

# RESOLUTION HEALTH MEDICAL SCHEME ABRIDGED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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## SUMMARY

- 1) The Annual Financial Statements have been approved by the Board of Trustees on 24 March 2010.
- 2) The Scheme's accumulated funds ratio is 15.97%.
- 3) The report of the Board of Trustees and the Abridged Annual Financial Statements are to be read in conjunction with the audited Annual Financial Statements which include all disclosures required by the relevant financial reporting framework, and are available for perusal at the offices of the Scheme and at the Annual General Meeting.



Mr MD Arnold  
Principal Officer  
RESOLUTION HEALTH MEDICAL SCHEME  
24 March 2010

# RESOLUTION HEALTH MEDICAL SCHEME ABRIDGED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

The Board of Trustees hereby presents its report for the year ended 31 December 2009.

## 1. GOVERNANCE AND SCHEME INFORMATION

### 1.1 Board of Trustees

The Board of Trustees is committed in adhering to the principles of best corporate practice in a transparent and ethical manner. In doing so it accepts full responsibility and accountability towards all stakeholders of the Scheme. During the year under review the Board of Trustees applied prudent risk management processes within the parameters and in compliance with the Medical Schemes Act 131 of 1998, as amended, and the rules of the Scheme. Except for matters set out under Note 26 of the Annual Financial Statements, the Trustees are satisfied that the Scheme has complied with the provisions and spirit of its rules and the Medical Schemes Act 131 of 1998, as amended, and its regulations. For the year ended 31 December 2009 twelve official Board of Trustee meetings were held and the Trustees for the Scheme during the year were:

<b>Name</b>	<b>Member</b>	<b>Position held</b>	<b>Occupation</b>
Mr JG Appelgryn	Yes	Chairman	Chartered Accountant
Dr NB Mabuya	Yes	Vice-Chairman	Doctor
Dr P Lekalakala	Yes	Trustee	Doctor
Mr MD Arnold	Yes	Trustee	Attorney
Mr JB van Wyk	Yes	Trustee	Chartered Accountant

### Trustee Resignations

<b>Name</b>	<b>Date resigned</b>
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

### New Trustee appointments

<b>Name</b>	<b>Date appointed</b>
Mr JG Appelgryn	29 September 2009
Dr NB Mabuya	08 October 2009
Dr P Lekalakala	14 October 2009
Mr MD Arnold	14 October 2009 (Resigned 15 February 2010)
Mr JB van Wyk	14 October 2009

### 1.2 Principal Officer

Principal Officer: Mr D van der Merwe (Resigned 31 May 2009)  
 Acting Principal Officer: Mrs H van der Walt (1 June 2009 to 31 December 2009)  
 Acting Principal Officer: Mr D Smith (1 January 2010 to 15 February 2010)  
 Principal Officer: Mr MD Arnold (Appointed 16 February 2010)

# RESOLUTION HEALTH MEDICAL SCHEME

## ABRIDGED ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2009

## 1. GOVERNANCE AND SCHEME INFORMATION (CONTINUED)

- 1.3 **Registered office address and postal address**  
Boskruijn Office Park  
President Fouché Ave  
Boskruijn  
2154  
P O Box 1555  
Fontainebleau  
2032
- 1.4 **Scheme Administrator**  
Agility Global Health Solutions – Africa Pty (Ltd)  
Registration number: 1995/012897/07  
Boskruijn Office Park  
President Fouché Avenue  
Boskruijn  
2154  
P O Box 1075  
Fontainebleau  
2032
- 1.5 **Auditors**  
PricewaterhouseCoopers Inc  
2 Eglin Road  
Sunninghill  
2157  
Private Bag X36  
Sunninghill  
2157
- 1.6 **Secretary and Compliance Officer**  
JNW Barkhuizen  
Private  
70 Greenway  
Greenside  
Johannesburg  
2193  
70 Greenway  
Greenside  
Johannesburg  
2193
- 1.7 **Actuaries**  
Alexander Forbes Financial Services  
61 Katherine Street  
Sandown  
2146  
P O Box 787240  
Sandton  
2146
- 1.8 **Bankers**  
ABSA Bank Ltd  
The Diamond Building  
11 Diagonal Street  
Newtown  
P O Box 782991  
Sandton  
2146

# RESOLUTION HEALTH MEDICAL SCHEME ABRIDGED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

## 2. DESCRIPTION OF THE MEDICAL SCHEME

### 2.1 Terms of registration

Resolution Health Medical Scheme is a non-profit open medical scheme registered in terms of the Medical Schemes Act 131 of 1998, as amended. In terms of the registration, a guarantee has been issued by ABSA bank in favour of Resolution Health Medical Scheme and lodged with the Registrar.

### 2.2 Benefit options within the Resolution Health Medical Scheme

The Scheme offers 4 benefit options to employees and members of the public, namely:

- Hospital Plan;
- Fundamental Plan;
- Progressive Plan; and
- Prestige Plan

### 2.3 Savings plan

In order to provide a facility for medical scheme members to set funds aside to meet future healthcare cost not covered in the benefit options, the trustees have made the savings plan option available to meet this objective.

Members that belong to the Progressive Plan option pay an agreed sum of 6% respectively of their gross contribution into a savings account so as to help pay the members' portion of healthcare cost, up to a prescribed threshold.

Unexpended savings amounts are accumulated for the long-term benefit of the member.

The liability to the members in respect of the savings plan is reflected as a financial liability in the Financial Statements, repayable in terms of the Regulation 10 of the Act.

In terms of the Rules of the Medical Scheme, the Medical Scheme carries the risk.

Savings contributions are refundable when a member leaves the Scheme or transfers to an option within the Scheme which does not have a savings option. The money will be transferred to the member within six months of the date of the change.

### 2.4 Risk transfer arrangements

The Scheme has capitation agreements with CareWorks, CareCross, Centre for Diabetes, ER24, Iso Leso and DENIS to provide services to the Scheme. Refer to note 6 of the Annual Financial Statements for more detail on risk transfer arrangements.

### 2.5 Investment policy of the Scheme

The Board of Trustees has accepted an Investment Policy Statement which inter alia sets out the investment philosophy, the investment objectives and how they will be achieved. The investment objectives include:

# RESOLUTION HEALTH MEDICAL SCHEME ABRIDGED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

## 2. DESCRIPTION OF THE MEDICAL SCHEME (CONTINUED)

- The Scheme remains liquid;
- Investments are placed at minimum risk and the best possible rate of return;
- Investments made are in compliance with the regulation of the Act;
- Preserving capital;
- Building long term reserves;
- Managing investment risk; and
- A risk assessment is performed with feedback to the Board of Trustees with recommendations on the risk identified

The Scheme invested in fixed deposits and cash instruments during the 2009 year. This investment policy is reviewed annually, taking into consideration compliance with the Act, the risk and returns of the various investments instruments and the surplus of funds available.

During the year the Board recognised that the investment climate was changing and decided that there was a need to review the policy of investing mainly in money market investments. The funds are currently managed passively but it is the intention of the Board of Trustees to pursue an active management policy and to consider the appointment of fund managers.

## 3. TRUSTEE AND AUDIT COMMITTEE REMUNERATION

The Members of the Board of Trustees and Audit Committee have been remunerated for services rendered to the Scheme on the bases of expertise, skills and time needed to serve as a Trustee or Audit Committee member.

The Scheme's Remuneration Committee was co-opted during November 2006 and was amongst other functions, to be tasked with developing and implementing a remuneration philosophy and policies for the Trustees and Officers of the Scheme.

## 4. MANAGEMENT OF INSURANCE RISK

The primary insurance activity carried out by the Scheme assumes the risk of loss from members and their dependants that are directly subject to the risk. The risk relates to the health of the Scheme members. As such the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contact.

The Scheme manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation and case management, service provider profiling, centralised management of risk transfer arrangements, and the monitoring of emerging issues.

The Scheme uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analyses, scenario analysis and stress testing. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contacts.

# RESOLUTION HEALTH MEDICAL SCHEME ABRIDGED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

## 4. MANAGEMENT OF INSURANCE RISK (CONTINUED)

The principal risk is that the frequency and severity of claims are greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated with established statistical techniques. There are no changes to assumptions used to measure insurance assets and liabilities that have a material effect on the Financial Statements and there are no terms and conditions of insurance contracts that have a material effect on the amount of timing and uncertainty of the Scheme's cash flows.

## 5. THE YEAR AHEAD

The following objectives will be addressed again in the coming year:

- Selectively working to increase membership;
- Maintaining focus on enhancing our service to members, beneficiaries and health partners;
- Continuing to offer members quality care at affordable and sustainable rates through the Fundamental, Hospital, Progressive and Prestige Plans; and
- Actively managing the solvency of the Scheme
- Reducing total non-health cost to an acceptable level as agreed with the Council for Medical Schemes;
- Ensuring the Scheme functions effectively in a transparent and accountable manner, in compliance with statutory and regulatory requirements;
- Ensuring the relationship between the Scheme and its administrators is managed in the best interest of the Scheme and its members;
- Managing the financial resources of the Scheme, upholding good relations with the Scheme's Board of Trustees and managing strategic planning processes; and
- Interacting with all the Scheme's stakeholders.

## 6. NON-HEALTHCARE RELATED EXPENDITURE REPORTED AS A PERCENTAGE OF GROSS CONTRIBUTION INCOME

In 2009 non-health expenditure as a percentage of gross contributions was 25.53% and 2008, 26.28%. The Scheme has re-negotiated the service level agreements with its Administrator and Managed Healthcare Organisation to reduce its so-called "non-healthcare" related costs, but have been mindful in doing so, not to affect the level of service rendered to the Scheme's members. However on 1 December 2009 the Scheme appointed Agility Global Health Solutions Africa (Pty) Ltd as its new Administrator and Managed Healthcare Organisation. In addition, the Scheme has finalised a rigorous negotiation process with various providers of service to ensure cost-effective ways of delivering services to the Scheme's members, without affecting quality.

The utilisation was anticipated when the benefit changes and contribution increases for 2009 were determined and submitted to the Council for Medical Schemes for approval and registration, hence the request for an average contribution increase of 12.17%.

## 7. REVIEW OF THE YEAR'S ACTIVITIES

### 7.1 Operational activities

# RESOLUTION HEALTH MEDICAL SCHEME

## ABRIDGED ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2009

#### 7.1.1 Operational activities - 2009

2009	Hospital	Fundamental	Progressive	Prestige	Total
Average contributions net of savings per member per month (R)	1,032.81	782.80	1,459.67	2,459.45	1,516.00
Average contributions net of savings per beneficiary per month (R)	440.24	395.87	624.10	1,145.74	676.39
Relevant healthcare expenditure as a percentage of gross contributions	66.54%	89.25%	70.10%	81.06%	75.21%
Relevant healthcare expenditure per average beneficiary per month	(292.94)	(353.32)	(465.25)	(928.75)	(521.53)
Average administration costs per member per month (R)	(252.95)	(278.75)	(287.56)	(279.09)	(277.31)
Average administration costs per beneficiary per month (R)	(107.82)	(140.97)	(122.95)	(130.02)	(123.72)
Non-health expenses as a percentage of gross contributions	(34.40%)	(48.98%)	(26.38%)	(16.99%)	(25.53%)
Non-health expenses as a per average beneficiary per month	(151.43)	(193.88)	(175.07)	(194.62)	(177.04)
Number of new members	1,944	2,325	576	2,197	7,042
Number of members leaving	1,658	5,086	2,410	4,132	13,286
Average number of members for the year	6,450	6,375	14,486	8,839	36,150
Number of members at year end	6,633	4,829	13,682	7,967	33,111
Average number of beneficiaries for the year	15,113	11,532	34,542	19,210	80,397
Number of beneficiaries for the year	15,561	9,549	32,000	17,102	74,212
Average age of beneficiaries	26.60	29.00	28.00	31.70	28.83
Pensioner ratio at 31 December	4%	1%	2%	5%	3%
Average accumulated surplus per member at 31 December (R)	293.12	(3,122.77)	36.58	1,063.16	(125.79)
Dependant ratio to members at 31 December	1.35	0.98	1.34	1.15	1.24
Average managed care : management services per member per month (R)	(75.26)	(86.25)	(83.50)	(81.95)	(81.88)
Average managed care : management services per beneficiary per month (R)	(32.08)	(43.62)	(35.70)	(38.18)	(36.53)
Return on investments as a percentage					8.62%

# RESOLUTION HEALTH MEDICAL SCHEME ABRIDGED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

## 7.1.2 Operational activities – 2008

2008	Hospital	Fundamental	Progressive	Prestige	Total
Average contributions net of savings per member per month (R)	844.32	390.16	1,263.42	2,157.39	1,271.14
Average contributions net of savings per beneficiary per month (R)	361.79	225.09	526.92	972.90	571.53
Relevant healthcare expenditure as a percentage of gross contributions	64.44%	81.58%	65.07%	79.82%	72.10%
Relevant healthcare expenditure per average beneficiary per month	233.15	183.62	369.03	776.58	424.76
Average administration costs per member per month (R)	(234.96)	(134.02)	(253.44)	(246.92)	(227.74)
Average administration costs per beneficiary per month (R)	(100.68)	(77.32)	(105.70)	(111.35)	(102.40)
Non-health expenses as a percentage of gross contributions	(40.70%)	(50.29%)	(28.22%)	(17.82%)	(26.28%)
Non-health expenses as a per average beneficiary per month	(147.24)	(113.20)	(160.03)	(173.39)	(154.85)
Number of new members	2,066	5,541	2,925	594	11,126
Number of members leaving	1,784	2,507	5,469	3,137	12,897
Average number of members for the year	6,841	5,806	17,208	11,361	41,215
Number of members at year end	6,559	7,159	16,486	10,419	40,623
Average number of beneficiaries for the year	15,731	10,209	41,728	25,343	93,011
Number of beneficiaries for the year	15,307	12,409	39,529	23,104	90,349
Average age of beneficiaries	28.4	27.5	27.4	30.1	28.4
Pensioner ratio at 31 December	2.6%	0.5%	1.2%	4.1%	2.0%
Average accumulated surplus per member at 31 December (R)	(64.01)	(1,270.03)	467.98	1,150.05	250.73
Dependant ratio to members at 31 December	1.30	0.76	1.42	1.23	1.26
Average managed care : management services per member per month (R)	(77.43)	(45.06)	(81.23)	(71.60)	(71.77)
Average managed care : management services per beneficiary per month (R)	(33.18)	(26.00)	(33.88)	(32.29)	(32.27)
Return on investments as a percentage of investments					10.75%

# RESOLUTION HEALTH MEDICAL SCHEME ABRIDGED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

## 7. REVIEW OF THE YEAR'S ACTIVITIES

### 7.2. Financial results

The results of the Scheme are clearly set out in the Financial Statements, and the Trustees believe that no further clarification is required.

### 7.3. Statutory Scheme solvency

The accumulated funds ratio is calculated on the following basis:

	2009 R	2008 R
Net (deficit) / surplus for the year	<b>(4 164 572)</b>	10 185 457
Accumulated surplus	<b>98 599 161</b>	102 763 733
Gross contributions (Note 3)	<b>617 459 136</b>	638 734 174
Accumulated funds ratios:		
Solvency ratio	<b>15.97%</b>	16.09%

In terms of Regulation 29(2) of the Medical Schemes Act 131 of 1998 as amended, the Scheme must maintain accumulated funds expressed as a percentage of gross annual contributions for the accounting period under review, which may be no less than 25 %. On 7 July 2006 the Scheme informed the Council for Medical Schemes that it had not been compliant with the stipulations of Regulation 29(2) and took the necessary steps to address the non-compliance.

#### Reasons for not achieving the 25 % solvency margin

For the year under review the Scheme experienced an adverse underwriting result, fortunately investment income of R14 278 688 enabled the Scheme to minimise it to a small loss. A significant change in the profile of the Scheme's members, from predominantly government employees to private individuals and offering less stringent underwriting protocols in order to, inter alia, attract corporate members, resulted in not achieving the 25%. The solvency decreased from 16.09% in 2008 to 15.97% in 2009.

#### Progress towards achieving the 25% solvency margin

The Scheme has changed its Administrator and Managed Healthcare Organisation to reduce its so called "non-healthcare" related costs, but have been mindful in doing so, not to affect the level of service rendered to the Scheme's members. In addition to this, the Scheme has finalised a rigorous negotiation process with various providers of service to ensure cost-effective ways of delivering services to the Scheme's members, without affecting quality.

#### Progress towards achieving the 25% solvency margin

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

# RESOLUTION HEALTH MEDICAL SCHEME

## ABRIDGED ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2009

## 7. REVIEW OF THE YEAR'S ACTIVITIES (CONTINUED)

During the product development for 2010 the matter of reserve building was at the forefront of matters to be addressed. A detailed plan to increase its solvency margin has been submitted to the Registrar of Medical Schemes.

### 7.4 Matters of non-compliance for the year ended 31 December 2009

#### **Benefit option**

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 for the year under review. This has been addressed by introducing specific income band contribution increases for 2009 and pro-actively managing the risks posed in respect of this option, including non-healthcare related costs.

#### **Solvency**

In terms of the stipulations of Regulation 29(2) of the Medical Schemes Act 131 of 1998, as amended, the Scheme must maintain accumulated funds expressed as a percentage of gross annual contributions for the accounting period under review, which may be no less than 25%.

The Scheme's accumulated funds expressed as a percentage of gross annual contributions for the year ended 31 December 2009 was 15.97%, (2008: 16.09%). Measures taken by the Trustees to return the Scheme to the required solvency ratio are discussed in Point 7.3 of the Report of the Board of Trustees.

#### **Membership Contributions**

The stipulation of Section 26(7) of the Medical Schemes Act 131 of 1998, as amended, requires that all membership contributions shall be paid to a medical scheme within three days of it becoming due. Unfortunately this is not always practically possible, however, membership should be suspended in accordance with the stipulations of Rule 13.2 of the Rules of the Scheme should monthly contributions remain outstanding thirty days after becoming due, thus minimising the Scheme's exposure.

#### **Advance Broker Commission Payments**

The stipulations of Regulation 28(5) of the Medical Schemes Act 131 of 1998, as amended, disallows the payment of broker commissions prior to receipt of monthly membership contributions. During the financial year the Scheme paid broker commissions prior to receipt of monthly membership contributions.

This practice has been discontinued.

# RESOLUTION HEALTH MEDICAL SCHEME ABRIDGED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

## 7. REVIEW OF THE YEAR'S ACTIVITIES (CONTINUED)

### Non Related Medical Scheme Expenses

The stipulations of Regulation 26(4)(b) of the Medical Schemes Act 131 of 1998, as amended, disallows payment of cost incurred by a medical scheme which is not in the normal course of carrying on the business of a medical scheme. Payments for gymnasium membership were made which, by nature is not in normal course of carrying on the business as a Medical Scheme. This practice was terminated.

### Late payment of claims

Section 59(2) of the Act requires submitted claims to be paid out within 30 days after the day on which the claim was received. In several instances during the period under review, the Scheme did not pay out claims received within the stipulated time.

These late claim payments relate to the Scheme's audit process that is in place to ascertain the validity of specific claims. The Scheme has implemented measures to counter this issue.

#### 7.5 Reserve accounts

Movements in the reserves are set out in the Statement of Changes in Funds and Reserves. There have been no unusual movements that the Trustees believe should be brought to the attention of the members of the Medical Scheme.

#### 7.6 Outstanding claims

The basis of calculation of the outstanding claims provision is discussed in Note 1.1 of the Annual Financial Statements and this is consistent with the prior year. Movements on the outstanding claims provision are set out in Note 2 of the Annual Financial Statements. There have been no unusual movements that the Trustees believe should be brought to the attention of the members of the Medical Scheme.

## 8. ACTUARIAL SERVICES

The Scheme's actuaries were consulted in the determination of contribution and benefit levels for 2010.

## 9. EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

No events have occurred subsequent to the financial year-end that materially affected the Annual Financial Statements that the Trustees believe should be brought to the attention of the members of the Scheme.

# RESOLUTION HEALTH MEDICAL SCHEME ABRIDGED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

## 10. INVESTMENTS IN AND LOANS TO PARTICIPATING EMPLOYERS OF MEMBERS OF THE MEDICAL SCHEME AND OTHER RELATED PARTIES.

The Medical Scheme holds no investment in participating employers of the Medical Scheme members.

## 11. RELATED PARTY TRANSACTIONS

Refer to related parties disclosure in note 4 to the Annual Financial Statements

## 12. CORPORATE GOVERNANCE

### 12.1. Audit Committee Meeting

An Audit Committee was established in accordance with the provisions of the Medical Schemes Act of 1998. The Audit Committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. The Audit Committee consists of five members of which two are Members of the Board of Trustees. The Audit Committee meets at least twice per annum.

The Chairman of the Board of Trustees, the Principal Officer, the Internal Auditor of the Administrator, the Financial Manager of RHMS and the External Auditors attend all meetings of the Audit Committee and have unrestricted access to the Chairman of the Audit Committee.

In accordance with the provisions of the Act, the primary responsibility of the Audit Committee is to assist the Board of Trustees in carrying out its duties relating to the Scheme's accounting policies, internal control systems and financial reporting practices. The external auditors formally report to the committee on critical findings arising from audit activities.

For the year ended 31 December 2009, there were three official Audit Committee meetings and the committee members were:

Mr JF Zwarts CA (SA): Chairman  
Mr SJP Kruger CA (SA): Vice-Chairman  
Mr G Bothma CA (SA): Trustee and Member (Resigned 18 September 2009)  
Mr BS Miine CA (SA): Trustee and Member (Resigned 18 September 2009)  
Mr D Haasbroek: Member

### 12.2 Corporate Governance Committee

The responsibilities of the Corporate Governance Committee are to, review and evaluate the Scheme's governance practices and structures and recommend any changes thereto; consider other international standards of corporate governance; consider current local and international practices; review the results of the annual board effectiveness review; and watch over the practices of the Scheme with regards to corporate governance in general.

# RESOLUTION HEALTH MEDICAL SCHEME ABRIDGED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

## 12. CORPORATE GOVERNANCE (CONTINUED)

Mr WM Raubenheimer: Chairman  
Mr R du Plooy: Member  
Mrs H van der Walt: Member (Resigned 03 June 2009)

### 12.3. Remuneration Committee

The overall objective of the Remuneration Committee is to assist the Board of Trustees to discharge their duties relating to compensation of all Scheme employees, executives from senior management level upwards, including the Chairman, Vice-Chairman and Principal Officer.

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

### 12.4. Risk Management Committee

The main purpose of the Risk Management Committee is to assist the board of Trustees in discharging its duties relating to the identification of key risk areas and key performance indicators. This includes the monitoring of these factors as part of a regular review of processes and procedures to ensure the effectiveness of its internal systems of control so that the decision making and accuracy of reporting of the board are maintained at a high level at all times.

Dr I Fourie: Member

### 12.5. Independent Dispute Resolution Committee

The Scheme's Independent Dispute Resolution Committee, in its formal Statement of Intent, re-affirmed their commitment to always endeavour to pro-actively communicate with all members of the Scheme and to utilise all available resources in order to do so in accordance with the Scheme's Rules (Rules 8.9, 12.4, 12.5, 13.2, 28).

Adv CAC Korf: Chairman  
Mrs J Clark: Member  
Dr J Kruger: Member

### 12.6. Organisational Integrity and Code of Ethics

The Board of Trustees confirms that in line with its formal Code of Ethics, all Trustees, Officers and Employees subscribe to conducting their duties in discharging their obligations towards all stakeholders of the Scheme, in a professional manner at all times, maintaining the highest standards of integrity and honesty and adherence to all applicable legislation and rules, during the financial year currently under review.

# RESOLUTION HEALTH MEDICAL SCHEME

## ABRIDGED ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2009

## 13. SUSTAINABILITY

The potential impact of HIV/Aids on Scheme's activities

The Scheme has, in association with its Managed Healthcare Organisation invested highly structured mechanisms to curb any potential negative impact that HIV/AIDS may have on the Scheme's activities. These include, but are not limited to, a detailed HIV/AIDS Management Programme, which is directed at supporting those infected (and affected) by the virus in optimally managing their health.

Human capital development and initiatives to support BEE

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

## 14. TRUSTEE / BOARD COMMITTEES MEETING ATTENDANCE

Trustee / Member	Board of Trustees		Audit Committee		Risk Management		Corporate Governance		Remuneration Committee	
	A	B	A	B	A	B	A	B	A	B
G Bothma CA (SA)	12	7	3	2						
D Haasbroek			3	1						
R Rabie	12	8								
LD van Vuuren	12	8								
L Leopeng	12	8								
B Milne	12	7	3	2						
R Willis	12	7								
*JG Appelgryn	12	4								
*Dr NB Mabuya	12	2								
*Dr P Lekalakala	12	3								
*JB Van Wyk	12	1								
*MD Arnold	12	3								
JF Zwarts CA (SA)			3	3						
SJP Kruger CA (SA)			3	3					2	2
WM Raubenheimer							2	2		
R du Plooy							2	2		
H vd Walt							2	2		
MCS du Toit									2	2
SP van Schalkwyk CA (SA)									2	2

A – Total number of meetings held

B – Actual number of meetings attended

\* Note - Please refer to note 1.1 for the election dates of the new Board of Trustees.

# RESOLUTION HEALTH MEDICAL SCHEME ABRIDGED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RESOLUTION HEALTH MEDICAL SCHEME


We have audited the Annual Financial Statements of Resolution Health Medical Scheme for the year ended 31 December 2009, from which the Abridged Financial Statements set out on pages 14 – 40, were derived from, in accordance with International Standards on Auditing.

In our report dated 24 March 2010, we expressed an unqualified opinion on the Financial Statements from which the Abridged Financial Statements were derived from. However two matters of emphasis were included in our audit opinion that accompany the Annual Financial Statements.

These relate to the fact that the Scheme did not comply with Regulation 29 of the Medical Schemes Act, as the Scheme's solvency ratio amounted to 15.97% and not 25% as required. We further reported on other various non compliance matters with the Medical Schemes Act as set out in note 7 of the Abridged Annual Financial Statements.

In our opinion, the accompanying Abridged Annual Financial Statements are consistent, in all material respects, with the Financial Statements from which they were derived from.

For a better understanding of the Scheme's financial position and the annual results of its operations for the year ended 31 December 2009 and of the scope of our audit, the Abridged Annual Financial Statements should be read in conjunction with the Annual Financial Statements from which the Abridged Annual Financial Statements were derived from and our audit report on those Annual Financial Statements.



PricewaterhouseCoopers Inc.  
Director: G Kapp  
Registered Auditor  
Johannesburg  
24 March 2010

# RESOLUTION HEALTH MEDICAL SCHEME

## ABRIDGED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

### STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2009

	Notes	2009 R	2008 R
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		1 721 003	1 806 721
		<u>1 721 003</u>	<u>1 806 721</u>
<b>Current assets</b>			
Trade and other receivables		176 424 538	192 300 899
Cash and cash equivalents		10 782 782	16 313 748
		<u>165 641 756</u>	<u>175 987 151</u>
<b>Total assets</b>		<u><u>178 145 541</u></u>	<u><u>194 107 620</u></u>
<b>FUNDS AND LIABILITIES</b>			
Members' funds			
Accumulated surplus		98 599 161	102 763 733
		<u>98 599 161</u>	<u>102 763 733</u>
Current liabilities			
Savings plan liability		79 546 380	91 343 887
Trade and other payables		25 594 304	30 438 883
Outstanding claims provision	2	24 452 076	23 905 004
		<u>29 500 000</u>	<u>37 000 000</u>
<b>Total funds and liabilities</b>		<u><u>178 145 541</u></u>	<u><u>194 107 620</u></u>

# RESOLUTION HEALTH MEDICAL SCHEME

## ABRIDGED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

### STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 R	2008 R
<b>Net contribution income</b>	3	<b>602 357 302</b>	619 650 776
<b>Relevant healthcare expenditure</b>		<b>(464 448 919)</b>	(460 521 534)
Net claims incurred		<b>(457 597 873)</b>	(447 985 008)
Claims incurred		<b>(457 597 873)</b>	(447 985 008)
Net expense on risk transfer arrangements		<b>(6 851 046)</b>	(12 536 526)
Risk transfer arrangement fees / premiums paid	6	<b>(69 760 689)</b>	(68 259 925)
Recoveries from risk transfer arrangements	6	<b>62 157 906</b>	54 593 659
Profit share arising from risk transfer arrangements	6	<b>751 737</b>	1 129 740
<b>Gross healthcare result</b>		<b>137 908 383</b>	159 129 242
Managed care: management services		<b>(32 533 449)</b>	(34 987 313)
Broker service fees		<b>(15 314 402)</b>	(19 426 173)
Administration expenditure		<b>(110 182 549)</b>	(111 017 570)
Net impairment credit / (losses) on healthcare receivables		<b>368 940</b>	(2 451 649)
<b>Net healthcare result</b>		<b>(19 753 077)</b>	(8 753 463)
<b>Other income</b>		<b>15 604 818</b>	18 981 666
Investment income		<b>14 278 688</b>	18 922 232
Sundry income		<b>1 326 130</b>	59 434
<b>Other expenditure</b>		<b>(16 313)</b>	(42 746)
Sundry expenses		<b>(16 313)</b>	(42 746)
<b>Net (deficit) / surplus for the year</b>		<b>(4 164 572)</b>	10 185 457
<b>Total comprehensive income for the year</b>		<b>(4 164 572)</b>	10 185 457

# RESOLUTION HEALTH MEDICAL SCHEME ABRIDGED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

## STATEMENT OF CHANGES IN FUNDS AND RESERVES FOR THE YEAR ENDED 31 DECEMBER 2009

	<b>2009</b>	2008
	<b>R</b>	R
	<b>Accumulated surplus</b>	Accumulated surplus
Balance at 1 January Previously Stated	<b>102 763 733</b>	101 306 799
Re-statement of prior year figures	-	(8 728 523)
Balance at 1 January – Re-stated	<b>102 763 733</b>	92 578 276
Net (deficit) / surplus for the year	<b>(4 164 572)</b>	10 185 457
Balance at 31 December	<b>98 599 161</b>	102 763 733

# RESOLUTION HEALTH MEDICAL SCHEME

## ABRIDGED ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2009

## STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 R	2008 R
<b>Cash flows utilised in operating activities</b>			
Cash flows utilised in operations before working capital changes		(18 029 128)	(8 085 133)
Working capital changes		(6 266 541)	3 262 535
- Decrease / (increase) in trade and other receivables		5 530 966	(3 424 155)
- Decrease in savings plan liability		(4 844 579)	(583 042)
- (Decrease) / increase in trade and other payables		547 072	17 998 255
- Decrease in outstanding claims	2	(7 500 000)	(10 728 523)
<b>Cash utilised in operations</b>		<b>(24 295 669)</b>	<b>(4 822 597)</b>
Interest paid		(16 313)	(42 746)
<b>Net cash utilised in operating activities</b>		<b>(24 311 982)</b>	<b>(4 865 343)</b>
<b>Cash flows from investment activities</b>			
- Proceeds from sale of property, plant and equipment		13 183	10 363
- Interest received		14 278 688	18 922 232
- Purchase of property, plant and equipment		(325 284)	(333 060)
<b>Net cash generated from investment activities</b>		<b>13 966 587</b>	<b>18 599 535</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(10 345 395)</b>	<b>13 734 191</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>175 987 151</b>	<b>162 252 960</b>
<b>Cash and cash equivalents at end of year</b>		<b>165 641 756</b>	<b>175 987 151</b>

# RESOLUTION HEALTH MEDICAL SCHEME

## ABRIDGED ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2009

## BENEFIT OPTION RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

2009	Hospital	Fundamental	Progressive	Prestige	Total
<b>Net contribution income</b>	82 207 418	45 361 747	239 655 039	235 133 098	602 357 302
<b>Relevant healthcare expenditure</b>	(54 702 095)	(40 486 295)	(178 657 792)	(190 602 737)	(464 448 919)
Net claims incurred	(53 562 407)	(43 379 033)	(172 124 896)	(188 531 537)	(457 597 873)
Claims incurred	(53 562 407)	(43 379 033)	(172 124 896)	(188 531 537)	(457 597 873)
Net income/ (expense) on risk transfer arrangements	(1 139 688)	2 892 738	(6 532 896)	(2 071 200)	(6 851 046)
Risk transfer arrangement fees / premiums paid	(1 661 873)	(18 053 866)	(26 741 447)	(23 303 503)	(69 760 689)
Recoveries from risk transfer arrangements	522 185	20 946 604	19 854 830	20 834 287	62 157 906
Profit share arising from risk transfer arrangements	-	-	353 721	398 016	751 737
<b>Gross healthcare result</b>	27 505 323	4 875 452	60 997 247	44 530 361	137 908 383
Managed care: management services	(5 990 136)	(4 998 075)	(13 710 029)	(7 835 209)	(32 533 449)
Broker service fees	(2 217 254)	(1 118 279)	(6 463 533)	(5 515 336)	(15 314 402)
Administration expenditure	(20 133 625)	(16 153 044)	(47 213 504)	(26 682 376)	(110 182 549)
Net impairment credit on healthcare receivables	64 273	53 509	159 307	91 851	368 940
<b>Net healthcare result</b>	(771 419)	(17 340 437)	(6 230 512)	4 589 291	(19 753 077)
<b>Other income</b>	2 718 494	2 263 258	6 738 101	3 884 965	15 604 818
Investment income	2 487 470	2 070 922	6 165 483	3 554 813	14 278 688
Sundry income	231 024	192 336	572 618	330 152	1 326 130
<b>Other expenditure</b>	(2 843)	(2 366)	(7 044)	(4 060)	(16 313)
Sundry expenses	(2 843)	(2 366)	(7 044)	(4 060)	(16 313)
<b>Net deficit / (surplus) for the year</b>	1 944 232	(15 079 545)	500 545	8 470 196	(4 164 572)
<b>Total comprehensive income for the year</b>	1 944 232	(15 079 545)	500 545	8 470 196	(4 164 572)

# RESOLUTION HEALTH MEDICAL SCHEME ABRIDGED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

## 1. PRINCIPAL ACCOUNTING POLICIES

The accounting policies used in the preparation of the Financial Statements are consistent in all material aspect with those applied during the year ended 31 December 2008.

### 1.1 Outstanding claims provision

Claims outstanding comprise of provisions for the Scheme's estimate of the ultimate cost of settling all claims incurred but not yet reported at the balance sheet date and related internal and external claims handling expenses. Claims outstanding are determined as accurately as possible based on a number of factors, which include previous experience in claims patterns, claims settlement patterns, changes in the nature and number of members according to gender and age, trends in claims frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim.

Estimated co-payments and payments from savings plan accounts are deducted in calculating the outstanding claims provision.

The Scheme does not discount its provision for outstanding claims on the basis that claims must be submitted within four months of the medical event.

## 2. OUTSTANDING CLAIMS PROVISION

Analysis of movements in outstanding claims	2009	2008
Balance at beginning of year	<b>37 000 000</b>	47 728 522
Payments in respect of prior year	<b>(30 969 223)</b>	(47 728 522)
	<b>6 030 777</b>	-
Over provision in respect of prior year	<b>23 469 223</b>	37 000 000
Adjustment for current year	<b>29 500 000</b>	37 000 000
Balance at end of year	<b>29 500 000</b>	37 000 000
<b>Analysis of outstanding claims provision</b>		
Estimated gross claims	<b>29 756 522</b>	37 764 022
Less : Estimated recoveries from savings plan accounts	<b>(256 522)</b>	(764 022)
Balance at end of year	<b>29 500 000</b>	37 000 000

# RESOLUTION HEALTH MEDICAL SCHEME ABRIDGED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

## 2. OUTSTANDING CLAIMS PROVISION (CONTINUED)

### Process used to determine the assumptions

The process used to determine the assumptions is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out annually. There is more emphasis on current trends, and where in early years there is insufficient information to make a reliable best estimate of claims development, prudent assumptions are used.

The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The provision estimation difficulties also differ by category of claims (i.e. in-hospital, chronic, acute medicines, general practitioners, specialists and remaining categories of claims) due to differences in the underlying insurance contract, claim complexity, the volume of claims, the individual severity of claims, determining the occurrence date of a claim and reporting lags.

The cost of outstanding claims is estimated using a stochastic analysis performed by comparing historical reserves set up by utilising the Chain Ladder method, which assumes that past claiming patterns will continue and that the weighted average past inflation will be repeated. This method fits a statistical distribution to the development ratio and the variance of possible outcome is also provided.

The assumptions that have the greatest effect on the measurement of the outstanding claims provision are the expected claims ratios for the most recent benefit years for the in-hospital, chronic, acute medicines, general practitioners, specialists and remaining categories of claims. These are used for assessing the outstanding claims provisions for the 2007 and 2008 benefit years.

The information below outlines the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process.

An analysis of sensitivity around various scenarios for the general medical insurance business provides insight into the Scheme's estimation process as well as the key parameters essential for the liability estimation process. The Scheme believes that the liability for claims reported in the balance sheet is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions, which could differ when claims arise.

There has not been a material change to assumptions that have a material impact on the estimates, when compared against the assumptions used at the last valuation.

# RESOLUTION HEALTH MEDICAL SCHEME ABRIDGED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

## 2. OUTSTANDING CLAIMS PROVISION (CONTINUED)

Impact on reported deficit due to changes in key variables.

Claims run off based on previous experience are also used to determine outstanding claims provision. Previous experience has shown that within 3 months after year end +/- 90% of previous year claims are settled.

This method reported a liability of R29 500 000, which is in line with the outstanding claims provision. If this variable changes by 5% either way, the impact on the outstanding claims provision and the solvency margin would be R1 475 000 and 0.24% respectively.

## 3. NET CONTRIBUTION INCOME

	2009	2008
Gross contribution income	617 459 136	638 734 174
Less: Savings plan contributions	(15 101 834)	(19 083 398)
Net contribution income	<u>602 357 302</u>	<u>619 650 776</u>

## 4. RELATED PARTY TRANSACTIONS

### Resolution Health (Pty) Ltd

Resolution Health (Pty) Ltd provided administration services to RHMS for which it charged a fee. These fees determined on an arm's length basis, totalled R72 753 281 for the year. On year end RHMS did not owe Resolution Administrators any amounts.

Resolution Health (Pty) Ltd provided managed healthcare and disease advice services to RHMS, for which it charged a fee. These fees determined on an arm's length basis, totalled R23 232 644 and R3 742 255 for the year respectively.

Resolution Health (Pty) Ltd provided office space to RHMS for eleven months. Rent for the eleven months totalled R682 426.

### Agility Global Health Solutions – Africa (Pty) Ltd

Agility Global Health Solutions – Africa (Pty) Ltd provided administration services to RHMS in December, for which it charges a fee. These fees determined on an arm's length basis, totalled R5 867 062 for the month. At the year end RHMS owed Agility Global Health Solutions – Africa (Pty) Ltd R103 055.

# RESOLUTION HEALTH MEDICAL SCHEME ABRIDGED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

## 4. RELATED PARTY TRANSACTIONS (CONTINUED)

Agility Global Health Solutions – Africa (Pty) Ltd provided managed healthcare and disease advice services to RHMS, for which it charges a fee. These fees determined on an arm's length basis, totalled R1 578 576 for the month of December.

Agility Global Health Solutions – Africa (Pty) Ltd provided office space to RHMS for one month. Rent for the month totalled R62 039.

### Trustees

All the Trustees are members of the Scheme. During the year gross contributions to the amount of R140 712 (2008: R122 439) were received from trustees. Gross claims to the amount of R68 322 (2008: R66 831) were paid in terms of the rules of the Scheme to the Trustees or service providers.

Remuneration to the amount of R3 285 271 (2008: R1 529 006) was paid to the Trustees during the year. Consulting fees of R702 240 was paid to Hangfire Management (Pty) Ltd, in which Mr G Bothma, the previous Chairperson, is a director.

### Key Management Personnel

During the year gross contributions to the amount of R66 507 (2008: R56 715) were received from key management personnel. Gross claims to the amount of R128 885 (2008: R10 129) were paid in terms of the rules of the Scheme to key management personnel or service providers.

Remuneration to the amount of R2 198 042 (2008: R1 748 491) was paid to key management personnel during the year.

## 5. CONTINGENT ASSET

Claims against the Road Accident Fund for benefits paid on behalf of the Scheme's members are disclosed as a contingent asset as the inflow of economic benefits is probable but not virtually certain. The total value of claims lodged and accepted by the Road Accident Fund amounted to approximately R4 053 100. The likelihood of recovering this amount is remote.

## 6. RISK TRANSFER ARRANGEMENTS

The Scheme has capitation agreements with CareWorks, CareCross, Centre for Diabetes, ER24, Iso Leso and DENIS to provide services to the Scheme.

### Profit / Loss share with DENIS

In the event that the total amount of claims to be paid by DENIS during any calendar year is less than the amount paid by the Scheme, excluding all administration and insurance costs for the same period (the net contribution), then the difference between the two amounts shall be shared between the Scheme and DENIS as to 50% of the profit to the Scheme and 50% to DENIS.

# RESOLUTION HEALTH MEDICAL SCHEME ABRIDGED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

## 6. RISK TRANSFER ARRANGEMENTS (CONTINUED)

In the event that the total amount of claims to be paid during any applicable calendar year exceeds the net contribution for the same period, by more than 15% of the net contribution then such loss incurred shall be deemed to be shared between the Scheme and DENIS as to 50% by the Scheme and 50% by DENIS.

The Scheme cedes insurance risk to limit exposure to underwriting losses under various agreements that cover individual risks, group risks or defined blocks of business.

These risk transfer arrangements spread the risk and minimises the effect of losses. The amount of each risk retained depends on the Scheme's evaluation of the specific risk, subject in certain circumstances, to maximum limits based on characteristics of coverage. According to the terms of the capitation agreements, the suppliers provide certain minimum benefits to qualifying Scheme members, as and when required by the members. The Scheme does, however, remain liable to its members with respect to ceded insurance if any supplier fails to meet the obligation it assumes.

When selecting a supplier the Scheme considers their relative security. The security of the supplier is assessed from public rating information and from internal investigations. The table below summarises the Scheme's payments to suppliers in terms of risk transfer arrangements.

Provider	Service provided	Capitation fees paid by Scheme	Recovery from provider	Deficit / (Surplus)
<b>2009</b>				
CareWorks	HIV management programme	14 033 001	13 295 989	(737 012)
Centre for Diabetes	Diabetic management programme	696 880	650 086	(46 794)
ER24	Emergency evacuation	8 673 594	2 181 729	(6 491 865)
Iso Leso	Optical programme	9 349 768	6 905 739	(2 444 029)
DENIS	Dental programme	21 880 552	20 179 384	(1 701 168)
CareCross	Primary care for Fundamental option	15 126 894	19 696 716	4 569 822
		<b>69 760 689</b>	<b>62 909 643</b>	<b>(6 851 046)</b>

# RESOLUTION HEALTH MEDICAL SCHEME

## ABRIDGED ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2009

## 6. RISK TRANSFER ARRANGEMENTS (CONTINUED)

Provider	Service provided	Capitation fees paid by Scheme	Recovery from provider	Deficit / (Surplus)
<b>2009</b>				
CareWorks	HIV management programme	12 471 703	7 244 598	(5 227 105)
Centre for Diabetes	Diabetic management programme	820 545	703 208	(117 337)
ER24	Emergency evacuation	7 769 472	2 658 141	(5 111 331)
Iso Leso	Optical programme	11 517 143	7 861 353	(3 655 790)
DENIS	Dental programme	23 855 729	22 493 843	(1 361 886)
CareCross	Primary care for Fundamental option	11 825 333	14 762 256	2 936 923
		<u>68 259 925</u>	<u>55 723 399</u>	<u>(12 536 526)</u>

## 7. NON-COMPLIANCE

### Benefit option

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 for the year under review. This has been addressed by introducing specific income band contribution increases for 2009 and pro-actively managing the risks posed in respect of this option, including non-healthcare related costs.

### Solvency

In terms of the stipulations of Regulation 29(2) of the Medical Schemes Act 131 of 1998, as amended, the Scheme must maintain accumulated funds expressed as a percentage of gross annual contributions for the accounting period under review, which may be no less than 25%.

The Scheme's accumulated funds expressed as a percentage of gross annual contributions for the year ended 31 December 2009 were 15.97%, (2008: 16.09%). Measures taken by the Trustees to return the Scheme to the required solvency ratio are discussed in Point 7.3 of the Report of the Board of Trustees.

### Membership Contributions

The stipulation of Section 26(7) of the Medical Schemes Act 131 of 1998, as amended, requires that all membership contributions shall be paid to a medical scheme within three days of it becoming due. Unfortunately this is not always practically possible, however, membership should be suspended in accordance with the stipulations of Rule 13.2 of the Rules of the Scheme should monthly contributions remain outstanding thirty days after becoming due, thus minimising the Scheme's exposure.

# RESOLUTION HEALTH MEDICAL SCHEME ABRIDGED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

## 7. NON-COMPLIANCE (CONTINUED)

### Advance Broker Commission Payments

The stipulations of Regulation 28(5) of the Medical Schemes Act 131 of 1998, as amended, disallows the payment of broker commissions prior to receipt of monthly membership contributions. During the financial year the Scheme paid broker commissions prior to receipt of monthly membership contributions. This practice has been discontinued.

### Non Related Medical Scheme Expenses

The stipulations of Regulation 26(4)(b) of the Medical Schemes Act 131 of 1998, as amended, disallows payment of cost incurred by a medical scheme which is not in the normal course of carrying on the business of a medical scheme. Payments for gymnasium membership were made which by nature is not in normal course of carrying on the business as a Medical Scheme. This practice was terminated.

### Late payment of claims

Section 59(2) of the Act requires submitted claims to be paid out within 30 days after the day on which the claim was received. In several instances during the period under review, the Scheme did not pay out claims received within the stipulated time.

These late claim payments relate to the Scheme's audit process that is in place to ascertain the validity of specific claims. The Scheme has implemented measures to counter this issue.

## 8. OUTSTANDING LITIGATION

In accordance with the Registrar's directive of 19 December 2006, the Scheme issued summons against its erstwhile Management Company, Resolution Acceptances (Pty) Ltd previously known as Resolution Health (Pty) Ltd (RH) to the amount of R143 866 712 in respect of fees paid to said company for services that had been rendered to the Scheme over the period 2002-2005. As at 31 December 2009 and the date of issue of these Annual Financial Statements, the matter was still pending. As RH is a related party to the Scheme's former administrator, all attempts are being made to settle this matter amicably.

## 9. EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

There have been no events that have occurred subsequent to the financial year-end that materially affected the Annual Financial Statements and the Trustees believe should be brought to the attention of the members of the Scheme.