

BHF Regional Meeting

November 2008

Proposed Corporate Governance Guidelines

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Proposed Fit and Proper Standards for Trustees & Principal Officers



Principles of good governance

Guiding Principles:

- Independence – conflict of interest avoided
- Discipline – correct & proper conduct
- Transparency – enabling meaningful analysis of schemes actions, economic fundamentals and non financial issues
- Accountability – BOT accountable for decisions they make and actions they take



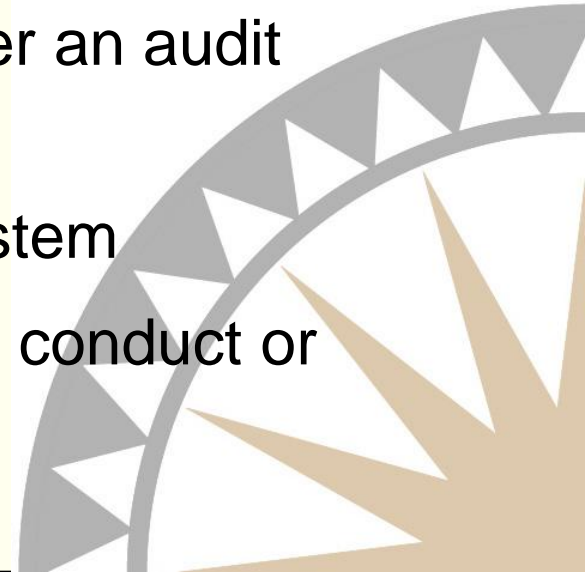
Roles and responsibilities

- BOT legally responsible for scheme
- Clear & common understanding of roles & responsibilities
- Primary role is one of oversight and to direct management of scheme (either third party or internally)
- Amendments proposed in the MSAB to distinguish role of BOT from role of PO. (BOT oversight & strategy/PO executive management)



Function of the PO

- Manage investments/assets/liabilities
- Keep proper registers/books/records
- Keep proper minutes of resolutions
- Maintain efficient/transparent systems or financial & risk management
- Maintain system of internal audit under an audit committee
- Maintain appropriate procurement system
- Prevent losses resulting from criminal conduct or wastage and report in writing to BOT



Function of the PO, cntd.

- Ensure timeous collection of contributions
- Prepare budgets for BOT
- Recommend rule amendments to BOT
- Settle contractual obligations
- Communicate appropriate info to members on rights/benefits/contributions/duties
- Maintain professional indemnity and fidelity guarantee insurance



Function of the PO, cntd.

- Obtain expertise on legal/accounting/business matters as required
- Take reasonable steps to protect confidentiality of medical records
- Enter into necessary contractual arrangements
- Ensure proper performance by scheme & third parties
- Appoint necessary employees & take responsibility for their functioning & performance



Fit & proper status of trustees

- MSAB makes provision for Minister to prescribe requirements for fit & proper status of trustees
- Fit – a person's competence to do the job
- Proper – character & integrity of the person
- Essentially, fit & proper – someone who is financially sound, honest, reputable, reliable & competent to perform the role
- When assessing fit & proper, regard must be given to current & previous conduct in business of financial matters – irrespective of whether they occurred in SA or not



Fit & proper status of trustees, cntd.

- BOT responsible for ensuring that PO and BOT are fit & proper
- Recommendation that regulations include requirement for serving and prospective trustee and PO to complete standard declaration (contents of declaration prescribed in regs.)
- Declaration to include info on person's qualifications and professional experience
- Trustees and PO required to review information annually



Fit & proper status of trustees, cntd.

- Certificate from SAPS , providing details of criminal history of individual. Fingerprints used to verify criminal record of individual
- BOT responsible for evaluating info provided on police certificates
- In the case of prospective trustees and PO, above assessment should precede the elections
- In the case of serving trustees and PO, the BOT is responsible for making an initial assessment and periodic reassessments



Fit & proper status of trustees, cntd.

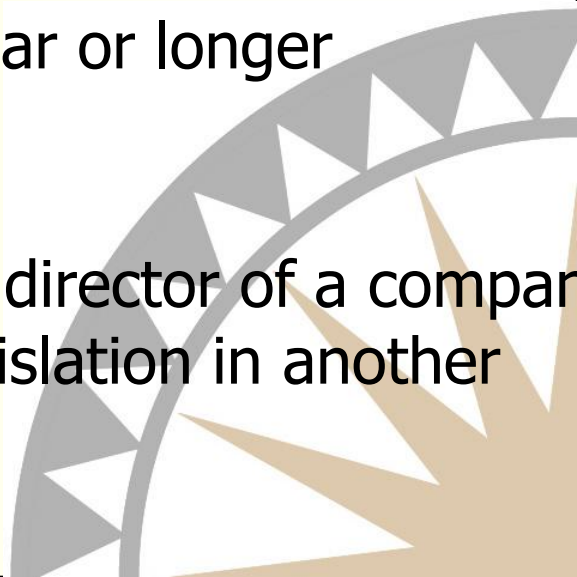
- Any individual aggrieved by BOT determination on fit & proper status can appeal the decision to the CMS.
- Declaration & certificates must be available to Registrar of Medical Schemes upon request.
- BOT can supplement fit & proper standard if required
- Every scheme must have a documented policy for proper induction & training, and a code of conduct for trustees



Fit & proper status of trustees, cntd.

Disqualification criteria

If he/she has been convicted of offence:

- Involving dishonesty/fraud/money laundering/theft/financial misconduct
 - In terms of tax legislation
 - Punishable by imprisonment for one year or longer
 - In terms of the MSA
 - Disqualified or prohibited from being a director of a company under the Companies Act or similar legislation in another country
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Conflict of interest

- Avoid conflict of interest
- BOT should develop a conflict of interest policy incorporating:
 - definition
 - guiding principles
 - disclosure procedure
 - management of disclosed & non-disclosed conflicts of interest
 - enforcement plans
 - sanctions for non-compliance



Disclosures & communication

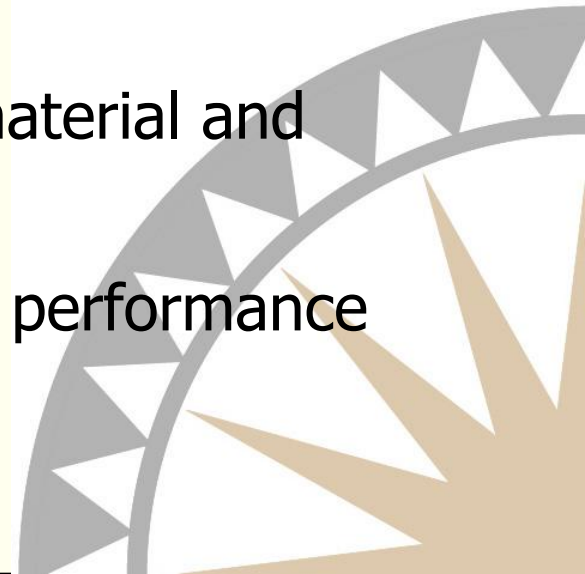
- Avoid receipt of gifts/benefits that may create undue influence
- PO & BOT must have in place strict policies to ensure full disclosure
- MSAB requires disclosure in annual financial statements any payments, gifts etc. by:
 - the medical scheme concerned
 - any person providing services to the scheme
 - any other person if made by virtue of holding office within the scheme



BOT leadership

Responsibilities of the Chairman

- Provide direction & support to the PO
- Presiding at full meetings of the BOT
- Provide leadership in formulating positions for the BOT
- Provide input and support to the Chairs of the committees
- Ensure that BOT is fully informed of material and financial condition of scheme
- Engage BOT in assessing & improving performance



Leadership development

- Adequate orientation processes for new trustees
- New trustees must be provided with induction programme covering:
 - the business environment
 - strategic plans
 - financial accounting & risk management issues
 - regulatory compliance
 - conflict of interest policy
 - internal management structures, etc.
- Orderly succession planning, especially for the Chairman



Strategic planning

Strategic management

- Where scheme is going in next few years
- How will it get there
- How will it determine whether it is there
- BOT should have a checklist for evaluating its strategic management performance



Structure of BOT

- 50% of BOT should be elected from membership
- Remaining trustees appointed to rules (in restricted schemes) or appointed by trustees (in open schemes)
- Appointment of trustees should be used to supplement BOT to achieve diversity and acquire specific skills & qualifications



Term of office

- BOT limited to a term of 3 years with the possibility of re-election for an additional term
- A person shall not service as a trustee for more than a total of 6 years on one particular scheme
- May be appointed by other schemes




Size of BOT

Must be sufficient to function efficiently & effectively

As a guide, no fewer than 5 and no more than 16 members

Key areas to be taken into account to ensure effectiveness are:

- Quality of advice & counsel available when a BOT has a diverse composition
 - Diversity in experience/education/attitudes, etc.
 - Composition of committees and the expertise required
 - Ability to secure critical resources through networking etc.
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BOT meetings

- Must meet in full complement regularly
- PO to convene special meetings of BOT as needed
- Written minutes kept of each meeting, which are maintained with books & records of the scheme
- Quorum should be half the BOT plus one



Agenda & BOT materials

- Master agenda must be prepared annually, containing general agenda items, e.g.
 - attendance register
 - additional items
 - declaration of conflicts of interest
 - approval of last minutes
 - issues arising
 - regular reporting information
 - statutory returns & regulatory compliance matters
- BOT, with PO may adjust agenda to include special items
- Information distributed timeously



Establishment of committees

Six typical standing committees recommended:

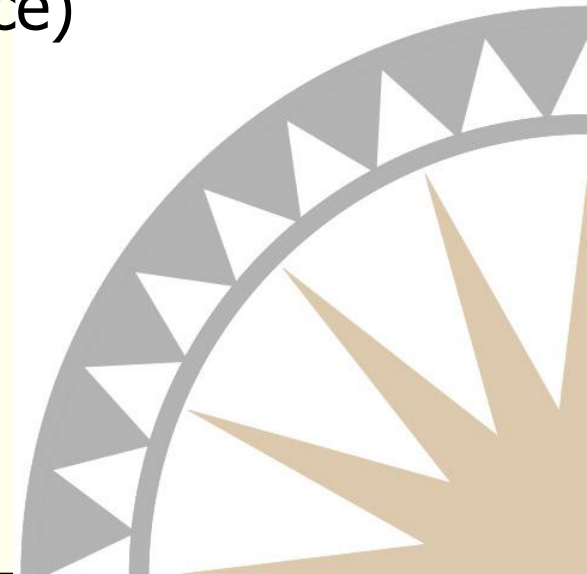
- investment committees
- risk management committees
- remuneration committees
- clinical governance committees
- audit committees
- disputes committees



Establishment of committees

Pre-requisites for effective committees:

- appointment of qualified & independent committee members
- clearly defined committee charter
- regular and carefully planned meetings
- allocation of adequate resources (including access to independent professional advice)



Delegation of authority to committees

Delegation does not relieve BOT from fiduciary responsibilities. BOT remains accountable for decisions of committees

- Formal procedure for delegation process which includes:
 - terms of reference of committee
 - life span of committee
 - scope of its mandate
 - size of composition
 - procedure for regular evaluation



Delegation of authority to committees

- Committees authorised to seek any information required to perform its function
- Investigate any activity within TOR
- Obtain outside legal or professional advice
- PO & financial manager or the administrator may be *ex officio* members of the committee
- A majority of the total number of committee members shall constitute a quorum
- All committee members must attend all committee meetings



Performance evaluation

- Committees shall conduct an annual review of its work and make recommendations to the BOT
- BOT shall review committee's effectiveness annually
- Committee must provide periodic reports to BOT
- Committee shall NOT make binding decisions



BOT access to management & independent advisors

- BOT shall have access to scheme's management, administration and outside advisors or experts, but this should be coordinated through the PO to ensure that the PO role is not undermined




Evaluation of BOT performance

- BOT must periodically review performance of related parties with whom it has contracted e.g. administrator, brokers, managed care organisations
- BOT must undergo a similar performance evaluation of individual trustees as well as the BOT as a whole
- BOT evaluation could achieve some or all of the following:
 - identification of long-term goals
 - improvement in the BOT overall performance
 - renewed dedication to the role of trustees
 - increased knowledge of roles & responsibilities
 - strengthened relationships between BOT members & scheme members

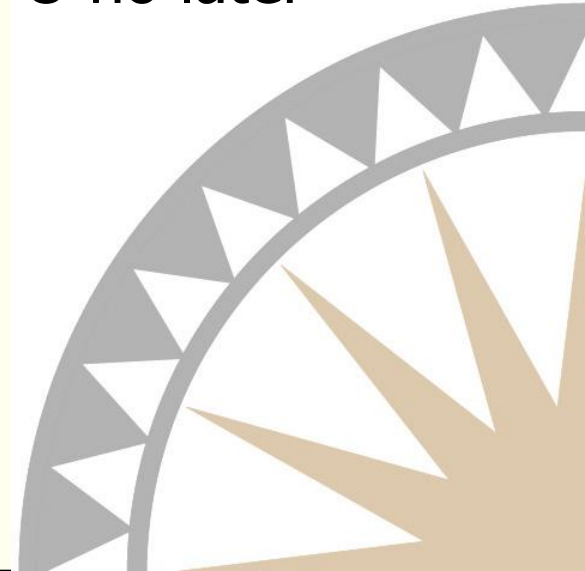


Evaluation of PO

- Must be evaluated periodically (but at least annually)
 - Purpose of evaluation is to provide assurance that the schemes strategy & policies are being effectively implemented.
 - BOT must provide feedback to PO for continuous improvement
 - Steps to be taken in the evaluation of the PO
 - PO to provide written self-evaluation
 - Each trustee to provide an assessment of the PO's performance, which include the scheme's performance & the PO's contribution to it, compared to competitors and the scheme's own strategic goals
 - Achievement of personal goals set by the PO
 - BOT to finalize results and allow PO to respond
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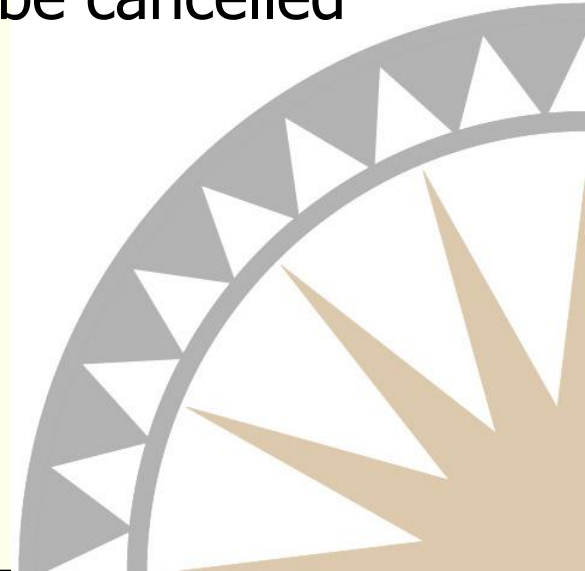
Member participation - AGMs

- AGM must be held as per scheme's rules (on a day which must permit reasonable attendance by members)
- Notice to be furnished to members at least 21 days before meeting
- Quorum determined by scheme rules (50 is a guide)
- Notices of motions for AGM must reach PO no later than 7 days prior to meeting date



Special General Meetings

- BOT or a predetermined number of members may call a SGM within 30 days of the deposit of the requisition
- Requisition must be signed by all individuals who initiated requisition
- Notice of this meeting must be furnished to members at 14 days before meeting
- If there is no quorum, the SGM must be cancelled



Voting

- Every member who is present at the AGM has a right to vote, or appoint another scheme member as proxy to vote/speak
- Chairman has a casting vote, if he is a member of the scheme



Confidentiality protection

- BOT must ensure that the scheme has an adequate information management policy
- Must include precise procedures for dealing with issues of confidentiality
- Measures could include:
 - adoption of express-consent approach, conveying the concept that the individual has agreed to have information made available to certain persons or institutions
 - that when disclosing information for research, the necessary controls protection members' confidentiality are in place
 - measures to protect the security of electronic records from unauthorised access



Health Governance

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BHF Conference 2009

An aerial photograph of a grand, multi-story resort building with a complex facade and several prominent blue domes. The building is nestled within a lush, dense green forest. In the foreground, there is a large, irregularly shaped swimming pool with a blue surface, surrounded by a pool deck with lounge chairs and several thatched-roof cabanas. The background shows rolling green hills under a clear blue sky.

30 August – 2 September