



Southern Cross
Health Society

2018 ANNUAL REPORT – SUMMARY

Southern Cross Medical Care Society



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

Report from the Chairman

In the 2018 financial year Southern Cross Health Society has shown strength and stability.

A key indicator has been the outstanding value for money delivered by your Society in the last financial year. This year we returned 92 cents in claims for every dollar received in premiums. The average rate of return among the other New Zealand health insurers is just 65 cents in the dollar; with some returning as little as 59 cents in claims for every dollar received in premiums.

I'd like to put this in a little more context. If we applied a 59 cent rate of return to your premium pool, you would have received \$320 million dollars less than the \$906.6 million your Society returned in claims.

It's easy to see, then, how the Society paid for 74 per cent of all health insurance claims costs by value in New Zealand, despite Health Society members representing only 62 per cent of health insurance policyholders in the country.

This year the Society returned a \$13.3 million deficit. Losses do occur from time to time; the last being in 2014 and, before that, in 2010. It's important to note that, as a not-for-profit Friendly Society, the income statement tells only a small part of the story about our business' stability. In fact we only ever aim to make a small surplus, and we set your premiums accordingly, in order to continue delivering the best value for money to you over the long term.

During the year we made the decision to redefine the Society's internal solvency target in terms of net tangible assets. This is the measure by which we assess our ability to pay claims in adverse circumstances. Last year these sat at \$416.9 million and this year they are at \$397.3 million. This represents a little over five months of claims and is within the target range determined by the Board.

Overall a solid performance was achieved this year and the Society once again retained its A+ (strong) Standard and Poor's financial strength rating.

This has been Nick Astwick's first full year as our CEO and I would like to thank him for the way he is forging ahead with the changes we need to make, and leading a very capable and committed staff. To my fellow Board members, thank you for your ongoing support and commitment.



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

Greg Gent
Chairman of the Board

2018 at a glance

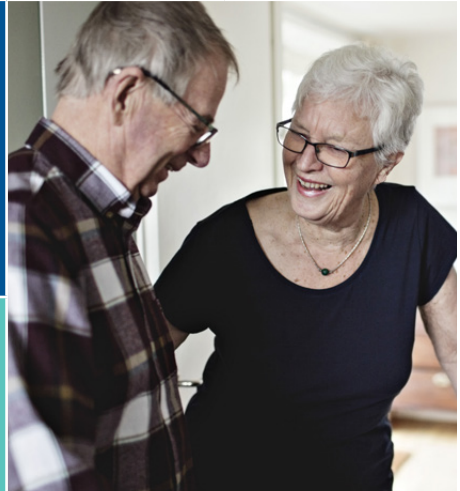
For every **dollar** you paid in premiums, **we returned 92 cents in claims**



867,593 
members

up 14,433 from last year

We make up 62% of the health insurance market, **yet we pay 74% of claims***



\$397.3 million net tangible assets, equivalent to around **5.2 months** of claims**

\$987.8 million premium income up 7%

\$906.6 million total claims up 9%

A deficit of **\$13.3 million**

Investments generated \$19.3 million of income, with total investments of \$481.6 million by the end of the year



Standard and Poor's **A+ financial strength rating**

*Based on Health Funds Association of New Zealand data.

**During the year the Board made the decision to change the solvency measurement. It now relates to net tangible assets. Last year's net tangible assets were \$416.9 million. This applies to Southern Cross Medical Care Society only, not the consolidated Group.

From the CEO

My first full year as CEO has seen your Society making good progress with its strategy to empower Kiwis to live their healthiest lives. This aims to ensure our offering remains relevant and we deliver great value to you.

I'm pleased to tell you that Southern Cross Health Society has continued to enjoy excellent growth in membership, reaching 867,593 over the last financial year. The Society exists to fund the healthcare services you need, and your premiums provide the pool from which we fund those services and meet all costs. The scale of membership adds to the strength and stability of that pool of premiums.

Like every other health insurer, we are dealing with health inflation consistently outstripping the general inflation rate. We know premium increases are a concern and we work hard to contain growth in costs. The Affiliated Provider programme has helped in moderating costs, saving an estimated \$91 million* over the past five years, as well as making claiming easier for you.

Globally the healthcare sector is changing rapidly and we need to adapt quickly in order to remain relevant to you. This year we introduced a number of new initiatives to encourage Kiwis and members to take ownership of their health. Our consumer marketing campaign Take Life Back supports our new direction of empowering Kiwis to take care of their wellbeing. I'm really proud of the way it has captured some of the issues facing us today, with thousands of Kiwis echoing the sentiments expressed in the campaign. The launch of our new workplace wellbeing platform BeingWell is also a great example of helping Kiwis to Take Life Back.

I am pleased that so many of you are actively using My Southern Cross; helping us reduce paper, postage and handling costs. With My Southern Cross and the mobile app, you have secure 24-hour online access to claiming, benefit balances, prior approvals, and other key information about your policy.

As we report back on a year of delivering great value, I am also focused on continuing to guide your Society to a healthy future. I want to thank you for your membership and for being part of your Society's future.

Finally, my thanks to the many dedicated people here at Southern Cross who work tirelessly for you, as well as the many people and facilities that provide your care.



A handwritten signature in black ink, appearing to read 'Nick Astwick'.

Nick Astwick
CEO

*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.

Value for members

3.4 million claims, including:

- 234,679 surgical procedures, down 2.5%
- 489,872 specialist consultations, up 15.3%
- 699,005 prescriptions, up 7.4%
- 735,152 GP visits, down 2.2%

Most common procedures by amount paid (GST inclusive):

- Knee replacement \$45.3 million
- Hip replacement \$44.0 million
- Colonoscopy \$39.4 million
- Skin surgery \$37.6 million
- Cataract removal \$27.5 million

The main cause of premium increases:

- Members claiming more benefits (60%)
- Procedure price inflation (30%)
- Newly added benefits (10%)



Affiliated Provider programme made estimated price-related savings of \$91.0 million in the last five years*

- Estimated price-related savings of \$41.9 million in the last year.*
- 1,968 providers across 30 specialties.
- Affiliated Providers account for 62% of paid claims.



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



- **2,587 Easy-claim providers** (up 19% from last year) facilitated 421,135 point of purchase transactions, eliminating the need for members to claim back for health services like GPs, physiotherapy and pharmacies.
- **267,578 members** (up 38%) registered to use the **My Southern Cross** online service.
- **1,171,181** total logins to My Southern Cross (up 37%).
- More than 92% 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

FY17 \$923.4 million
FY18 \$987.8 million



Claims

FY17 \$830.3 million
FY18 \$906.6 million

Total overheads

FY17 \$112.0 million
FY18 \$118.1 million



Overheads grew primarily as a result of digital investment, the launch of our BeingWell proposition and an increase in staff costs. Despite the increase, overheads as a proportion of premiums reduced.

Technology investment

FY17 \$16.6 million
FY18 \$25.1 million

Ongoing investments in technology are helping to make communications and claiming faster, easier and more cost effective.



Investments

FY17 \$516.1 million
FY18 \$481.6 million

Investment income

FY17 \$22.3 million
FY18 \$19.3 million

The new investment strategy implemented last year has yielded good returns. The funds held in our investment portfolio decreased during the year as a result of this year's deficit and capital expenditure on digital improvements.

How much does it cost?

Below are some common procedures we fund*.



ADULTS

Skin cancer removal:

\$200 - \$2,500

Colonoscopy (with or without associated procedure):
\$1,700 - \$3,000

Prostate cancer surgery:
\$16,200 - \$24,200

Heart valve replacement surgery: \$57,700 - \$78,400

Cataract removal:
\$2,900 - \$4,500

Breast cancer surgery:
\$6,400 - \$17,800

Endometriosis surgery:
\$6,900 - \$18,900

Knee replacement:
\$22,200 - \$30,000

Hip replacement:
\$20,700 - \$27,800

Varicose veins:
\$7,000 - \$9,800

CHILDREN

Grommet surgery:
\$1,950 - \$2,600

Tonsil removal:
\$3,900 - \$6,300

Squint correction:
\$4,600 - \$8,200

This graphic is designed to give 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.

*All costs indicative and sourced from 2017/18 claims data.

Not already registered on My Southern Cross? It's easy!

Just register with your membership number at 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
or call us on **0800 800 181**, Monday to Friday, 8am - 6pm.



Southern Cross
Health Society