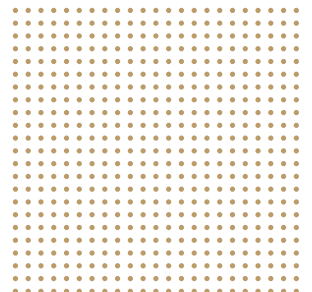




For the benefit of our
members

2016 Integrated Annual Report





2016

Integrated Annual Report

Discovery Health Medical Scheme's Integrated Annual 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. Below we describe what is in each chapter and its intended audience.

About our Report

Inside
flap

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

Performance Highlights

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For readers who want a quick view of key performance trends and 2016 highlights. Detailed performance information can be found in the Performance chapter.

About DHMS

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For current and potential members, this chapter provides an overview of the Scheme, who leads and governs it and how it achieves its objectives.

This section 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. It may therefore be of interest to healthcare providers and other stakeholders of the Scheme.

Governance

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For our regulators and other 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 2016.

Performance

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For members and regulators who are interested in more about the performance of the Scheme during 2016, this chapter provides management commentary on the Scheme's strategic, operating and financial performance during 2016. It also includes a review of initiatives undertaken by Discovery Health on behalf of the Scheme and its members.

Financials

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Full Annual Financial Statements and notes to the Financial Statements.

Information Toolkit

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

Glossary

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

04

Governance





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OUR CHAIRPERSON'S STATEMENT



“As healthcare funders we stand at the intersection of medicine, healthcare and wellness, tasked with a vital and intricate challenge as these fields advance in response to an increasing burden of disease. We need to make equitable access to world-class healthcare a reality for our members, neither at the expense of affordability nor the sustainability of the Scheme. The 2016 benefit year proved to be challenging in this regard, but the Scheme emerged stronger for it.”

The unprecedented spike in the utilisation of benefits posed a significant challenge for the Scheme in 2016. However, the Scheme's well-established governance and risk management processes, twinned with the capability and capacity of our Administrator and Managed Care Provider, Discovery Health, supported a strong and swift response. This allowed the Scheme to turn a mid-year forecasted operating loss into an operating surplus, which in addition to a good investment performance despite extraordinary volatility, returned the Scheme to a robust financial position.

Besides confirming our confidence in the value generated by Discovery Health, the year's achievement demonstrated the importance of governance best practice. To this end, the Trustees strongly endorse the revised King Code of Governance (King IV), which was launched in the year. King IV has yet again set a progressive and pragmatic standard for governance recognised as international best practice. The Scheme aims to comply fully with King IV by 1 January 2018, when it is formally applicable to the Scheme.

The terms of office of three Trustees ended in 2016, requiring members to elect their new Trustees. We received no less than 155 nominations and our Independent Electoral Body, PwC, vetted each of the candidates against fit and proper criteria. Held in June at the Scheme's Annual General Meeting, 111 candidates stood for election. Mr Neil Morrison, Mr Dave King and Dr Dhesan Moodley were elected and Ms Daisy Naidoo was re-elected. I welcome them to the Board of Trustees and look forward to their respective contributions to the Scheme's wellbeing.

Constructive engagement with our regulators continued in 2016. The Scheme engaged extensively with the Council for Medical Schemes (CMS) as a matter of course, with our discussions including governance, financial, legal, marketing and Scheme Rules and benefit plans. On behalf of the Scheme, I extend our condolences to the family, friends and colleagues of Dr Humphrey Zokufa, who was appointed Registrar of the CMS in September 2016, on his untimely passing.

Specific engagement included the Scheme's voluntary participation in the public hearings of the Competition Commission's Health Market Inquiry (HMI). The Scheme has responded extensively to requests from the HMI Panel and will continue to work closely with the Commission and other stakeholders towards a positive outcome for the healthcare market and its consumers. The HMI is expected to release its final report and recommendations in December 2017.

The Scheme also made submissions in response to the National Health Insurance (NHI) White Paper, and we look forward to further clarity on the NHI Fund, expected to be established in 2017. We believe that the establishment of the Fund, focused on critical primary healthcare services including maternal and child health services, is a significant and positive step forward. The Scheme strongly supports the objectives of universal health coverage and sees the NHI as an opportunity for the Scheme to work closely with the Department of Health to establish how best the private healthcare sector, which is undoubtedly a national asset, can work towards those objectives.



The final demarcation regulations for the long-term and short-term insurance industry, to govern medical gap cover, hospital cash plans and primary healthcare policies, were published in December 2016 and take effect from 1 April 2017. These regulations provide much-needed clarity on the role of medical schemes, and provide for gap cover and low-cost primary care products to co-exist with the offerings of medical schemes without competing with them. This is good news for our members as it will bolster the sustainability of the Scheme.

Heralding a new era for the Scheme, Dr Nozipho Sangweni succeeded Milton Streak as Principal Officer in 2017. Dr Sangweni has had a long association with the Scheme, as a Trustee and then an independent Committee member before joining the Scheme Office as Chief Medical Officer in 2015. The Trustees conducted an extensive external and internal search for the most suitable candidate, and were delighted to appoint Dr Sangweni. Her extensive business and governance experience in both the public and private sectors, together with her medical background, made her the best possible candidate to lead the Scheme into the future.

On behalf of the Trustees, I convey our deep thanks to Milton Streak, whose exceptional knowledge and dedication to the Scheme has made it what it is today: the leading open Scheme in South Africa. We wish him well in his future endeavours.

I would like to thank our three retiring Trustees, Professor Zephne van der Spuy, Mr Noel Graves and Mr Puke Maserumule, for their time, expertise and dedication to the Scheme. My thanks are also due to my current colleagues on the Board of Trustees and the Scheme's management team, and at Discovery Health. Your dedication to the Scheme, notwithstanding the complex responsibility we assume for the benefit of our members and the greater good of the healthcare system, is exemplary.

MICHAEL VAN DER NEST, SC
CHAIRPERSON

HOW WE ARE GOVERNED

All medical schemes in South Africa are governed by the Medical Schemes Act 131 of 1998, as amended (the Act). The Scheme Rules are developed in accordance with the Act and approved annually by the CMS. Additional governance guidance is taken from the King Code of Governance Principles, 2009 (King III), which sets the standard for good corporate governance in South Africa, and is recognised internationally as best practice.

Governance framework and structure

Discovery Health Medical Scheme is governed by an independent Board of Trustees (the Board), which is responsible for the oversight of the business of the Scheme. The Board holds the decision-making power of the Scheme and is ultimately responsible for overseeing the implementation of the Scheme's strategy and the sound management of its business. The Board's overriding objective is to ensure the best interests of Scheme members are served in the context of the sustainability of the Scheme.

In compliance with the Act and the registered Scheme Rules and in line with best practice governance principles, the Board has implemented appropriate governance structures to navigate and manage the complex operating environment, risks and strategic objectives of the Scheme. The Board is supported by 10 Board Committees, constituted and structured based on the needs of the Scheme to assist the Board to fulfil its fiduciary and oversight duties effectively. Board Committee members consist of both Trustees and independent members.



Scheme Rules are available to registered members at www.discovery.co.za/medical-aid/scheme-rules.

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

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

The Scheme uses the Governance Assessment Instrument (GAI) to evaluate the implementation of governance structures and processes as recommended in King III. The survey tool shows a meaningful score which reflects the Scheme's adoption of King III. The Scheme is currently working to incorporate King IV into all of its governance policies and practices, although it is only formally applicable to the Scheme from 1 January 2018.

OUR BOARD OF TRUSTEES

The Board comprises independent, highly skilled professionals with expertise in clinical, financial, business, legal and actuarial disciplines.

THE ROLE OF THE TRUSTEES IS TO:

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

The Trustees are required at all times to act with due care, diligence, skill and good faith in the best interests of the Scheme and its members.

THE DUTIES OF THE TRUSTEES, SET OUT IN THE ACT AND SCHEME RULES, ARE TO:

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



According to the Scheme Rules, “the affairs of the Scheme must be managed according to these Rules by a Board of fit and proper persons (i.e. persons with the requisite character, integrity, skill, competence, financial soundness and ability to exercise a fiduciary duty) of at least five and a maximum of eight persons. A Trustee shall serve a term of three years and shall be eligible for re-election or re-appointment. Such Trustees shall not serve more than two consecutive terms.”

Board meetings attendance in 2016

		20 Jan	29 Feb	30 Mar	07 Apr	25 May	09 Jun	04 Jul	05 Sept	15 Oct	20 Oct	10 Nov
Trustees	Mr Michael van der Nest SC	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Mr Puke Maserumule [#]	x	✓	x	✓	x	✓	-	-	-	-	-
	Mr Noel Graves SC [#]	✓	✓	x	x	✓	✓	-	-	-	-	-
	Prof Zephne van der Spuy [#]	✓	✓	✓	✓	✓	✓	-	-	-	-	-
	Mr Giles Waugh	x	✓	x	✓	✓	✓	✓	✓	✓	✓	✓
	Ms Daisy Naidoo ^{#*}	✓	✓	✓	✓	✓	✓	✓	✓	x	✓	✓
	Mr Neil Morrison [*]	-	-	-	-	-	-	✓	✓	✓	✓	✓
	Mr Dhesan Moodley [*]	-	-	-	-	-	-	✓	✓	✓	✓	✓
	Mr Dave King ^{*∞}	-	✓	✓	✓	-	-	x	✓	✓	✓	✓
Independent co-opted member												
Mr Johan Human [♦]	-	-	-	-	-	-	-	-	-	-	✓	
Chairperson: Audit and Risk Committee												
Mr Barry Stott	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	

[#] Term as a Trustee ended on 23 June 2016.

^{*} Elected as a Trustee on 23 June 2016.

[∞] Mr Dave King attended meetings prior to June in his capacity as a member of the Stakeholder Relations Committee and due to specific meeting requirements.

[♦] Appointed as an independent co-opted member of the Board on 05 September 2016.

• The Board strategy held on 30 March 2016 was attended by the following independent Committee members: Dave King, Sue Ludolph, Philile Maphumulo, Steven Green, Imtiaz Ahmed and Mike Sathekge.

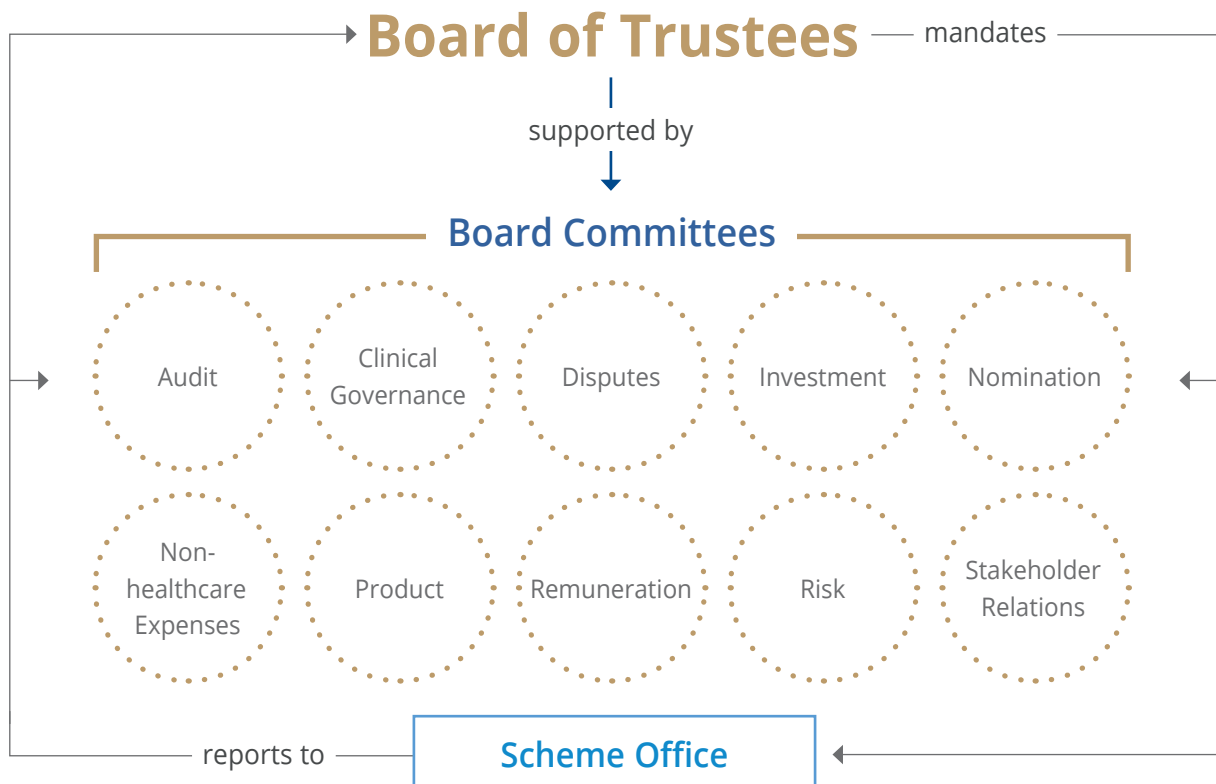
• The 15 October 2016 and 20 October 2016 Board meetings were held to conduct Principal Officer interviews.

OUR BOARD COMMITTEES

Ten Committees, which are established according to governance best practice and the requirements of legislation, assist the Board to fulfil its fiduciary and oversight duties effectively.

Committee members are remunerated for their service to the Scheme with a market-benchmarked professional fee, which is discounted based on the non-profit status of the Scheme. An annual self-assessment of effectiveness is performed by each Committee, which covers such areas as:

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





Audit Committee

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

SPECIFIC RESPONSIBILITIES

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

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



The Annual Financial Statements start on **page 82**.

Our Audit Committee Chairperson



Mr Barry Stott
CA(SA)

Mr Stott commenced articles with PwC in February 1968 in the audit division. He was appointed partner in 1982, responsible for audits in the insurance and asset management industry. Mr Stott also

led the financial services industry practice and financial services knowledge management division, and ensured that PwC staff were up to date on all issues in the industry, trained in industry specialisation and on all IFRS issues relating to the financial services industry. Since retiring from PwC in June 2009, Mr Stott has been a member of audit panels for Momentum Asset Management, Momentum Wealth, Rand Merchant Bank Asset Management and Advantage Asset Management. Since January 2010, Mr Stott has been an independent non-executive director of Clientèle Holdings Ltd, Clientèle Life Limited and Clientèle and General Limited. He is the Chairman of the Audit Committee, Risk Committee, and Remuneration Committee of the Clientèle Group, as well as a member of the Clientèle Group Investment Committee and attends Actuarial Committee meetings.

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




For more about the other Audit Committee members, see **pages 22 – 25**.

Our Board Committees *continued*

Audit Committee *continued*

HOW THE COMMITTEE DISCHARGED ITS FIDUCIARY DUTIES DURING 2016

 Read the Audit Committee's report on **pages 85 – 86**, and more about non-compliance matters on **pages 70 – 71**.

COMPOSITION AND MEETINGS IN 2016

The Audit Committee comprises highly skilled and experienced members with extensive actuarial, financial and IT skills. Most of the Committee members, including the Chairperson, are independent and are not Trustees.

Audit Committee attendance in 2016		16 Mar	16 Aug	23 Aug	31 Oct
Independent member/ Chairperson	Mr Barry Stott	✓	✓	✓	✓
	Trustees				
	Ms Daisy Naidoo**	✓	✓	✓	✓
	Mr Giles Waugh	✓	✓	✓	✓
	Mr Neil Morrison*	-	✓	✓	✓
Independent members	Ms Susan Ludolph [◇]	x	✓	✓	✓
	Mr Steven Green	✓	✓	✓	✓
	Ms Philile Maphumulo [◇]	✓	✓	✓	✓
	Mr Dave King [◆]	✓	-	-	-

Term as a Trustee ended on 23 June 2016.
 * Elected as a Trustee on 23 June 2016.
 ◇ Appointed to the Committee on 20 January 2016.
 ◆ Elected as a Trustee on 23 June 2016 and subsequently resigned as member of the Audit Committee.

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

The members of the Committee may consult any expert or specialist to assist the Committee in performing its duties. The external auditors and the Principal Officer, as well as the internal auditors and the heads of the outsourced administration functions attend all Committee meetings by invitation and have unrestricted access to the Chairperson of the Audit Committee.

Clinical Governance Committee

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

Clinical governance is integral to the funded healthcare environment, in ensuring that high-quality and affordable clinical care is offered to members. The Scheme operates according to a clinical governance structure that employs internationally recognised clinical best practice to account for clinical performance, and adheres to the following principles:

- Transparency;
- Accountability;
- Responsibility;
- Fairness;
- Independence;
- Ethical behaviour; and
- Social responsibility.

SPECIFIC RESPONSIBILITIES

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


The Committee's responsibilities are to:

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

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



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

 Read more about Discovery Health's initiatives for the Scheme on [pages 74 – 81](#).

Health Quality Assessment is an industry body that performs an annual assessment of clinical quality offered by medical schemes according to specific quality indicators. As a participating scheme, DHMS receives an annual Scheme-specific report that assists the Committee in fulfilling its mandate to oversee and improve the quality of healthcare received by Scheme members. Overall, the Scheme performed better than the industry average for the chronic disease process indicators. The process scores, when tracked over time, indicate an improvement in care and a reduction in costs.

HOW THE COMMITTEE DISCHARGED ITS FIDUCIARY DUTIES DURING 2016

The Committee considered the risk posed to the Scheme by the significantly higher than expected hospital admissions rate, which was a feature of the year. The strong correlation between the high utilisation rates and the increase in hospital beds in regions where new hospitals were opened were noted. The Committee ensured that key risk interventions were designed and implemented to manage the utilisation risk effectively, while also mitigating the impact of these measures on healthcare provider sentiment.

The cost of pharmaceuticals, especially new cancer medications, has continued to increase steadily since 2008, by as much as 325%. The Committee ensured the implementation of multiple strategies to mitigate this risk.

The introduction of new technology in healthcare can have unintended consequences, an example being increased utilisation and healthcare inflation. The Health Technology Assessment model is a systematic evaluation of the effects and impacts of health technologies and interventions, and determines the value of interventions to inform policy and decision-making in healthcare. The Committee oversaw the adoption of the process, which begins with scanning the horizon for new technologies and extends to determining the value of these and then linking them to benefits, managed care and implementation in a way that maximises value in relation to cost.

In September 2015, the World Health Organisation recommended that Pre-Exposure Prophylaxis (PreP) for HIV be offered as an additional prevention choice for people at substantial risk of HIV infection. South Africa has been recognised as the first country in Africa to translate this recommendation into national policy. The

Committee considered the various challenges of implementing this policy within the Scheme environment and endorsed the funding approach to be adopted.

The NHI White Paper was released on 11 December 2015. The Scheme and Discovery Health submitted a joint response on the White Paper to the Department of Health, guided by the Clinical Governance Committee. Our response indicated support for the successful implementation of the NHI and encouraged a collaborative approach in further technical work to be conducted. It also noted certain inaccuracies that impact the private medical schemes industry and made a case for the industry to exist in parallel to the NHI system as is the case in many other health systems in the world.


COMPOSITION AND MEETINGS IN 2016

The members included one Trustee who is the Chairperson of the Committee, three independent members and the Chief Medical Officer of the Scheme.

Clinical Governance attendance in 2016		17 Mar	20 Jul	03 Nov
Trustee/Chairperson	Dr Dhesan Moodley*	-	✓	✓
Independent member	Prof Zephne van der Spuy ^o	✓	✓	✓
	Prof Mike Sathekge	✓	✓	✓
	Prof Selma Smith	x	✓	✓
Scheme management: Chief Medical Officer	Dr Nozipho Sangweni	✓	✓	✓

* Elected as a Trustee on 23 June 2016.

^o Prof Zephne van der Spuy chaired the Committee for the first meeting held on 17 March 2016 and was appointed as an independent member on 04 July 2016 after her term as a Trustee ended on 23 June 2016, whereafter Dr Dhesan Moodley was appointed as Chairperson.

 For more about the Committee members, see [pages 22 – 25](#).

The Committee obtains regular reports and presentations from Discovery Health, and the relevant individuals are regularly invited to Committee meetings for this purpose.

Our Board Committees *continued*

Disputes Committee

Section 29 (j) of the Act requires the rules of a scheme to provide for 'the settlement of any complaint or dispute'. Rule 27 of the Scheme Rules outlines the process for resolving complaints and disputes, in terms of which the Board has established an independent Disputes Committee which hears and rules on all member disputes in an open, transparent and equitable manner.

The Committee consists of three members drawn from a panel of experts, each of whom have either legal or medical expertise. All Committee meetings held must be attended by at least one legal expert and at least one medical expert. The Chairperson of all Committee meetings is always a practicing attorney. While not employed by the Scheme, Committee members are remunerated for their time and input in objectively hearing and adjudicating cases, regardless of the outcome of the hearings.

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

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



Read more about how to lodge disputes on [page 155](#).

SPECIFIC RESPONSIBILITIES

- Hear member submissions and those of the Scheme's representative, which may be verbal and/or in writing, in line with relevant legislation and the Scheme Rules.
- Ensure that it has sufficient information regarding the dispute to adjudicate the case objectively.
- Determine an outcome for the dispute and draft a ruling with due regard for all facts presented at the hearing.
- Ensure that the process of hearing and adjudicating on disputes is handled as efficiently as possible and without undue delay.

HOW THE COMMITTEE DISCHARGED ITS FIDUCIARY DUTIES DURING 2016

The Committee heard a total of 76 disputes. Although 392 disputes were lodged in 2016, 316 of these were resolved prior to a hearing, indicating the efficacy of the dispute resolution process.

COMPOSITION AND MEETINGS IN 2016

Dispute Committee hearings are scheduled as and when required, and draw from the legal and medical panellists available at the time. The Committee can be constituted several times a week to attend to the caseload. Due to the frequency of meetings and variation of Committee members, an attendance register is not shown. During 2016, the Committee was properly constituted each time it met.

Investment Committee

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

SPECIFIC RESPONSIBILITIES

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



HOW THE COMMITTEE DISCHARGED ITS FIDUCIARY DUTIES DURING 2016

- Considered the Scheme's investment strategy given the difficult market conditions, which led to the tactical decision to reduce overall risk.
- Reviewed the results of the Scheme's annual due diligence exercise conducted across all its asset managers, which included on-site visits. No specific concerns were identified.
- Reviewed quarterly credit risk reports in terms of the Scheme Credit Risk Policy, to ensure credit risk was being appropriately managed.
- Reviewed the performance of asset managers after which certain portfolio re-allocations were made.

COMPOSITION AND MEETINGS IN 2016

The Investment Committee comprised three Trustees and two independent Committee members during 2016.

Investment Committee attendance in 2016		01 Mar	29 Mar	01 Jun	07 Nov
Independent member/ Chairperson	Mr Imtiaz Ahmed [∞]	✓	✓	✓	✓
Trustees	Mr Puke Maserumule ^{#◇}	✓	✓	✓	-
	Mr Noel Graves SC [#]	x	x	x	-
	Ms Daisy Naidoo ^{**}	✓	✓	✓	✓
	Mr Neil Morrison [*]	-	-	-	✓
	Dr Dhesan Moodley [*]	-	-	-	✓
Independent member	Mr Barry Stott	✓	✓	✓	✓


[∞] Appointed as a member of the Committee on 20 January 2016 and elected Chairperson on 07 November 2016.

[#] Term as a Trustee ended on 23 June 2016.

^{*} Elected as a Trustee on 23 June 2016.

[◇] Mr Puke Maserumule chaired the Committee for the first three meetings held on 1 March 2016, 29 March 2016 and 1 June 2016. After his term as a Trustee ended on 23 June 2016, Mr Imtiaz Ahmed was appointed Chairperson of the Committee on 7 November 2016.

The Committee receives investment advice and quarterly reports from its asset consultants, RisCura, who attend all Committee meetings. Asset managers are invited to attend Committee meetings on a rotational basis to report on their performance.

 For more about the Committee members, see [pages 22 – 25](#).

Non-healthcare Expenses Committee

The Committee's responsibilities are to:


- Review and recommend the proposed contracted administration and managed care fees to the Trustees for consideration and approval.
- Review service level agreements and assist the Board to ensure that these have been complied with.
- Monitor the value the Scheme and its members receive from Discovery Health.
- Recommend the non-healthcare budget to the Board for consideration and approval, and monitor actual non-healthcare expenses incurred against the approved budget.

SPECIFIC RESPONSIBILITIES

The Committee monitored the ongoing optimisation of the Vested outsourcing business model in line with its usual responsibilities, and to inform the terms of the agreements to be entered into with Discovery Health from 1 January 2018.

HOW THE COMMITTEE DISCHARGED ITS FIDUCIARY DUTIES DURING 2016

- Assessed the value added to DHMS by Discovery Health in the provision of the administration and managed care services.
- Monitored developments and considered proposals to optimise the Vested[®] outsourcing business model, which included workshops with Scheme Office executives and Vested consultants to consider the effectiveness of the model.
- Reviewed reports on the service levels achieved by Discovery Health and approved changes to them in line with the operating environment.
- Assessed innovations by Discovery Health.
- Reviewed reports on the Scheme's non-healthcare expenses against budget and recommended the 2017 budget to the Trustees for approval.
- Considered and recommended a new Scheme Procurement Policy to the Trustees for approval.

 Read more on how we conduct our operations on [pages 16 – 17](#) and more about the Committee members on [pages 22 – 25](#).

Our Board Committees *continued*

Non-healthcare Expenses Committee *continued*

COMPOSITION AND MEETINGS IN 2016

The Committee comprised four Trustees, an independent member and the Principal Officer.

Non-healthcare Expenses Committee attendance in 2016		07 Mar	06 Jun	18 Aug ¹	10 Oct
Trustee/ Chairperson	Mr Giles Waugh	✓	✓	✓	✓
Trustees	Mr Noel Graves SC [#]	✓	✓	-	-
	Ms Daisy Naidoo ^{**}	✓	✓	✓	✓
	Mr Dave King [*]	-	-	✓	✓
	Mr Neil Morrison [*]	-	-	✓	x
Independent member	Mr Johan Human [♦]	-	-	-	✓
Scheme management: Principal Officer	Mr Milton Streak	✓	✓	✓	✓

¹ The meeting on 18 August was a workshop.


[#] Term as a Trustee ended 23 June 2016.

[♦] Mr Noel Graves chaired the Committee for the first two meetings held on 17 March 2016 and 06 June 2016. After his term as a Trustee ended on 23 June 2016, Mr Giles Waugh was appointed as Chairperson.

^{*} Elected as a Trustee on 23 June 2016.

[♦] Appointed to the Committee on 05 September 2016.

Where appropriate, executives from Discovery Health attend the meeting. The Committee also has access to a Vested outsourcing business model expert.

 For more about the Committee members, see [page 22 – 25](#).

Nomination Committee

The Committee's responsibilities are to:

- Oversee the nomination process of suitably fit and proper persons for election and their appointment as Trustees;
- Consider diversity, demographics and skills required by the Board; and
- Oversee the nominations process implemented by an independent electoral body (IEB).

The Committee is independent of the Board and comprises significantly experienced independent members who are not Trustees.

HOW THE COMMITTEE DISCHARGED ITS FIDUCIARY DUTIES DURING 2016


The 2016 Trustee election process required the following activities:

- Considered the appointment of PwC's Forensic Services division to act as the IEB for the Scheme in its 2016 Trustee elections.
- Reviewed and approved the communication to Scheme members regarding the nominations process for the 2016 Trustee elections.
- Oversaw the governance of the nominations, proxy appointment and elections processes.

COMPOSITION AND MEETINGS IN 2016

Nomination Committee attendance in 2016		04 Apr	05 Apr	06 Apr	12 Apr	18 Apr	25 Apr	09 June	22 Sept	07 Dec
Independent member/ Chairperson	Peter Goss	✓	✓	✓	✓	✓	✓	✓	✓	✓
Independent member	Roy Shough	✓	✓	✓	✓	✓	✓	✓	x	✓
Independent member	Tom Wixley	✓	✓	✓	✓	✓	✓	✓	✓	✓

The Committee is attended by the IEB and its representatives.

 For more about the Committee members, see [pages 22 – 25](#).



Product Committee

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

SPECIFIC RESPONSIBILITIES

Every year, the Committee ensures that benefit proposals are assessed against the following factors:

- Clinical appropriateness and best practice;
- Financial affordability and sustainability;
- The best interest of members and fairness;
- Value and appropriateness to members; and
- The Scheme's Marketing and Communication Policies.

HOW THE COMMITTEE DISCHARGED ITS FIDUCIARY DUTIES DURING 2016

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

PRODUCT COMMITTEE COMPOSITION AND MEETINGS IN 2016

The Committee comprised three Trustees, an independent member and the Principal Officer.

Product Committee attendance in 2016		17 Mar	27 Jul	19 Aug	23 Aug
Trustee/ Chairperson	Mr Giles Waugh	✓	✓	✓	✓
Trustees	Prof Zephne van der Spuy [#]	✓	-	-	-
	Mr Noel Graves SC [#]	x	-	-	-
	Dr Dhesan Moodley [*]	-	✓	✓	✓
	Ms Daisy Naidoo ^{**}	-	✓	✓	✓
Independent member	Mr Johan Human [◇]	-	-	-	✓
Scheme management: Principal Officer	Mr Milton Streak	✓	x	x	✓

[#] Term as a Trustee ended 23 June 2016.

^{*} Elected as a Trustee on 23 June 2016.

[◇] Appointed to the Committee on 05 September 2016.

The Committee obtains regular reports and presentations from Discovery Health, and the relevant individuals are regularly invited to Committee meetings for this purpose.

The Committee invited the Audit Committee, the Scheme external auditors, PwC, and the independent actuaries of the Scheme, Insight Actuaries & Consultants, to discuss the actuarial evaluation and consider contribution increases.



For more about the Committee members, see [pages 22 – 25](#).

Remuneration Committee

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

SPECIFIC RESPONSIBILITIES

- Review staff remuneration, including that of senior executives, Trustees and Board Committee members, as well as any retirement and termination payments.
- Ensure that the Scheme's remuneration policies are established and administered in the Scheme's long-term interests.
- Ensure that succession plans are in place, where possible¹, to maintain an appropriate balance of skills in the Scheme's management and governance structures.

HOW THE COMMITTEE DISCHARGED ITS FIDUCIARY DUTIES DURING 2016

- Recommended the Trustee, Committee member and Scheme Office senior staff remuneration to the Trustees for approval, based on market benchmarking conducted by independent remuneration practice experts and considering the non-profit status of the Scheme.
- Reviewed and recommended to the Trustees for approval amendments to the Scheme's human resources policies, to ensure alignment with legislation.
- Coordinated the executive search and recruitment process for the Scheme's new Principal Officer².
- Reviewed training and development requirements for Scheme staff and recommended the approval of the appropriate training and development initiatives to the Trustees.


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

² Mr Milton Streak resigned as Principal Officer effective 31 December 2016, and his successor, Dr Nozipho Sangweni, was appointed to the role of Principal Officer with effect from 1 January 2017.

Our Board Committees *continued*

Remuneration Committee *continued*

With the support of the Committee, the Scheme presented its Trustee Remuneration Policy to members at its 2016 Annual General Meeting for a non-binding advisory vote, which received 96% approval. The formal approval of Trustee remuneration by members is a standing agenda item at each Annual General Meeting (AGM).

 For more about the Committee members, see **pages 22 – 25**.

COMPOSITION AND MEETINGS IN 2016


The Committee comprised two Trustees and an independent member, who Chairs the Committee. The Principal Officer attends Committee meetings by invitation.

Remuneration Committee attendance in 2016		26 May	02 Nov
Independent member/ Chairperson	Mr Don Eriksson	✓	✓
Trustees	Mr Michael van der Nest SC	✓	✓
	Mr Noel Graves SC [#]	✓	-
	Mr Dave King [*]	-	✓

[#] Term as a Trustee ended 23 June 2016.

^{*} Elected as a Trustee on 23 June 2016.

The Committee makes regular use of independent remuneration experts from PwC, and engaged Spencer Stuart to recruit for the Scheme Office during 2016. Individuals from these organisations are occasionally invited to Committee meetings.

 For more about the Committee members, see **pages 22 – 25**.

Risk Committee

The Trustees established the Risk Committee to ensure good governance and best practice, in line with King III's principles on the governance of risk.

The Scheme operates according to a best practice risk management framework that covers all its activities, protects its members and underpins its sustainability. In addition to risk management, the Risk Committee oversees compliance, combined assurance, IT governance, fraud, ethics, forensics and whistleblowing, legal and regulatory matters and litigation.

The role of the Committee in no way reduces the responsibility of the Trustees under relevant laws and regulations in respect of governance and oversight of the Scheme.

The principal purpose and objectives of the Risk Committee are to:

- Provide independent and objective oversight of the strategic, financial, insurance, operational, business and regulatory risks faced by the Scheme.
- Consider the risk management policy, processes, appetite and tolerance, and monitor the risk management process and mitigation plans.
- Review the compliance policy, plan and universe, and the adequacy and effectiveness of the system for monitoring compliance with laws and regulations, as well as management's response to operational compliance incidents.
- Monitor the effectiveness and appropriateness of the Scheme's combined assurance model, ensuring that it satisfactorily addresses all the significant risks facing the Scheme.
- Review the adequacy and effectiveness of the IT control framework and governance structure, ensuring that the risk management process covers the IT environment, and review the Scheme's disaster recovery and business continuity plans.
- Review anti-fraud programmes, controls, procedures and reports, including identification of fraud risks and implementation of anti-fraud measures.
- Review significant cases of conflict of interest, misconduct or fraud, or any other unethical activity by officials of the Scheme, its Administrator and Managed Care Provider and any other third-party service provider to the Scheme.

Further detail on key functions follows.



COMPLIANCE MANAGEMENT

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

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

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

COMBINED ASSURANCE

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

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

The combined assurance assessment showed that overall, adequate assurance was provided and received in respect of all significant risks for the 2016 benefit year. The Trustees are comfortable with the level and type of assurance the Scheme obtains.

RISK MANAGEMENT

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

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

The Trustees appoint the members of the Committee on an annual basis, with members consisting of Trustees, independent members and Scheme management.

SPECIFIC RESPONSIBILITIES

In addition to its usual responsibilities, the Committee carefully monitored the risks, processes and controls relating to the election of new Trustees in June 2016.

HOW THE COMMITTEE DISCHARGED ITS FIDUCIARY DUTIES DURING 2016

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

Our Board Committees *continued*

Risk Committee *continued*

COMPOSITION AND MEETINGS IN 2016

The Committee comprised three Trustees and five independent members, one of whom Chairs the Committee. In accordance with the principles of King III, membership of the Risk Committee also includes the members of Scheme Office executive management.

Risk Committee attendance in 2016		16 Mar	16 Aug	06 Oct ¹	31 Oct
Independent member/ Chairperson	Mr Barry Stott	✓	✓	✓	✓
Trustees	Ms Daisy Naidoo ^{#*}	✓	✓	✓	✓
	Mr Giles Waugh	✓	✓	✓	✓
	Mr Neil Morrison [*]	–	✓	x	✓
Independent members	Ms Susan Ludolph [∞]	x	✓	x	✓
	Mr Steven Green	✓	✓	✓	✓
	Ms Philile Maphumulo [∞]	✓	✓	✓	✓
	Mr Dave King [◇]	✓	–	–	–
Scheme management	Mr Milton Streak	✓	✓	x	✓
	Dr Nozipho Sangweni	✓	x	✓	x
	Mr Selwyn Kahlberg	✓	✓	✓	✓
	Ms Yashmita Mistry	✓	✓	–	–
	Mr Howard Snoyman	✓	✓	✓	✓
	Mr Jan van Staden	✓	✓	✓	✓
	Ms Michelle Culverwell	✓	✓	✓	✓

¹ The meeting on 06 October was a workshop.


[#] Term as a Trustee ended 23 June 2016.

^{*} Elected as a Trustee on 23 June 2016.

[∞] Appointed to the Committee on 20 January 2016.

[◇] Elected as a Trustee on 23 June 2016 and resigned as member of the Risk Committee on 04 July 2016.

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

 For more about the Committee members, see **pages 22 – 25**.

Stakeholder Relations Committee

The Committee assists the Trustees to identify important stakeholder groups and their legitimate interests and expectations. The Committee also oversees the development and implementation of adequate processes and procedures for stakeholder engagement, ensuring that all legitimate interests of stakeholders are balanced in the best interests of the Scheme as a whole.

SPECIFIC RESPONSIBILITIES

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

HOW THE COMMITTEE DISCHARGED ITS FIDUCIARY DUTIES DURING 2016

- Reviewed member engagement, communication approaches and activities undertaken by the Scheme and Discovery Health in relation to the Competition Commission’s market inquiry into the private healthcare sector, the Scheme’s AGM, and other regulatory activity.
- Reviewed health professional engagement strategies to encourage participation in quality of care and centres of excellence initiatives in development by Discovery Health, as well as to engage providers on network changes due to increased utilisation.
- Monitored the Scheme’s engagement with the CMS, the Competition Commission, and work streams relating to the NHI.
- Provided regular reports to the Trustees on its activities.



COMPOSITION AND MEETINGS IN 2016

During 2016, the Committee comprised three Trustees, an independent member and the Principal Officer. The Committee requires that one of its members is a member of the medical profession.

Stakeholder Relations attendance in 2016		30 May	04 Nov
Trustee/ Chairperson	Mr Michael van der Nest SC	✓	✓
Trustees	Mr Puke Maserumule [#]	x	-
	Dr Dhesan Moodley [*]	-	-
	Mr Dave King [∞]	✓	✓
Independent member	Mr John Butler SC [◇]	-	✓
Scheme management: Principal Officer	Mr Milton Streak	✓	✓

[#] Term as a Trustee ended on 23 June 2016.

^{*} Elected as a Trustee on 23 June 2016, and appointed to the Committee on 10 November 2016.

[∞] Served as an independent member until elected as a Trustee on 23 June 2016.

[◇] Appointed as an independent member on 05 September 2016 and appointed as Chairperson on 04 November 2016, and chaired that meeting.

Only two separate meetings were held by the Committee during 2016 as, due to Committee member travel the first meeting was combined with a Board meeting in February 2016.

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



For more about the Committee members, see [pages 22 – 25](#), and to read more about how the Scheme engages with its stakeholders, see [pages 26 – 35](#).

TRUSTEE AND COMMITTEE MEMBER REMUNERATION

The Board of Trustees is responsible for the development and implementation of a Remuneration Policy for Scheme employees as well as the Trustees and Board Committee members. The Board has delegated the responsibility of Scheme remuneration oversight to a Remuneration Committee (REMCO).

REMCO makes use of independent experts and market benchmarking to assist the Committee in terms of best remuneration practices. King III and its Remuneration Practice Notes are also used as additional guidance in determining the Remuneration Policy and methodology.

REMUNERATION METHODOLOGY

The CMS advised schemes through Circular 41 of 2014 not to use the remuneration benchmarking of non-executive directors of listed companies. The Scheme's market benchmarking methodology (developed by PwC) is therefore as follows:

- Professional fees/rates charged in the fields of law, actuarial science, medicine, accounting and commerce.
- Professional fees will be discounted at an applicable rate (30%) to take into account the non-profit status of the Scheme.
- The new market benchmarking methodology was submitted to the CMS on 28 November 2014.

In 2015, the Scheme implemented the new remuneration methodology following its approval by members at the Scheme's 2015 Annual General Meeting. The methodology is being implemented over three years, with fees paid to Trustees incrementally adjusted to the benchmark level.

ADOPTION AND APPROVAL OF REMUNERATION

The remuneration of Trustees is presented at each AGM for a majority vote by members, after it is approved by the Board on recommendation of REMCO.

APPROVAL OF REMUNERATION POLICY

The Trustee Remuneration Policy was tabled at the 2016 AGM for a non-binding advisory vote as per King III, and was approved by 96% of the members present.



For more information on the remuneration of Trustees see Note 15 of the Annual Financial Statements on [page 109](#), and for more information about REMCO see [pages 49 – 50](#).



DISCOVERY HEALTH MEDICAL SCHEME REMUNERATION POLICY

The main objective of the Scheme is to create long-term value for its members and stakeholders. An appropriate system of corporate governance is one of the mainstays of creating and sustaining such value. Elements of good corporate governance include fairness, accountability, responsibility and transparency, and the King III Report on Governance for South Africa requires corporations to develop astute protocols with respect to ensuring that the principles of corporate governance are engendered into the governance and management practices of the Scheme.

Long-term and sustainable stakeholder value is created via the Scheme's human capital contingent, and so the co-ordination and control of this element of corporate governance constitutes one of the most important strategic focus areas for the Scheme on an ongoing basis.

Through its remuneration policies, the Scheme strives to provide an ethical business framework for the establishment of protocols to attract, motivate and retain high-calibre people, with above-average industry ability and leadership potential to effectively manage the Scheme's interests and take care of members' interests, while also ensuring that they are remunerated fairly and responsibly in accordance with the recommended remuneration practices of King III.

■ LEGISLATIVE FRAMEWORK FOR REMUNERATION POLICIES

The Scheme's remuneration policies, applicable to the Trustees and employees, uphold the obligations of the following legislation and regulations:

- i. King III Code of Governance Principles and the DHMS Code of Ethics.
- ii. Medical Schemes Act 131 of 1998, as amended (the Act), and the Discovery Health Medical Scheme Rules.
- iii. Council for Medical Schemes Guidelines for Trustee Remuneration.
- iv. The Companies Act 71 of 2008.
- v. The Promotion of Equality and Unfair Discrimination Act 4 of 2000.
- vi. The Labour Relations Act 66 of 1995.
- vii. The Basic Conditions of Employment Act 75 of 1997.
- viii. The Employment Equity Act 55 of 1998.

The Scheme defers to the provisions of King III and the DHMS Code of Ethics on all matters that are not in the scope of or are addressed by the Medical Schemes Act 131 of 1998, as amended, and the Discovery Health Medical Scheme Rules.

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

Trustee and Committee member remuneration *continued*

DISCOVERY HEALTH MEDICAL SCHEME REMUNERATION POLICY *continued*

■ REMUNERATION GOVERNANCE

A sound governance culture addresses many items including conflicts of interest, risk management and fiduciary duties.

The primary objective of the King III Code of Good Governance is to provide best practice recommendations to enable entities in South Africa to improve their corporate governance practices, which includes and has bearing on the remuneration practices of corporations. The following are the over-riding principles contained in the King III Code of Good Governance that promote sound and effective remuneration governance practices:

- i. Principle 2.25. Companies should remunerate directors and executives fairly and responsibly
- ii. Principle 2.26. Companies should disclose the remuneration of each individual director and prescribed officer.
- iii. Principle 2.27.1 Shareholders should pass a non-binding advisory vote on the company's remuneration policy.

■ THE SCHEME'S REMUNERATION GOVERNANCE MODEL

The Scheme adheres to the principles and practices espoused in the King III Code of Good Governance in order to protect all its stakeholders. The objective of the Scheme's Remuneration Governance Model espoused in its Remuneration Policies, is to stipulate the measures and or practices that must be implemented by the Scheme in order to ensure that the efforts and performance of the employees of the Medical Scheme are aligned with the long-term performance of the Scheme and the enhancement of sustainable stakeholder value. Therefore a significant portion of the Scheme's executive employees' total potential remuneration is performance-related.

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

■ DELEGATION OF RESPONSIBILITY OF OVERSIGHT OF SCHEME REMUNERATION

The Board of Trustees of the Scheme is responsible for the development and implementation of a Remuneration Policy for the employees of the Scheme, and a Remuneration Policy for the Board of Trustees and Board Committee members of the Scheme. The Board of Trustees shall in turn delegate responsibility for oversight of the Scheme's remuneration practices to the Remuneration Committee.

■ THE REMUNERATION COMMITTEE

Remuneration Committees play an important role in ensuring an objective approach to the management of remuneration more specifically executive pay practices. Executive Management is responsible for the day-to-day running of the Scheme with the aim of maximising value for members and stakeholders. One of the key functions of the Board of Trustees is strategic oversight and to review the implementation of strategy by executive management of the Scheme and to ensure that effective mechanisms and controls are in place to protect the interests of the members of the Scheme.

These functions are particularly important where there is potential for unfair influence or conflicts of interest in the setting of executive remuneration.

The Remuneration Committee acts under the delegated authority of the Board of Trustees of the Scheme. The role of the Remuneration Committee is to provide an independent influence on remuneration decisions made in respect of the Board of Trustees and Board Committee members and Employees of the Scheme.

This Committee is constituted of Trustees and independent Board Committee members, which ensures that the work of this Committee is free from conflict, which in turn provides a substantial degree of security for members. The Committee is also assisted by independent remuneration advisors and experts. The role of the Remuneration Committee is to make recommendations to the Board of Trustees regarding the remuneration strategy, policies and practices of the Scheme.



■ ADOPTION AND APPROVAL OF THE SCHEME'S REMUNERATION POLICIES

The Scheme has established remuneration policies for the employees, the Board of Trustees and Board Committees.

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

To enable Scheme members to express their views on the Scheme's Remuneration Policy for Trustees, the Trustee Remuneration Policy will be tabled at the Scheme's AGM for a non-binding advisory vote.

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

■ MITIGATION OF CONFLICT OF INTERESTS

The King III Code of Corporate Governance advises that the Board of an entity should reflect a balance of power, represented by a majority of Non-Executive Directors. In the case of the Scheme all Trustees are non-executives and therefore 'Independent Trustees'. In accordance with best corporate remuneration governance practices, Trustees hold non-executive status within the Scheme and are therefore in terms of the Scheme's Remuneration Policy not permitted to be paid consulting fees for consulting services rendered or to participate in the Scheme's incentive programme. This ensures that Trustees are able to act independently of any personal interest when making a fiduciary decision for or on behalf of the Scheme.

■ MARKET BENCHMARKING

In accordance with the King III Code of Corporate Governance the remuneration of the Board of Trustees, Board Committee members and Employees of the Scheme are benchmarked periodically through independent review. The Scheme's Remuneration Committee uses market trends in professional fees/rates for professionals in the field of law, actuarial science, medicine and commerce for determining Trustee fees and market trends and independent benchmarking of remuneration of positions in the financial services industry, for employees. This provides the Scheme with information relating to market trends in remuneration practices and ensures that the Scheme compensates Trustees and employees in accordance with appropriate market norms.

■ DISCLOSURE OF INFORMATION REGARDING REMUNERATION

In accordance with recommended practice in the King III Code of Corporate Governance the remuneration policies for the Board of Trustees of the Scheme shall be disclosed to members at the Annual General Meeting of the Scheme. Also in accordance with recommended practice in the King III Code of Corporate Governance the remuneration of the Board of Trustees shall also be disclosed to the members at the Annual General Meeting of the Scheme and shall be reported on in the Discovery Health Medical Scheme Integrated Report.

This information shall be disclosed at least 21 days prior to the AGM. Furthermore, members and the Council for Medical Schemes are provided with details of how the proposed Trustees and Board Committee member fees were determined as well as the details of the independent external advisors who provided advice to the Remuneration Committee on the structuring of Trustees and Board Committee member fees. These practices have been implemented to increase the Board of Trustees' accountability to members of the Scheme in respect to the decisions that they make on the remuneration policies and practices of the Scheme.

REMUNERATION POLICY:

trustees of the Discovery Health Medical Scheme

■ PURPOSE OF POLICY

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

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

■ SCOPE OF POLICY

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

■ POLICY STATEMENT

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

■ THE ROLE OF THE REMUNERATION COMMITTEE

The Remuneration Committee of the Scheme is responsible for recommending to the Board of Trustees and the members of the Scheme the Remuneration Policy, structure and/or fees which the Trustees and Board Committee members are due.

■ REMUNERATION OF THE BOARD OF TRUSTEES OF THE SCHEME

Trustees are entitled to remuneration in respect of services rendered in their capacity as members of the Board as determined and recommended by the Scheme's Remuneration Committee, which is reviewed on an annual basis. Trustees are compensated a market-related professional fee commensurate with the level of skill and expertise required in relation to the nature of the duties and concomitant responsibility attributed to the specific role and function of Trustees. The fees take into account the fact that the Scheme is a non-profit entity. Trustees hold non-executive status within the Scheme and are, therefore, in terms of the Scheme's Remuneration Policy not permitted to be paid consulting fees for consulting services rendered. The remuneration of Trustees is limited to a fee and does not include any additional benefits such as participation in the Scheme's incentive programme. This ensures that Trustees are able to act independently of any personal interest in terms of their fiduciary duties.

The total annual fees payable to Trustees is split into an annual base fee (70%) and a fee per meeting (30%). This recognises the ongoing responsibility of Trustees for the efficient control of the Scheme. The annual base fee is paid quarterly in arrears. The Scheme does not pay Trustees any remuneration or fees for attending conferences or training events over and above the training provider's fees and travel, accommodation and subsistence costs. It is the view of the Scheme that attending a conference or training event is sufficient reward.

■ REMUNERATION OF BOARD COMMITTEE MEMBERS

Board Committee members shall be compensated a market-related fee commensurate with the level of skill and expertise required in relation to the nature of the duties and concomitant responsibility attributed to the specific role and function of the Board Committee of which he/she is a member, taking into account the fact that the Scheme is a non-profit entity.



■ CALCULATION OF THE REMUNERATION OF TRUSTEES AND BOARD COMMITTEE MEMBERS

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

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

■ PARTICIPATION IN INCENTIVE PROGRAMMES

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

■ REIMBURSEMENTS

Members of the Board of Trustees may be reimbursed for all reasonable expenses incurred by them in the performance of their duties as a Trustee, which shall include but not be limited to travel outside of the Johannesburg Metropolis or Gauteng. In order to be reimbursed for travel expenses the Trustee must complete a Reimbursement Claim Form and submit the original tax invoices of the travel expenses he/she is claiming.

■ MARKET BENCHMARKING

In accordance with the King III Code of Corporate Governance the remuneration of Trustees and Board Committee members are benchmarked periodically through independent review. The Scheme's Remuneration Committee uses market trends in professional fees/rates for professionals in the field of law, actuarial science, medicine and commerce for determining Trustee and Board Committee member fees. This provides the Scheme with information relating to market trends in remuneration practices and ensures that the Scheme compensates Trustees and Board Committee members in accordance with appropriate market norms. The benchmarked professional fees will be discounted to recognise the non-profit status of medical schemes.

■ APPROVAL OF TRUSTEES' AND BOARD COMMITTEE MEMBERS' REMUNERATION

The Scheme's Trustee remuneration for each financial year going forward is reviewed and recommended by the Remuneration Committee to the Board of Trustees for provisional approval and thereafter should be approved through a vote by members at the AGM of the Scheme. The Scheme's members and the Council for Medical Schemes shall be provided with the required information pertaining to the proposed remuneration of the Board of Trustees and Board Committee members at least 21 days prior to the AGM.

■ DISCLOSURE OF TRUSTEES' AND BOARD COMMITTEE MEMBERS' REMUNERATION

The principles of maximum transparency and disclosure regarding remuneration are endorsed by the Scheme. The members of the Board of Trustees shall disclose annually in writing to the Registrar any payment or considerations made to them in that particular year by the Scheme. Furthermore, the remuneration of the Trustees and Board Committee members shall also be disclosed to members of the Scheme and shall be reported on in the Discovery Health Medical Scheme Integrated Annual Report.

The CMS and members shall also be provided with details of how the proposed Trustees' and Board Committee members' fees were determined, as well as the details of the independent advisers who provided advice to the Remuneration Committee on the structuring of Trustees' and Board Committee members' fees.

■ REMUNERATION PAYMENT PROCEDURES

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

■ APPLICATION OF TRUSTEE LIABILITY INSURANCE

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

REGULATORY AND INDUSTRY MATTERS DEALT WITH IN 2016

→ CIRCULAR 68 OF 2015

The review of the solvency framework.

The CMS has commenced research into the design and potential impact of a new risk-based solvency framework. During 2016, DHMS provided comment to the CMS on the proposed Risk Based Capital Framework, as set out in Circular 68 of 2015. In November 2016, the CMS held two workshops in this regard, and subsequently invited stakeholders to participate in any of four working groups established to deal with business risk, asset risk, operational risk and the implementation of the new framework. The Scheme has identified and proposed participants to the CMS, and awaits confirmation.

→ CIRCULARS 20 OF 2015 AND 59 OF 2016

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

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

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

Draft Undesirable Business Practice Declaration in terms of Section 61 (2) of the Medical Schemes Act, 1998 (Act No 131 of 1998).

Circular 29 of 2015 was issued by the CMS on 17 April 2015 and notified that the Registrar had published a notice in the Government Gazette of his intention to declare certain business practices undesirable. The practices discussed in the Circular relate to the election and voting processes followed by schemes. In response to requests from the industry, the CMS subsequently published Circular 36 of 2015 on 10 April 2015. In 2016 the CMS issued Circular 37 of 2016 in which it referred to Notice 305 of 2016 published in Government Gazette 40022. This 2016 notice replaced the 2015 notices. The Scheme submitted its representations in this regard on 8 July 2016 and awaits a response from the CMS.

→ CIRCULAR 47 OF 2016

Ministerial Directive on the Establishment of a Beneficiary Registry.

Circular 47 of 2016 issued by the CMS on 15 July 2016 set out that the CMS had been tasked, in the form of a directive from the Minister of Health, with the responsibility of collecting medical scheme member information for the purposes of monitoring the impact of current policies and identifying medical scheme members who access services in the public sector. The directive requires all medical schemes, administrators and regulated private healthcare funding entities to furnish the CMS with regular updated records pertaining to the basic and demographic details of all members and their beneficiaries.

The CMS subsequently held industry workshops for the purpose of presenting and discussing the data specification and collection process, and to address security concerns relating to the collection and storage of data. The Scheme was represented at these forums.

An Information Technology Advisory Group (ITAG) consisting of four work streams was constituted to examine processes required with regards to IT security, data collection, data specification and legal and governance relating to the Beneficiary Registry. The Health Funders Association (HFA) a body representing the industry, and of which the Scheme is a member, participates in the ITAG.

→ CMS INSPECTION

As detailed in the CMS Annual Report 2013-2014, the CMS in December 2013 appointed an Inspector to conduct an investigation into the DHMS Trustee election process conducted in 2013. The Scheme cooperated fully with the Inspector during the process, which commenced in 2013 and continued into 2014. In 2016, the inspection matter was resolved to the satisfaction of all parties and was closed by the CMS.

→ COMPETITION COMMISSION MARKET INQUIRY INTO THE PRIVATE HEALTHCARE SECTOR

The Competition Commission Health Market Inquiry (HMI) seeks to determine whether there are aspects of the South African private healthcare sector market which distort, restrict or prevent competition. The Scheme supports the inquiry and cooperates fully and extensively with the HMI Panel. The date for publishing the HMI report and its recommendations has been extended to December 2017.



The CMS' Circulars are available at www.medicalschemes.com/Publications.aspx.



→ NATIONAL HEALTH INSURANCE

The South African Constitution, in Chapter 2 of the Bill of Rights, Section 27, provides that all citizens have the right of access to healthcare. In accordance with this principle, the Department of Health published a Green Paper on National Health Insurance (NHI) in 2011, and received comments from all stakeholders including the Scheme. The paper is based on the premise that a central NHI Fund will be established that will procure healthcare services from both the public and private sectors. In December 2015, the NHI White Paper was released and the Scheme submitted its comments by the deadline of 31 May 2016. The Scheme has subsequently been engaging in work streams regarding the NHI where invited to do so.

→ SCHEME RULES AND NON-DISCLOSURE

The 2016 Scheme Rules were submitted to the CMS at a meeting held for this purpose on 17 September 2015. The CMS did not approve certain sections of the Rules, being Rule 11, Rule 14.7, and the income definition as contained in Rule 4.39. The definition of income was amended in accordance with CMS requirements and as a result, the KeyCare 290 income band was closed for new membership in July 2016, and the plan option closed permanently in December 2016.

During the course of 2016, the Scheme appealed the non-registration of Rule 11 in terms of Section 49 and subsequently Section 50 of the Medical Schemes Act (the Act). Rule 11 deals with the prevention of members re-joining the Scheme immediately after committing fraud or deliberate non-disclosure against the Scheme; the Scheme believes that in order to protect the greater membership, such members should be prohibited from re-joining the Scheme for a certain time period. The Scheme was unsuccessful in both appeals, and is currently reviewing its options in this regard.

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

The registration of the proposed 2017 Scheme Rules by the CMS, which were submitted to the CMS on 15 September 2016, is awaited.

→ REVIEW OF PMB BENEFITS AND CARE

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

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

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

→ WAITING PERIODS IN RESPECT OF RELATED CONDITIONS

During the course of 2016, two cases relating to the Scheme's right to apply waiting periods for conditions related to a condition that has been disclosed when a new member applies to join the Scheme, were heard by the Appeal Board in accordance with Section 50 of the Act. The outcome of both cases was that a medical scheme is permitted to apply waiting periods relating to both the conditions disclosed by the incoming member, and also those which are directly related to them. This ruling has implications for the underwriting processes of the Scheme.



The Scheme Rules are available to registered users at www.discovery.co.za/medical-aid/scheme-rules.