

**ADDRESS BY CHAIRMAN MR GRAEME HAWKINS
TO THE SOUTHERN CROSS MEDICAL CARE SOCIETY'S
48TH ANNUAL GENERAL MEETING
26 NOVEMBER 2009**



We come now to consideration of the Annual Report, Annual Accounts and Balance Sheet and the Auditors Report for the year ended 30 June 2009.

You will have found a copy of the Annual Report on your seats at the commencement of the meeting. As well as outlining the financial position of the Society, the report also includes commentaries from myself and Chief Executive Officer, Dr Ian McPherson which reflect on the challenges facing us in the broader healthcare environment.

I would like to focus additional attention to these challenges in my address to you today.

Let me say at the outset that the value you receive as members, and the related issue of premium affordability, are first and foremost in the Board's considerations.

You will see from our financial statements that there has been considerable pressure building in the area of claims costs. At the same time, we know that some members are under financial pressure and may be weighing up the cost of health insurance premiums with the need to access private healthcare treatment.

The indisputable truth is that this situation is symptomatic of bigger issues in the health system that have been building for some years.

Southern Cross, among others, has been warning that rapidly increasing healthcare costs will place a growing burden on our wallets – not only as payers of health insurance premiums but also as tax payers and ACC levy payers. During 2009 these warnings have reached something of a crescendo and it is my fervent hope that they are now being heeded in the corridors of power, and will lead to concerted action across the health sector.

In April the OECD published a report highlighting New Zealand's very high debt levels and very low levels of productivity compared with other developed nations. The report pinpointed rising healthcare costs as – and I quote – “the biggest threat to long-run fiscal sustainability”.

In August a Ministerial Review Group set off the alarm bells with a report that said the cost of healthcare will double in the next 20 years, rising at a much faster rate than economic growth. The Review Group put forward more than 170 recommendations to try to address issues in our public health system.

Last month ACC reported a loss of 4.8 billion dollars for the past financial year – yes that was 4.8 billion – identifying real and forecast healthcare cost increases as one of a number of factors causing the blowout.

And this month economist Gareth Morgan published a new book called “Health Cheque” which can be boiled down to the idea that “we want a champagne health system but we can only afford beer”.

All of this doom about the health sector has come amid the gloom of the worldwide economic recession.

These various reports and events illuminate the environment in which the Southern Cross Medical Care Society has been operating.

You may, therefore, expect me to provide a sobering review of the Society's past year and a gloomy outlook for the foreseeable future.

Well, we certainly have to take a serious and sober view of the circumstances we're faced with, and their impact on the value and affordability we can deliver for you as members. However, I believe the Society is doing a credible job in delivering value for its members during these tough times and that is something that we should celebrate.

In this regard, the most telling statistic from the past financial year is that the Society incurred 96.6 cents in claims costs for every dollar received in premiums. In other words, nearly all of the money you paid in as members was paid back out to meet the costs of healthcare treatments for the membership.

By way of comparison, according to the Health Funds Association of New Zealand, the average paid out in claims by all other health insurers during the period was 70 cents in the dollar.

So, on average, Southern Cross members received nearly 27 cents in the dollar better value than the customers of other health insurers. There are three important reasons for this:

Firstly, it has a lot to do with our not-for-profit status. We don't have shareholders to pay dividends to. The premiums you pay are used for your benefit.

Secondly, the Society is in a strong financial position and has been able to use its financial reserves to cushion the impact of rising claims costs. The Society planned to be in deficit during the financial year in order to return the best possible value to members during the economic recession.

A third factor is our prudent and successful investment strategy. The Society had investments valued at more than 411 million dollars at the end of the financial year, and returns on those investments contributed around 30 million dollars to the Society's income. The effect of that income was to moderate premiums for members to the tune of around 5 cents in the dollar.

I'd like to invite Investment Committee Chairman Phillip Meyer to elaborate briefly on the Society's investment strategy and performance.

(Phillip Meyer to move to the podium)

Thank you Phillip

I talked earlier about the emphasis that Southern Cross has been placing on maximising value for members in the past year, evidenced by the payment of more than 96 cents in claims for every dollar received in premiums

A consequence of this very high level of reimbursement was that the Society produced a deficit of 14.4 million dollars in the past financial year. This deficit is, in effect, funded by the Society's substantial financial reserves.

I must sound a warning here though. While the Society continues to be in a very solid financial position, we cannot continue to dip into our financial reserves indefinitely.

Ultimately, to ensure we are here for you and your children, and your children's children, the premiums and other income must cover the cost of claims combined with the cost of providing our health insurance services.

The Society is budgeting to be in deficit again this year, so we are anticipating that we will again use our financial reserves to cushion the full impact of rising costs. But premiums will also increase over the foreseeable future to get back in step with the cost of claims. Unfortunately, there is no way to avoid this reality.

We are making strenuous efforts to moderate premium increases while providing the best possible value. This is a topic that I will ask Ian McPherson to talk to you more about in a moment.

With ongoing waiting list issues in the public health system and tightening of healthcare funding by ACC, we know it's more important to you than ever to have access to private healthcare options via your health insurance.

It is the Society's unwavering mission to try to deliver the best possible value to you in these uncertain times.

ENDS