CIRCULAR

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| Contact person: | Mr Louis Rikhotso |
| Tel: | 012 431 0571 |
| E-mail: | l.rikhotso@medicalschemes.co.za |
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# Circular 31 of 2026: General Concerns Noted During the Analysis of the 2025 Annual Financial Statements and Annual Statutory Returns

## 1. INTRODUCTION

### 1.1 Purpose

The Council for Medical Schemes (CMS) would like to express its appreciation to medical schemes, administrators and auditors for their cooperation in submitting the 2025 Annual Financial Statements (AFS) and Financial Annual Statutory Returns (FASR) within the prescribed period, as required by Circular 13 of 2026.

The purpose of this Circular is to bring to your attention common issues identified during the analysis of the AFS and FASR in order to:

- Enhance the quality of data submitted in the AFS and FASR.
- Achieve standardisation and uniformity regarding proper disclosure.
- Reduce errors.
- Establish good financial reporting for the industry in line with the requirements of IFRS Accounting Standards.

### 1.2 Background

Medical schemes are required in terms of Section 37(4) of the Medical Schemes Act (131 of 1998) (MSA) to prepare their annual financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board. IFRS 17 *Insurance Contracts* has applied to medical schemes for financial years beginning on or after 1 January 2023, with retrospective adjustment required. Since its implementation, the CMS has observed significant improvements in schemes' application of IFRS 17 and the related disclosures.

This Circular seeks to highlight remaining discrepancies in the information submitted by medical schemes in their statutory returns, as well as matters relating to specific IFRS Accounting Standards. The users responsible for preparing the AFS and FASR, as well as scheme management, are requested to address these matters in future submissions.

### 1.3 Statistics

In 2025, 71 schemes were in operation. A total of 70 schemes* provided a full submission for 2025.

> * *As at 31 July 2026, Sizwe Hosmed Medical Scheme had not yet submitted its final audited annual financial statements for the financial year ending 31 December 2023. The scheme has therefore been excluded from the Annexures and Annual Report.*

There were no AFS rejections during this analysis period.

One scheme's FASR was rejected. This rejection was as a result of incorrect allocations on the FASR that were considered material. However, the issues did not affect the AFS and therefore did not result in the rejection of the scheme's AFS.

### 1.4 Risk-based analysis and IFRS 17 *Insurance Contracts* analysis theme

A risk-based analysis approach was adopted for the analysis of the AFS and FASR for 2025. Schemes were stratified based on size and demographic profile into the categories of high, medium, and low-impact schemes.

A full analysis was performed on high- and medium-impact schemes, whereas a report-level analysis and a limited high-level IFRS 17 *Insurance Contracts* compliance overview were performed on low-impact schemes.

Of the 70 schemes that submitted final audited data, the classification of schemes is set out below:

| Classification | Number of schemes | Beneficiaries | Beneficiaries as a % of total |
|---|---|---|---|
| High | 16 | 8 325 929 | 90.93% |
| Medium | 23 | 370 561 | 4.05% |
| Low | 31 | 459 774 | 5.02% |
| | **70** | **9 156 264** | 100.00% |

During 2025, the CMS' Financial Supervision Unit continued to use IFRS 17 *Insurance Contracts* as an analysis theme.

The five highest impact medical schemes were invited to present their 2025 AFS to CMS and to further engage on challenges experienced by these schemes during the audit process, compilation of the AFS and the FASR.

Roundtable analysis discussions continued for the 2025 analysis on the five highest impact schemes.

## 2. KEY AREAS OF CONCERN

***Outcomes from AFS workshop***

**2.1** Definitions contained in the Medical Schemes Act: Relevant healthcare expenditure (RHE)

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

The CMS, through Circular 36 of 2025, proposed that relevant healthcare expenditure be denoted by an asterisk next to net claims incurred, accredited managed healthcare services (no transfer of risk) and reinsurance results.

The circular also proposed that a separate line item be disclosed at the bottom of the Statement of Comprehensive Income (SoCI). Although not clear in the circular, the total of the RHE amount must also be shown at the bottom of the SoCI.

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

The following was observed in terms of the RHE disclosures:

- 28 schemes disclosed RHE with an asterisk and amounts on the Face of the SoCI.
- 26 schemes disclosed RHE with an asterisk on the Face of the SoCI but without amounts.
- 5 schemes disclosed RHE only in the notes to the AFS.
- 11 schemes did not have RHE disclosure either on the face of the SoCI or in the notes.

Schemes are advised to define and disclose RHE in a separate line with the total amount at the bottom of the Statement of Comprehensive Income. Please refer to the example contained in Circular 36 of 2025.

**2.2** Statement of Comprehensive Income: High-level breakdown of Insurance Service Expense

Circular 36 of 2025 records stakeholders' agreement with the proposal to present a minimum high-level breakdown of insurance service expenditure on the face of the SoCI.

It was noted that five schemes did not provide a high-level breakdown of insurance service expenditure on the face of the SoCI.

Schemes are advised to include the minimum high-level breakdown on the face of the SoCI. Please refer to the suggested breakdown contained in Circular 36 of 2025.

**2.3** Statement of Financial Position: Order of liquidity

Circular 41 of 2023 requested schemes to provide comments on the presentation of the Statement of Financial Position.

Paragraph 60 of International Accounting Standard (IAS) 1 *Presentation of Financial Statements* states that: "An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 66–76 except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity." (own emphasis)

Paragraph 62 of IAS 1 *Presentation of Financial Statements* states that: "When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities in the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period." (own emphasis)

The standard recognises that for some entities, such as financial institutions, the presentation of assets and liabilities using the order of liquidity provides information that is reliable and more relevant than a current and non-current presentation as the entity does not supply goods or services within a clearly identifiable operating cycle (see IAS 1 *Presentation of Financial Statements* paragraph 63).

The CMS believes that medical schemes operate within a clearly identifiable operating cycle, which would necessitate a current and non-current presentation in the Statement of Financial Position.

Paragraph 61 of IAS 1 *Presentation of Financial Statements* also indicates that regardless of which method of presentation has been adopted, the entity will still be required to disclose current and non-current assets and liabilities separately.

It was noted that seven schemes adopted the order of liquidity to present their statement of financial position (All seven schemes were administered by the same third-party administrator).

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

**2.4** Statement of Cash Flows – Investment income

IAS 7 *Statement of Cash Flows* paragraph 6 contains the following definitions:

- *Cash* comprises cash on hand and demand deposits.
- *Cash equivalents* are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- *Cash flows* are inflows and outflows of cash and cash equivalents.
- *Operating activities* are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.
- *Investing activities* are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

IAS 7 *Statement of Cash Flows* paragraph 33 states that there is no consensus on the classification of interest paid and interest and dividends received for entities other than financial institutions. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

In Circular 52 of 2021, the CMS requested that schemes report on their investment income under investing activities. This is due to Section 33(2)(b) of the MSA requiring each benefit option to be self-supporting in terms of financial performance. Circular 12 of 2024 clarified that compliance with Section 33(2)(b) is evaluated at the insurance service result level (i.e. before investment income is taken into account). This sub-total is deemed to reflect the scheme's operational result.

Although Circular 18 of 2022 delayed the implementation of the above-mentioned Circular 52 of 2021, the CMS is still of the opinion that investment income should be disclosed under investing activities. The above definition of 'Operating and Investing activities' in IAS 7 *Statement of Cash Flows* also further supports our view that only principal revenue-producing items must be included under Operating activities.

It was noted that ten schemes disclosed their investment income (i.e. interest received from investments other than cash and cash equivalents, and dividends received) under operating activities. 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.

**2.5** Directly attributable and Not directly attributable insurance expenses

Cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract and include those over which the entity has discretion.

IFRS 17 *Insurance Contracts* states the following regarding these cash flows:

i) The cash flows within the boundary of a contract include: "an allocation of fixed and variable overheads (such as the costs of accounting, human resources, information technology and support, building depreciation, rent, and maintenance and utilities) directly attributable to fulfilling insurance contracts. Such overheads are allocated to groups of contracts using methods that are systematic and rational and are consistently applied to all costs that have similar characteristics" (IFRS 17.B65).

IFRS 17.B66 states that the following cash flows shall not be included in the fulfilment cash flows: "(d) cash flows relating to costs that cannot be directly attributed to the portfolio of insurance contracts that contain the contract, such as some product development and training costs. Such costs are recognised in profit or loss when incurred."

Circular 29 of 2023 was issued requesting comments from the industry on the proposed split of its operational expenditure between directly attributable and non-directly attributable expenditure. The CMS' original position was also communicated in this circular. However, feedback from the industry was inconclusive, and the CMS therefore accepted different allocation methods in the AFS.

In subsequent engagement 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. It was agreed in the 3 October 2025 AFS workshop that generally 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 but would be allowed to postpone this reclassification to be implemented together with IFRS 18 Presentation and Disclosure in Financial Statements. The postponement is allowed as the non-DAE component is not considered to be material.

***Outcomes of the SAICA MSPG[1]***

**2.6** Transfers within the Liability for Remaining Coverage (LFRC) and Liability for Incurred Claims (LIC)

Circular 42 of 2025 clarified the technical interpretations relating to transfers within the LFRC and LIC, as discussed at the SAICA MSPG. The following points were clarified:

a. Contribution receivables:

Contribution receivables should remain in the LFRC and not be transferred to the LIC. Reference can be made to:

- The Staff Paper on the Presentation of insurance contracts on the statement of financial position, paragraph A4, which states: "The receipt of premium during each reporting period affects the measurement of the liability

[1] South African Institute of Chartered Accountants (SAICA) Medical Schemes Project Group (MSPG)

for remaining coverage, as follows: … (b) applying the PAA, the liability for remaining coverage is measured based on the premiums received less those that have been recognised as revenue."

- The Effects Analysis that accompanies IFRS 17, Illustration 4 – Disclosures, specifically Table 2 on page 125.

  Eleven (11) schemes were identified to have transferred contribution receivables from the LFRC to the LIC. This is contrary to the interpretation above. Schemes are advised to retain contribution receivables within the LFRC.

b. Contributions received in advance:
   Generally, contributions received in advance should remain in the LFRC.
   Exceptions might apply where contributions received in advance are accounted for in terms of IFRS 9 Financial Instruments – this, however, is dependent on obtaining an understanding of the contract boundary as it relates to the terms and conditions imposed by the scheme rules.

   Twenty-one (21) schemes were identified to have transferred the contributions received in advance from the LFRC to the LIC. This is contrary to the interpretation above. Schemes are advised to retain contributions received in advance in the LFRC except for instances where contributions received in advance were accounted for in terms of IFRS 9.

c. Personal Medical Savings Account (PMSA)
   Schemes have an accounting policy choice to either transfer their PMSA contributions to the LIC or have these balances remain in the LFRC.

   Of the 49 schemes which provided PMSA facilities, 37 schemes chose to transfer their PMSA to LIC, with 12 schemes retaining their PMSA in the LFRC.

**2.7** 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 in their 2024 AFS.

The SAICA MSPG confirmed that where items are included as part of the schemes' Insurance Service Expenses, the related payable should be disclosed under IFRS 17 Insurance Contracts. Similarly, unallocated deposits would also be disclosed as an insurance liability under IFRS 17 Insurance Contracts due to the primary business of a medical scheme being that of providing medical insurance. Although a small portion of these may be unrelated to insurance revenue, they would, however, be immaterial.

Thirteen (13) schemes continued to account for the above costs in terms of IFRS 9 instead of IFRS 17.

**2.8** Investments at fair value through other comprehensive income (FVOCI) reserve

IAS 1 P*resentation of Financial Statements* defines Other Comprehensive Income (OCI) as items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs. It then further elaborates that the definition includes gains and losses on financial assets measured at fair value through other comprehensive income.

Paragraph 106(d) requires the disclosure (for each component of equity) of a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) disclosing changes resulting from: (i) profit or loss and (ii) other comprehensive income. Paragraph 106A further requires the analysis of other comprehensive income by item.

In the SAICA MSPG meeting held on 22 October 2025, it was agreed that the nature of the FVOCI and property revaluation reserves remains the same and is not affected by schemes meeting the definition of a mutual entity. Therefore, schemes with such reserves should still include a Statement of Changes in Reserves in their AFS.

Of the six schemes that have FVOCI investments, one scheme omitted to disclose a Statement of Changes in Equity with details on the movements in the OCI reserve. The scheme is urged to include this statement in its 2026 AFS.

**2.9** 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 contributed to the confusion, specifically as it referred to future members.

Following the engagement with the SAICA MSPG, new terminology was agreed upon, referring to the mutual funds now as a "Liability to members for future benefits".

It was noted that three schemes did not use the suggested terminology, with two schemes using the term "liability attributable to future members" while one scheme referred to "insurance contract liability". These terms are not in line with the agreed naming convention. Schemes are urged to use the Liability to members for future benefits in reference to the Mutual funds in the future.

***Annual Financial Statements (AFS)***

**2.10** Statement of Comprehensive Income – Mutualisation / residual interest entry

During the CMS administrator workshop held in April 2025, it was clarified to schemes that the mutualisation/residual interest entry, previously included in the Insurance Services Expenses (ISE) line, should now be removed and added only after the net result in the Statement of Profit or Loss. This was aligned to the presentation used in the Statement of Profit or Loss that was included in the Illustrative set of AFS per the 2024 SAICA Accounting Guide.

Members will better appreciate the scheme's performance with this entry being disclosed after the net result.

Circular 12 of 2024 confirmed that schemes must exclude the amounts attributable to members (mutualisation/residual interest entry) from their benefit options results (i.e. the amounts attributable to members must not be included in the insurance service expenditure line item and therefore should not be allocated to the individual benefit options). With this entry now only being included after the net result (both the scheme results and the per benefit option results), this requirement would no longer be enforced.

One scheme continued to include the mutualisation entry in its ISE. The scheme is urged to include this entry after the net result in the Statement of Comprehensive Income for its 2026 AFS.

***Financial risk and insurance risk management report***

**2.11** Sensitivity analysis and concentrations of risk

IFRS 7 *Financial Instruments: Disclosures* requires schemes to provide quantitative disclosures for each type of risk arising from financial instruments. IFRS 17 *Insurance Contracts* requires similar disclosure for each type of risk arising from insurance contracts.

It was noted that four schemes provided quantitative disclosures in relation to the required sensitivity analysis and concentration of risks that could not be reconciled back to the Statement of Financial Position, the Statement of Profit or Loss or the notes thereto.

**2.12** Capital adequacy disclosure

IAS 1 *Presentation of Financial Statements* requires schemes to include disclosures regarding the scheme's objectives, policies and processes for managing capital.

IFRS 17 *Insurance Contracts* paragraph 126 requires the disclosure of information about the effect of the regulatory frameworks in which it operates, which includes the minimum capital requirements.

We have noted that most schemes only address solvency level requirements but do not provide details on the scheme's reserving strategy, or (where applicable) its risk-based solvency considerations.

**2.13** Liquidity risk analysis:

IFRS 17 Insurance contracts paragraph 132 states that:
"For liquidity risk arising from contracts within the scope of IFRS 17, an entity shall disclose:
(a) a description of how it manages the liquidity risk.
(a) separate maturity analyses for portfolios of insurance contracts issued that are liabilities and portfolios of reinsurance contracts held that are liabilities that show, as a minimum, net cash flows of the portfolios for each of the first five years after the reporting date and in aggregate beyond the first five years."

*Amounts attributable to future members*

It was observed that the mutualisation/residual interest line item skews the results of this analysis, and seems to imply that schemes are not sustainable in the long term.

It is therefore suggested that the residual interest liability be removed from the time bands disclosure and rather disclosed as a qualitative description.

*Maturity analysis*

Regulation 6(1) of the MSA requires Medical Schemes' Rules to, at a minimum, allow members/service providers to submit claims within four months of the service date. Section 59(2) then requires the payment of these accounts within 30 days.

The CMS is of the view that a maturity analysis grouping of the first five years after the reporting date and in aggregate thereafter does not clearly reflect the short-term nature of the incurred claims liability.

Additional disclosure considerations: Liquidity risk analysis

IAS 1 *Presentation of Financial Statements* paragraph 17(c) requires entities to provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Circular 32 of 2025 requested all schemes to provide information on the matching of their assets with their liabilities within the liquidity risk analysis note. This is to provide users with a clear picture of how the scheme manages its liquidity risk.

One scheme did not provide information on the matching of its assets with its liabilities within the liquidity risk disclosure note. The scheme is requested to add these disclosures to its AFS.

**2.14** Credit risk ratings

Two schemes provided inadequate disclosure of credit risk ratings per institution as required by IFRS 7 *Financial Instruments: Disclosures* paragraph 35M: "an entity shall disclose, by credit risk rating grades, the gross carrying amount of financial assets".

Schemes are urged to ensure that the appropriate disclosure in terms of IFRS 7 *Financial Instruments: Disclosures* is included in their annual financial statements.

***Financial Annual Statutory Returns (FASR)***

**2.15** Insurance contract payables and receivables

It was noted that 13 schemes did not differentiate appropriately between the insurance and non-insurance payables and receivables in Parts 4.3(a) and (b), and Parts 4.8(a) and (b). Schemes are urged to split the payables and receivables appropriately and to ensure these agree to the disclosure in the annual financial statements.

**2.16** Part 6: Onerous contracts

Onerous contracts line 6.1.10.1 was created to allow schemes to capture their pricing deficit for the following year. Two schemes that disclosed a separate liability (amounts attributable to members) under current liabilities did not make use of this line to capture the next year's pricing deficit.

The loss expected for the next financial year must be shown in Part 6.1 line 6.1.10.1 for Onerous Contracts and will pull through to Part 7.1, 7.1.7, which then also pulls through to Part 5.2.3.1.

**2.17** Part 9(a) – Investments

A number of medical schemes completed Part 9(a) of the return incorrectly. Issues identified include:

- General misclassification within 24 schemes.
- Drop-downs provided were not utilised by 14 schemes.
- Instrument codes not provided (only entity names were provided) by 6 schemes.
- Insufficient documentation supporting reclassification of investments to other categories as required in Circulars 12 and 19 of 2023. This was noted for 5 medical schemes.

In future, please ensure that the investments are classified correctly to assist with compliance monitoring.

Guidelines on the categorisation of assets in terms of Regulation 30 of the MSA, read in conjunction with Annexure B to the Regulations, are published on our website for further guidance in this regard.

**2.18** Reporting of non-compliance matters:

In Circular 11 of 2006, Circular 30 of 2007 and Circular 14 of 2008, the CMS has directed schemes that all non-compliance matters should be disclosed in both the Board of Trustees Report and the scheme's AFS.

*Monitoring compliance with Regulation 30*

Regulation 30(2) states: "The assets that a medical scheme is required to have in terms of sub-regulation (1), when expressed as a percentage of the aggregate fair value of the liabilities and the minimum accumulated funds to be maintained in terms of Regulation 29, must not exceed the percentage specified against it in column 3 of Annexure B."

Minimum accumulated funds as per Regulation 29 is referred to in Regulation 29(1), which states: "In this Regulation, "accumulated funds" means the net asset value of the medical scheme, excluding funds set aside for specific purposes and unrealised non-distributable reserves." This includes unrealised gains on investments.

It has been noted that many schemes and their investment managers are determining compliance percentages based on investible assets (i.e. the actual funds available for investment), instead of what is stated in Regulation 30(2) and column 3 of Annexure B. This has led to many instances of non-compliance that have not been identified and reported by medical schemes or their investment managers.

The denominator should be calculated as follows:

- Where the scheme's solvency exceeds 25%: the fair value of the liabilities plus the Regulation 29 funds; or
- Where the scheme's solvency is below 25%: the fair value of the liabilities plus the minimum required Regulation 29 funds (25% of the annualised contributions).

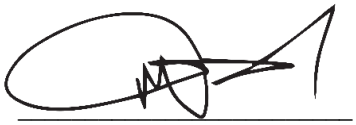
Schemes are required to disclose the following information relating to all non-compliance issues (regardless of whether the scheme has addressed the non-compliance or not):

- Nature and impact;
- Causes of the failure; and
- Corrective course of action (including the timeframe, where applicable).

Corrective courses of action implemented would include exemptions obtained, suspension and termination of benefits in respect of outstanding contributions, and any other actions taken.

The CMS is looking forward to improved AFS and FASR submissions in future and highly appreciates your cooperation.

Yours sincerely,



**Dr Musa Gumede**
**Chief Executive and Registrar**
**Council for Medical Schemes**