

**Minutes of the 22<sup>nd</sup> Annual General Meeting of the Discovery Health Medical Scheme (“DHMS”/Scheme) held on 23 June 2016, at The Hilton Conference Room, The Hilton Hotel, 138 Rivonia Road, Sandton at 10:00**

---

**1. Welcome and Quorum**

The Chairman of the Board of Trustees, Mr Michael van der Nest SC, welcomed all present to the 22<sup>nd</sup> Annual General Meeting (“AGM”) of the Discovery Health Medical Scheme (“DHMS/Scheme”). The Chair extended a welcome to Mr Stephen Mmatli, the General Manager of Compliance and Investigations from the Council for Medical Schemes (“CMS”).

The Chair called upon Mrs Josette Sheria from PricewaterhouseCoopers Advisory Services (Pty) Ltd (“PwC”) to confirm that there was a quorum present and that the meeting was duly constituted in terms of Rule 25.1.3 of the Scheme Rules, which specifies that at least 15 members present in person constitute a quorum. Mrs Sheria addressed the meeting and indicated that as names are called out people should indicate their presence by a show of hands. The following members indicated their presence in person:

- Nadia Hatea
- Jan van Staden
- Selwyn Kahlberg
- Ebrahim Ally
- Graham Keatley
- Toinette de Villiers
- Elizabeth Bagley
- Ashley Naicker
- Joshua Snow
- Mmabatho Hlatshwayo
- Jashvir Singh
- Nadia Charles
- Balungile Zikalala
- Nomazulu Dombo
- Thenjiwe Khona
- Leesha Naidoo

The Chair proceeded to address the members at the AGM commenting as follows:

- Notwithstanding 2015 being a challenging financial year overall, the Scheme experienced growth in Principal Members of 2.99% and the Scheme reserves increased from R11.7 billion to R12.9 billion.
- The Scheme generated a positive net healthcare result of R507 million for the year ended 31 December 2015 and net investment income of R762 million.
- Social media has taught the Scheme that one unhappy member is one too many, however, with a membership of 1, 2 million principal members (2.69 million beneficiaries), all members cannot be kept happy at all times. Notwithstanding this, the Board of Trustees will continue to endeavour to ensure member value and satisfaction.
- In 2015, 43 million claims were processed, which equated to R33 billion in claims paid. Out of the claims paid, there were 743 escalated CMS complaints and this remains an area of focus for the Board of Trustees.
- The Chair commented that the main focus of the AGM this year is the Trustee election.
- Members of the Scheme need to elect four Trustees at this AGM.

- The retiring Trustees, whose second three-year term expires and who are not eligible for re-election at this AGM, are:
  - Mr Noel Graves, SC;
  - Prof Zephne van der Spuy and
  - Mr Puke Maserumule.
- The first three-year term of Ms Daisy Naidoo expires at this AGM and she is eligible for re-election for a second three-year term.
- The Chair personally and on behalf of the Board of Trustees thanked the outgoing Trustees for their service and commitment to the Scheme during their tenure.
- There are currently 111 candidates standing for election and the talent pool amongst these candidates is impressive. In terms of the Scheme Rules (Rule 17.6), the Board appointed an independent Nomination Committee to assess all nominees against eligibility criteria and found these candidates to be fit and proper. 155 nominations were received and after being subject to the vetting process, this number reduced to 111 candidates.
- Having regard to the enormity of the election process, the Board appointed PricewaterhouseCoopers Advisory Services (Pty) Ltd ("PwC") to oversee and manage the electoral process, including:
  - the call for nominations;
  - vetting of nominations and nominees and
  - the actual election, which will be conducted at this AGM.
- The Chair briefed the members present at the AGM on the proceedings for the day and commented that members may vote at any time and return to the meeting thereafter. PwC were positioned to assist members in this regard and Mrs Sheria was called upon to advise members on how the process would work:
  - Mrs Sheria indicated that members are to use the marked exit doors located at the back of the room, should they wish to leave the meeting to vote. PwC electoral officers would be available to guide members in this regard. Members would be guided to the voter registration room where they would be handed the following ballots:
    - Election of Trustees;
    - 2016 Trustee Remuneration and
    - Non-Binding Advisory vote on the Scheme's Trustee Remuneration Policy.
  - After registration, members would be guided to the voting room in order to cast their votes. Mrs Sheria emphasised that members should only vote for a maximum of four candidates. Any submitted ballot booklets that have more than the four votes would be deemed invalid. Any marks made outside of the available space or not clearly marked, could render the member's submitted ballot booklet as being invalid.
  - Changes would not be allowed on a ballot booklet – If a member wishes to make changes to a completed ballot booklet, the member would be required to request a new ballot booklet. The first ballot booklet would be cancelled and a new ballot booklet would be issued, which would then be the only one considered as being valid.
- The Chair continued to brief the meeting on the cost of the elections:
  - The advertising, printing and postage costs were approximately R6 million;
  - The postage costs alone amounted to R2 million with envelopes costing R400 000.
- The Chair advised members at the meeting that a Member Forum would be held after closure of the meeting, where individuals would be directed back to the meeting room so that they have the opportunity to interact with the Principal Officer and Board of Trustees on specific Scheme matters of their choice. This would be an informal members' discussion and teams from the Scheme office and Administrator would assist with individual questions and queries.

- Mr Jonathan Egdes, a principal member of the Scheme, then requested the Chair if he could raise a point of order regarding voting. Mr Egdes commented that PwC acts as an external auditor for the Scheme and the Administrator and he therefore does not consider PwC to be independent. In addition, he has an objection against voting taking place at the AGM. The candidate list presents 111 candidates standing for election, who have presented themselves by a CV of not more than 100 words. Mr Egdes commented that he objects to voting taking place and that motions for voting should be deferred to a Special General Meeting where members can lay their manifestos before the meeting. The Chair indicated to Mr Egdes that he would not allow for voting to be deferred and that Mr Egdes would be given an opportunity to raise his matters again under general.

**Confirmation of the agenda:**

The Chair presented the agenda for the meeting and requested confirmation thereof. The agenda was confirmed by Dr Jonathan Broomberg.

**The agenda for the meeting is as follows:**

1. Welcome and quorum
2. Minutes of the 2015 Annual General Meeting - for approval
3. Tabling of the 2015 Integrated Annual Report, including the Scheme's Annual Financial Statements for the financial year ended 31 December 2015
  - 3.1 Presentation by the Principal Officer of the Discovery Health Medical Scheme
  - 3.2 Presentation by the CEO of Discovery Health (Pty) Limited, the Administrator of the Discovery Health Medical Scheme
4. Governance
  - 4.1 Discovery Health Medical Scheme Trustee Remuneration Policy and approval of the 2016 Trustee Remuneration
  - 4.2 Appointment of Auditors
5. Motions
6. General
7. Voting and Closure of the AGM
  - 7.1 Election of Trustees
  - 7.2 2016 Trustee Remuneration
  - 7.3 Non-Binding Advisory vote on the Trustee Remuneration Policy
  - 7.4 Motions
8. Member Forum

**2. Confirmation of the Minutes of the 2015 Annual General Meeting (for the financial year ended 31 December 2014)**

The Chair referred the members at the meeting to the draft copy of the Minutes of the 2015 AGM, as included in the meeting pack given to principal members upon registration and which were also published on the Scheme's website.

The minutes were proposed for approval by Mr Noel Graves and seconded by Mr Selwyn Kahlberg.

### 3. 2015 Annual Financial Statements and Trustee Report

The Chair advised the members at the meeting that the 2015 Annual Financial Statements for the financial year ending 31 December 2015 were laid before the meeting in terms of Rule 25.1.4 of the Scheme Rules. This meant that no decision was required and that questions could be directed to the Principal Officer and/or the Scheme's Chief Financial Officer. The Chair called upon Mr Jan van Staden to take a seat on the stage to answer any questions relating to the 2015 Annual Financial Statements for the financial year ending 31 December 2015.

The Chair further commented that before taking any questions on the 2015 Annual Financial Statements for the financial year ended 31 December 2015, the following presentations would be made:

- A presentation by Mr Milton Streak, the Principal Officer of the Discovery Health Medical Scheme.
- A presentation by Dr Jonathan Broomberg, the CEO of Discovery Health (Pty) Ltd., the Administrator of the Discovery Health Medical Scheme.

#### 3.1 Presentation by Mr Milton Streak

Mr Streak commenced his presentation by indicating that the presentation would focus on the following:

- a. Financial strength and sustainability of DHMS
- b. Governance of DHMS and the relationship between the Scheme and its Administrator, Discovery Health (Pty) Limited ("DH")
- c. Regulatory Updates
- d. The DHMS strategic objectives for 2016

#### A. FINANCIAL STRENGTH AND SUSTAINABILITY OF DHMS

Mr Streak commented that in terms of assessing the key financial performance of any scheme, there are a number of key management metrics for a medical scheme. Mr Streak provided an overview of these metrics in his presentation:

- o The first metric is growth and sustainability, which includes:
  - Membership size - Greater risk pooling means a more predictable claims experience and accuracy in pricing, leading to stable performance.
  - Membership growth - Continuous membership growth improves risk pooling, and reflects attractiveness and competitiveness of the Scheme through cross-subsidisation principles.
  - Plan movements - Indicates plan satisfaction, stability in benefit design and appropriate pricing.
  - Contribution increases - Reflects effective risk management and enhanced value proposition to members.
- o The second metric is financial strength which includes:
  - Absolute reserves - Demonstrates a scheme's ability to meet large, unexpected claims variation.
  - Pricing sufficiency - A surplus reflects contribution levels that are in line with expected membership and claims.
  - Gross contribution income of the Scheme increased by 10.8% to R49.7 billion for 2015. The number of principal members at the end of 2015 increased by 3% from 1 231 116 to 1 267 877.
  - The number of lives at the end of 2015 increased by 2.2% from 2 634 819 to 2 691 852.
  - The net surplus of the Scheme was R1.276 billion.
  - The accumulated funds per Regulation 29 were up 11.9% from R11.567 billion to R12.929 billion.
  - The Scheme's solvency stood at 25.98%, up from 25.76% in 2014. This is above the regulated solvency level of 25%.

- The Scheme's financial performance as presented in the Statement of Comprehensive Income was as follows:
  - The Scheme's gross contribution income increased by 7.3% on a per member per month basis ("pmpm") to R49.7 billion.
  - Relevant healthcare expenditure increased from R30.7 billion to R34.5 billion, representing an increase of 8.9% pmpm.
  - Expenses for administration increased by 4.7% pmpm, which is significantly below inflation.
  - The net surplus for the year was R1.276 billion compared to R1.535 billion in 2014.
- The Scheme has significant reserves amounting to R12.9 billion, indicating the very strong claims paying ability of the Scheme.
- The Scheme has been awarded the highest rating of AA+ for 15 consecutive years by Global Credit Rating Co.
- The Scheme continues to maintain strong membership growth, which is critical to the continued sustainability of the Scheme. The presentation graphically indicated that 57 033 new lives were added to the Scheme in 2015 and the Scheme ended the year with 2.69 million lives compared to 2.63 million lives in 2014.
- The presentation graphically illustrated that there has been a continuous decrease in administration fees as a percentage of gross annual contribution income since 2010. In 2015 the Scheme ended the year with administration fee expenditure at 7.8% of gross annual contribution income.
- The gross administration expenditure of the Scheme is lower than that of its competitors in the industry. Mr Streak explained, that based on the CMS' definition of gross administration expenditure this expenditure includes administration fees paid to the Administrator and other Scheme operational expenditure, but excludes impairment losses. Based on the CMS annual report, the annual increase in gross administration expenditure per average beneficiary per month from 2013 to 2014 is 4.04%, which is significantly below that of the Scheme's competitors, which is at 7.47%. The 2014 CMS data was utilised to derive the figures as the 2015 CMS annual report will only be published by the CMS later this year.
- DHMS' gross administration expenditure is lower than most large open medical schemes and below the industry average. DHMS was ranked 13 out of 23 open schemes and was below the open medical scheme average.
- Mr Streak provided a graphic overview of the 2015 Scheme expenses breakdown and commented that for every R1 of contribution income received, 87c is for the members' direct benefit for funding claims and reserves.
- Mr Streak commented that in 2015 the Scheme funded R33.3 billion in claims expenditure and a graphic overview was provided of the claims expenditure split as follows:
  - R3.4 billion for medicines;
  - R13.1 billion for health professionals with a split of R7.1 billion for GPs and R4.5 billion for specialists;
  - R15.6 billion for hospitals with 685 000 hospital admissions being funded.
- Mr Streak commented that the Scheme provides substantial financial security despite high medical inflation and rising claims costs. In 2016 the top 10 claims amounted to R64.5 million. The average contribution per member is R2 675 per month. In 2015, DHMS paid out claims to a value of over R500 000 each to 5 230 beneficiaries and over R1 million each to 1 110 beneficiaries.

## B. GOVERNANCE

- Mr Streak indicated that the Scheme is a non-profit open medical scheme, governed by the Medical Schemes Act 131 of 1998, as amended and regulated by the Council for Medical Scheme. The Scheme is administered by Discovery Health (Pty) Limited. The Scheme has an independent Board of Trustees consisting of highly skilled individuals, the majority of whom are elected by Scheme members. The Board is assisted by the following ten Board Committees:
  - Clinical Governance Committee
  - Risk Committee
  - Audit Committee
  - Remuneration Committee
  - Product Committee
  - Stakeholder Relations Committee
  - Investment Committee
  - Nominations Committee
  - Non-healthcare Expenses Committee
  - Disputes Committee
- The Board of Trustees appoints the Principal Officer, who is responsible for the day-to-day oversight of the operations of the Scheme.
- Mr Streak provided the members with an overview of the Scheme's Vested® Outsourcing business model and commented as follows:
  - The Scheme has implemented a best practice business model called Vested® Outsourcing. This is an internationally recognised business model supported by, amongst others, companies such as Microsoft, MacDonald's, Proctor and Gamble etc.
  - The business model promotes five tenets, namely:
    - The outsourced relationship is focused on outcomes and not just transactions;
    - The contracts focus on what is to be achieved, leaving open considerable leeway with respect to how the service provider will achieve it;
    - There is agreement on clearly defined and measurable outcomes;
    - The pricing model ensures that optimal cost or service trade-offs are achieved;
    - The governance structure provides the Scheme with highly effective oversight, as well as significant insight into the manner in which the Administrator conducts the Scheme's business.
- In March 2016, the Scheme commenced with an extensive review of the current status of the Vested® Outsourcing business model, to identify areas which could be optimised. The review was undertaken in conjunction with international Vested® Outsourcing experts, Prof Kate Vitasek and Mr Andrew Downard.
- A video was then aired where Prof Kate Vitasek explained Vested® and commented on the Scheme's working relationship with Discovery Health. Mr Streak introduced the video and commented that Prof Kate Vitasek:
  - Is the world authority on how to create highly collaborative relationships that drive innovation;
  - Is listed as one of the most influential people impacting global commerce by World Trade Magazine;
  - Has appeared on Bloomberg radio, CNN, National Public Radio and on Fox Business News;
  - Was featured in over 300 articles in publications like Forbes, Chief Executive Magazine, CIO Magazine, The Wall Street Journal, Journal of Commerce, World Trade Magazine and Outsource Magazine;
  - Has been named as one of the "Powerhouse 25" outsourcing industry leaders by Globalization Today.

- Mr Streak commented on what the Vested® approach means for DHMS and its members and commented as follows:
  - Prof Kate Vitasek in her video mentioned that one of the key elements of a vested relationship is innovation and Mr Streak provided a graphic illustration indicating that the Scheme has seen 220 innovations since 2004;
  - The member perception scores are currently at 8.8 out of 10;
  - The Scheme has seen a significant competitive advantage in terms of average contribution differential for a principal member in 2016, with Scheme contributions being on average 12% lower than its competitors in 2016;
  - 94.6% of the Scheme's membership do not change plans, which indicates that there is a consistent pattern of stable plan distribution. The upgrades and downgrades to plans were graphically illustrated.
- Mr Streak commented that an assessment is conducted each year by Deloitte regarding the value generated for Scheme members per R1 of the administration and managed care fees paid. The assessment has indicated that for every R1 spent on managed care and administration fees, beneficiaries of the Scheme derived R1.69 in value. The 2015 results are awaited subject to the CMS publishing their data.

### **C. REGULATORY UPDATES**

Mr Streak provided an overview of the regulatory matters that the Scheme is dealing with and commented as follows:

- The HealthCare Market Inquiry ("HMI") is currently in progress and the Scheme fully supports this process. The Board of Trustees is co-operating fully with the HMI and will provide any information that the HMI may require in assessing the healthcare industry. Specific regulatory matters that the Scheme has requested the HMI Panel to consider include:
  - The provisions of the Medical Schemes Act 131 of 1998, as amended, regarding open enrolment and guaranteed acceptance;
  - The manner in which Prescribed Minimum Benefits have been structured;
  - The regulatory barriers to supply side innovation;
  - The asymmetry of regulations governing Schemes and those governing other insurance products;
  - Scheme solvency requirements;
  - The restriction on investments of medical scheme reserves and the alignment of Regulation 30 of the Medical Schemes Act 131 of 1998, as amended and Regulation 28 of the Pension Fund Act 24 of 1956.
- The Scheme has also submitted comments on the National Health Insurance ("NHI") White Paper published by the Department of Health and hopes that the future role of medical schemes will be to offer supplementary medical cover in parallel to the NHI.
- The Scheme engages with the CMS constructively and has interacted with the Regulator on:
  - A revised scheme solvency framework;
  - The Prescribed Minimum Benefits Code of Conduct;
  - The Trustee election process.

### **D. DHMS STRATEGIC OBJECTIVES FOR 2016**

Mr Streak commented that the following are the multi-year strategic objectives for 2016:

- Further optimise the Scheme's Vested® Outsourcing business model;
- Ensure best practice governance and legislative compliance;
- Enhance clinical and other risk management interventions and strategies;
- Maintain the Scheme's industry leading position and competitive advantage;
- Make members healthier.

### 3.2 Presentation by Dr Jonathan Broomberg

The Chair called upon Dr Jonathan Broomberg to present Discovery Health (Pty) Limited's strategies for the Scheme. Dr Broomberg commented that his presentation would focus on the following issues:

- o Achieving lowest healthcare Costs for Scheme members;
- o Focus on Quality of Patient Care;
- o World class service experience;
- o Make members healthier.

#### A. LOW HEALTHCARE COSTS

Dr Broomberg commented as follows:

- o The 7-year average annualised consumer price inflation (CPI) rate over the 2008-2015 period was 6.3%.
- o The tariffs paid to service providers over the 2008-2015 period increased by 0.5% above CPI. If the tariff differential to CPI was 0% since 2008 then contributions would be 2.8% lower.
- o Average claims inflation has been 11.4% per year from 2008-2015 and this figure continues to rise. If utilisation was constant since 2008 then contributions would be 27% lower.
- o The drivers of utilisation include the following:
  - Demand side drivers
    - These include an epidemic of lifestyle diseases, adverse selection and ageing.
    - The following five lifestyle factors i.e. physical inactivity, poor nutrition, smoking, alcohol and medicine non-adherence which lead to the chronic conditions such as diabetes, heart and lung diseases, cancer and mental diseases account for 75% of deaths worldwide.
    - Currently there are over 20% of members on the Scheme who are registered for one or more chronic condition, and these members claim on average four times more than a non-chronic member, with this number increasing constantly.
    - In addition, the pressure facing all medical schemes is adverse selection. In terms of this phenomenon, people with higher risks tend to join medical schemes at a higher rate than people with lower risks.
  - Supply side drivers
    - Growing impact of high cost medicines and new technologies.  
The new drugs for the treatment of cancer can cost between R1 and R3 million for a course of treatment. There is also an increase in the incidences of ultra-high cost medicine i.e. ultra-high cost claimants who claim more than R500 000 or more in a year. In 2008 there were 13 such members as opposed to 89 such members in 2015.
    - Impact of new hospitals.  
From 2008 to 2015 at least 27 new hospitals have been built, a concerning trend which has also been shared with the Healthcare Market Inquiry. A detailed analysis of this issue indicates that the introduction of new hospitals has dramatically increased utilisation.
    - Lower costs through improved fraud recoveries and savings.  
Fraud remains a focus area with a significant investment in skilled investigators and sophisticated software systems that analyse claims data to identify fraud. In 2015 fraud recoveries amounted to R394 million. Dr Broomberg indicated the halo effect of interventions with doctors and providers to prevent fraud resulted in R928 million per year in reduced claims that would have otherwise come through the system as fraudulent claims.

- Dr Broomberg commented that Discovery Health (Pty) Limited's managed care interventions achieved R4.3 billion in savings for the Scheme in 2015. These savings are attributable to lower tariffs from hospitals and pathology laboratories, fraud recoveries and savings within the medicines environment. Overall it is estimated that these interventions resulted in an 11.1% effective reduction in the Scheme's risk claims.
- There has been a sustained decrease in administration and managed care fees as a percentage of gross annual contribution income ("GCI"). Dr Broomberg commented that what was reflected in the presentation was gross administration expenditure which includes the administration fees paid to the administrator but it also includes other Scheme operating expenses. Dr Broomberg commented that the statistics show that administration fees paid to the administrator fees have been reducing in real terms, in other words they are increasing by less than CPI each year. This is by agreement with the Trustees who have negotiated with Discovery Health (Pty) Limited over a successive number of contract periods where the Scheme is benefitting from its growth and from the economies of scale that arise from that growth by reduced administration fees per member.
- With 2010 as the starting point, the graph in the presentation illustrated that administration and managed care fees have actually fallen by an effective 8% over that period after inflation, whereas the administration fees for other open schemes, excluding DHMS and a small number of self-managed schemes, have increased by 9%. If the 2015 and 2016 figures were included, this gap would have been wider as the fees charged to the Scheme continue to increase at a rate lower than CPI every year. The Scheme ranked 17 out of 23 open schemes in terms of administration fees as a percentage of gross annual contribution income and if administration and managed care are added together the Scheme is ranked 15 out of 23.

## **B. FOCUS ON QUALITY OF PATIENT CARE**

Dr Broomberg commented that the uneven quality of patient care throughout the private care system remains a concern. Discovery Health (Pty) Limited is working increasingly with the Trustees and Scheme management and through their own efforts across a number of different areas to improve the quality of care that members obtain. Initiatives in this regard include the following:

- Hospital Patient Experience and outcomes
  - This includes the sending of a survey to every adult member of the Scheme after admission to hospital. Starting late last year the results of the surveys are being published on the Scheme's website. The results are available to any Scheme member who wishes to view them. The surveys enable a member to see how other members have rated a hospital. The hospital is rated on a number of objective measures including how the doctors treated members, how the nurses treated members, were members given sufficient information, was the member's pain managed and what was the general hospital environment like. The survey results on the website are receiving about 16 000 hits a month which is encouraging. By the end of the 2016 year actual outcomes or results data will be published which includes amongst other data, the results of mortality rates, hospital-acquired infection rates, etc.
- Personal health programmes
  - These are programmes for members of the Scheme who suffer from diabetes or heart disease. Poor treatment of these members results in poor quality of life, and high costs for the Scheme. The programmes are voluntary programmes that members can participate in. General Practitioners ("GPs") enrol in a special network and are given particular outcome metrics to monitor. If they meet certain targets and achieve improved health for members they are paid more by the Scheme, which is the start of a system that pays doctors for results and not purely for the volume of work that they do. The initial results are encouraging, with a 40% reduction in preventable admissions to hospital, a 37% reduction in all admissions and a 40% reduction in referrals to specialists.

- Discovery Home Care
  - This is a high quality home-based nursing service for members, which is available to members of the Scheme, for example for end of life compassionate care, wound care and IV Infusions at home for children or patients who prefer not to be in hospital.

### **C. WORLD CLASS SERVICE EXPERIENCE**

Dr Broomberg provided some statistics of the investment in digital tools and services which is an ongoing investment by Discovery Health (Pty) Limited:

- There are over a million registered users on the website with hundreds of thousands of unique logins every month.
- A very large number of members are using the Smart phone App for all of their servicing thus avoiding the need to call the call centres.
- Health ID is an App on the web and on smart devices for health professionals, which is now being used by 2 500 GPs and specialists. Approximately one million members have provided consent to their doctors for them to use their electronic health records which provides doctors with full access to a member's medical history.
- Mckinsey Consulting, the well-known global consulting company was requested to benchmark the services of Discovery Health (Pty) Limited against their world wide database of best in class financial services and insurance companies. On each of the metrics benchmarked, which include Calls per life per year, First call resolution, Web Chat, Social Media, Percentage of calls answered in 20 seconds and Live calls per life per year, Discovery Health (Pty) Limited exceeds the best world metrics significantly.
- Dr Broomberg commented that the Chair began the meeting by acknowledging that mistakes are made in the normal course of business and that he wished to join him in making that acknowledgement. Dr Broomberg emphasised that 440 000 claims are processed each day, some of which are simple and other which are complex like Prescribed Minimum Benefit ("PMB") claims. Discovery Health (Pty) Limited has invested more in resources and systems in dealing with PMBs but they nevertheless remain complicated. Dr Broomberg urged members to inform him of any errors and indicated that his email address is on the website and that members may also contact the Scheme office who will use their best efforts to assist members to resolve errors.

### **D. MAKE MEMBERS HEALTHIER**

Dr Broomberg, as part of his closing remarks, requested the Chair for an opportunity to address the member who has earlier questioned the collaboration between Vitality and the Scheme. Dr Broomberg commented that Vitality is a voluntary programme and that approximately 60% of Scheme members have purchased Vitality on a voluntary basis. Vitality has had a very beneficial effect for members. The Vitality benefits include:

- The launch of Vitality Active Rewards which has 250 000 active participants earning vouchers for Vida coffees and Kauai smoothies every week for achieving their exercise goals. The average participant in the Vitality Active Rewards programme is exercising 24% more than they were before. The higher risk members of Vitality i.e. smokers, members with chronic disease, members with high BMI and unhealthy members are also increasing their physical activity.
- In addition to the 11% reduction in claims from managed care initiatives, it is estimated that the impact of Vitality is a further 2.6% saving in claims i.e. an estimated R1 billion of claims savings, which is attributable to the change in behaviour of members who through exercise, good nutrition and wellness screening actually become healthier and therefore claim less.

### 4. Governance

#### 4.1 Discovery Health Medical Scheme Trustee Remuneration Policy and Trustee Remuneration

The Chair advised the members that they would be required to vote on two matters:

- The 2016 Trustee Remuneration, as recommended by the Remuneration Committee and as approved by the Board, to be approved for the 2016 financial year. This would be approved by the members at the meeting via ballot.
- The Scheme's Remuneration Policy for Trustees as recommended by the Remuneration Committee and approved by the Board. The Trustee Remuneration Policy would be put to the meeting for a non-binding advisory vote as per the King III Code of Corporate Governance.

The Chair advised the members at the meeting that as the Chair of the DHMS Remuneration Committee, Mr Don Eriksson, was not available to address the meeting, he, as a member of the DHMS Remuneration Committee, will present the DHMS Trustee Remuneration Policy and the proposed 2016 Trustee remuneration to the meeting, in the absence of the Remuneration Committee Chairman.

The Chair advised members at the meeting that they may direct any questions to himself or the Principal Officer of the Scheme, after the presentation.

The Chair commenced the presentation and commented as follows. The presentation covered the following aspects:

- Remuneration governance;
- The Trustee Remuneration Policy:
  - Remuneration of the Board of Trustees;
  - Remuneration methodology;
  - Market benchmarking.
- The proposed 2016 Trustee remuneration.

#### A. REMUNERATION GOVERNANCE

- The Board of Trustees is responsible for the development and implementation of a Remuneration Policy for Scheme employees as well as the Board of Trustees and Board Committee members.
- The Board of Trustees has delegated the responsibility of Scheme remuneration oversight to a Remuneration Committee ("REMCO").
- The REMCO consists of an Independent Chair and two Trustees.
- REMCO makes use of independent expert consultants and independent market benchmarking to assist the Committee in terms of best remuneration practices.

#### B. REMUNERATION OF THE BOARD OF TRUSTEES

Annual Trustee fees are split into:

- An annual base fee paid quarterly in arrears, which is 70% of total remuneration.
- A meeting fee, which is 30% of total remuneration. In the event of non-attendance of a meeting, the meeting fee is not paid.

The above fees do not include:

- Fees for Trustee training:
  - Trustees are NOT paid for attending training or conferences over and above the training fees, travel costs, accommodation and subsistence costs.
- Trustees are NOT paid any consulting fees.
- In addition, Trustees do not participate in any incentive programmes.

- Trustees are, however, reimbursed all reasonable expenses incurred by them in the performance of their duties as a Trustee.

### **C. REMUNERATION BENCHMARKING**

- The CMS issued Circular 41 of 2015, in which it advised that it is not appropriate for schemes to benchmark Trustee remuneration against Non-executive Directors of listed companies. For this reason, the Scheme engaged PwC's Remuneration Advisory Practise in 2014 to assist in developing a new Trustee remuneration methodology.

### **D. PROPOSED 2016 TRUSTEE REMUNERATION**

- The multi-year fee implementation has been approved at the 2015 AGM by 94.57% of members in attendance during the 2015 AGM. The multi-year implementation is an ongoing staged process and for 2016 the Trustee fee is based on a professional fee rate of R4 240 less a discount rate of 35%, based on the fact that the Scheme is a non-profit entity.
- An overview was provided of the practical application of the remuneration methodology indicating the:
  - Professional fee build up for 2016 for the Chairman of the Board - The total fee for the Chairman of the Board, based on the projections presented, amounts to R617 344 per year.
  - Professional fee build up for 2016 for a Trustee - The total fee for a Trustee based on the projections presented amounts to R352 768 per year.
  - Professional fee build up for 2016 for the Chair of a Board Committee - The total fee for a Chairman of a Board Committee based on the projections presented amounts to R206 000 per year.
- The Chair commented that looking at the year gone by, on page 36 of the Scheme's 2015 Annual Integrated Report, the page provides a list of the number of meetings attended by Trustees. Thirteen meetings were held during 2015, attended by six Trustees and three out of the six Trustees had a 100% attendance at all meetings. On page 37, an overview is provided of the attendance at meetings of the Board Committees.
- The actual amounts paid to Trustees as per the 2015 Annual Integrated Report based on attendance are as follows:
  - R540 000 was the lowest amount paid;
  - R758 000 was the highest amount paid;
  - R746 000 was paid to the Chair.
- The Chair commented that for those members standing for election, it must be noted that this is a small but very active and engaged Board, and Trustees are expected to attend all Board meetings. Meeting preparation is essential and there is no room for passengers.
- The Chair requested the members to vote on the following as part of the voting process:
  - The 2016 Trustee Remuneration, as recommended by the Remuneration Committee and approved by the Board.
  - The Scheme's Remuneration Policy for Trustees as recommended by the Remuneration Committee and approved by the Board, which will be a non-binding advisory vote as per the King III Code.

## **4.2 Appointment of the Auditors**

The Chair proposed that PricewaterhouseCoopers be appointed as Auditors for the ensuing year on recommendation by the Audit Committee and as approved by the Board. Mr Selwyn Kahlberg seconded the approval of the appointment.

## Motions

---

### 5. Motions

The Chair commented that two motions were received and that both were assessed by the Board of Trustees and rejected:

- The first motion dealt with an operational matter and discussions were held with the member on his motions and he was satisfied with the outcome.
- The second motion dealt with the Inspection Report issued by the CMS during 2014, which is subject to an appeal and ongoing discussions with the CMS. The acceptance of this motion would result in public disclosure of a matter in contravention of Section 60(2) of the Medical Schemes Act 131 of 1998, as amended.

## General and Closure

---

### 6. General

The Chair enquired whether there were any other issues that any member would like to raise under general. In this regard the following can be noted:

- Mr Ronny Silberman commented that Vitality should have an open forum meeting to deal with members' issues.
- Mr Neville Soll commented on the approach adopted by the Scheme on prescribed medicines, namely that non-preferred medicine (not on the preferred medicine list of the Scheme), is only paid at 75% of the Discovery Health Rate, with members paying a 25% co-payment. Mr Soll commented that consideration should be given to allowing members to pay the 25% co-payment upfront and therefore 75% will be deducted from savings with no accumulation to the self-payment gap. Mr Milton Streak commented that this is a benefit design matter which will be reviewed in terms of the Scheme's accumulation rules.
- Mr Berkowitz commented that he is a member who prefers to receive his communication by post. In this regard his claims statements are posted to him and it takes approximately six to ten weeks before he receives his statements in the absence of a postal strike. Dr Broomberg commented that claims statements are posted immediately after they are printed, and the excessive delays are attributable solely to the post office.
- Mr Zami Lamzimo commented on the birth of his child via a midwife last year. The cost of this birth was almost 50% less than the cost of a hospital birth. In this regard Mr Lamzimo inquired why the Scheme was not funding births by midwives. Dr Broomberg commented that the Scheme is obliged by law to fund deliveries in hospital. The average cost of such a delivery is approximately R30 000. If a member chooses to use a midwife and there are complications, the Scheme will nevertheless fund the hospital costs incurred in this regard. Dr Broomberg commented further that this matter will be investigated further and if Mr Lamzimo provides his details, a further response would be forwarded to him.
- Mrs Cheryl Lambert, a statistician, questioned the statistics presented by Mr Milton Streak regarding upgrades and downgrades by members. Mrs Lambert commented that the proportion of members changing plans are small, however, the ratio of people upgrading are lower than those downgrading. Mr Streak commented that upgrades can only be effected once a year at year end, downgrades are allowed during a year and these are also affected by economic realities.

- Mr Sandile Msagedi from Kuruman raised a question on the criteria utilised by the Scheme to select doctors on the KeyCare network. The Chair thanked the member for his attendance at the AGM. Mr Msagedi commented that on KeyCare Plus, for example, with regard to optometry, if one procures spectacles, more often than not there is a co-payment and no indication is given of the amount payable for the consultation and the amount payable for the spectacles. The same applies to the Classic Saver plan. Dr Broomberg commented that with regard to the GP network the KeyCare Plus plan has a large network of GPs i.e. approximately 3 000 GPs. The criteria utilised for the selection of GPs is as follows:
  - The willingness of the GP to contract with the Scheme at an agreed rate;
  - The readiness of the GP to treat members of the Scheme in terms of having the correct facilities, apparatus and equipment, amongst other factors.

In remote areas there are very few doctors who are willing to contract with the Scheme at an agreed rate.

Mr Streak commented that in terms of contractual arrangements with optometrists there is a full range of spectacles that are covered in full and assured Mr Msagedi that his matter would be dealt with comprehensively in the member forum.

- Dr Kobus Loubser, a member from Bloemfontein, commented that his matter relates to Vitality. As active participants on Vitality, he and his spouse cannot make use of the rewards due to the service providers being utilised in Bloemfontein. He commented that a better footprint of service providers should be provided in remote areas in order to enable members to redeem rewards. Dr Broomberg commented that Vitality is an independent and separate entity from the Scheme and that a Vitality representative would contact him to address his concerns.
- Mr Fabu Thivedi requested whether, given the challenging economic environment, the Board of Trustees could include one or more strategic objective to address this. Mr Streak commented that from a Board of Trustees perspective, one of the most important strategic objectives is to keep contributions affordable in an environment where healthcare inflation is significantly higher than CPI. Initiatives include aligning supply and demand side factors to ensure that contributions remain affordable, the publication of quality statistics to empower members to participate in quality of care decisions and to quantify value to ensure that members are aware of the value that they receive from the Scheme. These issues are complex and Mr Streak committed to having a discussion with the members after the meeting.
- Mr Jonathan Egdes, who was given an opportunity at the onset of the meeting to raise his concerns, commented as follows:
  - The medical scheme is a non-profit entity which generates a surplus, which is akin to profit. Discovery Health (Pty) Limited has outperformed the Scheme in terms of its surplus and what they indicate as profit in their financial results.
  - In addition, for every R1 spent by the Scheme, more than 10c goes to the Administrator, Discovery Health (Pty) Limited.
  - Kate Vitasek describes the Board of Trustees as fiercely independent, promoting a win-win relationship and Mr Egdes has a contrary view to this.
  - How long will the Scheme allow cross subsidisation of the old by the young and healthy?
  - The Chair had commented that R6 million was spent on printing and postage costs. PwC must however also have been paid a fee for the work performed on the AGM. One of the reasons why Mr Egdes was refused by the Scheme to distribute his manifesto to the Scheme members, was that the costs of this exercise would be excessive.
  - Discovery Health (Pty) Limited employees were encouraged to attend the AGM with a roll call being taken of their attendance.

The Chair proceeded to address Mr Egdes' concerns and the following comments were made:

- With regard to Mr Egdes' manifesto and his request to mail it to members of the Scheme, Mr Egdes was informed that the Scheme was not prepared to distribute the mailing details of members, as these are private records/information and distributing this information would constitute a breach of privacy.
- The Scheme heard nothing further from Mr Egdes, who then communicated with the CMS, who responded as follows and on which communication the Chair was copied on:
  - "The distribution of contact details of medical scheme members to third parties is a sensitive issue that the Council for Medical Schemes severely discourages. Access to such details impinges the rights of members' right to privacy, among other rights."
  - "The Council for Medical Schemes will be communicating to the entire industry on this matter later in this year. Unfortunately, it will not be in time for the 2016 Annual General Meeting season."
  - "The distribution of a manifesto to Scheme members via post is an excessive cost burden to the Scheme and when the CMS considers the distribution of manifestos it must take this into account."
- With regard to costs, the PwC costs were approximately R6 million with the total cost of the AGM being in the region of R13 million. It is for these reasons that the Scheme was not prepared to defer the AGM and was also not prepared to build in a manifesto distribution process for all candidates.
- With regard to the matter regarding Discovery Health (Pty) Limited outperforming the Scheme, one of the objectives of the Scheme is to provide value to members relative to the fees paid by the Scheme. One of the critical questions for the Board of Trustees is how do we get value and the benefits of economies of scale. Deloitte was engaged to obtain an answer in this regards and each innovation was analysed to establish what benefit is derived by the Scheme. The reason why this Scheme grows and others don't is because this Scheme is getting value and the Board of Trustees is satisfied that it gets good value for the fee it pays. Dr Broomberg commented that in the past four years there have been nine competitive tenders for closed schemes and of the nine, Discovery Health (Pty) Limited has won eight, which is indicative of the ability of Discovery Health (Pty) Limited to add significant value to its medical scheme clients, including the Scheme.
- On the independence of the Board of Trustees, the Trustees are all independent people with their own respective jobs. Independence must not be confused with effective and outsourced management. It is important to have a common goal and purpose with Discovery Health (Pty) Limited and if this was not the case, then that would be more of a concern. As a closing remark the Chair re-affirmed that the Board of Trustees is fiercely independent and they fiercely uphold independence. The Chair then handed over to Mr Streak who commented that it is incorrect to compare the surplus of the Scheme to an administration fee paid to an administrator. The Scheme is a non-profit entity. The Scheme budgets annually for a small surplus or a break-even result in order to cover claims, operating expenses and to maintain statutory solvency. Therefore, why should members pay more in contributions than what is required to cover claims, operating costs and to maintain solvency. The Scheme's administration fee is below the industry average on a per-beneficiary-per-month basis.
- Mr Streak commented that option cross-subsidisation and option sustainability are not only DHMS issues, but industry issues. The top plans of medical schemes are often loss making, which is an industry wide phenomenon and if contributions are increased to an extent that these plans are no longer affordable, this will result in significant buy-downs affecting the sustainability of a medical scheme. Dr Broomberg commented that a potential solution to the problem would be a regulatory intervention, where waiting periods are imposed for members who want to buy-up.
- With regard to the perceived roll-call matter raised by Mr Egdes, Dr Broomberg commented that the allegations are unfounded and if proof of a roll-call can be provided this is welcomed.

- The following comments were made by Dr Suzette Brynard:
  - Dr Brynard commented that her experience throughout the nomination process has been a very positive one. PwC was professional in all respects. A manifesto is not something that she would take into account in selecting a candidate. Her measure of the quality of a candidate is the work being done on the Board once they are appointed. She is also the mother of a handicapped child and the Scheme has done nothing but support her and her child.
- The following comments were made by Nicholas Taitz
  - Mr Taitz commented that the allegations made by Mr Egdes are not substantiated. Based on his own experience, he wished to raise that in terms of value being received by members, he had been hospitalised for the last ten days and the cost of the hospitalisation which amounted to more than the premiums paid over the last ten years were paid by the Scheme.
  - In addition amongst all the tension and stress and general panic of being ill the most organised people are the individuals from Discovery Health (Pty) Limited who ensure that a member's administration needs are taken care of.
- The following question was posed by Ms Desiree Swart regarding brokers:
  - The Scheme pays large sums of money to brokers, however, what is the expectation of these brokers in terms of servicing members. Dr Broomberg commented that broker fees are highly regulated and that the fee payable to brokers is a legislated fee. Brokers are obliged to advise members from the onset and to inform members of any changes to their plan at year-end and to assist members with any claims issues that they may have. Members are entitled to significant services from brokers and if this service is not received, members should alert the Scheme to this so that this may be addressed with the broker.
- Mr Kevin Yen, a member and a broker, commented that after a new member is signed up, a member pack is to be forwarded to the member. However, a number of members have indicated that they do not receive their member pack if they opt to receive this via post. Mr Yen requested the Scheme to consider alternatives to post i.e. informing members to collect their member pack or couriering the member pack to members at a cost to the Scheme.
- Mr Musimane Gape commented that he agreed with the comments made by Mr Yen above. In addition, Mr Gape commented that on the distribution of manifestos of candidates standing for election, there should be a mechanism whereby one can determine which candidate they wish to vote for. There must be a mechanism whereby he can satisfy himself that he appoints the correct individual. Mr Gape proposed that the Scheme considers a platform under the login section of the web whereby a member can engage candidates standing for election on their areas of expertise. Campaigning may not be correct but consideration should be given to some mechanism to assist members in electing Trustees. The Chair commented that the proposal regarding engaging candidates standing for election on the Scheme website will be considered, however, final steer and guidance will be taken from the CMS. Mr Gape also enquired on the process followed to appoint PwC as auditors of the Scheme, who are then also the Independent Electoral Body and utilised for purposes of the Trustee remuneration benchmarking and methodology.

The Chair commented that the appointment of PwC follows a recommendation from the Scheme's Audit Committee. The Scheme utilises a number of independent firms for services as in the case of PwC where a division within the firm is utilised for specialised services.

- Mr Zami Lamzimo raised a question on whether members who have no access to e-mails were sent proxy forms via post. Mr Streak, in the absence of Mrs Sheria, commented that the proxy process was managed by PwC as the Independent Electoral Body. Members had to contact PwC for a proxy form. Mrs Sheria, who re-entered the venue, continued to comment that proxy forms were available on request from PwC. Members who received their AGM communication via post were instructed on the communication to contact PwC to obtain a proxy form.

- Mr Noel Graves, an outgoing Scheme Trustee, addressed the members and commented that in response to Mr Edges' complaints regarding the independence of the Board of Trustees and the Scheme, he wished to indicate that he had served on the Scheme's Non-Healthcare Expenses Committee for a number of years. In this time he had interacted with a number of representatives from Discovery Health (Pty) Limited and with Dr Broomberg. What can be said is that the meeting and negotiations have been difficult. There have been no concessions made to Dr Broomberg and the resolution regarding fees has been reached after a very long process. Discovery Health (Pty) Limited is an exceptional institution which provides services worthy of being paid for. In addition, he is pleased that Mr Edges attends the AGM's and voices his views and opinion and hopes that in years to come Mr Edges will continue to attend the Scheme AGM's.
- Mr Hope Mashele commented that he fully supports Mr Graves regarding Mr Edges' participation at the AGM and this is the best turnout that he has seen at the Scheme's AGM. The fact that members are engaging is commendable and this can only be seen as a positive contribution. The election of Trustees needs to have better engagement where members are provided with an opportunity to interrogate the qualification and experience of candidates standing for election. In addition, with regard to transformation, he would like to see how the Scheme is pursuing a transformation agenda.
- Mr Dave King proposed a vote of thanks to the outgoing Trustees and commented that the Vested® business model is one of the key contributing factors to keeping year-on-year increases in non-healthcare costs below inflation. Having worked in the Fast Moving Consumer Goods (FMCG) industry (and specifically the beer sector), the market leader has been able to follow a similar path using its scale to bring down real costs.
- Mr Sandile Gumede posed the following question:
  - Based on the Annual Financial Statements of the Discovery Group and an arbitrary calculation of dividing Discovery Health (Pty) Limited's net profit for the year by the total administration fees collected it appears as if Discovery Health (Pty) Limited has a 30% net profit margin. Clarity was requested on how this profit margin is generated.
  - Dr Broomberg commented that the industry compares administration fees to gross annual contributions however the Scheme's administration fee is a fixed per member fee and not related to contribution income.
  - Mr Streak commented that with regard to profit margins the question is for Discovery Health (Pty) Limited and not for the Scheme's Board of Trustees. Mr Streak indicated that he will not comment on the accuracy of Mr Gumede's calculation however he will share the following:
    - As indicated in the presentation made the administration fee charged to the Scheme ranks 17 out of 23 open schemes.
    - Eight medical schemes have in the last four years moved their business to Discovery Health (Pty) Limited due to their ability to achieve much lower claims costs through a number of investments and innovations and through skills and assets. Claims account for approximately 90% of the contributions and the savings on claims are therefore worth more than the administration fee.
- Mr Anthony Ndaba, a KeyCare Plus member, commented that as a member of this plan he is compelled to choose two GP's in a network and that should he travel on holiday or for business to an area outside of his chosen area, what would the implication be if he is forced to use a GP in this area. Mr Streak commented that one would be allowed to change GP's and advised that he would provide Mr Ndaba with the opportunity to fully understand and respond to his question after the meeting.

## 7. Closure

There being no further business, the Chair closed the meeting and thanked all for attending.