

1. IMPLEMENTATION OF IFRS® ACCOUNTING STANDARDS

IFRS 9 Financial Instruments

IFRS 9 became effective on 1 January 2023. The Scheme previously classified investments as available-for-sale investments in terms of IAS 39, which has now been reclassified to financial assets held at fair value through profit or loss with the adoption of IFRS 9. The adoption of IFRS 9 has further resulted in the available-for-sale reserve being reclassified insurance liability to future members and the movement in the unrealised gains or losses being allocated to the Statement of Comprehensive Income (Income Statement).

IFRS 17 Insurance Contracts

The new **IFRS 17 Insurance Contracts** became effective from 1 January 2023 and is applicable to all medical schemes, replacing the interim standard **IFRS 4 Insurance Contracts**, issued by the International Accounting Standards Board.

IFRS 17 was applied retrospectively. As a result, the Scheme has restated certain comparative amounts and presented a third statement of financial position as at 1 January 2022.

IFRS 17 introduces significant changes to the terminology and presentation of the Financial Statements, however, there are no changes for members, to the nature or operations of the Scheme, its business model, any processes applied by the Scheme in fulfilling its obligation to members, or to how we manage the Scheme’s reserves.

IFRS 17 only impact the accounting treatment of contracts (medical aid) issued by the Scheme, which fall within the definition of insurance contracts in terms of IFRS.

Although not legally defined as such, medical schemes are regarded as mutual entities for purposes of accounting reporting when applying IFRS 17, as they present similar attributes to mutual entities, but there have been no changes to regulatory or legislative requirements applicable to medical schemes.

As mutual entities under IFRS 17, medical schemes’ “accumulated member funds/reserves” are now referred to as “Insurance liability to future members” and classified as liabilities in the financial statements. This is a fundamental change in the classification and presentation of the Scheme’s reserves in the Statement of Financial Position in the Financial Statements. Scheme’s will also not have a net income or expense as all amounts are transferred to insurance liability to future members.

An example of a notable change, albeit not material to the Scheme’s overall financial position, is the introduction of a risk adjustment to be applied to what was previously known as the provision for outstanding claims provision, which is now referred to as the Liability for Incurred Claims (LIC). The purpose of the risk adjustment is to allow for uncertainty in the estimated future cash flows related to the claims provision.

Below a list of terminology changes for ease of reference:

IFRS 4

Accumulated funds

Provision for outstanding claims

Risk contribution income

Relevant healthcare expenditure

Net healthcare result

IFRS 17

Insurance liability to future members

Insurance contract liability

Insurance revenue

Insurance service expense

Insurance service result