Southern Cross Health Society

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In this last year we have seen membership grow by 9000 net members, or 1.1%. This has contributed to growth in both premiums and claims.

During the financial year to June 30, 2016 we received premium income of $871 million. At the same time, we paid out $749 million in claims, which was up 1.5 percent from last year.

After accounting for overheads and investment income, this resulted in a surplus of $35 million.

To ensure the sustainability of the Society it is essential that we prudently manage and preserve our capital base, rather than operating at a bare minimum level.

Historically our approach to investment has been focused on domestic, interest bearing investments such as term deposits, commercial paper, floating rate notes and bonds.

This prudent management of our capital base meant this year we retained an A+ credit rating from Standard and Poor's.

However, the returns we have been able to achieve on those investments has steadily declined. As signposted at last year's AGM, to improve diversification and return, management has reviewed the Society's investment strategy.

The result was a two pronged recommendation to diversify our portfolio by expanding the types of conservative investment assets we invest in to include Global Bonds and to authorise a small allocation to global growth assets.

As a result, the asset allocation for the portfolio has moved from being 100% conservatively allocated to the New Zealand Money Market, to a 40% allocation to New Zealand Money Market instruments, a 40% allocation to Global Bonds – both of which are conservative investments - and a 20% allocation to global growth assets.

These changes came into effect in the current financial year, not the year to June 30, 2016.

Once complete, we estimate that this change will result in the long run average yield for the portfolio increasing by just under 1% per annum.

As a Friendly Society we use our reserves wherever we can to moderate premium increases, not to generate profit. Any surpluses and gains made through the investment strategy can also be used to increase benefits for members and improve the solvency of the Society.

In summary, we have had a successful year. Membership has grown, the Society has made an appropriate surplus, we've met all regulatory requirements, maintained an A+ credit rating and financially the business is in a good position to continue to grow.

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