

**ADDRESS BY CHIEF EXECUTIVE OFFICER IAN MCPHERSON  
TO THE SOUTHERN CROSS MEDICAL CARE SOCIETY'S  
48TH ANNUAL GENERAL MEETING  
26 NOVEMBER 2009**



Thank you Mr Chairman.

At the outset of Graeme's presentation he mentioned some of the gloomy reports and forecasts related to the public health system and ACC.

As funders of healthcare services, the Government, ACC and Southern Cross are all facing many of the same challenges:

- rising provider charges
- new and often more expensive medical technology
- an ageing population
- high expectations of a health system that the country is struggling to afford.

These are irrepressible forces. We have some ability to moderate their impacts but we cannot eliminate them.

The result has been that for a number of years the cost of healthcare services has increased well above the rate of inflation. As the trend continues, an increasing proportion of people may find it harder to afford private healthcare.

Some of the strategies we're pursuing to moderate the impact of rising healthcare costs are outlined in my commentary in the annual report. These strategies can be grouped under two broad headings:

The first is "Enabling choice and good value".

And the second is "Advocating for a better deal for members"

I suggest that you have all purchased health insurance so that you can have some choice and control over your healthcare. It is difficult for Southern Cross to impact the costs of providing our service without impacting choices that you may have available to you.

So, when I talk about "enabling choice and good value", I'm referring to the difficult balancing act between giving members access to a choice of healthcare services while trying to ensure that premiums continue to represent good value.

A case-in-point is robot assisted prostatectomy surgery – a subject we discussed extensively in questions time at last year's AGM.

This is a relatively new procedure in New Zealand used by some surgeons to remove cancerous prostate glands. The procedure costs in excess of 30 thousand dollars.

More conventional prostate surgery costs in the vicinity of 15 to 20 thousand dollars and the overall patient outcomes, in terms of success rates and recovery times, are largely comparable according to international literature. This was the case last year and it still is.

If this was money coming directly out of your wallet today, would you spend an extra 10 to 15 thousand dollars for more-or-less the same outcome? We think the answer is probably no. And, because it is your money that we're administering on your behalf, we're saying no to the additional cost of this procedure so that it will not impact on the premiums we all have to pay.

Another example of finding the balance is the area of cancer care – notably access to chemotherapy and radiotherapy.

We acknowledge that there's considerable anxiety among members about having timely access to these potentially life saving treatments, so we have responded by saying "yes" to a range of new benefits over the past 2-3 years. These include introducing significantly enhanced chemotherapy benefits in 2007 and a benefit to access New Zealand's emerging private radiotherapy services in 2008.

We have introduced the new cancer care benefits with criteria designed to help manage the impact of this on premiums. In the case of radiotherapy, the criteria include using services contracted through Southern Cross's Affiliated Provider programme. In the case of chemotherapy, those criteria include funding only Pharmac approved drugs quite simply because we cannot afford to open the floodgates to every drug that is available in the world.

Not surprisingly, we are seeing a significant increase in claims costs for cancer care but the criteria we're using are helping us to manage and monitor those costs and, in turn, their impact on your premiums. We believe the balance between service and costs for all is about right.

I just mentioned the Affiliated Provider programme. This continues to be an area in which we're investing considerable energy to negotiate the best possible value for members. During the past financial year more than 85 million dollars worth of healthcare services were provided by our affiliated providers – representing 16% of our total claims cost. We thank the doctors and facilities who have joined this programme to provide members with a high quality and efficient service

We have also expanded the programme considerably, adding more than 100 specialists from a range of specialities and geographic areas. We now have more than 400 specialists and facilities contracted to provide a long list of healthcare services for Southern Cross members.

We have also integrated Affiliated Providers into our broader "Plus" programme designed to deliver members greater value. A key aspect of this programme is the Plus Card, which can be used to streamline the claiming process when a member sees an Affiliated Provider and to redeem discounts and added value offers at a great range of health-related retailers.

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The second group of strategies for moderating the impact of rising healthcare costs goes under the heading "Advocating for a better deal for members". That means speaking out on your behalf and representing the interests of the membership.

This activity has been taking place on a number of different fronts.

- We have been successfully pushing back on the plans of various district health boards to force patients to pay for laboratory tests ordered by private medical specialists.
- We have been addressing the rising cost of services provided by private hospitals and private specialists and surgeons, both directly and at times through the news media. We will need to work more with providers here.
- We have been supporting the health insurance industry's initiatives to achieve an exemption from Fringe Benefit Tax for health insurance premiums paid by those employers who take significant responsibility for the health of their staff and, consequently, the efficiency of the nation's workforce.
- And we used every opportunity to be vocal advocates for the introduction of a tax rebate, particularly for people aged 65 and over who take the responsibility to provide for their own healthcare through insurance.

In all of these areas we can point to some success in raising the visibility and understanding of the issues and, in some cases, moving tangibly towards the desired outcomes for members.

As I've said, there is more information on these subjects in the Annual Report so, if you are interested, please make a point of reading my commentary there.

Much of what I have discussed today has been focused on the most significant challenges facing the Society.

I also want to give you some assurance that the Society is not only addressing these challenges, but doing so very successfully. There are many examples I could point to as proof of this claim.

For example, despite the current economic environment, the Southern Cross membership actually grew during the past financial year from 835,000 to 843,000. At the same time we were growing by 8,000 members, the rest of the health insurance market was shrinking by a total of 5,000, which means your Society's share of the health insurance market has grown.

Despite this growth in members, the Society's operating expenses were only marginally higher. On a per-member basis, and as a proportion of revenue, our operating expenses declined compared with the previous year.

And the service levels we deliver day-in and day-out through our claims processing, prior approval service and contact centre are of a very high standard, even compared with the best local and international companies.

It is a very great pleasure for me, therefore, to announce that the Society's considerable efforts to create a very effective organisational culture have been recognised in the prestigious JRA Best Workplaces Awards. I'm delighted to tell you that in the first year that we have entered, the Society has been named a finalist in the large employer category of the JRA Awards. The ultimate winners in these prestigious awards are to be announced tonight.

An implication of our recognition as one of New Zealand's best workplaces is that we are better able to retain and recruit happy, capable and dedicated staff. This, in turn, reinforces our ability to provide you with cost-effective service.

Whether we win or not, it is a tremendous accolade for the management and staff of the Society to be recognised in this way – well done to you all.

In closing, I'd also like to extend my thanks to the Chairman and the Board for their ongoing support.

Thank you