

**ADDRESS BY CHIEF EXECUTIVE OFFICER DR IAN MCPHERSON
TO THE SOUTHERN CROSS MEDICAL CARE SOCIETY'S
47TH ANNUAL GENERAL MEETING
27 NOVEMBER 2008**



Chairman Jeff Todd spoke earlier of our continued growth in membership this year; we now have more than 840,000 members.

This is a reflection of the trust New Zealanders' have in Southern Cross.

It's also a reflection of the lack of confidence amongst many that the public sector can adequately meet their needs - particularly for elective surgery.

Funding Care

The public system, Southern Cross, and all health systems in the world are coming under pressure through:

- rising costs
- an ageing population
- increasing expectations about access to more expensive forms of treatment, like robots, cancer and heart procedures
- the need for more investment in preventative and primary care, particularly from an obesity and diabetes epidemic
- and the increasing demands from the professional health workforce driven by global pressure.

At the same time perceptions of and confidence in the public sector has been eroded by a constant stream of media headlines condemning waiting lists, medical mishaps and DHB mismanagement.

That is not meant to be a criticism of our Public Sector colleagues. We are proud of, and supportive of, New Zealand's public health system. We very much see ourselves as complementary to the public system.

They perform an excellent job in often challenging circumstances – particularly in areas such as acute, primary and mental health. But as the DHB's themselves acknowledge, elective lists can and do come under pressure. It is not unusual for Boards to reach the end of a financial year with elective budgets unspent. There is no doubt that the system is increasingly reliant on the private sector for elective surgery.

The private sector now accounts for around 60% of all elective surgery procedures. In the year to June 2008 Southern Cross was responsible for around 145,000 surgical discharges compared to the Ministry of Health delivering around 115,000.

This statistic and our overall membership growth demonstrate that people still value our affordability, our brand and what we do.

Advances This Year

Back to the Society and health insurance...

Adapting to meet the needs of our members is something that has been evident throughout the year. I want to touch on a few areas.

The review of benefits completed during the year resulted in increases in benefits and new additions to cover, worth an estimated \$12.8 million per annum.

This includes

- \$3.4 million in general benefit increases – such as increasing the payment of consultations with Medical Practitioners, Cardiologists and Oncologists
- \$1.7 million on new benefits - such as Cardiac Radio Frequency Ablation or a travel benefit to recognise that sometimes members may need to travel in order to receive the care that they need
- another \$4 million was allocated for increasing hospital benefit limits on Shared Cover plans like RegularCare and KiwiCare
- and some \$3.7 million in updates to our Schedule of Surgical Maximums paid under those plans.

Private Radiotherapy

On 28 October we also introduced a private radiotherapy benefit for our 840,000 members.

This was added to applicable Southern Cross policies for the recent opening of NZ's first private radiation therapy clinic – Auckland Radiation Oncology. We have negotiated an Affiliated Provider contract with ARO, which means ease of claiming and certainty of prices for our members.

I am sure that this is something you will welcome given the prevalence of cancer in NZ and the constraints on the public system – particularly those publicised in Auckland.

However premiums will need to be modified to reflect the cost of the new benefit. As the Chairman noted earlier, claims costs and medical cost escalation continue to rise in part because of demand for new and more expensive forms of treatment – such as radiotherapy.

We do not yet know exactly how much extra this benefit will cost the Society. We are, of course looking at this closely. We currently estimate however, that the benefit alone for radiotherapy may add about 2% extra to premiums for the first year

Plus Programme and Alive

February saw the launch of the Plus Programme and the new Alive magazine.

These initiatives are linked. They are aimed at:

- creating value over and above the benefits members receive through their health insurance
- and improving the health and well being of our members.

One thing that concerns us, especially with younger members, is that they perceive that they are not getting value from their health insurance. Only 45% of all members make a claim each year. As such, we are constantly looking at how we can add value throughout the year to all members.

At an individual level, tangible savings of several hundred dollars per year, per member are available through the Plus Programme.

New Zealanders spend on average more than \$1,500 per year on out-of-pocket health and wellness. The Plus card offers our members a genuine way to make significant savings in this area and usage of the Plus Programme is starting to build.

The Plus Programme and Alive also offers a little encouragement to our members to improve their current state of health. If individual members are healthier, there are flow on benefits to all members, through fewer claims and ultimately lower premiums.

These initiatives obviously come at a cost. The combined additional cost of Alive magazine and the Plus Programme for the 2007/2008 financial year was \$2.40 per member. Over time we expect growing advertising revenues from the Plus Partners to offset these costs. This represents a relatively small investment given the scale of savings that are available to members.

Corporate wellness

In the last 12 months the Society experienced 300% growth in the take up of corporate wellness programmes – this includes Activa.

Aligning Activa with the corporate market has been a success with growth nearly doubling over the year – albeit off a modest base. 37 corporates were providing Activa accounts for employees at the end of the financial year.

Activa recorded a small loss for the year. However, we remain confident that there is a need in the market for a health-linked financial management product. It is for those who don't want traditional health insurance but still want to provide for everyday healthcare spending, as well as funding private treatment.

We also believe that New Zealand governments of the future will need to encourage Kiwis to save for their health care – just like we have to for retirement. Southern Cross has the perfect vehicle for that in Activa.

Online advances

I also want to discuss an initiative that builds upon our existing competence in the online world as demonstrated by having the busiest health insurance website in NZ.

The new online initiative called My Southern Cross - launching early next year - will enable members to do many things on-line from home:

- register to receive invoices on-line
- track progress with claims
- view policy and benefits documents online
- and update personal details.

This will save members' time, save Southern Cross money and has an added benefit of being good for the environment.

For example we spend around \$1 million a year mailing invoices, policy documents and updates to members, so the potential for financial savings is significant.

Member advocacy

Finally I'd like to touch on an issue in the health sector that have the potential to affect you as private patients.

Over the past year we have vigorously advocated on behalf of our members as more District Health Boards aim to charge private patients for laboratory testing which, until now, has been covered through the public health system. This practice currently applies in the Capital and Coast and Hutt Valley DHB regions, as well as the Tairāwhiti region. The Otago and Southland DHB regions are in the process of implementing it, while DHBs in Canterbury, the West Coast and now the Auckland region are considering it.

We have spoken out against this blatant cost shifting and have been actively involved in the consultation process on our members' behalf. As the Wellington experience has shown - in many cases private patients are being heavily penalised by this policy, with actual charges well above the "averages" suggested at implementation. For example the Wellington regions original estimate was that costs would be in the order of \$10 per patient. Yet in the first 10 months of the programme private patients have paid more that \$1.6 million, including sums up to \$2,400 and \$1,600 for tests associated with cardiac surgery.

What is disturbing about this, is the attitude in DHBs that private patients are wealthy individuals who can easily afford the additional costs of laboratory testing. It is a nonsense to pretend that the 1.4 million New Zealanders with health insurance are all wealthy people with no financial worries. This is clearly not the case. There is also no recognition given that those with insurance are taxpayers too.

We feel we must fight such initiatives on behalf of all members. Rather than penalise the insured, we believe the public system should acknowledge that New Zealanders with health insurance effectively save the public system money – through the amount of electives we fund. We will continue to strenuously oppose these moves and monitor the situation on our members' behalf. Our next step is to discuss, with the new Health Minister, having any suggested implementation of this DHB policy put on hold... And we await this outcome with bated breath. My thanks to all of you that made your voices heard during the consultation process. I know that several thousand members wrote submissions.

I want to finish by saying thank you for your continued loyalty to Southern Cross. It has been a very good year.