



Andrew du Preez
Principal Officer

Principal Officer's Operational Report

During 2015 the Council for Medical Schemes (CMS) conducted its final administration compliance audit on Sedmed. The aim of an administration compliance audit is to certify that a scheme meets the accepted corporate governance and administration standards as determined by the King 3 report, corporate practice models and medical aid industry criteria.

It will be remembered that the first CMS audit of Sedmed took place during June 2013. The results of the said audit, although anticipated, were upsetting, to say the least.

Non-compliance with the accreditation standards of the CMS was prevalent in the following key areas:

- Governance
- Membership administration
- Claims assessment
- Accounting
- General risk management

The non-compliance with the accreditation standards not only indicated the high risks present in the governance model of Sedmed at that stage, but it also highlighted the importance of managing Church corporate entities in accordance with the

accreditation.

Therefore urgent changes had to be effected by the Board of Trustees (BOT) in an attempt to meet the conditions of the CMS.

With the Lord's blessing and the hard work of the BOT and the administration of Sedmed, the CMS found that Sedmed, notwithstanding minor issues here and there, met the accreditation standards as prescribed by the CMS.

Thus, Sedmed can continue to operate as a self administered medical scheme in term of the Medical Schemes Act.

Strategic Plan

The goals of the BOT for 2014-2017 are:

- to achieve a higher standard of governance and risk management procedures in the financial department of Sedmed, especially in light of the issues raised by the CMS in this regards;
- to shift the focus of the Sedmed members from curative to preventative measures by emphasizing health awareness.

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

The following recommendations were submitted by the principal officer and his team to the BOT in order to achieve its goals:

- 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;
- Upgrading of the Scheme's accounting software;
- 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;
- Appointment of competent and qualified accountants to direct the functions of the accounts department of Sedmed;
- 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 BOT adopted the aforementioned recommendations as part of their strategic plan.

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, PWC was appointed to oversee the above. PWC, after their investigation into the procedures, practices and policies of the said department, found various ways to improve the risk management environment within the department.

Recommendations were made regarding the development of and improvement to reconciliations between the various systems and sub-systems within the financial framework of Sedmed.

Proper procedures and policies were put in place to ensure the correctness of financial data captured during assessment.

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

Qualified accountants were appointed and trained to oversee the department.

The department has succeeded therein to successfully overcome certain challenges by meeting reporting deadlines, keeping up to date with the monthly accounting functions, etc.

Currently the department is successfully operating without the assistance of a third party service provider (PWC).

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.

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 the majority 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 largest 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.

During March 2015 the BOT has taken the first step in meeting this goal by taking an action to provide each Sedmed member with a set of the *Homes of Hope and Health* books written by Doctors John and Millie Youngberg.

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 65% of eligible SDA employees and it is our aim to increase this percentage to 80%.

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 changes.

A more consumer friendly Sedmed Information Booklet was developed to establish a more professional and attractive image of Sedmed.

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.

For the period under review Sedmed's membership grew from 2107 members to 2177 members.

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 2014 and 2015.

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 2015 received an unqualified audit opinion from KPMG Auditors.

Challenges

The alignment of Sedmed's operations with the provisions of the Medical Schemes Act brought about some changes to the benefit payment structure of Sedmed. These changes have a major impact on the financial stability of Sedmed. One of the most significant changes is the non-CDL PMB (non-Chronic Disease List Prescribed Minimum Benefits) payment structure amendment. In the past, Sedmed paid all non-CDL PMB claims at 75% and same accumulated towards the member's 75% annual limit. During 2015 the payment structure of non-CDL PMBs however changed. As of June 2015 all 270 non-CDL PMB illnesses are paid at a 100% without a benefit limit. It stands to reason that this change had a major impact on Sedmed. In order to alleviate some of the pressure caused by the changed payment design, the benefit design of Sedmed was amended to allow all non-CDL PMB claims to first deduct from the 75% benefit and upon depletion of same from the non-CDL PMB benefit. This design amendment was however met with dissatisfaction by our members and therefore new options need to be considered.

Over and above what was mentioned above, Sedmed is also experiencing a tremendous increase in claim incidents. During the last couple of months, Sedmed, on average, paid out between 3 to 3.5 million rand per month on claims.

The monthly contribution income of Sedmed amounts to 3 million rand per month.

Due to the above, consideration will be given to stricter management interventions to minimise claims expenditure. Consideration must be given to the implementation of generic medication usage and an amendment to the formulary design of Sedmed.

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. Although there is still much work to be done we believe that with the Lord all things are possible.

With Him in control Sedmed will achieve and even exceed its goals.