CIRCULAR

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Reference	:	Explanatory Note 2 of Annexure B
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Circular 23 of 2012: Explanatory Note 2 of Annexure B read in conjunction with Regulation 30 of the Medical Schemes Act 131 of 1998 ("Annexure B")

The purpose of this Circular is to clarify how compliance to Explanatory Note 2 to Annexure B should be achieved.

Explanatory Note 2 to Annexure B requires the sum of deposits in categories 1(a)(i) and 1(a)(ii) to not be less than 20%:

- Category 1(a) refers to "Deposits and balances in current and savings accounts with a bank, including negotiable deposits, money market instruments and structured bank notes in terms of which such a bank or mutual bank is liable, as well as margin deposits with SAFEX, and collateralized deposits" (own emphasis);
- Category 1(a)(i) refers to the above investments per bank with a net qualifying capital and reserve funds per Reserve Bank DI900 return greater than R5 billion[1]; and
- Category 1(a)(ii) refers to the above investments per bank with a net qualifying capital and reserve funds per Reserve Bank DI900 return greater than R100 million[1] .

[1] The Office issued "List of registered banks as at 31 December 2011: categorisation for Annexure B purposes" on 23 January 2012, which provides guidance on the classification of all registered banks in South Africa in accordance to Categories 1(a)(i) and 1(a)(ii) of Annexure B.

Explanatory Note 2 seeks to achieve adequate liquidity levels in medical schemes, specifically taking into account the short-term nature of the schemes' liabilities.

During our analysis of the annual financial statements and annual statutory returns submissions, it came to our attention that a number of schemes did not adhere to the requirements imposed by Explanatory Note 2. In order to test their adherence and compliance to the said Explanatory Note, investments in category 1 assets through insurance policies, collective investment schemes and managed portfolios were taken into account. This is incorrect, particularly where such investments are not immediately accessible.

This Circular seeks to advise schemes that in terms of Explanatory Note 2 to Annexure B, 20% of the scheme's assets in terms of Regulation 30 must be directly invested with banks and not via insurance policies, collective investment schemes or managed portfolios. Where schemes are of the opinion that monies invested through these avenues are available immediately without any delays, restrictions or penalties incurred, they can apply for exemption in terms of Section 8(h) of the Act.

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