CIRCULAR

Reference: AFS Workshop Outcomes
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Circular 36 of 2025: Outcomes of AFS workshop held on 3 October 2025

1.1 Purpose

The Council for Medical Schemes (CMS) would like to express its appreciation to medical schemes and their administrators for attending the workshop held at CMS on 3 October 2025 and for engaging on various matters that impact the Annual Financial Statements (AFS) of medical schemes.

This Circular provides feedback on the outcome of this stakeholder engagement.

1.2 Definitions contained in the Medical Schemes Act

As was mentioned in Circular 32 of 2025, CMS requires schemes to include 'Relevant healthcare expenditure' as a line item in its annual financial statements and notes thereto. This would result in the alignment of medical schemes' AFS with the requirements of the MSA.

The CMS proposed that relevant healthcare expenditure is denoted by an asterisk next to claims, accredited managed care and reinsurance results, and that the separate line item be disclosed at the bottom of the Statement of Comprehensive Income:

	Year
Insurance revenue	
Insurance service expenses	
Claims incurred	
Net claims incurred*	
Accredited managed healthcare services (no transfer of risk)*	
Directly attributable insurance service expenses	
Fees paid in respect of accredited administration services	
Other directly attributable administration expenditure	
Insurance acquisition costs	
Reinsurance result*	

	Year
Insurance service result	
Relevant healthcare expenditure	
*Relevant healthcare expenditure consists of net claims incurred, accredited managed healthcare services (no transfer of risk) and reinsurance results	

The disclosure on the face of the Statement of Comprehensive Income, rather than in the notes to the AFS, is necessary given that a number of medical schemes circulate highlights documents, as per their Scheme Rules, rather than the full set of AFS, to their members.

Stakeholders were in favour of being granted an option of where the disclosure needs to take place: in the Statement of Comprehensive Income or the notes to the AFS. The CMS indicated that we will review the requirements imposed by Circular 6 of 2013 on the annual financial information provided to members.

1.3 Statement of comprehensive income

The CMS is concerned that due to the highly summarised IFRS 17 *Insurance Contracts* compliant Statements of Comprehensive Income of medical schemes, members cannot ascertain on face value where their claim values are included. The CMS suggested that a certain minimum breakdown of information should be provided.

The CMS suggested the following breakdown:

Insurance revenue

Insurance service expenses

Claims incurred

Net claims incurred

Accredited managed healthcare services (no transfer of risk)

Directly attributable insurance service expenses

Fees paid in respect of accredited administration services

Other directly attributable administration expenditure

Insurance acquisition costs

Reinsurance result

Insurance service result

Stakeholders agreed with the proposal to provide a high-level breakdown of insurance service expenditure on the face of the Statement of Comprehensive Income.

1.4 Statement of financial position

The CMS is concerned that due to the highly summarised IFRS 17 *Insurance Contracts* compliant Statements of Financial Position of medical schemes, members need to go to the notes to get information that is of value to them. This is true in for example, where medical schemes provide PMSA facilities.

The CMS made a suggestion to provide a further breakdown of what is included in the net Insurance Contract Liability/Asset. This proposal was turned down by stakeholders due to possible confusion arising from the offsetting of insurance assets and liabilities.

The CMS agreed to review the requirements imposed by Circular 6 of 2013 on the annual financial information provided to members.

1.5 IFRS 17 *Insurance Contracts:* Mutual funds

The change from members' funds being a reserve to a reclassification as a non-current liability resulted in a lot of confusion for members. The new naming convention also contributes to the confusion, specifically as it refers to future members.

The CMS suggested standard terminology that could be used across the industry, which clearly designates the nature of the liability. Stakeholders agreed on the following proposals to be put forth as recommendations to the South African Institute of Chartered Accountants (SAICA) Medical Schemes Project Group (MSPG): 'Members' interest', 'Members' residual interest' and 'Members' funds'.

1.6 Designation between DAE and Non-DAE

In engagements with stakeholders, an opinion was conveyed that, contrary to other insurance entities, medical schemes only have one product line to service. Medical schemes will therefore not incur any expenditure that is not necessary in servicing their portfolio of insurance contracts. All (previously known as) non-healthcare expenditure should therefore be considered as directly attributable insurance service expenditure (DAE).

It was agreed in the stakeholder engagement session that, in general, the full amounts of the previously known non-healthcare expenditure amounts should be considered as DAE, with certain exceptions based on individual scheme circumstances.

Schemes can already consider the reclassification in the next financial year, but would be allowed to postpone this reclassification to be implemented together with IFRS 18 *Presentation and Disclosure in Financial Statements.*

1.7 Insurance Contract Liability/Asset

1.7.1 Transfers between the Liability for Remaining Coverage (LFRC) and Liability for Incurred Claims (LIC)

There is a difference in the technical interpretation of whether specific items within the Liability for Remaining Coverage (LFRC) may be transferred to the Liability for Incurred Claims (LIC) or not. Specific items discussed were contribution receivables, contributions received in advance and Personal Medical Savings Accounts (PMSAs) contributions.

As was mentioned in Circular 32 of 2025, the following observations were made during the 2024 AFS analysis:

- 41 schemes transferred their contribution receivables to the LIC.
- Of the 43 schemes that accounted for contributions received in advance, 38 schemes included contributions received in advance in the LFRC and the remaining five schemes included this in their LIC.

- 34 (of 39 schemes which received PMSA contributions) schemes transferred their Personal Medical Savings Accounts (PMSAs) contributions to the LIC.

It was agreed that CMS would request the SAICA MSPG to provide technical guidance.

1.7.2 Provision for impairment on insurance receivables

Stakeholders confirmed that "provisions for impairment" is still considered in their management accounts, and is necessary to enforce schemes' credit control policies. IFRS 9 *Financial Instruments* are used to calculate the provisions.

CMS will therefore add back the individual lines in the financial annual statutory return as it relates to provisions on insurance and/or reinsurance receivables.

1.7.3 Insurance Contract receivables/payables – IFRS 9 vs IFRS 17

It was noted that some schemes accounted for certain receivables and payables, such as amounts to be recovered from members and providers, unallocated deposits, amounts owing to administrators, managed care organisations and brokers as trade and other receivables/ payables in terms of IFRS 9 *Financial Instruments*.

Stakeholders agreed that the classification of these items under either IFRS 9 *Financial Instruments* or IFRS 17 *Insurance Contracts* should be referred to the SAICA MSPG for further technical guidance.

1.8 Investments at fair value through other comprehensive income (FVOCI) and property revaluation reserve

There is a difference in interpretation on whether FVOCI and property revaluation reserves must be disclosed in terms of IFRS 9 *Financial Instruments* or are deemed to form part of the members' residual interest liability in terms of IFRS 17 *Insurance Contracts.* Similarly, there is no consensus on whether a Statement of Changes in Reserves must be included in schemes' AFS.

Stakeholders confirmed that this matter should be referred to the SAICA MSPG for further technical deliberation.

1.9 Order of liquidity presentation

The CMS believes that medical schemes operate within a clearly identifiable operating cycle, which would necessitate a current, non-current presentation in the Statement of Financial Position (for more information, kindly refer to Circular 32 of 2025). There was agreement at the stakeholder engagement session that schemes do operate in a clearly identifiable operating cycle.

Stakeholders indicated that the proposal to use the Order of liquidity as a presentation method originated from Independent Regulatory Board of Auditors (IRBA) findings on the split of investments between current and non-current assets on the face of the Statement of Financial Position.

CMS will further engage with IRBA on their finding and the consequences thereof during their revision of the "Revised Guide for Registered Auditors: Assurance Engagements on the Annual Financial Statements and Annual Statutory Returns of a Medical Scheme" during the latter part of 2025.

1.10 Statement of Cash Flows – classification of investment income and asset management fees

CMS has provided our opinion on the classification of investment income in Circular 32 of 2025.

The stakeholder engagement session agreed that the classification will be considered again, together with the implementation of IFRS 18 *Presentation and Disclosure in Financial Statements*.

The CMS is looking forward to further engagement with the industry to achieve consistency in medical schemes, AFS and highly appreciates your engagement.

Yours sincerely,

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