
Southern Cross Medical Care Society

Directors' Fees Review Summary

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Overview

Nathalie Watson, Company Secretary at, Southern Cross Medical Care Society (SCMCS) has commissioned Strategic Pay Limited ('Strategic Pay') to provide a review of its Board of Director fees on behalf of the Board.

Directors Fees were last reviewed in 2017 and increased.

Our approach involves gaining an understanding of the organisation and Directors responsibilities by way of review of documentation provided. We then undertake market analysis of relevant samples from the Strategic Pay 2021 New Zealand Directors Fee database and Remuneration Report to determine and position appropriate Board fee levels for Southern Cross.

Our recommendation is based on several factors including the organisation size, ownership, and industry, and the market data presented.

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Background

Southern Cross Medical Care Society (SCMCS) is a Friendly Society, whose primary activity is the provision of health insurance (887,782 members as at 30 June 2021). SCMCS is a licensed insurer under the Insurance (Prudential Supervision) Act 2010 and is deemed to be a financial markets conduct reporting entity under the Financial Markets Conduct Act 2013.

SCMCS has four subsidiaries, all 100% owned: • Southern Cross Insurance Services Limited • Southern Cross Health Services Limited • Southern Cross Pet Insurance Limited (SCPIL) • Southern Cross Ventures Limited. Through its subsidiary companies, SCMCS provides wellness services, life insurance and pet insurance. As a result of its structure, SCMCS has no recourse to external capital and therefore internally generated capital is of paramount importance.

BOARD COMPOSITION AND MEETING SCHEDULE

The Board is currently composed of 7 Directors, 3 of whom are Trustees of SCMCS.

There are typically a minimum of 7 scheduled Board meetings per year, plus several strategy meetings and ad-hoc meetings as required, particularly in the past 20 months, e.g., Covid related meetings.

There are 4 Committees:

- The Audit and Risk Committee meets 5 times per annum and has 4 members
- The Remuneration, People and Culture Committee meets 3 times per annum and has 4 members
- The Investment Committee meets 4 times per annum and has 3 members
- The Nominations Committee meets as required and has 4 members

ORGANISATION DEMOGRAPHICS

Organisation Demographics / Dimensions (as at 30 June 2021)	
Organisation Type	Not for Profit
Ownership	New Zealand
Industry	Health /Financial Service Provider
Annual Turnover / Budget	\$1.280 billion
Assets	\$820.9 million
Funds (Reserves/Net Assets)	\$523.7 million
Market Capitalisation	N/A
Number of Employees	750+

Recommendation Summary

In our view, the recommended ranges represent median market levels appropriate for your organisation given the context provided and reflects the organisation's Director Remuneration Policy.

Strategic Pay's guiding principle is that it is important not to undervalue the contributions, experience or time committed by Board members.

TABLE 1: RECOMMENDED DIRECTOR FEES

Role / Committee	Current Fees	Recommended Fees Range	
Chair	116,000	125,000	180,000
Director x 6	58,000	68,000	80,000
Remuneration, People and Culture Committee Chair	4,000	9,500	
Remuneration, People and Culture Committee Member x 2	2,000	4,500	
Audit and Risk Committee Chair	6,000	10,000	
Audit and Risk Committee Member x 2	3,000	5,000	
Investment Committee Chair	5,000	9,500	
Investment Committee Member x 1	2,500	4,500	
Nominations Committee Chair	0	0	
Nominations Committee Member x 3	1,000	1,000	

Full details of the recommendation appear in the full report.

We have conducted market analysis of private organisations, having excluded not for profit and public sector organisations.

We recommend that a Chair ratio be set at x2.0. New Zealand's current market practice pays base annual Chair fees at about a two to one (2:1x) ratio to base annual Director Fees. The range is 1.9 - 2.2:1. This "premium" reflects the additional responsibilities, scope and risk borne by Chairs. Chairs typically receive no separate committee fees, although they often attend these meetings.

Strategic Pay supports the 'unbundling' practice of paying separate committee fees as a means of tracking and rewarding actual workload and responsibilities and providing greater accountability and transparency. However, there are also appropriate situations where this will not be paid.

We recommend an increase to the committee fees. The committee chair fees have been recommended at market median for the committee types. Committee member fees have been recommended between market median and half of the committee chair fees, to remain market competitive and appropriate to their responsibility.

The above recommendations are based on the data below.

It has been consistently demonstrated, that in the New Zealand market, company turnover is most strongly correlated with Director fee levels. Consequently, results of the revenue samples are a key consideration when we develop board fee recommendations.

The lower bound of our recommended range does not include Industry median, as this was found to be significantly outside the range for an organization of this size.

DIRECTOR FEES SAMPLES

TABLE 2: SUMMARY RESULTS – DIRECTOR FEE SAMPLES FOR SOUTHERN CROSS MEDICAL CARE SOCIETY:

Director Market Comparators	Sample Size	Positioning	Base Annual Fee (\$)
Revenue	12 orgs, 67 dirs	Median	80,000
Assets	32 orgs, 173 dirs	Median	68,250
Industry	30 orgs, 129 dirs	Median	63,677
Employee Numbers	26 orgs, 190 dirs	Median	77,000

CHAIR FEES SAMPLES

TABLE 3: SUMMARY RESULTS – CHAIR FEE SAMPLES FOR SOUTHERN CROSS MEDICAL CARE SOCIETY:

Chair Market Comparators	Sample Size	Positioning	Base Annual Fee (\$)
Revenue	12 orgs, 12 chairs	Median	180,000
Assets	32 orgs, 31 chairs	Median	125,750
Organisation Type	30 orgs, 30 chairs	Median	100,000
Employee Numbers	34 orgs, 34 chairs	Median	143,140