

The terms of two Trustees ended during 2017, being Mr Giles Waugh and Mr Michael van der Nest SC. Both were long-standing members of the Board and its various Committees, and Mr van der Nest SC served as Chairperson of the Board for two terms. They always exercised their fiduciary responsibility in an exemplary manner.

At our AGM in June 2017, members elected two new Trustees; we welcome Dr Susette Brynard and Ms Joan Adams SC to the Board. Ms Adams SC is an advocate with a particular interest in medical law and Dr Brynard has a PhD in education and a strong personal involvement in healthcare advocacy.

The Board comprises individuals with a broad array of skills and experience, including legal, actuarial, accounting, economics, governance, clinical, financial, investment and human resources. This provides me with confidence in our ability to interrogate and debate the wide range of issues we are confronted with, and further determine outcomes that serve the best interests of our members and society.

I wish to thank our retiring Chairperson, Mike van der Nest, and retiring Trustee, Giles Waugh, for their outstanding service and dedication to the Scheme. My thanks are also due to my current colleagues on the Board of Trustees, the Scheme Office and Discovery Health. I am honoured by the faith shown by my fellow Trustees in electing me as the new Chairperson of the Scheme in 2017. I would also like to acknowledge the excellent leadership of Dr Nozipho Sangweni, who completed her first year as Principal Officer of the Scheme in January 2018.

NEIL MORRISON  
**CHAIRPERSON**

## How we are governed

All medical schemes in South Africa are governed by the Act. The Scheme Rules<sup>1</sup> are developed in accordance with the Act and approved annually by the CMS.

Additional governance guidance is taken from King IV and, where not superseded by King IV, by the King Report on Governance for South Africa and the King Code of Governance Principles 2009 (King III). These governance codes set the standard for good corporate governance in South Africa and are recognised as best practice internationally.

### GOVERNANCE FRAMEWORK AND BOARD RESPONSIBILITY

DHMS is governed by an independent Board of Trustees, which is responsible for the oversight of the business of the Scheme. The Trustees hold the decision-making power of the Scheme and are ultimately responsible for overseeing the development and implementation of the Scheme's strategy and the sound management of its business, including Scheme policies. The Board's overriding objective is to ensure that the best interests of Scheme members are served equitably and in the context of the sustainability of DHMS.

The Board is satisfied that it has fulfilled its mandate in accordance with its charter and carried out its duties in an ethical, responsible and equitable manner during the year.

According to the Scheme Rules, the affairs of the Scheme must be managed according to these Rules by a Board of fit and proper members (i.e. with the requisite character, integrity, skill, competence, financial soundness and ability to exercise a fiduciary duty) of at least five and a maximum of eight Trustees.

At least 50% of Trustees on the Board are elected by members at any given time, which means that the Board has no influence over the re-election of these Trustees. In terms of its limited succession planning ability, the Board may also appoint additional Trustees to fill skills gaps if required or re-appoint a Trustee taking into account their performance and the skills and knowledge that are required on the Board. Trustees serve a term of three years and are eligible for subsequent re-election or re-appointment, but may not serve more than two consecutive terms.

The Board comprises independent, highly skilled professionals with expertise in legal, actuarial, accounting, economics, governance, clinical, financial, investment and human resources. The Board is satisfied that the diversity of skills and experience of the Trustees enables it to carry out its duties in a competent way that fulfils its responsibility to the Scheme's members.

<sup>1</sup> Scheme Rules are available to registered members at [www.discovery.co.za/medical-aid/scheme-rules](http://www.discovery.co.za/medical-aid/scheme-rules).

## GOVERNANCE *continued*

The role of the Trustees is to:

- Evaluate, direct and monitor the Scheme's strategy, ensuring that it is aligned with the purpose and value drivers of the Scheme, and the legitimate interests and expectations of stakeholders;
- Review the sustainability of the Scheme and evaluate whether the services offered by the Administrator and Managed Care Provider meet the needs of the Scheme and its members, and offer value for money;
- Monitor innovation and oversee the improvement of all levels of the Scheme's operations;
- Monitor adherence to the Scheme Rules and the provisions of the Act in the day-to-day running of the Scheme's affairs; and
- Consider stakeholder perceptions and their impact on the Scheme's reputation.

At all times, the Trustees are required to act with due care, diligence, skill and good faith in the best interests of the Scheme and its members. Measures are in place to assess any conflicts of interest that may arise, and the Trustees act in terms of best practice governance and any relevant legal requirements in managing these.

**The duties of the Trustees, set out in the Act and Scheme Rules, are to:**

- Take all reasonable steps to ensure that the interests of beneficiaries, in terms of the Scheme Rules and the provisions of the Act, are protected at all times while acting with impartiality in respect of all beneficiaries;
- Ensure the proper and sound management of the Scheme by applying sound business principles to ensure its financial position is sound;
- Take all reasonable steps to protect the confidentiality of medical records concerning the state of health of the Scheme's members, and ensure that the Scheme Rules, operations and administration comply with the provisions of the Act and all other applicable laws;
- Oversee and direct the management of the Scheme's outsourced activities performed by the Administrator and Managed Care Provider;
- Appoint, evaluate and delegate oversight functions to the Principal Officer;
- Ensure that proper control systems and record keeping are employed by and on behalf of the Scheme; and
- Ensure that adequate and appropriate information is communicated to members regarding their rights, benefits, contributions and responsibilities in terms of the Scheme Rules.

Trustees are remunerated for their services in terms of the Scheme's Remuneration Policy, which is included on **pages 66 to 69** of this Integrated Report. The benchmarked professional fees of Trustee and Board Committee members are discounted to recognise the non-profit status of medical schemes.

## BOARD EVALUATIONS

The Board conducts annual self-assessments which include an evaluation of the Chairperson, a Trustee peer and self-rating, and an overall Board performance evaluation. These evaluations assess the following:

- Whether the Chairperson fulfils his role, leads the Board effectively in determining the Scheme's strategy and in assessing major risks impacting the Scheme's ability to deliver on its strategy, among other matters.
- The Trustee peer and self-rating assesses the following:
  - The role, responsibilities and duties of a Trustee, and their fitness and propriety in terms of skill and knowledge.
  - Whether a Trustee understands their role, responsibilities and duties in terms of the Act, the Scheme Rules and other legislation (such as the Companies Act 71 of 2008).
  - Whether the Trustee understands the interest and expectations of the Scheme's members and other stakeholders, and the Scheme's strategic objectives.
- The Board evaluation assesses the effectiveness of the Board in terms of the following matters, among others:
  - Whether it acts with due care, diligence, skill and good faith in ensuring the best interests of the Scheme and its members.
  - Whether it assesses the implementation of all strategic deliverables by the Scheme Office.
  - If it ensures that the outsourced activities performed by the Administrator and Managed Care Provider meets the needs of the Scheme and its members.
  - If it ensures that the Scheme Rules and all applicable legislation is adhered to in the day-to-day running of the Scheme Office, and ensures that proper control systems are employed by and on behalf of the Scheme.
  - If it considers stakeholder perceptions and their impact on the Scheme's reputation.

Based on the reviews conducted, the Trustees are satisfied with the effectiveness of the Chairperson and the Board as a whole. The outcome from the Trustee peer and self-rating evaluation did not identify any material weaknesses; however, this process aims to continually improve Board performance and effectiveness, and any concerns raised are discussed and addressed by the Trustees.

During 2018, the Scheme will be engaging the Institute of Directors in Southern Africa (IoDSA) to conduct an independent effectiveness review of the Board and Board Committees.



## BOARD COMPOSITION, ATTENDANCE, RULES AND INDEPENDENCE

Where members of the Board or its Committees have served for longer than nine years, the Trustees must consider whether or not they remain independent.

The Trustees have considered the tenures of Mr Barry Stott, Chair of the Audit and Risk Committees, and Mr Steven Green, independent member of the Audit and Risk Committees, and believe that they remain sufficiently independent of the Scheme to continue serving on these Committees.

In addition, the Trustees have considered the independence of the Chairperson of the Board and believe him to be independent.

Name of Trustee or Board Committee member	Designation	Appointed/elected	Start of term	End of term
1 Michael van der Nest SC	Trustee – Chair	<b>Appointed 1st term</b>	16 Aug 2011	15 Aug 2014
	Trustee – Chair	<b>Appointed 2nd term</b>	15 Aug 2014	14 Aug 2017
2 Giles Waugh	Trustee	<b>Appointed 1st term</b>	14 Apr 2011	13 Apr 2014
	Trustee	<b>Appointed 2nd term</b>	02 Jun 2014	02 Jun 2017
3 Daisy Naidoo	Trustee	<b>Elected 1st term</b>	20 Jun 2013	19 Jun 2016
	■ Trustee	<b>Elected 2nd term</b>	23 Jun 2016	22 Jun 2019
4 Neil Morrison	■ Trustee – Chair	<b>Elected</b>	23 Jun 2016	22 Jun 2019
5 David King	■ Trustee	<b>Elected</b>	23 Jun 2016	22 Jun 2019
6 Dhesan Moodley	■ Trustee	<b>Elected</b>	23 Jun 2016	22 Jun 2019
7 John Butler SC	Independent Co-opted member	<b>Appointed</b>	05 Sep 2016	
	■ Trustee	<b>Appointed</b>	14 Jun 2017	13 Jun 2020
8 Johan Human	Independent Co-opted member	<b>Appointed</b>	05 Sep 2016	
	■ Trustee	<b>Appointed</b>	14 Aug 2017	13 Aug 2020
9 Joan Adams SC	■ Trustee	<b>Elected</b>	22 Jun 2017	21 Jun 2020
10 Susette Brynard	■ Trustee	<b>Elected</b>	22 Jun 2017	21 Jun 2020
11 Barry Stott	Chair of the Audit and Risk Committees, independent Investment Committee member	<b>Appointed</b>	01 Jul 2013	
12 Don Eriksson	Chair of the Remuneration Committee	<b>Appointed</b>	08 Apr 2013	15 Nov 2017
13 Imtiaz Ahmed	Chair of the Investment Committee	<b>Appointed</b>	20 Jan 2016	
14 Zephne van der Spuy	Independent Clinical Governance Committee member	<b>Appointed</b>	04 Jul 2016	
15 Mike Sathekge	Independent Clinical Governance Committee member	<b>Appointed</b>	01 Jan 2016	
16 Selma Smith	Independent Clinical Governance Committee member	<b>Appointed</b>	01 Jan 2016	
17 Philile Maphumulo	Independent Audit, Risk and Investment Committees member	<b>Appointed</b>	20 Jan 2016	
18 Sue Ludolph	Independent Audit and Risk Committees member	<b>Appointed</b>	20 Jan 2016	
19 Steven Green	Independent Audit and Risk Committees member	<b>Appointed</b>	11 Dec 2001	
20 Peter Goss	Chair of the Nomination Committee	<b>Appointed</b>	22 Oct 2015	
21 Tom Wixley	Nomination Committee member	<b>Appointed</b>	22 Oct 2015	
22 Roy Shough	Nomination Committee member	<b>Appointed</b>	22 Oct 2015	

According to the Scheme's Rules, the Board may consist of a minimum of five and a maximum of eight Trustees (Rule 17.1) and at least 50% of the Board must be elected by members (Rule 17.3). The balance of the Trustees may be elected by members or appointed by the Trustees provided not more than two Trustees are appointed.

1 Current Trustees at the time of publishing this Integrated Report.

## GOVERNANCE *continued*

Board meetings attendance in 2017		21 Feb	22 Feb	28 Feb	24 Mar	06 Apr	09 Jun	14 Jun	12 Jul	07 Aug	29 Aug	16 Nov
Trustees	Mr Michael van der Nest SC <sup>#</sup>	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	-
	Mr Neil Morrison <sup>□</sup>	✓	✓	✓	✓	✓	✓	✓	✓	x	✓	✓
	Mr Giles Waugh <sup>*</sup>	x	✓	✓	✓	✓	-	-	-	-	-	-
	Ms Daisy Naidoo	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Mr David King	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Mr Dhesan Moodley	✓	✓	✓	✓	✓	✓	✓	✓	x	✓	✓
	Ms Joan Adams SC <sup>∞</sup>	-	-	-	-	-	-	-	✓	✓	✓	✓
	Mr Johan Human <sup>◇</sup>	✓	✓	✓	-	✓	✓	✓	✓	x	✓	✓
	Mr John Butler SC <sup>◆</sup>	✓	✓	-	-	✓	✓	✓	x	x	✓	✓
	Dr Susette Brynard <sup>∞</sup>	-	-	-	-	-	-	-	✓	✓	✓	✓
Chairperson: Audit and Risk Committee	Mr Barry Stott	✓	✓	✓	✓	✓	✓	✓	✓	x	✓	✓

<sup>#</sup> Term as a Trustee/Chair ended on 14 August 2017 and Mr Neil Morrison was appointed by the Board as Chair on 6 April 2017, which appointment took effect on 14 August 2017 when Michael van der Nest SC's term as a Trustee/Chair ended.

<sup>□</sup> Elected as Chair on 14 August 2017.

<sup>\*</sup> Term as a Trustee ended on 2 June 2017.

<sup>∞</sup> Elected as a Trustee on 22 June 2017.

<sup>◇</sup> Independent Co-opted member until 14 August 2017, whereafter appointed as a Trustee.

<sup>◆</sup> An administrative error in the Scheme Office resulted in Mr John Butler SC not receiving full remuneration as an Independent Co-opted member. In 2018, the remuneration was adjusted to correct this omission.

The meetings on 28 February, 14 June and 7 August were teleconferences.

The meeting on 24 March was with the Nomination Committee.

## GOVERNANCE AND MANAGEMENT STRUCTURES

### BOARD COMMITTEES

In compliance with the Act, the registered Scheme Rules and in line with best practice governance principles, the Board has implemented appropriate governance structures to navigate and manage the complex operating environment, risks and strategic objectives of the Scheme. The Board is supported by ten Board Committees, which are constituted and structured according to the needs of the Scheme and to assist the Board to fulfil its fiduciary and oversight duties effectively. Board Committee members consist of both Trustees and independent members.

The Committees report regularly to the Board, and each has its own terms of reference and clear procedures for reporting. The terms of reference set out each Committee's role and responsibilities, which are reviewed on an annual basis to ensure that they remain relevant to the business of the Scheme, and that the skill and expertise of members on the Committee are appropriate and relevant. The Committees make recommendations to the Board for the approval of any decisions to be taken.





### SCHEME MANAGEMENT

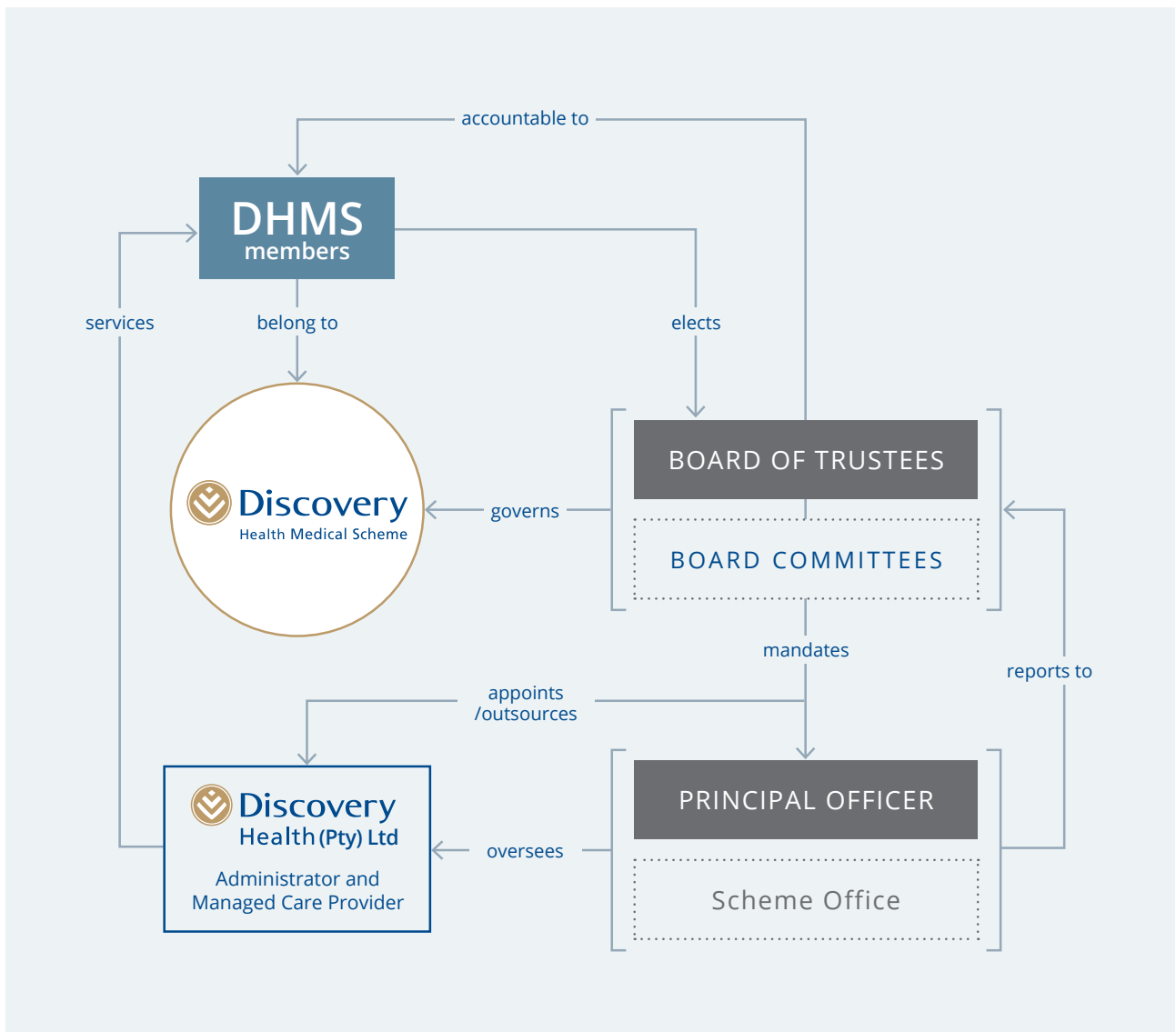
The Trustees appoint and delegate accountability for the day-to-day management of the Scheme to a Principal Officer, who is the chief executive of the Scheme. The Principal Officer executes the Trustees' decisions and implements strategy, and is supported by an executive management team.

### SCHEME SECRETARIAT

Within its operational structure, the Scheme has a secretariat function that is appropriately qualified and experienced to provide the Trustees with support regarding their duties, responsibilities and powers. In addition, the secretariat function ensures that accurate minutes of all Board and Committee meetings are prepared, distributed and stored appropriately.

### DELEGATION OF AUTHORITY

The Board has implemented a formal delegation of authority that defines the authority, roles and responsibilities required for the optimal operation of the Scheme. During 2017, the Scheme commenced a process to review its operating model. This was completed towards the end of 2017 and resulted in recommendations relating to detailed accountabilities and authorities for each role in the Scheme Office. Once finalised, the recommendations will be incorporated into the existing delegation of authority.





# OUR BOARD COMMITTEES

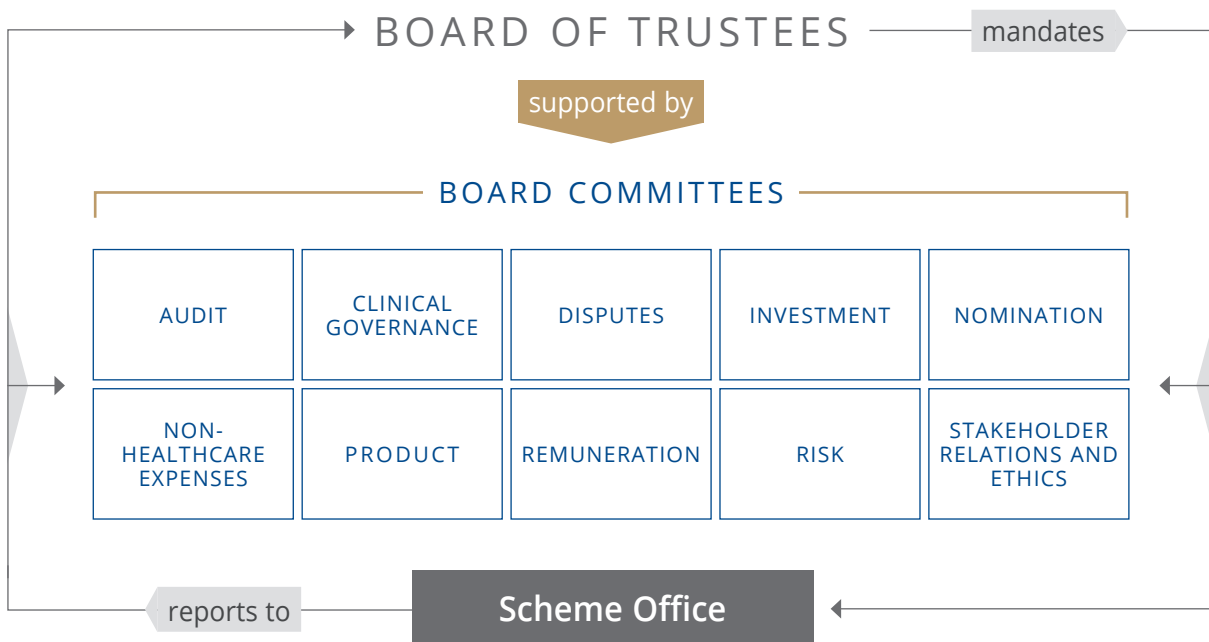
To fulfil its fiduciary and oversight duties effectively, the Board is assisted by ten Committees that are established according to governance best practice and the requirements of legislation.

Committee members are remunerated for their services in terms of the Scheme's Remuneration Policy, which is included on [page 66 to 69](#) of this Report. The benchmarked professional fees of Trustee and Board Committee members are discounted to recognise the non-profit status of medical schemes.

Each Committee conducted the annual self-assessments to evaluate their effectiveness and procedures, which covers areas such as:

- Committee composition;
- Number of meetings held;
- Maintaining a constructive relationship with management;
- Interaction between Committee members; and
- Adherence to specific deliverables in the terms of reference.

Each Committee was satisfied with the results of the assessments, and no material weaknesses were identified.





[About our Report](#)

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[Our stakeholders](#)

**[Governance](#)**

[Performance](#)

[Financials](#)

[Resources and glossary](#)

## AUDIT COMMITTEE

The Audit Committee is a statutory committee established in terms of Sections 36 (10) to (13) of the Act. This Committee assists the Board in discharging its responsibilities relating to the safeguarding of assets, the operation of adequate and effective systems and control processes, and the preparation of fairly presented financial statements in compliance with all applicable legal and regulatory requirements and accounting standards.

The Committee supports the Trustees in fulfilling their governance and oversight responsibilities for:

- Financial reporting processes;
- Integrated and sustainability reporting processes;
- Internal financial controls;
- Monitoring the performance of internal and external audit processes;
- Monitoring the impact of information technology (IT) and IT-related matters on the financial results;
- Monitoring the sustainability of business strategy, risk management and good governance;
- Monitoring business conduct and compliance with laws, regulations and relevant codes of conduct;
- Evaluating the independence and objectivity of the Internal Audit and external audit functions;
- Monitoring matters relating to the sustainability of the Scheme to the extent that it has an impact on the financial results; and
- Recommending annual contribution increases for approval by the Board.

### OUR AUDIT COMMITTEE CHAIRPERSON



#### MR BARRY STOTT

CA(SA)

Mr Stott commenced articles with PwC in February 1968 in the audit division. He was appointed partner in 1982, responsible for audits in the insurance and asset management industry. Mr Stott also led the financial services industry practice and financial services knowledge management division, and ensured that PwC staff were up to date on all issues in

the industry, trained in industry specialisation and on all IFRS issues relating to the financial services industry.

Since retiring from PwC in June 2009, Mr Stott has been a member of audit panels for Momentum Asset Management, Momentum Wealth, Rand Merchant Bank Asset Management and Advantage Asset Management. Since January 2010, Mr Stott has been an independent non-executive director of Clientèle Holdings Ltd, Clientèle Life Limited and Clientèle General Limited. He is the chairman of the Audit, Risk, and Remuneration Committees of the Clientèle Group, as well as a member of the Clientèle Group Investment Committee and attends Actuarial Committee meetings.

Mr Stott serves on the Scheme's Investment Committee and Chairs the Audit and Risk Committees.

### HOW THE COMMITTEE DISCHARGED ITS FIDUCIARY DUTIES DURING 2017

#### PAGE REFERENCE

Read the Audit Committee's report on pages 97 – 98, and more about non-compliance matters on pages 81 – 82.

The Committee is satisfied that the activities it has conducted and the manner in which it has reported and recommended to the Board during 2017 have fulfilled its responsibilities in accordance with its terms of reference.

### COMPOSITION AND MEETINGS IN 2017

The Audit Committee comprises highly skilled and experienced members with extensive actuarial, financial and IT skills. At the end of 2017, the Committee comprised four Trustees and four independent members, one of whom Chaired the Committee.

The Committee meets at least four times a year and schedules additional meetings as necessary. The external and internal auditors meet regularly with the Committee without the Administrator and Managed Care Provider and Scheme management present.

Committee members may consult any expert or specialist to assist the Committee in performing its duties. The external auditors and the Principal Officer, as well as the internal auditors attend all Committee meetings by invitation and have unrestricted access to the Chairperson of the Audit Committee. The heads of the outsourced administration functions, which includes the finance and actuarial functions, also attend the meeting to allow the Committee to obtain insight and comfort regarding the outsourced functions.



Audit Committee attendance in 2017		10 Mar	17 Mar	15 Aug	23 Aug	03 Oct
Chairperson	Mr Barry Stott (Independent member)	✓	✓	✓	✓	✓
Committee members	Ms Daisy Naidoo (Trustee)	✓	✓	✓	✓	✓
	Mr Giles Waugh (Trustee) <sup>#</sup>	✓	x	-	-	-
	Mr Neil Morrison (Trustee) <sup>♦</sup>	✓	✓	-	-	-
	Ms Joan Adams SC (Trustee) <sup>*</sup>	-	-	✓	✓	✓
	Mr Johan Human (Trustee) <sup>∞</sup>	-	-	x	✓	✓
	Mrs Sue Ludolph (Independent member)	✓	✓	✓	✓	✓
	Mr Steven Green (Independent member)	✓	✓	✓	✓	✓
	Mrs Philile Maphumulo (Independent member)	✓	✓	✓	✓	✓

<sup>#</sup> Term as a Trustee ended on 2 June 2017.  
<sup>\*</sup> Elected as a Trustee on 22 June 2017 and appointed to the Committee on 12 July 2017.  
<sup>♦</sup> Appointed by the Board as Chair on 6 April 2017 which appointment took effect on 14 August 2017 and at that time resigned as a member of the Committee.  
<sup>∞</sup> Independent member until 14 August 2017, whereafter appointed as a Trustee and appointed to the Committee on 12 July 2017.

### FUTURE FOCUS AREAS

The Committee will continue to exercise due care and responsibility in fulfilling its mandate.

With effect from 2018, the Audit Committee has been assigned the mandate for monitoring the effectiveness and appropriateness of the combined assurance model.

## CLINICAL GOVERNANCE COMMITTEE

While there is no statutory requirement for this Committee, it has been established in terms of Scheme Rule 19.3, which gives power to the Board to appoint and delegate authority to a subcommittee consisting of such Board members and other experts as it may deem necessary. In this instance, the Trustees established this Committee to ensure compliance with the Act, and to comply with best practice governance principles.

This Committee assists the Trustees in the general oversight of funding policies and practices, clinical governance and ensuring that the Scheme provides access for members to evidence-based, clinically appropriate, cost-effective, affordable, quality healthcare in a consistent and equitable manner. The Committee comprises members with the requisite skills to consider the clinical complexities in healthcare funding.

The Committee oversees the functions performed by Discovery Health in terms of the managed care agreement. In this regard, it has insight into clinical and utilisation risk management, funding policies and protocols, management of clinical exceptions and ex-gratia requests and decisions, clinical pilot projects, member complaints, appeals and disputes, research and development of clinical best practice, and health benefit formulation.

### The Committee's responsibilities are to:

- Ensure healthcare benefits as prescribed by the Act and the Scheme Rules are upheld;
- Oversee the design and implementation of pilot projects that inform health benefit formulation;
- Ensure the Scheme complies with its managed care mandate to offer members the highest level of appropriate, affordable quality care, taking into account the balance between cost-effective quality healthcare, effective clinical risk management and affordability.
- Consider the member experience through monitoring and evaluating complaints, queries and disputes lodged by members with the Scheme or the CMS.

The Scheme's approach to ensuring the quality of care received by its members considers the Donabedian model as a framework for evaluating quality of care. The complexity of the healthcare model requires that the member is placed at the centre of this journey, and that different stakeholders in the provision of care collectively take responsibility for a sustainable healthcare funding model.

The Committee reviews and monitors all initiatives to reduce unnecessary healthcare costs without negatively impacting on the quality of care, and to support superior member experience and value-based care. The Committee also oversees engagement strategies with healthcare professionals facilitated by Discovery Health, which foster shared purpose by re-engineering the delivery of care according to a team-based approach.

Health Quality Assessment (HQA) is an independent industry body that performs an annual assessment of clinical quality offered by medical schemes according to specific quality indicators, which it provides to a participating scheme in an annual scheme-specific report. This report assists the Committee in fulfilling its mandate to oversee and improve the quality of healthcare received by Scheme members.

## GOVERNANCE/ CLINICAL GOVERNANCE COMMITTEE *continued*

### HOW THE COMMITTEE DISCHARGED ITS FIDUCIARY DUTIES DURING 2017

The Committee continued its focused strategy to oversee the development and implementation of strategic risk management interventions, which are designed to mitigate the impact of demand and supply side utilisation factors contributing to higher than consumer price inflation healthcare inflation. At the same time, the Committee took cognisance that these interventions did not unduly impact members and healthcare providers in terms of quality of healthcare accessible to members and provider interests, including professional autonomy and fair remuneration respectively.

The Committee met four times during 2017 and considered strategic risk management plans and reports. The Committee approved and monitored the development of new quality of care initiatives, including patient reported experience and outcomes measurement surveys in the primary healthcare setting (the GP PREMS survey) and specialist settings (the joint arthroplasty PROMS), and initial clinical outcomes measurement in the hospital setting (mortality and readmissions). The Committee also considered the 2016 HQA results for the Scheme, which are benchmarked against industry performance and approved related plans for continuous improvement.

In line with the adoption of the value-based care model, the Committee endorsed and monitored the development and implementation of new models of healthcare delivery and alternative reimbursement models. These included the DiabetesCare and HIVCare programmes delivered through the new Premier Plus GP network for chronic disease management in the primary healthcare setting, centres of excellence (e.g. the Joint Arthroplasty network) and various governance projects in collaboration with selected specialist professional societies.

The Committee also considered the value of Discovery Health's digital platforms to enable value-based care. This included the integration of HealthID in both the chronic disease management and acute primary care setting, and DrConnect in enabling convenient access to healthcare advice any time to members, digital consultations and professional development support to the healthcare provider fraternity.

The Committee continued to provide oversight in relation to the approval and monitoring of new pilot projects designed to evaluate the development of funding policies for new health technology, routine health technology assessment reports and medicine/ pharmaceutical benefit risk management.

The Committee also continues to monitor developments in the private healthcare market, including the on-going Health Market Inquiry and health systems policy reform (in particular, the NHI policy and Prescribed Minimum Benefit Review projects). With respect to CMS activities, the Committee monitors the impact of CMS publications including draft and final Benefit Definitions, CMS Scripts, and any clinical governance related CMS circulars and guides, and evaluates the contributions and submissions made by the Scheme and Discovery Health in relation to these publications.

In addition, the Committee monitors other public health related topics that may impact the Scheme population's health and claims utilisation, including outbreaks and epidemics, through passive surveillance and reporting of claims data.

The Committee is satisfied that the activities it has conducted and the manner in which it has reported and recommended to the Board during 2017 have fulfilled its responsibilities in accordance with its terms of reference.

### COMPOSITION AND MEETINGS IN 2017

At the end of 2017 the members included two Trustees, one of whom Chaired the Committee, and three independent members and the Chief Medical Officer of the Scheme.

Regular attendees of Committee meetings include experts from Discovery Health's clinical and risk management teams. The Committee also hosts occasional external speakers on specific topics of interest to the Committee.

Clinical Governance attendance in 2017		30 Mar	01 Jun	30 Oct	31 Oct
Chairperson	Dr Dhesan Moodley (Trustee)	✓	✓	✓	✓
Committee members	Ms Joan Adams SC (Trustee) <sup>#</sup>	-	-	✓	✓
	Prof Zephne van der Spuy (Independent member)	✓	✓	✓	✓
	Prof Mike Sathekge (Independent member)	✓	x	x	x
	Prof Selma Smith (Independent member)	✓	✓	✓	✓
	Dr Nozipho Sangweni (Principal Officer) <sup>* %</sup>	✓	✓	✓	✓
	Dr Unati Mahlati (Chief Medical Officer) <sup>oo %</sup>	-	-	✓	✓

<sup>#</sup> Elected as a Trustee on 22 June 2017 and appointed to the Committee on 12 July 2017.

<sup>\*</sup> Appointed as Principal Officer on 1 January 2017 and acted as Chief Medical Officer until 7 June 2017.

<sup>oo</sup> Appointed as Chief Medical Officer on 7 June 2017.

<sup>%</sup> Scheme Executives. All remaining Committee members are non-executive.

### FUTURE FOCUS AREAS

The Committee will continue to exercise due care and responsibility in fulfilling its mandate.



## DISPUTES COMMITTEE

The Trustees have established an independent Disputes Committee to hear and rule on all formally lodged member disputes in an open, transparent and equitable manner.

The Committee's purpose is to make consistent and fair decisions, carefully considering the provisions of the Act, all applicable laws and the Scheme Rules, which are binding on the Committee. The Committee is not empowered to make rulings that are discretionary in nature or that contravene applicable legislation and the latest registered Scheme Rules in any way.

In the event of a member being dissatisfied with a ruling made by the Committee, they are free to lodge a complaint with the CMS in terms of Section 47 of the Act.

**The Committee's responsibilities are to:**

- Receive submissions from Scheme members and the Scheme's representatives, which may be made in person, by telephone or in writing;
- Ensure that it has sufficient information regarding the dispute to adjudicate the case objectively;
- Adjudicate the dispute and draft a ruling with due regard for all facts presented at the hearing and in line with relevant legislation and the Scheme Rules; and
- Ensure that the process at hearings and in adjudicating disputes is handled as efficiently as possible and without undue delay.

### HOW THE COMMITTEE DISCHARGED ITS FIDUCIARY DUTIES DURING 2017

The Committee heard a total of 52 disputes. Although 740 disputes were lodged in 2017, 688 of these were resolved prior to a hearing, indicating the efficacy of the dispute resolution process.

The Committee is satisfied that the activities it has conducted during 2017 have fulfilled its responsibilities in accordance with its operating framework.

### COMPOSITION AND MEETINGS IN 2017

Each Disputes Panel consists of three members drawn from the greater Disputes Committee, each of whom have either legal or medical expertise. Each Panel presiding over all Dispute Hearings requires at least one legal expert and at least one medical expert. The Chairperson of all Dispute Hearings is always a practising attorney. While not employed by the Scheme, Committee members are remunerated for their time and input in objectively hearing and adjudicating cases, regardless of the outcome of the hearings.

Dispute Hearings are scheduled as and when required, and draw from the legal and medical panellists available at the time. The Committee can be constituted several times a week if required to attend to increased caseloads. Due to the frequency of hearings and variation of panellists, an attendance register is not shown. During 2017, every hearing was properly constituted.

### FUTURE FOCUS AREAS

The Committee will continue to exercise due care and responsibility in fulfilling its mandate.

## INVESTMENT COMMITTEE

The Investment Committee recommends and oversees the implementation and maintenance of investment policies and mandates. It advises the Trustees on strategic and operational matters in respect of investing the Scheme's reserves to ensure the investments made are in the best interest of members and within the risk appetite of the Scheme, as determined by the Trustees from time to time.

**The Committee's responsibilities are to:**

- Recommend to the Trustees an investment policy for the Scheme, having regard to the requirement that the assets invested should maximise returns while maintaining solvency;
- Review the investment policy, and monitor its implementation and effectiveness;
- Make recommendations to the Trustees regarding the asset allocation principles of the Scheme's investment portfolio, and the investment policy and strategy;
- Review investment strategies, capital and equity market assumptions, performance of the overall investment portfolio and performance of asset managers against established benchmarks, and report to the Trustees quarterly on the performance of the portfolio;
- Monitor the performance of each asset class with a view to maximising the total return, keeping in mind the risk appetite of the Scheme;
- Report to the Trustees annually on the overall performance of the asset managers and asset consultants;
- Make recommendations to the Trustees on the appointment of asset consultants and asset managers, including the fees payable and other terms on which the appointments are made and, if appropriate, tender for the appointment of asset consultants and asset managers;
- Assist the Trustees in deciding whether to withdraw funds from portfolios to support daily operations;
- Supervise the safekeeping and handling of the Scheme's investments;
- Monitor all reported investment activities in line with the Scheme's investment policy and statutory requirements, and where there is deviation from the investment policy, investigate the reasons and recommend corrective action to the Trustees; and
- Assist the Trustees in preparing their annual report on investment performance and compliance.

**HOW THE COMMITTEE DISCHARGED ITS FIDUCIARY DUTIES DURING 2017**

- Conducted a procurement process for the appointment of its asset consultant, which resulted in the reappointment of the incumbent asset consultant.
- Considered the Scheme's strategic investment strategy as well as the tactical asset allocations that take account of current market conditions.
- Appointed a new boutique equity asset manager and made an allocation of investments into an equity index tracking fund and a listed property fund.
- Adopted a Tactical Asset Allocation Framework.
- Reviewed the results of the Scheme's annual due diligence exercise conducted across all its asset managers, which included on-site visits. No specific concerns were identified.
- Reviewed quarterly credit risk reports in terms of the Scheme Credit Risk Policy to ensure credit risk was being appropriately managed.
- Reviewed the performance of asset managers.

The Committee is satisfied that the activities it has conducted and the manner in which it has reported and recommended to the Board during 2017 have fulfilled its responsibilities in accordance with its terms of reference.

**COMPOSITION AND MEETINGS IN 2017**

At the end of 2017, the Committee consisted of four Trustees and three independent members, one of whom Chaired the Committee. The Committee receives investment advice and quarterly reports from the asset consultants, Riscura, who attend all Committee meetings. Asset managers are invited to attend meetings on a rotational basis to report on their strategy and performance.

<b>Investment Committee attendance in 2017</b>		<b>13 Feb</b>	<b>04 Apr</b>	<b>07 Jun</b>	<b>12 Sep</b>	<b>07 Nov</b>
<b>Chairperson</b>	Mr Imtiaz Ahmed (Independent member)	✓	✓	✓	✓	✓
<b>Committee members</b>	Ms Daisy Naidoo (Trustee)	✓	✓	✓	✓	✓
	Dr Dhesan Moodley (Trustee)	✓	✓	✓	✓	✓
	Mr Johan Human (Trustee)#	-	-	-	✓	✓
	Mr Neil Morrison (Trustee)	✓	✓	✓	✓	✓
	Mr Barry Stott (Independent member)	✓	✓	✓	✓	✓
	Ms Philile Maphumulo (Independent member)*	-	-	-	✓	✓

# Independent member until 14 August 2017, whereafter appointed as a Trustee. Appointed to the Committee on 12 July 2017.

\* Appointed as an Independent member on 12 July 2017.

**FUTURE FOCUS AREAS**

During 2018, the Committee will review its strategic and tactical asset allocation to account for changes in the market conditions and the Scheme's risk appetite. This will include a review of the Scheme's hedging strategies.





## NON-HEALTHCARE EXPENSES COMMITTEE

The Committee oversees the optimisation and management of the Scheme's non-healthcare expenses and the outsourcing of the administration and managed healthcare services based on the Scheme's Vested® outsourcing model (Vested model).

**PAGE REFERENCE**

Read more about the Vested model on **page 18**.

The Committee's responsibilities are to:

- Support and endorse key principles that the Scheme Office will use in negotiating the contractual terms of the outsourced administration and managed services based on Vested® principles, and recommend the contractual terms to the Trustees for consideration and approval;
- Recommend the fee model to be used for the calculation of the outsourced administration and managed care fees to the Trustees for consideration and approval;
- Set and monitor service levels for the outsourced Administrator and Managed Care Provider services;
- Monitor the value the Scheme and its members receive from the Administrator and Managed Care Provider relative to the fees paid;
- Monitor and evaluate the level of investment in innovation by the Administrator and Managed Care Provider for the Scheme;
- Recommend the non-healthcare expenses budget to the Trustees for consideration and approval, and monitor actual non-healthcare expenses incurred against the approved budget; and
- Recommend the Scheme's Procurement Policy to the Trustees for consideration and approval, and monitor procurement decisions.

### HOW THE COMMITTEE DISCHARGED ITS FIDUCIARY DUTIES DURING 2017

- Agreed revised contractual terms and fees with Discovery Health for providing administration and managed care services for the period starting January 2018.
- Reviewed reports on the service levels achieved by Discovery Health and approved changes to them in line with the operating environment.
- Assessed innovations by Discovery Health.
- Reviewed reports on the Scheme's non-healthcare expenses against budget and recommended the 2018 budget to the Trustees for approval.

The Committee is satisfied that the activities it has conducted and the manner in which it has reported and recommended to the Board during 2017 have fulfilled its responsibilities in accordance with its terms of reference.

### COMPOSITION AND MEETINGS IN 2017

At the end of 2017, the Committee comprised five Trustees, one of whom Chaired the Committee, and the Principal Officer. Committee meetings are attended by the DHMS Chief Risk and Operations Officer, who is responsible for oversight of the outsourced administration and managed healthcare services, as well as the Chief Financial Officer. Executive management of Discovery Health attend when required by the Committee.

Non-healthcare Expenses Committee attendance in 2017		06 Mar	22 Mar	04 May	05 Jun	10 Oct
Chairperson	Mr Giles Waugh (Trustee)#	✓	✓	✓	-	-
	Ms Daisy Naidoo (Trustee)*	✓	✓	✓	✓	✓
Committee members	Mr David King (Trustee)	✓	✓	✓	✓	✓
	Mr John Butler SC (Trustee)*	-	-	-	-	✓
	Mr Neil Morrison (Trustee)	✓	✓	✓	✓	✓
	Mr Johan Human (Trustee)∞	✓	✓	✓	✓	-
	Dr Nozipho Sangweni (Principal Officer)%	✓	✓	✓	✓	✓

# Term as a Trustee and Chair ended on 2 June 2017.

◆ Appointed as the Chair on 5 June 2017.

\* Appointed as a Trustee on 14 June 2017 and appointed to the Committee on 12 July 2017.

∞ Independent member until 14 August 2017, whereafter appointed as a Trustee.

% Scheme Executive. All remaining Committee members are non-executive.

The meetings on 6 March and 4 May were workshops. A workshop was also held after the Committee meeting on 22 March 2017.

### FUTURE FOCUS AREAS

The Committee will continue to exercise due care and responsibility in fulfilling its mandate.

## NOMINATION COMMITTEE

The Committee oversees the nomination process to elect and appoint suitably fit and proper persons as Trustees. In terms of the Scheme Rules, the Trustees may appoint an independent third-party service provider to assist the Nomination Committee in carrying out its functions. For the 2017 election, the Trustees approved the appointment of PwC's Forensic Services division to act as the Independent Electoral Body (IEB) for the Scheme.

In 2017, an election was conducted at the Scheme's AGM. The Nomination Committee oversaw this process from a governance perspective in terms of its mandate.

### HOW THE COMMITTEE DISCHARGED ITS FIDUCIARY DUTIES DURING 2017

The Committee performed the following functions:

- Oversaw the procedural aspects of the nominations process in terms of approving communications to members.
- Ensured that the IEB applied a vetting process so that the candidates who stood for election were fit and proper. During the vetting process, each nominee was subject to strict vetting criteria.
- Reviewed and discussed the draft candidate list compiled by the IEB, and thereafter presented the final list to the Trustees in terms of the candidates that would stand for election.
- Assessed the eligibility, fitness and propriety of the Trustees that were appointed by the Board.

The Committee is satisfied that the activities it has conducted and the manner in which it has reported and recommended to the Board during 2017 have fulfilled its responsibilities in accordance with its terms of reference.

### COMPOSITION AND MEETINGS IN 2017

The Committee comprises three independent members who are independent of the Board and Board Committees. Committee meetings are attended by the IEB and its representatives.

Nomination Committee attendance in 2017		24 Mar	27 Mar	06 Apr	11 Apr
Chairperson	Mr Peter Goss (Independent member)	✓	✓	✓	✓
Committee members	Mr Roy Shough (Independent member)	✓	✓	✓	✓
	Mr Tom Wixley (Independent member)	✓	✓	✓	✓

### FUTURE FOCUS AREAS

In 2018, no Trustee elections will be held by the Scheme. A Trustee election will be held in 2019 and the Nomination Committee will oversee this process from a governance perspective in terms of its mandate.

## PRODUCT COMMITTEE

While there is no statutory requirement for this Committee, it was established in terms of Scheme Rule 19.3, as the Trustees consider it necessary for ensuring compliance to the legislative and regulatory requirements of the Act, and to comply with best practice governance principles pertaining to benefit and product development.

The Committee oversees product development, amendments to benefits, proposed benefit plans, and the development of annual product communication and marketing materials.

The Committee ensures that benefit proposals are assessed against the following factors every year:

- Clinical appropriateness and best practice.
- Financial affordability and sustainability.
- Balancing the interests of stakeholders according to principles of fairness.
- Value and appropriateness to members.
- The Scheme's marketing and communication policies.

### HOW THE COMMITTEE DISCHARGED ITS FIDUCIARY DUTIES DURING 2017

- Reviewed the performance of all benefit plans based on specific performance metrics.
- Reviewed and recommended the 2017 benefit plan amendments to the Trustees for approval.
- Considered changes to the Scheme Rules.

The Committee collaborated with the Audit Committee and Clinical Governance Committee in considering the financial impact and actuarial valuation, and clinical appropriateness of the 2018 product design and benefit amendments, prior to making the final recommendations to the Board for approval.

The Committee is satisfied that the activities it has conducted and the manner in which it has reported and recommended to the Board during 2017 have fulfilled its responsibilities in accordance with its terms of reference.

### COMPOSITION AND MEETINGS IN 2017

At the end of 2017, the Committee comprised four Trustees, one of whom Chaired the Committee, and the Principal Officer. The Committee obtains regular reports and presentations from Discovery Health, and the relevant individuals are regularly invited to Committee meetings for this purpose.

The Product and Audit Committees jointly considered the actuarial valuation and contribution increases, and invited the Scheme's external auditors, PwC, and the Scheme's independent actuaries, Insight Actuaries & Consultants, to attend the meeting. The Committee also hosted external speakers on specific topics of interest to the Committee.



Product Committee attendance in 2017		29 Mar	26 Jul	23 Aug
Chairperson	Mr Giles Waugh (Trustee) <sup>#</sup>	✓	-	-
	Mr Johan Human (Trustee) <sup>*</sup>	✓	✓	✓
Committee members	Dr Dhesan Moodley (Trustee)	✓	✓	✓
	Ms Daisy Naidoo (Trustee)	✓	✓	✓
	Dr Susette Brynard (Trustee) <sup>∞</sup>	-	✓	✓
	Dr Nozipho Sangweni (Principal Officer) <sup>%</sup>	✓	✓	✓

<sup>#</sup> Term as a Trustee and Chair ended on 2 June 2017.

<sup>\*</sup> Independent member until 14 August 2017, whereafter appointed as a Trustee and appointed as Chair on 2 June 2017.

<sup>∞</sup> Elected as a Trustee on 22 June 2017 and appointed to the Committee on 12 July 2017.

<sup>%</sup> Scheme Executive. All remaining Committee members are non-executive.

## FUTURE FOCUS AREAS

The Committee will continue to exercise due care and responsibility in fulfilling its mandate.

## REMUNERATION COMMITTEE

The Committee assists the Trustees in overseeing the Scheme's remuneration and other human resources strategies and policies, and ensuring compliance with these policies. It also ensures that reporting disclosures relating to remuneration are made according to the Board's objectives, and that a formal, rigorous and transparent process is followed for appointing senior staff.

The Committee's responsibilities are to:

- Review staff remuneration, including that of senior executives, Trustees and Board Committee members, as well as any retirement and termination payments;
- Ensure that remuneration policies are established and administered in the Scheme's long-term interests; and
- Ensure that succession plans are in place, where possible<sup>1</sup>, to maintain an appropriate balance of skills in the Scheme's management and governance structures.

## HOW THE COMMITTEE DISCHARGED ITS FIDUCIARY DUTIES DURING 2017

- Recommended the Trustee and Committee member remuneration to the Trustees for approval, considering the non-profit status of the Scheme.
- Recommended the Scheme Office senior staff remuneration to the Trustees for approval, based on market benchmarking conducted by independent remuneration practice experts.

- Reviewed and recommended amendments to the Scheme's human resources policies to the Trustees for approval, to ensure alignment with legislation.
- Reviewed training and development requirements for Scheme staff and recommended appropriate training and development initiatives to the Trustees for approval.

With the support of the Committee, the Scheme presented its Trustee Remuneration Policy to members at its 2017 AGM for a non-binding advisory vote, which received 96% approval. The Scheme also presented its Trustee remuneration, which received a 98%<sup>2</sup> approval. The formal approval of Trustee remuneration by members is a standing agenda item at each AGM.

The Committee is satisfied that the activities it has conducted and the manner in which it has reported and recommended to the Board during 2017 have fulfilled its responsibilities in accordance with its terms of reference.

## COMPOSITION AND MEETINGS IN 2017

At the end of 2017, the Committee comprised four Trustees, three of whom were appointed to the Committee during 2017, and an independent member who Chaired the Committee. The Principal Officer attends Committee meetings by invitation.

The Committee makes regular use of independent remuneration experts from PwC, and engaged Spencer Stuart to recruit for the Scheme Office and the LRMG Performance Agency to conduct the Scheme's operating model review during 2017. Individuals from these organisations are occasionally invited to Committee meetings.

Remuneration Committee attendance in 2017		25 May	15 Nov
Chairperson	Mr Don Eriksson (Independent member) <sup>∞</sup>	✓	✓
Committee members	Mr David King (Trustee)	✓	✓
	Mr Michael van der Nest SC (Trustee) <sup>#</sup>	✓	-
	Mr John Butler SC (Trustee) <sup>*</sup>	-	✓
	Mr Neil Morrison (Trustee) <sup>◇</sup>	-	✓
	Dr Susette Brynard (Trustee) <sup>◆</sup>	-	✓

<sup>∞</sup> Mr Eriksson served as the Chair of the Committee from 8 April 2013 to 15 November 2017 and resigned for personal reasons from the Committee on 15 November 2017, after which Mr David King was appointed Chair by the Committee.

<sup>#</sup> Term as a Trustee ended on 14 August 2017.

<sup>\*</sup> Appointed as a Trustee on 14 June 2017 and appointed to the Committee on 12 July 2017.

<sup>◇</sup> Appointed to the Committee on 12 July 2017.

<sup>◆</sup> Elected as a Trustee on 22 June 2017 and appointed to the Committee on 12 July 2017.

<sup>1</sup> At least 50% of Trustees must be elected by members at any time, which means that succession planning is not possible for these positions.

<sup>2</sup> The AGM elections and voting results are available at <https://www.discovery.co.za/medical-aid/notices>.

### FUTURE FOCUS AREAS

For 2018, the Committee's mandate was amended to explicitly include supporting the Trustees in ensuring that remuneration in the Scheme is fair, responsible and transparent to promote positive outcomes and the achievement of objectives. In this regard, the Committee will ensure that the remuneration policy is designed to attract, retain, motivate and reward high-calibre individuals, promote the achievement of strategic objectives, and promote an ethical culture and responsible corporate citizenship.

In effect, the Committee has already been fulfilling this mandate by ensuring that independent professional benchmarking of remuneration was practised and by reviewing the Scheme's employee value proposition. The Committee will continue to engage in these activities. Specifically, during the course of 2018, the Committee will review the Scheme's performance management framework.

King IV requires that the governing body should set targets for race and gender, and the Scheme will give due consideration to these provisions regarding the appointment of candidates, and apply those in the context of the medical scheme environment. This provision may only be exercised by the Board in terms of appointments being made by the Board, as members standing for election are elected by Scheme members at an election held at the AGM. Therefore the voting process does not allow the Board control with regard to diversity targets. The Scheme is committed to maintaining a fair and non-discriminatory working environment.

The Remuneration Committee will assist the Board in discharging the provisions regarding the appointment of candidates.

### RISK COMMITTEE

The Committee oversees combined assurance, risk management, compliance, IT governance, fraud, ethics, whistleblowing, and legal and regulatory matters.

The Committee's responsibilities are to:

- Monitor the effectiveness and appropriateness of the combined assurance model, ensuring that it satisfactorily addresses all the significant risks facing the Scheme;
- Provide independent and objective oversight of the strategic, financial, insurance, operational, business and regulatory risks faced by the Scheme;
- Consider the risk management policy, processes, appetite and tolerance, and monitor the risk management process and mitigation plans;
- Review the compliance policy, plan and universe, and the adequacy and effectiveness of the system for monitoring compliance with laws and regulations, as well as management's response to compliance incidents;
- Review the adequacy and effectiveness of the IT control framework and governance structure, ensuring that the risk management process covers the IT environment, and review the Scheme's disaster recovery and business continuity plans;

- Review anti-fraud programmes, controls, procedures and reports, including identification of fraud risks and implementation of anti-fraud measures; and
- Review significant cases of conflict of interest, misconduct or fraud, or any other unethical activity.

### COMPLIANCE MANAGEMENT

The Trustees recognise their responsibility to internal and external stakeholders in terms of the regulatory requirements applicable to the Scheme.

The Scheme has implemented a coordinated compliance framework to ensure all operations are conducted in accordance with applicable legal, regulatory and supervisory requirements and guidelines. The Scheme outsources certain compliance activities to the Discovery Group Compliance function. The framework is structured to facilitate the process of obtaining information from Discovery Health to monitor and oversee the outsourced operations, and a compliance monitoring plan is approved on an annual basis.

Changes to regulations that could impact the Scheme's strategy and operations are monitored. Where required, action plans implemented by management are monitored and reported to the Committee.

### COMBINED ASSURANCE

The Scheme's combined assurance model, which was approved by the Committee during the year, is based on three lines of defence:

1. Scheme management.
2. Internal assurance providers (Discovery Group Risk Management, Compliance and Forensics functions).
3. External assurance providers (Internal Audit, external audit and an independent actuarial firm).

The combined assurance assessment showed that overall, adequate assurance was provided and received in respect of all significant risks for the 2017 benefit year. The Trustees are comfortable with the level and type of assurance the Scheme obtains.



## RISK MANAGEMENT

The Trustees recognise that risk management is an integral part of the strategy setting process and delegates the responsibility of designing, implementing and monitoring the risk management process and system to Scheme management. Risk management is facilitated by the Chief Risk and Operations Officer, who ensures that risk management is embedded into daily management activities.

The Scheme outsources certain risk management activities to the Discovery Group Risk Management function.

The Trustees are satisfied that the risk process is effective in continuously identifying and evaluating risks, and ensuring that these risks are managed in line with business strategy.

## HOW THE COMMITTEE DISCHARGED ITS FIDUCIARY DUTIES DURING 2017

- Conducted the annual risk assessment, which included representatives of the Committee, the Scheme Office and the Administrator and Managed Care Provider. The amended risk register was subsequently presented to the Trustees to provide them with sufficient oversight of the Scheme's risk management profile and allow them to discharge their accountability in respect of risk management.
- Reviewed regular risk management reports and key risk indicators, and performed the annual review of the risk management framework that was recommended to the Trustees for approval.
- Considered regular compliance reports and monitored exposure and actions taken to mitigate compliance risks, as well as performed the annual review of the Compliance Policy. The Committee considered the policy and subsequently recommended it to the Trustees for approval.
- Approved a combined assurance model and subsequent assessments, which support the Audit Committee in making their control statements in the Integrated Report.
- Received reports to assist in delivering the Scheme's IT governance obligations and approved a revised IT Governance Framework. This included a focus on cybersecurity.
- Approved the Scheme's fraud risk management strategy.

The Committee is satisfied that the activities it has conducted and the manner in which it has reported and recommended to the Board during 2017 have fulfilled its responsibilities in accordance with its terms of reference.

## COMPOSITION AND MEETINGS IN 2017

At the end of 2017, the Committee comprised three Trustees and four independent members, one of whom Chaired the Committee. Members of the Scheme Office management are also members of the Committee.

The external auditors, PwC, as well as the Discovery Group Risk Management function and Discovery Group Compliance function attend every Committee meeting. Representatives from Discovery Health also attend to provide detailed operational insight.

### Risk Committee attendance in 2017

		10 Mar	04 Aug	15 Aug	03 Oct
<b>Chairperson</b>	Mr Barry Stott (Independent member)	✓	✓	✓	✓
<b>Committee members</b>	Mr Giles Waugh (Trustee) <sup>#</sup>	✓	-	-	-
	Ms Daisy Naidoo (Trustee)	✓	✓	✓	✓
	Ms Joan Adams SC (Trustee) <sup>*</sup>	-	✓	✓	✓
	Mr Neil Morrison (Trustee) <sup>◇</sup>	✓	-	-	-
	Mr Johan Human (Trustee) <sup>∞</sup>	-	✓	x	✓
	Mrs Sue Ludolph (Independent member)	✓	✓	✓	✓
	Mr Steven Green (Independent member)	✓	✓	✓	✓
	Mrs Philile Maphumulo (Independent member)	✓	✓	✓	✓
<b>Scheme Management</b>	Dr Nozipho Sangweni (Principal Officer) <sup>%</sup>	✓	x	✓	✓
	Dr Unati Mahlali <sup>◆%</sup>	-	✓	✓	✓
	Mr Selwyn Kahlberg <sup>%</sup>	✓	✓	✓	✓
	Mr Jan van Staden <sup>□%</sup>	✓	x	✓	✓
	Mrs Yashmita Mistry <sup>%</sup>	✓	x	✓	✓
	Ms Michelle Culverwell <sup>%</sup>	✓	✓	✓	x
	Mr Howard Snoyman <sup>%</sup>	✓	x	x	✓

<sup>#</sup> Term as a Trustee ended on 2 June 2017.

<sup>\*</sup> Elected as a Trustee on 22 June 2017 and appointed to the Committee on 12 July 2017.

<sup>◇</sup> Appointed by the Board as Chair of the Board on 6 April 2017 which appointment took effect on 14 August and at that time resigned as a member of the Committee.

<sup>∞</sup> Independent member until 14 August 2017, whereafter appointed as a Trustee.

<sup>%</sup> Scheme Executives. All remaining Committee members are non-executive.

<sup>◆</sup> Appointed as Chief Medical Officer on 7 June 2017.

<sup>□</sup> Resigned in December 2017.

The meeting on 4 August was a workshop.

### FUTURE FOCUS AREAS

In late 2017, the Committee approved enhancements to the Scheme's enterprise risk management framework to align with King IV best practice. The 'triple context' and 'six capitals' concepts prescribed by King IV are catered for in the Scheme's risk taxonomy. Risk is defined as:

- The possibility of an event materialising that could have a negative impact on the Scheme achieving its strategic objectives, together with the opportunity that may present itself as a consequence of the event occurring; or
- The failure to capitalise on opportunities that would advance the Scheme in achieving its strategic objectives.

In addition, the Committee's terms of reference have also been amended to align with King IV. In this regard, the Committee will continue to exercise due care and responsibility in fulfilling its mandate.

With effect from 2018, the Audit Committee has been assigned the mandate for monitoring the effectiveness and appropriateness of the combined assurance model.

### STAKEHOLDER RELATIONS AND ETHICS COMMITTEE<sup>1</sup>

The Committee assists the Trustees in identifying important stakeholder groups and their legitimate interests and expectations. The Committee also oversees the development and implementation of adequate processes and procedures for stakeholder engagement, ensuring that the legitimate interests of stakeholders are balanced against the best interests of the Scheme as a whole. The Committee may rely on other Board Committees in its oversight responsibilities.

The Committee's responsibilities are to:

- Monitor and evaluate engagement plans for relevant stakeholders, ensuring adequate risk management;
- Ensure that stakeholder engagement plans are implemented timeously;
- Ensure that the objectives of the engagement plans are achieved; and
- Report to the Trustees on how the Scheme is managing its relationships with key stakeholders.

### HOW THE COMMITTEE DISCHARGED ITS FIDUCIARY DUTIES DURING 2017

- Reviewed reports relating to overall stakeholder engagement, social media engagement, disputes and complaints, and high-risk cases.
- Reviewed plans for engagement with stakeholders with regards to the Scheme's AGM and Trustee nominations and elections.
- Reviewed member engagement, communication approaches and activities undertaken by the Scheme and Discovery Health in relation to the Competition Commission's HMI into the private healthcare sector, general Competition Commission matters, the Department of Health, the CMS and other regulatory activity.
- Reviewed health professional engagement strategies to encourage participation in quality of care, alternative reimbursement mechanisms and centres of excellence initiatives in development by Discovery Health.
- Reviewed innovative proposals for member engagement by Discovery Health.
- Considered the possible expansion of its mandate to incorporate social and ethics governance in accordance with King IV best practice requirements.
- Recommended to the Board that its mandate be extended to incorporate ethics and responsible corporate citizenship and, subsequent to Board approval, adopted a revised terms of reference in this regard.
- Received presentations from The Ethics Institute on its ethical obligations.

The Committee is satisfied that the activities it has conducted and the manner in which it has reported and recommended to the Board during 2017 have fulfilled its responsibilities in accordance with its terms of reference.

<sup>1</sup> At the end of 2017, the Committee adopted an expanded social and ethics governance mandate and new name of Stakeholder Relations and Ethics Committee (previously Stakeholder Relations Committee).



### COMPOSITION AND MEETINGS IN 2017

At the end of 2017, the Committee comprised five Trustees<sup>1</sup>, one of whom Chaired the Committee, and the Principal Officer. The Committee requires that one of its members is a member of the medical profession.

The Committee obtains regular reports and presentations from Discovery Health, which engages in some stakeholder relations activity on the Scheme's behalf. Individuals from Discovery Health are regularly invited to Committee meetings in this regard. External experts are also occasionally invited to address the Committee.

Stakeholder Relations and Ethics Committee attendance in 2017		23 Feb	25 Jul	26 Oct
Chairperson	Mr John Butler SC (Trustee)*	✓	✓	✓
Committee members	Dr Dhesan Moodley (Trustee)	✓	✓	✓
	Mr Michael van der Nest SC (Trustee)#	✓	x	-
	Mr David King (Trustee)	✓	✓	✓
	Dr Susette Brynard (Trustee)∞	-	✓	✓
	Mr Neil Morrison (Trustee)♦	-	✓	✓
	Dr Nozipho Sangweni (Principal Officer)%	✓	✓	x

- \* Independent member until 14 June 2017, whereafter appointed as a Trustee.
- # Term as a Trustee ended on 14 August 2017.
- ∞ Elected as Trustee on 22 June 2017 and appointed to the Committee on 12 July 2017.
- ♦ Appointed to the Committee on 12 July 2017.
- % Scheme Executive. All remaining Committee members are non-executive.

### FUTURE FOCUS AREAS

In late 2017, the Committee changed its name and amended its mandate to include social and ethics governance in accordance with King IV best practice. The terms of reference now include requirements to ensure that DHMS has an ethical culture and operates as a good corporate citizen.

In this regard, the Committee will actively monitor and provide oversight of the Scheme's responsible corporate citizenship activities, and is incorporating extended reporting into its agenda; for example, reporting on Treating Customers Fairly and on fraud and forensics. Specifically, the Committee will be overseeing an extensive review of ethics in the Scheme's internal and external environments on behalf of the Trustees, and will provide regular reports to the Board.

—PAGE REFERENCE—

Read more about the Stakeholder Relations and Ethics Committee on **pages 30 – 33**.

<sup>1</sup> One of whom was an independent member of the Committee until his appointment as a Trustee in June 2017.



# DISCOVERY HEALTH MEDICAL SCHEME BOARD AND BOARD COMMITTEE MEMBER REMUNERATION POLICY

## Background and context

The Discovery Health Medical Scheme (DHMS or the Scheme) strives, through its remuneration policies, to provide an ethical business framework for the establishment of protocols to equitably and responsibly remunerate, in accordance with the recommended remuneration practices stipulated in the King IV Report on Corporate Governance for South Africa 2016 (King IV), high calibre people with above average industry ability and leadership potential, to effectively govern the Scheme's operations and safeguard members' interests.

The provision of the Scheme's remuneration policies that are respectively applicable to the Trustees and Board Committee members and employees of the Medical Scheme relates to and upholds the obligations of the following legislation and regulations:

- King IV.
- Medical Schemes Act 131 of 1998, as amended (the Act) and the Scheme Rules.
- Council for Medical Schemes Guidelines for Trustee Remuneration.
- The Companies Act 71 of 2008.
- The Promotion of Equality and Unfair Discrimination Act 4 of 2000.
- The Labour Relations Act 66 of 1995.
- The Basic Conditions of Employment Act 75 of 1997.
- The Employment Equity Act 55 of 1998.

The Scheme shall refer to the applicable provisions of King IV for matters that are not covered in the scope of, or are addressed in, the Act and the Scheme Rules.

The provisions relating to remuneration and reward in the Basic Conditions of Employment Act, the Labour Relations Act and the Employment Equity Act are only applicable to persons employed by the Scheme, and not to the Board and Board Committee members of the Scheme who are appointed/elected on a non-executive basis and are not employees of the Scheme.

## REMUNERATION GOVERNANCE

The primary objective of King IV is to provide best practice recommendations to enable entities in South Africa to improve their corporate governance practices, and includes and has bearing on the remuneration practices of corporations.

Principle 14 of King IV states that the governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.

## THE SCHEME'S REMUNERATION GOVERNANCE MODEL

In line with the recommended practices in King IV, the Scheme has put in place the necessary governance structures, measures and procedures to ensure that those charged with the fiduciary responsibility of formulating and upholding the provisions of policies, discharge their duties with due care and skill, and are accountable to the Scheme in this regard.

## DELEGATION OF RESPONSIBILITY OF OVERSIGHT OF SCHEME REMUNERATION

The Principal Officer and executive management of the Scheme are responsible for the day-to-day running of the Scheme, with the aim of maximising value for members and other stakeholders.

The Board of Trustees (Board) is responsible for strategic oversight and to review the implementation of strategy by executive management of the Scheme, and to ensure that effective mechanisms and controls are in place to protect the interests of the members of the Scheme.



The Board of the Scheme is responsible for the development and implementation of a:

- Remuneration Policy for the employees of the Scheme; and
- Remuneration Policy for the Trustees and Board Committee members.

The Board, in turn, delegates responsibility for oversight of the Scheme's remuneration practices to the Remuneration Committee.

The role of the Remuneration Committee is to make recommendations to the Board regarding the remuneration strategy, policies and practices of the Scheme. The Remuneration Committee:

- Is constituted of Trustees and independent members, which ensures that the work of this committee is free from conflict, which in turn provides a substantial degree of security for members;
- Acts under the delegated authority of the Board of the Scheme;
- Has a role to provide an independent influence on remuneration decisions made in respect of the Board and Board Committee members and employees of the Scheme; and
- Is also assisted by independent remuneration advisors and experts.

## REMUNERATION POLICIES

The Scheme has established remuneration policies for the employees, the Board and Board Committee members.

The objective of the remuneration policies is to provide a legal and policy framework against which all remuneration decisions are made, validated, implemented, approved and reported by the Scheme.

## ADOPTION AND APPROVAL OF THE SCHEME'S REMUNERATION POLICIES

### TRUSTEES AND BOARD COMMITTEE MEMBERS' REMUNERATION POLICY

To enable Scheme members to express their views on the Scheme's remuneration policy for Trustees and Board Committee members, the policy will be tabled at the Scheme's Annual General Meeting (AGM) for a non-binding advisory vote.

### EMPLOYEE REMUNERATION POLICY

The remuneration policy for employees must be approved by the Board, based on the recommendation by the Remuneration Committee.

## MITIGATION OF CONFLICT OF INTERESTS

Trustees and Board Committee members hold non-executive status within the Scheme and are therefore, in terms of the Scheme's remuneration policy and in accordance with best corporate remuneration governance practices, not permitted to be paid consulting fees for consulting services rendered or to participate in any incentive programmes of the Scheme. This ensures that Trustees and Board Committee members are able to act independently of any personal interest when making a fiduciary decision for or on behalf of the Scheme.

## MARKET BENCHMARKING

The remuneration of the Trustees, Board Committee members and employees of the Scheme are benchmarked periodically through independent review. The Scheme's Remuneration Committee uses:

- Market trends in professional fees/rates for professionals in the field of law, actuarial science, medicine and commerce for determining Trustee and Board Committee member fees; and
- Market trends and independent benchmarking of remuneration of positions in an applicable industry for employees.

This provides the Scheme with information relating to market trends in remuneration practices and ensures that the Scheme compensates Board and Board Committee members and employees in accordance with appropriate market norms.

The benchmarked professional fees of Trustee and Board Committee members are discounted to recognise the non-profit status of medical schemes.

## DISCLOSURE OF INFORMATION REGARDING REMUNERATION

In accordance with recommended practice in King IV:

- The remuneration policies for Trustees and Board Committee members shall be tabled at the AGM of the Scheme for a non-binding advisory vote; and
- The remuneration of the Trustees and Board Committee members shall be approved by members at the AGM of the Scheme and shall be reported on in the Scheme's Integrated Report.

This information shall be disclosed at least 21 days prior to the AGM.

Members at the AGM are provided with indicative examples of how the Board and Board Committee members' remuneration is calculated.

The Council for Medical Schemes are provided with details of how the proposed Trustees and Board Committee member fees for each year have been determined, as well as the details of the independent external advisors who provided advice to the Remuneration Committee on the structuring of Trustees and Board Committee member fees.

The above practices have been implemented to increase the Board's transparency and accountability to members of the Scheme in respect of the decisions that they make on the remuneration policies and practices of the Scheme.

### Policy details

#### PURPOSE OF POLICY

This policy contains a description of the core principles of the Scheme's remuneration policy for the Trustees and the members of Board Committees.

This policy also includes the provisions asserted in the Remuneration Guidelines published by the Council for Medical Schemes (Circular 41 of 2014).

#### SCOPE OF POLICY

The provisions of this policy are binding on the Trustees and members of Board Committees.

#### POLICY STATEMENT

Significant responsibilities and fiduciary risks are borne by the Board throughout the year, and all Trustees and Board Committee members are independent professionals who are required to give up substantial amounts of their time to serve the needs of the Scheme and its members. The Scheme therefore strives to remunerate Trustees and Board Committee members appropriately to ensure that the necessary skills are attracted and retained in a complex industry.

#### REMUNERATION OF THE BOARD OF TRUSTEES AND BOARD COMMITTEE MEMBERS OF THE SCHEME

The DHMS fee structure is designed to recognise the important strategic oversight role of the Trustees and Board Committee members, and their fiduciary duties to ensure the long-term sustainability of the Scheme. It is therefore critical for DHMS to attract and retain Trustees and Board Committee members with the appropriate skills and expertise to oversee the business of the Scheme in the best interest of members.

**The fee structure recognises the contribution of Trustees and Board Committee members in terms of their knowledge, skills, expertise and time commitments, and includes the following elements:**

- Trustees and Board Committee members are entitled to remuneration in respect of services rendered in their capacity as members of the Board and Committees as determined and recommended by the Scheme's Remuneration Committee, which is reviewed on an annual basis.
- Trustees and Board Committee members are compensated a market-related, but discounted, professional fee commensurate with the level of skill and expertise required in relation to the nature of the duties and concomitant responsibility attributed to the specific role and function of Trustees.
- The fees take into account the fact that the Scheme is a non-profit entity. Trustees and Board Committee members hold non-executive status within the Scheme and are, therefore, in terms of the Scheme's remuneration policy, not permitted to be paid consulting fees for consulting services rendered.
- The remuneration of Trustees and Board Committee members is limited to a fee and does not include any additional benefits such as participation in the Scheme's incentive programme. This ensures that Trustees are able to act independently of any personal interest in terms of their fiduciary duties.
- The total annual fees payable to Trustees and Board Committee members is split into an annual base fee (70%) and a fee per meeting (30%). The annual base fees and fees per meeting payable to Board Committee members are not the same as those payable to Trustees, and are based on a lower meeting duration and fewer meetings. The number of hours required will be different for Board Committee meetings, taking into consideration the relative strategic importance and time requirements.
- This recognises the ongoing responsibility of Trustees for the efficient control of the Scheme.
- The annual base fee is paid quarterly in arrears.
- The Scheme does not pay Trustees and Board Committee members any remuneration or fees for attending conferences or training events over and above the training provider's fees and travel, accommodation and subsistence costs. It is the view of the Scheme that attending a conference or training event is sufficient reward.



## CALCULATION OF THE REMUNERATION OF BOARD AND BOARD COMMITTEE MEMBERS

The Trustees' and Board Committee members' remuneration is based on a professional fee (based on an hourly rate paid) for professionals who are suitably skilled and qualified to serve as Trustees and Board Committee members, discounted at an applicable rate to take into account the fact that the Scheme is a non-profit entity. Professional fees are based on the market-related fees charged by professionals in the field of law, actuarial science, medicine and commerce, and will be benchmarked and adjusted annually. The total remuneration paid to Trustees and Board Committee members is determined by the following elements:

- Number of meetings per year.
- Preparation time for each meeting.
- Duration of meetings.
- Ad-hoc time required by the Chairperson of the Board of Trustees or Chairpersons of Board Committees in the execution of their duties.
- A discount applied to the professional fee for being a non-profit entity.

The number of hours required will be different for Board and Board Committee meetings, taking into consideration the relative strategic importance and time requirements for the Board and various Board Committee meetings.

The Chairperson of the Board and Chairpersons of Board Committees will have an increased requirement based on time commitments to prepare and/or to attend ad hoc meetings commensurate with the inherent additional requirements held by the position, and will be remunerated for this additional time requirement.

The professional fee (hourly rate) is the same for all Board and Board Committee members as it represents the economic value of the Board and Board Committee member.

## PARTICIPATION IN INCENTIVE PROGRAMMES

Board and Board Committee members are not permitted to participate in the Scheme's incentive reward programmes.

## REIMBURSEMENTS

Trustees or Board Committee members may be reimbursed for all reasonable expenses incurred by them in the performance of their duties as Trustees.

In order to be reimbursed for travel expenses, the Trustees or Board Committee members must submit all supporting documentation (e.g. tax invoices etc.) of the travel expenses he/she is claiming. Reimbursement payments are reviewed and approved by Chief Financial Officer and Principal Officer.

## APPROVAL OF BOARD AND BOARD COMMITTEE MEMBERS' REMUNERATION

The Scheme's Trustee and Board Committee member remuneration for each financial year going forward is reviewed and recommended by the Remuneration Committee to the Board for provisional approval, and thereafter approved through a vote by members at the AGM of the Scheme.

The Scheme's members and the Council for Medical Schemes shall be provided with the required information pertaining to the proposed remuneration of the Board of Trustees and Board Committee members at least 21 days prior to the AGM.

## DISCLOSURE OF BOARD AND BOARD COMMITTEE MEMBERS' REMUNERATION

The principles of maximum transparency and disclosure regarding remuneration are endorsed by the Scheme:

- The Trustees shall disclose annually in writing to the Registrar any payment or considerations made to them in that particular year by the Scheme.
- The remuneration of the Trustees and Board Committee members shall also be disclosed to members of the Scheme and shall be reported in the Scheme's Integrated Report.
- The Council for Medical Schemes and members shall also be provided with details of how the proposed Trustees' and Board Committee members' fees were determined, as well as the details of the independent advisers who provided advice to the Remuneration Committee on the structuring of Trustees' and Board Committee members' fees.

## REMUNERATION PAYMENT PROCEDURES

All fees shall be paid directly to the Trustee or Board Committee member into his/her bank account, the details of which are to be provided by the Trustee to the Scheme Secretary.

## APPLICATION OF TRUSTEE LIABILITY INSURANCE

The Scheme must take out and maintain an appropriate level of professional indemnity insurance and fidelity guarantee insurance.

# REGULATORY AND INDUSTRY MATTERS DEALT WITH IN 2017

## CIRCULARS 20 OF 2015 AND 59 OF 2016

*Notice of intention to publish undesirable business practice declaration in terms of section 61 (2) of the Medical Schemes Act, 1998 (Act No 131 of 1998) (the Act).*

Issued by the CMS on 13 March 2015, Circular 20 of 2015 notified medical schemes that the Registrar had published a notice in the Government Gazette of his intention to declare certain business practices undesirable, and requested written representations in response. The practices described in the Circular related to the manner in which branding, logos and names of medical schemes are used. The Scheme submitted comments to the CMS on 28 April 2015, and the CMS subsequently issued Circular 59 of 2016 regarding schemes and administrators that share some degree of branding. The Scheme submitted comments on this Circular on 13 September 2016 and awaits a response from the CMS.

## CIRCULARS 29 AND 36 OF 2015 AND CIRCULAR 37 OF 2016

*Final Undesirable Business Practice Declaration in terms of Section 61 (2) of the Act.*

Issued by the CMS on 17 April 2015, Circular 29 of 2015 indicated that the CMS had published Notice 333 of 2015 in the Government Gazette setting out draft undesirable business practices for the medical schemes industry, specifically pertaining to electoral practices. The Scheme's final representations on this notice were submitted to the CMS on 29 May 2015.

Subsequent to this Circular, the CMS published Notice 305 of 2016 on 27 May 2016 in the Government Gazette that differed to the one published on 17 April 2015. The Scheme responded to the notice on 8 July 2016 and no further feedback was received from the Registrar.

On 6 December 2017, the CMS published Press Release 15 of 2017 advising the industry that it has published final declarations as set out in Notice 943 of 2017 in the Government Gazette.

## CMS MATTERS

Rule 11 and Rule 14.7 of the Scheme Rules remain unregistered with the CMS. Rule 11 deals with preventing members from re-joining the Scheme immediately after committing fraud or deliberate non-disclosure against it; to protect its greater membership, the Scheme believes that such members should be prohibited from re-joining the Scheme for a certain time period. During 2016, the Scheme appealed the non-registration of Rule 11 in terms of Section 49 and subsequently Section 50 of the Act. The Scheme was unsuccessful in both appeals.

Following legal advice, on 17 May 2017 the Trustees lodged a High Court Application to Review in terms of the Promotion of Administrative Justice Act, in conjunction with an Application for a Declarator confirming that the Act does not, on a proper interpretation, prohibit a medical scheme from imposing a time frame within which those persons whose membership is terminated on account of fraud or non-disclosure may not re-apply for scheme membership. Separately, the Scheme is seeking confirmation that such period does not in fact constitute a "waiting period" as defined in S29A of the Act. This application is progressing.

Scheme Rule 14.7 remains unregistered by the CMS, pending an appeal in terms of Section 49 of the Act. Rule 14.7 deals with the rejection of claims from providers where they have placed the Scheme at risk. In this regard, the concern of the Scheme relates to fraudulent or illegal behaviour.

When the Prescribed Minimum Benefits (PMB) Code of Conduct was established in 2010, it was acknowledged that a coordinated, consultative process would need to take place to develop benefit definitions to improve the clarity of the entitlement that members have, and the liabilities that schemes face, in respect of the PMB provisions in the Act and regulations.

A revision of the 2010 PMB Code of Conduct was initiated by the CMS in March 2017. Following stakeholder workshops and submissions, the CMS presented a draft revised PMB Code of Conduct for public comments through Circular 74 of 2017, published in November 2017. The Scheme and Discovery Health contributed to the Health Funders Association submission in this regard.



Issued by the CMS, Circulars 83 of 2016 and 1 of 2017 propose a review of the PMBs. The Scheme submitted a response that includes suggestions on the design of the review process, entailing broader representation and participation of stakeholders to obtain a more robust formulation and greater clarity of the healthcare reforms and their impact.

A key consideration in this process is the coordination and alignment of various regulatory processes that impact reform in the healthcare sector. It is important that there is more certainty for all participating stakeholders on the intended purpose of the PMB review in relation to, for example, the NHI and the HMI processes. This will enable a more robust formulation, and provide more clarity into healthcare reforms and their impact on medical schemes.

## COMPETITION COMMISSION'S HEALTH MARKET INQUIRY INTO THE PRIVATE HEALTHCARE SECTOR

The HMI seeks to determine whether there are aspects of the South African private healthcare market which distort, restrict or prevent competition. The Scheme supports the inquiry and has cooperated fully and extensively with the HMI Panel. The Competition Commission's final HMI report is expected to be published by 31 August 2018.

## DEPARTMENT OF LABOUR REVIEW

In August 2017, the Scheme was included in a Department of Labour review in terms of Section 43 of the Employment Equity Act. In this regard, the Department of Labour found that the Scheme was not compliant in terms of section 20 (1). The Scheme has rectified this non-compliance and has reached a settlement agreement with the Department of Labour in this regard.

## NATIONAL HEALTH INSURANCE

In Chapter 2 of the Bill of Rights, Section 27, the South African Constitution provides that all citizens have the right of access to healthcare. In accordance with this principle, the NHI policy seeks to progressively move the country towards universal health coverage to ensure access to affordable quality healthcare for all citizens of the country.

The NHI policy approved by Cabinet in June 2017 proposes a single funder, single payer model implemented in three phases over 14 years. Currently, uncertainty remains on some aspects of the proposed model, including the role of the private healthcare funders within an NHI environment and the exact funding mechanisms for the NHI Fund.

The Scheme and Discovery Health continue to participate and make relevant contributions to the process through various opportunities and forums open to stakeholders.

## PERSONAL MEDICAL SAVINGS ACCOUNTS

On 6 June 2017, the Constitutional Court handed down a judgement on the matter of "Genesis Medical Scheme v Registrar of Medical Schemes and Another". The judgement has implications on the technical accounting treatment of the funds in members' Medical Savings Accounts (MSAs). Issued by the CMS on 14 July 2017, Press Release 12 of 2017 provides an explanation of how the MSA funds are affected by the ruling. As a result of the ruling and the press release, the reflection of MSAs as trust assets will change and will now be reflected as Scheme assets, which affects how interest on accounts with positive balances is paid. The Scheme's Rules have been amended with effect from 1 January 2018 to reflect this position and to pay interest at its discretion and according to the MSA balance. With effect from 1 January 2018, these balances will no longer be reflected as trust assets and liabilities in the Scheme's Annual Financial Statements.

## WITSMED AMALGAMATION

On 7 August 2017, the Trustees considered and approved a proposed amalgamation with the University of the Witwatersrand, Johannesburg Staff Medical Aid Fund (WitsMed). A Special General Meeting was held on 7 September 2017 to allow members to vote on the proposed amalgamation with WitsMed where the majority of members present voted in its favour. On 23 November 2017, the CMS published Circular 72 of 2017 that confirmed the amalgamation with an effective date of 1 January 2018. The full reserves of R140 million (i.e. assets minus liabilities including any unrealised gains) were transferred to the Scheme on amalgamation.