

MINUTES OF THE 46TH ANNUAL GENERAL MEETING
OF SOUTHERN CROSS MEDICAL CARE SOCIETY

Held on Thursday 11 October, 2007 at 10.00am

at The Ellerslie Convention Centre,

82-100 Ascot Avenue, Ellerslie, Auckland

PRESENT:

J G Todd, Chairman

Dr D D Baird, Ms C B Durbin, Dr D H Gray, Dr S C Macken, D J May and P J Meyer (Directors)

Dr I B McPherson, P J Tynan, C T Morrison, Lindsey Lawton, K L Jones, Rachel Cunningham, P J Regtien, J A Feyter, Dr P Cooke, and others totaling in excess of 180 members.

WELCOME:

Mr Todd welcomed members to the meeting and in particular, acknowledged the presence of representatives from the Society's external Auditors, KPMG; internal Auditors, Ernst & Young; external legal advisors, Minter Ellison Rudd Watts; and a number of past members of the Board.

Mr Todd introduced the Directors, Dr McPherson, the Chief Executive and Mr Jones, the Secretary to the Board, and members of the Senior Management team to the meeting.

DR MATTHEWS:

Mr Todd commented on the many years of service Dr John Matthews, the immediate past Chairman who had retired at the end of the financial year, had given to the Medical Care Society, and thanked him for his contribution.

**VOTING AND SPEAKING
PROTOCOL:**

Mr Todd outlined the voting and speaking protocols to be followed, in dealing with the various motions to be considered in the meeting.

NOTICE OF MEETING:

Mr Todd advised that the notice of this Annual General Meeting was published in the five national newspapers as well as being individually circulated to all members of the Society who were eligible to vote, between 10 and 20 September 2007.

This confirmed that the Annual General Meeting today had been called in accordance with the Rules of the Society.

APOLOGIES:

Apologies were received from the following members; Mr Bryan Smith and Mr Bruce Davidson.

It was moved by Mr Todd and seconded by Mr May, that the apologies be sustained. The motion was carried.

**PRESENTATION OF ANNUAL
REPORT AND FINANCIAL
STATEMENTS:**

In presenting the Annual Report and Financial Statements, Mr Todd gave a brief overview of the 2006/07 year. A copy of Mr Todd's presentation is available on the Society's website.

Dr McPherson, the Chief Executive, made a presentation on the performance of the Society, and updated members on plans for the future. A copy of Dr McPherson's presentation is available on the Society's website.

It was then moved by Mr Todd, and seconded by Mr May, That the Annual Report and Financial Statements, including the Auditors Report, for the year ended 30 June 2007, be received and adopted.

Prior to putting the motion to the meeting, Mr Todd and Dr McPherson answered questions from members.

1. Mr Blow wanted the Society to consult the minor political parties regarding tax relief, as under MMP, they can have a disproportionate say in forming a Government. He also asked when Activa Health would break even, and what the estimated costs for the 2007/08 financial year were.

Mr Todd commented that the Board understood the political landscape under MMP, and thanked the member for his comments.

Mr Todd commented that Activa Health had both disappointed and surprised the Board. With the declining numbers taking up health insurance, the research undertaken confirmed that New Zealanders were looking for a savings product to meet this day to day health spending estimated at \$2 billion a year, and it was disappointing that the individual uptake was less than budgeted, but the product has attracted interest from the corporate market and its marketing has been realigned to that sector.

The budgeted costs for the 2007/08 financial year were \$1.45 million.

The Board was pleased, but surprised, to see health insurance membership increase by over 17,000 members, the highest growth in the past five years.

The investment in Activa Health has been a springboard for other developments within the Society.

2. Mr Keith Robinson thanked Mr Todd for the additional information provided on Activa Health Limited. However, he also wanted to know whose idea Activa Health was, whether the Board took independent advice, and when would a break even position be achieved.

In reply, Mr Todd commented that the Board have taken a conservative approach in writing down the

asset value for accounting purposes. The intangible value created from this project is making an impact across the whole Society.

Dr McPherson commented that, with 55% of our members not making a claim, traditional health insurance was not relevant for some younger people, and an individual savings account to meet health expenditure was seen as a better alternative.

Health savings accounts in South Africa have decimated traditional health insurance, and there has also been growth of this concept in the United Kingdom and the United States.

Actuarial consultants from Australia were used and the research undertaken was done by New Zealand and Australian firms, and the project was audited by the Internal Auditors, Ernst & Young.

With a competitor about to launch a similar product, it was not proposed to release commercially sensitive information, but it is anticipated a breakeven position would be achieved in a couple of years.

With no further discussion or questions, the motion was put to the meeting and passed.

ELECTION OF DIRECTORS:

As Mr Todd was standing for re-election, Mr May addressed the meeting on Resolution 2 – The Election of Directors.

In accordance with the Rules of the Society, two existing Directors, Dr Harley Gray and Mr Jeff Todd retired by rotation, and being eligible, stood for re-election.

Dr Douglas Baird, who was appointed to the Board on 1 July 2007, in accordance with the Rules, sought election.

While the number of candidates this year equalled the number of vacancies, the Rules of the Society still require an election of Directors at the Annual General Meeting to be held.

It was moved by Mr May and seconded by Mr McLeod, that Dr Douglas Baird be appointed and Dr Harley Gray and Mr Todd re-appointed to the Board of the Society.

The motion was put to the meeting, and passed.

ELECTION OF TRUSTEES:

As Mr Todd was standing for re-election, Mr May addressed the meeting on Resolution 3 – The Election of Trustees.

In accordance with the Rules of the Society, one Trustee, Mr Jeff Todd retired by rotation, and being eligible, stood for re-election.

In addition, Ms Carole Durbin had been nominated for office as a Trustee, to fill the vacancy created by the retirement of Dr John Matthews.

While the number of candidates this year equalled the number of vacancies, the Rules of the Society still require an election of Trustees at the Annual General Meeting to be held.

It was moved by Mr May and seconded by Dr John Matthews, That Ms Durbin be appointed and Mr Todd re-appointed as Trustees of the Society.

The motion was put to the meeting, and passed.

Following completion of the voting procedure, Mr Todd returned to Chair the meeting.

APPOINTMENT OF AUDITORS: KPMG, the Society's external Auditors, who were newly appointed last year, were willing to continue in office.

It was moved by Mr Todd and seconded by Mr May, That KPMG be appointed Auditors, until the conclusion of the next Annual General Meeting of the Society. The motion was carried.

SPECIAL RESOLUTION:

A Special Resolution had been put forward by two Society members, to change the Rules of the Society in relation to:

1. Dates for lodging nominations for Directors, items of business, holding the Annual General Meeting.
2. The availability of the Annual Report and Annual Accounts and Balance Sheet to members.

The Board supported the proposed Resolution. However, to change the existing Rules, there is a requirement for 75% of those voting to be in favour of the change.

The Special Resolution was determined by a poll.

Mr Todd outlined the voting process to the members, and advised that the Directors had engaged the Society's external auditors, KPMG, to act as scrutineers.

Mr Todd moved the Special Resolution to amend the Rules. The new Rules are as follows:

8. APPOINTMENT OF DIRECTORS AND INCIDENTAL

8.1 Appointment

- (c) All nominations for office as a Director shall be addressed to the Secretary and lodged at the Registered Office of the Society not later than the 7th day of October preceding each Annual General Meeting, provided that if in any year the 7th day of October falls on a Saturday or Sunday, then receipt by the first Monday following the 7th day of October in any such year shall be sufficient.

12. ACCOUNTS

12.2 Financial Year

The Society's financial year shall end on the last day of June in every year. The Annual Report and Annual Accounts and Balance Sheet, and the Auditors' Report thereon, shall be available to members by the 15th day of September in every year.

13. PROCEDURES

13.1 General Meetings

- (a) The Annual General Meetings of the Society shall be held in the month of November in each year, or so soon thereafter as is practicable, at a time and place to be fixed by the Board of Directors for the purpose of receiving and adopting:-
- (i) The Annual Report and Annual Accounts and Balance Sheet, and the Auditors' Report thereon.
 - (ii) Electing Directors and other Officers including Trustees and the Actuary in the place of those retiring.
 - (iii) Appointing an Auditor or Auditors.
 - (iv) Transacting such other business as shall be specified in the Notice convening the Meeting.
- (b) Any Member desiring to bring any business before the Annual General Meeting shall give notice in writing to the Secretary not later than the 7th day of October preceding the meeting or such later date as may be fixed by the Directors.

The motion was seconded by Mr Keith Robinson.

Mr Robinson commented that the critical information in the Annual Report was not available until after the close off date for items of business, which limited members' rights to review the Board's performance.

With no further discussion, a poll was conducted to determine whether the Resolution was passed.

Although the results of the poll were not available prior to the meeting being closed, they will be published on the Society's website in a few days following the meeting. (The result of the ballot, as advised by the scrutineers, was that more than 75% of the members voted in favour of changing the Rules. Therefore, the changes were confirmed).

WRITTEN QUESTIONS:

Members had been asked to submit written questions for the Board to answer. These questions had been grouped under common headings and Mr Todd provided detailed answers to questions under the following topics:

- Coverage for prescription drugs
- Discounts
- Acquisition costs
- Older members

GENERAL BUSINESS:

There were no formal items of general business that were notified by the close-off date of 7 August 2007.

However, Mr Todd did allow further discussion by members.

1. A member who did not give his name, wanted to know what the Activa budgeted loss was for the 2007/08 financial year, as so far \$20 million had been written off in the 2005/06 financial year in the Parent

organisation books, and an operating loss of \$4.7 million was incurred this year.

In reply, Dr McPherson confirmed that the operating loss for 2007/08 would be similar to this year. Individual contributions for other products are not looked at separately. There was no additional cost to be incurred for the banking and partner relationships.

A new development would be launched to all Southern Cross members early next year, drawing on the knowledge and expertise developed by Activa Health.

2. Mr McLeod commented that in the 1970s, the National Government provided tax concessions for life and health insurance premiums, and were they likely to look at this again next year if they became the Government.

In reply, Mr Todd commented that the Society maintained relationships with all political parties. The current Labour Government has provided tax concessions for retirement savings, and although it could be argued that health was similar, the Labour Government is philosophically opposed to supporting the private health sector.

Mr Todd commented that the tax exemption for the Society is because the health insurance business is operated within the circle of membership. This resulted in a saving of approximately \$15 million on this year's surplus.

The HFANZ are working on a proposal to Government for a rebate for health insurance premiums for over 65 year olds.

3. A member who did not give her name, commented that the GST collected by the Government was greater for the members in the older age bands, and whether some relief could be obtained with a lower rate of GST being charged.

Mr Todd commented that this was unlikely as the GST was an efficient tax with one rate being charged on all goods and services.

4. Mr Neil Harris, who had the RegularCare Plan, wanted to see the procedure maximums increased, as in his personal experience, they were well short of reality.

Dr McPherson commented that, to improve procedure maximums, a trade-off between benefits/premiums was required. Southern Cross shared cover policies do not guarantee an 80% refund. Southern Cross was keen to expand the Affiliated Provider arrangements, as the contract with the medical practitioner provided the member with certainty on the amount that they would have to pay on the Shared Cover Plans.

5. In answer to Mr Tom Faulkes' question, Dr McPherson advised that the Society had 520 staff located in Auckland, the Claims Centre in Hamilton and Sales offices throughout the country. Dr McPherson commented that there were some long serving staff members and an example was Mr Jones, the Board Secretary, with over 20 years service.
6. Mr Bernard Weinstein from Wellington, commented that some group schemes had provision for no increase in premium at over age 65. Now that the Society was not honouring these arrangements, some members have been disadvantaged in that they paid more up to age 65, and now Southern Cross has introduced risk-related premiums, they are now paying more as an over 65 year old.

Mr Todd commented once Southern Cross' competitors moved to age banded premiums, we had no choice but to change from community rating to risk-rated premiums in order to attract and retain younger members. Australia maintained a community rating system, but the industry is highly regulated by the Government, whereas in New Zealand, there is very little regulation.

7. In answer to Mr David Sercombe's question regarding Southern Cross Health Services Limited, and the primary care initiative that Southern Cross was involved with, Dr McPherson advised that Southern Cross Health Services Limited provided services to companies managing worker's claims under the ACC Accredited Employer Scheme.

The primary care initiative was run under First Health Limited, which was a subsidiary of the Health Trust. The Labour Government policy changes to primary care has meant that this business has now been wound up.

There was no further business, and the meeting closed at 11.50am.