

**Minutes of the 59th Annual General Meeting  
of Southern Cross Medical Care Society (Society)**

Held on Wednesday, 9 December 2020 at 2:30 pm  
at Level 1, Te Kupenga, 155 Fanshawe Street, Auckland 1010

**Present:**

G W Gent, Chairman

Ms C M Drayton, G R W France, M P Jordan, Dr M P Misur, Ms J M Raue  
and K B Taylor (Directors)

Senior management and advisors, including N Astwick, S J Azzopardi, K Boielle, V Caisley, A McPhail, R Ogilvie, R Salton and N Watson (Company Secretary), K Baldock and other KPMG employees (External Auditor), A Pasche (Finity Consulting, Appointed Actuary) and approximately 30 Members.

**Welcome:**

The Chairman welcomed Members and attendees to the Meeting.

**Introduction:**

The Chairman introduced each of the Directors, before introducing the Chief Executive Officer and the Company Secretary to the Board.

**Notice of Meeting  
and Quorum:**

The Chairman advised that Notice of the Annual General Meeting had been given in accordance with the Rules of the Society, and as there was a quorum present, the Meeting was declared open.

**Presentation of  
the Financial  
Statements FY20**

**Chairman's Address**

In presenting the Annual Report and Financial Statements for the 12 month period ending 30 June 2020 (FY20) (which was published on 15 September 2020), the Chairman gave a brief overview of the financial year and in particular how the Society responded to Covid-19.

It was noted that Covid-19 resulted in increased and one-off costs associated with the necessary mobilisation of 600-plus employees to enable remote working during the lockdown period, and at the same time, a market-leading decision to give back \$50 million to Members in the form of premium credits. The \$50 million credit returned close to 4% of the annualised premium of Members and helped to moderate premium inflation for the year.

The Chairman acknowledged that premium affordability was a big issue for the Society and its Members. Despite this, New Zealanders continued to see the value in health insurance.

The Society's Membership stood at more than 879,000 people at the end of June – caring for 8,133 more New Zealanders than the Society did the previous year. The Society retained its A+ Standard and Poor's credit rating.

The Chairman noted that for every dollar received in premiums in the past financial year, 85 cents was paid out in claims, which represented excellent value for Members.

If the Society had a pay-out ratio similar to the average pay-out ratio of its competitors, \$266 million less in claims would have been paid. The Society

paid 72 % of all private health insurance claims paid in New Zealand by value, while only representing 62 % market share of health insurance lives covered.

There were two key factors that influenced premium increases during the year:

- 70% of the increase was the result of more Members claiming more, which reflects the great value Members receive but also puts upward pressure on premiums.
- 30% of the increase reflected increases in procedure price rises.

It was noted that as New Zealand's population ages, there will be increasing pressure on the public health system. Health insurance reduces pressure on the public system and is a valuable way for older people to get the care they need, when they need it. The successful Affiliated Provider programme also goes some way to alleviating the premium inflation issue.

The Southern Cross group is a collection of independent businesses united by the group brand, values, not-for-profit ethos, and a focus on social responsibility.

The Chairman noted that the Southern Cross Group, while all separate legal entities, all champion initiatives such as Pause Breathe Smile with Southern Cross, which is funded by Southern Cross Healthcare (formerly Southern Cross Hospitals) and proudly supported by the Society. Southern Cross has joined forces with the Pause Breathe Smile Trust and the Mental Health Foundation to scale up the programme and make it available to children aged five to 12, free of charge throughout New Zealand. Research shows that the programme increases child wellbeing, reduces stress, boosts conflict resolution skills and enhances self-awareness.

The Chairman noted governance and its importance in a demanding year. It was noted that it is essential in the current climate, that the Society has stability and the appropriate composition of skills around the Board table. To that end, the Board has sought to extend the term of Keith Taylor, who was due to retire at the end of this year, for a further 12 months (with further details provided in the Notice of Meeting). Also on other governance matters, it was noted that the Board had deferred the scheduled Directors remuneration review and will revisit the appropriateness of this in the coming year.

In closing the formal presentation, the Chairman thanked Management for their efforts this year, and Directors for the ongoing support, stressing the role of, and demands on, good governance during this pandemic cannot be overstated.

### **Chief Executive's Address**

The Chief Executive Officer welcomed Members to the Society's new building and introduced the Leadership Team.

The Chief Executive, also reflecting on the impact of Covid-19, noted that the top priorities during the initial lockdown, was to rapidly mobilised 100% of the workforce to work remotely to ensure service were seamlessly maintained, to move quickly to return the \$50 million premium credit to members, and introduce a range of options for Members needing economic relief.

The Chief Executive, explained some of the features of the year in more detail, for example:

- Despite the uncertainty, the Society posted a strong result with a surplus of \$32.4 million.
- Membership growth and value;
- The foresight of digital investment in previous periods paid off to allow the workforce to effectively mobilise overnight.
- The digitisation of the business as part of an ongoing cost-saving strategy which enables the Society to scale efficiently and deliver better experiences to our Members. For example, Member migration to our digital platforms increased once again during the year under review, with more than 96 per cent of claims now submitted digitally, and 82 per cent of our customer channels fully digitised.
- The outstanding Net Promoter Score of 59.5% as at 30 June 2020 (with the Society's internal target of 51%). The health industry average Net Promoter Score is 30%.
- These metrics also align with positive employee engagement of the Society's people, which was at 81% in May 2020.
- The key drivers around premium increases, noting the Board and Management take this very seriously and continue to make a significant effort to maintain a balance between claims costs and premium affordability. Premiums reflect the cost of claims and, notwithstanding the impact of Covid-19, these costs have continued to edge upwards, due to medical inflation which is outside our control. Medical inflation, which uses the same measure as the Consumer Price Index (CPI), has been around 1% for the past two years – less than the CPI. So utilisation has been the main driver of premium growth.
- Over the past 23 years, our Affiliated Provider programme has been very successful in moderating procedure price inflation. There are now 1,993 providers across 35 specialties. The programme continues to deliver significant savings for the Membership and makes claiming easier for Members. This year alone, 63% of claims were covered through the programme and more than \$65 million has been saved for Members.
- It's important to us that you have choices about the healthcare provider you see without it impacting unduly on your premiums or on the quality of care you receive.
- Innovation and new initiatives that support an ongoing focus on health assurance and not simply health insurance. For example, the launch of CareHQ, more Member choice when it comes to chemotherapy (including increased access to cancer drugs not subsidised by Pharmac), and securing a major reduction for a MedSafe-approved biosimilar which significantly reduces the total treatment cost for breast cancer and some gastric cancers.

## **Chief Finance and Risk Officer's Address**

The Chief Finance and Risk Officer briefed the Members on the following:

- A more detailed overview of financial performance and the key numbers that led to a surplus.
- A review of our capitalisation policy for internally generated intangible assets brought about by a shift in the way the Society selects and develops its technology platforms, the implications of which impacted on overheads, noting that change will be most significant in FY20 and will decline over the next four years.
- The loss ratio and how a 1% reduction in this ratio adds about \$11 million to the Society's surplus.
- The investment portfolio, returns for FY20 and the investment strategy.

### **Formal Business:**

The Chairman noted that the Annual Report and audited consolidated Financial Statements for the Society for the year ended 30 June 2020 have been made available to Members.

The Chairman opened the Meeting for questions about the Annual Report and FY20 Financial Statements and also invited Members to direct questions to Kay Baldock from KPMG, the audit partner, on the audit report or the audit process.

The questions asked were as follows:

- Clarification as to why the graph shown earlier during the Chairman's presentation regarding average claims paid and premiums received per Member by age, stopped at age 85. Management noted Society continues to cover members well beyond the age of 85. However, the number of members above the age of 85 declines so sample size is very small making results volatile. For the purposes of the graph presented earlier, Management grouped all members over the age of 85 into one band. Lastly, Management noted that by way of example, the Society had a member aged 104.
- Clarification on the timeframes for receiving a refund when a claim is submitted by mail, with it noted that using the digital channel can reduce the timeframe significantly.
- Further explanation from Management on the challenging implications of Covid-19 for the Society, with it noted the uncertainty regarding claims patterns, and whether claims are being deferred or being avoided completely, and the impact on Membership post the economic fallout of Covid-19 (although the range of options for Members needing hardship relief provided the flexibility for people to hold their Membership).
- The lag period between the release of the Annual Report (15 September 2020) and the Annual General Meeting in December, noting this is consistent with the Rules and does provide Members an opportunity to review the financial results, but this could be looked into.

**Formal Resolutions: Resolution 1 and 2 Re-election of Directors**

The Chairman noted that the Rules of the Society require two Directors to retire at each Annual General Meeting, with the Directors required to retire being those who have been longest in office since their last appointment. If the Directors are eligible, they may offer themselves for re-election.

To be eligible to hold office as a Director of the Society, an individual must meet and continue to meet the requirements of the fit and proper standard set by the Reserve Bank, the Rules and any other applicable law, and must not otherwise be disqualified.

Director Catherine Drayton and Director Keith Taylor retire by rotation at the Meeting and are eligible and offered themselves for re-election.

**Resolution 1 is the re-election of Catherine Drayton**

It was moved by the Chairman and seconded by Director Julia Raue.

Catherine Drayton spoke briefly to the motion. There was no discussion.

***The motion was put to the Meeting and passed on the voices and Catherine Drayton was re-elected as a Director.***

**Resolution 2 is the re-election of Keith Taylor**

It was moved by the Chairman and seconded by Director Murray Jordan.

Keith Taylor spoke briefly to the motion. There was no discussion.

***The motion was put to the Meeting and passed on the voices and Keith Taylor was re-elected as a Director.***

**Resolution 3 - Re-Appointment of Trustee**

The Chairman, Director Greg Gent, stepped aside and Director Catherine Drayton took over as Chair of the Meeting, and outlined the role of the Trustee and that Greg Gent was retiring by rotation and, being eligible, offered himself for re-appointment as a Trustee of the Society.

**Resolution 3 is the re-appointment of Greg Gent.**

It was moved by the Chair of the Meeting (Catherine Drayton) and seconded by Director Roger France.

With no discussion from the floor.

***The motion was put to the Meeting and passed on the voices and Greg gent was re-appointed as a Trustee.***

**General Business:**

The Chairman resumed chairing the Meeting and a summary of online and proxy votes received at 2.30 pm on Monday 7 December 2020, was provided.

It was noted that a number of questions had been received through email and these were noted as follows:

***“What can Southern Cross do to make Membership more affordable for senior citizens, many of whom have been loyal Members for decades?”***

Premium affordability was a key theme of the Meeting presentation and an ongoing focus for the Board, with an acute awareness to the high cost of health insurance for older Members. The challenge was that the premiums older Members pay reflect the higher level of claims made by the older age groups, for example, the average amount claimed by Members over 65 years was more than three times the average claims made by Members aged 35 to 49 years.

A key consideration was that if a premium discount of any sort is offered to one group of Members, other Members will need to subsidise this by paying higher premiums. The reality is, the Society needs to raise a certain amount of premium income each year to cover the cost of claims, and to run the business.

Another aspect to the discount discussion was that there is already a “loyalty reward” of sorts built into Southern Cross’s health insurance approach.

This was analysed in previous years, with it found that for example, Members aged in their 50s who had been with the Society less than 10 years received 74 cents in claims for every \$1 paid in premiums, while Members who had been with the Society more than 20 years received 92 cents in claims for every \$1 paid in premiums. This underlined the value that many long-standing Members get from their insurance, and why so many Members stay with the Society.

**“Has the Society made submissions to Parliament to further the debate over the Affordable Healthcare Bill?”**

The Affordable Healthcare Bill was introduced to Parliament in 2015 and sought to remove fringe benefit tax from health insurance and introduce a health insurance premium tax rebate. The Society saw and continues to see merit in these tax initiatives to moderate the cost of health insurance premiums. However, the Bill was defeated on its first reading.

**“Given the positive position of the Society, what incentives could you consider offering Members with low claims?”**

The Society currently operates a low claims discount of up to 10%, based on a Member’s claims made over a two-year period.

Part of the rationale for this discount was that a person’s history of low claiming was a good predictor of future low claiming, so a low claims discount provides an incentive for healthy/low claiming Members. The settings for this discount is reviewed from time to time. Society research shows Members generally support the low claims discount, but that the size of the discount should not become a barrier to Members accessing healthcare services when they were needed.

**“Why did the premiums we pay increase very shortly after receiving the credit?”**

Any premium increases that occur will do so at the time of your annual renewal. Around a twelfth of the Membership would have had their annual renewal immediately after receiving the credit. The Society felt it was important to support our Members through a tough period in a way that was

fair and equitable. That is why, instead of applying premium price freezes for those Members whose policies were renewing at the time, the Society decided to apply credits to all policies so everyone benefitted and this was more equitable.

**“Given the importance of mental health and wellbeing, will Southern Cross be looking at providing increased cover for psychiatrist and psychologist consultations?”**

The Society understood many New Zealanders will face mental health challenges at some time in their lives. This was brought into focus with the Covid-19 pandemic, and also through the Southern Cross group’s recently-announced partnership with the Mental Health Foundation and Pause Breathe Smile Trust.

Most Southern Cross plans included a benefit for psychiatric hospitalisation (and ancillary charges) and a psychiatrist consultation allowance. Some plans also include cover for psychologist consultations. These benefits are intended to assist Members to determine what help they need rather than provide long-term treatment. Providing additional benefits related to mental health, on a range of different plans, would need to be carefully weighed-up in terms of the value to Members versus the adverse impact on premiums.

**“What steps does the Society take to audit the practices of medical consultants to ensure that they do not undertake tests on insured patients that they would not deem necessary on uninsured patients? This question is posed because of the high cost of medical insurance especially for older patients and a concern that expensive unnecessary tests will have a serious adverse impact on premiums.”**

The Society actively monitors claims submitted by Affiliated Providers who provided healthcare services to our Members, which allows us to track and identify any unusual claiming patterns.

If unusual claiming patterns are identified, the Society addressed this directly with the provider concerned to establish the reason. In many cases, there are valid reason for variations, such as sub-specialisation for particular types of patients who may require additional tests, for example.

The Society follows up specific Member concerns directly with providers, where the Society has the Member’s permission to do so.

Southern Cross Affiliated Provider agreements also include a clause permitting the Society to undertake an audit of claims and medical records to ensure claims are made in line with policy and Affiliated Provider Agreements.

This year, the Society has identified and investigated 54 providers that have come to its attention due to claiming patterns or external complaints. The Society has had discussions with some, others are undergoing an audit and some are being monitored.

**“Your recent Cancer Cover Plus option extends cover to non-Pharmac funded drugs for cancer treatment. What options can you offer to enable access to non-Pharmac funded drugs for non-cancer treatment?”**

The Society’s policies provide different cover for drugs depending on what type of healthcare service they relate to. For example, chemotherapy drugs taken as part of chemotherapy for cancer are covered under the chemotherapy for cancer benefit. Drugs prescribed and taken in hospital

during surgical treatment, non-surgical treatment or psychiatric care are covered as ancillary hospital charges. Any other drugs or prescriptions are only covered under the prescription benefit if this is available on the policy. Unless specifically stated otherwise, for any drugs to qualify for cover, generally these must be Pharmac approved, prescribed by a Medical Practitioner in private practice and not otherwise excluded by our policy terms.

**“Why has Nick Astwick been paid a bonus on top of his base salary? With Southern Cross effectively having a monopoly on medical insurance and not-for-profit, a re-think of these staff bonuses needs to occur. What does the Board intend to do about this?”**

The amount referenced is part of the Chief Executive's salary package. It is structured with a base salary of approximately 80% (of total package) and 20% at risk. The latter component relies on successful delivery of certain KPIs set by and monitored throughout the year by the Board and paid at the end of the financial year (post results). Generally and in recent history, the discretionary portion is never paid in its entirety, with the Board of view that these must be stretch targets. While the Society is a not-for-profit Friendly Society, it is also a substantial business with some 879,000 Members and revenue of more than \$1 billion. Payment of appropriate and market benchmarked remuneration is critical, to attracting and retaining quality leaders.

**Other      General**  
**Business**

The Chairman invited Members to raise any further questions.

A Member thanked the Board and Management for the care shown to him recently following a medical issue requiring surgery, noting that from the first engagement to the last, it was exceptional service.

A question was raised around new science and treatments, for example stem cell research and possible cover in the future. One of the Society's in-house clinicals explained the process undertaken internally and the governance of the process, to scan the horizon for new treatments, noting it needs to be substantiated with a strong base of research to support in the first instance and then needs to be assessed on a commercial basis weighing-up the case for offering any new treatment to Members, in terms of the value to Members versus the adverse impact on premiums.

No other business was noted.

The Chairman thanked Members for their attendance and participation in the Annual General Meeting and invited them to join the Board and Management for refreshments.

The meeting closed at 3:47pm.





**Southern Cross Medical Care Society  
Annual General Meeting 2020**

**POSTAL VOTES  
CERTIFICATE**

| <b>Resolution</b>                              | <b>For</b> | <b>Against</b> |
|--|------------|----------------|
| 1. To re-elect Catherine Drayton as a Director | 5812       | 415            |
| 2. To re-elect Keith Taylor as a Director      | 5695       | 482            |
| 3. To re-appoint Greg Gent as a Trustee        | 5781       | 426            |

I, Nathalie Watson, have been authorised by the Board to receive and count postal votes for the 2020 Southern Cross Medical Care Society Annual General Meeting.

I have carried out the duties set out in Rule 13.13 (e) (i) and (ii) and the postal vote results are shown in the table above.

A handwritten signature in blue ink, appearing to be "Nathalie Watson".

Signed \_\_\_\_\_ Date: 9/12/2020