



CIRCULAR

Reference : Medical Scheme's Board of Trustee Remuneration discussion document
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CIRCULAR 45 OF 2011: MEDICAL SCHEME'S BOARD OF TRUSTEE REMUNERATION

This circular serves as an invite for comments by all stakeholders on trustee remuneration discussion document. CMS undertook an in-depth exploration seeking to understand factors influencing differences in BoT's remuneration strategies and/or policies.

This draft discussion document is meant to solicit input and comments from the industry with the objective of informing and strengthening the BoT's remuneration strategies and policies in order to ensure that the interests of members are properly protected when remuneration decisions are taken.

Please submit your comments in writing to Thamsanqa Diniso, Senior Investigator: Compliance & Investigations at t.diniso@medicalschemes.com by **29 February 2012**.

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Medical Scheme's Board of Trustee Remuneration



***Discussion Document
18 November 2011***

Comments to be received no later than 29 February 2012

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1. INTRODUCTION

In the context of a properly constituted Board of Trustees (BoT) and an effective executive management structure, remuneration decisions are theoretically meant to take into account the best interests of the members. The effectiveness of the BoT, its committees and executive management has a direct impact on the performance of the medical scheme.

The Council for Medical Schemes (CMS) has observed cases of governance failure leading to inappropriate financial incentivisation of certain scheme office-bearers including trustees. The approach to remuneration is not uniform across schemes and ranges from instances where trustees are not remunerated at all to others where they receive exorbitant fees. Instances are observed where trustees are paid an honoraria and disbursements and others were remunerated through a fixed salary with increments linked to inflation. In some restricted schemes trustees are not paid because their participation on trustee matters is part of their job description.

In light of the above context the CMS undertook an in-depth exploration seeking to understand factors influencing differences in remuneration strategies and/or policies within the medical schemes. The scope of the project was to conduct a literature review of trustee remuneration strategies internationally focusing on best practice models within not-for-profit sectors and a review of relevant quantitative and qualitative data.

This report is meant to solicit input and comments from the industry with the objective of informing and strengthening the BoT's remuneration strategies and policies in order to ensure that the interests of members are properly protected when remuneration decisions are taken.

2. PROBLEM STATEMENT

The following issues lead to the initiation of the "Board of Trustees Remuneration" research project as mandated by the Council:-

1. Inconsistent remuneration provisions amongst medical schemes
2. Undesired corporate governance issues with regards to trustee remuneration
3. Lack of a guideline on trustee remuneration.

3. SPECIFIC BRIEF

The Terms of Reference guiding this project are as follows:

1. To undertake literature review on best practice models on trustee remuneration including remuneration of trustee members serving on various sub-committees within not-for-profit sectors.
2. Analyse annual financial statements.
3. Produce a research report.
4. Publish the research report for comment and input.
5. Collate inputs and comments from the stakeholders.
6. Publish a trustee remuneration guideline.

4. RESEARCH METHODOLOGY

4.1 Objectives

1. To understand and describe the Board of Trustees and Sub-committee remuneration processes,
2. To review differences and/or similarities in remuneration procedures,
3. To explore factors influencing disparities in the Board of Trustees remuneration packages,
4. To highlight best practice models for Board of Trustees and Sub-committee remuneration,
5. To propose a guideline to inform trustees and Sub-committee remuneration.

4.2 Study design

As indicated in section 1 above, this project undertook a literature review of trustee remuneration strategies focusing on best practice models within not-for-profit sectors as well as a descriptive review of 2009-2010 medical schemes annual financial statements supported by qualitative analysis of scheme rules, Board of Trustee reports, 2009-2010 Annual Reports

from selected medical schemes (see table 2 below) and a review of CMS related publications and corporate governance guidelines.

13 medical schemes were sampled through a purposive sampling strategy informed by scheme size, scheme type & total number of beneficiaries covered. The selected schemes represent 54.4 % of lives covered by medical schemes in South Africa.

5. LITERTATURE REVIEW

5.1 PRIVATE HEALTH INSURANCE REMUNERATION PHILOSOPHY

5.1.1 BoT remuneration

BoT within health insurance companies have a responsibility of providing an oversight role, promoting corporate governance, implementing strategic objectives of the health insurance entities, ensuring compliance to the regulatory framework, risk management, and maintaining corporate values as enshrined within the different regulatory frameworks (Buck T, 2005).

Internationally, private not-for-profit health insurance companies are also subjected to high level of governance principles similar to publicly listed companies. The objective is to facilitate an enabling environment for effective implementation of the regulatory framework guiding the conduct of the health insurance companies (PHIA Council, 2006). These entities are expected to use robust internal governance structures and processes such as overseeing implementation of strategic objectives, risk management, codes of ethics and conduct and monitoring and evaluating performance (PHIA Council, 2006).

In order to enable financial sustainability, accountability and transparency, Boards of Trustees are also advised to establish committees responsible for but not limited to remuneration, audit, investment, clinical governance and dispute resolution (PHIA Council, 2006). These committees are meant to provide an independent and objective view on associated policies, processes and procedures.

Remuneration principles guiding private health insurance entities are designed to attract, retain and motivate members of the Board and of the Executive Management to do their work efficiently and effectively. Whilst the guiding philosophy is to provide remuneration that is high enough to attract and retain appropriately skilled and qualified executives, but not as

high as to cause unnecessary financial burden for beneficiaries. Remuneration decisions are therefore taken in cognisance of economic, efficient and effective use of resources by the health insurer (Buck, 2005).

The following principles linked to the remuneration philosophy mentioned above guide the remuneration agenda: -

- Boards of Trustees must have a clear remuneration policy guiding all remuneration decisions.
- Boards of Trustees must disclose the remuneration packages of the Board and the Executive Management at the Annual General Meeting
- Remuneration criteria and process must be outlined in the fund rules to promote transparency and accountability
- Remuneration must be linked to attracting and retaining skilled individuals
- Remuneration must be aligned to robust performance review system
- There must be an independent remuneration committee working alongside external advisors to promote objectivity whilst limiting biasness.
- Remuneration committees must have a clear strategy linked to performance indicators
- Boards of Trustees must act with due care, diligence, skill and in good faith
- The Board must disclose annually in writing any payment or considerations made to them in that particular year.
- Boards of Trustees must avoid conflicts of interests.
- They must apply sound business principles and ensure the financial sustainability and soundness of the health insurance entity.

5.1.2 BoT Subcommittee Participation & Remuneration

The Board may appoint a number of sub-committees as well as delegate any authority subject to the Memorandum of Incorporation (MOI). These committees assist in execution of the Board's duties, powers and authorities. Examples of such committees include: audit committee, investment committee, remuneration and clinical governance committees. Each committee is guided by formal Terms of Reference approved by the Board.

Depending on the nature, the type and the Terms of Reference of each committee some committees function as a separate organ of the Board. This is to ensure credibility and objectivity in work undertaken.

The decision to remunerate Sub-committee members is often informed by the following factors:-

- a) Whether or not participation on Sub-committee matters is part of an individual's job description,
- b) The link between job description and the Terms of Reference as defined by the Board,
- c) Time demands (i.e Chairman's responsibility is generally higher than other members responsibility),
- d) Skills and experience of committee members,
- e) The level of fees paid to other Sub-committee members,
- f) The impact of the Sub-committee as measured through a defined performance assessment system.

5.2 NON-GOVERNMENTAL SECTOR REMUNERATION PHILOSOPHY

5.2.1 BoT remuneration

The philosophy guiding ethical standards informing trusteeship within the not-for-profit sector requires trustees use their authority to promote and protect the interests of the organization by exercising their fiduciary responsibilities with integrity, objectivity and honesty (Smith, 1981). The Board exists to direct the organization in its mission to attain moral and social objectives. Serving on the Board is not economically motivated but rather inspired by attainment of social good, public benefit and solidarity.

The Board member's willingness to serve on a voluntary basis is seen as proof that the individuals who work for the organization are not motivated by opportunities for personal gain (Wyatt, 2004). They are also not driven, or being perceived as deriving, any direct or indirect benefit from their Board services. The argument is that when Board members receive an honorarium, salary, or other tangible benefits, real or perceived conflict of interest

emerges because opportunities for personal gain may outweigh or be seen as outweighing the interests of the organization and its beneficiaries (Wyatt, 2004).

Luxurious travel, employment opportunities for family members, and other perks and benefits (however small) are also not encouraged because this might suggest that the organization's ethical standards are lax or resources are going for purposes other than the non-profits mission (Wyatt, 2004).

Example of a non-governmental organisations (NGO) remuneration philosophy

(Central and Eastern European Countries)

Although NGO Board members are usually volunteers, organizations who can afford to reimburse Board members for travel, accommodations, special trainings, and similar expenses do so. This practice is spelled out in the policy document stating what Board members can be reimbursed for, the reimbursement limit, and the claiming procedure. The remuneration policy document also provides an opportunity for Board members to donate the reimbursed money back to the NGO's should they wish to do so!

Marilyn Wyatt 2004

5.2.2 BoT sub-committee Participation & Remuneration

Appointment of sub-committee members is influenced by the following key ethos:-

- The pursuit of a greater level of "independence" by sub-committee members from the Board,
- Appointment of sub-committee members who are not members of the governing Board,
- Promotion of integrity, objectivity, honesty and credibility in work undertaken by sub-committee members,
- Sub-committee members should be free of conflict of interest.
- Sub-committee members complete annually a conflict of interest statement so that potential conflicts can be evaluated and resolved proactively.

In a study undertaken by Ruppel on BoT Sub-committees within not-for-profit sector he states that “... *in order to be considered independent...a member of a subcommittee may not other than in his/her capacity as a member of a committee (i) accept any consulting, advisory or other compensatory fee from the organisation (ii) be an affiliated person of the organisation or any subsidiary thereof...*” (Ruppel, 2006).

5.3 KING III: REMUNERATION COMMITTEE

The King Code of Corporate Governance has been cited as “*the most effective summary of the best practice internationally in corporate governance*”. King III relates to all entities, irrespective of their size or the nature of their business, it relies on self-regulation rather than legislation that can be enforced in our courts. In other words, there is no body that is mandated to enforce King III nor is there any sanction for non-compliance. However, there are instances in which public interest companies and parastatals are obliged to comply. In terms of the Johannesburg Stock Exchange (JSE) Listing Requirements, a listed company is contractually bound to adopt King III and any failure to do so would amount to a breach of the Listing Requirements. This is a rather round about enforcement mechanism but, in short, listed companies will have no option but to follow King III or be penalised for non-compliance by the JSE.

In light of the above context, CMS believes that it will be prudent for schemes to adopt the recommendations made by King regarding a subcommittee like the Remuneration Committee in order to address disparities noted in the Board of Trustees’ remuneration packages. King III recommends that “*Board’s of organisations should delegate certain functions to well structured independent subcommittees without abdicating their own responsibilities*”. This means that the Board remains accountable for all decisions made by its committees.

The role of the Remuneration Committee (See annexure 1) include, among other things:

- Operating according to pre-set Terms of Reference or Charters.

- Advising the Board of Trustees on the remuneration policies for the Principal Officer, the members of the Board including the Chairperson and other employees of the scheme.
- Issue a remuneration report explaining the company's remuneration philosophy and how it is to be implemented.

King believes that organisations should remunerate fairly and responsibly, thus, remuneration policies should be aligned with the philosophy, company type, the size and strategy of that particular organisation.

5.4 SOUTH AFRICAN CONTEXT

In South Africa the Boards of Trustees of medical schemes collectively govern an industry valued at R96.5 billion of the total annual contributions paid by members in 2010 (CMS, 2010). BoT's are paid different remuneration packages, for example, some schemes pay an honoraria and disbursement whilst others pay a fixed remuneration with increment linked to inflation or are paid a retainer (Council for Medical Schemes (CMS), 2005). This situation has been observed to hinder the business of the schemes by causing unnecessary dissatisfaction amongst the trustees or negatively impact on amalgamation decisions in cases where amalgamating schemes have different remuneration packages and this also contributes to non-health care costs.

A study conducted by CMS on corporate governance in 2005 identified “.....*instances of governance failure leading to inappropriate financial incentivisation of schemes office-bearers*” (CMS, 2005). The study further established that the performance of the Board of Trustees was not linked to key performance indicators.

Other challenges observed by CMS between 2005 until recently in relation to remuneration of BoT included the following:-

- Disclosure of remuneration and other considerations only limited to global amounts as prescribed by Regulation 6A, which is outlined under section 5.5 of this report. There is a need to unpack principles guiding the determination of remuneration rates and other

considerations (for example is there a link between remuneration and the size of the fund, BoT qualifications, skills, experience, KPI's & market rate, time commitment and other factors?).

- Lack of defined key performance indicators (KPI) which are linked to BoT's mandate and schemes performance.
- Remuneration policy is not always explicitly linked to penalties (i.e in cases of poor management by BoT).¹
- Certain schemes fail to consult with members when deciding on issues such as the remuneration of trustees.
- Some BoT approved "excessive" salary package of a trustee without the prior approval of members as stipulated in their Scheme Rules.
- There were also instances where some trustees were paid an honorarium or received other benefits in contravention of the Scheme Rules.
- In one scheme CMS observed an incident where the chairperson was paid consultancy fees in addition to normal trustee remuneration.
- Lack of formal induction program for trustees.
- Limited training of trustees on remuneration process.

In light of the above challenges, CMS embarked on various remedial measures such as removal of certain Board of Trustees, publication of fit and proper standards, publication of corporate governance guidelines, trustee training and education, placing schemes under curatorship etc. All these initiatives were geared towards improving corporate governance within schemes but it should be acknowledged that some of the above mentioned behaviour continued to persist. With regards to the Board of Trustees remuneration, in 2008 CMS recommended specific guidelines to guide remuneration processes.

It was recommended that schemes should consider use of a Remuneration Committee Charter where an independent Remuneration Committee would be established to assist the BoT in setting up formal and transparent procedures for developing remuneration policy and procedures (CMS, 2008)². It was also recommended that the remuneration committee shall

¹ This might suggest that BOT remuneration is not linked to their job description as well as KPI

² It should be noted that a remuneration committee is not a statutory requirement for a medical scheme , but it is a good corporate governance practice

lead a formal, rigorous and transparent remuneration processes for appointments of all senior members within the scheme.

5.5 MEDICAL SCHEME ACT, 131 of 1998

The Medical Schemes Act amongst other things provides a legislative space for control and coordination of activities of medical schemes whilst protecting the interests of beneficiaries. The following section outlines specific sections within the Act which are directly related to remuneration of BoT and sub-committees of the Board.

Section 35 (1) of the act states that “*a medical scheme shall at all times maintain its business in a financially sound condition*”... Whilst section 37 (5) (b) makes a requirement for a trustees’ report which amongst other things deals with economic, efficient and effective use of resources of the medical scheme (Medical Schemes Act,1998). The trustees report also outlines remuneration and other consideration paid to the BoT. It is also expected that the Board of Trustees’ report will outline the operations of sub-committees such as remuneration committees, audit committee and other relevant committees, such as the investment committee.

Section 57(8) states that “*...members of Board of Trustees shall disclose annually in writing to the Registrar any payment or considerations made to them in a particular year by the medical scheme*”. This implies that the reimbursement of the members of the Board should be disclosed to promote transparency and accountability.

Whilst section 29 of the Act makes provisions for Scheme Rules to include provisions relating to remuneration of the BoT and Senior Executive Management of a medical scheme; this requirement also includes an outline of processes for the execution of contracts and other binding documents.

Section 36 outlines the process that medical schemes should follow in the appointment of sub-committee members such as the Audit Committee. Section 36 (10) states that, the BoT of a medical scheme shall, subject to the provisions of subsection (13) , appoint as its audit committee of at least five members of which at least two shall be members of the BoT.

Section 36 (11) states that the majority of the members, including the chairperson of the audit committee, shall be persons who are not officers of the medical scheme or the administrator of the medical scheme, the controlling company of the administrator or any subsidiary of its controlling company. The philosophy underpinning this section seeks to promote credibility and objectivity of sub-committees as well as addressing “conflict of interest”.

Lastly, Regulation 6A of the Medical Schemes Act outlines the following categories to inform disclosure of trustees’ remuneration:-

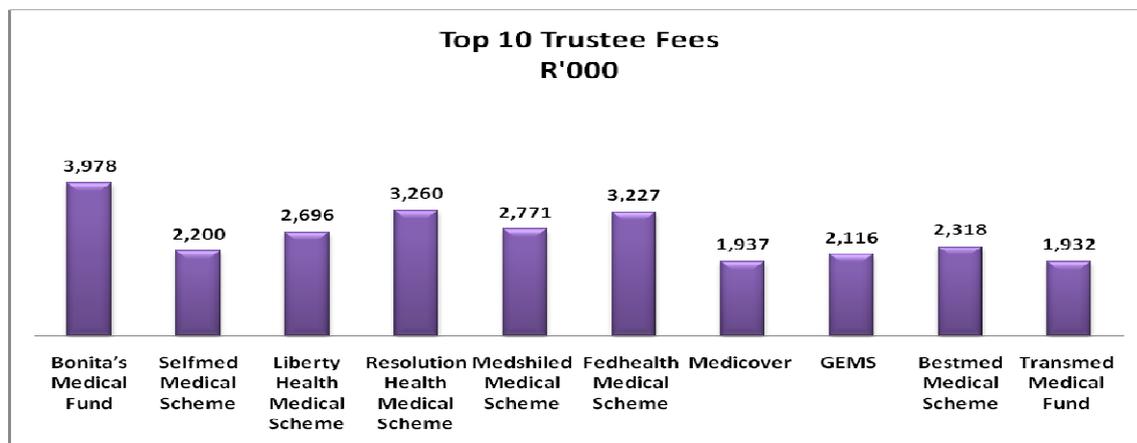
- Disbursement (including but not limited to travelling , attendance of meetings, conferences, accommodation and meals , telephone expenses for business)
- Fees for attendance of meetings of the Board or committees of the Board
- Fees for holding of the office on the Board or committees of the Board
- Fees for consultancy work performed for the medical schemes by the trustee
- Other remuneration paid to trustee

6. FINDINGS

6.1 Fees of trustees

As mentioned above trustees may be reimbursed for all reasonable expenses (Regulation 6A) incurred in the performance of their duties. Between 2009-2010 remuneration and other considerations of trustees and Principal Officers rated 0.7% of the Gross Administration Expenditure (GAE). Figure one below provides an outline of the top 10 schemes with the highest average fees for trustees. Of interest to note is that with the exception of Selfmed all the schemes listed below are large schemes and the average number of trustees within these schemes is 11.7 whilst the range is between 7 to 22 trustee members.

Figure one: Top 10 trustee fees (CMS, 2009-2010)



The top 3 schemes with the highest fees also have different number of trustees; this might suggest that there is no direct correlation between remuneration and the number of trustees within schemes. To unpack these differences CMS would need to review each schemes remuneration policy and procedure. The trustee reports for these schemes don't give detailed information on remuneration packages by line item.³

Table 1: Average fee per trustee (CMS, 2009-2010)

Name of the medical scheme	Trustee remuneration and other considerations			
	R'000	Scheme size	No. of trustees	Average fee per trustee (R'000)
Bonita's Medical Fund	3,978	Large	9	442
Selfmed Medical Scheme	2200	Medium	5	440
Liberty Health Medical Scheme	2696	Large	7	385
Resolution health Medical Scheme	3,260	Large	11	296
Medshiled Medical Scheme	2,771	Large	11	252
Fedhealth Medical Scheme	3,227	Large	13	248
Medcover	1,937	Large	8	242
GEMS	2,116	Large	12	176
Bestmed Medical Scheme	2,318	Large	17	136
Transmed Medical Fund	1,932	Large	22	88

³ Are the differences due to qualifications, skills, experience, KPI's & outcomes, market rate, time commitment and other factors.

6.2 Board size and remuneration rate

A survey undertaken in 2005 by CMS on corporate governance explored amongst other things a possibility of a standard fee for trustee remuneration across all schemes. About 63.6% of the BoT interviewed were against a standard fee and reasons cited ranged from: - differences in the size of the schemes, differences in expertise of BoT, affordability issue for medium and small schemes etc.

This review explored further whether or not the size of the scheme influences the rate at which trustees are remunerated. Remuneration rates for 13 large, medium and small schemes were compared and as can be observed in table 2 below some medium schemes remunerate trustees at a rate far above some large schemes whilst some small scheme do not remunerate trustees at all. There is also a big variation between large schemes ranging between R1 million to R3.9 million whilst small schemes ranged between no payments at all to R230, 775. The same trend is observed for medium schemes.

Table 2: Scheme size and trustee fees (CMS, 2009-2010)

Scheme size	Scheme Type	Beneficiaries	NO. Trustees	R'000
Large	Open	2041908	7	1,200,196
Large	Restricted	1147897	12	2,115,988
Large	Open	650846	9	3,977,934
Large	Open	220240	12	1,135,036
Large	Restricted	199956	13	1,058,917
Medium	Restricted	26918	32	793,493
Medium	Open	26847	6	572,854
Medium	Open	23639	5	2,199,782
Medium	Restricted	2600	26	6,736
Small	Open	14733	8	230,775
Small	Restricted	13704	13	5,000
Small	Restricted	12830	9	186,174
Small	Restricted	12505	8	-

6.2 Remuneration and other considerations of trustees

A comparison was also undertaken to explore differences between schemes with regards to remuneration levels by line item as specified in Regulation 6A. This study only compared training and accommodation fees, fees for meetings and fees for holding office. Allowances, fees for consultancy, conferences and business telephone costs were excluded because only a few schemes reported on them. As can be observed in table 3 below the schemes with the largest fees for meetings are the two large schemes whilst there is variation across all medium and small schemes. This cost item is often related to preparation for and attendance of meetings.

With regards to accommodation and meals only one large scheme reported accommodation and meals costs of R 1.7 million whilst other schemes reported costs ranging between R22, 546 to R599, 436. This difference might be due to the frequency, number of trustees and location of meetings and/or conferences.

Table 3 Trustee remuneration categories (CMS, 2009-2010)

Scheme size	Scheme Type	No. Trustees	Fees for meeting	Fees for holding office	Training	Accom & meals
			R'000	R'000	R'000	R'000
Large	Open	7	1,199,113	-	1,083	-
Large	Restricted	12	1,417,135	-	99,417	599,436
Large	Open	9	-	2,225,788	8,256	1,715,390
Large	Open	12	313,614	459,285	-	349,564
Large	Restricted	13	707,300	-	-	351,617
Medium	Restricted	32	585,248	-	-	166,085
Medium	Open	6	511,500	-	-	61,354
Medium	Open	5	189,800	335,700	-	246,898
Medium	Restricted	26	-	-	-	-
Small	Open	8	-	230,775	-	-
Small	Restricted	13	5,000	-	-	-
Small	Restricted	9	163,628	-	-	22,546
Small	Restricted	8	-	-	-	-

6.4 Board's effectiveness in meetings

In accordance with Section 37 (5) (b) of the Medical Schemes Act trustees have a responsibility of ensuring economic, efficient and effective use of resources of the medical scheme. This section can be extended to include value for paying trustees as they spent their time preparing for meetings. Internationally, trustees who do not attend meetings or are not prepared for meetings do not get remunerated for those hours. Remuneration is linked to participation in the matters of the Board (Stewardship, 2010).

The 2005 CMS study on corporate governance also found that between 5.3% and 16.7 % of trustees did not prepare for the meetings. It is therefore important to explore how efficient trustees are in Board meetings and to correlate payment for attending meetings to the number of meetings attended by each trustee. For CMS to undertake this analysis access to schemes financial data including recorded minutes would be essential.

7. PROPOSED GUIDING PRINCIPLES FOR TRUSTEE REMUNERATION AND REIMBURSEMENT OF OTHER CONSIDERATION

7.1 Medical Scheme's BoT and Sub-committee Remuneration Philosophy

1. Serving on the Board must not to be economically motivated but rather essentially inspired by attainment of a social good, public benefit and solidarity.
2. The Board of Trustees should seek to balance economic and a social goal of the scheme being mindful towards protecting beneficiaries as well as in cognisance of the fact that a medical scheme is a mutual fund whose ownership vests in members.
3. The Board of Trustees should be fit and proper to manage the business of the scheme.
4. The remuneration policy for both the BoT and Sub-committees should be influenced by economic, efficient and effective use of resources of the medical scheme.
5. The Board of Trustees shall uphold the fiduciary duty of loyalty and the duty to care.
6. In exercising their fiduciary responsibilities the Board shall maintain integrity, objectivity, honesty, competency and confidentiality.

7. Loyalty should be based on the premise that equity can best protect "the fiduciary relationship" against improper administration.
8. Appointment of sub-committee members should seek to promote integrity, objectivity, honesty and credibility in work undertaken by sub-committee members.

7.2 Guiding principles and parameters

1. The Remuneration Policy and practice should support the attainment of the medical scheme's strategic objectives.
2. Remuneration Policy/strategy should be outlined in the Scheme Rules in order to promote transparency and public accountability.
3. Remuneration should be linked to the Board of Trustees and its Sub-committees qualifications, skills, experience and time demands but should not be as high as to cause unnecessary financial burden for beneficiaries.
4. Excessive salary packages for Board of Trustees and Sub-committees should be discouraged.
5. The Board of Trustees and sub-committee members should not be paid if their participation on trustee matters is part of their job description.
6. The remuneration policy for the Board of Trustees and sub-committee members should be supported by performance reviews linked to measurable quantitative and qualitative indicators.
7. The remuneration policy should clearly state that trustees and sub-committee members will be rewarded according to the effective execution of the job as determined by a performance management system.
8. Penalties for the Board of Trustees and sub-committee members who are not prepared for meetings or trustees who hold an office but are not contributing meaningfully to the matters of the scheme should be outlined in the policy (see annexure 2).
9. To avoid conflict of interest it is recommended that trustee's and sub-committee members should not be contracted to perform paid work for the schemes, and should not be remunerated for undertaking executive duties for the scheme.
10. It is recommended that an independent Remuneration Committee should be involved in the remuneration decision to promote objectivity whilst limiting biasness.

11. This Remuneration Committee should not include a person who is (a) a member of its Board of Trustees (b) a person who is otherwise engaged as an employee, officer contractor of the medical scheme (c) a person who is otherwise engaged as an employee, director, officer or contractor of the medical scheme's administrator, or of the holding company, subsidiary, joint venture or associate of its administrator.
12. Terms of Reference for the Remuneration Committee shall be included in the Remuneration Policy.
13. The remuneration policy should exclude reimbursement of travel, accommodation and subsistence for partners who are not themselves on the medical schemes business.
14. Induction program for the Board of Trustees should include training on Scheme's remuneration philosophy and guidelines

7.3 Independent Remuneration Committee (see annexure 1)

Whilst all trustees have a duty to act in the interest of the scheme the Remuneration Committee has a particular role , acting separately from the BoT , to ensure that the interest of members are properly protected in relation to remuneration decisions taken.⁴

The purpose of the Remuneration Committee:-

- To assist the BoT in establishing a formal and transparent procedure for developing and implementing a Remuneration Policy and procedures for the BoT as well as all senior staff members paid directly by the scheme.
- To lead a formal, rigorous and transparent process on behalf of the BoT, for appointments of senior staff members directly employed by the scheme.
- To make recommendations to the BoT on succession planning
- Remuneration Committee shall have no direct or indirect financial interest (other than as member of the scheme) in the decisions that they make and withdraw from the meetings when their own remuneration is being considered in order to ensure that there is no direct or indirect conflict of interest.

⁴ It should be noted that a Remuneration Committee is not a statutory requirement for medical scheme, but it is a good corporate governance practice to have one

7.4 Expense policy

Where trustee's expenses are likely to be significant or if they are likely to be paid on a regular basis, it is a good conduct to have a formal, written policy.

This policy should cover the following: -

- Authorisation processes applying to all trustees including relevant staff members
- Differences between eligible and not eligible claims
- Claims processes and procedures
- Evidence needed to support individual claims
- Self declaration that the claim is accurate and has been incurred in connection with the business of the scheme

This policy should be clearly communicated to all staff members including trustees and it should form part of the induction training.

7.5 Key Performance Measures

Performance evaluation of the BoT and Sub-committee members (including all other staff members) is one of the key factors important for effective and efficient management of the business of the scheme. Without a performance evaluation system schemes would not know whether they are effective or not. BoT and Sub-committee evaluation should include both internal self- assessment as well as external assessment by scheme members and other relevant parties.

A self-evaluation process must assess whether the BoT and its relevant committees have necessary framework, policies and procedures in place within which to make decisions, and whether it is acting in accordance with the Medical Schemes Act, MSA Regulations and the associated guidelines. External evaluation might be undertaken through a survey such as customer satisfaction survey to solicit member's satisfaction with how the BoT is managing the scheme's business. Through a survey the BoT will be able to identify tangible parameters that cause customer satisfaction or dissatisfaction and consciously measure them.

As indicated above these parameters should be guided by the strategic objectives of the schemes as well as the relevant sections of the Medical Scheme Act and should be linked to performance score (see section annexure 1 & 2).

The following are guiding principles which should underpin the performance evaluation system:-

- All medical schemes should undertake annual formal performance evaluation for their BoT members.
- BoT's should sign performance agreements outlining performance targets as well as key performance indicators.
- Sub-committee assessment should be linked to the Terms of Reference as defined by the Board.
- Performance reviews should be linked to measurable quantitative and qualitative indicators.
- The remuneration committee shall review the performance measures of the trustees and other senior staff members bi-annual and/or annually to ensure that performance measures are linked to the priorities and the strategic objectives of the scheme (see annexure 1).
- Performance indicators should be linked to quarterly goals, annual goals as well as long-term goals for the medical scheme.
- The performance measures should be linked to the improvement of the BoT's overall performance.
- The objective of a performance evaluation system should inform renewed dedication of the BoT member role.
- Performance evaluation system should lead to increased knowledge of the BoT's roles and responsibilities.
- The performance evaluation system should strengthen the relationship between BoT members and the members of the medical schemes.
- Performance evaluation ought to be carried out in a manner which is supportive to the BoT and the Sub-committee members.
- Performance evaluation process should be objective and fair.

8. CONCLUSION

- The remuneration policy for medical schemes should always be informed by economic, efficient and effective use of resources of the medical scheme, as outlined in section 37 (5) (b) of the Medical Schemes Act.
- Incentive based remuneration should be linked with appropriate performance indicators. in order to preserve trustee independence.
- Performance indicators should take into account the performance of the scheme, the performance of the individual trustee.
- It is important to explore how efficient trustees are in Board meetings and to correlate payment received for attending meetings to the number of meetings attended by each trustee. For CMS to undertake this analysis access to the schemes financial data including recorded Board minutes is essential.
- This report recommends that trustees should embark on a formal evaluation process (see annexure 2 below) to assess the BoT's effectiveness in meetings. Time spent in these evaluations should not be reimbursed because it should be linked to the BoT's performance evaluation contracts.
- Currently Regulation 6A is limited to global figures; there is a need to unpack principles guiding the determination of remuneration rates and other considerations. This is important because when BoT disclose their remuneration in their Annual General Meetings members should be able to understand the process and the criteria informing remuneration decisions.
- Most medical schemes currently include minimum information with regards to remuneration considerations in their scheme rules. In order to promote transparency and accountability CMS recommends that medical scheme should include detailed information with regards to the process and the remuneration criteria informing remuneration decisions.

- Trustee performance measures should be in line with the relevant sections of the Medical Schemes Act.⁵
- Medical schemes should avoid financial rewards for trustee's which are above or higher than the market (King 111 recommendation).

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⁵ Section 35, section 37 (5) (b), section 57 (8), section 29, regulations 6A and any other relevant section of the act.

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ANNEXURE 1: REMUNERATION COMMITTEE CHARTER

Objective

- I. While all trustees have a duty to act in the interest of the scheme the remuneration committee has a particular role , acting separately from the BoT , to ensure that the interest of members are properly protected in relation to remuneration decisions taken.
- II. It should be noted that a remuneration committee is not a statutory requirement for medical scheme, but it is a good corporate governance practice to have one.

Purpose

- III. The main purpose of the remuneration committee is to assist the BoT in establishing a formal and transparent procedure for developing and implementing a remuneration policy and procedures for the BoT as well as all senior staff members paid directly by the scheme.
- IV. The remuneration committee shall lead a formal, rigorous and transparent process on behalf of the BoT, for appointments of senior staff members directly employed by the scheme.
- V. It shall also make recommendations to the BoT on succession planning
- VI. The guiding principal underpinning the operation of the remuneration committee is the members of the remuneration committee shall have no direct or indirect financial interest (other than as member of the scheme) in the decisions that they make and withdraw from the meetings when their own remuneration is being considered in order to ensure that there is no direct or indirect conflict of interest.

Membership

- VII. The remuneration committee is appointed by the BoT as a committee of the BoT , and the composition shall be in the BoT minutes of meetings
- VIII. The BoT shall appoint the members of the remuneration committee on such terms and conditions as it might determine. The term of office of the members shall not exceed three years unless re-appointed.
- IX. It is recommended that Remuneration Committee should not include a person who is (a) a member of its Board of Trustees (b) a person who is otherwise engaged as an employee, officer contractor of the medical scheme (c) a person who is otherwise engaged as an employee, director, officer or contractor of the medical scheme's administrator, or of the holding company, subsidiary, joint venture or associate of its administer.
- X. Upon the expiration of a member's term of office, he or she shall be eligible for re-appointment for further term of office provided that no remuneration committee may be appointed for more than two consecutive terms.
- XI. A vacancy , which occurs in the remuneration committee , shall be filled by a person appointed by the BoT , which person shall hold office for the un-expired portion of the period of office of his or her predecessor , and may on expiry of his or her period of office be re-appointed by the BoT
- XII. The constitution, terms and conditions and the term of office of the remuneration committee and its members shall include a written terms of reference.

Role and responsibilities

- XIII. The remuneration committee is responsible to the BoT for:-
- Reviewing the ongoing appropriateness and relevance of the remuneration policies and procedures ;
 - Overseeing the implementation of the remuneration policy within the scheme
 - Setting the overall policy for implementation packages of the BoT.
 - Setting the overall policy for remuneration packages for all senior staff members directly employed by the scheme, in a form and amount which will attract, retain, motivate and reward high calibre individuals.
 - Setting the overall policy and procedure for the retention and recruitment of senior staff directly employed by the scheme.
 - Determination and reviewing of the remuneration packages of each of the BoT and senior staff members directly employed by the scheme
 - Reviewing policies for the retention and recruitment of senior staff directly employed by the scheme , on professional and equivalent grades
 - The annual review of the terms and conditions of early retirements or voluntary redundancy for senior staff and ;
 - Disclosing any payments or considerations made to them in the particular year.
- XIV. The remuneration committee shall assist the BoT in compiling the job descriptions of all trustee members and senior staff members directly employed by the scheme, in a standard format, which will be used for independent performance evaluations.
- XV. The remuneration committee shall review the performance measures of the trustees and senior staff members directly employed by the scheme annually to ensure that the measures are linked to the priorities of the scheme for the forthcoming year.
- XVI. The remuneration committee shall assist the BoT in developing and implementing a systematic, open and proactive performance evaluation programme for the BoT and senior staff.

- XVII. The remuneration committee shall recommend the annual remuneration for trustees and for the chairperson of the BoT.
- XVIII. The remuneration committee shall advise on the terms and conditions of contracts or renewal thereof of senior staff directly employed by the scheme.
- XIX. The remuneration committee shall evaluate the balance of skills, knowledge, and experience on the BoT and prepare a description of the role and capabilities required for a particular appointment for the BoT.
- XX. The remuneration committee shall be responsible for overseeing the fairness of trustee election process at annual general meetings, or other special meetings for election called by the BoT.
- XXI. The remuneration committee shall satisfy itself that plans are in place in respect of orderly succession of appointments to the BoT and to senior management directly employed by the scheme to maintain an appropriate balance of skills on the BoT and senior management.

ANNEXURE 2: EVALUATION OF BoT'S EFFECTIVENESS IN MEETINGS

This measure will enable BoT members to evaluate their effectiveness in Board meetings and should be linked to the performance evaluation contracts.

- *BoT meetings*

All the BoT meetings should be recorded (through minutes) and BoT members who fail to attend Board meetings but are paid or are not fully prepared to contribute meaningfully to the meetings should be financially penalised.

- *BoT evaluations should be short and precise*

This evaluation should include a limited number of key questions to invite thoughtful responses at the end of a meeting. Questions should also explore if BoT members prepared for the meetings or not. The length of evaluations should be decided carefully to ensure that it doesn't diminish the quality of participant feedback.

- *Evaluation should also encourage thoughtful response*

The use of open-ended questions is better than structured questions to give evaluators an opportunity to share their views and recommendations. Should the BoT prefer to use structured questions they should supplement it with open-ended and follow up questions. Response on the evaluation form should be anonymous to limit biasness and promote objectivity.

- *Evaluation should gather feedback about the BoT's effectiveness*

BoT effectiveness can be evaluated internally and/or externally by members through a survey. Effectiveness questions to include questions such as, "How can the BoT improve, protect and promote member interests?" or, "encourage participation in scheme's affairs such as general meetings".

- *Allow all participants to surface their greatest area of concern.*

Broadly worded questions allow each participant to provide feedback on whatever concerns they have about the BoT this will allow participants to surface all matters of concern.

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