

# Highlights

## OF THE ANNUAL INTEGRATED REPORT 2018

This document contains highlights of the Scheme's performance for the year ended 31 December 2018, extracted from the Annual Integrated Report 2018. The financial information has been extracted from and is in agreement with the Annual Integrated Report, and Annual Financial Statements audited by PricewaterhouseCoopers Inc. The full Annual Integrated Report 2018 is available at [www.profmed.co.za/downloads/](http://www.profmed.co.za/downloads/).

Profmed is the medical scheme of choice for professionals and its core focus is to provide **funding for quality healthcare** when members are in need of medical attention. Funding quality healthcare in a sustainable and affordable manner is achieved through appropriate benefit design, sound financial and risk management as well as through **effective governance structures**. As a medical scheme for professionals, Profmed contributes to the health, and therefore the sustainability of the professionals under our care, who in turn add value to the economy in their spheres of expertise.

Profmed's financial strength and claims-paying ability are supported by strong reserves and good investment returns. Global Credit Rating Co., an independent credit-rating agency, maintained the Scheme's rating at AA in 2018, **indicating the Scheme's financial strength** and claims-paying ability. This is the highest rating a medical scheme the size of Profmed can achieve.

Profmed is one of the few medical schemes that has **experienced steady organic membership growth** for the past ten years. As a result, the Scheme's average age has remained largely stable.

### OUR COMMITMENT

- We will ensure our **future sustainability** through the creation and protection of value for all stakeholders by effectively managing financial and non-financial factors impacting the Scheme's clinical outcomes and economic performance.
- We will continue to take appropriate steps to **limit the rise in healthcare costs** by way of negotiation with healthcare providers and contracted outsourced providers, and through the implementation of managed healthcare principles.
- Benefit options will be structured appropriately with the objective of **providing quality healthcare** when it is most needed.

- Growth in membership** will be achieved by providing benefits appropriate to the Scheme's target market, and by providing outstanding service.
- We will **continually strive to improve service to our members** and implement sound marketing, and brand management.

## Performance indicators

■ 2018 ■ 2017

Net healthcare result <b>(R34.0m)</b> <b>(R44.6m)</b>	Net (deficit)/surplus <b>(R35.0m)</b> <b>R22.3m</b>
Solvency ratio <b>49.4%</b> <b>52.5%</b>	Asset growth <b>4.8%</b> <b>8.0%</b>
Investment return <b>(0.4%)</b> <b>11.3%</b>	Claims ratio <b>90%</b> <b>91%</b>
Independent credit rating of claims-paying ability <b>AA</b> <b>AA</b>	Net membership growth <b>1.6%</b> <b>2.6%</b>
New membership growth <b>9.1%</b> <b>10.4%</b>	Member resignations <b>7.6%</b> <b>7.8%</b>
New members joining <b>2 978</b> <b>3 305</b>	Reserves per member <b>R26 056</b> <b>R26 516</b>

# Our Chairman's

## REPORT

In 2019, Profmed celebrates 60 years of providing excellent healthcare benefits for professionals. Although Profmed was registered as a medical scheme in 1969, it was operated out of The Professional Provident Society providing benefits to professionals as early as 1959. This milestone is befitting of the results presented here for 2018. Despite the many challenges facing medical schemes, and set-backs in certain investment categories and the socio-political arena in particular, Profmed's results are satisfying.

### FINANCIAL RESULTS

The number of high-cost claims incurred by Profmed in 2017 was not repeated in 2018 and Profmed's claims are in line with budget for 2018. Our property and equity portfolios were negatively affected by the global economic climate and the domestic socio-political environment, which impacted the Scheme's investment returns.

The one percentage point increase in VAT which came into effect on 1 April 2018 cost the Scheme R10 million. As medical schemes are not VAT registered, the Scheme elected to absorb this additional expense rather than pass it on to members through contribution increases or a reduction in benefits.

Membership growth was positive in 2018 with new members joining the Scheme exceeding target. Overall membership increased by 1.6% to 33 125 but this increase in membership put a strain on the Scheme's solvency ratio, which closed at 49.4% at the end of December 2018 – 3.1% down from 2017. This is still a very healthy solvency from which the Scheme can draw to ensure members continue to receive quality healthcare benefits.

Imperative to the sustainability of the Scheme is continued membership growth. While the Scheme continued to grow in an industry that is stagnating in membership, the tough economic situation in South Africa constrained the decision-making of potential members. To meet the needs of these potential members, the Scheme introduced the Savvy network options in the 2019 benefit year. Initial indications

are that these options have been very well received by both existing members and the market, which augurs well for the Scheme's future growth.

### SERVICE LEVELS

Profmed's service is amongst the best in the medical scheme industry. The calibre of call centre staff, the structure of processes, the design of benefits and the channels of communication for members are all driven by Profmed's objective and business model of meeting the expectation of excellence by professionals. Call centres operate eleven hours a day, as well as on Saturday mornings, with a focus on outbound engagement with members to resolve queries quickly and satisfactorily.

The results of a member satisfaction survey undertaken in September showed that 88% of participants were satisfied with Profmed as their medical scheme. This is above the industry benchmark.

Profmed's mobile App aims to make engagement by members with us quick and convenient, and is successfully used to communicate important information and messages to members. The App enjoys good uptake by members and the features on the App are continually enhanced to remain relevant and to meet the needs of busy professionals.

### SCHEME GOVERNANCE

The Scheme has a robust approach to governance. The tenets of governance are not merely principles that are applied to the running of the Scheme. They form the essence of how we conduct our relationships with our members and stakeholders, how we formulate protocols and processes, and how we live out our responsibilities – both as trustees on the Board and as staff of the Scheme.

To further enhance our transparency with all our stakeholders, the Profmed website houses a Corporate Governance page that contains policies, charters and other documents to provide assurance of the Scheme's commitment to good business practices.

## HEALTHCARE ENVIRONMENT

The healthcare industry was put under pressure in 2018 with the release of three important pieces of legislation and reports that required detailed consideration and comment by the various players in the industry. The long-awaited Medical Schemes Amendment Bill and the National Health Insurance Bill were gazetted on 21 June 2018 and the Health Market Inquiry Provisional Report was released shortly thereafter on 5 July 2018. Significant time and resources were expended in providing meaningful comment to these proposed reforms. See page 7 of the full Annual Integrated Report for further comment in this regard, available at [www.profmed.co.za/downloads/](http://www.profmed.co.za/downloads/).

## OUR NEW PRINCIPAL OFFICER

After more than 15 years at the helm of Profmed, Graham Anderson retired as Principal Officer and Chief Executive effective 31 December 2018. We thank Graham for imparting his extensive knowledge and experience to bringing Profmed to where it is today, and we wish him well in his retirement.

Craig Comrie, a Chartered Accountant, took over as Principal Officer and Chief Executive on 1 January 2019 and brings with him 17 years' experience in the medical scheme administration field. We welcome Craig and look forward to his contribution to the future success and growth of the Scheme.

## CLOSING

After having served as a trustee on the Board for 12 years, the last of which as Chairman, I will be retiring from the Board at the annual general meeting on 4 June 2019. It has been a pleasure and a privilege to serve the members of Profmed and to work with trustees of such high calibre and integrity.

I thank my fellow trustees for their insight and the experience and skill they have made available to the Board, and for the critical and robust debate that ensured sound decision-making. I also wish to thank the staff in the Executive Office and at our Administrator, PPS Healthcare Administrators, for putting Profmed first as they carry out their roles and responsibilities, and for embodying the authenticity of Profmed's brand and ethos.

The future of Profmed is in good hands.



Dr RD Shuttleworth  
Chairman  
10 April 2019









# Solvency

	2018 R'000	2017 R'000
Total members' funds per Statement of Financial Position	829 971	864 979
Less: Cumulative unrealised investment gains	(6 502)	(60 910)
<b>ACCUMULATED FUNDS PER REGULATION 29 OF THE REGULATIONS TO THE MSA</b>	<b>823 469</b>	<b>804 069</b>
<b>ANNUAL CONTRIBUTION INCOME PER STATEMENT OF COMPREHENSIVE INCOME</b>	<b>1 668 455</b>	<b>1 532 948</b>
Accumulated funds ratio calculated as the ratio of accumulated funds/gross annual contributions x 100	49.4%	52.5%
Minimum ratio required by Regulation 29 of the Regulations to the MSA	25.0%	25.0%



# Operational statistics

## PER BENEFIT OPTION

### 2018

	ProPinnacle	ProSecure Plus	ProSecure	ProActive Plus	ProActive	Total Scheme
<b>NON-FINANCIAL HIGHLIGHTS</b>						
Number of members at year-end	1 641	2 246	7 661	7 907	13 670	33 125
Average number of members for the year	1 653	2 282	7 774	7 850	13 661	32 220
Number of beneficiaries at year-end	2 907	4 306	15 820	17 552	30 154	70 739
Average number of beneficiaries for the year	2 949	4 398	16 108	17 429	30 158	71 042
Dependant ratio at year-end	0.77	0.92	1.07	1.22	1.21	1.14
Average age of beneficiaries	59.6	53.1	48.0	35.6	36.8	40.9
Pensioner ratio (65 years and older)	50%	40%	29%	10%	10%	18%
<b>FINANCIAL HIGHLIGHTS</b>						
Average net contributions per beneficiary per month	R5 977	R3 444	R2 726	R1 437	R1 237	R1 957
Average relevant healthcare expenditure per beneficiary per month	R6 743	R3 214	R2 614	R1 125	R968	R1 759
Average non-healthcare expenditure per beneficiary per month	R286	R264	R246	R230	R231	R238
Relevant healthcare expenditure as a percentage of gross contributions (claims ratio)	113%	93%	96%	78%	78%	90%
Non-healthcare expenditure as a percentage of gross contributions	4.8%	7.7%	9.0%	16.0%	18.7%	12.2%

# 2017

	ProPinnacle	ProSecure Plus	ProSecure	ProActive Plus	ProActive	Total Scheme
<b>NON-FINANCIAL HIGHLIGHTS</b>						
Number of members at year-end	1 709	2 362	7 988	7 211	13 351	<b>32 621</b>
Average number of members for the year	1 729	2 399	8 106	7 191	13 241	<b>32 665</b>
Number of beneficiaries at year-end	3 127	4 598	16 650	16 109	29 708	<b>70 192</b>
Average number of beneficiaries for the year	3 203	4 689	16 947	16 051	29 453	<b>70 342</b>
Dependant ratio at year-end	0.83	0.95	1.08	1.23	1.23	<b>1.15</b>
Average age of beneficiaries	58.3	51.6	46.9	34.9	36.5	<b>40.6</b>
Pensioner ratio (65 years and older)	46%	36%	27%	9%	9%	<b>17%</b>
<b>FINANCIAL HIGHLIGHTS</b>						
Average net contributions per beneficiary per month	R5 310	R3 108	R2 470	R1 299	R1 136	<b>R1 816</b>
Average relevant healthcare expenditure per beneficiary per month	R5 817	R3 480	R2 378	R985	R850	<b>R1 650</b>
Average non-healthcare expenditure per beneficiary per month	R254	R241	R225	R211	R212	<b>R219</b>
Relevant healthcare expenditure as a percentage of gross contributions (claims ratio)	110%	112%	96%	76%	75%	<b>91%</b>
Non-healthcare expenditure as a percentage of gross contributions	4.8%	7.8%	9.1%	16.2%	18.6%	<b>12.0%</b>

# Statement of financial position

<b>ASSETS</b>	<b>2018 R'000</b>	<b>2017 R'000</b>
<b>NON-CURRENT ASSETS</b>	<b>793 498</b>	<b>816 068</b>
Property, plant and equipment	21 946	21 099
Available-for-sale financial assets	-	794 969
Financial assets at fair value through profit and loss	771 552	-
<b>CURRENT ASSETS</b>	<b>128 978</b>	<b>153 008</b>
Available-for-sale financial assets	-	142 791
Financial assets at fair value through profit and loss	113 566	-
Financial assets at amortised cost	6 875	-
Accounts receivable	2 807	3 555
Cash and cash equivalents	5 730	6 662
<b>TOTAL ASSETS</b>	<b>922 476</b>	<b>969 076</b>

## LIABILITIES

<b>CURRENT LIABILITIES</b>	<b>92 505</b>	<b>104 097</b>
Accounts payable	30 109	53 269
Outstanding claims provision	62 396	50 828
<b>TOTAL LIABILITIES</b>	<b>92 505</b>	<b>104 097</b>

<b>TOTAL NET ASSETS</b>	<b>829 971</b>	<b>864 979</b>
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## MEMBERS' FUNDS AND RESERVES

<b>MEMBERS' FUNDS AND RESERVES</b>	<b>829 971</b>	<b>864 979</b>
Accumulated funds	829 971	804 069
Revaluation reserve	-	60 910
<b>MEMBERS' FUNDS AND RESERVES</b>	<b>829 971</b>	<b>864 979</b>



# Statement of cash flows

	2018 R'000	2017 R'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Cash (utilised) from operations	(43 714)	(32 208)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment	(1 886)	(1 138)
Proceeds on disposal of property, plant and equipment	1	12
Funds transferred to the asset manager	(23 000)	(25 000)
Funds withdrawn from the asset manager	62 000	54 000
Interest: Call and current bank accounts	3 642	3 368
Net rental income	2 025	1 345
<b>NET CASH GENERATED FROM INVESTING ACTIVITIES</b>	<b>42 782</b>	<b>32 587</b>
Net (decrease)/increase in cash and cash equivalents	(932)	379
Cash and cash equivalents at beginning of year	6 662	6 283
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>5 730</b>	<b>6 662</b>



# Statement of comprehensive income

	2018 R'000	2017 R'000
Risk contribution income	1 668 455	1 532 948
<b>RELEVANT HEALTHCARE EXPENDITURE</b>	<b>(1 499 250)</b>	<b>(1 393 186)</b>
<b>RISK CLAIMS INCURRED</b>	<b>(1 474 008)</b>	<b>(1 369 625)</b>
Risk claims incurred	(1 475 089)	(1 371 421)
Third-party claim recoveries	1 081	1 796
<b>Accredited managed healthcare services</b>	<b>(26 345)</b>	<b>(23 242)</b>
<b>NET RECOVERY/(EXPENSE) ON THE RISK TRANSFER ARRANGEMENT</b>	<b>1 103</b>	<b>(319)</b>
Risk transfer arrangement fees	(4 563)	(4 232)
Claims paid	5 666	3 913
<b>GROSS HEALTHCARE RESULT</b>	<b>169 205</b>	<b>139 762</b>
Administration and other operational expenditure	(192 546)	(174 375)
Broker service fees	(10 616)	(10 068)
Net impairment losses on healthcare receivables	(46)	107
<b>NET HEALTHCARE RESULT</b>	<b>(34 003)</b>	<b>(44 574)</b>
<b>OTHER INCOME</b>	<b>6 144</b>	<b>73 772</b>
Investment income	6 083	73 723
Sundry income	61	49
<b>OTHER EXPENDITURE</b>	<b>(7 149)</b>	<b>(6 931)</b>
Asset management fees	(7 149)	(6 931)
<b>NET (DEFICIT)/SURPLUS FOR THE YEAR</b>	<b>(35 008)</b>	<b>22 267</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
<b>ITEMS THAT MAY BE RECLASSIFIED INTO SURPLUS OR LOSS</b>	<b>-</b>	<b>37 743</b>
Realised gains on financial assets	-	(15 339)
Unrealised (loss)/gain on available-for-sale financial assets	-	53 082
Movement in financial assets at fair value through profit and loss	-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>-</b>	<b>60 010</b>

# Statement of changes in funds and reserves

	ACCUMULATED FUNDS R'000	REVALUATION RESERVE FOR AVAILABLE-FOR-SALE FINANCIAL ASSETS R'000	TOTAL MEMBERS' FUNDS AND RESERVES R'000
<b>BALANCE AT 1 JANUARY 2017</b>	781 802	23 167	804 969
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	22 267	37 743	60 010
Surplus for the year	22 267	-	22 267
Other comprehensive income	-	37 743	37 743
<b>BALANCE AT 31 DECEMBER 2017</b>	804 069	60 910	864 979
Change in accounting policy	60 910	(60 910)	-
<b>RE-STATE ACCUMULATED FUNDS AT THE BEGINNING OF THE YEAR</b>	864 979	-	864 979
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	(35 008)	-	(35 008)
(Deficit) for the year	(35 008)	-	(35 008)
<b>BALANCE AT 31 DECEMBER 2018</b>	829 971	-	829 971

## ANALYSIS OF CARRYING AMOUNTS OF FINANCIAL ASSETS AND LIABILITIES PER CATEGORY

<b>FINANCIAL ASSETS</b>	2018 R'000	2017 R'000
Non-current	771 552	794 969
Current	113 566	142 791
Amortised cost	6 875	-
Cash and cash equivalents	5 730	6 662
<b>ACCOUNTS RECEIVABLE</b>		
Loans and receivables	540	725
Insurance receivables	2 267	2 830
<b>CURRENT LIABILITIES</b>		
Financial liabilities measured at amortised cost	2 136	4 664
Insurance payables	80 738	99 433



# Financial assets

<b>MOVEMENT IN FINANCIAL ASSETS</b>	<b>2018 R'000</b>	<b>2017 R'000</b>
Beginning of the year	937 760	866 938
Capital contribution	23 000	25 000
Withdrawals	(62 000)	(54 000)
<b>TOTAL (LOSS)/GAIN</b>	<b>(58 700)</b>	<b>53 082</b>
Net realised (loss)/gain on financial assets	(4 258)	15 339
Unrealised fair value (loss)/gain	(54 442)	37 743
Asset management fees	(7 149)	(6 931)
Interest	43 310	40 222
Dividends	15 772	13 449
<b>FAIR VALUE AT THE END OF THE YEAR</b>	<b>891 993</b>	<b>937 760</b>
Less current portion	(120 441)	(142 791)
<b>NON-CURRENT PORTION AT YEAR-END</b>	<b>771 552</b>	<b>794 696</b>



# Financial assets CONTINUED

## FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

<b>NON-CURRENT</b>	2018 R'000	2017 R'000
Equity securities	391 979	-
Bonds and cash instruments	379 573	-
<b>TOTAL NON-CURRENT</b>	<b>771 552</b>	<b>-</b>
<b>CURRENT</b>		
Money market	94 694	-
Bonds and cash instruments	18 782	-
<b>TOTAL CURRENT</b>	<b>113 566</b>	<b>-</b>

## FINANCIAL ASSETS PREVIOUSLY CLASSIFIED AS AVAILABLE-FOR-SALE

<b>NON-CURRENT</b>	2018 R'000	2017 R'000
Equity securities	-	396 701
Bonds and cash instruments	-	398 268
<b>TOTAL NON-CURRENT</b>	<b>-</b>	<b>794 969</b>
<b>CURRENT</b>		
Money market	-	125 330
Bonds and cash instruments	-	17 461
<b>TOTAL CURRENT</b>	<b>-</b>	<b>142 791</b>

Financial assets at fair value are denominated in RSA Rand. Money market instruments redeemable in three months or less are classified as financial assets at fair value through profit and loss and financial assets at amortised costs. None of the financial assets at fair value are past due.

## FINANCIAL ASSETS HELD AT AMORTISED COST

<b>CURRENT</b>	2018 R'000	2017 R'000
Cash instruments	6 875	-

# Adherence to the medical schemes act AND REGULATIONS



## CONTRIBUTION INCOME MUST BE RECEIVED WITHIN THREE DAYS OF BECOMING DUE

The MSA requires that contributions shall be received within three days of becoming due. There were instances where the Scheme did not receive all contributions as required. This is mainly due to:

- members paying contributions after the third day of becoming due;
- members having insufficient funds in their bank accounts at the time of collection; and
- members exiting without informing the Scheme.

We do, however, actively pursue contributions not received within three days.



## FINANCIAL SOUNDNESS OF BENEFIT OPTIONS

In 2018, three of our options had deficits. This was caused by the limitations placed on the contribution increases by the CMS, together with the consideration of the potential impact on members and the Scheme in terms of buy-down risk and loss of members. These options remain financially sound as they are supported by the remaining options and sufficient income from reserves.



## PAYMENT OF CLAIMS WITHIN 30 DAYS OF RECEIPT

The MSA requires that a valid claim submitted to the Scheme must be paid within 30 days after the day on which the claim is received. In limited instances claims were paid after this timeframe, mostly as a result of incorrect coding by service providers.



## INVESTMENT IN MEDICAL SCHEME ADMINISTRATORS

The MSA requires that no medical scheme shall invest any of its assets in a medical scheme administrator. The Scheme, through its collective investments, has indirect investments in medical scheme administrators and has received exemption from this section of the MSA.



## LIMITATION OF EXPOSURE TO EQUITIES

The MSA requires that medical schemes shall invest no more than 40% of reserves in South African equities. The CMS, however, granted exemption to Profmed to invest up to 50% of its reserves in South African equities.



## LIMITATION OF EXPOSURE TO CREDIT-LINKED INSTRUMENTS

The Regulations to the MSA require that medical schemes may not hold credit-linked instruments which were reclassified into restricted categories by the CMS. In terms of Circular 6 of 2017 issued on 1 February 2017, certain asset instruments were reclassified by the CMS into category 7 (restricted category) of Annexure B of the Regulations as at 31 December 2016, which caused the Scheme to become non-compliant. Profmed's asset managers have engaged the CMS, who indicated that Credit Linked Floating Rate Notes may be classified outside of category 7, but this will result in non-compliance with the CMS' Circular 7 of 2018. If the instruments are classified in terms of Circular 7 of 2018 the Scheme would be non-compliant in terms of assets held under category 7(b) as there should be no investment in this category according to the Regulations. The relevant investment houses and insurance bodies continue to engage with the CMS to find a solution to this dilemma. If this cannot be resolved, Profmed will take the necessary steps to become compliant.



# Notice of annual general meeting

Notice is hereby given that the 48<sup>th</sup> Annual General Meeting of the members of Profmed will be held at Profmed Place, 15 Eton Road, Parktown, Johannesburg on Tuesday 4 June 2019 at 15:30.

## AGENDA

1. To receive and adopt the annual financial statements for the year ended 31 December 2018 (including the reports of the trustees, the Audit and Risk Committee and the auditor).
2. To re-appoint PricewaterhouseCoopers Inc. as the auditor of Profmed for 2019/20 in terms of rule 27 of the Rules of Profmed.
3. To accept the Profmed Remuneration Policy by means of a non-binding advisory vote.
4. To approve the remuneration of trustees for the 2019/20 year.
5. To announce the election of three (3) trustees in accordance with rule 20.1.2 of the Rules of Profmed.
6. To transact such other business as may be transacted at the Annual General Meeting (subject to the Rules of Profmed and in particular rule 28.1.6, and the provisions of the Medical Schemes Act No. 131 of 1998, as amended).

The Remuneration Policy, the trustee remuneration document, and the Form of Proxy are available at [www.profmed.co.za](http://www.profmed.co.za).

By order of the Board of Trustees.



Craig W Comrie  
Principal Officer and Chief Executive  
14 May 2019





# Contact us

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**Profmed App:** Download from your smartphone store

**Postal address:** Private Bag X1031, Lyttelton, 0140

## WALK-IN CENTRES

- PPS Centurion Square, 1262 Heuwel Avenue, Cnr Heuwel and Gordon Hood Roads, Centurion
- Profmed Place, 1<sup>st</sup> Floor, 15 Eton Road, Parktown, Johannesburg

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