

PROFMED



Highlights

**OF THE ANNUAL
INTEGRATED REPORT**

2019

This document contains highlights of the Scheme's performance for the year ended 31 December 2019, extracted from the Annual Integrated Report 2019. 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 is available at www.profmmed.co.za/downloads/.

MEMBERSHIP GROWTH

NEW MEMBERS JOINING

2019	3 778
2018	2 978

YEAR ON YEAR GROWTH **26.9%**

JOINING RATE

2019	11.4%
2018	9.1%

NET GROWTH RATE

2019	4.3%
2018	1.6%

2019 2018

REASONS TO **#BELIEVEIN** PROFMED

Despite the paralysis in the socio-economic circumstances, Profmed exceeded its overall growth strategy. This was achieved through a robust and integrated marketing campaign aimed at the Scheme's target market, which generated new business. The introduction of our new Savvy hospital network options with discounted contributions contributed to this success as it resonated with the needs of our target market.

Profmed's philosophy is to provide our discerning members with cost-effective, evidence-based and clinically appropriate treatment at the most appropriate facilities, and to provide peace of mind that their contributions are utilised appropriately and effectively.

In line with Profmed's status as a medical scheme exclusively for professionals, Profmed's Board is made up of professionals who bring to the Board a wealth

of expertise and experience, not only in the clinical field, but also in the IT, financial, legal, investment and business fields. This range and depth of skills enables the Board to function in a professional and efficient manner and provides members with comfort that the Scheme is being managed by highly competent individuals.





Profmed supports the SANParks K9 unit

CONTRIBUTING TO SUSTAINABILITY

While our focus is funding treatment to support the health and wellbeing of our members, the Scheme recognises it also has a responsibility to contributing to environmental and economic sustainability. In 2019, the Scheme made small donations to the SANParks K9 Unit and FoodForward as part of an incentive to encourage members to participate in two surveys conducted by Profmed amongst members in 2019. The K9 unit plays an integral role in the tracking of poachers in the Kruger National Park, which is one of the largest nature conservancies in the world.

FoodForward is a feeding scheme for the underprivileged and disadvantaged. The beneficiaries of the donations were carefully selected to ensure diversity in our contribution to both economic and environmental sustainability.



The Board is

COMMITTED TO SUSTAINING

the Scheme's business model by:



providing excellent service



appropriate benefit design



growing our membership



close monitoring of external factors

We will ensure that the administration of the Scheme is effective, and that the administrator performs in line with strict service level agreements.

OUR CHAIRMAN'S REPORT

Twenty-nineteen was a year of paradoxes. On the one hand, there was internal change with our new Principal Officer taking office on 1 January. On the other hand, the external environment in which we operate remained inert, despite the clamour created by the proposed legislative changes and regulatory stalemates, and the recommendations released by the Health Market Inquiry. (We expound on the external environment in the full Annual Integrated Report.) Investment returns were positive on the one hand, but the unprecedentedly high claims experience weighed heavily on the Scheme's results.

ADDING UP THE NUMBERS

The question around the continued affordability of healthcare in South Africa is concerning. The increased pace of the introduction of new medical technology and advanced medicines place a strain on the Scheme's reserves. These advancements come at huge cost and are exacerbated by the PMB legislation that requires schemes to fund the list of 270 conditions at cost without limits or co-payments. Medical schemes face the unenviable position of having to navigate the ethical dilemma of funding these high-cost treatments at the risk of jeopardising the financial sustainability of a scheme.

In line with the Board's decision to contain surpluses to a minimum and rely on reserves to fund healthcare expenditure, we budgeted for a marginal surplus of R1.0 million for the year under review. However, a particularly poor claims experience resulted in a R34.7 million deficit at year-end, R35.7 million over budget. This is attributed to an 18% increase in high-cost claims compared with 2018 and to the increased utilisation of high-cost medicines and technology. The average cost per high-cost claim is R1.2 million. The occurrence of high-cost claiming years cannot be anticipated. It is for this reason that the Scheme maintains reserves well in excess of the 25% statutory requirement to fulfil our commitment to our members when they need us most.

The Scheme has also seen a steady increase in the cost of auxiliary services, particularly pathology and radiology costs, which peaked at 12% of claims. While measures are being implemented to curb the auxiliary costs, it is a challenge for the Scheme to manage the impact of increased utilisation of major medical expenses, and the influx of biologicals and other high-

cost treatment into the healthcare market. In the face of these losses, it was encouraging that investment returns improved somewhat in 2019 following a dismal 2018, albeit in a challenging investment environment. This had a marginal stabilising effect on the Scheme's results.

After careful consideration of Profmed's commitment to funding members' access to quality healthcare and the Scheme's need to grow membership, the Board agreed to a target solvency ratio of not lower than 40%. Profmed's solvency remains healthy at 43.2%, which is comfortably above the agreed minimum level. The Board and management of the Scheme will monitor solvency levels taking into account membership growth, benefit design and other risk factors to ensure reserves are relevant to the Scheme's risks.

GROWING OUR MEMBERSHIP

Profmed has a proud track record of sustained membership growth since the introduction of our inhouse sales force in 2007. Profmed has grown from 23 705 principal members in 2007 to 34 553 at the end of 2019. In 2019, Profmed exceeded its target growth figure of 3 200 new members by 643 members. These positive numbers are reflective of Profmed's continued relevance and appeal to the professional market, making Profmed one of only two medical schemes in the industry that grew organically and not through amalgamation or the onboarding of large corporate organisations.

The introduction of the Savvy hospital network options catered to the needs of young professionals by providing excellent benefits at discounted contributions. Although these options are showing deficits, the number of members choosing to belong to these options was significantly higher than expected and we anticipate that these options will continue to be attractive to the Scheme's target market and will yield returns to Profmed's value offering.

IT'S ALL ABOUT SERVICE

As the medical scheme of choice for professionals, we understand that time is valuable in the demanding lives of our members. We, therefore, strive to ensure that the service we provide to our members, and all our stakeholders, is of the highest quality.

Our call centre agents answered 123 429 calls in 2019 and responded to 62 500 e-mails. The managed care division issued 38 284 authorisations and 2 929 chronic conditions were authorised. When asked to rate our service, 98.2% of members said they were either satisfied or very satisfied with the service they received.

But we will not rest on our laurels. Management continually seeks ways to not only improve service to members and all our stakeholders but to be innovative in creating easy and efficient access to the Scheme and to relevant and vital information. Our mobile App is available to all beneficiaries registered on the Scheme so that each member of the family has access to the membership card and is able to call an ambulance in an emergency or navigate their way to the closest ER, wherever they are within South Africa.

The Medici functionality on the Profmed App allows members access to virtual consultations so members can connect with their preferred medical practitioners at a time that is convenient to both.

DOING IT RIGHT, ALL THE TIME

“Good governance requires self-discipline. Only discipline within can ensure discipline without.”

- Mr Narendra Modi, Prime Minister of India.

At Profmed, these are not just inspiring words but are the foundation of how Profmed practices ethics, integrity and transparency. These words ring true in the halls of Profmed, in our interactions with our stakeholders, in the way we service our members and design our benefits. They form the backbone of discussion and decisions made in the Boardroom and how these decisions are carried out by the management and staff of the Scheme and our administrator. I am proud to be Chairman of an organisation where responsibility and accountability are integral to every interaction and transaction. It is this level of self-discipline within Profmed that builds trust with our members and our stakeholders and makes Profmed a sought-after medical scheme.

The Board, management and staff remain committed to the principles of good governance and to living these principles in everything we do. The Corporate Governance tab on the website (www.profmed.co.za/corporate-governance/) provides insight into the workings of the Scheme, and the values we espouse are available at www.profmed.co.za/brandvalues.

ENSURING CONTINUITY

In 2018 we bade farewell to Mr Graham Anderson as Principal Officer and welcomed Mr Craig Comrie to the fold in 2019. The handover was seamless, which is thanks to the professionalism of both gentlemen. Craig has continued to build on the solid foundation laid by Graham, and we are confident and excited for the future with Craig at the helm.

IMPACT OF THE CORONAVIRUS

The Board has given careful consideration to the impact of the virus on the Scheme. As a medical scheme for professionals, over 40% of our members are healthcare professionals, many of whom could come into contact with the Coronavirus. To understand this risk and others the virus could pose to the Scheme and our members, we have engaged our actuaries, who have costed a number of scenarios. Both the Board and the Principal Officer are monitoring the risk as it pertains to Profmed, as well as the unfolding events and information around the virus. We are communicating with our members and staff, providing useful information in an effort to minimise the spread of the disease and maintain a healthy perspective on the pandemic.

A TEAM EFFORT

Profmed has a proud history dating back to 1959. My predecessors, both trustees and chairmen of the Board, continued this proud history. The gravity of the responsibility this places on the shoulders of the Board to continue this legacy, and meet the challenges of the future, is great. I am therefore thankful to my fellow trustees for their support, interrogative minds and diversity of discussion that ensure good outcomes for Profmed. I am also thankful to Craig and his staff for their efficiency and dedication to the Scheme, as well as to our Administrator for partnering with us to ensure we deliver on our promises.

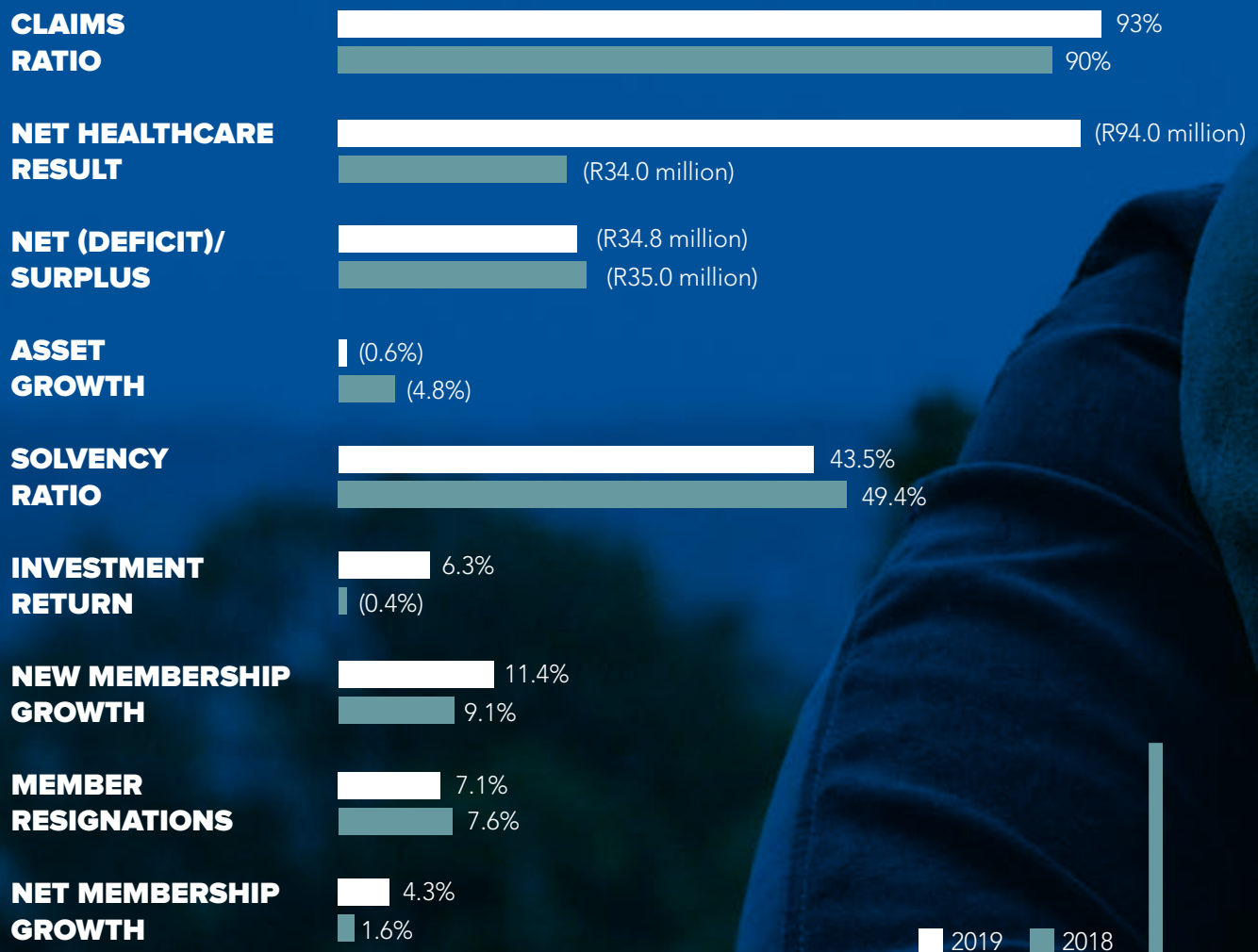
As a united team, the future looks bright. At Profmed, we **#BELIEVEIN** the future – of Profmed, the healthcare system, and South Africa.



MS MM GERINGER

Chairman
8 April 2020

PERFORMANCE INDICATORS



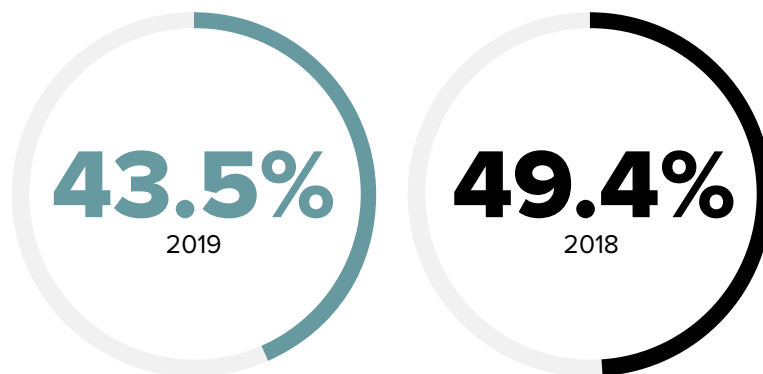




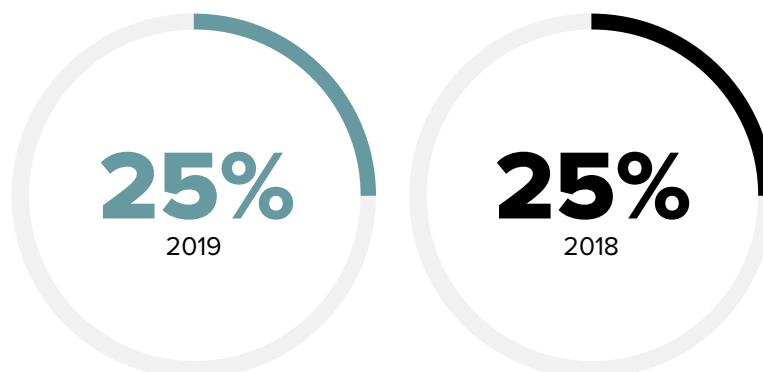
SOLVENCY

	2019 R'000	2018 R'000
Total members' funds per Statement of Financial Position	795 220	829 971
Less: Cumulative unrealised investment gains	(6 644)	(6 502)
Accumulated funds per Regulation 29 of the Regulations to the MSA	788 576	823 469
ANNUAL CONTRIBUTION INCOME PER STATEMENT OF COMPREHENSIVE INCOME	1 813 966	1 668 455

Accumulated funds ratio calculated as the ratio of accumulated funds/gross annual contributions x 100



Minimum ratio required by Regulation 29 of the Regulations to the MSA



2019

OPERATIONAL STATISTICS

PER BENEFIT OPTION

	ProPinnacle	ProSecure Plus	ProSecure	ProActive Plus	ProActive	Total Scheme
NON-FINANCIAL HIGHLIGHTS						
Number of members at year-end	1 541	2 178	7 483	9 850	13 501	34 553
Average number of members for the year	1 555	2 210	7 542	9 525	13 512	34 344
Number of beneficiaries at year-end	2 666	4 136	15 224	21 216	29 608	72 850
Average number of beneficiaries for the year	2 717	4 210	15 411	20 613	29 698	72 649
Dependant ratio at year-end	0.73	0.90	1.03	1.15	1.19	1.11
Average age of beneficiaries	60.0	53.0	47.9	34.7	36.2	40.0
Pensioner ratio (65 years and older)	50.2%	39.6%	29.0%	9.2%	9.4%	16.7%
FINANCIAL HIGHLIGHTS						
Average net contributions per beneficiary per month	R6 928	R3 966	R3 175	R1 726	R1 414	R2 081
Average relevant healthcare expenditure per beneficiary per month	R8 204	R 4 174	R3 163	R1 455	R1 080	R1 937
Average non-healthcare expenditure per beneficiary per month	R319	R298	R280	R271	R257	R252
Relevant healthcare expenditure as a percentage of gross contributions (claims ratio)	118%	105%	100%	84%	76%	93%
Non-healthcare expenditure as a percentage of gross contributions	4.6%	7.5%	8.8%	15.7%	18.2%	12.1%

2018

OPERATIONAL STATISTICS

PER BENEFIT OPTION

	ProPinnacle	ProSecure Plus	ProSecure	ProActive Plus	ProActive	Total Scheme
NON-FINANCIAL HIGHLIGHTS						
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%
FINANCIAL HIGHLIGHTS						
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%

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	2019 R'000	2018 R'000
ASSETS		
Non-current assets	812 905	793 498
Property, plant and equipment	21 814	21 946
Financial assets at fair value through profit and loss	791 091	771 552
Current assets	104 102	128 978
Financial assets at fair value through profit and loss	89 375	113 566
Financial assets at amortised cost	-	6 875
Accounts receivable	5 059	2 807
Cash and cash equivalents	9 668	5 730
Total assets	917 007	922 476
LIABILITIES		
Current liabilities	121 787	92 505
Accounts payable	63 487	30 109
Outstanding claims provision	58 300	62 396
Total liabilities	121 787	92 505
TOTAL NET ASSETS	795 220	829 971
Members' funds and reserves	795 220	829 971
Accumulated funds	795 220	829 971
Members' funds and reserves	795 220	829 971

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED
31 DECEMBER 2019

	2019 R'000	2018 R'000
Risk contribution income	1 813 966	1 668 455
Relevant healthcare expenditure	(1 688 348)	(1 499 250)
Risk claims incurred	(1 657 504)	(1 474 008)
Risk claims incurred	(1 658 937)	(1 475 089)
Third-party claim recoveries	1 433	1 081
Accredited managed healthcare services	(31 251)	(26 345)
Net recovery/(expense) on the risk transfer arrangement	407	1 103
Risk transfer arrangement fees	(4 958)	(4 563)
Claims paid	5 365	5 666
Gross healthcare result	125 618	169 205
Administration and other operational expenditure	(207 869)	(192 546)
Broker service fees	(11 960)	(10 616)
Net impairment losses on healthcare receivables	(106)	(46)
Net healthcare result	(94 317)	(34 003)
Other income	64 602	6 144
Investment income	64 483	6 083
Sundry income	119	61
Other expenditure	(5 036)	(7 149)
Asset management fees	(5 036)	(7 149)
Net deficit for the year	(34 751)	(35 008)



STATEMENT OF CHANGES IN FUNDS AND RESERVES

FOR THE YEAR ENDED
31 DECEMBER 2019

	ACCUMULATED FUNDS R'000
BALANCE AT 1 JANUARY 2018	864 979
Total comprehensive income for the year	(35 008)
(Deficit) for the year	(35 008)
BALANCE AT 31 DECEMBER 2018	829 971
Total comprehensive income for the year	(34 751)
(Deficit) for the year	(34 751)
BALANCE AT 31 DECEMBER 2019	795 220

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED
31 DECEMBER 2019

	2019 R'000	2018 R'000
CASH FLOW FROM OPERATING ACTIVITIES		
Cash (utilised) from operations	(66 863)	(43 714)
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(962)	(1 886)
Proceeds on disposal of property, plant and equipment	3	1
Funds transferred to the asset manager	-	(23 000)
Funds withdrawn from the asset manager	66 000	62 000
Interest: Call and current bank accounts	3 752	3 642
Net rental income	2 008	2 025
Net cash generated from investing activities	70 802	42 782
Net increase/(decrease) in cash and cash equivalents	3 938	(932)
Cash and cash equivalents at beginning of year	5 730	6 662
Cash and cash equivalents at end of year	9 668	5 730

ANALYSIS OF CARRYING AMOUNTS OF FINANCIAL ASSETS & LIABILITIES PER CATEGORY

	2019 R'000	2018 R'000
FINANCIAL ASSETS		
Non-current	791 091	771 552
Current	89 375	113 566
Amortised cost	-	6 875
Cash and cash equivalents	9 668	5 730
ACCOUNTS RECEIVABLE		
Loans and receivables	1 674	540
Insurance receivables	3 385	2 267
CURRENT LIABILITIES		
Financial liabilities measured at amortised cost	3 604	2 136
Insurance payables	118 183	90 369

FINANCIAL ASSETS

MOVEMENT IN FINANCIAL ASSETS

	2019 R'000	2018 R'000
Beginning of the year	891 993	937 760
Capital contribution	-	23 000
Withdrawals	(66 000)	(62 000)
Total gain/(loss)	4 254	(58 700)
Net realised gain/(loss) on financial assets	4 112	(4 258)
Unrealised fair value gain/(loss)	142	(54 442)
Asset management fees	(4 250)	(7 149)
Interest	43 153	43 310
Dividends	11 316	15 772
Fair value at the end of the year	880 466	891 993
Less current portion	(89 375)	(120 441)
Non-current portion at year-end	791 091	771 552

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

NON-CURRENT		
Equity securities	395 383	391 979
Bonds and cash instruments	395 708	379 573
Total non-current	791 091	771 552
CURRENT		
Money market	61 556	94 694
Bonds and cash instruments	27 819	18 782
Total current	89 375	113 566

FINANCIAL ASSETS HELD AT AMORTISED COST

CURRENT		
Cash instruments	-	6 875

ADHERENCE TO THE MEDICAL SCHEMES ACT 131 OF 1998 AND REGULATIONS

Profmed adheres to the MSA. The instances of non-adherence below are not within the control of the Scheme or are as a result of exceptional circumstances.

1. 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.

2. Financial soundness of benefit options

The Scheme offers five benefit options, all of which were supplemented in 2019 with an equivalent efficiency discount option (EDO), effectively creating ten benefit options. Many of our options had deficits. In the case of the three affected Premium options, this was due to the need to limit contribution increases in order to remain competitive in a tight market, together with the consideration of the potential impact on members and the Scheme in terms of buy-down risk and loss of members. Four of the loss-making options were EDO options (the new Savvy range of options), which require members to make use of hospital networks. These options were affected largely by buy-down risk. While the deficits were anticipated, the introduction of the Savvy options resulted in larger deficits than expected. However, the Scheme as a whole remains financially sound.

3. 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.

4. 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.

5. 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.

6. Minimum cash exposure

In terms of Regulation 30 of the Regulations to the MSA, read with Annexure B, medical schemes may not invest less than 20% of their reserves in cash instruments in the Republic. This limit was breached for two quarters in the 2019 financial year. The breach was due to market movements within Profmed's investment portfolios. The necessary corrective steps have been taken and the non-compliance was resolved in the last quarter of the financial year.



NOTICE OF ANNUAL GENERAL MEETING

NOTICE TO MEMBERS

Notice is hereby given that the 49th Annual General Meeting of the members of Profmed will take place on Tuesday 2 June 2020 at 15:30. To maintain social distancing, the meeting will be held on a virtual meeting platform. An electronic invitation to the meeting will be sent to all members.

AGENDA

1. To receive and adopt the annual financial statements for the year ended 31 December 2019 (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 2020/21 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 2020/21 year.
5. To announce the election of one (1) trustee in accordance with rule 20.1.2 of the Rules of Profmed, and the appointment of two (2) trustees in accordance with rule 20.1.3.
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 and the trustee remuneration document are available at www.profmed.co.za.

By order of the Board of Trustees.



CRAIG W COMRIE

Principal Officer and Chief Executive
11 May 2020

REGISTERED ADDRESS AND THIRD-PARTY SERVICE PROVIDER DETAILS

REGISTERED OFFICE ADDRESS AND POSTAL ADDRESS

Profmed Place
15 Eton Road
Parktown, Johannesburg

P.O. Box 1004
Houghton
2041.

ADMINISTRATOR

PPS Healthcare Administrators Proprietary Limited
(Accreditation no. Admin 37)

PPS Centurion Square
1262 Heuwel Avenue
Centurion

Private Bag X1031
Lyttelton
0140.

AUDITORS

PricewaterhouseCoopers Inc.

4 Lisbon Lane
Waterfall City
Jukskei View

Private Bag X36
Sunninghill
2157.

INVESTMENT ADVISORS

Willis Towers Watson
(Financial Service Provider no. 2545)

1st Floor, Illovo Edge
1 Harries Road
Illovo

Postnet Suite 154
Private Bag X1
Melrose Arch
2076.

ACTUARIES

Insight Actuaries & Consultants

400 16th Road
Central Park
Midrand

Private Bag X17
Halfway House
1685.

ATTORNEYS

Knowles Husain Lindsay Incorporated

4th Floor, The Forum
2 Maude Street
Sandown, Sandton

P.O. Box 782687
Sandton
2146.

CONTACT US

JOIN PROFMED

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E-mail: degree@profmed.co.za

CLIENT SERVICES

Call: 0860 679 200

E-mail: info@profmed.co.za

Claims: claims@profmed.co.za

Postal address:

Private Bag X1031, Lyttelton, 0140

Profmed App:

Download from your smartphone store

Walk-in centres:

- PPS Centurion Square, 1262 Heuwel Avenue, Centurion
- Profmed Place, 1st Floor, 15 Eton Road, Parktown, Johannesburg

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