

## **CHAIRMAN'S REPORT**

FOR THE YEAR ENDED 31 DECEMBER 2009

### **INTRODUCTION**

2009 was a challenging year for Resolution Health Medical Scheme (RHMS), not only as a target of reduced consumer spending in the aftermath of a global financial meltdown, but also having to deal with discord between its key stakeholders, the Council for Medical Schemes (CMS) and its previous Administrators. The ensuing dispute resulted in the Bertelsman Judgment of 1 September 2009, with the High Court confirming the lapse of accreditation of RHMS's administrators and ordering RHMS to appoint new accredited Administrator and Managed Care organisations by 1 December 2009.

In this regard, we welcome RHMS's new administrators, Agility Global Health Solutions - Africa Pty (Ltd) (Agility), and look forward to a mutually beneficial long term relationship to continue providing our members with superior quality service and affordable health solutions.

### **GENERAL**

In general, the medical scheme industry's legacy challenges remain relevant with continued underwriting losses and multi-digit healthcare inflation with resulting multi-digit contribution increases for most benefit options. Private medical schemes continued to feel the impact of member losses to GEMS (the Government Employees' Medical Scheme) and the under pricing of claims relating to PMB's posed serious challenges for pricing benefit structures optimally.

Resolution Health Medical Scheme (RHMS) managed to overcome most of these challenges with rigorous financial discipline and dedicated management to ensure the continued protection of the interests of members and a sustainable future for RHMS.

RHMS is still proud to be regarded as one of the best value-for-money products in the industry, maintaining contribution rates at very affordable levels while offering extensive benefits. Although the Schemes solvency and non-health expenditure ratios continued to fall short of CMS required levels, RHMS is on track to reach the desired levels as committed to in its 5-year business plan as submitted to CMS. The new Board of Trustees (BOT) and its Executive Team are focused to address all outstanding non-compliance issues and have embarked on a rigorous review of all contracts and agreements with third parties, service providers and other stakeholders to ensure costs are controlled and benefits optimised without affecting quality of service to our members.

RHMS remains committed to the principles and practice of fairness, openness, integrity and accountability in all dealings with its stakeholders.

RHMS continues to operate in a well-established controlled environment, which is well documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and the risks facing the business are being controlled. Such controls are based on established policies and procedures and are implemented by trained personnel with the appropriate segregation of duties.

## SCHEME GROWTH

Membership growth has been under severe pressure in an highly competitive environment exacerbated by uncertainties surrounding the appointment of a new Administrator, continued membership loss to GEMS and the aftermath of a global economic crisis fuelled by job losses and depressed consumer spending. Given the successful handover to new Administrators on 1 December 2009 and state employees now only representing 30% of the membership base, RHMS is confident that a stabilised environment with focused marketing efforts will contribute to positive membership growth for the year to come.

## DISTRIBUTION

**RHMS distribution channel, comprising inter alia of sales, marketing and new business development, continued to focus mainly on 3 areas during 2009:**

- Servicing accredited health intermediaries country wide;
- Acquiring new broker contracts on an ongoing basis;
- Increasing brand awareness through creative cooperation agreements and event management.

RHMS continued in 2009 to build the Scheme's brand in the open market through various exciting sport-ing partnerships, including its affiliation with successful sports teams such as PSL Champions Supersport United FC and Super 14 Currie Cup Champions, the Vodacom Blue Bulls. Other proud affiliations include the Vodacom Cheetahs, and Western Province Rugby Union. In an effort to expand the brand presence on a national level and to new markets, extreme sports received some attention from RHMS sponsorships with events such as the Off-the-Chart Fishing series, the Resolution Downwind Dash and other exciting Quiksilver partnered events.

## INCREASE AND OPTION CHANGES

RHMS has built a reputation of providing affordable, yet comprehensive medical aid benefits to its mem-bers. In determining the increases for 2009, the BOT has yet again been able to protect the interests of members as well as the Scheme and was able to limit the annual average weighted increase in premiums of all options to an industry aligned 12.17%. The BOT took the projected medical inflation for 2009 into account in determining the increase. As in previous years, no interim increases were necessary. The BOT reviewed the Benefit Options to ensure RHMS remains competitive in the market whilst providing the best possible benefits at the best value for money to its members. The four options, the Hospital Plan, Funda-mental Plan, Progressive Plan and Prestige Plan were again adjusted to ensure they remain in sync with the latest trends as well as affordable and relevant.

## RESOURCES

### BOARD OF TRUSTEES

The Board of Trustees (BOT) of RHMS have been elected in terms of Rule 18.2 and 18.3 of the Rules:

**1. The following members of the BOT resigned:**

- Mr G Bothma (18 September 2009)
- Mr LD van Vuuren (14 October 2009)
- Mr R Rabie (9 October 2009)
- Adv RS Willis (20 September 2009)
- Mrs L Leopeng (9 October 2009)
- Mr BS Milne (18 September 2009)

## 2. The following Members of the BOT were appointed:

Mr JG Appelgryn (29 September 2009)  
Dr NB Mabuya (8 October 2009)  
Dr P Lekalakala (14 October 2009)  
Mr MD Arnold (14 October 2009)  
Mr JB van Wyk (1 November 2009)

### BOARD OF TRUSTEES:

Mr JG Appelgryn CA (SA): Chairperson  
Dr NB Mabuya: Vice-Chairperson  
Dr P Lekalakala  
Mr MD Arnold (resigned 15 February 2010 – appointed as Principal Officer)  
Mr JB van Wyk CA (SA)

## CORPORATE GOVERNANCE

### MEETINGS

**Special meetings of the Board of Trustees were held on the following dates:**

29 April 2009  
25 August 2009  
6 September 2009  
29 September 2009  
14 October 2009  
22 October 2009  
6 November 2009

The increased number of Special meetings mainly related to the change in Administrators.

**Bi-monthly meetings of the Board of Trustees were held on the following dates:**

25 March 2009  
3 June 2009  
27 July 2009  
16 September 2009  
25 November 2009

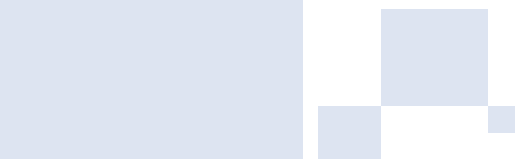
### BOARD COMMITTEES

The following Board Committees served the Board of Trustees in discharging its duties during the year under review and are mandated by means of written Terms of Reference as to its composition, authority and duties in each instance.

## 1. AUDIT COMMITTEE

**An Audit Committee was appointed in terms of Rule 25.7 and in accordance with the provisions of the Medical Schemes Act of 1998 and consists of the following members:**

Mr JF Zwarts CA (SA): Chairperson  
Mr SJP Kruger CA (SA): Vice-Chairperson  
Mr G Bothma CA (SA) (Resigned on 18 September 2009)  
Mr BS Milne CA (SA) (Resigned on 18 September 2009)



Mr D Haasbroek: Member  
Mr JB van Wyk CA (SA) (Appointed on 25 November 2009)  
Mr JG Appelgryn CA (SA) (Appointed ion 25 November 2009)

**The Audit Committee meetings were held on the following dates:**

4 March 2009  
18 March 2009  
2 April 2009  
2 September 2009

## **2. CORPORATE GOVERNANCE COMMITTEE**

**The Corporate Governance Committee consists of three members:**

Mr WM Raubenheimer: Chairperson  
Mrs H van der Walt  
Mr R du Plooy

**The Corporate Governance Committee meetings were held on the following dates:**

19 March 2009  
13 May 2009

## **3. RISK MANAGEMENT COMMITTEE**

The Risk Management Committee never met and the committee was not properly constituted by the previous BOT. Dr NB Mabuya was appointed Chair on 1 January 2010 and is in the process of constituting this committee.

## **4. REMUNERATION COMMITTEE**

**The Remuneration Committee consists of three members:**

Mr MCS du Toit: Chairperson  
Mr SJP Kruger CA (SA)  
Mr SP van Schalkwyk CA (SA)

**The Remuneration Committee meetings were held on the following dates:**

20 January 2009  
23 September 2009

## **5. DISPUTES RESOLUTION COMMITTEE**

**The Disputes Resolution Committee consists of four members:**

Adv CAC Korf  
Mrs J Clark  
Mr J Kruger  
Dr K Makaba

Meetings are held on an adhoc basis and none took place during 2009.

## INVESTMENT POLICY OF THE SCHEME

In terms of the stipulations of Rule 20.9, and subject to the provisions of the Medical Schemes Act, the Board of Trustees invested funds in respect of monies that are not immediately required to meet current charges upon the Scheme, in accordance with the requirements of the Council for Medical Schemes. Investment income generated for 2009 was R14 2 million compared to the R18 9 million in 2008.

## MEMBERSHIP STATISTICS

### As at 31 December 2009

	2009	2008
Number of members	33 111	40 623
Number of beneficiaries	74 212	90 349
Dependant Ratio to Members	1.24	1.22
Growth rate	(17.9%)	(6.6%)

## RESULTS OF OPERATIONS

The results of the Scheme are set out in the Financial Statements.

## ACCUMULATED FUNDS RATIO

Solvency required at the end of 2009 was 25%. The actual solvency at the end of 2009 was 15.97%.

## FINANCIAL OVERVIEW

Administration expenses decreased by 0.75% from R111 017 570 to R110 182 549. Managed Care management services was decreased by 7.01% from R34 987 313 to R32 533 449.

The Scheme's solvency ratio remained static at 16% although a series of once-off costs relating to the change in Administrator distorted a real growth in solvency. Given current membership levels, we expect our solvency and non-health cost ratios to improve significantly inline with our 5-year financial plan.

For the first half of 2009 the Scheme's reserves did not increase as anticipated due the still changing demographic profile of the Scheme's membership, their claiming profiles and escalations in costs by providers of service.

In terms of S33(2) of the Medical Schemes Act 131 of 1998, as amended, each option shall be self supporting in terms of membership and financial performance and be financially sound. The Fundamental option made a net underwriting deficit of R15 079 545, and the Hospital option turned from a net underwriting deficit of R419 816 in the 2008 year to a surplus of R1 944 232 for the year under review. This has been addressed by adjusting contribution increases for 2010 as well as converting this option into an income based bands and pro-actively managing non-health cost.

The Scheme has embarked on a programme to review all agreements with its service providers in a proactive effort to reduce its non-health costs, but have been mindful in doing so, not to affect the level of service rendered to the Scheme's members. In December 2009 the Scheme appointed Agility as its new Administrator and Managed Healthcare Organisation rendering an immediate saving on Administration costs.

The Scheme has developed specific initiatives to promote human capital development and Broad Based Black Economic Empowerment (BBBEE). On the development side, these entail specific upliftment programmes and constant internal training, where required. Employees of RHMS and Agility are also encouraged to enroll in off-site training initiatives or to enroll in further professional enhancement through the various tertiary education institutions. BBBEE is encouraged through specific employment, training and procurement initiatives.

## GLOBAL CREDIT RATING

The international rating agency Global Credit Rating maintained the claims paying ability of RHMS at "A-"

## ACTUARIAL VALUATION

The Scheme consulted with and employed an Actuarial Analyst to evaluate the Scheme's performance in association with external Actuarial consultancies.

## APPRECIATION

In a year of turbulence and change in both internal and external environments, RHMS managed to maintain its service levels above the industry norm. This was achieved through the continued dedication and hard work from its Executive Team and staff of RHMS and of the Administrators, as well as leadership and guidance by the BOT.

We would like to thank the previous Scheme Administrators for the years of effort and dedication in growing the Scheme from its humble beginnings of 192 members in 2001 to a sound, progressive medical scheme in excess of 30 000 members in 2009, laying the foundations for continued growth and value offering for years to come.

We would also like to thank Mr D van der Merwe, Ms H van der Walt and Mr D Smith for their dedication and hard work in the Principal Officer's Office. We would like to wish the incoming Principal Officer, Mr M Arnold all of the best in this challenging role and trust that through his continued dedication and commitment, will stabilise and grow the Scheme to ensure a sustainable future for RHMS and its members.

In addition, it is pertinent to thank members themselves for their continued support and contribution towards the Scheme. I thank all who have dedicated their time, effort and commitment to the goals and success of RHMS over the years.

In appreciation.

A handwritten signature in black ink, appearing to read 'JG Appelgryn', with a stylized flourish extending upwards and to the right.

Mr JG Appelgryn CA (SA)  
Chairman: BOT  
RESOLUTION HEALTH MEDICAL SCHEME  
MARCH 2010