



Southern Cross Medical Care Society

2022 Annual Report – Summary



Murray Jordan
Chair
Southern Cross
Medical Care Society¹

From the Chair

In my first year as your Chair, I am pleased to present the 2021-22 annual results covering the achievements and outcomes of the past year.

The world continues to be impacted by the Covid-19 pandemic and seemingly unrelenting pressure on people, economies, governments, the environment, and our systems.

The Southern Cross Health Society Group² delivered a higher-than-expected surplus for the year of \$90m, comprising an operating surplus³ of \$108 million, offset by a \$17 million loss on investments, and taxation of \$1 million. Because of the inherent unpredictability in the timing of health insurance claims, increases in claims costs and investment income there is, inevitably, significant variability in the level of surplus from one year to the next. In the FY22 financial year this was particularly so with the prolonged Covid-19 lockdown leading to a much lower level of claims than we had budgeted for. However, the average surplus over the last five years is \$34.5 million per annum, towards the bottom end of our targeted range of \$30-40 million per annum.

That noted, we are acutely aware of the impact of the high inflation environment our members and customers are living and working under today. With this in mind and wanting to avoid significant premium volatility for members, we intend to use a large part of the FY22 surplus to keep premiums as low as possible in the coming year.

In the upcoming financial year we anticipate claims will be significantly higher than seen in recent years, driven primarily by an increase in claim frequency as members who delayed seeking treatment access healthcare again. We also expect to see an increase in the costs of claims due to inflationary pressures and this would usually indicate a need to adjust premiums upwards at a sharper rate than we have been delivering. We can reduce the impact of these factors by using some of the surplus to keep premium increases as low as we can next year.

In its 25th year, our Affiliated Provider programme continues to deliver savings for our membership. We estimate the programme has saved up to \$200 million in healthcare service costs to date, which would have otherwise contributed to further premium increases. We continue

to actively develop the programme to help moderate costs. By keeping increases lower and continuing to provide quality health and wellbeing solutions to our 900,000 plus members, we play an important and impactful role in Aotearoa New Zealand's healthcare eco-system.

Market conditions have significantly reduced the returns on global equities and bonds which means our investment performance has not been as strong this year, generating a loss of \$17 million. While this year has seen losses on our investment portfolio, it comes off the back of strong gains in prior years. Over the five years since we adopted our new strategic asset allocation, our investment portfolio has yielded an additional one per cent per annum over and above the very conservative portfolio it replaced.

Our strong performance this year has helped bolster Society's reserves, this year reporting a Total Group Reserves figure of \$613.8 million. This result, along with our strong market position, not-for-profit ethos and strong brand presence has helped Society retain its A+ S&P financial strength rating.

In another year of increasing pressure on Aotearoa New Zealand's health system,

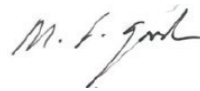
we saw the Government's ambitious health reforms enacted in July. We continue to champion the value of private healthcare as complementary to the public system. Private healthcare offers choice for New Zealanders, as shown by the number of elective surgical procedures we funded for our members (256,461 between 1 July 2021 and 30 June 2022).

We were pleased this year to welcome Southern Cross Travel Insurance into the Health Society fold. Along with Southern Cross Pet Insurance, this is a key investment for the Society that complements our insurance portfolio.

As a Friendly Society, we aim to be leaders in social responsibility and sustainability. The Southern Cross group's [Community Impact Report](#) highlights some of the wider Southern Cross group's focus areas, including the Southern Cross Healthcare-funded social responsibility initiative, *Pause Breathe Smile*. This hugely successful mental resilience programme is available free of charge to any primary or intermediate school in Aotearoa, thanks to Southern Cross Healthcare.⁴

While I've been a member of your Board since 2020, this is my first year as Chair. Overall, the Society has performed very well, balancing the need for innovation and improved products and services with the necessity of remaining in a financially sound position and moderating premium increases. I would like to thank CEO Nick Astwick, his leadership group, and the wider Society team for their efforts this year, in challenging circumstances.

I would like to thank the Board for their contribution and ongoing service over the past year and celebrate eight years of outstanding service by our outgoing director, Roger France. Roger, we are very grateful for your contribution on behalf of Society members.



Chair

Southern Cross Medical Care Society

⁴Premiums for members/customers of the Health Society Group are not impacted by the sponsorship initiatives of Southern Cross Healthcare.



Health Society 2022 at a glance

On average we paid out

\$4.3 million

in claims every business day



62%

We make up **62%** of the health insurance market⁵



70%

We pay over **70%** of the value of all health insurance claims paid in Aotearoa New Zealand. Over the past five years the average value of all health insurance claims paid by Southern Cross is **72.5%**

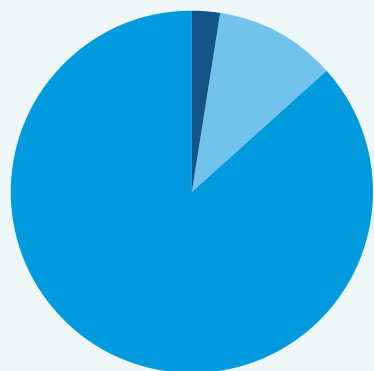
\$1.08 billion

in claims paid out of

\$1.35 billion

received in premiums

Where every \$1 of premium goes (five-year average)



- Claims **86.4c**
- Overheads, less investment income **10.9c**
- Net margin **2.7c**



84.8%

84.8% of health insurance customer channels fully digitised

\$5.03 billion

returned in claims over the past five years, out of

\$5.82 billion

received in premiums – representing **86%** of premiums returned in claims. This compares to a New Zealand industry average (excluding Southern Cross) of **65%** of premiums returned in claims.

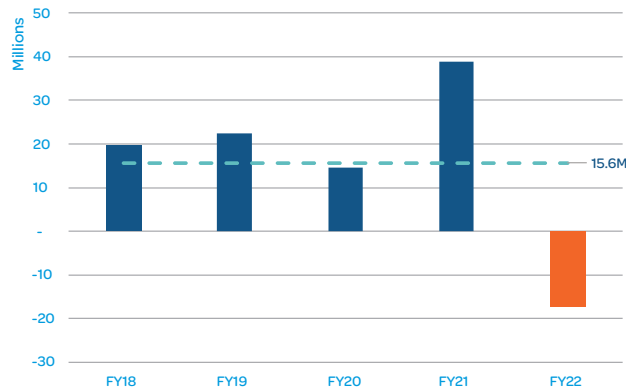
The numbers quoted above are for Southern Cross Health Society only.

⁵Southern Cross makes up 61.7% of the health insurance market. Based on data provided by the Financial Services Council and including estimates for nib and Partners Life.

Health Society 2022 – key numbers



Health Society investment and other income



908,176

members

Our highest membership in 30 years

Five-year average Health Society surplus

\$31.8 million

This year's higher than expected surplus is due to a much lower volume of health insurance claims incurred over the year due to the impact of Covid-19. To avoid significant premium volatility for members, Health Society will use a large part of the surplus to keep premium increases as low as possible in the coming year.

Investments suffered a loss of **\$17.3 million**, with total investments at **\$716.3⁶ million** by the end of the year.

Over the five years since Southern Cross Health Society adopted its new strategic asset allocation, our investment portfolio has yielded **an additional one per cent per annum** over and above the very conservative portfolio it replaced, with a five-year investment return of **\$15.6 million**.

\$587 million

net tangible assets, equivalent to around **5.4 months'** worth of claims

⁶Including investments in subsidiaries such as Southern Cross Pet Insurance. The numbers quoted above are for Southern Cross Health Society only.





Nick Astwick
CEO
Southern Cross
Medical Care Society⁷

Report from the CEO – Nick Astwick

Tēnā koutou katoa

More New Zealanders are seeking assurance they can access the health services they need when they need them, and we are growing.

It has been our privilege to serve our 908,000 members this year, which includes more than 20,000 net new members. **Our highest membership in thirty years.** It's also very pleasing to see more businesses invest in health insurance for their people this year, with employees consistently rating health insurance as one of the most highly valued workplace benefits.

The external environment has again delivered a year of uncertainty, with the impacts of Covid-19 continuing to touch our personal and professional lives. For us, this means our ability to predict claims volumes has been more challenging, with a much lower level of claims received this year due to lockdowns, illness in the community, and provider capacity. The flow on effect of the lower claims volume is that Health Society Group this year reports a much higher than planned surplus of \$90 million. Our commitment to members is to use a large part of this surplus next year to keep the level of premium growth as low as possible.

Our purpose is to empower our members to live well for longer, and to live better, healthier lives. With this in mind, we have been with our members more than ever this year, increasing our efforts to provide members access to the support and services they tell us matter most.

To do this we launched Better '22 in November 2021, which was very well received by members. Better '22 delivered free GP consultations with CareHQ, our virtual health consultation service in partnership with ProCare, up to three mental health and wellbeing consultations with Raise, and free 'flu vaccinations.

As Aotearoa New Zealand's largest health insurer, we know the role affordable health insurance plays in empowering New Zealanders to live better, healthier lives, especially at a time when they are most likely to need it. As life or personal circumstances change so too can health insurance.

Recognising that households are facing increasing pressure, to keep members with us we are actively encouraging conversations to make sure they are on the right plan for their financial circumstances. Of the members we have proactively reached out to this year, one in five have made changes to their policies, by changing their product or increasing excesses to reduce premium levels.

Despite the fluctuating level of claims over the past year, we have paid \$1.08B in claims out of \$1.35B received in premiums, demonstrating that even in the most challenging of times, members can access the care they need when they need it the most. Over the past five years we have returned \$5.03B in claims, out of \$5.82B received in premiums – which represents more than 86 per cent of premiums that go to paying claims.

This compares to a New Zealand industry average (excluding Southern Cross) of 65% of premiums returned in claims over the same period.

We are delighted to have recognition from our members that we are easy to engage with and to do business with, achieving a high monthly average Net Promoter Score (NPS) which means our members value the service we provide and would recommend us to others. Our result is well above industry standard, thanks to the work of our Southern Cross team who will continue to innovate and add even more value for our members.

Thank you to our Chair, Murray Jordan, for an outstanding first year leading our Board – I've very much valued his advice and insights.

I would like to thank my colleagues and our health providers who again this year have demonstrated strength, resilience, and commitment to helping each other and to serving our members. I am incredibly proud of our team and would like to offer my sincere thanks and appreciation to each and every one for their dedication to their roles throughout the last year.

And to every member, thank you for being with us. We are privileged to serve you.

Ngā mihi
Nick Astwick

Financial performance

Southern Cross Health Society Group⁸
(Group) has reported a surplus of

\$90.1million

- \$108 million is our operating surplus⁹, offset by a \$17 million loss on investments.
- \$80.4 million was generated by the Southern Cross Health Society, and \$1.8 million generated by Group subsidiaries (such as Southern Cross Pet Insurance). The remaining balance relates to intergroup transactions which eliminate on consolidation and the Group tax expense.
- To ensure we can fulfil expected claims in the coming financial years, we require a surplus relative to the size of our premium income. This is largely down to increased solvency requirements as our membership grows. Based on current membership levels, our target to meet this requirement is a surplus of approximately 2-3% of premium earned each year.

Group Reserves (net assets)

\$613.8million

Our strong performance this year helped bolster the Group's reserves, reporting a total Group net assets (assets less liabilities) figure of **\$613.8 million**. This result, along with our strong market position, not-for-profit ethos and strong brand presence has helped Society retain its **A+ S&P financial strength rating**.

⁸Southern Cross Health Society Group (Group) comprises Southern Cross Health Society and its subsidiaries..

⁹The operating surplus excludes tax and interest expense, which total \$1 million in FY22.

Our average surplus
over the last five years is

\$34.5million

This represents 2.9 per cent of premium
earned over the same period.

A+

Standard and Poor's
financial strength rating



We're with you - value for Health Society members



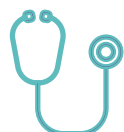
Three million claims in FY22, including:

256,461
surgical procedures, down 9.1%

520,021
specialist consultations,
down 4.0%

579,170
prescriptions, down 3.8%

631,739
GP visits, down 5.6%



Most common procedures by amount paid: (GST inclusive)

Hip replacement
\$50.0 million

Spinal fusion
\$35.6 million

Colonoscopy
\$47.4 million

Skin excisions
\$33.1 million

Knee replacement
\$46.6 million

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

- ▶ **3,426 Easy-Claim providers** (up 5.3% from last year) facilitated 749,041 purchase transactions, eliminating the need for members to claim back for health services.
- ▶ **433,137** members registered to use the **MySouthernCross** online service.

- ▶ **4,531,189** total logins to **MySouthernCross** (up 40%).
- ▶ More than **98% of claims** are now submitted electronically.

The numbers quoted above are for the Health Society only.

Keeping us with you for longer

As Aotearoa New Zealand's largest health insurer, we know the role affordable health insurance plays in empowering New Zealanders to live better, healthier lives, especially at a time when you're most likely to need it. As life or personal circumstances change, so too can your health insurance.

Southern Cross can support you as your needs change. By carrying out a needs assessment you can explore different plan options or look at making premiums more affordable by applying an excess. We encourage you to contact our [member services team](#) to discuss your options.

Here's the minimum you and your partner could save per year if one of our excess options is right for you:

WellbeingOne Excess	You: 66 year old Annual saving*	Partner: 64 year old Annual saving*	Total annual saving*
\$500	\$543.26	\$465.69	\$1,008.95
\$1,000	\$905.44	\$776.16	\$1,681.60
\$2,000	\$1,448.71	\$1,241.86	\$2,690.57
\$4,000	\$1,991.97	\$1,707.55	\$3,699.52

Please note that only the premium for your base Wellbeing One plan is affected by taking an excess and it doesn't apply to any modules you may have.*Savings are indicative and will be equal to or more than the values shown.



Added value for Health Society members

Our purpose is to empower our members to live well for longer, to actively support members to thrive with healthier years in their life.

The last two years have presented a raft of challenges for New Zealanders, with the impacts of Covid-19 far reaching and affecting many of us in ways beyond our physical health.

Findings from our [Healthy Futures and Workplace Wellness reports](#) revealed that many New Zealanders have been struggling, both financially and mentally, as the Covid-19 pandemic continued to disrupt our way of life.

With our purpose in mind, against a backdrop of sustained disruption due to Covid-19, Better '22 was launched to members in December 2021 with our partners ProCare and Raise, to help our members start 2022 in a better place.

Better '22 provided all members with free online doctor consultations via CareHQ, up to three mental health and wellbeing consultations with Raise, and, as the winter months approached, we expanded the offer to include free flu jabs via our partner MedPro.

9,557

Total **Raise** bookings
1 Dec – 30 June 2022

31,901

Total **MedPro** vouchers ordered
between April – May 2022
(across 21,275 policies)

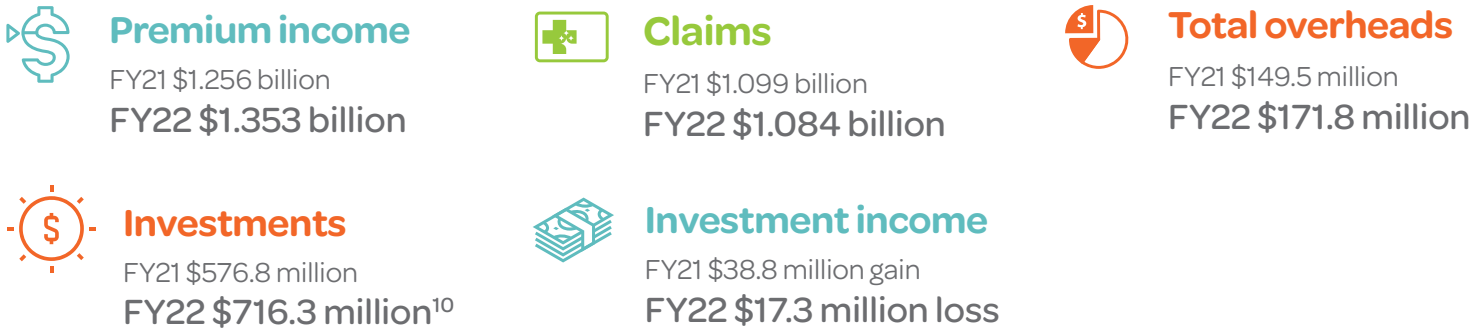
careHQ

Southern Cross Health Insurance, with joint venture partner ProCare, launched virtual health service CareHQ in November 2020

10,020

Last year CareHQ delivered **10,020 consultations**, including **7,800** to **Southern Cross members**

Summary of financial position for Health Society



Market conditions have significantly reduced the returns on global equities and bonds. Despite the loss this year, our average investment income over the past five years is \$15.6 million.

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.

¹⁰This includes investments in subsidiaries such as Southern Cross Pet Insurance.

How much does it cost? Here are some common procedures we fund¹¹

Adults

Skin cancer removal: \$300 - \$2,200	Hip replacement: \$23,800 - \$28,600	Colonoscopy: (with or without associated procedure): \$1,900 - \$3,300
Prostate cancer surgery: \$18,100 - \$26,800	Varicose veins: \$4,900 - \$8,100	Heart valve replacement surgery: \$63,200 - \$80,400
Knee replacement: \$24,700 - \$30,100	Breast cancer surgery: \$7,100 - \$20,800	Endometriosis surgery: \$9,400 - \$23,000

Children

Grommet surgery: \$2,200 - \$2,800	Squint correction: \$5,000 - \$8,300
Tonsil removal: \$4,500 - \$6,500	

¹¹ The procedure costs quoted above relate to the Health Society only. Costs are GST inclusive, indicative and sourced from 2021-2022 claims data.



With our people and communities

Southern Cross Health Society is proud to be part of the Southern Cross group¹², which is made up of various legal entities united by a common brand and a not-for-profit ethos.

Being a responsible and community-minded business is at the core of what we do and what we stand for. We strive to actively promote health and wellness, equality, and diversity and inclusion. We care for our planet by actively contributing to a sustainable future, and we partner with others to achieve the greatest positive impact on Aotearoa New Zealand.

This year we were ranked by S&P Global* as one of the best insurers in the Asia Pacific region when it comes to its ESG credit rating analysis. The report highlighted the Health Society's not-for-profit status, contribution to making healthcare more affordable and accessible, and high health insurance industry pay-out ratio as positive factors. We are proud to be a Toitū 'carbonreduce' certified organisation in line with ISO 14064-1 and have set a target to reduce or carbon emissions by 30 per cent by 2026 (against 2019 as the baseline) and have a programme of initiatives in place aimed at achieving this target.

When it comes to diversity, representation, and inclusion, we have had a Diversity and Inclusion (D&I) strategy in place for five years, powered by a D&I Forum of 43 members and have had the Rainbow

Tick for five years. The Forum's vision is to create an accountable and inclusive workplace where everyone belongs. We continue to develop our inclusivity commitments, including our focus on te ao Māori through on-site language classes, tikanga Māori resources for meetings, and cultural competency training. Part of how we embed diversity, equity, and inclusion metrics is by using engagement surveys, additional employee information fields, and regular gatherings; allowing us to better understand how we are tracking and serving our community at work.

Southern Cross group's [Community Impact Report](#) highlights all the work the group undertakes to contribute to Aotearoa New Zealand communities including the Southern Cross Healthcare-funded social responsibility initiative, Pause Breathe Smile, a hugely successful mental resilience programme for primary and intermediate age tamariki. In partnership with the PBS Charitable Trust and the Mental Health Foundation, the vision for the programme is to equip every child in Aotearoa New Zealand with the tools to achieve positive mind health. To date, Pause Breathe Smile has reached more than 89,000 children, 6,500 educators and 323 schools¹³

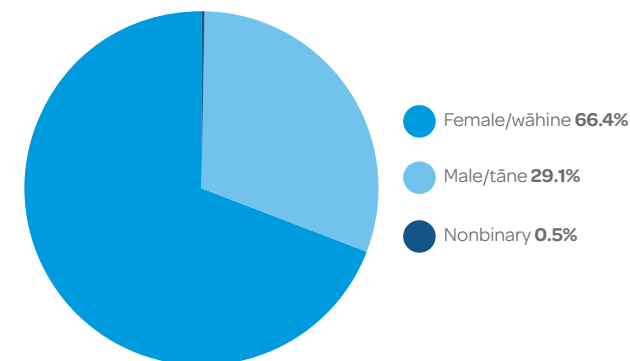
**S&P Global is a trusted source of information for the international business community. Its "ratings analysis" assesses the potential direction of a long-term credit rating.*

¹² The 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.

¹³ Premiums for members/customers of the Health Society Group are not impacted by the sponsorship initiatives of Southern Cross Healthcare.

¹⁴ SCHS Employee Engagement Survey, December 2021 – June 2022.

Our team

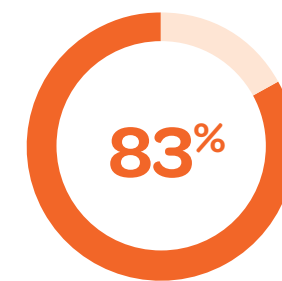


We have recently started capturing diversity and inclusion information, the data collected so far tells us that we have employees across 63 ethnicities.

We have an overall gender split of **66.4% female/wāhine, 29.1% male/tāne** and **0.5% nonbinary**. This distribution is shown across all levels within the business with 71% of our executive team, 55% of our senior leaders, and 69% of our people leaders female.



of staff enabled to work remotely



employee engagement¹⁴



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 908,176 members and, through subsidiary entities, providing life insurance, travel 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. 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 seeks to ensure that its corporate governance principles, policies, and practices are consistent with the corporate governance principles embodied in the Financial Markets Authority – Corporate Governance in New Zealand Principles and Guidelines 2019 (FMA Guidelines).

The Society reports 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/society

Our Board



Murray Jordan

(MProp) – Chair

Murray joined the Health Society and Southern Cross Health Trust (and subsidiary) Boards in 2019 and was elected Chair in December 2021. 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, Stevenson Group, Metlifecare, and the Starship Foundation.



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. 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, 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.



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 the Perioperative Directorate at Te Toka Tumai Auckland.



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 Aotearoa 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 The Warehouse Group, and a member of the NZ Rugby Appointments and Remuneration Committee.



Chris Black
(CA, DIP. ACC, B. SURV)

Chris Black joined the Society Board in 2021 and the Trust Board in 2022. He was Chief Executive of member-based FMG between 2008 and 2021 and was an independent director of FMG prior to this. Chris has a wealth of experience in financial services, with particular expertise in corporate strategy, customer service, joint ventures, financial and risk management, and organisational change and development. Chris has been a member of the Insurance Council of NZ (ICNZ), including a three-year appointment as the ICNZ President, and was a Commissioner of the Insurance & Financial Services Ombudsman (IFSO) Scheme and board member of BNZ Life Insurance. He also served as a board member of the International Co-operative & Mutual Insurance Federation for eight years, including as vice-chair between 2019 and 2021.



David Bridgman
(MCom, LLB, MINSTD, ACA)

David Bridgman joined the Society Board in 2021 and the Trust Board in 2022. He is an experienced advisor in corporate finance and restructuring. David retired from PwC at the end of 2020 after 22 years as a partner. He has worked extensively with many of Aotearoa New Zealand's leading cooperatives and mutual organisations and currently chairs several private companies and provides corporate finance and strategic advisory services on his own account. David is a Chartered Accountant and a Member of the Institute of Directors.



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.

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