



FOR OUR
MEMBERS

INTEGRATED
REPORT 2017

INTEGRATED REPORT 2017

Discovery Health Medical Scheme's Integrated Report is designed to cater for various readers by grouping information in a logical way according to different levels and areas of interest. The chapters in the Report can be read as standalone pieces for this purpose.

OUR STAKEHOLDERS AND GOOD CORPORATE CITIZENSHIP

28



This section discusses the Scheme's approach to responsible corporate citizenship and its ethics and values. It also discusses how each of the Scheme's key stakeholders obtain value from the Scheme, within the context of the Scheme's primary responsibility to create value for its members, who are its primary stakeholders.

GOVERNANCE

44



For readers who are interested in the details of the Scheme's governance, this chapter provides an overview from the Chairperson and a description of the legislation governing the Scheme and its governance structures and framework, including the Board of Trustees and Board Committees. It also reviews notable regulatory and industry matters dealt with during 2017.

PERFORMANCE

72



For readers who are interested in more about the performance of the Scheme during 2017, this chapter provides management commentary on the Scheme's strategic, operating and financial performance during 2017. It also includes a review of initiatives undertaken by Discovery Health on behalf of the Scheme and its members.

ABOUT OUR REPORT

Sets out the assurances provided for this Report and its purpose, scope and boundary, and the Board's statement of responsibilities.

inside
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FINANCIALS

Full Annual Financial Statements and notes to the Financial Statements.

94



ABOUT DHMS

For current and potential members, this chapter provides an overview of the Scheme and its material matters, key risks and objectives.

It also indicates who leads and governs the Scheme, and provides a snapshot of key performance information.

02



RESOURCES AND GLOSSARY

A quick reference guide for contact information, feedback, compliments and complaints processes, and guidance on where to find additional information.

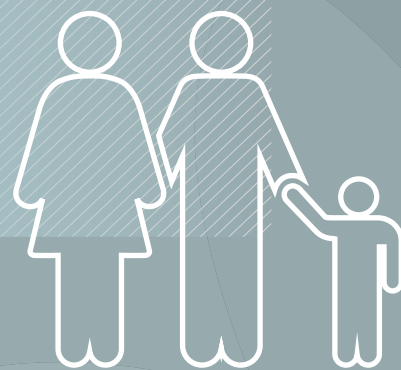
Unfamiliar terms in the Report? Find definitions in our Glossary.

170



02

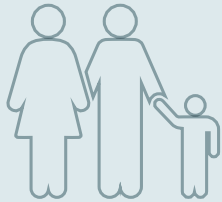
ABOUT
DHMS





WHO WE ARE	04
WHY JOIN DHMS?	05
OUR WORLD	06
KEY PERFORMANCE INFORMATION	08
OUR OPERATING CONTEXT AND MATERIAL MATTERS	10
RISK MITIGATION AND OUR STRATEGY	12
Mitigating our residual risks	12
Our approach to performance	13
Our strategic themes and performance in 2017	14
HOW WE OPERATE	18
Delivering value through an integrated provider model	18
An outcomes-driven approach to creating value	18
Value for money provided by Discovery Health	19
WHO LEADS US	20
Our Trustees	20
Our Independent Board Committee members	24
Our executive management team	26

WHO WE ARE



Discovery Health Medical Scheme (DHMS or the Scheme) is a registered open medical scheme which any member of the public can join, subject to its Rules¹.

The Scheme exists to **care for our members' health and wellness** by **engaging the brightest minds and innovative solutions** to provide access to **affordable, equitable and quality, value-based healthcare** that meets their needs now and sustainably into the future.



DHMS is the
LARGEST
OPEN MEDICAL
SCHEME
in South Africa

with an open
medical scheme
MARKET
SHARE OF 56%²

DHMS is a non-profit entity governed by the Medical Schemes Act³ (the Act) and regulated by the Council for Medical Schemes (CMS). The Scheme belongs to its members and an independent Board of Trustees (the Board or the Trustees) oversees its business.

The Scheme outsources its administration and managed care functions through a formal contractual arrangement with Discovery Health (Pty) Ltd, with its business model based on Vested® outsourcing.

¹ The Scheme Rules are available to members on www.discovery.co.za/medical-aid/scheme-rules.

² Based on beneficiaries, according to the Council for Medical Schemes Annual Report 2016–2017 (www.medicalschemes.com/Publications.aspx).

³ Medical Schemes Act 131 of 1998, as amended.



WHY JOIN DHMS?

QUALITY OF CARE IS ONE OF OUR KEY MEMBERSHIP PROPOSITIONS

One of the Scheme's major longer-term strategies is to drive value-based healthcare, which is a delivery model in which providers are reimbursed based on health outcomes, and to promote member access to programmes and providers that are committed to continuous improvement in quality healthcare.

Through Discovery Health, the Scheme is deeply engaged in many quality of care initiatives and ongoing monitoring to ensure that our members have access to the safest, most efficient healthcare available in South Africa. The Scheme also empowers our members with information that is relevant to their needs.

WE MAKE SURE THAT YOUR INVESTMENT IN MEMBERSHIP TAKES CARE OF YOU

86% of contributions received are used to fund member benefits

The Scheme's income is derived from member contributions and investment returns. The Scheme pools all members' contributions to fund members' claims, and any surplus funds are transferred to Scheme reserves for the benefit of members.

In pricing member contributions for each year, the Scheme's objective is to ensure sufficient contribution income to pay all claims, and to return a modest surplus to meet regulatory requirements as well as to maintain a cushion against unexpected cost increases. This is in accordance with the fundamental operating principles of a non-profit organisation.

The Scheme's income is used to fund activities to support and benefit its members, as well as ensure the sustainability of DHMS through activities such as innovation, administration, managed care, financial advisers and the daily operations of the Scheme.

Apart from the reserves and these activities, the Scheme's entire income is used to fund claims.

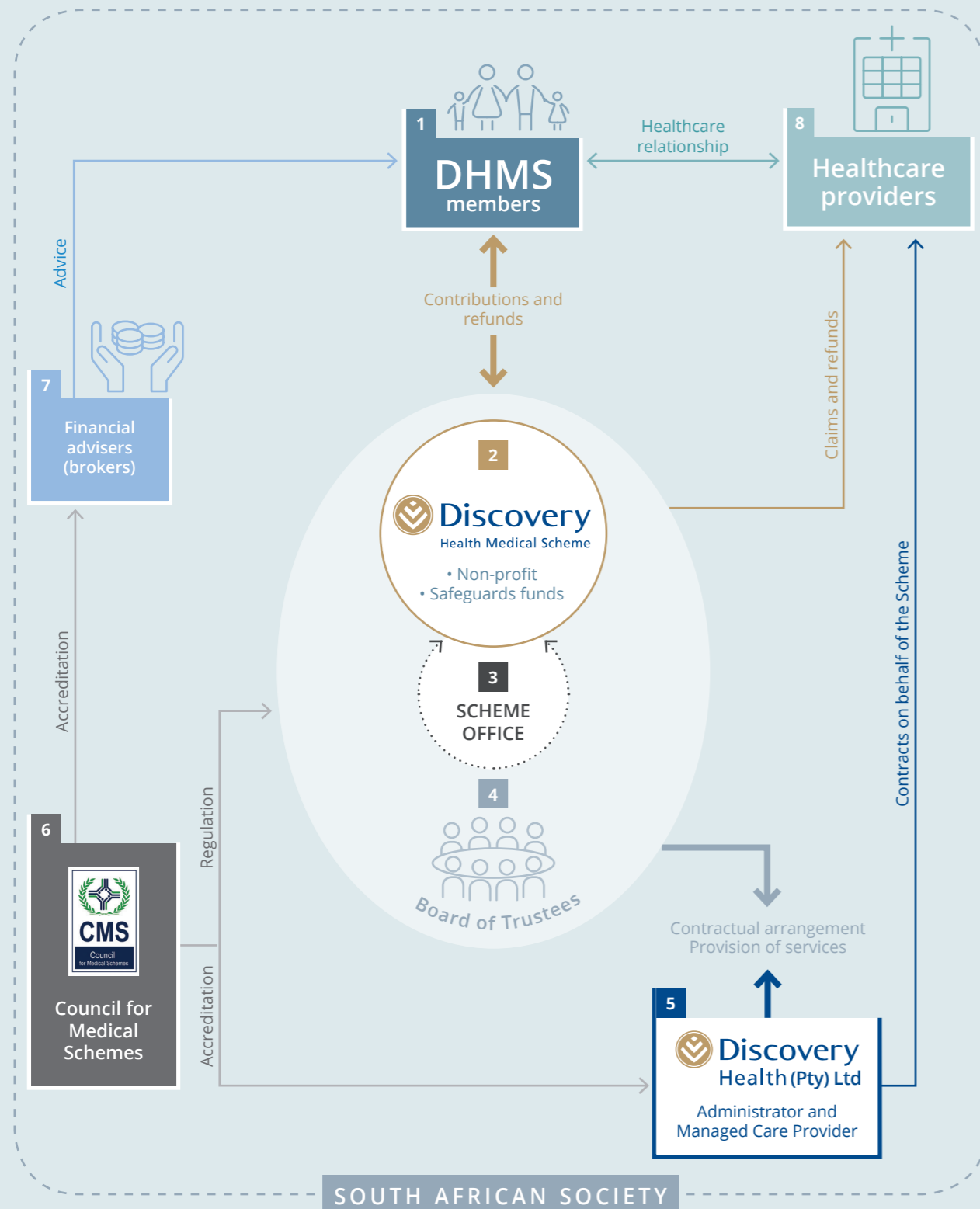
PAGE REFERENCE

Read more about the Scheme's reserves and how we ensure the protection of your funds and the sustainability of DHMS on [pages 8 - 9](#).

2017 DHMS EXPENSE BREAKDOWN



OUR WORLD



The Scheme recognises a duty of ethical administration, social responsibility and good corporate citizenship. While it regards its members' access to healthcare as its primary responsibility, it observes its Constitutional and other civic obligations to South African society at large.



1 DHMS MEMBERS

The Scheme's purpose is to care for our members' health and wellness by engaging the brightest minds and innovative solutions to provide access to affordable, equitable and quality, value-based healthcare that meets their needs now and sustainably into the future. We exist for our members.

Any member of the public can join DHMS¹ and choose from 17 benefit options and six network efficiency discount options designed to cater for a wide range of affordability and healthcare needs².

2 DISCOVERY HEALTH MEDICAL SCHEME

DHMS is a registered medical scheme, and like all other medical schemes in South Africa is a non-profit entity. The Scheme pools all members' contributions to fund members' claims. Any surplus funds are transferred to Scheme reserves for the benefit of members. The Scheme exists to serve its members' interests through enabling the sustainable provision of high-quality, affordable and sustainable healthcare to all of its members.

3 SCHEME OFFICE

(Principal Officer and executive management team)

The Trustees appoint a Principal Officer, who is the chief executive officer of the Scheme and is accountable to the Trustees for the Scheme's day-to-day management and the implementation of its strategy.

Supported by an executive management team, the Principal Officer plays a critical role in the effective operation of the Scheme. The Principal Officer and the management team collaborate closely with the Scheme's Administrator and Managed Care Provider, Discovery Health, in implementing strategy and daily operations. The diverse management team's skills and expertise include medical, actuarial, risk management, business management, strategic development, financial management, investment, legal, ethics, compliance and research capabilities.

4 BOARD OF TRUSTEES

The Trustees oversee the affairs of the Scheme in the best interest of members and stakeholders.

The Trustees are highly skilled individuals who offer their diverse knowledge and experience to the Scheme. They may be elected or appointed, but at any time at least 50% of the Board must be elected by Scheme members.

PAGE REFERENCE
Read more about our stakeholders on **pages 33 – 43**, about our Trustees on **pages 20 – 23** and about how we are governed on **pages 47 – 65**.

5 DISCOVERY HEALTH (PTY) LTD

(Administrator and Managed Care Provider)

Discovery Health has been appointed by the Trustees to provide administration and managed care services to the Scheme.

Administration services provided include:

- Member and provider servicing;
- Marketing, communication and advertising;
- Financial services;
- Governance, risk, regulatory compliance and internal audit;
- Research and development;
- Actuarial and business analytics;
- Benefit design; and
- Fraud and forensics investigations and recoveries.

Managed care is the provision of appropriate, affordable, quality healthcare services through rules-based, clinical and disease management programmes.

Managed care services provided include:

- Active disease risk management and support services;
- Hospital benefit management services;
- Managed care network, negotiations and risk management services; and
- Pharmacy benefit management services.

6 COUNCIL FOR MEDICAL SCHEMES

The CMS is a statutory body responsible for regulating the medical schemes industry in South Africa; it administers and enforces the Act.

7 FINANCIAL ADVISERS

Financial advisers (commonly referred to as "brokers") provide members with independent advice about their health plan options based on individual medical and affordability needs.

Financial advisers are regulated by and must be registered with the Financial Services Board. In addition, they are accredited by the CMS to provide advice on private healthcare cover. The Scheme pays contracted financial advisers a legislated commission.

8 HEALTHCARE PROVIDERS

Healthcare providers are the health professionals and organisations who deliver healthcare services. This includes doctors, nurses, dentists, specialists, hospitals, pharmacies and managed care organisations.

¹ Subject to any applicable Scheme Rules and restrictions of the Medical Schemes Act 131 of 1998, as amended (the Act).

² Members and potential members can discuss their unique needs with a financial adviser to select the most appropriate plan for them.

KEY PERFORMANCE INFORMATION

DHMS delivered a positive net healthcare result of R968 million for the year ended 31 December 2017 (2016: R102 million). The year-on-year increase in the operating result (contribution income less claims and all other Scheme expenses) was mainly attributable to the impact of in-hospital and out-of-hospital risk management initiatives implemented from the end of 2016 in response to a trend of increased utilisation of healthcare services in the 2015 and 2016 periods.

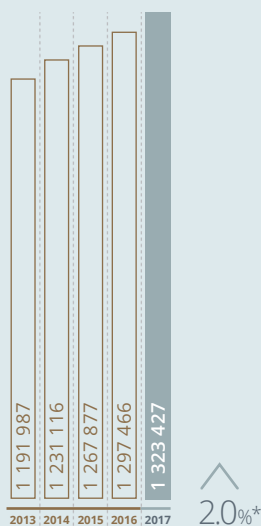
Despite volatile investment markets, the Scheme generated healthy investment income of R1 433 million (2016: R1 257 million) contributing to the net surplus for the year of R2 450 million (2016: R1 305 million).

This strong financial performance increased members' funds to R16.7 billion (2016: R14.2 billion) with a solvency level of 27.44% (2016: 26.33%), versus the regulatory requirement of at least 25%. The Scheme's financial strength and ability to pay claims was once again confirmed with a credit rating of AAA from the independent credit rating agency, Global Credit Rating Co (GCR). This is the 17th consecutive year the Scheme has achieved the highest possible rating a medical scheme can attain in the industry in South Africa. In the Trustees' view, DHMS ended 2017 in its strongest financial position in its history, and is very well positioned to continue to meet its members' needs going forward.

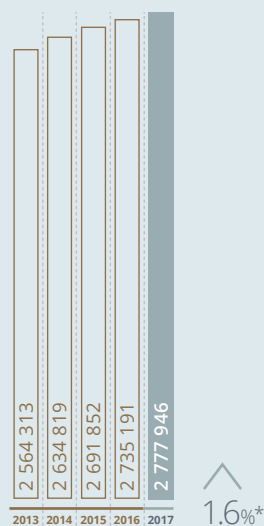
KEY HISTORICAL PERFORMANCE INDICATORS

The Scheme continues to build on its excellent historical performance, evidenced by the increase over the last five years in the number of principal members, total lives under management, gross contributions and members' funds.

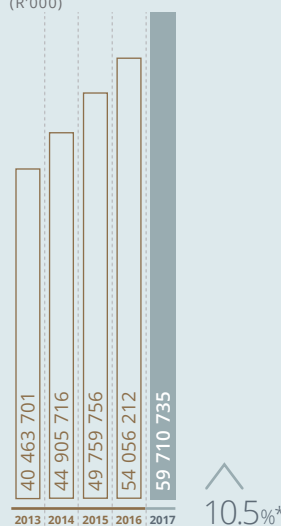
INCREASE IN SCHEME PRINCIPAL MEMBERS



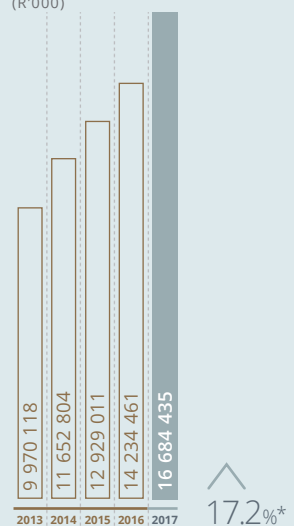
INCREASE IN SCHEME LIVES



INCREASE IN GROSS CONTRIBUTIONS (R'000)



GROWTH IN MEMBERS' FUNDS (R'000)



* Year-on-year change (2016 - 2017).



ENSURING THE SCHEME'S SUSTAINABILITY

The Scheme's ability to pay claims and its sustainability over the long term are of critical importance to its members. A summary of key outcomes metrics for the Scheme's sustainability appears below:

GROWTH AND SUSTAINABILITY

MEMBERSHIP SIZE

Greater risk pooling means more predictable claims experience and accuracy in pricing, leading to stable performance.

- **2 777 946** beneficiaries as at 31 December 2017 (2016: 2 735 191)
- **56%** share of open scheme market (2016: 55%)

CONTRIBUTION INCREASES

Reflects value for money for members and effective risk management.

- Average contributions **16.4%** lower¹ than the next eight open schemes by size (for 2017: 14.6%)

MEMBERSHIP GROWTH

Continuous growth of young and healthy lives improves risk pooling through cross-subsidisation principles, which reflects the attractiveness and competitiveness of the Scheme.

- Average net membership and beneficiary growth of **2.08%** and **1.59%** respectively (2016: 2.45% and 1.71%)²
- Average age at year end of **34.50** (2016: 34.17)³
- **9.33%** pensioner ratio (2016: 8.92%)
- **5%** annualised lapse rate (2016: 5%)

PLAN MOVEMENTS

Indicates satisfaction, stability in benefit design and appropriate pricing.

- No change for 2018: **94.24%** (for 2017: 93.86%)
- Upgrades for 2018: **3.24%** (for 2017: 2.91%)
- Downgrades for 2018: **2.52%** (for 2017: 3.23%)

FINANCIAL STRENGTH AND MANAGEMENT

ABSOLUTE RESERVES

Demonstrates ability to meet large, unexpected claims variation.

- Accumulated funds expressed as a percentage of gross annual contributions of **27.44%** (2016: 26.33%), exceeding the statutory solvency requirement of **25%**
- **AAA independent credit rating** for claims paying ability (2016: AA+)

PRICING SUFFICIENCY

Surplus year-on-year reflects contribution levels that are in line with expected membership and claims.

- Net surplus for the year of **R2 450 million** (2016: R1 305 million)

PRUDENT INVESTMENT MANAGEMENT

Ensuring that investment returns are maximised within an acceptable and conservative level of risk.

- **10.00%** average return on investments (2016: 8.80%)

DHMS RECEIVES EXCEPTIONAL VALUE FOR ITS ADMINISTRATION AND MANAGED CARE EXPENSES.

For every **R1.00 spent** by DHMS on administration and managed care fees in 2016, members of DHMS received **R2.00** (2015: R1.85) in value from the activities of Discovery Health.

Administration fees 7.56% of gross contributions (2016: 7.68%)

Managed care fees 2.57% of gross contributions (2016: 2.60%)

PAGE REFERENCE

For an explanation of how the Scheme calculates the value provided by Discovery Health see **page 19**.

PAGE REFERENCE

For full information on the Scheme's performance, please see **pages 74 – 85**, and for the Annual Financial Statements see **pages 94 – 169**.

¹ To ascertain the contribution differential between DHMS and competitors, we calculate an average contribution within each plan category for a family unit comprising one principal member, one adult and one child dependant (a family of three). These average contributions are then weighted (for DHMS and the next eight largest open schemes) according to the distribution of members across DHMS plans. This ensures that plans with similar benefits are being compared on a like-for-like basis, thereby providing a reasonable estimate of the discount that a typical member of DHMS enjoys relative to members of similar options in competitor schemes. DHMS typically compares itself against our next nine largest competitors, but Sizwe's final contribution increases for 2018 were unconfirmed at the time of publishing and so this comparison excludes Sizwe.

² Membership growth across medical schemes is currently constrained by affordability and a challenging economic climate, including stagnant job growth.

³ An increase of less than one year per annum is favourable as it indicates that young people are joining the Scheme.

OUR OPERATING CONTEXT AND MATERIAL MATTERS

The CMS was established through the Act to regulate registered medical schemes and to protect the interests of members of medical schemes, among other objectives.

The members of the Council for the CMS are appointed by the Minister of Health for a period of no more than three years per term, and for a maximum of two terms. The Registrar is the Chief Executive and accounting officer of the CMS. The registration of medical schemes is subject to compliance with the provisions of the Act and the promotion of public interest.

In terms of the schemes regulated by the CMS, the Council is responsible for ensuring that:

- Members of the boards of trustees and principal officers are fit and proper¹;
- Medical schemes are financially sound, with a sufficient number of members who contribute to the scheme; and
- Schemes do not unfairly discriminate against any person on arbitrary grounds.

The CMS interacts frequently with the industry and publishes regular circulars to guide medical schemes on interpreting and implementing the Act. It also approves the benefit plans and rules of each scheme, with the latter being binding on the scheme, its members, officers and any person who claims any benefit.

The CMS also accredits medical scheme administrators and managed care providers to provide services to medical schemes and their members, and accredits financial advisers to provide advice to the public on private healthcare cover. All fees paid by medical schemes to financial advisers are prescribed by the Minister of Health.

All medical schemes in South Africa are non-profit entities that operate in a complex and tightly regulated sector. Schemes price their benefit plans for the following year based on utilisation, financial performance and industry factors, as well as on financial and actuarial forecasts. Pricing is a function of balancing a number of factors while keeping contributions affordable, including holding sufficient reserves to weather times of economic difficulty and unexpected claims, addressing increased utilisation of healthcare services and the cost of treatment, optimising benefits, and ensuring equitable treatment of all scheme members.

At the end of 2016 there were 82 medical schemes registered with the CMS, consisting of 22 open schemes and 60 restricted schemes, covering over 8 878 000 beneficiaries. These schemes paid out approximately R151.2 billion in total healthcare benefits² in 2016 (2015: R138. 9 billion)³. DHMS facilitates access to private healthcare for over 2 777 000 beneficiaries⁴, approximately 56% of the open schemes market.

Through its Administrator and Managed Care Provider, Discovery Health, DHMS strives to ensure a seamless integration of services, quality of care for members, and cost efficiency in the context of a fragmented healthcare system. The Scheme also works closely with regulatory authorities as necessary, which in the last few years has related to Prescribed Minimum Benefit (PMB) reforms by the CMS, developments around National Healthcare Insurance (NHI) and the Competition Commission's Health Market Inquiry (HMI) into private healthcare in South Africa.

¹ The CMS undertakes its own process of vetting trustees and principal officers; this is in addition to the process undertaken by DHMS's Nomination Committee.

² Total healthcare benefits paid refers to the sum of the benefits paid from both the risk pools of medical schemes and the savings accounts of members.

³ Source: CMS Annual Report 2016–2017 (www.medicalschemes.com/Publications.aspx).

⁴ As at 31 December 2017.



OUR MATERIAL MATTERS

The Scheme’s material matters are the most important factors that affect our ability to create value for our members and other stakeholders over time, and ensure sustainability in the current complex operating environment.

Our material matters are interrelated; with careful management, they present opportunities for the Scheme to differentiate itself, enhance its reputation and protect its leading market position in South Africa, as well as achieve its objectives of sustainability and increased member value. The material matters are related to our risks, opportunities, strategic objectives and ongoing Board discussions, and are formally reviewed on an annual basis by the Trustees.

We exist for our members, which puts member health and wellness at the heart of what we do. To succeed, Scheme sustainability and healthcare affordability must be maintained in a challenging economic climate, which is influenced by healthcare systems reform and the impact of ethical business practices. We manage these inter-related matters and deliver services to our members through the Vested model.

MEMBER HEALTH AND WELLNESS

- A fragmented healthcare system that results in variable quality of care and compromises the provision of patient-centric care
- South Africa's high burden of communicable and lifestyle diseases, and its ageing population
- Promoting a patient-centred healthcare model and ensuring knowledgeable and empowered members

SCHEME SUSTAINABILITY AND HEALTHCARE AFFORDABILITY IN A CHALLENGING ECONOMIC CLIMATE

- Slow economic growth and rising unemployment exacerbated by retrenchments by employer groups
- Affordability constraints in an inflationary environment with limited resources that threaten Scheme sustainability, potentially increasing the burden on the public healthcare system
- National budget allocations and amendments increasing pressure on affordability

HEALTHCARE SYSTEM REFORM

- Incomplete implementation of social solidarity principles contributing to inflation and reducing access to healthcare
- A complex regulatory environment

THE VESTED OUTSOURCING MODEL

- Sustaining and optimising the model to ensure that best value is obtained from the Administrator and Managed Care Provider
- Pursuing excellence, opportunities for positive industry disruption and innovation for the benefit of members

ETHICAL BUSINESS

- Heightening awareness and increasing environmental scanning
- Focusing on ethical due diligence and King IV
- Ensuring that any lack of governance and controls in the broader business and political environment do not negatively impact the Scheme's operations and its members



RISK MITIGATION

AND OUR STRATEGY

Mitigating our residual risks

DHMS constantly scans the internal and external environments to assess risks and opportunities emanating from the triple context of environment, society and economy in which the organisation operates and in relation to the capitals that the organisation uses and affects.

Risks are rated according to impact and likelihood on a five-point scale of low to catastrophic, and assessed according to the Scheme's Board-approved enterprise risk management framework as well as the risk appetite framework and statement.

This process provides an assessment of the potential opportunities presented by risks with potentially negative effects on achieving organisational objectives, as well as an assessment of the organisation's dependence on resources and relationships as represented by the various forms of capital.

Risk responses and mitigation plans are then put into place and monitored by the Scheme Office, with regular reporting to relevant Board Committees and to the Board. High and medium high residual risks and their mitigation strategies are shown alongside. DHMS currently has no catastrophic risks.

AFFORDABILITY OF CONTRIBUTIONS AND MEDICAL INFLATION

The risk that contributions to the Scheme become unaffordable in the long term due to the impact of demand and supply side factors and inflation drivers.

- ▶ Risk management interventions are implemented by Discovery Health on behalf of DHMS. These include closer management of networks and hospital admissions, as well as the implementation of innovative value-based contracting and reimbursement mechanisms.

PAGE REFERENCE

Read more about these factors and drivers on [page 78](#).

STAKEHOLDER MANAGEMENT

The risk of inadequate stakeholder management, resulting in harm to the Scheme's business and reputation, and its perception in the eyes of members and other key stakeholders.

- ▶ Engaging proactively and frequently with all stakeholder groups and ensuring effective oversight of engagement by a dedicated Board Committee. The Trustees embrace the Treating Customers Fairly (TCF) principles and framework, and receive regular reports on the performance of Discovery Health on TCF key fairness indicators.
- ▶ In addition, DHMS conducts ongoing environmental scanning to identify possible risks related to its key stakeholders and develops or amends strategies to deal effectively with risks.

REGULATORY CHANGE

The risk of changes in the regulatory environment that may have an adverse impact on the operations, competitive advantage, strategy and sustainability of the Scheme.

- ▶ Regular, detailed and proactive engagement with relevant regulators at all stages of the regulatory change process.

COMPLIANCE

The risk of not complying with laws, regulations, rules and related self-regulatory Scheme standards and codes of conduct, as well as the failure to uphold the Scheme's core values and codes.

- ▶ Operating in a highly regulated environment requires extensive controls to ensure ongoing compliance with its legislated obligations. DHMS has an acute focus on ensuring compliance in all areas and has put appropriate operational, oversight and assurance processes in place.

INFORMATION AND CYBER

The risk of data leakage or loss, financial loss and business disruption, including the integrity and availability of information assets and personal information.

- ▶ DHMS protects the confidentiality of its information zealously, particularly member information. Cyber and information risk is closely monitored by the IT Governance Forum, consisting of representatives from the Scheme Office and the Administrator, with regular reviews performed on controls and their effectiveness.

OUTSOURCING

The risk that outsourced providers fail to service members and providers according to agreements in place, and do not perform in a manner consistent with the values, strategies and objectives of the Scheme.

- ▶ Discovery Health reports extensively to the Board and the Board Committees on a regular basis, which enables the Trustees to ensure that the strategic and operational requirements agreed on, and which are set out in extensive service level requirements, are met. Operational matters are reported to the Scheme Office, which oversees mitigation strategies and their implementation.

CLAIMS

Medical schemes set contribution rates before the end of each benefit year for the following year. There is a related risk of healthcare costs rising faster than inflation due to demand side factors (such as age, gender, chronic status and anti-selection) and/or supply side factors (such as technology and provider driven increases in utilisation).

- ▶ Scheme experience shows that the risk management initiatives implemented by Discovery Health have resulted in material savings for DHMS that have successfully reduced the impact of this risk. However, the Scheme continues to actively monitor objectives in this regard.

OUR APPROACH TO PERFORMANCE

To ensure the long-term sustainability of the Scheme, it is essential that the internal and external factors and material risks are constantly reviewed and considered. While these considerations require that the strategy evolves over time, its development is always guided by the core purpose of the Scheme: to care for our members' health and wellness by engaging the brightest minds and innovative solutions to provide access to affordable, equitable and quality, value-based healthcare that meets their needs now and sustainably into the future.

In this respect, DHMS formulates its strategy to be responsive to the operating environment and the needs of its members and other stakeholders.

DHMS has a comprehensive and holistic view of member value that considers the health and wellness of members, quality of care and appropriateness of medical services, and overall cost efficiency and financial sustainability. The Scheme's overarching goal is to optimise member value.

As the Scheme is prohibited from directly or indirectly borrowing money by the Act, it only has two sources of financial capital available: member contributions and returns on the investment of member funds. This limitation requires balancing the resources required to meet its objectives and ensuring the long-term financial sustainability and solvency requirements required by the CMS.

DHMS has a fiduciary obligation to maximise investment returns while having due regard to associated risks; thus considering issues that can impact the longer-term sustainability of investment performance is important. In this regard, the Trustees have approved a framework for responsible investment that guides the approach and model adopted when investing.

A formal strategy planning session is held annually, where the Trustees and Scheme Office closely review material matters and discuss its overall long-term strategy and strategic objectives for the coming year. High-level objectives are broken down into work streams, with key performance indicators set to measure progress and assess outcomes. The work streams are not necessarily tied to a specific benefit year, and may be carried over several years depending on the complexity of the objectives.

Work streams and related objectives are adjusted in response to changing circumstances, and the policies and planning related to the work streams are reviewed and approved by the Trustees as required. These work streams are cascaded to multiple Board Committees, which have terms of reference that are approved by the Board. The Committees have annual calendars that detail the work plan for the year. The Scheme Office interfaces with these Committees and the Board, reporting regularly on its oversight and monitoring responsibility as well as risk mitigation for emerging risks. The Scheme Office applies a performance management strategy that requires strategic, structural and cultural alignment to attain the overall performance targets of its employees. The incentive and reward structures are designed to reward excellence in performance and foster an environment of continuous learning and development.

The strategic themes discussed in our 2016 Integrated Report have largely been retained for this report and are forward looking to 2018, but their wording and categorisation has been amended in line with management's priorities and current environmental factors.

OUR STRATEGIC THEMES AND PERFORMANCE IN 2017

01 Superior quality of care for members

- Key longer-term strategies for DHMS are to:
 - Drive value-based healthcare, a delivery model in which providers are reimbursed based on health outcomes; and
 - To promote member access to programmes and providers that are committed to continuous improvement in quality healthcare.
- The Scheme and Discovery Health continuously implement and monitor various quality of care projects that strive to ensure effective outcomes measurement and the sharing of quality outcomes data with members and healthcare providers, including:
 - Risk-sharing arrangements; and
 - The integration of the stages of the disease management journey, with several promising pilot projects currently underway that are designed to promote care provision by multi-disciplinary teams, care coordination and outcomes-based reimbursement.
- DHMS participates in the Health Quality Assessment's annual assessment of quality in healthcare by medical schemes and the CMS's PMB review process, which has been reinstated.
- The Scheme also obtains regular reports on quality indicators, metrics, standards and benchmarks.

Related

MATERIAL MATTERS

- Member health and wellness
- The Vested model

RISKS

- Stakeholder management
- Regulatory change
- Outsourcing

STAKEHOLDERS

- Members and employer groups
- Providers
- Council for Medical Schemes
- National Department of Health
- Discovery Health

—PAGE REFERENCE—

Read more about these projects on [pages 35 – 36, 38 – 39](#) and [89 – 93](#).

02 Lowest healthcare costs

- The average contribution of a Scheme member was 16.4% (2016: 14.6%) lower¹ than the next eight² largest open schemes on a plan-for-plan comparison basis, and the weighted average contribution increases for those schemes was 8.8% compared to DHMS's 7.9%.
- Monitoring the drivers of claims cost, utilisation and clinical risks is ongoing, and the Scheme leverages its scale and the powerful analytics capability of Discovery Health to identify risks at an early stage and respond quickly.
- In 2017, various risk mitigation strategies were implemented that yielded positive results.

Related

MATERIAL MATTERS

- The Vested model
- Scheme sustainability and healthcare affordability³

RISKS

- Affordability of contributions and medical inflation
- Claims

STAKEHOLDERS

- Members and employer groups
- Providers
- Discovery Health

—PAGE REFERENCE—

Read more about the contribution differential on [page 77](#).

¹ Based on the rate for a principal member plus one adult beneficiary and one child beneficiary, and on information sourced by the Scheme to end March 2018.
² Not including Sizwe. DHMS typically compares itself against our next nine largest competitors but Sizwe's final contribution increases for 2018 were unconfirmed at time of publishing.
³ Abbreviated from "Scheme sustainability and healthcare affordability in a challenging economic climate".



03 Personalised, predictive and preventative approach

- We work to ensure that our range of plans offer sufficient member choice, ongoing benefit optimisation and plan design refinement, which is overseen by our Product Committee.
- As the Scheme believes strongly in the value of driving member wellness, we offer extensive preventative and screening benefits.
- Our members have voluntary access to a world-leading science-based wellness programme, Vitality¹, with ongoing monitoring of the impact of our various wellness activities and interventions reported to the Clinical Governance and Non-healthcare Expenses Committees.

PAGE REFERENCE

Read more about the impact of Vitality on [page 91](#).

Related

MATERIAL MATTERS

- Member health and wellness
- The Vested model

RISKS

- Stakeholder management
- Outsourcing

STAKEHOLDERS

- Members and employer groups
- Providers
- Discovery Health
- Financial advisers

04 Member-centric servicing

- Discovery Health's strong ongoing focus on service excellence and peace of mind for members is measured through metrics such as member perception, first call resolution and service levels, which supported an average member perception score of 9.14 out of 10 (2016: 9.17).
- Discovery Health's ongoing incorporation of new digital and other technologies to enhance members' experience and engage them in their healthcare drove the introduction of DrConnect in 2017:
 - DrConnect is an information platform for doctors and members that has access to a database of 6.5 billion curated medical questions and allows members to ask questions to a network of over 108 000 doctors internationally.
 - It is available at no charge to Scheme members through their smartphones and the website, and to doctors via HealthID.

PAGE REFERENCE

Read more about DrConnect on [pages 36 - 39](#), and how we engage with our members on [pages 34 - 36](#).

Related

MATERIAL MATTERS

- Member health and wellness
- The Vested model

RISKS

- Stakeholder management
- Information and cyber
- Outsourcing

STAKEHOLDERS

- Members and employer groups
- Providers
- Discovery Health

¹ Vitality is administered by Discovery Vitality (Pty) Ltd., registration number 1999/007736/07, an authorised financial services provider.

05 Excellent governance

- In line with best governance practice, the Scheme has been working to integrate King IV requirements into its governance structures, processes and disclosures. To this end, the Scheme has amended all Committee and Board terms of reference and governance documentation. The Scheme plans to obtain an independent external assessment of the results of this work during 2018.
- In accordance with King IV best practice, the Stakeholder Relations Committee updated its mandate to emphasise social and ethics governance, and has been renamed the Stakeholder Relations and Ethics Committee. Among other areas of good corporate citizenship, the Committee will oversee the review of ethics in the Scheme and its environment, and the implementation of actions to achieve its responsibilities. The Scheme has engaged The Ethics Institute, of which it is a member, in this regard.
- During 2017, two Trustees were elected by members at the Scheme's AGM, and two additional Trustees were appointed by the Board to replace outgoing Board-appointed Trustees. The new Trustees were assessed against fit and proper criteria by the Nomination Committee and formally appointed in June and August respectively.

PAGE REFERENCE

Read more about our approach to good corporate citizenship and our culture, ethics and values on **pages 30 – 31**.

Related

MATERIAL MATTERS

- Ethical business

RISKS

- Compliance
- Regulatory change

STAKEHOLDERS

- Members and employer groups
- Employees
- Council for Medical Schemes

06 Best practice outsourcing and a focus on innovation

- The Scheme continues to engage external experts to assess components of the Vested model and its implementation, as well as the outcomes of the relationship.
- DHMS uses pragmatic, replicable methodology for measuring the value added by Discovery Health for the Scheme and its members. The assessment reported to the Trustees in 2017 showed that in 2016, for every R1.00 the Scheme spent on administration and managed care services, R2.00 of value was added by Discovery Health (2015: R1.85).
- A new set of administration and managed care agreements with Discovery Health were finalised and came into effect on 1 January 2018.
- The Scheme Office continues to optimise its outsourced business model, with assessments conducted and structures established to optimise the transactional, relational and innovation aspects of the agreements on an ongoing basis. These activities are reported to the Non-healthcare Expenses Committee and to the Board on a regular basis.

PAGE REFERENCE

Read more about how we ensure our members receive value for money on **page 19**.

Related

MATERIAL MATTERS

- The Vested model
- Scheme sustainability and healthcare affordability¹

RISKS

- Affordability of contributions and medical inflation
- Stakeholder management
- Outsourcing

STAKEHOLDERS

- Members and employer groups
- Providers
- Discovery Health

¹ Abbreviated from "Scheme sustainability and healthcare affordability in a challenging economic climate".



07 Stakeholder relations

- DHMS engages with all of its stakeholders on an ongoing basis.
- In 2017, regulatory engagement was a particular focus for the Scheme. Frequent interactions were held, particularly with the CMS, which publishes regular circulars and other guidelines for the industry to which the Scheme submitted comprehensive responses as required.
- The Scheme continued to engage extensively and proactively with the Competition Commission on its Health Market Inquiry (HMI), including participating in industry seminars held on various topics that the HMI is investigating.

PAGE REFERENCE

Read more about how we engage with our stakeholders on [pages 33 – 43](#).

Related

MATERIAL MATTERS

- Healthcare system reform
- Ethical business

RISKS

- Stakeholder management
- Regulatory change
- Compliance

STAKEHOLDERS

- All stakeholders

08 Financial performance

- DHMS manages its investment portfolio in a diversified manner to optimise investment returns within its approved risk appetite.
- Despite challenging economic conditions, the Scheme generated healthy investment income of R1 433 million (2016: R1 257 million) contributing to the net surplus for the year of R2 450 million (2016: R1 305 million).

PAGE REFERENCE

Read more about the Scheme's performance on [pages 74 – 85](#).

Related

MATERIAL MATTERS

- Scheme sustainability and healthcare affordability¹
- Ethical business

RISKS

- Affordability of contributions and medical inflation

STAKEHOLDERS

- Members and employer groups
- Employees

¹ Abbreviated from "Scheme sustainability and healthcare affordability in a challenging economic climate".

HOW WE OPERATE

DELIVERING VALUE THROUGH AN INTEGRATED PROVIDER MODEL

As per the Act and the Scheme Rules, the Trustees appoint an accredited administrator and managed care provider to execute the Scheme's operations.

DHMS purchases its administration and managed care services from a single provider, Discovery Health (Pty) Ltd, as the Trustees believe that an integrated model (as opposed to a fragmented model where multiple service providers are utilised) delivers optimal efficiency and value to Scheme members.

Administration and managed care agreements detail defined and measured outcomes expected of Discovery Health. Performance management is effected through service level agreements (SLAs) that are strictly adhered to and reported on, and which set out the expected level of performance across a wide range of key operational measures. Discovery Health reports formally to the Scheme on contractually agreed key performance indicators on a monthly, quarterly and annual basis. In addition, any operational or strategic concerns are raised with the Scheme Office.

WHAT THIS MEANS FOR OUR MEMBERS

These detailed agreements are in place to ensure the best value is provided for Scheme members, with performance managed against SLAs.

AN OUTCOMES-DRIVEN APPROACH TO CREATING VALUE

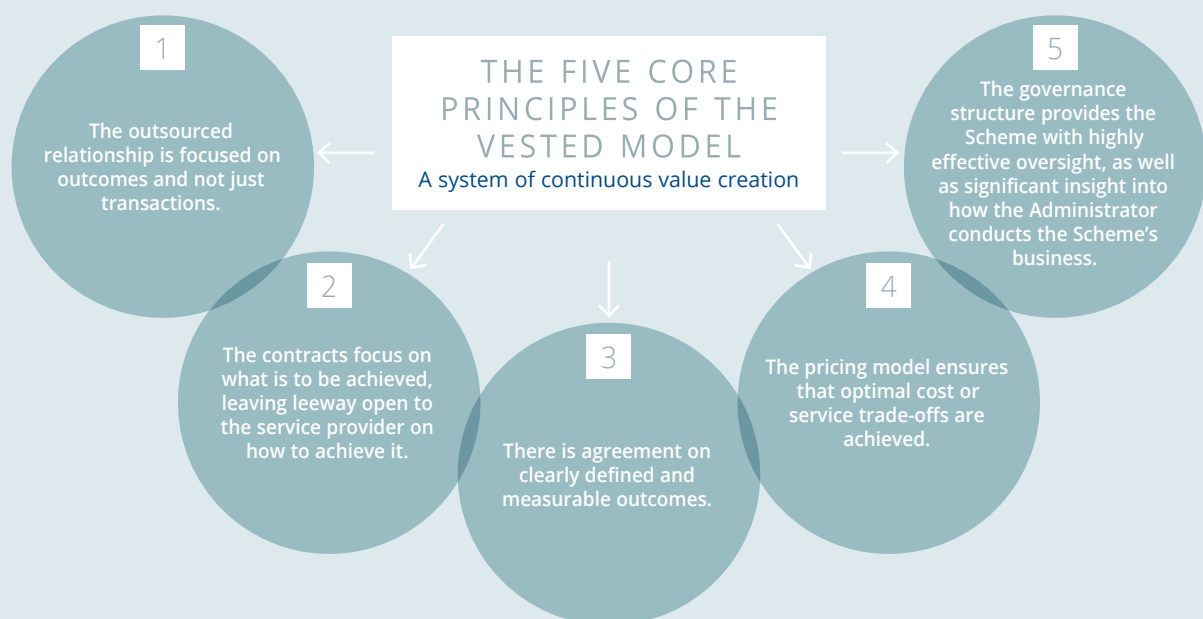
The working relationship between the Scheme and Discovery Health is governed by the Vested® outsourcing model (Vested model). This aligns the transactional and relational governance elements of this relationship with global best outsourcing practice.

A Vested outsourcing agreement is characterised by:

- A shared vision and aligned objectives, with both organisations committed to the success of both;
- Transparency, flexibility and trust;
- Organisations working together to find the best solutions; and
- Fair risk and reward for both parties, leading to fairness, sustainability and the best outcomes

This strengthens the strategic alignment between organisations and encourages a value-driven relationship. In effect, it frees both organisations to do what they do best by contracting for results and not activities – which allows for innovation, improved service and continuous value creation.

The Vested model recognises and embeds the Scheme's independence through robust governance arrangements, while allowing it to leverage Discovery Health's considerable knowledge, expertise, systems, innovation and value-added services in the best interests of the Scheme and its members.



The five core principles have been adapted from "The Vested Outsourcing Manual" (Palgrave MacMillan, 2011) by Kate Vitasek with Jaqui Crawford, Jeanette Nyden and Katherine Kawamoto.



THE CONTINUAL IMPROVEMENT JOURNEY

Optimising an outsourcing model is a journey, with changes embedded at all levels to create a sustainable system for continuous value creation. Enhancements to the Vested model continue to be implemented to achieve ongoing improvement.

The Scheme engages regularly with independent international Vested model experts who conduct reviews of its implementation. In 2017, two operational committees were also established to monitor and optimise the relationship and the innovation work that the model promotes.

WHAT THIS MEANS FOR OUR MEMBERS

The improved outcomes from the Vested model are seen in the following tangible results:

- An unmatched record of innovation.
- High levels of member satisfaction with service levels.
- Focused clinical risk management solutions resulting in significant claims cost reduction, enhancing the sustainability of the Scheme.
- Improved stakeholder relations.
- Continued membership growth from an already high base.
- Improved outsourcing governance ensuring that the Scheme can measure and report on the performance of and value provided by the Administrator and Managed Care Provider.
- Continued excellent Scheme performance across all key metrics, including financial performance and membership growth.

VALUE FOR MONEY PROVIDED BY DISCOVERY HEALTH

The Trustees do a formal evaluation of the value for money provided by Discovery Health to the Scheme every year.

A pragmatic and replicable methodology for measuring the value added by Discovery Health has been applied for 2014, 2015 and 2016¹, and the latest results were reported to the Trustees in 2017. The assessment takes account of value added from providing basic administration services, managing claims costs, making members healthier, attracting and retaining members, any additional services offered, and innovation.

2016: R2.00	2015: R1.85	2014: R1.73
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The results are expressed as the value added by Discovery Health for each Rand paid to it. Value added of greater than one means that Scheme beneficiaries receive more value than what has been paid on their behalf.

The Scheme engaged Deloitte to review the reasonability of the data, revised methodology and results. Deloitte concluded that the methodology is appropriate and that they did not encounter any significant anomalies in the data and calculations reviewed.

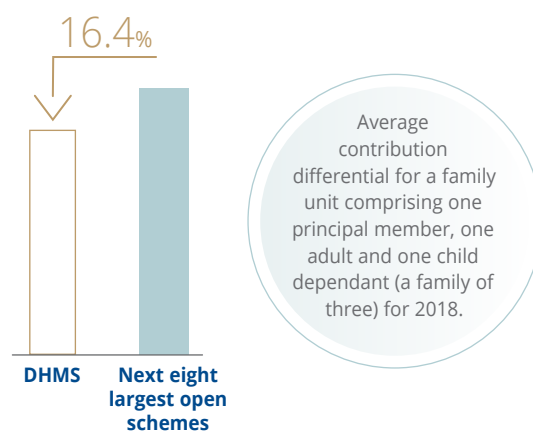
Deloitte are of the opinion that the increase in value added from 2015 to 2016 is reasonable.

¹ In the past, the Scheme used a methodology developed by Deloitte to assess the value added, which relied on publicly available information. Due to differences in the specification of the underlying data across the industry, the method was no longer suitable.

WHAT THIS MEANS FOR OUR MEMBERS

Our members are better off when the Administrator and Managed Care Provider adds more value than the fees paid to it by the Scheme. The value for money that Discovery Health provides plays out in many ways for members, from access to highly effective managed care programmes such as DiabetesCare, to a significant difference in contribution costs:

DHMS CONTRIBUTION 16.4% LOWER THAN THE NEXT EIGHT LARGEST OPEN SCHEMES



PAGE REFERENCE

Read more about the contribution differential and DHMS's performance on **pages 76 – 85**, as well as Discovery Health's initiatives for the Scheme on **pages 86 – 93**.

WHO LEADS US

Our Trustees

In the King IV Report on Corporate Governance for South Africa 2016, corporate governance is defined as the exercise of ethical and effective leadership by boards to achieve the following governance outcomes:

- An ethical culture.
- Good performance.
- Effective control.
- Legitimacy.

The DHMS Trustees embrace the principles of the King IV Report on Corporate Governance for South Africa 2016 (King IV) in achieving its governance outcomes for the Scheme and within the Scheme environment. The Trustees are required to lead ethically and effectively, and each Trustee (individually and collectively as part of the Board) should cultivate the characteristics of integrity, competence, responsibility, accountability, fairness and transparency, and exhibit them in their conduct.

The Board comprises high-calibre professionals with diverse skills, experience, background and gender. This brings multiple perspectives to bear in discussion and debate, ensuring robust oversight and strategic decision-making.

In addition, the Trustees have access to professional advice, both inside and outside the Scheme, for them to properly perform their duties. The Trustees may obtain such external or other independent professional advice as they consider necessary to carry out their duties.

To ensure effective leadership, the Trustees dedicate a significant amount of time and effort to their fiduciary duties, well beyond meeting attendance requirements.

The Trustees focus their attention on overseeing the Scheme's material matters, in discharging their duties and in ensuring the Scheme's sustainability, which forms the basis for any Board decisions. The Trustees are accountable to the Scheme's members. Their duties include:

- Overseeing and directing the management of the Scheme's outsourced activities performed by the Administrator and Managed Care Provider;
- Applying sound business principles to ensure the financial soundness of the Scheme;
- Ensuring that proper control systems are employed by and on behalf of the Scheme;
- Appointing, evaluating and delegating functions to the Principal Officer, who is the chief executive officer of the Scheme;
- Ensuring that the Scheme Rules, operation and administration comply with the provisions of the Act, and all other applicable laws;
- Ensuring that adequate and appropriate information is communicated to members regarding their rights, benefits, contributions and responsibilities in terms of the Scheme Rules;
- Taking all reasonable steps to protect the confidentiality of medical records concerning the state of health of the Scheme's members; and
- Overseeing the implementation of strategy.

The Trustees may be elected or appointed. At least 50% of the Trustees are elected by Scheme members, and the Board may appoint additional Board Committee members to fill any knowledge, experience and skills gaps.

The Trustees and Committee members are remunerated for their service according to the Scheme's Remuneration Policy.



MR NEIL MORRISON

BSc (Hons) Physics; MA (Economics)

CHAIRPERSON

Mr Morrison was an external consultant to McKinsey and Company until 2015. Previously, he was Special Advisor to the Minister of Public Enterprises and until 2004, CEO of Deutsche Bank, Johannesburg Branch and also head of its Global Markets division.

Mr Morrison was elected as a Trustee in 2016 and currently serves on the Stakeholder, Remuneration, Investment and Non-healthcare Expenses Committees. He was elected Chairperson of the Board on 14 August 2017, upon Mr van der Nest SC's retirement.



ELECTED BY MEMBERS AT THE 2017 AGM



MS JOAN ADAMS SC

B.IURIS LLB; (FP) SA¹

Ms Adams SC has been an advocate for 30 years, 20 years of which have been in private practice (after resigning in 1996 as a Senior State Advocate). She served for five years on two presidentially elected Commissions of Inquiry involving financial irregularities. She was appointed a Senior Counsel in early 2018.

She is a full and accredited forensic practitioner, South Africa member of the Institute for Commercial Forensic Practitioners and the Gauteng Society of Advocates.

Ms Adams SC specialises in medical law, mediation, forensic investigations, serious economic offences, professional ethics and disciplinary enquiries in both the public and private sectors, and has served as chairperson on numerous professional conduct enquiries of the Health Professions Council of South Africa and various other institutions.

Ms Adams SC was elected as a Trustee in 2017 and serves on the Clinical Governance, Audit and Risk Committees.



DR SUSETTE BRYNARD

BSc (Sciences); PhD (Education)

Dr Brynard is a research fellow at the University of the Free State, specialising in people management. She was formerly part of the management team of the Bloemfontein College of Education. She is currently a director of SAMBA, a co-operative buy-aid, a position she has held for the last 24 years. She attained her post graduate degrees cum laude and is doing ground-breaking work on the education and development of Down syndrome learners internationally.

Dr Brynard was elected as a Trustee in 2017 and currently serves on the Remuneration, Stakeholder Relations and Product Committees.



MR JOHN BUTLER SC

B.Comm, LLB, MA (Senior Counsel, Member of the Cape Bar)

Mr Butler SC is a practising advocate. He was appointed a senior counsel in 2008.

He specialises in commercial practice, including in insolvency, company, insurance, finance and banking, and competition law. He has served as an Acting Judge of the High Court of South Africa, and as an arbitrator in commercial disputes. He is a former chairperson of the Cape Bar Council.

Mr Butler SC was appointed as a Trustee on 14 June 2017. He serves on the Stakeholder Relations and Ethics, Non-healthcare Expenses and Remuneration Committees.



MR JOHAN HUMAN

B.Bus.Sc; FIA²; FASSA³

Mr Human has more than 20 years' experience in actuarial and healthcare consulting to large corporate organisations and medical schemes. He is currently a Director and co-founder of the Alluvia Group (Pty) Ltd, with interests in private equity, infrastructure fund management and structured finance.

Mr Human was appointed to the Board on 14 August 2017 after being co-opted as an Independent Co-opted member to the Board on 5 September 2016. He currently chairs the Product Committee and serves on the Investment, Audit and Risk Committees, and has previously served on the Non-healthcare Expenses Committee.

¹ Forensic Practitioner, South Africa.

² Fellow of the Institute of Actuaries UK.

³ Fellow of the Actuarial Society of South Africa.



MR DAVID KING

BSc (Hons); MBA; Health Risk Management & Managed Care Certificate

Mr King is a seasoned business executive with over 25 years' multinational experience. He spent 12 years as Human Resources Director of Brandhouse Beverages and was instrumental in that entity becoming a formidable competitor in the South African drinks industry. Previously, he chaired the Board of Trustees of Oxygen Medical Scheme. He is an expert in executive leadership and employee engagement.

Mr King was elected as a Trustee in 2016 and currently chairs the Remuneration Committee and serves on the Non-healthcare Expenses and Stakeholder Relations Committees. He previously served on the Audit, Risk and Stakeholder Relations Committees as an independent member.



DR DHESAN MOODLEY

Masters in Metabolic, Functional and Anti-aging Medicine; MMed (Sports Science); MBChB; MBA; EDP Economics

Dr Moodley is currently in private practice in Functional and Anti-aging Medicine. He is also the chairman of Pinpoint Solutions, a healthcare organisation that focuses on HIV and chronic conditions in the public sector. In the past, he was president of Alexander Proudfoot, CEO of Bluepeter Consulting, partner of Ethos Private Equity Technology Fund, associate partner at Accenture and principal at Gemini Consulting. He has deep expertise in health insurance and healthcare. His past and present affiliations include the Young Presidents' Organisation, World Presidents' Organisation, American Academy of Anti-aging Medicine, South African Medical Association, Black Management Forum of South Africa, and American Chamber of Commerce.

Dr Moodley served the Scheme as Chairperson and a member of the Board between 2001 and 2011. In 2016, he was re-elected as a Trustee and currently Chairs the Clinical Governance Committee, and serves on the Investment, Product and Stakeholder Relations Committees.



MS DAISY NAIDOO

CA(SA); Masters of Accounting (Taxation); BCom Postgraduate Diploma in Accounting

Ms Naidoo is a Chartered Accountant. She is a professional independent non-executive director and currently serves on a number of listed and non-listed company boards, investment and credit committees. She has extensive knowledge in finance, accounting, banking, investment, risk and general business. She was previously a dealmaker for almost a decade at Sanlam Capital Markets where she headed the Debt Structuring Unit. Prior to that she was a tax consultant at Deloitte, consulting mostly to financial services companies, and before that she was a financial planner at South African Breweries.

Ms Naidoo was elected as a Trustee in 2016 for a second term. She serves on the Audit, Risk, Investment and Product Committees, and Chairs the Non-healthcare Expenses Committee.



RETIRED DURING 2017



MR MICHAEL VAN DER NEST SC

BA LLB

CHAIRPERSON

Mr van der Nest SC has been in private practice for over 30 years and was appointed Senior Counsel in 2000. He has been an Acting Judge of the High Court of South Africa on various occasions, and has arbitrated various commercial disputes.

His practice is of a specialised commercial nature in merger and competition cases, accounting and valuation, mining, contractual disputes, insurance, aviation and construction disputes, financial instruments, banking and regulatory matters.

Mr van der Nest SC was appointed as a Trustee in 2011 and 2014, and served as Chairperson of the Board for both periods. He also served on the Remuneration and Stakeholder Relations Committees until his term ended in August 2017.



MR GILES WAUGH

MA; FIA¹; FASSA²

Mr Waugh has worked as an actuarial consultant for the past 30 years in South Africa and the UK, and now operates as an independent actuary involved in life and short-term insurance.

Mr Waugh was appointed as a Trustee in 2011 and 2014. He served on the Audit and Risk Committees and Chaired the Product and Non-healthcare Expenses Committees until his term ended in June 2017.

¹ Fellow of the Institute of Actuaries UK.

² Fellow of the Actuarial Society of South Africa.

OUR INDEPENDENT BOARD COMMITTEE MEMBERS



MR IMTIAZ AHMED

CA(SA)

Deep understanding of financial markets with more than 30 years' experience as a portfolio manager and director at various reputable investment houses; member of various investment committees with a combined asset value in excess of R30 billion.

Chairperson of the Investment Committee.



MR DON ERIKSSON

CA(SA)

More than 40 years' experience in business leadership as an executive and non-executive director; chairperson of various insurance companies, and non-executive director and committee chairperson for a number of blue-chip companies.

Resigned as Chair and as Committee member of the Remuneration Committee on 15 November 2017.



MR PETER GOSS

MA: Criminal Justice; P/G BTEch: Forensic Investigation; Certificate Programme: Corporate Governance

Extensive expertise as a managing director in business consulting and advisory services; corporate governance, anti-corruption and medical schemes board elections expert.

Chairperson of the Nomination Committee.



MR STEVEN GREEN

**BSc (Hons) Information Systems;
BSc Computer Science**

Extensive expertise in IT architecture design and implementation, and IT risk assessment and management, particularly in relation to outsourcing; gained experience in a wide range of technology-related areas, including data analytics in South Africa and internationally.

Member of the Audit and Risk Committees.



MRS SUE LUDOLPH

CA(SA)

Technical expert in IFRS and financial and integrated reporting, including standard-setting for accounting in South Africa; established and implemented the strategy and work plan for South Africa's first top 100 CFO Forum to guide, influence and lead on issues affecting CFOs and business; judge for the PwC Building Public Trust Awards since 2014.

Member of the Audit and Risk Committees.



MRS PHILILE MAPHUMULO

BCom (Hons); M.Com Finance; CA(SA)

More than 11 years' experience in investment banking; has served as a non-executive director on various company boards.

Member of the Audit, Risk and Investment Committees.



PROF MIKE SATHEKGE¹

MBChB, MMed, FAMS, PhD

Specialist nuclear physician and expert in the design and innovative point-of-care diagnostics and therapies in nuclear medicine; an internationally acclaimed and rated researcher by the National Research Foundation.

Member of the Clinical Governance Committee.



MR ROY SHOUGH

CA(SA); HDipBDP; CISA² (Lapsed); ISACA CIA³; IIA

Acknowledged as a leading expert in corporate governance, particularly in relation to the relevant processes and the role, responsibilities and effectiveness of boards, directors and committees, and senior executives in governance and risk management.

Member of the Nomination Committee.

PROF SELMA SMITH

MBChB; M Prax Med; FCFP(SA)

Specialist physician and expert in family medicine and primary care in the public sector; has held directorships on the governing bodies of various industry and educational institutions focused on improving outcomes in family medicine in South Africa.

Member of the Clinical Governance Committee.



PROF ZEPHNE VAN DER SPUY

MBChB; MRCOG⁴; PhD; FRCOG⁵; FCOG (SA)⁶

Specialist obstetrician gynaecologist and expert in women's health and reproductive medicine; National Research Foundation-rated scientist with an extensive body of published research in her field.

Member of the Clinical Governance Committee.



MR BARRY STOTT

CA(SA)

Deep understanding of the financial services industry; member of audit, risk and investment committees, and independent non-executive director at financial services institutions; more than 40 years' experience in accounting and auditing.

Chairperson of the Audit and Risk Committees and member of the Investment Committee.



MR TOM WIXLEY

BCom; CA(SA)

More than 40 years' experience in accounting and auditing; a former director of numerous public companies; published author and expert in corporate governance.

Member of the Nomination Committee.

¹ Resigned 15 March 2018.

² Certified Information Systems Auditor.

³ Certified Internal Auditor.

⁴ Member of the Royal College of Obstetricians and Gynaecologists.

⁵ Fellow of the Royal College of Obstetricians and Gynaecologists.

⁶ Fellow of the College of Obstetricians and Gynaecologists of South Africa.

OUR EXECUTIVE MANAGEMENT TEAM

Part of the fiduciary duties of the Board described in the Scheme Rules is that it appoints a Principal Officer to manage the day-to-day affairs of the Scheme. The Principal Officer must be fit and proper to hold this office and may appoint any staff required for the proper execution of the business of the Scheme.

The Board delegates the collective management responsibilities to the Principal Officer and determines the terms and conditions of service of any person employed by the Scheme. The Principal Officer is required to execute the decisions of the Board and, as the accounting officer, bears the ultimate responsibility for all management functions.

Guided by the Act, its Regulations, the Scheme Rules, the Board Delegation of Authority, and applicable laws, codes and standards, the Principal Officer is supported by an executive management team to execute the strategic objectives of the Scheme. The team works in collaboration with the Administrator and Managed Care Provider, Discovery Health, in implementing strategy. The management team's diverse expertise includes medical, actuarial, risk management, business management, strategic development, financial management, investment, legal, ethics, compliance and research capabilities.

REMUNERATION AND HR PLANNING

The Trustees and the Remuneration Committee direct and oversee remuneration for the employees of the Scheme Office, which is based on best practice, and carefully structured and independently benchmarked according to the experience and skills required. This aims to attract and retain high-calibre staff.

In 2017, the Scheme Office consisted of twelve staff members, with a team of six executives reporting to the Principal Officer and supported by a Scheme Secretariat department and an administration department. This very lean employee complement makes succession planning challenging. As a result,

the operational model applied by the Scheme Office requires significant overlap in the capabilities of the executive team. This must be supported by a mature knowledge management and retention strategy to mitigate this risk in various ways, including sufficiency in the notice period for scarce skills that allows for transition.

STAFF MOVEMENTS AND ORGANISATION REDESIGN DURING 2017

Dr Unati Mahlati joined the team as the Chief Medical Officer on 8 June 2017. This position became vacant when Dr Nozipho Sangweni, the previous Chief Medical Officer, was appointed as the Principal Officer by the Trustees. Dr Mahlati is a medical doctor who specialised in public health and has extensive experience in both the public and private healthcare sectors. She has over ten years' experience in private healthcare funding.

Mr Jan van Staden, the Chief Financial Officer (CFO), resigned in December 2017. All potential risks related to the departure of the CFO are being actively managed. The Chief Risk and Operations Officer, who has previously managed the portfolio, has been appointed as the acting CFO. At the time of publishing, the nature and requirements of the CFO role going forward were under review.

The Scheme Office undertook an extensive exercise to optimise the Scheme's operating model. One of the key outcomes has been a redesign that incorporates the expanded King IV governance code and the Board requirement for further bolstering and emphasis on social and ethics oversight, which was considered critical in the context of heightened exposures of ethical and governance failures in the external environment. The Legal and Regulatory Affairs portfolio, headed by Mr Howard Snoyman, has been modified to Legal and Ethics. As an admitted attorney with a specialisation in healthcare law and ethics, Mr Snoyman is ideally suited to take on this portfolio. Regulatory oversight has been incorporated into the compliance function in the portfolio of Governance and Compliance. This is headed by Mrs Yashmita Mistry, an admitted attorney who also heads the Scheme's Secretariat function.



DR NOZIPHO SANGWENI 01

PRINCIPAL OFFICER

MBChB; MBA; PGDip Occupational Health; PGDip Civil Aviation Management

Accounting Officer of the Scheme, Council member of iFHP¹, and a board member of the HFA².

MR HOWARD SNOYMAN 02

HEAD: LEGAL AND ETHICS

LLB; MSc Med (Bioethics and Health Law); Dip Sports Management; Adv Dip Sports Management; Certified Vested Deal Architect (in progress)

Vice President and Board member of the Corporate Counsel Association of South Africa; Board member of the Marketing Code Authority.

This role advises on, formulates and oversees strategic and operational legal and ethics frameworks and activities, including escalated member disputes and complaints, and ensures the incorporation of all relevant requirements into the legislative universe of the Scheme.

MS MICHELLE CULVERWELL 03

HEAD: SPECIAL PROJECTS AND STAKEHOLDER RELATIONS

BA (Hons); MBA in Executive Management

This role advises on and oversees effective stakeholder relations, ethics and responsible corporate citizenship, and engages in special projects to enhance the strategic direction and sustainability of the Scheme.

MR SELWYN KAHLBERG 04

**CHIEF RISK AND OPERATIONS OFFICER
ACTING CFO (FROM 1 JANUARY 2018)**

BSc (Hons) Actuarial; CFA; FASSA; FIA

This role advises on and oversees strategic and operational enterprise risk management, administration and managed care contracting and outsourced operations, and ensures optimisation of operational efficiency, non-healthcare expenses and adherence to the defined risk appetite, to support the sustainability of the Scheme.

DR UNATI MAHLATI³ 05

CHIEF MEDICAL OFFICER

MBChB; FCPHM⁴; MMed

Board member of HQA⁵.

This role advises on and oversees strategic and operational clinical governance and risk management, product development and marketing. It ensures that Scheme resources in this respect are fully optimised in the best interest of members and sustainability. All oversight and risk mitigation activity is aligned to the risk appetite of the Scheme.

MRS YASHMITA MISTRY 06

HEAD: GOVERNANCE AND COMPLIANCE

LLB

This role provides a central source of guidance to the Scheme on governance matters, ensures the management, coordination and responsibility for the Scheme Secretariat function, and ensures Scheme compliance to its legislative and regulatory universe.



05

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MR JAN VAN STADEN⁶

NOT SHOWN

CHIEF FINANCIAL OFFICER

B Accounting (Hons); CFA; CA(SA)

SAICA⁷ Medical Schemes Project Group member

This role advises on and oversees strategic and operational investment, finance and audit matters, to ensure Scheme resources are optimised fully in the best interest of members, keeping within the defined risk appetite and ensuring the sustainability of the Scheme.

1 iFHP: International Federation of Health Plans.
2 HFA: Health Funders Association.
3 Joined the Scheme on 8 June 2017.
4 Fellow of the College of Public Health Medicine of South Africa.
5 HQA: Health Quality Assessment.
6 Resigned in December 2017.
7 SAICA: South African Institute of Chartered Accountants.