



Southern Cross Medical Care Society 2021 Annual Report – Summary



Greg Gent
Chairman
Southern Cross
Medical Care Society

From the Chairman

We remain living and working within a climate of unpredictability due to the ongoing effects of the pandemic-affected global environment.

It is under these circumstances that the Health Society Group has carefully managed finances to secure our stability and I am very pleased this year to report that the Health Society Group has reported a surplus of \$53 million. Of this, \$10 million is our operating surplus, and \$39 million is primarily derived from investment income.

Our investment income, which is the culmination of the last five years investment activity, can be attributed to a better optimised investment strategy that is bearing fruit. This is precisely the overall financial outcome we aim for to ensure we maintain our financial strength, particularly in these uncertain times.

Southern Cross Pet Insurance, which we acquired in early 2020 has also borne positive results this year, contributing \$2.5 million to our surplus.

This year's strong surplus contributes funds to our investment portfolio which means our members can have confidence that we have the means to pay future claims as the business grows, even in adverse circumstances. This is particularly relevant in today's operating environment. And we must note, that while this year's investment

income provides a very strong result, and is important to ensure our financial strength, we do not expect our portfolio to repeat this performance every year.

For every dollar received in health insurance premiums, we returned an average of 87 cents in claims. Total group reserves increased from \$471.2 million to \$523.7 million during the year under review.

The Society once again retained its A+ Standard and Poor's financial strength rating.

The health sector reform announced by Government earlier this year was bold but necessary. There will always be increasing demand for health services and aiming to achieve a better balance between funding and efficiencies within the system is the right approach.

As a New Zealand organisation, we know that we not only need to need to act responsibly and sustainably – but that we lead in these areas. This is very important to the Southern Cross Medical Care Society Board and is in our DNA as a friendly society. As an organisation we aim to do the right thing for the long term and are deeply invested in our people, our members, our communities, and our planet. The Southern Cross group southerncross.co.nz/cir3 highlights some of the wider Southern Cross group's community focus areas including Southern Cross Healthcare's (previously

known as Southern Cross Hospitals) social responsibility initiative, Pause Breathe Smile. This resilience programme is now available free of charge to any primary and intermediate school in New Zealand thanks to Southern Cross Healthcare¹.

Overall, the Society has performed very well, balancing the need to continue to innovate and improve products and services for our members with the necessity of remaining in a financially sound position. I would like to thank CEO Nick Astwick, his leadership team and all the team for their efforts this year.

I would also like to acknowledge outgoing director Keith Taylor for his 10 years of outstanding service to the Board.

This is my final report as Chairman of Southern Cross Medical Care Society. It has been my great privilege to serve for the past six years as Chair and prior three years as director and I leave confident in the strength of our Board and Management. I congratulate my successor Murray Jordan, who while officially taking on the mantle of Chair at our AGM later this year, was appointed 10 months ago by the Board to ensure a smooth transition into the role.

¹Premiums for members/customers of the Health Society Group are not impacted by the sponsorship initiatives of Southern Cross Healthcare.

Health Society 2021 at a glance



62%

We make up **62%** of the health insurance market²



73%

We pay **73%** of the value of all health insurance claims paid in New Zealand²



A+

Standard and Poor's financial strength rating



For every **dollar** you paid in premiums, **we returned 87 cents in claims**

\$497.8 million

net tangible assets, equivalent to around **5.3 months'** worth of claims

On average we paid out

\$4.4 million

in claims every business day

\$1.256 billion

premium income – **up 10%**

887,782

members – **up 8,584** from last year

A surplus³ of

\$46 million

Total claims

\$1.099 billion



Investments generated **\$38.8 million** of income, with total investments at **\$571.4* million** by the end of the year.

²Based on data provided by the Financial Services Council.

³Of Southern Cross Health Society Group (Group) \$53 million surplus, \$46 million was generated by the Southern Cross Health Society, with the remaining surplus generated by Group subsidiaries (such as Southern Cross Pet Insurance) and a Group tax credit. The numbers quoted above are for Southern Cross Health Society only.



Nick Astwick
CEO

Southern Cross
Medical Care Society

Report from the CEO – Nick Astwick

Celebrating our 60th year in 2021, Southern Cross Medical Care Society (SCMCS) was originally established to ensure New Zealanders had ongoing access to quality private healthcare. Today, that founding vision lives on in our not-for-profit business model and our commitment to a healthier future for our members.

Despite some turbulent and uncertain circumstances, we had a very strong year, testament to our strong foundations and successful navigation of the COVID-19 pandemic.

The Health Society Group has reported a surplus of \$53 million. In FY2020/21, for every \$1 SCMCS received in premiums, we returned 87 cents back in claims, demonstrating our commitment to members and helping them to get well and stay well.

An encouraging aspect to emerge from the pandemic is that more people are valuing their health and wellbeing. Because of COVID-19 people are reviewing their priorities and paying attention to the most important thing – their health. This has had a direct effect on our business as people consider how to protect their health, both now and in the future, seeking assurance that they are covered for life's unexpected events.

This means we are now with more people than ever before. At the end of the year our membership numbered 887,782, an increase of around 8,500 from the same time last year, and the highest in 14 years. This cements five years of continued

growth and has been achieved despite the challenges presented due to COVID-19.

We are delighted to have achieved a monthly average Net Promoter Score (NPS) of 54.7, well above industry standard. This was especially pleasing as we achieved lower results in the first few months of 2021 due to the longer than usual response times some of our members experienced when engaging with us. For a range of reasons our contact centre has experienced enormous demand this year, and I do want to acknowledge their hard work and dedication to improving response times and ensuring our members receive the support they need.

This year we continued to innovate to add value for our members. In November 2020, we launched, with our partner ProCare, virtual health consultation service CareHQ, which delivered nearly 1,200 consults in 2020/21. Southern Cross members receive a 15% discount on their appointment when booked through the My Southern Cross app.

We also launched a new health insurance policy upgrade option - CancerCoverPlus - designed in response to members feedback.

In May 2021, SCMCS supported our business members with the launch of BeingWellPlus, a self-service website dedicated to help improve health and wellbeing in the workplace for employees of our business customers.

Our long-standing Affiliated Provider programme continues to deliver savings for the membership, saving an estimated \$221

million in healthcare service costs to date⁴, which would have otherwise contributed to further increases in premiums.

We have explored, and continue to explore, multiple contracting and treatment pathway options to gain the best value for members – which we define as quality and service over cost. We currently have several pilots underway or under development such as the collection of cataract patients' treatment and outcome information with CatTrax, genetic testing for breast cancer patients, cardiac rehabilitation with HeartWorks and a facility-based pilot - HealthConnect.

The HealthConnect pilot will test to see if we can provide our members more healthy years, strengthen relationships with healthcare partners, as well as ways of working with partner facilities to co-design and develop better value healthcare.

Thank you to our outgoing Chairman Greg Gent for his outstanding governance of our Board for the past six years as Chairman and three years previously as Director. I have greatly valued his guidance and wisdom. And more than ever this year, I'd like to thank my team and our health service providers, for your unwavering dedication and commitment to supporting our members.

To every member, thank you for being with us.



We're with you

Financial performance

A Health Society Group surplus of

\$53 million

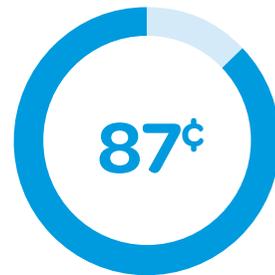
Financial strength rating – Health Society

A+

Investments

\$571.4 million⁵

Health Society members

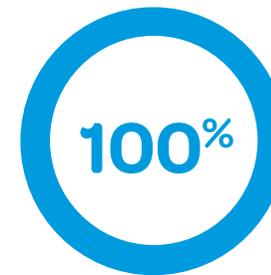


For every \$1 received in health insurance premiums, the Health Society returned an average of 87 cents in claims

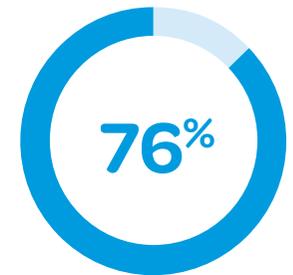


of health insurance customer channels fully digitised

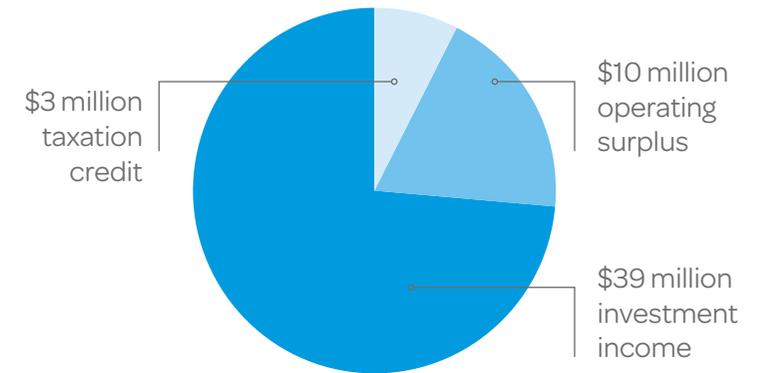
Our team



of staff enabled to work remotely



employee engagement⁶



Health Society Group has reported a surplus of \$53 million. Of this, \$10 million is our operating surplus, and \$39 million is primarily derived from investment income. Please note numbers in graphic have been rounded.

⁵This does not include investments in subsidiaries such as Southern Cross Pet Insurance.

⁶SCHS Employee Engagement Survey, December 2020-June 2021.

Value for Health Society members



Three million claims in FY21, including:

- 282,128** surgical procedures, up 10.8%
- 541,456** specialist consultations, up 12.5%
- 601,790** prescriptions, down 4.3%
- 669,036** GP visits, down 4.6%



Most common procedures by amount paid: (GST inclusive)

- | | |
|---|---|
| Knee replacement
\$56.7 million | Skin excisions
\$36.6 million |
| Hip replacement
\$53.8 million | Spinal fusion
\$35.0 million |
| Colonoscopy
\$52.3 million | |

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

- ▶ **3,254 Easy-Claim providers** (up 5.2% from last year) facilitated 756,719 point of purchase transactions, eliminating the need for members to claim back for health services.
- ▶ **554,438 members** (up 36%) registered to use the **My Southern Cross** online service.
- ▶ **3,229,616 total logins to My Southern Cross** (down 5%).
- ▶ More than **98% of claims** are now submitted electronically.

The Affiliated Provider programme has made estimated price-related savings of \$221 million since July 2012⁷

- ▶ **2,074 providers** across **35 provider specialties**.
- ▶ **63%** of claims are covered through our Affiliated Provider programme.

⁷ 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. The numbers quoted above are for the Health Society only.

The main causes of premium increases:

More members claiming more benefits

Procedure price inflation



Southern Cross Health Insurance, with joint venture partner ProCare launched virtual health service CareHQ in November 2020. Between November 2020 and 30 June 2021, CareHQ delivered 1,200 consultations, including 899 to Southern Cross members who receive a 15% discount on the price of a consultation when they access CareHQ via MySouthernCross.



Governance

Southern Cross Medical Care Society is a not-for-profit Friendly Society constituted under the Friendly Societies and Credit Unions Act 1982. Our core business is providing health insurance for our 887,782 members and through subsidiary entities, we provide life insurance and pet insurance to New Zealanders.

The Board of Directors (Board) of the Society has established a framework of policies, practices, and processes as part of its governance framework that are intended to ensure that the Society implements best practice standards of corporate governance. The Board sets the strategic direction and objectives for the Society, identifies and manages risks, and strives to continuously improve performance, always seeking to operate in the best interests of members. The Board is elected by members at the AGM and the Chairman is elected by the Board.

The Board has adopted a corporate governance framework that is appropriate for the size and nature of the Society's

operations. The Board reviews and assesses governance structures and processes regularly to ensure they remain appropriate and effective and are consistent with best practice standards.

The Board endorses and is guided by the corporate governance principles embodied in the Financial Markets Authority – Corporate Governance in New Zealand Principles and Guidelines 2018 (FMA Guidelines) and believes its corporate governance principles, policies and practices are consistent with the FMA Guidelines.

The Society has reported in detail against the FMA Guidelines in its separately published Corporate Governance Statement, which, together with other detailed information on the Board, Management, and corporate governance policies and practices, can be viewed on the Society's website at southerncross.co.nz/annualreport

Summary of financial position for Health Society



Our investment income, which is the culmination of the last five years investment activity, can be attributed to a well optimised investment strategy that is bearing fruit. This year’s strong surplus contributes funds to our investment portfolio which means our members can have confidence that we have the means to pay future claims as the business grows.

The numbers quoted above relate to the Health Society only, and therefore cannot be directly tied to the Health Society Group financial statements presented subsequently.

⁸This does not include investments in subsidiaries such as Southern Cross Pet Insurance.

How much does it cost? Here are some common procedures we fund⁹

Adults

Skin cancer removal: \$200 - \$2,400	Knee replacement: \$24,000 - \$29,700	Breast cancer surgery: \$6,600 - \$19,500	Heart valve replacement surgery: \$63,100 - \$80,400
Prostate cancer surgery: \$18,600 - \$25,800	Hip replacement: \$23,100 - \$27,700	Colonoscopy (with or without associated procedure): \$1,500 - \$3,200	Endometriosis surgery: \$8,600 - \$21,400
	Varicose veins: \$6,300 - \$7,800		

Children

Grommet surgery: \$2,100 - \$2,500	Squint correction: \$5,100 - \$7,800
Tonsil removal: \$4,400 - \$6,400	



The Southern Cross group,¹¹ With Communities

Southern Cross Medical Care Society is proud to be part of the Southern Cross group, which is made up of various legal entities united by a common brand and a not-for-profit ethos.

The group's annual Community Impact Report highlights all of the work the group undertakes to contribute to New Zealand communities. To see the latest Community Impact report, visit southerncross.co.nz/cir3

Although our Community Impact Report reflects largely on the social component of Environmental Sustainability, Social Responsibility and Corporate Governance (ESG), all of these are a key consideration in the operation and governance of our business. During the current financial year, the Health Society has begun to establish an ESG strategic plan and has engaged Toitū Envirocare to support with progress on environmental sustainability factors. Several workstreams have been established to support understanding of ways to measure and reduce carbon emissions.

¹¹The Southern Cross group is comprised of five independent health and insurance-related businesses: Southern Cross Health Insurance, Southern Cross Healthcare, Southern Cross Travel Insurance, Southern Cross Pet Insurance and Southern Cross Life Insurance.



Our Board



Greg Gent
(ONZM) - Chairman

Greg joined the Southern Cross Boards (the Health Society and the Southern Cross Health Trust and its subsidiaries) in 2011 and was elected Chairman in 2014. Greg is a Northland dairy farmer with a wealth of governance experience. He is currently chair of Dairy Holdings Limited. From 2001 to 2011 he was a director of New Zealand's largest co-operative business, Fonterra and is a former chair of rural insurer FMG and was a member of the Northland District Health Board from 2010 to mid-2015.



Catherine Drayton
(BCom, LLB, FCA)

Catherine joined the Health Society Board in 2013 and the Southern Cross Health Trust Board (and its subsidiaries) in 2014 and is the chair of both Audit and Risk Committees. Catherine is a professional, non-executive director on a variety of boards, including chair of Christchurch International Airport, Guardians of New Zealand Superannuation and Mint Innovation. Catherine is also currently a director of Genesis Energy and Fronde Systems Group. Catherine is a former partner in charge of assurance and advisory services for Pricewaterhouse Coopers in Central and Eastern Europe and is a fellow of Chartered Accountants Australia and New Zealand.



Roger France
(ONZM, BCom, FInstD, FCA)

Roger was elected to the Health Society Board in 2014 and is chair of the Investment Committee. He is a professional, non-executive director and chartered accountant and the chair of Tappenden Holdings, a trustee of the University of Auckland Foundation and an advisory panel member of Next Foundation. Roger's past board appointments include Fonterra, Orion Health, Air New Zealand, Fisher and Paykel Healthcare, Blue Star Group and Team New Zealand. He was Chancellor of The University of Auckland between 2009 and 2012. Roger is a Fellow of both the New Zealand Institute of Directors and Chartered Accountants Australia and New Zealand.



Murray Jordan

(MProp)

Murray joined the Health Society and Southern Cross Health Trust (and subsidiary) Boards in 2019. He is a former Managing Director of Foodstuffs North Island – one of New Zealand’s largest businesses - and an experienced company director. Murray currently serves on the Boards of Metcash Limited (an ASX listed company), Chorus, SkyCity, Stevenson Group, Asia Pacific Village, Metlifecare and the Starship Foundation.



Dr Martin Misur

(BHB, MBChB, FANZCA)

Dr Martin Misur was appointed to the Southern Cross Health Trust Board in 2017 and elected to the Health Society Board in 2019. He is a specialist anaesthetist based at Auckland City Hospital and in private practice at Epsom Anaesthetic Partnership. Martin’s clinical interests include anaesthesia for solid organ transplantation, hepatobiliary / upper gastrointestinal surgery, orthopaedics, and complex urology. He has a strong interest in information technology and holds the position of Informatics Lead for ADHB’s Perioperative Directorate.



Julia Raue

(CMinstD, GAICD)

Julia Raue joined the Health Society Board in 2015 and its subsidiary Southern Cross Pet Insurance Limited in 2020. Recently Julia was appointed to the Southern Cross Health Trust Board and its subsidiary, Southern Cross Healthcare Limited. Julia has extensive digital, customer, data, information technology, strategy, and business transformation experience across a number of sectors including aviation, telecommunications, local government and not-for-profit in New Zealand and Australia. Julia was previously Chief Information Officer (CIO) of Air New Zealand and is a previous winner of CIO of the Year. Julia has been a professional director since 2014 and is currently a director of Z Energy and The Warehouse Group, and a member of the NZ Rugby Appointments and Remuneration Committee.



Keith Taylor

(ONZM, BSc, BCA, FIA, FInstD)

Keith Taylor joined the Southern Cross Boards in 2010. He has over 30 years’ experience in the insurance and financial services industries as a Chief Executive, Chief Financial Officer and Actuary. Keith is Chair of Butland Holdings, Port Marlborough and Dwell Housing Trust. He is also a Director of Resolution Life Australia and AMP Life. Keith has previously been Deputy Chair of the Reserve Bank of New Zealand and a Director of property, insurance, trustee and investment companies in both New Zealand and Australia.



**Southern Cross
Health Insurance**

With you

The Southern Cross Medical Care Society, Registered Office: Level 1, Te Kupenga, 155 Fanshawe Street, Auckland 1010, Private Bag 99934, Newmarket, Auckland 1149

Visit our website southerncross.co.nz/society

Graphics are designed to provide you with 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.

2018/SCMCS/1SXPO10/0921