

Your Society had what I would describe as a very solid year. We finished the year with a surplus of \$6.2 million, down a little on expectations largely due to a spike in claims towards the end of the financial year.

After a number of years of fairly static membership numbers the year saw strong growth in that area. Our membership grew by 4% or 32,000 people to 853,000 New Zealanders who are very actively managing their individual health. That took The Society to 62% share of the private health insurance market. 853,000 people insuring with us takes quite a burden off the public health system. It is an ongoing frustration for us that there is no recognition from Government in this regard.

In hard numbers we funded \$830 million dollars' worth of health services performed across 240,000 elective surgical procedures and consultations.

A key measure for us is how much of your premium is used for internal administration and how much is paid out for your health needs. For the year under review, 90 cents in the dollar was paid out, a 4 cent improvement on the 86 cents achieved in the prior year.

We do however have our challenges, like all health providers both here and offshore escalating claims costs that far outstrip the general inflation rate is the single largest of those challenges. It is something we are facing up to and will be a theme of later presentations during this meeting.

The Society remains financially robust and has retained its A+ financial strength rating for the year from Standard and Poor's.

Financial reserves currently stand at \$441 million, slightly up on last year. This equates to around six months of claims. As indicated at last year's AGM we have modified the strategic asset allocation of our investment portfolio. During the year we moved a proportion of our funds into asset classes that are expected to have a higher total return, certainly over the medium to long term but with a modest increase in risk.

The Reserve Bank of New Zealand solvency standard requires that licensed insurers have solvency capital that exceeds the minimum level required under the standard, to give policyholders reassurance that claims will continue to be paid, even in adverse circumstances.

Chief Finance and Risk Officer Stefan Azzopardi will talk a little more on the financial statements later.

The private healthcare landscape is ever changing and increasingly complex. In that context, it's important for your Society to maintain a balance between managing upward pressure on members' premiums, on the one hand, and maintaining access to treatment for our members on the other.

In our unique position as both a member driven society and New Zealand's largest health insurer, we take very seriously our responsibility to address these rising costs on your behalf. Nick will talk a little more about claims cost escalation shortly.

We have in place a process 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 you in the premiums that you pay. Because of this we look at the costs and benefits of new technology, and only provide cover for those that are clinically proven, effective and efficient.

To monitor and contain price increases we use the Affiliated Provider programme. Under this programme doctors, specialists and facilities are contracted to provide Society members with certain healthcare services at agreed prices.

By September/October this year the Affiliated Provider programme accounted for over 60 per cent of our claims costs, and we're aiming to increase this further in the current financial year. Again, Nick will give you a little more detail on this shortly.

By joining the programme Affiliated Providers are supporting a sustainable private healthcare sector that remains affordable for more New Zealanders and provides a better customer experience.

As always we remain focused on quality and affordability for our collective membership. That means that we sometimes need to make decisions that are not what an individual member wants to hear. A little more about this next but be assured; we take this responsibility very seriously.

I would like to close by thanking the Board for their ongoing commitment to Southern Cross. The Board has just completed an in depth independent appraisal of its performance which we have all found very helpful. The management team and staff have had a big year on a number of fronts. I would like to acknowledge our Chief Executive, his executive team, and thank all staff for their ongoing work.