Illustrative IFRS 17 financial statements

For South African Medical Schemes

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Illustrative IFRS 17 financial statements – South African Medical Schemes

IFRS 17 Insurance Contracts ("IFRS 17") came into effect for financial years beginning on or after 1 January 2023. IFRS 17 has changed the measurement and presentation of insurance contracts and requires comparatives of financial statements to be restated. The implementation process has required a lot of effort from actuaries, accountants and other staff to get to the end goal of presentation and disclosure in the financial statements.

We hope that this set of illustrative financial statements helps you on your final stages of the IFRS 17 presentation and measurement journey.

*This publication provides an illustrative extract of a set of financial statements, prepared in accordance with IFRS 17, for **WeCare** medical scheme, a fictional medical scheme that conducts business in South Africa and in accordance with the regulations of the Medical Schemes Act. This set may not be appropriate for other general or health insurers.*

The administered scheme issues three benefit options: **WeCare Prime, WeCare Intermediate and WeCare Basic**. The risk management strategy of the scheme is to manage the scheme and the benefit options as a whole while adhering to the Medical Schemes Act of South Africa, no. 131 of 1998, as amended ("MSA"). Scheme management applied their judgement and concluded that based on the risk management and how the benefit options are managed and priced, that the scheme has one portfolio in terms of IFRS 17.14 and that it is a mutual entity for the purposes of financial reporting. Please refer to the notes for policy and measurement decisions.

WeCare is an existing preparer of IFRS® Accounting Standards (IFRS) financial statements and has adopted IFRS 17 for its financial year ended 31 December 2023.

This publication is based on the requirements of the IFRS 17 standard as published and amended by the International Accounting Standards Board (IASB) in June 2020.

The IFRIC® Interpretations up to the date of publication have been considered in this document. There may be some future changes to standards or changes in interpretations of the current IFRS 17 standard by the IASB/IFRS Interpretations Committee after the date of this publication which preparers should consider. Furthermore, the Council of Medical Schemes ("CMS") may issue circulars that may require different presentation or disclosure alternatives. At the date of publication all circulars that relate to presentation and disclosure of IFRS have been taken into account.

This illustrative set of Medical Scheme financial statements only sets out to disclose the requirements of IFRS 17 and no other disclosures have been provided. Therefore this is not a complete/comprehensive set. Other disclosure items and transactions have been included in other publications in the 'Illustrative' series. See https://viewpoint.pwc.com.

The example disclosures should not be considered the only acceptable form of presentation. The form and content of each reporting scheme's financial statements are the responsibility of the scheme's principal officer and trustees. Forms of presentation alternative to those proposed in this publication and that are equally acceptable may be preferred and adopted, if they comply with the specific disclosure requirements prescribed in IFRS.

These illustrative financial statements are not a substitute for reading the standards and interpretations themselves or for professional judgement as to fairness of presentation. They do not cover all possible disclosures that IFRS requires, nor do they take account of any specific legal framework. Further information may be required in order to ensure fair presentation under IFRS. Additional accounting disclosures may be required in order to comply with local laws and regulations.

The structure of financial reports should reflect the particular circumstances of the Scheme and the likely priorities of its members. There is no "one size fits all" approach and Schemes should engage with their regulator to determine what would be most relevant to them. The structure used in this publication is not meant to be used as a template, but to provide you with possible ideas. It will not necessarily be suitable for all Schemes.

The references in the left-hand margin of the financial statements represent the paragraph of the standards in which the disclosure requirement appears – for example, IFRS 17(11) indicates IFRS 17: Insurance contracts paragraph 11.

PwC commentary has been provided, in grey boxes, to explain the detail behind the presentation of a number of challenging areas. Additional notes and explanations are shown in footnotes.

All amounts that are shown in brackets are negative amounts. Due to roundings, variations/differences can occur.

Please look out for these icons for practical insights specific to South African Medical Schemes

Blocks in orange border indicates the accounting policy choice or certain facts applied by WeCare

PwC Manual of Accounting – IFRS

For further insights on the application of the IFRS refer to the *PwC Manual of Accounting* which can be accessed through our viewpoint website (link will only work for registered users). Each chapter has a series of frequently asked questions which provide useful guidance on particular aspects of each accounting standard. As of February 2024, the PwC Manual of Accounting has more than 300 frequently asked questions on IFRS 17.

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Comments on the composition of the financial		
IAS 1(10)	**Accounting standard for financial statements presentation and disclosures**	
	1.	According to IAS 1 Presentation of Financial Statements, a 'complete set of financial statements' comprises: a. a statement of Financial Position as at the end of the period b. a statement of Profit or Loss and Other Comprehensive Income for the period c. a statement of changes in equity for the period d. a statement of cash flows for the period e. notes, comprising a summary of significant accounting policies and other explanatory notes, and f. if the entity has applied an accounting policy retrospectively, made a retrospective restatement of items or has reclassified items in its financial statements: a Statement of Financial Position as at the beginning of the earliest comparative period.
	2.	The titles of the individual statements are not mandatory and an entity can, for example continue to refer to the Statement of Financial Position as 'balance sheet' and to the statement of profit or loss as 'income statement'.
IAS 1(38)	**Comparative information**	
	3.	Except where an IFRS permits or requires otherwise, comparative information shall be disclosed in respect of the preceding period for all amounts reported in the financial statements. Comparative information shall be included for narrative and descriptive information where it is relevant to an understanding of the current period's financial statements.
IAS 1(38B)	4.	In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the end of the immediately preceding reporting period and that is yet to be resolved, are disclosed in the current period. Users benefit from information that the uncertainty existed at the end of the immediately preceding reporting period, and about the steps that have been taken during the period to resolve the uncertainty.
IAS 1(40A) (40B)	5.	If an entity has: a. applied an accounting policy retrospectively, restated items retrospectively, or reclassified items in its financial statements, and b. the retrospective application, restatement or reclassification has a material effect on the information presented in the Statement of Financial Position at the beginning of the preceding period, it must present a third Statement of Financial Position as at the beginning of the preceding period (e.g. 1 January 2022 for 31 December 2023 reporters).
IAS 1(40D)	6.	The date of the third Statement of Financial Position must be the beginning of the preceding period, regardless of whether the entity presents additional comparative information for earlier periods.
IAS 1(40C) IAS 8 IAS 1(41)	7.	Where the entity is required to include a third Statement of Financial Position, it must provide appropriate explanations about the changes in accounting policies, other restatements or reclassifications, as required under paragraph 41 of IAS 1 and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. However, the entity does not need to include the additional comparatives in the related notes. This contrasts with the position where an entity chooses to present additional comparative information as permitted by paragraphs 38C and 38D of IAS 1.
IAS 1(45)	**Consistency**	
	8.	The presentation and classification of items in the financial statements must be retained from one period to the next unless: a. it is apparent that another presentation or classification would be more appropriate based on the criteria for the selection and application of accounting policies in IAS 8 (e.g., following a significant change in the nature of the entity's operations or a review of its financial statements), or b. IFRS requires a change in presentation.
IAS 1(7), (29)-(31), (BC30F) IFRS PS2	**Materiality**	
	9.	Whether individual items or groups of items need to be disclosed separately in the primary financial statements or in the notes depends on their materiality. Materiality is judged by reference to the size and nature of the item. The deciding factor is whether the omission or misstatement could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. In particular circumstances, either the nature or the amount of an item or an aggregate of items could be the determining factor. Preparers generally tend to err on the side of caution and disclose rather too much than too little. However, the IASB has emphasised that too much immaterial information could obscure useful information and hence should be avoided. Further guidance on assessing materiality is provided in the non-mandatory IFRS Practice Statement 2 Making Materiality Judgements.
	Disclosures not illustrated	
	10.	Only the required IFRS 17 disclosures have been illustrated in this set.

Statement of Financial Position as at 31 December 2023

		Note	2023 R'000	Restated 2022 R'000	Restated 1 January 2022 R'000
	Assets				
	Non-current assets				
	Property and equipment		18,195	25,406	14,949
	Long-term employee benefit plan asset		2,142	1,932	2,754
	Financial assets at fair value through profit or loss		11,492,537	8,482,861	6,756,335
	Financial assets at amortised cost		5,137	6,290	5,217
	Total non-current assets		**11,518,011**	**8,516,489**	**6,779,255**
	Current assets				
	Cash and cash equivalents		2,429,850	1,719,381	2,986,736
	Total current assets		**2,429,850**	**1,719,381**	**2,986,736**
	Total assets		**13,947,861**	**10,235,870**	**9,765,991**
	Liabilities				
	Non-current liabilities				
	Lease liability		10,766	16,372	3,972
IFRS 17(78)(b) IAS 1(54)(ma)	Insurance contract liabilities	4	12,090,148	8,806,091	8,229,421
	Total non-current liabilities		**12,100,914**	**8,822,463**	**8,233,393**
	Current liabilities				
	Derivative financial instruments		11,574	4,896	–
	Trade and other payables		235,498	232,602	511,548
IFRS 17(78)(b) IAS 1(54)(ma)	Insurance contract liabilities	4	1,599,875	1,175,909	1,021,050
	Total current liabilties		**1,846,947**	**1,413,407**	**1,532,598**
	Total liabilities		**13,947,861**	**10,235,870**	**9,765,991**
	Total equity		**–**	**–**	**–**

Statement of Financial Position	
IFRS 17(11)(b)	**PwC Commentary – Insurance contract liabilities** Under IFRS 4, the personal medical savings account (“PMSA”) was unbundled from your insurance liabilities. With the adoption of IFRS 17, the PMSA will no longer be unbundled but disclosed as part of the insurance contract liability. Please refer to note 3 where this is discussed.
IAS 1(60)	**Presentation of assets and liabilities in the Statement of Financial Position** IAS 1 allows the presentation of assets and liabilities on the Statement of Financial Position in the order of liquidity without segregating by current and non-current. In many cases, for insurance companies, including medical schemes, this way of presentation is judged to be more relevant for the users.
IAS 1(61)	IAS 1 still requires disclosing the amount expected to be recovered or settled after more than 12 months for each asset and liability line item that combines these amounts with amounts to be recovered/settled not more than 12 months after the reporting date. When the Statement of Financial Position is presented in the order of liquidity, such disclosure is made in the notes to the financial statements. The Council for Medical Schemes indicated in Circular 41 of 2023: International Financial Reporting Standard (IFRS)17 – Statement of Financial Position that they are of the opinion that a clearly identifiable operating cycle exists in the medical schemes industry and therefore medical schemes can present the current and non-current assets, and current and non-current liabilities, as separate classifications in its Statement of Financial Position. At the time of publication, CSM has requested further feedback on this topic from industry. The results of this outreach is not yet available. IFRS 17 does not require medical schemes to present assets and liabilities in the order of liquidity and the guidance in IAS 1 as above remains relevant. WeCare has disclosed the Statement of Financial Position using the current/non-current distinction.
IFRS 17(78)	**Presentation of insurance assets and liabilities** IFRS 17 requires all rights and obligations from a portfolio of insurance contracts, such as liabilities for incurred claims and insurance contribution receivables, to be presented net in one line on the Statement of Financial Position. The insurance contract liabilities can either be disclosed as one line item (allocated between current and non-current) or disclosed to show both components of the insurance liability (the insurance liability attributable to current members and the insurance liability attributable to future members) in the Statement of Financial Position separately (allocated between current and non-current).

Statement of Profit and Loss and Comprehensive Income for the year ended 31 December 2023

		Note	2023 R'000	Restated 2022 R'000
IFRS 17(80)(a), IFRS 17(83), IAS 1(82)(a)	Insurance revenue	6	22,297,559	20,864,928
IFRS 17(80)(a), IFRS 17(84), IAS 1(99)	Insurance service expenses	6	(22,287,074)	20,880,510
IFRS 17(82) IFRS 17(86)	Reinsurance expenses from reinsurance contracts held		(92,912)	(107,467)
IFRS 17(82) IFRS 17(86)	Reinsurance income from reinsurance contracts held		107,133	137,238
	Insurance service result		**24,706**	**14,188**
	Interest revenue from financial assets not measured at FVTPL	7	77,507	76,851
	Net fair value gains on fair value investments	7	208,626	656,975
	Net credit impairment losses		(552)	(110)
	Net investment income		**285,581**	**733,716**
IFRS 17(80)(b)	Finance expenses from insurance contracts issued - PMSA	7	(9,910)	(3,109)
	Net insurance finance expenses		**(9,910)**	**(3,109)**
	Net healthcare result		**300,377**	**744,795**
	Sundry income		49,130	9,368
	Asset management fees		(32,219)	(31,554)
	Other finance costs		(1,792)	(1,978)
	Other operating expenses		(315,496)	(720,631)
	Net profit/(loss) for the year		**–**	**–**
	Other comprehensive income		–	–
	Total comprehensive income for the year		**–**	**–**

PwC comments on the statement of profit and loss and comprehensive income	
IAS 1(82)(a)	Revenue shall be presented separately.
IAS 1(99)	A statement of comprehensive income shall be presented either by nature or function and not a combination of both.
IFRS 17(80)(b)	A scheme should disaggregate information into insurance revenue and insurance service expenses and insurance finance income and expenses.
IFRS 17(83),(85), (B120)-(B127)	Insurance revenue reflects the consideration to which the scheme expects to be entitled in exchange for the services provided on an earned basis. Insurance revenue under IFRS 17 is no longer equal to the contributions received in the period. IFRS 17 makes it clear that a scheme should not present contribution information in profit or loss if that information is not in line with the definition of insurance revenue.
IFRS 17(83),(85), (B120)-(B127)	Many medical scheme options include an investment (i.e. deposit) component — an amount that will be paid to members regardless of whether an insured event occurs. The receipt and repayment of these non-distinct investment components do not relate to the provision of insurance service; therefore, such amounts are not presented as part of the schemer's revenue or insurance service expenses. In the medical scheme environment, the PMSA is seen as a non-distinct investment component. Please refer to note 3 for commentary on the PMSA.
IFRS 17 (B126)	When the scheme applies the PAA, insurance revenue for the period is the amount of expected contribution receipts premium allocation approach (excluding any investment component) allocated to the period. The scheme shall allocate the expected premium receipts to each period of insurance contract services. The expected contribution receipts include the risk of non-payment by the member.
IFRS 17(55),(59)(a)	Under the PAA, an entity should recognise insurance acquisition cash flows in the liability for remaining coverage (LFRC) and amortise insurance acquisition cash flows as insurance service expenses. Alternatively, an entity can choose to recognise insurance acquisition cash flows as an expense when incurred if each insurance contract in a group has a coverage period of one year or less. When applying IFRS 17, any lack of recoverability of the acquisition cash flows is reflected in the measurement of the insurance contracts. *In this set, WeCare has made an accounting policy choice to expense the acquisition cash flows when incurred.*
IFRS 17(84)-(85)	Only items that reflect insurance service expenses (i.e. incurred claims, amounts attributable to future members and other insurance service expenses arising from insurance contracts the scheme issues) are reported as insurance service expenses. As a result, when applying IFRS 17, repayment of non-distinct investment components is not presented as an insurance service expense but rather as a settlement of an insurance liability. The breakdown of the insurance service expenses could be provided in the notes or on the face of the Statement of Profit or Loss and Other Comprehensive income.
IFRS 17(82),(86)	IFRS 17 allows options in presenting income or expenses from reinsurance contracts held, other than insurance finance income or expenses. Reinsurance income or expenses can be presented as a single amount in net income/expenses from reinsurance contracts held. An alternative would be to present separately the amounts recovered from the reinsurer (as income) and an allocation of the contributions paid (as reinsurance expenses) in line items separate from insurance revenue and insurance service expenses. *WeCare has made an accounting policy choice to present the reinsurance income and expenses on a gross basis.*
IFRS 17(63)	PwC Commentary – Insurance service income from reinsurance contracts held. Please refer to note 3.2 for more information relating to risk transfer arrangements.

Statement of Changes in Members' Funds and Reserves for the year ended 31 December 2023

	Accumulated funds R'000	Fair value through OCI (debt) R'000	Fair value through OCI (equity) R'000	Total members funds and reserves R'000
Balance – 1 January 2022 (as previously reported)	**8,225,661**	**6,576**	**15,431**	**8,247,668**
Transition restatement*	(8,225,661)	(6,576)	(15,431)	(8,247,668)
Balance at 1 January 2022 (restated)	**–**	**–**	**–**	**–**

**Refer to note 10 describing the impact of the adoption of IFRS 17.*
Note: The carrying value of the assets and the liabilities approximate the fair value and therefore WeCare does not have any equity.

Statement of Cash Flow for the year ended 31 December 2023

	Year ended 31 December	
	2023 R'000	2022 R'000
Cash flows from operating activities		
Cash receipts from members	26,753,510	25,161,200
Cash receipts from others	49,130	9,368
Cash paid for claims and acquisition cost	(23,044,911)	(24,448,363)
Cash paid to providers and employees	(790,972)	(757,620)
Cash payments to reinsurers	(92,912)	(107,467)
Payments for financial assets	(386,123)	(1,123,670)
Proceeds from sale of financial assets	975,744	5,326
Cash generated from / (used) in operations	3,463,466	(1,261,226)
Interest paid	(1,504)	(5,087)
Net cash from / (used in) operating activities	**3,461,962**	**(1,266,313)**
Cash flows from investing activities		
Interest received	473,799	516,502
Dividends received	64,715	65,102
Payments for financial assets	(3,285,137)	(577,364)
Proceeds from sale of financial assets	1,600	135
Additions to property, plant & equipment	(576)	–
	(2,745,599)	**4,375**
Cash flows from financing activities		
Capital lease payments	(5,894)	(5,417)
	(5,894)	**(5,417)**
Net increase/(decrease) in cash and cash equivalents	710,469	(1,267,355)
Cash and cash equivalents at beginning of year	1,719,381	2,986,736
Cash and cash equivalents at end of year	**2,429,850**	**1,719,381**

Statement of cash flow

IAS 7(6),(7)

Definition of cash and cash equivalents

Cash is 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 insignificant risk of changes in value. Investments normally only qualify as cash equivalent if they have a short maturity of three months or less from the date of acquisition. Financial instruments can only be included if they are in substance cash equivalents, e.g. debt investments with fixed redemption dates that are acquired within three months of their maturity.

Cash flows relating to financial assets earmarked to settle short term needs i.e. claims and other operating costs are classified as operating activities. However, financial assets that primarily back the insurance contract liability attributable to future members and that are invested in longer term risk classes to maximise growth have been classified as investing activities.

Notes to the financial statements

Notes to the financial statements	
IFRS 17(93)	IFRS 17 contains more extensive disclosure requirements than IFRS 4 and requires preparers to provide both qualitative and quantitative disclosures about insurance contracts within its scope in three different areas: • explanation of recognised amounts; • significant judgements in applying IFRS 17; and • nature and extent of risks that arise from contracts within the scope of IFRS 17. The key objective of the IFRS 17 disclosure requirements is to allow users of financial statements to assess the effect that insurance contracts within the scope of the standard have on the entity's financial position, financial performance and cash flows. By specifying the objective of the disclosures, the IASB aimed to ensure that entities provide the information that is most relevant for their circumstances and to emphasise the importance of communication to users of financial statements rather than pure compliance with detailed and prescriptive disclosure requirements.

1. General information

IAS 1(51a&b)

WeCare (the Scheme) is a not-for-profit entity, open medical scheme available to everyone. It is administered by Med4all and provides insurance for all health care services.

The Scheme is registered in terms of the MSA and is domiciled in South Africa.

1.1 Basis of preparation

IAS 1(116)

a. Compliance with IFRS

The financial statements of WeCare have been prepared in accordance with IFRS® Accounting Standards (IFRS) and IFRIC® Interpretations applicable to schemes reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). The Financial Statements are also prepared in accordance with the MSA, which requires additional disclosures for registered medical schemes.

IAS 1(117a)

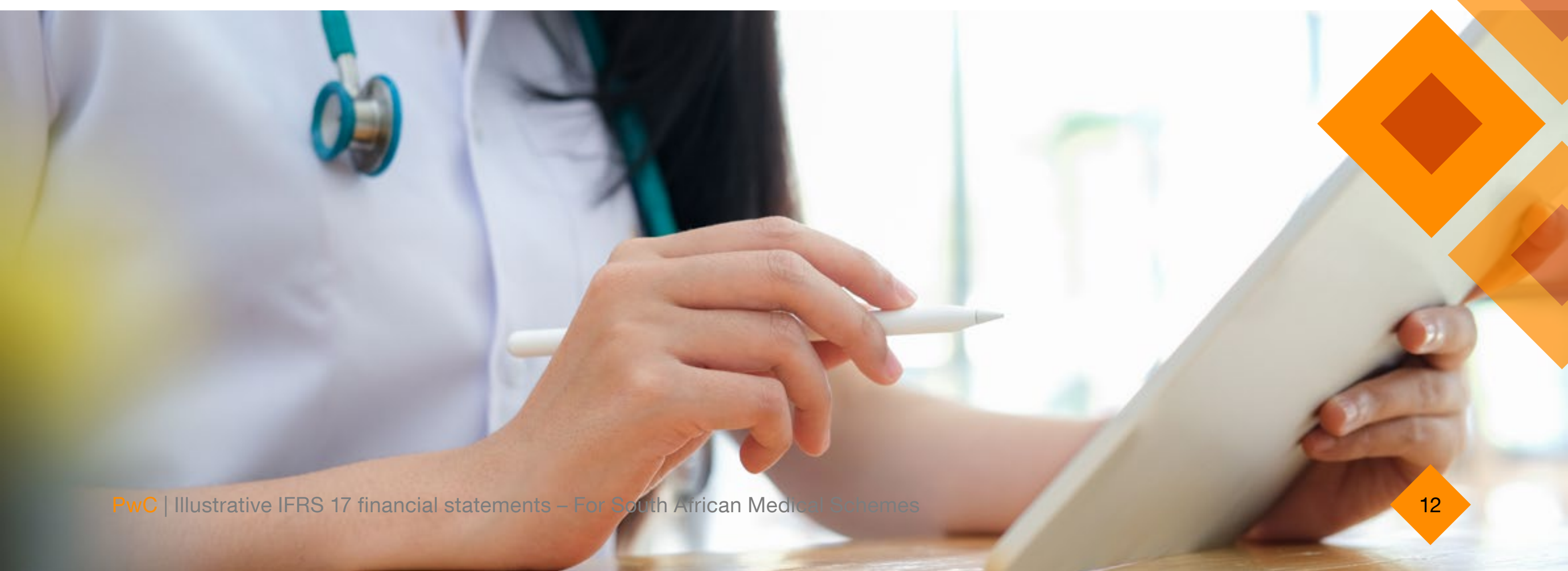
b. Historical cost

The financial statements have been prepared on a historical cost basis, except for the following:

- Certain financial assets and liabilities (including derivative instruments) – measured at fair value.
- Insurance and reinsurance assets and liabilities – measured in terms of IFRS 17 estimates.
- Defined benefit pension plans – plan assets measured at fair value.

c. New and amended standards adopted by the Scheme

- IFRS 17: Please refer to note 10.



2. Significant judgements and estimates

Consistent with other IFRSs, financial reporting under IFRS 17 is, to a larger extent, based on estimates, judgements and models rather than exact depictions. The IFRS Conceptual Framework establishes the concepts that underlie those estimates, judgements and models. Where an application of a particular standard requires judgements or provides options, it is expected that the preparers of financial information will choose among the alternatives in a way that achieves the objective of financial reporting: to provide financial information about the reporting entity that is useful to the trustees, CMS and members.

In addition to the existing requirement in IFRS to disclose critical judgements made in applying accounting policies (IAS 1(122)) and major sources of estimation uncertainties (IAS 1(125)), IFRS 17 requires the following specific disclosures with respect to contracts in the scope of the standard:

- the methods used to measure insurance contracts and the processes used for estimating inputs to those methods, including quantitative information about those inputs when practicable, and specifically approaches used to determine the risk adjustment for non-financial risk; and
- any changes in the above method and process, together with an explanation of the reason for each change and the type of contracts affected.

If an entity uses a technique other than the confidence-level technique for determining the risk adjustment, it is required to disclose a translation of the result of that technique into a confidence level to allow users of financial statements to see how the entity's own assessment of its risk aversion compares to that of other entities.

WeCare used the confidence level to determine the risk adjustment.

2.1 Significant judgements

IFRS 17(B71)

2.1.1 Assessment as to whether the Scheme is a mutual entity

A medical scheme is not legally defined as a mutual entity and the assessment as to whether a medical scheme is a mutual entity was done based on the principles set out in IFRS.

IFRS 3 defines a "mutual entity" as "An entity, other than an investor-owned entity, that provides dividends, lower costs or other economic benefits directly to its owners, members or participants. For example, a mutual insurance company, a credit union and a co-operative entity are all mutual entities."

IFRS 17 does not define a "mutual entity" however it provides a key characteristic of a mutual entity in the basis of conclusion to the standard. IFRS 17 paragraph BC265 explains that "a defining feature of an insurer that is a mutual entity is that the most residual interest of the entity is due to a policyholder and not a shareholder." The MSA is not explicit that members (i.e. policyholders) hold a residual interest or are entitled to the residual interest upon the liquidation of the medical scheme. Section 64 of the MSA requires the medical scheme rules to be followed in the event of liquidation.

The rules of the Scheme do not contain specific guidance on how the assets of the scheme should be distributed on liquidation. The MSA prohibits the disposal of assets of a medical scheme except in limited, listed circumstances, one of them being the liquidation of the scheme. Members can opt for voluntary liquidation and can distribute the scheme's remaining assets amongst themselves. As WeCare does not have shareholders, the current members will access the reserves through economic benefits such as funding reductions in contributions or deferral of contribution increases.

Although the rules do not specify how the assets should be distributed on liquidation, IFRS 17 states that "contracts can be written, oral or implied by an entity's customary business practices. Contractual terms include all terms in a contract, explicit or implied, but an entity shall disregard terms that have no commercial substance (i.e. no discernible effect on the economics of the contract). Implied terms in a contract include those imposed by law or regulation" (IFRS 17.2). Therefore, based on customary business practices, the remaining assets of WeCare should be distributed to the members on liquidation if there are any and if the scheme does not amalgamate with another scheme. Even if the assets are distributed by a regulator or by the policyholders to an independent third party e.g. another medical scheme, an administrator or a charity, the important aspect is that the choice resides with the members or the regulator acting on behalf of the members, not with an equity holder.

The substance of the legal framework issued regarding insurance contracts and observed practice is that once a contribution is paid to the medical scheme, the contribution is used to provide benefits to members. The benefits are provided by the medical scheme (or amalgamated schemes) through insurance coverage, reduced contributions, or payment to members on liquidation (based on votes taken by members).

IFRS 17.B71

It is therefore expected that the remaining assets of the scheme will be used to pay current and future members. Based on the above, WeCare meets the definition of a mutual entity in IFRS.

WeCare has therefore developed an accounting policy in terms of the IFRS 17 guidance for mutual entities and the educational material as issued by the IASB and the Scheme recognises any cumulative profit or losses as part of the insurance liability attributable to future members (which forms part of the insurance contract liabilities on the face of the Statement of Financial Position).

Consequently the Statement of Profit or Loss and Other Comprehensive Income reflects no total comprehensive income for the year. The movement in the insurance liability attributable to future members are included in the insurance service expenses line.

Due to the Scheme being a mutual entity, the assessment of onerous contracts are also affected.

IFRS 17 (14 -23)

2.1.2 Unit of account

Judgement has been applied to how WeCare determined the unit of account for the measurement of its insurance contracts. Management has assessed their portfolio as the scheme as a whole due to the holistic pricing methodologies and risk management strategy that manages the risk on a scheme level.

The above is demonstrated by the following:

- Hospital claims are managed on a scheme level.
- Chronic conditions are managed on a scheme level, i.e. no matter the option the member will have access to the chronic condition management benefit.
- Risk transfer arrangements are based on conditions and not on benefit options.
- Pricing and benefit option changes are determined at a scheme level to manage member migration between different benefit options to ensure each option is sustainable.
- Risk (utilisation and concentration) is managed holistically.

Level of aggregation

Level of aggregation is not one size fits all. Schemes would need to determine the portfolio on adoption of IFRS 17 — at the option level if managed at that level, or scheme level if managed in an integrated manner at that level. Some key questions to ask are:

- How are health insurance events managed?
- How is annual pricing conducted?
- What are the management considerations?

Grouping

WeCare decided to apply the exemption to grouping as allowed by paragraph 20: law or regulation specifically constrains the entity’s practical ability to set different prices or levels of benefits for members with different characteristics. The MSA prohibits the scheme to set different prices for its members. As such, WeCare does not group contracts in various profitability groupings.

IFRS 17(37)

2.1.3 Risk adjustment – liability for incurred claims (LIC)

The risk adjustment for non-financial risk is applied to the present value of the estimated future cash flows and reflects the compensation WeCare requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as WeCare fulfils insurance contracts. As the risk adjustment represents compensation for uncertainty, estimates are made on the degree of diversification benefits and expected favourable and unfavourable outcomes in a way that reflects WeCare’s degree of risk aversion. WeCare estimates an adjustment for non-financial risk separately from all other estimates.

Risk adjustment

IFRS 17 requires schemes to apply a risk adjustment to the LIC. This risk adjustment should reflect the risk the scheme is bearing for the uncertainty of timing, severity and number of reported claims as at 31 December and claims to be reported (IBNR) in the four months after year-end.

IFRS 17(20)(37) (B88)(119) (117b)	The risk adjustment was calculated at the portfolio level as the Scheme does not have groups due to laws that constrain WeCare's ability to set a price for different members. The confidence level method was used to derive the overall risk adjustment for non-financial risk. In the confidence level method, the risk adjustment is determined by applying a confidence level to run-off triangles used to calculate the LIC. The confidence level is set to 75%.

Diversification benefit

This relates to the benefit that each scheme has with regards to the different members and the different options for each member.

The methods and assumptions used to determine the risk adjustment for non-financial risk were not changed in 2022 and 2023.

IFRS 17(64)

2.1.4 Risk adjustment - risk transfer arrangements

For reinsurance contracts held, the risk adjustment for non-financial risk represents the amount of risk being transferred by WeCare to the reinsurer. The same methodology applies to the risk transfer agreements as for the insurance contracts with regards to the determination of the risk adjustment.

2.2 Significant estimates

IAS 1(125)

The preparation of financial statements requires the use of accounting estimates, which, by definition, will seldom equal the actual results. This note provides an overview of items that are more likely to be materially adjusted due to changes in estimates and assumptions in subsequent periods. Detailed information about each of these estimates is included in the notes below, together with information about the basis of calculation for each affected line item in the financial statements.

In applying IFRS 17 measurement requirements, the following inputs and methods were used that include significant estimates. The present value of future cash flows is estimated using deterministic scenarios.

For the sensitivities with regard to the assumptions made that have the most significant impact on measurement under IFRS 17, refer to note 8.

IFRS 17(33), (B36-B41) (B54-B60)

2.2.1 Estimates of future cash flows to fulfil insurance contracts

Included in the measurement of the portfolio are all the future cash flows within the boundary of each group of contracts. The estimates of these future cash flows are based on probability weighted expected future cash flows. The Scheme estimates which cash flows are expected and the probability that they will occur as at the measurement date. In making these expectations, the Scheme uses information about past events, current conditions and forecasts of future conditions. The Scheme's estimate of future cash flows is the mean of a range of scenarios that reflect the full range of possible outcomes. Each scenario specifies the amount, timing and probability of cash flows. The probability weighted average of the future cash flows is calculated using a deterministic scenario representing the probability weighted mean of a range of scenarios.

The uncertainty in the insurance contracts lies in the number, severity and timing of claims.

IFRS 17(33)(c), (B54)-(B60)

Assumptions used to develop estimates about future cash flows are reassessed at each reporting date and adjusted where required

IFRS 17(117) (a)-(b)

2.2.2 Methods used to measure the insurance contracts

The Scheme estimates insurance liabilities in relation to claims incurred for healthcare contracts.

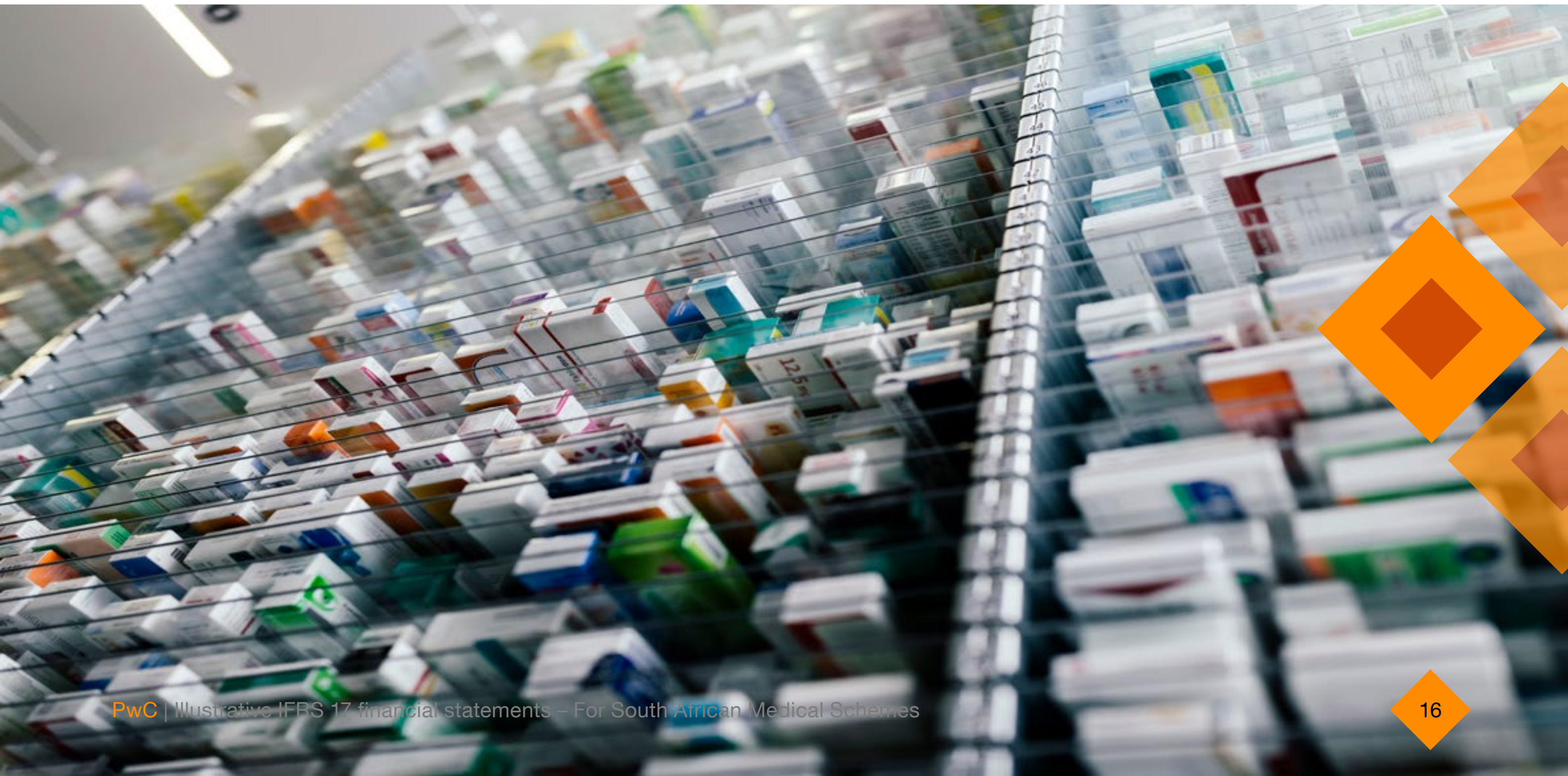
Judgement is involved in assessing the most appropriate technique to estimate insurance liabilities for the claims incurred. The generally accepted actuarial methodology used in assessing the estimated claims outcome of insurance liabilities is the chain-ladder method.

The chain-ladder technique involves an analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each period (in the Scheme's case for the four months post year-end) that is not yet fully developed to produce an estimated ultimate claims cost for each healthcare year. The chain-ladder technique is the most appropriate for this claim pattern.

Run-off triangles are used in situations where it takes time after the treatment date for the full extent of the claims to become known. It is assumed that payments will emerge in a similar way in each service month. The proportional increase in known cumulative payments from one development month to the next can then be used to calculate payments for future development months.

The following was taken into account when estimating the LIC:

- the homogeneity of the data;
- changes in pattern of claims;
- changes in the composition of members and their beneficiaries;
- changes in benefit limits; and
- changes in the prescribed minimum benefits.



3. Accounting policies

3.1 Insurance contracts

IFRS 17(2)
(AppA)

3.1.1 Insurance contract

Insurance contracts are contracts under which WeCare accepts significant insurance risk from a member by agreeing to compensate the member if a specified uncertain future event adversely affects the member. In making this assessment, all substantive rights and obligations, including those arising from law or regulation, are considered on a contract-by-contract basis. WeCare uses judgement to assess whether a contract transfers insurance risk *(i.e., if there is a scenario with commercial substance in which WeCare has the possibility of a loss on a present value basis) and whether the accepted insurance risk is significant.*

IFRS 17(14)
(22)

3.1.2 Unit of account

WeCare has assessed their portfolio to be at a scheme level as a whole.

Please refer to note 2.1.2 for the assessment.

> WeCare has applied the exemption not to perform profitability groupings as allowed by IFRS 17.20 and included all contracts in the same group. WeCare has further assessed that there are no facts and circumstances to indicate that the group was onerous at inception date.

IFRS 17(25)

Before the Scheme accounts for an insurance contract based on the guidance in IFRS 17, it analyses whether the contract contains components that should be separated. IFRS 17 distinguishes three categories of components that have to be accounted for separately:

- cash flows relating to embedded derivatives that are required to be separated;
- cash flows relating to distinct investment components; and
- promises to transfer distinct goods or distinct non-insurance services.

The Scheme applies IFRS 17 to all remaining components of the contract.

Personal Medical Savings Accounts

Medical schemes generally do not have any contracts with specified embedded derivatives. Certain contracts contain a PMSA which, under IFRS 4 were separated from the insurance contract and accounted for as a financial instrument. Medical schemes need to assess the PMSA based on their rules and IFRS 17's requirements for distinct investment components, to assess whether the PMSA meets the definition of a distinct investment component.

Under IFRS 4, PMSAs generally met the IFRS 4 criteria for unbundling and the PMSA were unbundled and accounted for as financial instruments. Matters to be considered to assess whether PMSAs can be separated from the insurance contract under IFRS 17 are presented below.

The condition to be met under IFRS 17 is that the investment component and the insurance component are not highly interrelated.

The investment component and the insurance component are highly interrelated where the one component cannot be measured without considering the other. For benefit plan options offering PMSAs, the PMSA can be measured separately; however, under certain benefit plan options, there is a risk component that is available once the PMSA has been exhausted and once certain conditions are met. This indicates that the level of certain risk benefits available is dependent on the PMSA, meaning that the value of risk benefits cannot be measured without considering the PMSA resulting in the two components being highly interrelated.

The second indicator that the two components are highly interrelated is that the member is unable to benefit from one component unless the other component is also present. Under benefit options that offer PMSAs, the PMSA and the risk portion of the plan cannot be bifurcated and the member, if electing a benefit plan with a PMSA, has to take both the PMSA and risk component. To cancel a component of the contract, the member has to cancel the entire contract (both components).

The condition whereby an investment component can be separated from the insurance component if not highly interrelated is not met when considering the PMSA component.

Where the above condition apply, PMSAs cannot be separated from the insurance component, and IFRS 17 shall be applied to the entire contract including the PMSA.

The PMSA is a non-distinct investment component with the balances included in Insurance Contract Liabilities in the Statement of Financial Position.

WeCare does not have any contracts that require separation or combination of insurance contracts.

IFRS 17(34) **3.1.3 Contract boundary**

WeCare uses the concept of contract boundary to determine what cash flows should be considered in the measurement of groups of insurance contracts. This assessment is reviewed every reporting period.

Cash flows are within the boundary of an insurance contract if they arise from the rights and obligations that exist during the period in which the member is obligated to pay contributions or WeCare has a substantive obligation to provide the member with insurance coverage or other services. A substantive obligation ends when both of the following criteria are satisfied:

- WeCare has the practical ability to reprice the group of contracts so that the price fully reflects the reassessed risk of that portfolio; and
- the pricing of contributions related to coverage to the date when risks are reassessed does not reflect the risks related to periods beyond the reassessment date.

In assessing the practical ability to reprice, risks transferred from the member to WeCare are considered; other risks, such as lapse or surrender and expense risk, are not included.

IFRS 17(35) Cash flows outside the insurance contracts boundary relate to future insurance contracts and are recognised when those contracts meet the recognition criteria.

WeCare has assessed all its contracts and determined all contracts have a boundary of one year.

IFRS 17(25) **3.1.4 Recognition and derecognition**

The group of insurance contracts issued are initially recognised from the earliest of the following:

- the beginning of the coverage period;
- the date when the first payment from the member is due or actually received, if there is no due date; and
- when the Scheme determines that a group of contracts becomes onerous.

IFRS 17(74) An insurance contract is derecognised when it is:

- extinguished (i.e., when the obligation specified in the insurance contract expires or is discharged or cancelled); or
- if the terms are modified due to an agreement between the Scheme and its member or by regulation and the modification terms meet the requirement in IFRS 17.72.

IFRS 17(72)(73) If the modification does not comply with any of the requirements of IFRS 17.72 the Scheme shall treat the changes in cash flow as changes in estimates of fulfilment cash flows (FCF).

3.1.5 Initial and subsequent measurement

The criteria in IFRS 17.53 should be considered to determine if a scheme would be able to use the PAA. WeCare contracts all have a coverage period of one year or less and are therefore eligible to apply the PAA model.

WeCare uses the PAA for measuring contracts with a coverage period of one year or less. This approach is used for all healthcare insurance contracts as each of these contracts has a coverage period of one year or less.

IFRS 17(55)(a) For insurance contracts issued, on initial recognition, WeCare measures the liability for remaining coverage (LFRC) at the amount of contributions received, less any acquisition cash flows paid and any amounts arising from the derecognition of the prepaid acquisition cash flows asset.

IFRS 17(40) The carrying amount of the group of insurance contracts issued at each reporting period is the sum of:

a. the LFRC; and

b. the LIC, comprising the FCF related to past service allocated to the group at the reporting date.

IFRS 17(55)(b) For insurance contracts issued, at each of the subsequent reporting dates, the LFRC is:

a. increased for contributions received in the period;
b. decreased for insurance acquisition cash flows paid in the period; and
c. decreased for the amounts of expected contributions received recognised as insurance revenue for the services provided in the period.

IFRS 17(32)(33)) The insurance contract liabilities consist of two components:

a. the insurance liability attributable to current members; and
b. the insurance liability attributable to future members.

For insurance contracts issued, at each of the subsequent reporting dates, the insurance liability attributable to current members (the LIC) is:

a. the probability-weighted estimate of fulfilment cash flows; and
b. the risk adjustment.

WeCare has elected to include premium debtors in the LIC.

Refer to notes 2.1.3 and 2.2.1. For the significant judgements and estimates used to determine the LIC and the estimates to determine the fulfilment cash flow.

Discounting in the PAA

IFRS 17.59(b) allows a policy choice whether to adjust the measurement for the impact of the time value of money and other financial risks, if the settlement of the claims is expected within 12 months.

WeCare has made the choice not to discount the group of contracts.

The insurance liability attributable to future members consists of accumulated profits or losses of the Scheme and it is:

a. increased by net profits for the period; and
b. decreased by the net losses for the period.

Onerous contract assessment

In the consideration of whether facts and circumstances indicate that a group of insurance contracts is onerous, WeCare considers whether the expected deficit of the following year exceeds the insurance liability attributable to future members. In the rare scenario where the following year's deficit exceeds the insurance liability attributable to future members – the contracts written would be onerous and an onerous contract liability raised. Where the amounts attributable to future members exceed the following year's deficit the contracts would not be determined as onerous, and no provision raised as a liability is already recognised.

IFRS 17(B120) (B123)

3.1.6 Insurance revenue

As the Scheme provides services under the group of insurance contracts, it reduces the LFRC and recognises insurance revenue. The amount of insurance revenue recognised in the reporting period depicts the transfer of promised services at an amount that reflects the portion of consideration the Scheme expects to be entitled to in exchange for those services.

IFRS 17(B126a) For the group of insurance contracts measured under the PAA, the Scheme recognises insurance revenue based on the expected pattern of release of risk over the coverage period of the group of contracts.

CMS requirements and pattern of release

At the date of publication, the CMS will not require the schemes to report IFRS 17 at any other date except at year-end. This decreases the complexity of the pattern of release of risk because at year-end the contracts are at their contract boundary/end. However, if a scheme and CMS reporting dates differ, the scheme should consider the appropriate pattern of release of risk in accordance with IFRS 17 B126.

IFRS 17(84-85) (103b)

3.1.7 Insurance service expenses

Insurance service expenses include:

a. incurred claims and benefits excluding investment components;
b. other incurred directly attributable insurance service expenses;
c. changes that relate to past service (i.e. changes in the FCF relating to the LIC);
d. changes that relate to future service (i.e. losses/reversals on onerous group of contracts from changes in the loss components); and
e. amounts attributable to future members.

IFRS 17(B66)(d) Cash flows that are not directly attributable to a group of insurance contracts, such as some product development and training costs, are recognised in other operating expenses as incurred.

IFRS 17(AppA) The Scheme includes the following acquisition cash flows within the insurance contract boundary that arise from selling, underwriting and starting a group of insurance contracts and that are:

a. costs directly attributable to individual contracts and the group of contracts; and
b. costs directly attributable to the group of insurance contracts, which are allocated on a reasonable and consistent basis.

IFRS 17(59a) Insurance acquisition costs are expensed by the Scheme when it incurs the cost.

IFRS 17(59)(a) allows a choice of either expensing the insurance acquisition cash flows when incurred or amortising them over the contract's coverage period.

3.1.8 Insurance interest income and expenses

The non-distinct investment component (PMSA) accrues interest. This is disclosed within the insurance finance expense line item.

3.2 Risk transfer reinsurance

3.2.1 Definition

Risk transfer arrangements are contractual arrangements entered into by the Scheme with a provider. The provider is paid a fixed fee per member to cover the risk of the number of incidents that occur during a specified period and the cost of providing the service. Risk transfer arrangements do not reduce WeCare's primary obligations to its members and their dependents.

Risk transfer arrangements

A reinsurance contract is an insurance contract issued by one entity (the reinsurer) to compensate another entity for claims arising from one or more insurance contracts issued by that other entity. A scheme needs to account for the risk transfer agreement as a reinsurance contract held.

IFRS 17(14) – (19) ,(22), (61)

3.2.2 Unit of account

Groups of reinsurance contracts held are assessed for aggregation separately from groups of insurance contracts issued. Applying the grouping requirements to reinsurance contracts held, the Scheme aggregates reinsurance contracts held concluded within a calendar year (annual cohorts) into groups of contracts for which there is a net gain at initial recognition ,if any; (ii) contracts for which at initial recognition there is no significant possibility of a net gain arising subsequently; and (iii) remaining contracts in the group, if any.

Reinsurance contracts held are assessed for aggregation requirements on an individual contract basis. WeCare tracks internal management information reflecting historical experiences of such contracts' performance. This information is used for setting pricing of these contracts such that they result in reinsurance contracts held in a net gain position.

WeCare only has one risk transfer arrangement with ABCnow and therefore the group of reinsurance contracts consists of only one contract.

IFRS 17(62)

3.2.3 Recognition and derecognition

The reinsurance contract held that covers the losses of separate insurance contracts on a proportionate basis is recognised at the later of:

- the beginning of the coverage period of the group; or
- the initial recognition of any underlying insurance contract.

The Scheme does not recognise their reinsurance contract held until it has recognised at least one of the underlying insurance contracts.

Please refer to note 3.1.4 under insurance contracts for guidance on modifications and derecognition.

3.2.4 Initial and subsequent measurement

WeCare's risk transfer contract has a coverage period of one year or less and is therefore eligible to apply the PAA model. The criteria in IFRS 17.69 should be considered to determine if a scheme would be able to use the PAA.

IFRS 17(55)(a),(69)

For reinsurance contracts held, on initial recognition, the Scheme measures the remaining coverage at the amount of ceding contributions paid.

IFRS 17(40)

The carrying amount of a group of reinsurance contracts held at the end of each reporting period is the sum of:

a. the remaining coverage; and
b. the incurred claims, comprising the FCF related to past service allocated to the group at the reporting date.

IFRS 17(55)(b)

Subsequent measurement of the remaining coverage for reinsurance contracts held is:

a. increased for ceding contributions paid in the period; and
b. decreased for the amounts of ceding contributions recognised as reinsurance expenses for the services received in the period.

IFRS 17(56), (69), (97)(b)

WeCare does not adjust the asset for the remaining coverage for reinsurance contracts held for the effect of the time value of money. The reinsurance contributions are due within the coverage period which are one year or less.

IFRS 17(34)

3.2.5 Boundary

For groups of reinsurance contracts held, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which WeCare is compelled to pay amounts to the reinsurer or in which WeCare has a substantive right to receive services from the reinsurer.

WeCare's capitation agreements held have a duration of one year but are cancellable with a 30-day notice period by either party.

3.2.6 Net income / (expense) from reinsurance contracts held

WeCare presents financial performance of groups of reinsurance contracts held on a gross basis.

IFRS 17(67)(84-86)(103b)

Reinsurance income consists of the amount that depicts the value the insurer benefits from entering into a risk transfer arrangement (i.e. the value of services received from the capitation provider).

Reinsurance expenses consist of:

a. reinsurance expenses;
b. other incurred directly attributable insurance service expenses;
c. effect of changes in risk of reinsurer non-performance.

Measurement of the risk transfer arrangement

The risk transfer arrangement in a scheme is seen as a reinsurance contract held as the scheme is the primary obligor to provide insurance contract services to its members and will remain liable if the provider of the risk transfer arrangement cannot honour their obligations to the scheme. However, there is no actual cash inflow from the reinsurer.

IFRS 17.69 provides the measurement criteria for a reinsurance contract held. This paragraph refers you to IFRS 17 para 55-56 and 59.

IFRS 17(B121)(124)

Reinsurance expenses are recognised similarly to insurance revenue. The amount of reinsurance expenses recognised in the reporting period depicts the transfer of received services at an amount that reflects the portion of ceding contributions the Scheme expects to pay in exchange for those services.

IFRS 17(B126)(a)

For groups of reinsurance contracts held measured under the PAA, the Scheme recognises reinsurance expenses based on the passage of time over the coverage period of a group of contracts.

4. Insurance contract liabilities

The insurance contract liabilities line is made up of the following two components:

- Liability attributable to current members; and
- Liability attributable to future members.

	Year ended 31 December	
	2023 R'000	*2022 R'000*
Insurance contract liabilities – Liability attributable to current members – Current	1,599,875	1,175,909
Insurance contract liabilities – Liability attributable to future members – Non-current	12,090,148	8,806,091
	13,690,023	**9,981,000**

4.1 Liability attributable to current members

Reconciliation of the liability for remaining coverage and the liability for incurred claims

		LFRC	LIC		2023 R'000
	Insurance contracts issued	**Excluding loss component**	**BEL**	**RA**	**Total**
IFRS 17(99)(b)	**Opening insurance contract liabilities**	**–**	**1,159,188**	**16,721**	**1,175,909**
IFRS 17 (103)(a)	**Insurance revenue**				
	New contracts issued in the year	(22,297,559)	–	–	(22,297,559)
	Total insurance revenue	**(22,297,559)**	–	**–**	**(22,297,559)**
	Insurance service expenses				
IFRS 17 (103) (b)(i)	Incurred claims and other directly attributable expenses	–	18,065,405	18,238	18,083,643
IFRS 17 (103)(b)(ii)	Changes that relate to past service – adjustments to the LIC	–	19,845	(16,721)	3,124
IFRS 17 (103)(b)(ii)	Insurance acquisition cash flows expensed	916,250	–	–	916,250
	Total insurance service expenses	**916,250**	**18,085,250**	**1,517**	**19,003,017**
	Insurance service result	**(21,381,309)**	**18,085,250**	**1,517**	**(3,294,542)**
IFRS 17 (105)(c)	Finance expense from insurance contracts issued	–	9,910	–	9,910
	Total amounts recognised in comprehensive income	**(21,381,309)**	**18,095,160**	**1,517**	**(3 284 632)**
IFRS 17 (103)(c)	Investment components[1]	(4,504,870)	4,504,870	–	–
	Other changes: Premium debtors to LIC	48,919	(48,919)	–	–
	Cash flows				
IFRS 17 (105)(a)(i)	Contributions received	26,753,510	–	–	26,753,510
IFRS 17 (105)(a)(ii)	Claims and other directly attributable expenses paid	–	(22,128,662)	–	(22,128,662)
IFRS 17 (105)(a)(ii)	Insurance acquisition cash flows expensed	(916,250)	–	–	(916,250)
	Total cash flows	**25,837,260**	**(22,128,662)**	**–**	**3,708,598**
	Closing insurance contract liabilities	**–**	**1,581,637**	**18,238**	**1,599,875**

[1] *Savings contributions received*

Reconciliation of the liability for remaining coverage and the liability for incurred claims

	Insurance contracts issued	LFRC: Excluding loss component	LIC: BEL	LIC: RA	Total (2022 R'000)
IFRS 17(99)(b)	**Opening insurance contract liabilities**	**–**	**1,004,885**	**16,165**	**1,021,050**
IFRS 17 (103)(a)	**Insurance revenue**				
	New contracts issued in the year	(20,864,928)	–	–	(20,864,928)
	Total insurance revenue	**(20,864,928)**	–	**–**	**(20,864,928)**
	Insurance service expenses				
IFRS 17 (103) (b)(i)	Incurred claims and other directly attributable expenses	–	19,395,123	16,721	19,411,844
IFRS 17 (103)(b)(ii)	Changes that relate to past service – adjustments to the LIC	–	21,567	(16,165)	5,402
IFRS 17 (103)(b)(ii)	Insurance acquisition cash flows expensed	886,595	–	–	886,595
	Total insurance service expenses	**886,595**	**19,416,690**	**556**	**20,303,841**
	Insurance service result	**(19,978,333)**	**19,416,690**	**556**	**(561,087)**
IFRS 17 (105)(c)	Finance expense from insurance contracts issued	–	3,109	–	3,109
	Total amounts recognised in comprehensive income	**(19,978,333)**	**19,419,799**	**556**	**(557,978)**
IFRS 17 (103)(c)	Investment components	(4,330,982)	4,330,982	–	–
	Other changes	34,710	(34,710)	–	–
	Cash flows				
IFRS 17 (105)(a)(i)	Contributions received	25,161,200	–	–	25,161,200
IFRS 17 (105)(a)(ii)	Claims and other directly attributable expenses paid	–	(23,561,768)	–	(23,561,768)
IFRS 17 (105)(a)(ii)	Insurance acquisition cash flows paid	(886,595)	–	–	(886,595)
	Total cash flows	**24,274,605**	**(23,561,768)**	**–**	**712,837**
	Closing insurance contract liabilities	**–**	**1,159,188**	**16,721**	**1,175,909**

[1] *Savings contributions received*

	2023 R'000	2022 R'000
Contributions received	**26,753,510**	**25,161,200**
Risk contributions	22,342,942	20,912,307
MSA contributions	4,410,568	4,248,893
Claims and other directly attributable expenses paid	**(22,128,661)**	**(23,561,768)**
Risk claims	(17,003,866)	(18,418,490)
MSA claims	(4,119,264)	(4,172,869)
Expenses	(1,005,531)	(970,409)

LIC and LFRC and premium debtors

IFRS 17 appendix A defines LIC and LFRC as

liability for incurred claims

An entity's obligation to:

a. investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses; and

b. pay amounts that are not included in (a) and that relate to:

   (i) insurance contract services that have already been provided; or

   (ii) any investment components or other amounts that are not related to the provision of insurance contract services and that are not in the liability for remaining coverage.

liability for remaining coverage

An entity's obligation to:

a. investigate and pay valid claims under existing insurance contracts for insured events that have not yet occurred (i.e., the obligation that relates to the unexpired portion of the insurance coverage) and

b. pay amounts under existing insurance contracts that are not included in (a) and that relate to:

   (i) insurance contract services not yet provided (i.e., the obligations that relate to future provision of insurance contract services); or

   (ii) any investment components or other amounts that are not related to the provision of insurance contract services and that have not been transferred to the liability for incurred claims.

IFRS 17 does not prescribe an accounting treatment for cash inflows receivable related to past service. A scheme should exercise judgement in determining an appropriate accounting policy to include such premiums in the LFRC or in the LIC, and apply its policy consistently. If significant, a scheme should disclose accounting policy information according to IAS 1.

WeCare accounted for all contribution debtors that relate to insurance services already rendered in LIC at year end. Debtors that paid in advance and where no insurance service has yet been provided should be in LFRC.

The fulfilment cash flows may include expenditures incurred in accounting standards other than IFRS 17, for example broker commission. When broker commission is outstanding, this would meet the definition of a financial liability. Where expenditures/income outstanding at year end meet the definition of financial liabilities or financial assets, the Scheme has an accounting policy choice to either include the payable/receivables in the insurance contract liabilities or to recognise it as a separate IFRS 9 liability/asset such as trade and other payables/receivables. All other expenditures incurred in other standards (excluding IFRS 9) must be included in the payable/receivable of the appropriate other standard when incurred, rather than forming part of the insurance contract liabilities.

WeCare had no debtors that paid in advance for 2023 or 2022.

4.2 Insurance contract liabilities – Liability attributable to future members

Reconciliation of the insurance liability attributable to future members

	Year ended 31 December	
	2023 R'000	2022 R'000
Opening balance	**8,806,091**	**8,229,421**
Movement in insurance liability attributable to future members	3,284,057	576,670
Closing balance	**12,090,148**	**8,806,091**

5. Reinsurance contracts assets

		Remaining Coverage Component	Incurred claims for contracts under the PAA		2023 R'000
IFRS 17(98),(100)(a),(c)	**Healthcare Risk – Reinsurance contracts held**	**Excluding loss recovery component**	**Present value of future cash flows**	**Risk adjustment for non-financial risk[2]**	**Total**
IFRS 17(99)(b)	Opening reinsurance contract assets	–	–	–	–
IFRS 17(99)(b)	Opening reinsurance contract liabilities	–	–	–	–
IFRS 17(99)(b)	**Net balance as at 1 January**	**–**	**–**	**–**	**–**
	Net income/(expenses) from reinsurance contracts held				
	Reinsurance expenses	(92,912)	–	–	(92,912)
IFRS 17(103)(b)(i)	Claims recovered	–	107,133	–	107,133
	Net income/(expenses) from reinsurance contracts held	**(92,912)**	**107,133**	**–**	**14,221**
	Total amounts recognised in comprehensive income	**(92,912)**	**107,133**	**–**	**14,221**
	Cash flows				
IFRS 17(86)(b),(105)(a)(i),(iii)	Premiums paid net of ceding commissions and other directly attributable expenses paid	92,912	–	–	92,912
IFRS 17(105)(a)(iii)	Recoveries from reinsurance[1]	–	(107,133)	–	(107,133)
	Directly attributable expenses paid		–	–	–
	Total cash flows	**92,912**	**(107,133)**	**–**	**(14,221)**
IFRS 17(99)(b)	Closing reinsurance contract assets	–	–	–	–
IFRS 17(99)(b)	Closing reinsurance contract liabilities	–	–	–	–
	Net balance as at 31 December	**–**	**–**	**–**	**–**

[1] *Recoveries from reinsurance represent the value of the services provided by the risk transfer provider. This represents a non-cash transaction. Refer to note 9.*

[2] *The risk adjustment for non-financial risk is deemed immaterial.*

					2022 R'000
		Remaining Coverage Component	Incurred claims for contracts under the PAA		
IFRS 17(98),(100) (a),(c)	**Healthcare Risk – Reinsurance contracts held**	**Excluding loss recovery component**	**Present value of future cash flows**	**Risk adjustment for non-financial risk[2]**	**Total**
IFRS 17(99)(b)	Opening reinsurance contract assets	–	–	–	–
IFRS 17(99)(b)	Opening reinsurance contract liabilities	–	–	–	–
IFRS 17(99)(b)	**Net balance as at 1 January**	**–**	**–**	**–**	**–**
	Net income/(expenses) from reinsurance contracts held				
	Reinsurance expenses	(107,467)	–	–	(107,467)
IFRS 17(103)(b)(i)	Claims recovered	–	137,238	–	137,238
	Net income/(expenses) from reinsurance contracts held	**(107,467)**	**137,238**	**–**	**29,771**
	Total amounts recognised in comprehensive income	**(107,467)**	**137,238**	**–**	**29,771**
	Cash flows				
IFRS 17(86)(b), (105)(a)(i),(iii)	Premiums paid net of ceding commissions and other directly attributable expenses paid	107,467	–	–	107,467
IFRS 17(105)(a) (iii)	Recoveries from reinsurance[1]	–	(137,238)	–	(137,238)
	Directly attributable expenses paid	–	–	–	–
	Total cash flows	**107,467**	**(137,238)**	**–**	**(29,771)**
IFRS 17(99)(b)	Closing reinsurance contract assets	–	–	–	–
IFRS 17(99)(b)	Closing reinsurance contract liabilities	–	–	–	–
	Net balance as at 31 December	**–**	–	–	–

[1] Recoveries from reinsurance represent the value of the services provided by the risk transfer provider. This represents a non-cash transaction. Refer to note 9.

[2] The risk adjustment for non-financial risk is deemed immaterial.

6. Insurance revenue and service expenses

		2023 R'000	2022 R'000
IFRS 17(103)	**Insurance revenue**		
	Insurance revenue from contracts measured under the PAA	22,297,559	20,864,928
	Total insurance revenue	**22,297,559**	**20,864,928**
	Insurance service expenses		
	Incurred claims and other directly attributable expenses	(18,083,643)	(19,411,843)
	Amounts attributable to future members	(3,284,057)	(576,670)
	Changes that relate to past service – adjustments to the LIC	(3,124)	(5,402)
	Insurance acquisition cash flows expensed	(916,250)	(886,595)
	Total insurance service expenses	**(22,287,074)**	**(20,880,510)**
	Net income/(expenses) from reinsurance contracts held		
	Reinsurance expenses – contracts measured under the PAA	(92,912)	(107,467)
	Total expenses from reinsurance contracts held	**(92,912)**	**(107,467)**
	Claims recovered	107,133	137,238
	Total income from reinsurance contracts held	**107,133**	**137,238**
	Total insurance service result	**24,706**	**14,188**

	2023 R'000	2022 R'000
Attributable to future members	(3,284,057)	(576,670)
Amount as per note 4.1 relating to current members	3,294,542	561,087
Reinsurance result	14,221	29,771
Total insurance service result	**24,706**	**14,188**

Notes to the insurance revenue and insurance service result note

The following disclosure provides an analysis of the insurance service result (i.e. the breakdown of the components of insurance revenue, insurance service expenses and net expenses from reinsurance contracts held presented in a single table). IFRS 17 does not specifically require all these components to be presented as part of one disclosure; however, the users of financial statements might find such a summary presented on a comparative basis useful.

IFRS 17(98) – (105) IFRS 17 requires an entity to disclose a number of different reconciliations from opening to closing balances for insurance contract balances measured under IFRS 17. The information provided in the reconciliations should enable readers to identify amounts that are recognised in profit or loss.

IAS 1(104) IAS 1 requires disclosure around the nature of expenses when an entity classifies expenses by function. "Insurance service expenses" is a function and therefore entities should provide disclosure on the nature of the items included in insurance service expenses. This disclosure was not included in this publication.

7. Interest income/expense

	31 December 2023 R'000	31 December 2022 R'000
Net investment income – financial assets		
Interest revenue from financial assets not measured at FVTPL	77,507	76,851
Net fair value gains on fair value investments	208,626	656,975
Finance (expenses) from insurance contracts issued		
Interest accreted (PMSA)	(9,910)	(3,109)
	276,223	**730,717**

Entities need to disclose and explain the total amount of insurance finance expenses in the reporting period. Furthermore, the standard requires an explanation of the relationship between insurance finance income or expenses and the investment return on financial assets, to enable users to evaluate the sources of finance income or expenses recognised in profit or loss.

In order to meet the requirements, the table above presents details of investment income separately for investment assets and other assets and insurance finance expenses.

8. Risk management

8.1 Insurance risk management

IFRS 17(124b)
IFRS 7(33)(b)

The Scheme issues healthcare contracts. These contracts compensate members and their beneficiaries in the event of a healthcare event. The Scheme is therefore exposed to the uncertainty of the severity and timing of the healthcare event. Based on the risk the Scheme undertakes to compensate the members and their beneficiaries the Scheme has insurance risk.

The board of trustees (Trustees/BOT) appointed a risk management committee. The risk management committee has developed and documented a policy to manage insurance risk. Included in this policy are:

- the Scheme rules;
- the requirements of the MSA; and
- acceptance and management of the risk the Scheme is exposed to.

The policy is amended for any changes to the MSA or the Scheme rules.

The risk committee monitors the adequate application of the policy and reviews the trends in pricing, loss ratios and insurance risks on a regular basis to ensure that the trends fall within the limits of the policy. Furthermore the risk committee reports to the BOT on a quarterly basis regarding the changes. Included in the risk management committee responsibility is the monitoring of benefit options and the recommendations to change the benefit options in consultation with the actuaries. Also included in the responsibilities of the risk management committee is the research on entering into risk transfer arrangements and the effectiveness of these arrangements. This is then presented to the BOT who has the ultimate decision to enter into the risk transfer arrangements.

Insurance risk is managed by benefit limits and sub-limits, following the Scheme rules, pre-authorisation, case management and pricing guidelines. The risk is further managed via monitoring emerging legislative, actuarial and environmental issues. The principal risk is that the frequency and the severity of the claims is greater than expected. This risk can be aggravated by unexpected epidemics, price increases and new technologies/research/medicine.

There are several methods the Scheme utilises to assess and monitor insurance risk. These risk are analysed on:

- average age of the member;
- category of claims;
- composition of age per benefit option;
- geographical area of members; and
- number of beneficiaries per member.

Probability is applied to the group of insurance contracts. History shows that a highly diversified group is less likely to be affected by a change in the underlying group. However the inverse is also true, a group that is not diversified is affected by the change in the underlying group. Experience has ensured that underwriting decisions adequately address the risk and the diversification in the group.

Expense risk

IFRS 17(124)

Expense risk is the risk of unexpected increases in policy maintenance, claim handling and other costs relating to fulfilment of insurance contracts. The risk is managed through budgeting and periodic cost evaluations.

Changes from the previous period

IFRS 17(124)(c)
IFRS 7(33)(c)

There were no significant changes in Scheme's objectives, policies and IFRS processes for managing risk and the methods used to measure risk.

Methods used and assumptions made

Methods used and assumptions made for insurance liabilities assessment are disclosed in note 2.2.2.

Credit risk management and exposures

(The credit risk note is limited to IFRS 17 exposures)

IFRS 17(124)

Credit risk is the risk of financial loss resulting from a counterparty's failure to meet their contractual obligations. The Scheme doesn't have significant credit risk arising from reinsurance contract assets or insurance assets.

The capitation agreement with ABCnow is used to manage insurance risk. This does not, however, discharge the Scheme's liability as the primary insurer. If a reinsurer fails to pay a claim for any reason, the Scheme remains liable for the payment to the members.

Exposures to individual members are managed by adhering to the requirements of Section 26(7) of the MSA, i.e. actively pursuing all contributions not received within three days of becoming due, suspending benefits for all members where contributions have not been received for 30 days and terminating benefits for all members where contributions have not been received for 60 days. The credit risk is taken into account when the expected contribution is calculated.

8.2 Liquidity risk management

IFRS 17(124)(132)(a)

IFRS 7(33), (39)(c)

Liquidity risk is the risk that the Scheme will be unable to meet its obligations when they fall due as a result of member benefit payments, cash requirements from contractual commitments or other cash outflows such as debt maturities. Such outflows would deplete available cash resources for insurance activities. In extreme circumstances, lack of liquidity could result in reductions on the Statement of Financial Position and sales of assets, or potentially an inability to fulfil member commitments.

The Scheme's liquidity management process, as carried out within the Scheme and monitored by the Scheme, includes day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met, maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flows and monitoring the liquidity ratios of the Statement of Financial Position against internal and regulatory requirements.

IFRS 17(124)(c)

Changes from the previous period

There were no significant changes in the Scheme's objectives, policies and processes for managing risk and the methods used to measure risk compared to the previous period.

Liquidity risk table

Members of the Scheme are required to submit their claims within 4 months of the service date. Therefore the liability attributable to current members is expected to be settled within 12 months.

WeCare expects to achieve a net surplus (before taking into account amounts attributable to future members) for the period ending 31 December 2024 and therefore does not expect to utilise the liability attributable to future members within the next 12 months.

	31 December 2023 R'000		31 December 2022 R'000	
	0-12 months	**+12 months**	**0-12 moths**	**+12 months**
Insurance contract balances				
Liabilities attributable to current members	1,599,875		1,175,909	
Liabilities attributable of future members		12,090,148		8,806,091

Liquidity risk – Amounts payable on demand

IFRS 17(132)(c)

The PMSA balances are payable on demand when a member exits the Scheme.

8.3 Concentration of insurance risks

IFRS 17(125) (127)

Insurance risk concentration by age and type of risk benefits are included in the tables below.

Risk concentration for claim incurred

2023 R'000					2022 R'000				
Age grouping	*In hospital*	*Chronic*	*Day-to-day*	*Total*	*Age grouping*	*In hospital*	*Chronic*	*Day-to-day*	*Total*
<26	1,341,887	94,753	586,283	2,022,923	<26	1,660,129	95,061	465,334	2,220,524
26 - 35	913,292	80,614	847,875	1,841,781	26 – 35	976,706	73,653	719,563	1,769,922
36 - 45	1,648,103	213,000	1,026,088	2,887,191	36 – 45	1,686,832	200,149	849,782	2,736,763
45 - 60	3,060,430	334,364	1,144,239	4,539,033	45 – 60	3,169,932	329,153	1,075,053	4,574,138
>60	4,143,107	473,221	1,096,610	5,712,938	>60	5,266,512	446,737	1,403,894	7,117,143
	11,106,819	**1,195,952**	**4,701,095**	**17,003,866**		**12,760,111**	**1,144,753**	**4,513,626**	**18,418,490**

In-hospital benefits: *cost incurred by members while in hospital*

Chronic benefits: *cost to cover prescribed conditions or medicines*

Day-to-day: *cost to cover out-of-hospital medical attention*

8.4 Sensitivity analysis to insurance risk variables

PwC comment on sensitivity analysis

Entities are required to disclose a sensitivity analysis to demonstrate the impact of reasonably possible changes in risk variables at the end of the reporting period on profit or loss and equity.

For insurance risk, the standard requires demonstrating the impact of changes in risk variables before and after risk mitigation by reinsurance contracts held.

This disclosure is also required by IFRS 4 and IFRS 7.

IFRS 17(129) allows entities to provide a sensitivity analysis to risk variables different from those described above provided that entities use such analysis for their risk management purposes. Additional disclosures are required if entities chose to provide an alternative sensitivity analysis.

IFRS 17(129) and IFRS 17 (128)(a)(i)

Sensitivity disclosure

The following table provides a sensitivity on the insurance contract liabilities. The table provides the sensitivity before and after the impact of the Scheme being a mutual entity. As the Scheme is a mutual entity, the impact of any changes in the insurance liability to current members would impact the insurance liability to future members. The table presents information on how reasonably possible changes in risk confidence level made by WeCare will impact the risk adjustment.

	2023 R'000			2022 R'000		
	LIC as at 31 December	*Impact on LIC*	*Impact on SOCI*	*LIC as at 31 December*	*Impact on LIC*	*Impact on SOCI*
Insurance contract liabilities	**1,599,875**			**1,175,909**		
Net insurance contract liabilities	1,599,875			1,175,909		
Unpaid claims and expenses – 5% increase						
Insurance contract liabilities (before mutualisation)		79,994	79,994		58,795	58,795
Insurance contract liabilities (after mutualisation)		–	–		–	–
Expenses – 5% increase						
Insurance service expense (before insurance service expense relating to future members)	(19,003,016)			(20,303,841)		
Insurance service expenses (before mutualisation)			(950,151)			(1,015,192)
Insurance service expenses (after mutualisation)			–			–

Risk adjustment sensitivities

Any change in the risk adjustment will impact the incurred claims and other directly attributable expenses in insurance service expenses with an equal and opposite impact on the amounts attributable to future members in insurance services expenses. The net impact on profit or loss for any change in the risk adjustment would therefore be nil.

	2023 R'000	*2022 R'000*
Risk adjustment with a 75% confidence level – as reported	18,238	16,721
Risk adjustment with a 80% confidence level	29,546	27,088

IFRS 17(128)(b-c) The analysis is based on a change in an assumption while holding all the assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. No changes were made by WeCare in the methods and assumptions used in preparing the above analysis. To further demonstrate the sensitivity to insurance risk, the risk adjustment at a 80% confidence level has also been disclosed.

8.5 Interest rate risk sensitivity

The following table presents analysis of how a possible shift in market interest rates might impact the balances of contracts within the scope of IFRS 17, as well as the net impact on profit or loss and equity. A change in an interest rate would impact the return on the PMSA, which in turn impacts the liability to the policyholders.

Interest rate sensitivity

Interest rate R'000			
2023			
		0.5% increase in interest rates:	
		Insurance contract liabilities	*Profit or loss*
IFRS 17(128)(a)(ii)	Insurance contracts	825	(825)
2022			
		0.5% increase in interest rates:	
		Insurance contract liabilities	*Profit or loss*
IFRS 17(128)(a)(ii)	Insurance contracts	311	(311)

IFRS 17(128)(b)–(c) IFRS 7(40)(b)–(c)	The analysis is based on a change in an assumption while holding all the assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. No changes were made by WeCare in the methods and assumptions used in preparing the above analysis.

8.6 Claims development

IFRS 17(130)	Claims development tables have not been presented as the uncertainty regarding the amounts and timing of claims payments is typically resolved within a year. In the majority of cases, claims are resolved within four months from the time they are reported to the Scheme. At year-end, a provision is made for those claims outstanding that have been incurred but not yet been reported.

9. Non-cash transactions

		31 December 2023 R'000	31 December 2022 R'000
	Reinsurance income from reinsurance contracts held	107,133	137,238
IAS 7(43)	Incurred claims	(107,133)	(137,238)
		-	-

Claims incurred that are subject to risk transfer arrangements are fulfilled by ABCnow (the provider) by discharging its reinsurance obligation by providing services to the member. As such the claims expense and the reinsurance income are non-cash transactions.

10. Transition

WeCare has determined that reasonable and supportable information was available for all contracts in force at the transition date that were issued within three years prior to the transition.

IFRS 17(C4)	Accordingly, the Scheme has recognised and measured the group of insurance contracts as if IFRS 17 had always applied; derecognised any existing balances that would not exist had IFRS 17 always applied; and recognised any resulting net difference in equity.
IFRS 17(C29 - C33)	WeCare previously had financial assets measured at fair value through other comprehensive income (debt and equity instruments) which were used to primarily back the Scheme's liability attributable to future members. During the implementation of IFRS 17, the Scheme noted that there was a mismatch between the fair value gains/losses recognised in other comprehensive income for the debt and equity instruments measured at fair value through other comprehensive income and the movement in the liability attributable to future members recognised in profit and loss. IFRS 17 allowed the Scheme to revisit the decisions of IFRS 9. The Scheme therefore redesignated these debt instruments at fair value through other comprehensive income to fair value through profit or loss to eliminate the accounting mismatch. Similarly, the designation of the equity investments at fair value through other comprehensive income was revoked and the equity instruments are now measured at fair value through profit or loss.

The designations were applied retrospectively without the use of hindsight.

The impact of the redesignation were as follows:

Class of instrument	31 December 2023 R'000	31 December 2022 R'000	1 January 2022 R'000
Equity instruments at fair value through other comprehensive income	(289,070)	(379,887)	(195,925)
Debt instruments at fair value through other comprehensive income	(192,713)	(253,258)	(130,616)
Equity instruments at fair value through profit or loss	289,070	379,887	195,925
Debt instruments at fair value through profit or loss	192,713	253,258	130,616

The fair values of the instruments were unchanged.

The classification of the Scheme as a mutual entity and the redesignation of the financial assets measured through other comprehensive income to financial assets measured through profit and loss resulted in the Scheme not having a Statement of Changes in Members' Funds and Reserves beyond the opening statement in its financial statements.

WeCare applied the transition provision in IFRS 17 and has not disclosed the impact of the adoption of IFRS 17 on each financial statement line item.

Appendix 1: PMSA liability reconciliation

Regulation 10 requires a reconciliation of the PMSA balances as illustrated below:

	2023 R'000	2022 R'000
Balance on Personal Medical Savings Accounts at the beginning of the year	xx	xx
Personal Medical Savings Accounts contributions received or receivable	xx	xx
Interest on Personal Medical Savings Accounts	xx	xx
Transfers received from other medical schemes	xx	xx
Claims paid to or on behalf of members	(xx)	(xx)
Refunds on death or resignation	(xx)	(xx)
Unclaimed Personal Medical Savings Accounts written off to Scheme funds	(xx)	(xx)
Other adjustments	(xx)	(xx)
Balance due to members on Personal Medical Savings Accounts at the end of the year	**XX**	**XX**

Abbreviations used in the Illustration

AC	Amortised cost
AOCI	Accumulated other comprehensive income
BEL	The probability-weighted estimate of future cash flows
BOT	Board of Trustees
CMS	Council for Medical Schemes
CSM	Contractual service margin
FCF	Fulfilment cash flows
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
IASB	International Accounting Standards Board
IBNR	Incurred but not reported
IFRS	International Financial Reporting Standards
IFRIC	IFRS Interpretations Committee
LIC	Liability for incurred claims
LFRC	Liability for remaining coverage
MSA	Medical Schemes Act of South Africa, no. 131 of 1998
OCI	Other comprehensive income
PAA	Premium allocation approach
PMSA	Personal Medical Savings Account

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