



Andrew du Preez
Principal Officer

Principal Officer's Operational Report

to take place during 2020.

During 2016-17 the Council for Medical Schemes (CMS) conducted a Governance Compliance Audit on Sedmed. The aim of the audit was to certify that a scheme meets the accepted corporate government standards as determined by the King 4 report, and medical aid industry criteria.

It will be remembered that the CMS initiated a number of Accreditation Audits on Sedmed, The first of these audits took place during June 2013. After considerable effort by the staff and Board of Trustees of Sedmed and substantial capital injections into the operations of Sedmed the administration standards of the CMS were met.

The Governance Compliance Audit, being an additional audit to the Accreditation Audits of the CMS, focused more intensely on the internal governance standards of Sedmed and to determine the quality of governance standard of the management of Sedmed. With the Lord's blessing the finding of this audit was that overall Sedmed's governance structure is compliant with corporate standards.

The next accreditation and governance audit of Sedmed is scheduled to take

Industry Developments

Over the last couple of years the medical aid industry has undergone significant changes. These changes, unfortunately, is putting more and more pressure, financially and administratively, on private medical schemes to comply with the ever increasing requirements and standards. Preventative care has become a buzz word in the industry and of late more emphasis has been placed on this care structure as a means to transform the private medical aid industry from a profit driven industry to a service driven industry. Due to the capital outlay required to implement the preventative care model the management of the scheme is forced to consider other strategies to ensure the sustainability of Sedmed. The use of Designated or Preferred Service Providers is but one of the methods that will be introduced in the near future with the aim of providing better managed care to members and at the same time reducing over and unnecessary expenditure on in-hospital claims.

The most significant development in the industry is the role out of government's National Health Insurance (NHI). The purpose of the NHI is to provide free medical care to the poor by equalising disparities within the industry in order to achieve healthcare on an equitable basis. However, in order to ensure the successful implementation of the NHI government requires buy-in from the private healthcare sector from a financial and skills level.

Unfortunately, the NHI poses a significant risk to the existence of private health care.

As alluded to above one of the objects of the NHI is to establish a medical aid sector that is free of income class disparities by reducing not only the number of medical schemes in South Africa but also the vast number of benefit options provided for within medical schemes. Thus, quality of service stands to be lost due to the removal of competition and the free market approach. (How government will alleviate this risk is still to be seen.) As a first approach and in support of the NHI the CMS has indicated its intention to deregister all medical schemes with less than 6000 members. The impact on the industry due to this approach is obviously quite significant as almost 80% of all medical schemes in South Africa are closed medical schemes with less than 6000 members. Consequently, Sedmed is also affected. Sedmed currently has about 2200 members and therefore the threat posed to the existence of Sedmed

is substantial. The BOT is considering all its options and it will ensure that all members are informed of the intended actions to be taken in order to confront or this risk, if possible. It must be stressed that it is the aim of the BOT to as far as possible ensure the continued existence of Sedmed and the BOT has already embarked on processes to possibly achieve this aim.

Strategic Plan

In light of the above and the current context we find ourselves in the goals of the BOT for 2017-2020 are:

- to achieve a higher standard of governance and risk management standards;
- to shift the focus of Sedmed members from curative to preventative measures by emphasizing health awareness and preventative care;
- implementing better managed health care mechanisms to ensure sustainable performance;
- incorporating a service based approach to member healthcare.

Therefore, the BOT has already met on various occasions to discuss strategies to achieve the above.

The following actions were taken thus far:

- Appointment of external auditors to assist Sedmed with the

implementation of proper financial risk management strategies specific to medical schemes;

- Implementation of proper financial risk management procedures and policies;
- Standardisation of the Scheme's monthly management accounts;
- Appointment of external auditors to monitor internal adherence to compliance standards;
- Equipping of the Audit Committee of Sedmed to better fulfill its functions in order to assist Sedmed to achieve its goals in this area;
- Compulsory trustee training for all trustees;
- Conducting of or providing assistance with or participating in Health Awareness and/or life-style change seminars/workshops / programs which will promote healthful living amongst our Sedmed members;

The implementation of a Preventative Care Program which will include the following free services:

HIV Tests, Health Assessments, Oral Contraceptives, Flu Vaccines, HPV Vaccines, Immunizations, Mammograms, Pap Smears.

Governance and Compliance

Since the adoption of the strategic plan the following goals were achieved:

Sedmed Financial Department

In fulfillment of the BOT's strategic plan, meetings were arranged with various stakeholders in the medical industry and accounting fraternity to assist Sedmed with the implementation of a more controlled risk environment in the financial department of Sedmed.

Due to the technicality of medical aid accounting, external auditors were appointed to oversee the above. The function of the auditors are act as internal control by overseeing accounting functions to ensure compliance with relevant accounting standards.

Monthly management reports to the BOT were developed in line with CMS requirements and these reports are currently managed and produced by the above auditors.

MSO & Mediscor Benefit Management

As of June 2014 MSO manages Sedmed's hospitalisation benefit on behalf of Sedmed. Mediscor was appointed during 2013 to manage Sedmed's pharmaceutical benefit.

During the period under review the benefit management companies have provided Sedmed with invaluable assistance. From assisting with general day-to-day issues to giving guidance with very technical and sensitive matters.

Apart from the above, these companies effectively managed the benefit option of Sedmed in accordance with the required CMS standards and protocols. The BOT is working closely together with these companies to assist the it with its managed care program. In 2017 a new formulary and reference prize structure was implemented with the assistance of Mediscor which lead to a significant reduction of pharmaceutical costs.

MSO will be assisting the BOT in its DSP negotiations in 2018.

Risk Management, Internal Procedures and Policies

The BOT appointed the following committees to ensure proper risk evaluation and prevention and dispute resolution:

- Sedmed Audit Committee
- Internal Audit Committee
- Sedmed Dispute Committee

Trustee Training Workshops were attended by all of the trustees of Sedmed in an attempt to align the governance body of Sedmed with the governance compliance criteria of the CMS.

Health Awareness and lifestyle Change Initiatives

Studies have shown that a healthy lifestyle improves the quality of life and reduces the risk of disease and illness.

It has been found that that a healthy lifestyle improves the immune system,

provides the body with more energy, strength and endurance, etc.

Some of the most prevalent illnesses amongst Sedmed members and also the larges healthcare cost drivers are lifestyle related illnesses, namely; diabetes, high cholesterol, high blood pressure, depression and heart disease.

In an attempt to promote and foster a healthier lifestyle amongst our members, Sedmed will endeavor to make use of various methods to assist our members to improvement their health.

This will not only benefit the members, but also Sedmed.

The BOT is currently in negotiation with a healthcare provider to present lifestyle programs to our members with the aim of supporting our preventative care objective.

Communication and Member Affairs

Member growth and member retention is one of the key focus areas of any medical aid. Inherently, any strategic plan is ultimately aimed at membership growth and retention. Membership growth and retention is dependent on various factors, i.e. competence, efficiency, proficiency, etc., which in combination establishes member trust, satisfaction and contentment.

If the strategic plan is misguided, inadequate or poorly implemented poor membership growth and retention, amongst others, will be the result.

Currently Sedmed covers about 70% of eligible SDA employees and it is our aim to increase this percentage to a 100% over the coming years.

We believe that the growth cannot only be attributed to operational factors, but also the implementation of a stronger awareness and information program.

During the last year various information sharing sessions were held in the different conferences to create awareness and an understanding of Sedmed's operational challenges and changes.

Sedmed's Information Booklet was so developed to achieve an easier understanding of Sedmed's operations and member benefits. A new addition of this booklet will be printed later this year.

A number of member communications have also been sent to the participating employer groups for distribution to all Sedmed members.

A website has also been developed for Sedmed and the same can be visited at www.sedmed.co.za. All the latest Sedmed information and the booklet can be found on the website. A portal has been created on the website from which any member can obtain crucial information regarding his medical benefits, authorisations, chronic medicine approvals and benefit payments.

Finance

Scheme finances were managed efficiently and prudently by ensuring that

appropriate investment decisions were taken to enable the Scheme to pay its liabilities as they become due in the normal course of business, whilst at the same time earning optimal returns on investments made.

Financial reporting at the level of monthly management accounts were delivered to ensure better control and management of financial data.

Our Annual Financial Statements and Statutory Returns were dealt with in line with CMS guidelines issued and International Financial Reporting Standards.

To provide protection to the Scheme's trustees and business operations, sufficient Professional Indemnity insurance was obtained during 2017 and 2018.

The audit processes of the Scheme reported some compliance deficiencies relating to late receipting of contributions from employer groups, payment of benefits later than 30 days and self sustainability of the benefit option .

The Annual Financial Statements for 2017 received an unqualified audit opinion from KPMG Auditors.

Challenges

The alignment of Sedmed's operations to meet the introduction of the NHI will inevitably bring about some changes to the benefit payment structure of Sedmed. These changes will have a major impact on the financial stability of Sedmed. One of the most significant changes is the will

be the implementation of preventative care benefits. The services of professionals will be acquired to determine the risk and assist with mitigating the same.

A further financial risk that the scheme is faced with is the payment of PMBs. All PMBs must be paid at in full and at cost and the scheme had to adopt a new benefit model to alleviate the financial impact on the scheme. This design amendment was however met with dissatisfaction by our members and therefore new options need to be considered.

High claims incidents is a continues concern to the BOT consideration will be given to stricter management interventions to minimise claims expenditure.

Conclusion

Much work has been done during the last year to ensure proper implementation of our strategic plan. Many sacrifices were made by the Sedmed staff to safeguard the interest of Sedmed and its members.

I want to thank the staff members of Sedmed for the hard work done during this period.

We want to thank the Lord for His guidance and blessing during this term. The NHI holds a major risk to Sedmed and we ask of all our members to keep the BOT in their payers as we strive to protect the interest of Sedmed and its members.