

This is the first year we've taken our AGM on the road and it's a pleasure for us to be here in Christchurch.

We now come to the consideration of the Annual Report and Financial Statements for the year ended 30 June 2016. You should have received a summary on your arrival – the full financial statements have been available online since September and there are also some copies at the back of the room.

As well as outlining the financial position of the Society, the report includes commentary on the Society's operational performance.

Myself, CEO - Peter Tynan, and Head of Finance - Stefan Azzopardi will share this with you.

Our members – currently over 820,000 New Zealanders - continue to receive excellent value from Southern Cross Health Society. In the last financial year, for every dollar we received in premium, we paid out 86 cents in claims, which is well above the average for the rest of the industry of 71 cents. I acknowledge that this is down on last year's ratio of 90.2 cents.

This is due to the combination of the significant growth in membership - 9000 new members, which increases our premium income - and the growth of the Affiliated Provider programme, which is working to successfully decrease our claims costs.

The widening of the gap between the two has this year resulted in the lower claims to premium ratio.

Health Society members make up 61 per cent of the health insurance market in New Zealand, yet the \$749 million we paid out in claims last year represented 71 per cent of claims from all New Zealand health insurance providers – which means we more than punch above our weight.

This year we made a surplus of \$35 million. But it is important to put this into context. Last year we made a small surplus of \$5.8m, and the year before we made a loss of \$1.1m.

As a licensed insurer we are required by the Reserve Bank to have a reserve of funds that would allow us to continue to pay claims in adverse circumstances. Southern Cross has committed to maintain this solvency ratio at between 35% and 45% of annual premium income.

The \$35 million surplus helps us maintain that buffer to ensure we can continue to pay members' claims.

This year we have also revised the Society's investment strategy, looking to diversify our portfolio and improve our return without putting our tax exempt status at stake. Stefan Azzopardi, the Head of Finance, Risk and Compliance for the Society will touch on this in more detail later.

While the Society is in good health, the private healthcare landscape we operate in continues to expand and diversify and it's important Southern Cross continues to balance mitigating premium increases while delivering benefits that provide our members with access to treatment.

The biggest threat to the value we are able to provide our members, and one we try to actively manage, is medical inflation. We know our members are concerned about this too and the impact

rising costs have on premiums. Medical inflation runs much higher than general inflation for day to day activities, largely caused by price escalation and demand driven by new technologies.

As New Zealand's largest health insurer, and a not for profit friendly society, we have a responsibility to address these rising costs on behalf of our members. To achieve this we have a thorough process in place to assess new health technologies before they are covered under our policies.

We are very much aware that each time a new treatment or technology is added to our policies, it means a new cost to be borne by members' premiums. Because of this the Health Society carefully assesses the cost and benefits of new technology, and only provides cover for those that are clinically proven, effective and efficient.

To address price escalation we use the Affiliated Provider programme, where doctors, specialists and facilities are contracted to provide Southern Cross members with certain healthcare services at agreed prices.

As an organisation established 55 years ago by surgeons, it is heartening to know that we now have the support of over 1,300 healthcare providers across 20 specialties. The programme now accounts for over 50 per cent of our claims costs, and we're aiming to get this to 60 per cent in the current financial year.

By joining the programme these providers are supporting a sustainable private healthcare sector that remains affordable for more New Zealanders.

Another change to address affordability is adjusting our common rating age for older members – which over the next 10 years we will move from 65 to 75. Peter will touch on this shortly, but the intention of this change is to make easier for older members to maintain their cover for longer.

Sometimes, we need to spend money in order to ensure better value for our members. To that end, we made a conscious choice in the last financial year to budget for investment in human resource and key projects.

The Society has started a review of its core IT system, which has served us well for over 15 years but needs updating to ensure it remains able to meet the needs of our members into the future. Our members are increasingly expecting more from us than our traditional insurance model, as seen by our expansion into Life insurance, emerging "wellness" products, and the shift in the number and types of contact you have with us through your digital devices.

With an eye to the future, the Core Systems Review Programme has been established to incrementally replace components of our core IT systems. This will give us greater flexibility and speed to market for new products and will reduce our reliance and risk around some of our aging technologies.

This project is taking place incrementally to ensure there is little disruption to members in terms of the day-to-day running of the Society and the paying of claims.

As you know, Peter Tynan is stepping down as CEO after 12 years with the Society. I will touch more on this in general business, but I would like to thank him for his dedication and for helping steer the Society into a strong position where it will continue to grow in the future.

I'd like to close by thanking Peter and his dedicated team for the work they do on behalf of members, as well as my fellow Directors for their counsel and dedication to our Society.

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