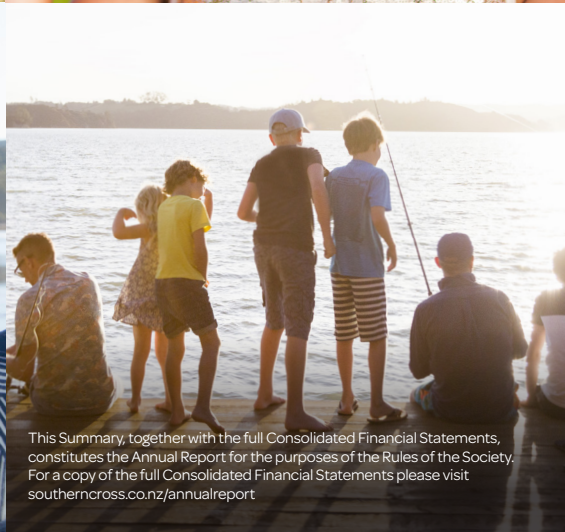


# Southern Cross Medical Care Society

2019 Annual Report – Summary



This Summary, together with the full Consolidated Financial Statements, constitutes the Annual Report for the purposes of the Rules of the Society. For a copy of the full Consolidated Financial Statements please visit [southerncross.co.nz/annualreport](https://southerncross.co.nz/annualreport)

# Report from the Chairman

I'm pleased to share with you that the Southern Cross Health Society has ended the 2019 financial year in a strong position.

We have made a modest surplus of \$10.7 million, following a deficit last year. This surplus is the result of carefully balancing our income from premiums with outgoing claims.

Our total reserves are \$438.8 million versus \$428 million the year prior, while membership is up by thousands on the previous year. The Society has proudly retained its A+ Standard and Poor's financial strength rating.

At the same time, the Society continues to deliver excellent value to you, our members, returning 89 cents in every dollar received in premiums. This is a very strong rate of return compared with other health insurers. The average rate of return among other New Zealand health insurers is just 67 cents\* in the dollar; with some returning as little as 60 cents in claims for every dollar received in premiums.

To give a little more context, if Southern Cross paid 60 cents in the dollar, we would have paid out \$315.5 million less in claims.

In fact, the Society paid for 73 per cent of all health insurance claims costs by value in New Zealand, despite Health Society members representing only 62 per cent of lives insured in the country.

We're always conscious of the fine balance between offering maximum value for money to our members and ensuring the affordability of premiums.

At the same time, we continue to contend with the rising cost of private healthcare resulting from funding more procedures and

the ongoing impact of medical inflation. The Board, together with CEO Nick Astwick and his team, are facing into this challenge and working to deliver the best possible value for the Society's members.

With the public system under increasing pressure, the private health proposition becomes more compelling. We are delighted to offer more and more Kiwis speed, choice and access to the care they need, when they need it.

Overall this has been a very satisfactory year for the Society. I want to thank Nick Astwick, his management team and staff for a result we can all be proud of.

This year was the final one for directors Liz Hickey and Dr Philip Leightley. Liz was elected to the Board in 2009, serving most of that time as Chair of the Audit and Risk Committee – a big role in a highly regulated financial services environment. Her professionalism and straightforward approach have been invaluable. Philip leaves the Board after one term as he has retired from practice as an anaesthetist. He has brought a unique perspective to the table and will be missed.



A handwritten signature in blue ink, consisting of stylized initials 'GA'.

Greg Gent  
Chairman of the Board

# 2019 at a glance



For every **dollar** you paid in premiums, we returned **89 cents** in claims

## 871,065

members – up 3,472 from last year



We make up **62%** of the health insurance market, yet we pay **73%** of claims\*



## \$407.7 million

net tangible assets, equivalent to around **5 months'** worth of claims\*\*

## A+

Standard and Poor's financial strength rating

## \$1,080.4 million

premium income – up **9%**

## \$963.7 million

total claims – up **6%**

A surplus of

## \$10.7 million

Investments generated **\$22.1 million** of income, with total investments at **\$492.5 million** by the end of the year



\*Based on Health Funds Association of New Zealand data.

\*\*This applies to Southern Cross Medical Care Society only, not the consolidated Group.

# From the CEO

It's been a demanding but ultimately rewarding year for the Society. We made a number of decisions which meant we were able to deliver a sound result for the Society and its membership.

The surplus of \$10.7 million means we can invest in the business to deliver continued benefits and exceptional value for our members in years to come.

This year the value of claims paid increased by six per cent. On average we pay out \$4 million in claims, totalling 13,000 claims lines, every business day. Even if you don't claim, you're making a difference for others in the collective membership.

Southern Cross is a Friendly Society, which means we are solely focused on delivering value for our members. In 2019, we returned 89 cents in claims for every dollar you gave us in premiums. That's great value compared with other health insurers – a difference equating to hundreds of millions of dollars.

Further value is delivered through our long-standing Affiliated Provider programme, which continues to deliver savings for the membership and makes claiming easier for members. In this year alone more than \$56 million\* has been saved for members.

I'm really pleased to see the strong lift in migration to our digital platforms, with total logins to My Southern Cross up by 151 per cent. Three-quarters of our policyholders now have instant, 24/7 digital access to key information about their cover, while helping to reduce paper and postage costs.

The changes we've made have ensured the long-term health of the Society, setting us up to fund benefits and deliver more for you. Now we can push forward together towards a positive future. Watch this space.

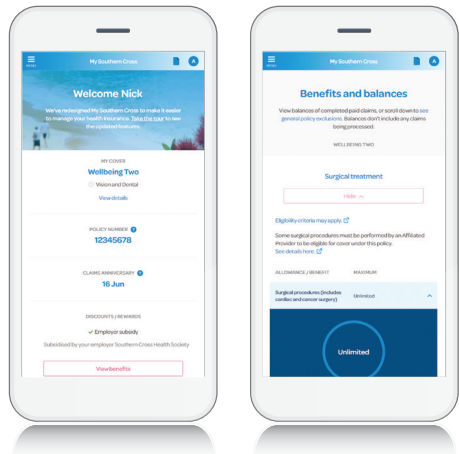
Thank you for being part of Southern Cross – your health is in good hands.

Thanks also to our healthcare providers and facilities, and to all our people at Southern Cross who, like me, are deeply committed to helping Kiwis live their healthiest lives.



Nick Astwick  
CEO

Total logins to My Southern Cross are up by 151 per cent.



# Value for members



**3.2 million**  
claims, including:

- ↑ **251,426** surgical procedures, up 7.1%
- ↑ **499,263** specialist consultations, up 1.9%
- ↓ **659,377** prescriptions, down 5.7%
- ↓ **728,281** GP visits, down 0.9%



**Most common procedures by amount paid:**  
(GST inclusive)

- Hip replacement **\$49.2 million**
- Knee replacement **\$47.8 million**
- Colonoscopy **\$44.8 million**
- Skin excisions **\$36.9 million**
- Cataract removal **\$27.5 million**

**The main causes of premium increases:**



More members claiming more benefits



Procedure price inflation

## Affiliated Provider programme made estimated price-related savings of \$144 million since July 2012\*

- ▶ Estimated price-related savings of **\$56 million** in the last year\*.
- ▶ **1,970** providers across **31** specialties.
- ▶ Affiliated Providers account for **64%** of paid claims.

## Digital services are making it faster and easier for members to manage their health insurance

- ▶ **2,849 Easy-claim providers** (up 10% from last year) facilitated 538,310 point of purchase transactions, eliminating the need for members to claim back for health services like GPs, physiotherapy and pharmacies.
- ▶ **332,325** members (up 24%) registered to use the **My Southern Cross** online service.
- ▶ **2,942,672** total logins to **My Southern Cross** (up 151%)
- ▶ More than **95% of claims are now submitted electronically.**

\*In order to calculate the estimated price-related savings, the impact on claims of utilisation and the addition of new benefits was identified and excluded.

# Summary of financial position



## Premium income

FY18 \$987.8 million

FY19 \$1,080.4 million



## Claims

FY18 \$906.6 million

FY19 \$963.7 million



## Total overheads

FY18 \$118.1 million

FY19 \$133.9 million

Overheads grew primarily due to costs associated with asset depreciation, staff costs and commissions, investment in the growing Southern Cross Pet Insurance business, and continued development of the BeingWell corporate wellbeing offering.



## Investments

FY18 \$481.6 million

FY19 \$492.5 million



## Investment income

FY18 \$19.3 million

FY19 \$22.1 million

The investment strategy implemented two years ago has continued to yield good returns, though with more volatility this year. The funds held in our investment portfolio increased during the year as a result of this year's surplus.



# How much does it cost?

Here are some common procedures we fund\*.



## Adults

**Skin cancer removal:**  
\$200 - \$2,500

**Prostate cancer surgery:**  
\$16,900 -  
\$25,700

**Knee replacement:**  
\$22,600 -  
\$29,500

**Hip replacement:**  
\$20,900 -  
\$27,600

**Varicose veins:**  
\$7,000 -  
\$10,000

**Colonoscopy**  
(with or without associated procedure):  
\$1,700 - \$3,400

**Breast cancer surgery:**  
\$5,900 - \$19,400

**Heart valve replacement surgery:**  
\$58,700 -  
\$80,200

**Endometriosis surgery:**  
\$7,000 -  
\$22,500

**Cataract removal:**  
\$2,900 - \$4,400

## Children

**Grommet surgery:**  
\$2,000 - \$2,600

**Tonsil removal:**  
\$4,100 - \$6,300

**Squint correction:**  
\$4,600 - \$8,100



\*All costs indicative and sourced from 2018/19 claims data.



**Not already registered on My Southern Cross? It's easy!**  
Just register with your membership number at [mysoutherncross.co.nz](https://mysoutherncross.co.nz).

Or download the free mobile app from the Apple App or Google Play stores. Then you'll be ready to manage your policy online, whenever and wherever you are.

The Southern Cross Medical Care Society  
Registered Office: Level 1, EY Building  
2 Takutai Square, Auckland 1010  
Private Bag 99934  
Newmarket, Auckland 1149

Visit our website [southerncross.co.nz/society](https://southerncross.co.nz/society)  
or call us on **0800 800 181**, Monday to Friday, 8am - 6pm.



Graphics are designed to provide you a general idea of the cost of some of the benefits offered across our various policies. Not all benefits are available on all policies. For full details of the benefits and maximums for each policy and any eligibility criteria, exclusions, limitations or other conditions that may apply, please refer to the relevant policy document.

In some cases, the listed procedures have been described in general rather than clinical terms. Procedure costs will vary depending on the location, medical practitioners, complications, and the medical procedure and technology used.

1701/SCMCS/1SXP010/0919