

**Minutes of the 53rd Annual General Meeting
of Southern Cross Medical Care Society**

Held on Thursday, 4 December 2014 at 7.00pm
at The Ellerslie Convention Centre, 82-100 Ascot Avenue, Ellerslie, Auckland

- Present: G S Hawkins, Chairman
- Dr D D Baird, Ms C M Drayton, Ms C B Durbin, G W Gent, Ms E M Hickey and K B Taylor (Directors)
- Senior management and advisors, including P J Tynan, G Searle, C Watney, L Bojsen-Moller, A McPhail, April Walker, Vicki Caisley, SJ Azzopardi, J Smeed, Dr I Pogson, M Flaherty, K L Jones, Rachel Cunningham, and others totalling in excess of 100 Members.
- Welcome: Mr Hawkins welcomed Members to the meeting.
- Introduction: Mr Hawkins acknowledged the presence of a past Chairman of the Board.
- Mr Hawkins introduced the Directors, Mr Tynan, the Chief Executive Officer and Mr Jones, the Secretary to the Board and members of the senior management team to the meeting.
- Apologies: Mr Jones advised that there were no apologies received.
- There were no additional apologies from the floor.
- Notice of meeting: Mr Hawkins advised that notice of the Annual General Meeting had been given in accordance with the Rules of the Society.
- Quorum: Under the Society's Rules, the Quorum required for a meeting is 12 Members. As there were more than 12 Members present, Mr Hawkins declared the meeting open.
- Voting and speaking protocol: Mr Hawkins outlined the voting and speaking protocols to be followed, in dealing with the various motions to be considered in the meeting.
- Presentation of Annual Report and Financial Statements: In presenting the Annual Report and Financial Statements, Mr Hawkins gave a brief overview of the 2013/14 year. (A copy of Mr Hawkins' presentation is available on the Society's website).
- Mr Tynan, the Chief Executive Officer gave a presentation on the Society's performance (a copy of Mr Tynan's presentation is available on the Society's website)
- Prior to putting the motion to the meeting, Mr Hawkins, Mr Taylor and Mr Tynan answered some questions from Members.

Mr Gaynor questioned whether the amortization of the software and the significant depreciation amount on Computer Equipment in the financial statements meant a major IT investment was required in the near future.

In reply Mr Tynan commented that the core systems running the business now were basically a Southern Cross developed package and there was no large capital expenditure coming in the foreseeable future.

Mr Gaynor also questioned the reducing return the Society was making on its Investment Portfolio and whether the Investment Policy was too conservative. He also pointed out that the Open Bank Resolution Policy introduced by the RBNZ meant that Bank Investments were not entirely risk free.

In reply Mr Taylor commented that the Society did not have access to additional capital so a conservative investment approach to protect the Members' reserves was adopted.

The Society Investment Policy is continually reviewed by the Trustees.

Dr Fergus Oliver questioned the emphasis on reducing provider costs when the operational costs have increased up to 6% year on year.

Mr Hawkins commented that the cost of regulation by both the RBNZ and FMA have had an impact on costs.

Mr Tynan commented that as the transition from paper base to digital services is pursued additional costs are being incurred until this is completed.

Mr Hawkins advised the meeting that in the current year one of Mr Tynan's KPIs was reducing the administration cost per member.

Mr Cedric Allan commented that a number of 60 to 70 year old members were giving up their membership as under the AP programme the choice of specialist was being taken away from them.

Mr Hawkins commented that we were not trying to exclude providers but we must manage unreasonable fees. Mr Tynan confirmed that a good nationwide coverage has been achieved with 99% of providers, excluding Orthopedics in Auckland, signed up.

Dr Paul LeGrice questioned the definition of reasonable costs as some doctors have had their income reduced by up to 50%.

Dr LeGrice's concept of allowing co-payments from patients was not supported by Mr Tynan as this would result in members having to pay more and would also lessen the Society's negotiating position on behalf of members.

Lynne Footer wanted to see better discounts for healthier members that do not make claims, and pricing bands for members aged over 75 years.

Mr Hawkins confirmed it was continually reviewed, and the concept of pricing bands for older members has been considered but the tradeoff between 60 to 70 years old was small.

Mr Shane Plummer commented that in the United States the FBI have estimated that medical fraud is \$80 billion per annum. He wanted to know what policies did Southern Cross have in place to manage fraud.

In reply, Mr Hawkins confirmed that our fraud detection capability had been improved at all levels recently.

Mr Tynan commented that fraud in New Zealand was estimated between 1 and 3% of claims. We are working with the industry association, HFANZ, to establish an Integrity Register to share information in an effort to reduce member and provider fraud.

Mr McLeod commented on the decreasing membership. The brand and service levels were good, so why were the younger people not joining and was there a need to improve the marketing.

In reply Mr Hawkins commented that younger people generally have a different attitude to health insurance.

Mr Tynan commented that Group and Corporate schemes were the Society's biggest area, but there was still a focus on individual members. Although the membership had reduced, the Society's share of the New Zealand health insurance market had grown.

Dr Fergus Oliver and Dr Paul LeGrice both commented on the need to balance quality of care with achieving cost savings. Dr Oliver stated that international experience showed that having lower quality specialists or General Practitioners doing surgical procedures in a low cost environment would not achieve a good outcome for the patient.

Mr Hawkins commented that the Society had to respond to market reality and had introduced minimum quality standards, but also needed to influence the high margins currently being charged by some providers.

Dr Baird disputed Dr Oliver's statements, commenting that a General Practitioner's skin surgery training was very similar to a Dermatologist's and, once accredited, the facilities were of a similar quality. With similar outcomes achieved, Dr Baird stated that he believed Dermatologists were scaremongering to protect their incomes.

Dr Oliver disputed Dr Baird's statements, saying that his views were not supported by local or international literature.

A member since 1999 commented on the excellent service he had received in having lesions removed and expressed his support for managing provider costs. However with the GP obtaining the pre-approval he wanted the right to know the cost of the procedure prior to commencement so he could decide whether it was too expensive or not.

Mr Mark Gittos a member and a medical practitioner commented that if you developed cancer between 19 December 2014 and 18 January 2015 you would not be able to get into a private hospital for treatment as all Auckland facilities were closing during this period.

In reply Mr Hawkins commented that this was a provider issue, which the health insurer had no direct influence over.

A member from the floor commented on the high cost of dental treatment in New Zealand compared to Asian countries.

It was then moved by Mr Hawkins and seconded by Dr Hylton LeGrice, that the Annual Report and Financial Statements, including the Auditor and Appointed Actuary's Reports, for the year ended 30 June 2014 be received.

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

Election of Directors:

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

Resolution 2.1

Mr Hawkins commented to the meeting that he had advised the Board earlier in the year that he was retiring this year, and the Board initiated a recruitment process to fill the vacancy on the Board.

When filling this vacancy the Board considered the skill set of the current Directors, identified the qualifications, competencies and experience that are required, and engaged a recruitment firm specialising in senior appointments.

The recruitment firm conducted an extensive and publicly advertised search for suitable candidates who were then put through a rigorous interviewing and assessment process – the kind of process you would expect to find associated with any senior appointment in a business of our size and complexity.

In particular, the recruitment process took into account the legislative requirements under the Insurance (Prudential Supervision) Act 2010 designed to ensure Directors of insurance organisations are suitably qualified and experienced to fulfil the role.

Under requirements of this Act, the Reserve Bank of New Zealand has developed Standards for Directors and sets

out the factors that an insurer must take in to account when making an appointment to one of these positions.

This process resulted in the identification of Roger France who was subsequently nominated for the role of Director.

Mr France made a brief speech to the meeting introducing himself and outlining the skills and experience he can bring to the Board.

Prior to putting the matter to the meeting, Mr Hawkins asked was there any discussion.

Mr Bruce Stapher aged 70 commented that Mr France was a similar age and the Society needed younger Directors.

He also commented that he would be the third Director who has been a Fonterra Co-Operative Group Director and that his background information omitted his directorships in Ansett / Air New Zealand Limited and Blue Star Print Limited.

Mr Stapher advised the meeting that he would not be voting for Mr France.

Mr Hawkins asked Mr France to respond to Mr Stapher's comments.

Mr France advised the meeting that he was not a director of Air New Zealand Limited when Ansett Australia went under, but was the first director appointed by the Government to the recapitalised Air New Zealand Limited.

The Blue Star Print Limited was a well-run company but a highly leveraged private equity investment which was a casualty of the Global Financial Crisis and the Bond Holders did lose their money.

It was moved by Mr Hawkins and seconded by Ms Durbin, that Mr France be elected as a Director of the Society.

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

This year, in accordance with the Rules of the Society, Keith Taylor retires by rotation and, being eligible, offered himself for re-election.

Resolution 2.2

It was moved by Mr Hawkins and seconded by Dr Baird, that Mr Taylor be re-elected as a Director.

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

Appointment of a Trustee:

As Mr Hawkins was retiring, Mr Greg Gent had been nominated for office as a Trustee to fill the vacancy created.

Regarding the role of a Trustee, Mr Hawkins advised the meeting that under the Rules of the Society, all property

belonging to the Society vests in the Trustees who hold it in Trust for the Members. It was appropriate therefore that the Trustees are also Members of the Board and make investment decisions which are clearly consistent with the Board's strategic directions.

It was moved by Mr Hawkins and seconded by Mr Peter Couper, that Mr Gent be appointed as a Trustee of the Society.

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

Directors' Remuneration:

Mr Hawkins commented that the Society's cap on the total amount of Director remuneration of \$361,900 had not increased since 1997.

Mr Hawkins advised the meeting that after taking into account members' feedback, the Board created a draft Director Remuneration Policy which was published and promoted on the Society's website during the month of May 2014.

The New Zealand Shareholders Association view was that the Society's Remuneration Policy accords with good governance principles and the remuneration levels proposed were appropriate for a non-profit organisation of the Society's size and complexity.

The Board's view is that Director remuneration needs to be at a level that will attract individuals with the necessary skills and experience to serve on the board of a licensed insurer the size and complexity of Southern Cross. However, the Board also believes that those levels should not exceed the median for comparable commercial organisations, in recognition of the Society's not-for-profit, Friendly Society status.

Based on the size and complexity of the Southern Cross Medical Care Society's operations, independent remuneration consultants determined that a total remuneration pool of \$476,000 would be appropriate for the Society's seven-Director Board.

It is proposed that the total Director remuneration pool be increased to this level, from 1 January 2015, phased over the next two financial years.

It was moved by Mr Hawkins and seconded by Ms Drayton, that the total Director remuneration pool be increased from \$361,900 to \$476,000 per annum, with effect from 1 January 2015.

Prior to putting the motion to the meeting, Mr Hawkins asked was there any discussion in relation to the Director Remuneration.

A member from the floor questioned where the \$100,000 for extra fees would come from after making a loss in the last financial year.

Mr Bruce Stapher would rather see the number of Directors reduced from seven to five than increase the fees.

Mr McLeod wanted to see the increase deferred for twelve months as the loss for the year and the decline in the membership did not justify an increase.

Mr Brian Smith spoke in support of the increase as you have to pay for experience, and young people do not have the experience.

In reply Mr Hawkins advised that any increase had been deferred for seventeen years and based on the proxies received the resolution will pass.

As there was no further discussion, the motion was put to the meeting and passed.

General business:

Recognising the retirement of Chairman Graeme Hawkins

Greg Gent who had been appointed by the Board to fill the vacancy of Chairman thanked Mr Hawkins for a job well done over the last six and half years and his excellent Chairmanship over the last five and half years.

Other General Business

There were no formal items of general business that were notified by the close-off date of 7 October 2014.

However, Mr Hawkins did invite further discussion by members.

Mary Bell a member of fifty years wanted to know why the Society would not cover the full cost of her prosthesis.

In reply Mr Hawkins commented that it was not appropriate in this forum to discuss personal health insurance matters and he would discuss it with the member after the meeting.

There was no further business, and the meeting closed at 8.32pm.