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Southern Cross Medical Care Society

2020 Annual Report – Summary

This Summary, together with the full Financial Statements, constitutes the Annual Report of the Southern Cross Medical Care Society and its wholly-owned subsidiaries (Health Society Group) for the purposes of the Rules of the Society. For a copy of the full Financial Statements please visit southerncross.co.nz/annualreport

We're with you

From the Chairman

These times have been challenging for many, and the Health Society has risen to that challenge.

The Health Society Group has reported a surplus of \$32.4 million. This outcome is testament not only to our strong foundations but to the successful navigation of a highly unusual set of circumstances as a result of the Covid-19 pandemic.

We responded by returning \$50 million to health insurance members by way of premium credits, and have made provision for an increase in surgical claims in the first part of the new financial year.

On the service side of the business, we responded quickly to the pandemic by mobilising our workforce at short notice. A freeze on salaries and Board members' fees for the coming year was also put in place.

We managed these challenges amid a climate of great uncertainty while also looking ahead with financial prudence to ensure the business is as secure as possible despite the challenges that lie ahead.

For every dollar received in premiums, we paid out an average of 85 cents in claims. Total reserves increased from \$438.8 million to \$471.2 million during the year under review.

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

We made a decision to change the way we capitalise software assets, which had the effect of increasing costs for this year, but which will neutralise over time.

Managing premium inflation is an ongoing focus for the Board. Premiums reflect the cost of claims, and – notwithstanding the impact of Covid-19 – these costs have continued to edge upwards.

The Southern Cross Health Trust has embarked on a social responsibility initiative, Pause Breathe Smile with Southern Cross, a locally designed and internationally recognised mindfulness programme that will be available free of charge to any primary and intermediate school in New Zealand from October. Premiums are not impacted by the charitable endeavours of the Southern Cross Health Trust.

This has been a demanding year for your Society. I would like to thank CEO Nick Astwick, his leadership team and all the staff for their efforts in keeping the business running so well in what have been some very trying circumstances.

Likewise, the Board has needed to meet more often as we have navigated through the challenges brought about by Covid-19. In times like these it's essential we have stability around the Board table. To this end, the Board has asked Keith Taylor (who was due to retire at the end of this year) to extend his term for a further 12 months.

Lastly thanks to you, our members, for staying with us and valuing what we provide.



A handwritten signature in blue ink, consisting of stylized initials 'GG' followed by a surname.

Greg Gent
Chairman of the Board

Health Society – 2020 at a glance



62%

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



72%

We pay **72%** of claims*



A+

Standard and Poor's financial strength rating



For every **dollar** you paid in premiums, we **returned 85 cents** in claims

879,198

members – up 8,133 from last year

\$443.1 million

net tangible assets, equivalent to around **5.1 months'** worth of claims

\$1.138 billion

premium income – **up 5%**

This year the number of claims decreased by **4.6%**. On average we paid out **\$3.9 million** in claims, totalling **12,000 claim lines**, every business day.

\$972 million

total claims

A surplus of

\$28 million



Investments generated **\$14.5 million** of income, with total investments at **\$534.7 million** by the end of the year.

The numbers quoted above are for Southern Cross Health Society only.

*Based on Health Funds Association of New Zealand data.

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From the CEO

We're with you – now more than ever.

As a not-for-profit Friendly Society, the Health Society has no shareholders or overseas owners, so our focus is always on the best interests of our members.

I'm proud that in what was a turbulent and uncertain year, the Health Society Group posted a \$32.4 million surplus.

The Health Society returned 85 cents to you in claims for every dollar received in premiums. While lower than the previous year, this claims ratio is excellent value compared with other health insurers. Some have paid as little as 61 cents – a difference which equates to hundreds of millions of dollars.

Our financial performance is a result of investing in the business. Cost-saving digitisation continues at pace, with 82 per cent of our customer channels fully digitised, and more than 96 per cent of claims submitted digitally.

In the year ahead our focus will be on further investment in operational excellence as well as introducing new products and services to help you live your healthiest lives.

Our focus from the start of the pandemic was to move quickly to return money to our members.

We led the market by giving back \$50 million and introducing a significant range of options for members needing hardship relief.

At the same time, we rapidly mobilised our workforce, setting them up to work remotely to ensure our service to you was seamlessly maintained.

Today, Southern Cross is the trusted health insurer for 879,198 Kiwis. We've been here for nearly 60 years and in times like these, consistency is important.

I'm pleased to note that surveys of both our employees* and members show very high levels of satisfaction and engagement.

The Health Society's Net Promoter Score, where we ask customers how likely they are to refer us, was 59.5 per cent at 30 June. This outstanding result, which reflects the Society's response to the pandemic, is much higher than our target of 51 per cent.

Our long-standing Affiliated Provider programme** continues to deliver savings for the membership and make claiming easier for members. This year alone more than \$65 million has been saved for members.

Thank you to my team and health service providers, for all of your work, and thanks to every member who let us know how much they appreciated our support this year.

As part of the Southern Cross family – we're with you. Thank you for being with us.



A handwritten signature in black ink, appearing to read 'Nick Astwick'. The signature is stylized and fluid.

Nick Astwick
CEO

*SCHS Employee Engagement Survey, December 2019–May 2020. **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.

We're with you

Financial performance

A surplus of

\$32.4 million

Investments

\$534.7 million

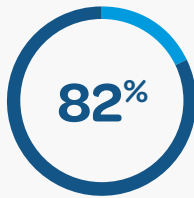
Financial strength
rating – Health Society

A+

Our members



For every \$1 in health insurance premiums, we paid out an average of 85 cents in claims



of health insurance customer channels fully digitised

Our team



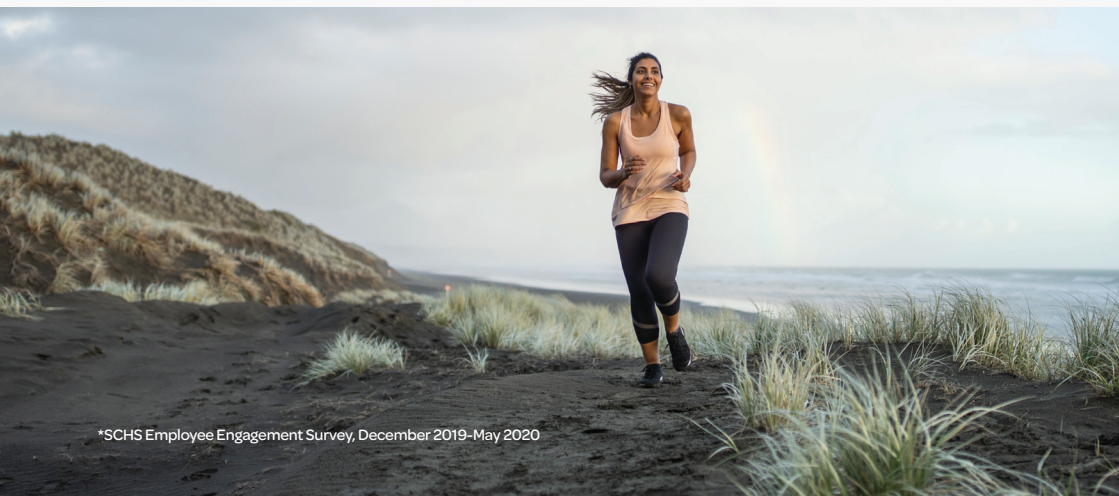
of staff enabled to work remotely



employee engagement*

\$50 million

returned to health insurance members



Value for members



3 million claims in FY20, including:

254,659 surgical procedures, up 1.3%

481,390 specialist consultations, down 3.6%

628,728 prescriptions, down 4.6%

701,400 GP visits, down 3.7%



Most common procedures by amount paid: (GST inclusive)

Knee replacement **\$47.9 million**

Hip replacement **\$46.1 million**

Colonoscopy **\$43.3 million**

Skin excisions **\$34.5 million**

Spinal fusion **\$25.8 million**

The main causes of premium increases:



More members claiming more benefits



Procedure price inflation

The Affiliated Provider programme has made estimated price-related savings of \$209 million since July 2012*

- ▶ Estimated price-related savings of **\$65 million** in the last year.*
- ▶ **1,993** providers across **35** specialties.
- ▶ **63%** of claims are covered through our Affiliated Provider programme.

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

- ▶ **3,093 Easy-claim providers** (up 8.6% from last year) facilitated 611,184 point of purchase transactions, eliminating the need for members to claim back for health services.
- ▶ **374,426** members (up 12.7%) registered to use the **My Southern Cross** online service.
- ▶ **3,392,218** total logins to **My Southern Cross** (up 15%)
- ▶ More than **96% of claims** are now submitted electronically.

The numbers quoted above are for the Health Society only.

*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

for Health Society



Premium income

FY19 \$1,080.4 million

FY20 \$1.138 billion



Claims

FY19 \$963.7 million

FY20 \$972 million



Total overheads

FY19 \$122.6 million

FY20 \$152.4 million

Overhead growth is largely due to a review of our capitalisation policy, initiated in part by our move to Cloud-based solutions, as well as from additional investment required to support a fully flexible workforce.



Investments

FY19 \$492.5 million

FY20 \$534.7 million



Investment income

FY19 \$22.1 million

FY20 \$14.5 million

The investment strategy implemented by the Health Society three years ago has continued to yield good returns, though with 60 per cent of our investment portfolio in New Zealand money market instruments such as term deposits, the declining interest rate environment has meant that the overall return has been declining. FY20 also saw increased volatility as a result of Covid-19. The funds held in our investment portfolio increased during the year as a result of this year's surplus.

The numbers quoted above relate to the Health Society only and, given the acquisition of Southern Cross Pet Insurance part way through the year, cannot necessarily be tied to the Group financial statements. The only prior year comparative to be affected by this change is overheads.

How much does it cost?

Here are some common procedures we fund*:



Adults

Skin cancer removal:

\$200 - \$2,400

Prostate cancer surgery:

\$18,600 - \$25,300

Knee replacement:

\$23,600 - \$29,000

Hip replacement:

\$22,400 - \$27,300

Varicose veins:

\$6,300 - \$7,800

Breast cancer surgery:

\$6,600 - \$19,500

Colonoscopy (with or without associated procedure):

\$1,800 - \$3,200

Heart valve replacement surgery:

\$62,000 - \$70,000

Endometriosis surgery:

\$8,400 - \$21,000

Cataract removal:

\$3,000 - \$4,300



Children

Grommet surgery:

\$2,100 - \$2,500

Squint correction:

\$5,100 - \$7,800

Tonsil removal:

\$4,300 - \$5,800

The procedure costs quoted above relate to the Health Society only.

*All costs indicative and sourced from 2019-2020 claims data.



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members



**Southern Cross
Health Insurance**

We're with you

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

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.

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