

Southern Cross Medical Care Society 53rd Annual General Meeting 4 December 2014

This document contains the addresses delivered at the AGM by Chairman Graeme Hawkins, and Chief Executive Officer Peter Tynan.

Chairman, Graeme Hawkins:

We now come to consideration of the Annual Report and Financial Statements for the year ended 30 June 2014. You should have received a copy of this year's Annual Report upon arrival.

As well as outlining the financial position of the Society, the report includes commentary from myself and CEO, Peter Tynan on the Society's performance.

As detailed in the Annual Report, the Society continues to deliver excellent value for members. During the financial year, for every dollar received in premium income, 90.4 cents was returned to members in claims. This is a market leading rate of return - well above the average for New Zealand's for-profit health insurers of 63.2 cents - and one which we, as a not-for-profit Society, are proud of.

The year saw the Society earn \$768.4 million in premiums, up 5.9 per cent on the previous year and incur a record \$694.5 million in claims, up 8.7 per cent on 2013.

Delivering this level of value resulted in a year-end deficit of \$1.1 million. This was due to higher than expected claims costs for the year, predominantly driven by orthopaedic procedures and specialist consultations.

While our strong reserves allow us to absorb small deficits like this, as a responsible insurer we must aim for a small annual surplus in order to maintain reserves for times of unexpected and severe claims spikes.

Our reserves currently sit at \$394.3 million, equivalent to approximately seven months' of claims. These reserves, which sit within the target solvency range established by the Board, have helped the Society maintain its A+ financial rating, which it has held for 12 consecutive years.

As well as providing reassurance of the Society's ability to pay future claims, reserves also work for the benefit of members. Reserves form the bulk of the Society's investment portfolio and income from this portfolio enables the Society to offset premium increases each year for its members.

As a Friendly Society, we have no access to external capital; therefore income generated through investments is extremely important to us.

We have a conservative investment policy. We believe it is in the best interests of you, our members, that we continue to receive sustainable and predictable income over time, while maintaining a relatively low risk portfolio. This strategy has served Society members extremely well throughout the years.

Despite our conservatism, I am pleased to report that during the last year the Society's investment portfolio generated income of \$18.5 million for the Society and its membership.

One of the key issues facing our Society is looking at ways to keep health insurance affordable. This is a fine balancing act because, as a not-for-profit insurer, our premiums directly reflect the cost of our claims and these costs are increasing.

In line with increasing medical inflation, the New Zealand health insurance sector saw a small decline in the number of those insured in the last financial year - a decrease of 0.4%.

The Society also experienced a small decrease of 0.3%. However, as this was less than the sector average our market share increased fractionally from 61.06% to 61.11%.

Memberships at year end was 815,447. Those members - who make up 61 per cent of the New Zealand market - accounted for 72 per cent of the country's health insurance claims.

This further serves to highlight the outstanding value Southern Cross members receive from their premium dollar.

The Society's CEO Peter Tynan will shortly discuss ways we are delivering members even more value and the key method we have employed for tackling health costs and inflation.

Tackling costs head on has become increasingly important as our country learns to cope with an ageing population, increasing prevalence of chronic disease, new and expensive technologies, labour force challenges and growing expectations around quality, service and treatment options.

The cumulative effect of these pressures mean healthcare costs are outpacing the government's ability to fund them. In late 2013, The Treasury highlighted the future cost of healthcare as one of the biggest challenges facing New Zealand's economy. And the crunch in healthcare funding is not some far-off problem.

The New Zealand Institute of Economic Research estimate the country has only around eight years to make a change to historic spending patterns - before health costs start to seriously impact the Government's ability to keep the country within budget.

As a key player in the health sector, Southern Cross is taking an active role to ensure New Zealanders' long term health and wellbeing. In May of this year the Southern Cross Healthcare Group hosted fifty leaders from the public, private and provider arms of the sector as well as politicians, economists and academics, to discuss and debate potential solutions.

It was agreed at this meeting that solutions require a long-term plan that transcends the three-year political cycle, and recommended that a politically independent taskforce be established to help shape long-term health policy and to drive the significant change needed to avoid a funding crisis.

Fully addressing these issues will also require the input of New Zealanders themselves. As costs continue to rise and criteria for publicly funded surgery becomes more stringent, personal responsibility by Kiwis for their healthcare will become even more necessary. Health insurance will obviously play an important role.

In closing, I would like to thank you all for your continued support and interest in the Society.

We are proud of the value we offer you as members. We are proud to offer members strong governance, strong and stable financial performance and a clear strategy for the future. Please be assured we are working hard to provide you with the best possible value from your health insurance.

I now welcome Society Chief Executive Officer Peter Tynan.

Chief Executive Officer, Peter Tynan:

Thank you Graeme, and thank you all for being here this evening. As Graeme said, the 2014 financial year saw Southern Cross continue to deliver excellent value to its members.

During the year the Society processed more than 2.9 million claims.

These included 155,000 elective surgical procedures, 370,000 specialist consultations, 784,000 GP consults and 680,000 prescriptions. This is the very reason health insurance is so important to the country.

We don't seek to control the volume of claims, that would defeat the point of having health insurance, nor can we prevent justifiable medical cost escalation. But what we can tackle on behalf of our members is unreasonable prices – It's what members have asked us to do.

Central to achieving this is the Society's Affiliated Provider programme.

Affiliated Providers are doctors, specialists and facilities contracted to provide Southern Cross members with certain healthcare services at agreed prices.

Benefits include:

- the member knowing up-front how much, if anything, they have to pay
- the Provider organising approval and processing the claim and
- the member no longer having to pay for the service and then wait to be reimbursed.

We have been contracting with providers since 1997.

It is part of a long-term strategy to keep premium increases lower than they otherwise would be.

The expansion of this programme over the past few years, has been driven by an increase in the number of procedures specified as "Affiliated Provider-only". This means Southern Cross members, on the majority of plans, are only reimbursed for these procedures if they are carried out by an Affiliated Provider.

Typically, the procedures we have chosen as Affiliated Provider-only are those which have high variability in pricing. Skin surgery is a good example. We paid 44,000 claims last year at a cost of \$44 million. It is our highest volume procedure - but some specialists had been charging up to 400 per cent above the market average.

We have had other surgeons charging in effect \$8,000 per hour for what are standard and high volume patient treatments.

Members would agree, this needs to stop.

Last year, over 850 members were surveyed about the Affiliated Provider programme.

- 97 per cent said they would be happy for their GP to refer them to an Affiliated Provider.
- 71% said they would rather travel up to three hours to see an Affiliated Provider than pay an extra \$1,200 for a procedure.

Convenience and value for money were cited as the two biggest benefits of the programme. And contrary to some myths, we have excellent provider coverage for those procedures that have been made Affiliated Provider-only.

For example of 101 ophthalmologists performing cataract surgery in New Zealand, we have contracts with 100. We also have contracts with over 220 providers for skin lesion removal – this includes specialists in every region.

We are happy to contract with any willing provider who meets the appropriate standards, provided we can negotiate reasonable prices on behalf of our members.

In 2010, 16% of all Southern Cross claims were paid through Affiliated Providers, this now sits at 40%. We have Affiliated Provider agreements in place with over 1,000 providers across 20 specialities. Our aim is to grow the programme to cover 60% of all claims costs by 2016.

Another area where we can contain costs and meet the needs of our members is in the digital space. Members can now enjoy secure online services through My Southern Cross and Easy Claim.

My Southern Cross allows members to access their policy information, update their details, apply for prior approval, track the progress of a claim, receive policy information, claim, and now vote for AGM resolutions – ALL online.

This service has over 63,000 registered users, providing both time and cost savings. If you have not already registered I recommend this service to you.

Earlier this year we were the first New Zealand health insurer to introduce a free mobile app. It is only on one policy at this stage - HealthEssentials - and has been designed as a 'light' alternative to using the web-based My Southern Cross. It provides members the ability to review their policy and claims information and make claims.

The Easy Claim service, where members can claim for eligible healthcare services without completing a claim form, continues to expand. Members can now claim at over 1,000 healthcare providers, including GPs, pharmacies, dentists, physiotherapists and audiology and optical providers.

The combination of these services means over 50% of all claims are now received electronically.

We are proud of these innovations and aim to grow the size and scope of our digital capability.

This year's electronic voting is a good example. It is expected that this option will achieve ongoing cost savings through reductions in postage and printing – and make it easier for members to participate in our governance.

Our commitment to members is to keep improving our services – not only to keep pace with members expectations but also to mitigate premium increases.

Before I sit down, I would like to thank you for your continued support of the Society. Thank you also Graeme for your dedication to Southern Cross. I would also like to thank the entire team of people at the society for their ongoing dedication to our vision.

Chairman, Graeme Hawkins:

In the context of these observations and updates it is my pleasure to move that the Annual Report and Financial Statements, for the year ended 30 June 2013 including the Auditor's and Appointed Actuary's Reports thereon be received.

(Various resolutions were put and passed by the meeting, and Mr Hawkins addressed the meeting again under General Business)