



# HIGHLIGHTS FROM THE 2015 ANNUAL FINANCIAL STATEMENTS AND NOTICE OF AGM



## CHAIRMAN'S REVIEW

# Another Stable Year for our Society

The De Beers Benefit Society, registered in 1889, remains the oldest registered medical scheme in South Africa. Despite the rapid and dynamic changes within the medical scheme industry, the Society remains financially stable and able to meet the service level expectations of its members while at the same time providing members with affordable and competitive benefits for healthcare services obtained in the private healthcare industry.

The Society is a self-administrated, not-for-profit restricted medical scheme registered in terms of the Medical Schemes Act, under registration number 1068, and provides a single benefit option to members. The primary business objective of the Society is to accept medical liability in respect of its members and their dependants by providing benefits for healthcare services in accordance with the Rules, in return for contributions.

In 2015 the Society provided benefits to 12 131 (2014: 12 325) beneficiaries located primarily in the Northern Cape (30%), Western Cape (19%), Gauteng (16%) and Limpopo (18%). The remaining beneficiaries are spread across South Africa and abroad (17%).



## IMPLEMENTATION OF NEW ADMINISTRATION AND PHARMACEUTICAL BENEFIT MANAGEMENT SYSTEMS

Effective and efficient administration underpinned by a sound computerised healthcare administration system is crucial to the success of any medical scheme. During 2014 the Board and Society management benchmarked the current healthcare administration system against other systems that were available for self-administered schemes.

Following this review and after careful consideration, the Board on 12 November 2014 approved the implementation of the MIP Healthcare Administration and Mediscor Pharmaceutical Benefit Management Systems during the year under review. The systems went live on 1 October 2015.

This step was necessary to ensure the streamlining of the Society's administration processes and ultimately to enhance

the Society's ability to continue to meet and exceed current service delivery to members and other stakeholders.

Whilst the migration process encountered unavoidable challenges and caused unfortunate frustration to some members and other stakeholders, the Board is pleased to report that the systems have been bedded down and that service levels have returned to normal. The Board wishes to thank members and other stakeholders for their support during the migration process.



## ELECTION OF MEMBER-NOMINATED TRUSTEES

As previously communicated, the member-elected Trustees' term of office ended on 13 May 2015. The process to nominate and elect new Trustees commenced in October 2014. The Society received five valid nominations and voting ended on 20 March 2015. The election results were announced at the Annual General Meeting of members held on 13 May 2015 and the following member-elected Trustees commenced their five-year term of office on 14 May 2015:



The member-elected Trustees serve along with the following employer-appointed Trustees:



The Board wishes to thank Messrs Bernard Bishop and Pat Bartlett, whose terms of office ended on 13 May 2015, for their contribution to the Society during their terms of office and wish them well for the future.

## MEMBERSHIP

The membership of the Society remained stable with 5 842 (2014: 5 896) principal members as at 31 December 2015 and an average of 5 881 for the year (2014: 5 912). The dependant ratio as at 31 December 2015 was 1:1.06 (2014: 1:1.08).



Since the membership of the Society is directly impacted by the corporate activity within the De Beers Group of Companies, the Board continues to monitor any announcements made and interacts with the participating employers to evaluate the potential impact on the Society's membership.

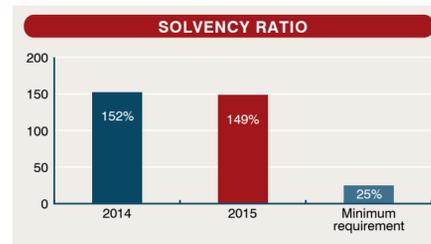
The sale of Kimberley Mines on 18 January 2016 resulted in the loss of 157 principal members and 271 dependants. Continuation members (pensioners) associated with Kimberley Mines have remained members of the Society. The Board is delighted to report that DBCM has agreed in principle to subsidise any resultant annual cross-subsidy deficit that may arise in order to offset any associated negative impact on the Society.

## FINANCIAL RESULTS FOR THE YEAR

Relevant healthcare expenditure (claims) expressed as a percentage of contributions for the year decreased to 95.9% (2014: 98.4%) and the Society reflected a total comprehensive income (surplus) for the year of R21 394 830 (2014: R23 279 316) after incorporating investment income. The return on our conservatively invested investments as required by the regulator for the year was 6.3% (2014: 8.2%).

## ACCUMULATED FUNDS AND SOLVENCY RATIO

The Society's accumulated funds have grown to R489 546 552 (2014: R468 151 722). Its solvency ratio as at 31 December 2015 decreased to 149% (2014: 152%).



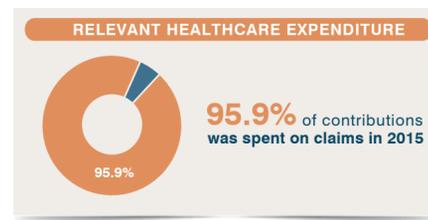
The Board is cognisant of the fact that the Society's solvency ratio is substantially higher than the minimum of 25% required by the Act. The Board remains of the opinion that maintaining the current level of accumulated funds is a prudent measure to help ensure the financial stability and viability of the Society.

This is even more relevant in the current regulatory framework, a rapidly evolving South African healthcare environment, recent corporate activity within the De Beers Group of Companies and the increasing average age of beneficiaries of 44.9 (2014:



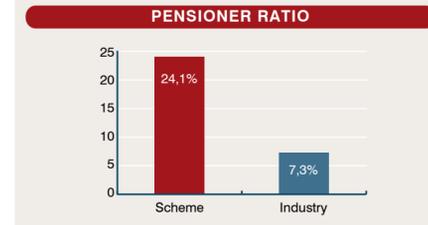
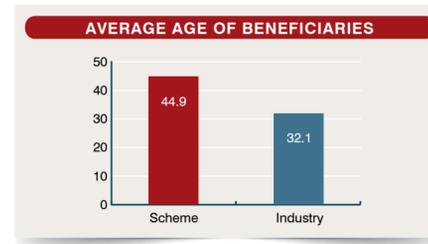
In addition, DBCM announced on 16 February 2016 that it will reduce its workforce by 189 positions. As at the date of this report the resultant reduction in the Society's membership was unknown.

This will undoubtedly contribute to an increase in the claims cost per member and thus put pressure on contribution increases required in the future. It is therefore important that the Society increases its efforts to monitor claiming patterns more closely and manage all claims by applying industry best practice in this regard. This is in the interest of all members and the Society as a whole. Members are also urged to assist by exercising care in the utilisation of benefits and are reminded that the Society is a mutual not-for-profit organisation for the benefit of members. The Society relies solely on contributions and investment income to fund the benefits it provides to its members.



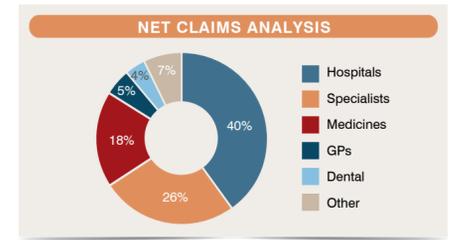
## AVERAGE AGE OF BENEFICIARIES

43.5) years and the pensioner ratio of 24.1% (2014: 21.2%), which are significantly higher than the industry average of 32.1 (2014: 31.9) years and 7.3% (2014: 7.1%) respectively.



## RELEVANT HEALTHCARE EXPENDITURE

Of the total net claims incurred in 2015, hospitals comprised 40% (2014: 39%), specialists 26% (2014: 25%), medicines 18% (2014: 19%), general practitioners 5% (2014: 5%), dentists and dental specialists 4% (2014: 4%) and other benefit types 7% (2014: 8%).



## SUSTAINABILITY AND OTHER KEY DEVELOPMENTS

The sustainability of the Society is carefully considered and managed by the Board on an ongoing basis.

The Board continues to subject the Society's results to regular actuarial modelling and oversight. This includes making use of Diagnostic Related Groups (DRGs) to measure hospital and other healthcare service providers' efficiency levels and performance, aimed at monitoring and taking steps to inter alia counter the membership demographic changes, as well as claiming trends that may impact on the Society's competitiveness and sustainability. As a result of this process, Preferred Provider Negotiators (PPN) was appointed as a designated service provider to provide and manage the Society's optical benefits with effect from 1 January 2015.

Benefits provided by the Society, contribution levels and administration costs all remain competitive, and are in many cases better than the industry average. Based on the current

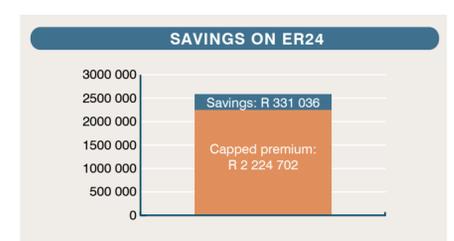


circumstances of the Society, the Board remains of the opinion that the Society offers good value for money to its members and will remain sustainable as a self-administered restricted scheme in the foreseeable future.

## EMERGENCY MEDICAL TRANSPORT AND EVACUATION SERVICES

The Society maintains a fixed-fee capitation agreement with ER24 providing for emergency medical transport and evacuation services. The Society paid a premium of R2 224 702 (2014: R2 109 794) for the year. The total cost for emergency medical transport and evacuation services reimbursed in terms of this agreement amounted to R1 998 014 (2014: R1 813 817) for the year.

Had this agreement not been in place, the total cost for emergency medical transport and evacuation services, based on the ER24 private client rates, would have been R2 555 738 (2014: R2 204 079) for the year.



## EMPLOYER GRANT IN RESPECT OF FINSCH MINE PENSIONERS

This employer grant relates to a subsidy that is payable by DBCM in terms of an agreement reached by the Society with DBCM following the termination of the membership of the Finsch Mine employees and the retention of pensioners associated with the mine as a consequence of the sale of the mine in September 2011.

In terms of this agreement DBCM has agreed to subsidise any resultant annual cross-subsidy deficit that may arise in order to offset any associated negative impact on the Society. The subsidy is calculated annually by the Actuary in terms of an agreed methodology. The total subsidy payable by DBCM for the year in terms of this agreement amounted to R1 191 000 (2014: R743 000).

## IN CLOSING

Despite the challenges that the Society faces, the Board believes that the Society is well positioned for the future. I wish to thank my fellow Trustees, Board Committee members who are not Trustees, our service providers, the Principal Officer and staff of the Society for their support, guidance and dedication during the year under review.

Colin Blanckenberg  
Chairman  
31 March 2016





# HIGHLIGHTS FROM THE 2015 ANNUAL FINANCIAL STATEMENTS AND NOTICE OF AGM

## Financials

### FINANCIAL POSITION AS AT 31 DECEMBER 2015

	2015 R'000	2014 R'000
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>437 360</b>	467 080
Property, plant and equipment	228	319
Intangible assets	29	81
Financial assets at fair value through profit or loss	437 103	466 680
<b>Current assets</b>	<b>93 419</b>	41 797
Financial assets at fair value through profit or loss	73 008	23 505
Trade and other receivables	4 809	4 543
Cash and cash equivalents	15 602	13 749
<b>Total assets</b>	<b>530 779</b>	508 877
<b>FUNDS AND LIABILITIES</b>		
<b>Members' funds</b>		
Accumulated funds	489 547	468 152
<b>Non-current liabilities</b>		
Retirement benefits obligation	15 421	15 184
<b>Current liabilities</b>	<b>25 811</b>	25 541
Trade and other payables	11 272	10 123
Outstanding claims provision	14 539	15 418
<b>Total funds and liabilities</b>	<b>530 779</b>	508 877

### INVESTMENT ANALYSIS

	2015 R'000	2014 R'000
<b>Linked insurance policies and collective investments schemes:</b>	<b>311 451</b>	300 941
Prescient Stable Income and Bond Quant Plus Funds	148 735	141 786
Alan Gray Life Domestic Balance Portfolio	162 716	159 155
<b>Segregated portfolios (Managed by Taqanta and Prescient on behalf of the Society):</b>	<b>198 660</b>	189 244
Debt instruments	40 715	49 289
Equity instruments	16 088	15 323
Listed property instruments	670	374
Money market instruments	141 187	124 258
<b>Cash and cash equivalents</b>	<b>15 602</b>	13 749
Cash at bank and on hand	15 602	13 749
<b>Total investments</b>	<b>525 713</b>	503 934

### ECONOMIC EXPOSURE



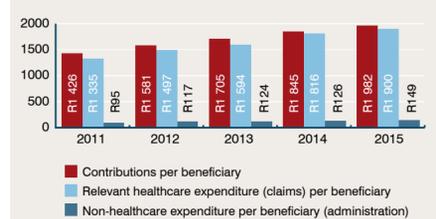
### FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 R'000	2014 (Restated) R'000
<b>Contribution income</b>	<b>288 512</b>	272 862
<b>Relevant healthcare expenditure</b>	<b>(276 573)</b>	(268 624)
Net claims incurred	(274 928)	(267 360)
Accredited managed healthcare services	(1 418)	(968)
Net expense on risk transfer arrangement	(227)	(296)
Risk transfer arrangement premiums	(2 225)	(2 110)
Recoveries from risk transfer arrangement	1 998	1 814
<b>Gross healthcare results</b>	<b>11 939</b>	4 238
Administration expenditure: Benefit management services	(543)	(568)
Administration expenditure	(21 043)	(16 970)
Post-employment healthcare benefits	(237)	(1 056)
Net impairment reversals / (write-offs) on healthcare receivables	101	(90)
<b>Net healthcare result</b>	<b>(9 783)</b>	(14 446)
<b>Other income</b>	<b>34 338</b>	40 710
Investment income	33 060	39 877
Sundry income	1 278	833
<b>Other expenditure</b>		
Asset management and monitoring costs	(3 160)	(2 985)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>21 395</b>	23 279

### SOLVENCY RATIO

	2015 R'000	2014 R'000
Accumulated funds per Statement of Financial Position	489 547	468 151
Less: Unrealised gains	(60 580)	(52 941)
<b>Accumulated funds per Regulation 29</b>	<b>428 967</b>	415 210
<b>Net contributions</b>	<b>288 512</b>	272 862
Solvency ratio	149%	152%
Accumulated funds per member at 31 December	84	79

### INCOME VS. EXPENDITURE RATIO PER BENEFICIARY PER MONTH



### Members to be advised by SMS to potentially avoid unintended medicine co-payments at time of dispensing

The Society has contracted with Mediscor Pharmaceutical Benefit Management (PBM) to provide pharmaceutical (medicines) benefit management services, including authorisation of chronic medicines, to the Society.

As members are often not aware that they are being charged a co-payment for medicines that they are receiving, the Society has agreed with Mediscor to send the principal member (or the cell phone number registered with the Society for this purpose) an SMS at the time of the medicine being dispensed to advise that the medicine dispensed carries a co-payment. This will apply to medicines obtained from any pharmacy in South Africa.

Please note that this service will be implemented on a trial basis from May 2016 – July 2016 since it attracts a cost to the Society.

This will allow the member at the time of dispensing to engage with the pharmacist whether he/she wishes to change the medicine (for example, to a cheaper generic equivalent) and in so doing avoid unnecessary co-payments.

If you wish to contact Mediscor at the time of receiving your SMS for further clarity, please call the Mediscor Chroniline on 0860 119 553 (save this number under your cell phone contacts).

Members will still be able to choose the more expensive medicine carrying a co-payment if they wish to do so and be liable for the co-payment.

### WOULD YOU LIKE TO KNOW MORE?



The highlights from the annual financial statements are presented in considerably less detail than the audited annual financial statements, which are prepared in accordance with International Financial Reporting Standards (IFRS), as defined by IAS 1 and the interpretations issued by the IFRS Interpretations Committee, with guidance from the Medical Schemes Accounting Guide issued by the South African Institute of Chartered Accountants (SAICA) and in the manner required by the Medical Schemes Act. They contain additional disclosures, such as insurance risk and financial risk management.

For a more comprehensive understanding of the Society's financial position and the result of operations, the highlights from the annual financial statements should be read in conjunction with the audited annual financial statements.

If you would like to obtain a full set of the financials, please do one of the following:

- Contact the Society's Communications Department on 053 807 3363;
- Collect the financials from the Society's Offices at Kimberley House, 84 Du Toitspan Road, Kimberley;
- Write to the Principal Officer at P O Box 1922, Kimberley, 8300, and request to have a copy mailed to you; or
- Download the full set of the financial statements from the Society's website, at [www.dbs.co.za](http://www.dbs.co.za)

## Non-compliance

The following instances of non-compliance with the Act were identified during the year:

### FINANCIAL SOUNDNESS OF BENEFIT OPTION

In terms of Section 33(2) of the Act each benefit option shall be self-supporting in terms of membership and financial performance.

#### Cause

During the year the Society incurred a net healthcare deficit of R9 783 898 (2014: R14 446 033). This result is expected and aligned with the Society's strategic objective of ensuring the financial stability and viability of the Society over the foreseeable future. The strategy also takes account of the need for the Society to remain competitive in relation to benefits provided, contribution levels and administration costs.

#### Corrective action

The Society is financially sound as confirmed by the current level of accumulated funds, the total comprehensive income for the year after incorporating investment income and the Society's solvency ratio of 149% (2014: 152%). It is not the strategy of the Society to make a profit and the investment income enables it to target a break-even position and to ameliorate any net healthcare deficit. The Board monitors the actual results to ensure the net healthcare deficit is in line with the budget and any material variances are analysed and corrective action taken, where necessary.

### INVESTMENTS IN OTHER MEDICAL SCHEMES, ADMINISTRATORS OR ASSOCIATED COMPANIES

Section 35(8) of the Act states that a medical scheme shall not invest any of its assets in other medical schemes, any administrator, any participating employer or companies associated with the aforementioned.

#### Cause

The Society through its holdings in the Allan Gray Life Balanced Portfolio (linked insurance policy) and Prescient

Stable Income Fund (collective investment scheme) holds indirect investments in a number of companies associated with other medical schemes, administrators and participating employers. The investment managers have full discretion over the investment decisions relating to these pooled investments.

#### Corrective action

The Society applied for an exemption from this section of the Act, but was only granted exemption from Section 35(8)(c) of the Act by the Council on 7 March 2013. The Society will apply to the Council to have the exemption extended to include Section 35(8)(d) of the Act.

### PAYMENT OF CLAIMS WITHIN 30 DAYS

Section 59(2) of the Act requires that a medical scheme pay a valid claim submitted to the scheme within 30 days after the day on which the claim was received.

#### Cause

The Society endeavours to pay all claims within 30 days of receipt, but the processing of some claims are occasionally delayed. Delays can occur when providers fail to supply the Society with their banking details or when claims are referred for clinical auditing or other investigations. During the year under review some claims were also paid after 30 days as a result of the migration to the new administration system.

#### Corrective action

Claims that are not paid within 30 days are actively monitored to ensure effective management of this aspect.

### CONTRIBUTION INCOME NOT RECEIVED WITHIN THREE DAYS OF BECOMING DUE

In terms of Section 26(7) of the Act, contribution income shall be received within three days of becoming due in terms of the Rules.

#### Cause

There were an insignificant number of instances where the Society did not receive all contributions from members within three days of them becoming due. This is mainly as a result of members having insufficient funds in their bank accounts at the time of collection, members exiting without informing the Society and reconciling discrepancies between participating employers and the Society. The risk of default is small, however, because of the restricted nature of the Society and employer base.

#### Corrective action

Contributions not received within three days are actively pursued and the suspension policies that are in place are applied rigorously.

### CLAIMS PAID AFTER MEMBERS' TERMINATION DATES

Section 28(c) of the Act states that no person shall claim or accept benefits in respect of himself or herself or any dependant from any medical scheme other than the medical scheme of which he or she is a member.

#### Cause

The termination notifications received from participating employers in respect of five members were not processed timeously by the Society resulting in claims with service dates after members' termination dates being paid. As at 31 December 2015 the claims had not been reversed against the members' debtor accounts for recovery.

#### Corrective action

The claims were reversed against the members' debtor accounts in March 2016 for recovery. Internal processes will be reviewed in order to avoid a re-occurrence.



## Notice of AGM

- 127th Annual General Meeting of the members of the De Beers Benefit Society
- De Beers Consolidated Mines Boardroom, 36 Stockdale Street, Kimberley
- Wednesday, 18 May 2016
- 12h00

### AGENDA

The purpose of this meeting will be to:

- Approve the minutes of the 126th Annual General Meeting held on 13 May 2015;
- Receive and adopt the annual financial statements of the Society, the report of the Board of Trustees and the report of the auditors for the year ended 31 December 2015;
- Consider the re-appointment of the auditors for the year ending 31 December 2016, as provided for in terms of Rule 25.1;
- Approve the enclosed Trustee Remuneration Policy;
- Approve that the remuneration payable per meeting attended, to Trustees and Board Committee members who are not employees of the Employer or Associated Employers, be increased from R3 695 to R3 865 effective from 1 January 2016, as provided for in Rule 18.24; and
- Transact such business as may be transacted at the Annual General Meeting, subject to the Rules of the Society.

### PROXY

Should any principal member wish to be represented at the Annual General Meeting by proxy, such member should contact the Society for an official proxy form. Completed proxy forms should reach the Society's offices by the close of business on 17 May 2016.

### NOTICES OF MOTION

Please take note that in terms of Rule 26.1.5, notices of motion to be placed before the Annual General Meeting must reach the Principal Officer no later than seven business days prior to the date of the meeting.

By order of the Board of Trustees

**L COETZEE**  
PRINCIPAL OFFICER  
31 March 2016

The highlights from the annual financial statements for 2015 were derived from the complete set of audited annual financial statements and were compiled in terms of the Rules of the Society and in accordance with Circular 6 of 2013 issued by the Council for Medical Schemes. The purpose of this document is to give the reader a broad overview of the financial position and results of the Society, without providing the level of detail that will be found in the annual financial statements. A full set of the annual financial statements may be obtained from the website ([www.dbs.co.za](http://www.dbs.co.za)) or a copy may be requested from the Society.