

Minutes of the 60th Annual General Meeting of Southern Cross Medical Care Society (Society)

Held on Tuesday, 7 December 2021 at 2:30 pm
ONLINE through the Computershare Meeting Platform at
<https://meetnow.global/southerncross>

Present:

G W Gent, Chairman

C M Drayton, G R W France, M P Jordan, M P Misur, J M Raue and
K B Taylor (Directors)

Senior Management and advisors, including N Astwick, S Azzopardi,
K Boielle, V Caisley, A McPhail, R Ogilvie, R Salton and F Brown, K Baldock
and A Naughton (KPMG, External Auditor), J Smeed (Finity Consulting,
Appointed Actuary) and others totaling approximately 70 Members.

Welcome:

The Chairman welcomed Members and attendees to the Meeting.

Virtual meeting guidance:

The Chairman outlined the voting and questions protocols to be followed in
dealing with the various motions to be considered at the Meeting.

Introduction:

The Chairman introduced the Directors, noting that Keith Taylor is retiring
after 11 years with the Southern Cross Group; the two new Director
candidates, Chris Black and David Bridgman; and the Chief Executive
Officer (CEO), Nick Astwick.

Notice of Meeting and Quorum:

It was recorded that Notice of the Annual General Meeting had been given
in accordance with the Rules of the Society. As there was a quorum
present, noting that reliance was placed on section 10A of the COVID-19
Response (Requirements for Entities – Modifications and Exemptions) Act
2020 to hold the Meeting virtually and establishing a quorum, the Meeting
was declared open, and voting was declared open on all items of business.

Chairman's address:

Providing a general overview of the performance of the Society for the year
ended 30 June 2021 (FY21), the Chairman noted that despite the backdrop
of the Covid-19 pandemic, and the uncertainty that New Zealanders have
been living and working with, the Society has managed operations and
finances well to deliver a strong result.

The Society Group reported a surplus of \$53 million - \$10 million thereof is an
operating surplus, and \$39 million is income received from investments. A
strong surplus allows the Society to re-invest and bolster its solvency capital.
While this year's investment income provided the organisation with a strong
result, such a strong surplus was not expected every year, given the nature
of investments.

Total Group reserves increased from \$471.2 million to \$523.7 million during the year under review, equating to 5.3 months of claims. The Society retained its A+ credit rating from Standard and Poor's.

For every dollar received in health insurance premiums in the past financial year, an average of 87 cents was paid out in claims. The Society paid 73% of all private health insurance claims paid in New Zealand by value, while only representing 62% market share of health insurance lives covered.

There were two key factors that influenced premium increases this year:

- 70% of the increases were due to more Members claiming more benefits, which reflects treatment options and innovations becoming available; and
- 30% of the increases were due to procedure price increases.

Noting that premiums rise with age, which closely corresponds to the growth in the value of claims received from Members as they become older, the Affiliated Provider (AP) programme goes some way to alleviate premium inflation and has been very successful in moderating the rising costs of procedures.

The Society forms part of the Southern Cross Group, which is a collection of independent businesses united by a shared brand, values, not-for-profit ethos, and a focus on social responsibility.

The Southern Cross Group champions initiatives such as Pause Breathe Smile, which is funded by Southern Cross Healthcare Limited (SCHL). Pause Breathe Smile is a mind health programme designed to equip children, aged 5 to 12 years, with tools to manage the ups and downs of life and better regulate their emotions. Delivered in schools, by teachers, it is evidence based and curriculum aligned. In the past 12 months, Pause Breathe Smile has received funding to train 3,600 educators who have delivered the programme to around 52,000 children in 200 schools, equalling 10% of eligible pupils in New Zealand.

From a governance perspective, the year has been demanding with the background of the pandemic, but the rapid response delivered by the Board and Management in 2020 when the pandemic first hit, to ensure the business remained fully operational, meant the Society was in a strong position to withstand and meet any continued challenges presented by Covid-19 over the past year.

On behalf of the Board, the Chairman thanked the CEO, his executive team and all Society employees for their sterling efforts keeping the business running efficiently and successfully in often very trying circumstances.

The Chairman acknowledged and thanked outgoing Director Keith Taylor for his 11 years of outstanding service to the Board.

In closing the formal presentation, the Chairman noted it was his last meeting as Chairman and that he will be standing down at the end of the Meeting. Director Murray Jordan will take over as Chairman, as part of a planned succession. The Chairman noted it was a privilege to lead a very

experienced and capable Board, and he acknowledged Nick Astwick as a top rated and very capable CEO.

Chief Executive's address:

The CEO introduced the Society Leadership Team.

This was a very special year for the Society, its 60th anniversary year, having been founded in 1961 to ensure New Zealanders had ongoing access to quality private healthcare. That founding vision lives on in the Society's not-for-profit business model and its commitment to a healthier future for its Members.

The CEO discussed some key features of the year, including:

- The Society's innovation agenda was focused on the launch of CancerCoverPlus, a new module with extended benefits for cancer care, which was the number one priority need for Members.
- A virtual health GP consultation service, CareHQ, was launched with joint venture partner ProCare.
- Several pilot programmes have been delivered with selected healthcare providers, designed to provide better value care to Members.
- Lockdowns have been particularly challenging for some Members and corporate customers, with the Society supporting these people via its hardship support packages.
- To further support Members' physical and mental health and wellbeing, the Society announced on 1 December 2021 that for the following four months, it is offering all Members access to CareHQ virtual GP consultations and to mental health and wellbeing consultations via Raise, a subsidiary of SCHL, completely free of charge.
- The Society enjoyed its fifth consecutive year of Membership growth, ending the financial year with a total of 887,782 Members.
- As at 30 June 2021, the annual Net Promoter Score, which measures the extent to which Members would recommend the Society to friends and family, was 55.2%. For context, a world class score is considered 50% and the health industry average Net Promoter Score is 30%.
- The Society's Customer Effort Score of 75% means a net 75% of surveyed Members rate the Society as a 9 or 10 out of 10 for ease of doing business, which is a very high score across all industries.
- This year the Society paid \$1.1 billion in claims, which equates to \$4.4 million paid over 12,000 claims every business day, 98% of which are done digitally.
- Given 87% of Member premiums collected go to paying for healthcare claims, premiums largely reflect the cost of claims, which have continued to edge upwards notwithstanding the impact of Covid-19.

- 70% of premium increases over the last year was because more Members claimed more times, and 30% was because of year-on-year increases in the price of procedures. For the last three years, procedure costs have risen less than general inflation for Southern Cross Members. This is largely as a result of the AP programme. There are now 2,074 providers across 35 specialities in the AP programme for Members to access while also helping slow premium growth. Work is underway with several healthcare partners to co-design a better value private healthcare system that continues to deliver high-quality outcomes, but at a better price over the medium to long term, with several pilots that have recently launched to test how this can be delivered to Members.
- The Society is, at its heart, a responsible business and its not-for-profit structure is designed to focus solely on delivering value to the collective Membership. The Society Leadership Team cares about a healthy and well workforce, promoting equality, diversity and inclusion, caring for the planet and ensuring the Society has a positive impact on our communities and the health and wellbeing of New Zealanders.
- The Society's remuneration model is transparent and ensures parity regardless of gender. As an equal opportunity employer, 60% of the Society's leaders are women, which is also true on the executive team.
- When it comes to diversity, representation and inclusion, the Society has had a Diversity and Inclusion (D&I) Strategy in place for several years, powered by a D&I forum of over 40 members. The Society has had the Rainbow Tick for almost four years, which acknowledges that employees feel safe, celebrated, and supported while working for the Society.
- The Society has continued to develop its cultural competency, continuing its commitment to understand te ao Māori and evolve its strategy under the guidance of its Māori Advisory Board, Te Tira Kautū. This year the Society was a finalist in the Diversity Works national awards, receiving a commendation for its commitment to bicultural advancement.
- Noting the Society's impact on the environment, and while still early in its carbon reduction journey, the Society knows its footprint and is working towards receiving carbon reduction certification from Toitū.
- This year the Society was ranked by S&P Global as one of the best insurers in the Asia Pacific region when it comes to its Environment, Social and Governance (ESG) credit rating analysis. The report highlighted the Society's not-for-profit status, contribution to making quality healthcare more affordable and accessible, and high health insurance industry pay-out ratio as positive factors.

The CEO thanked his team for their hard work and excellence during the year, and the Society's healthcare partners and specialists who took care of its Members this year.

He also thanked outgoing Chairman Greg Gent for his outstanding governance of the Board for the past six years as Chairman and three years previously as Director, having valued his guidance and wisdom.

Finance Report:

The CEO then took the Meeting through the key numbers that have led to the Society Group surplus of \$53 million, of which the Society contributed \$46 million, highlighting the following:

- The Society's main investment subsidiary, Southern Cross Pet Insurance Limited (SCPIL), has seen very strong growth this year, contributing \$2.5 million to the surplus.
- Total overheads decreased by just under \$3 million to \$149.5 million.
- Investment income was \$38.8 million, and the value of the Society's investments reached \$534.7 million, which is a good result in a low interest environment.
- The Society's investment strategy, yield and solvency, noting that responsible investment is important to the Board and stakeholders. The Board's current fund manager, Russell Investments, has a responsible investment policy and carries out negative screening in relation to some funds the Society invests in. Post-yearend, the Board decided to transfer the Society's global equity portfolio into a low carbon fund.

Formal Business:

The Chairman recorded that the Annual Report and audited consolidated Financial Statements for the Society for the year ended 30 June 2021 have been made available to Members.

The Chairman opened the Meeting for questions about the Annual Report and FY21 Financial Statements.

The questions asked and responded to were as follows:

- Clarification was sought on why the surplus, which was substantial, was not being used to lower premiums. The Chairman noted that while in the last year over \$1 billion was paid out in claims, the operating surplus was only \$10 million. The additional surplus came from investment returns, which were extraordinarily good, but are not expected to continue. Other factors when setting premiums include the solvency position of the Society, and the need to invest back into the business.
- The CEO was asked to explain the bar chart graph around the loss ratios, which was shown during his presentation, in more detail. The CEO noted this was the year-on-year comparison of the Society's loss ratios, or payment ratios, which was up 2% from 85.4% in FY20, to 87.5% in FY21. In FY20, some claims did not come through because of the Level 4 lockdown, hence the 85.4% loss ratio there. The Society had budgeted for a loss ratio of 90.9%, expecting the delayed claims from the Level 4 lockdown to come through in FY21, which did not materialise. Also, Membership growth was strong, as opposed to the Membership loss budgeted for, resulting in sustained premium levels and a loss ratio of 87.5% for FY21.

Formal Resolutions:

Before considering the resolutions set out in the Notice of Meeting, the Chairman indicated that Members will be asked to vote on five resolutions. The Board has decided to formally withdraw Resolution 6 on Director Remuneration. Excluding proxies, it was not getting the level of support that, as a Member-driven organisation, the Board felt comfortable with. The Board will come back next year with a more fulsome proposal for Members to consider.

Resolution 1 - Re-election of Director

The Chairman noted that the Rules of the Society require two Directors to retire at each Annual General Meeting, with the Directors required to retire being those who have been longest in office since their last appointment. If the Directors are eligible, they may offer themselves for re-election.

To be eligible to hold office as a Director of the Society, an individual must meet and continue to meet the requirements of the Fit and Proper Standard set by the Reserve Bank, the Rules and any other applicable law, and must not otherwise be disqualified.

Chairman Greg Gent and Director Roger France are the two Directors who have been longest in office since their last appointment and retire by rotation at the Meeting. Greg Gent will not stand again as a Director, noting that under the Board Charter it is expected that a Director's maximum term will be in the order of nine years. Roger France, being eligible for re-election, and having been nominated by the Board, will stand for re-election.

A brief pre-recorded address by Roger France, covering the motions for his re-election as Director and his re-appointment as Trustee, and his willingness to continue in office for another 12 months to provide Board continuity, was played to the Meeting.

Resolution 1 – To re-elect Roger France as a Director of Southern Cross Medical Care Society

It was moved by the Chairman and seconded by Director Murray Jordan.

There were no questions on the resolution.

Following the meeting, the votes cast by electronic postal vote (in person and by proxy) were counted, and the motion was passed (92.4% in favour).

Resolution 2 – Re-appointment of Trustee

The Chairman set out the role of a Trustee and noted the Rules of the Society require that the Trustee who has been longest in office will retire at each Annual General Meeting. If the Trustee is eligible, they may offer themselves for re-appointment.

Roger France is retiring by rotation at the Meeting and has been nominated for re-appointment.

Resolution 2 – To re-appoint Roger France as a Trustee of Southern Cross Medical Care Society

It was moved by the Chairman and seconded by Director Murray Jordan.

There were no questions on the resolution.

Following the meeting, the votes cast by electronic postal vote (in person and by proxy) were counted, and the motion was passed (91.9% in favour).

Resolution 3 - Appointment of Trustee

The Chairman, Greg Gent, noted that due to his retirement as a Director and Trustee at the Meeting, there is one Trustee vacancy, and the Board has nominated Director Murray Jordan as the candidate for this vacancy. Murray Jordan will assume the role of Chairman of the Society Board at the close of the Meeting, and it is appropriate for the Chairman of the Board to be one of the three Trustees of the Society.

A brief pre-recorded address by Murray Jordan was played to the Meeting.

Resolution 3 – To appoint Murray Jordan as a Trustee of Southern Cross Medical Care Society

It was moved by the Chairman and seconded by Director Catherine Drayton.

There were no questions on the resolution.

Following the meeting, the votes cast by electronic postal vote (in person and by proxy) were counted, and the motion was passed (94.1% in favour).

Resolutions 4 and 5 – Election of Directors

The Chairman noted the Board regularly reviews Directors' collective skills and experience against the Board's requirements, having regard to the Society's business and its strategic objectives. The Board is conscious to ensure that it collectively has an appropriate mix of skills, knowledge, experience and diversity, to enable the Board to meet its responsibilities and to bring different perspectives to Board discussions. A balance is sought between Directors with experience and knowledge of the insurance and health sector, the history and operations of the Society, and new Directors who bring fresh thinking, perspectives, skills and experience.

In noting the retirement of Directors Greg Gent and Keith Taylor at the Meeting, the Board, through an independent recruitment firm, SEQEL, undertook a robust and thorough search for Director candidates to fill the vacancies and identify other possible candidates for vacancies in the next 12 to 18 months.

As a result, Chris Black and David Bridgman have been identified and nominated by the Board in accordance with the Rules of the Society, as Director candidates, and, if elected, their appointment will take effect at the

conclusion of the Meeting. The Board believes Chris Black and David Bridgman will each make a significant contribution to the Society, and their background and skill set will complement the skills of their fellow Directors. On this basis, the Board recommended Chris Black and David Bridgman as Society Directors and supported their respective election.

Brief pre-recorded addresses by Chris Black and David Bridgman were played to the Meeting.

Resolution 4 – To elect Chris Black as a Director of Southern Cross Medical Care Society

It was moved by the Chairman and seconded by Director Murray Jordan.

There were no questions on the resolution.

Following the meeting, the votes cast by electronic postal vote (in person and by proxy) were counted, and the motion was passed (92.9% in favour).

Resolution 5 – To elect David Bridgman as a Director of Southern Cross Medical Care Society

It was moved by the Chairman and seconded by Director Murray Jordan.

There were no questions on the resolution.

Following the meeting, the votes cast by electronic postal vote (in person and by proxy) were counted, and the motion was passed (92.3% in favour).

General Business:

Special Member resolution

The Chairman noted the Board received a Member proposal, which is permitted under the Rules of the Society. Unfortunately, incorrect information was provided to the Member on the deadline for Member proposals and it was received after the Notice of Meeting was dispatched. The Chairman indicated that he had spoken with the Member, Maxwell Till, and agreed that the proposal will be read out at the Meeting. The Board and Management have committed to look at the proposal in the new year and report back to the Member in due course.

The Member proposal reads as follows:

“That any Member of the Society who has been a continuous policyholder for 50 years or more, or who subsequent to the date of this resolution becomes a continuous policyholder for 50 years, shall thenceforth have their annual premium fixed for the remainder of the life of their policy at the rate applying either at the date of this resolution or the rate applying at the date the policyholder reaches 50 years continuous Membership as the case may be. Provided Always that the fixed annual premium benefit conferred by this resolution shall no longer apply if the Member subsequent to qualifying alters their current policy option applying at the time of qualification.”

The Chairman thanked the Member for the proposal.

**Other General
Business and
Questions:**

Questions

The Chairman invited Members to raise any further questions.

The questions asked and responded to were as follows:

- A number of questions were received around Board diversity, and what the Board's position was on making the Board more diverse. Noting that the Board recognises the issue, the Chairman explained the recruitment process was thorough and conducted through a reputable firm, and the brief included diversity on multiple scales, with consideration given to ethnicity, gender and background. But the Board also had to ensure the candidates had the right skill set and were the best fit, noting the Society was a financial service provider and subject to substantial regulation.

It was noted that of the three Society Board Committees, two of them were chaired by women, Directors Catherine Drayton and Julia Raue. Of the four Directors on the Board of the Society's investment subsidiary, SCPIL, three were female, including the Chair. It was furthermore noted that 63% of the Society's executive leadership team were woman, and that the Society was awarded the Rainbow Tick in 2017. The Board is nevertheless committed to begin the search for a future female director as soon as possible.

- A question was raised around whether the Society would consider giving longstanding Members a premium discount. Noting that a person's premiums reflect the risk for the people in their age band, based on the likelihood that those in that age band will claim, the CEO noted the Society has looked at premium discounts a number of times in past years. A key consideration is that if a premium discount of any sort is offered to some Members, other Members will need to fund it by paying higher premiums, effectively creating a disincentive for those Members to join or stay, which would impact the Society's ability to remain price competitive.

While pricing for risk is important from an actuarial perspective, it was noted there is an inherent benefit for loyalty, demonstrated by the fact that longstanding Members receive greater value on average than Members of the same age who have been with the Society for a shorter duration, because they tend to claim significantly more. For example, research showed that Members with 20 years of membership were paid on average 93 cents in claims for each \$1 paid in premium, while Members with less than 10 years Membership were paid 76 cents. The Society does therefore value loyalty in its pricing model, but will consider it again, particularly for 50 years or more of loyalty, in view of the proposal from Member Maxwell Till.

- A question was received around whether the Society would consider making the option available for virtual attendance of future Annual General Meetings, even if there is a return to holding meetings in person, which would enable Members located a distance away from the venue to attend, and minimise their exposure to Covid-19, and help make attendance more

inclusive and representative of the Membership as a whole. The Chairman indicated this matter will be given consideration by the Board, having regard to, amongst other things, attendance of this Meeting and the costs involved.

- The fairness of using age to apply premium rates was questioned, as some people are healthier than others at the same age. The CEO explained that even though the Society does price for age, it also operates a low claims discount of up to 10%, based on a Member's claims over a two-year period, which is highly valued by the Membership. In response to a follow-on question from a Member, it was noted the low claims discount is applied to the actual premium paid, and that there was no scaling depending on the plan chosen.
- A question was raised around whether the Society would consider enhancing or adding dental cover on more options, specifically increasing the cover for dental surgery. The CEO noted there were specific dental modules, but that dental had not been added as a benefit on all policies. The dental modules offer comprehensive dental cover at an additional premium.
- In response to a question around what the Society was doing to have Membership fees made tax deductible, the Chairman noted this was part of an ongoing conversation with Government, and there was no indication when the issue will be resolved.

Introducing Murray Jordan – New Chairman

Incoming Chairman, Director Murray Jordan, noted it was a privilege to take up the role as Chair of the Society and that he appreciated the trust his colleagues have placed in him to lead the organisation.

Murray Jordan thanked outgoing Chairman, Director Greg Gent, on behalf of the Board for his hard work and outstanding leadership in his time at the Society, noting that Greg Gent joined the Society Board in 2011 and was elected Chairman in 2014. Over this ten-year tenure, he has made an invaluable contribution to the Society and the Southern Cross Group, noting he is also Chairman of the charitable Southern Cross Health Trust; the hospital business, which is governed by the Healthcare Board; and the Southern Cross Travel Insurance Board. On behalf of the Society, its Members, Management and the Board, Greg Gent was wished all the very best.

The outgoing Chairman thanked Members for their attendance and participation in the Annual General Meeting .

The meeting closed at 3:45 pm.



Chairman

17 February 2022
Date

**Southern Cross Medical Care Society
Annual General Meeting 2021**

**POSTAL VOTES
CERTIFICATE**

Resolution	For	Against
1. To re-elect Roger France as a Director of Southern Cross Medical Care Society.	3052	251
2. To re-appoint Roger France as a Trustee of Southern Cross Medical Care Society.	3035	267
3. To appoint Murray Jordan as a Trustee of Southern Cross Medical Care Society.	3073	191
4. To elect Chris Black as a Director of Southern Cross Medical Care Society.	3022	232
5. To elect David Bridgman as a Director of Southern Cross Medical Care Society	2994	249

I, Fiona Brown, have been authorised by the Board to receive and count postal votes for the 2021 Southern Cross Medical Care Society Annual General Meeting.

I have carried out the duties set out in Rule 13.13 (e) (i) and (ii) and the postal vote results are shown in the table above.

Signed  Date: 7 December 2021