



Annual General Meeting

Minutes of the CS Healthcare Annual General Meeting held on Friday 10th July 2009 at The Royal Hospital Chelsea, London.

Introduction

The Chairman, Michael Legge, welcomed members to the AGM. He noted that the agenda was contained in the booklet circulated previously. He proposed that, following his introductory statement and the Chief Executive's business review and comments on the 2008 Report and Accounts, there should be a question and answer session. As usual he would be grateful if members would not use this session to raise issues over individual claims, unless to illustrate a more general policy point. There would be an opportunity to take up such issues with members of staff over tea after the conclusion of formal business.

The Chairman then gave an overview of the last year. Inevitably business had been dominated by the poor economic environment and this continued to be the case. However, as indicated in his report for 2008, so far the Society had weathered the situation remarkably well. There were three main issues of potential concern.

Firstly, in terms of the Society's financial reserves, decisions taken over the last three years, initially to move progressively out of equities and subsequently out of bonds into low risk cash equivalents, had been shown to be very prudent. As a consequence the Society's financial position remained very sound. Particular credit should be given to the Finance & Investment Committee, chaired by Bill Billington. The balance of investment would be kept under careful review with the Society's investment advisers but the Board had directed that the policy should continue to be low risk. Despite current low interest rates, it had so far been possible to maintain a 3% annual increase in the rebate paid to former funded scheme members.

A second concern was the recruitment of new members. This had been the main challenge for the Society in recent years and might have been expected to get worse in the difficult economic climate. However, in fact 2008 had been a good year and 2009 was turning out so far to be even better. This was partly because of a substantial investment in marketing but also because financial pressures on individuals were generating "switch business" as people transferred to the Society to obtain better value for money. He would leave it to the Chief Executive to report on the detailed position.

However, without anticipating the Chief Executive's remarks, the Chairman said he would like to follow up his report to last year's AGM on the work of the Strategy Steering Group. Much effort was being devoted to developing strategic partnerships and a great deal of progress had been made. He was pleased to report that the Society had now reached agreement in principle on a major new initiative with Civil Service Motoring Association, details of which would be announced in the Autumn. The Society was also in an advanced stage of negotiations with a major Government Department over a "flex scheme" which involved offering staff a range of benefits from which they could select options up to a set financial limit. Private Medical Insurance (PMI) was one such benefit, and this would be provided by the Society. This could be a template for similar schemes with other Departments. Several smaller partnership arrangements have been agreed and others were being pursued, although negotiations tended to take a long time.

The third area of concern was the most serious: the loss of existing members. The Society still maintained a very good retention rate – most members stayed for life – which reflected the excellent service and value for money which it provided. Nevertheless, there had been a worrying increase in the number of members resigning because they felt they could no longer afford PMI.

This was despite the fact that over the recent past the Society's premium increases had generally been well below market average and premium rates compared favourably with any of its competitors. The Board would continue to strive to keep premiums down, and lower cost options were available, which offered members an alternative to dropping PMI altogether. But the key challenge remained the need to recruit new, younger members to provide a better age balance in the membership.

Finally the Chairman said he wished to refer to Board membership. After some years of stability, there would be some considerable changes over the next couple of years. Jonathan Green was retiring at this meeting and three other Board members who have passed the 9 years now recommended as the maximum term for Non-executive Directors (NEDs) were expected to leave over the next 12 months. His own nine years as Chairman would be reached at the end of next year. It was therefore necessary to plan for replacements. A very well qualified successor for Jonathan Green had been identified who would be able to join Board towards the end of the year. But he had also recently failed to recruit another very suitable candidate because of the very low level of remuneration offered to NEDs. He felt he needed to raise this issue at the AGM.

Current Board remuneration levels were last revised in 2006 and appeared in the annual accounts. The Chairman was paid £10,000; Committee chairmen £5,000, and other NEDs £3,000. The Board had decided last December that, in light of economic climate, it was not the right time for increases. However, guidance had been sought from the independent consultants who advised the Society on staff pay on current rates for Non-executive Directors in comparable organisations. They had reported that in similar not for profit organisations the average remuneration for the Chairman was £46,000 and for NEDs £23,000. Current rates for NEDs in one major Government Department were £775 a day subject to a maximum of about £20,000 a year. 10 years or more ago, the Society's NEDs did not receive remuneration. However, not only were responsibilities now much more demanding in terms of time required, but in addition NEDs carried legal responsibilities under FSA regulation. The Chairman said that, while he would not suggest the Society needed to pay the full "going rate", he believed that in order to continue to maintain a high quality Board the present levels of remuneration would have to be significantly increased. The AGM was an opportunity for members to express their views on this.

The Chairman concluded by paying tribute not only to his fellow Board members for the time and effort they devoted to running the Society on members' behalf but also to all the staff at Kingston for maintaining the outstanding quality of service which was at the heart of the continuing success of the Society.

2008 Society Review

The Chief Executive & Secretary, David Royle, gave a summary of CS Healthcare activities and results for 2008.

Financial performance for 2008 was slightly below 2007. Income levels were roughly on a par with 2007 at £19.3M, but claims ended the year 3.8% higher at £16.3M, and hence the underwriting surplus was reduced by some £600K. There was a 7% increase in expenses to £3.1M, so a small operating deficit of £61K was generated, compared with a surplus of £846K in 2007.

In fact this was a better position than had been budgeted for, as a conscious decision had been made by the Board to increase investment in a number of areas during 2008. The most important of these was Marketing & Distribution: in an effort to improve the recruitment of new members additional staff had been recruited, and there had been a significant increase in advertising and promotional activity. Additional resources had also been devoted to maintaining high quality service, compliance and I.T. and a policy of price moderation had been followed.

In 2008 it had been possible to limit premium rate increases to a very modest 2% for Standard & Premium and 5% for Your Choice. However, an increase in claims during 2008 had led to higher increases in 2009.

Investment income was significantly down at £188K as a result of low interest rates but overall it had contributed to a small total surplus for the year of £127K. The Society's General Fund now

stood at some £10.3M, and a further 'Rebate Fund' of £23.8M remained to pay rebates to ex-funded scheme members.

In reviewing activity in 2008, the Chief Executive said that the modular Your Choice product had been well received both by individual potential members and also by the broker market. Although the focus remained on recruiting individual members, the Society was also now considering affinity, small group and flexible benefit schemes which would provide a larger target market. The Society continued to focus on the civil/public service but in developing strategic partnerships and small group schemes the Board used its discretion as allowed for in the rules to permit some non-public service members, although this was done on a very selective basis.

In terms of recruitment, the Chief Executive said that the numbers of new members joining between January and June 2009 were nearly double the totals for the same period in 2008 (254 in 2008 and 499 in 2009). This performance continued the trend from 2008; however while the number of new members had grown by the end of the year to 611 (59% up from the previous year) the net number of members still fell as there had been 768 member losses during the year. In looking at explanations given by members for resigning, 'can no longer afford' was now one of the main factors, with 134 members giving this as the reason. On the other hand only 7 losses were due to switching to another insurer, which was encouraging.

There had been a growth in the average claims size, from £1,522 in 2007 to £1,659 in 2008 but a fall in the number of claims. Claims incidence (proportion of members claiming) had remained almost unchanged at 42% in 2008 compared with 41% in 2007.

The Board had decided not to pursue the idea of a 'No Claims Discount' for members as they felt that health insurance was different in character to other types of insurance. It might discourage members from seeking treatment if they were concerned they would lose their discount and also members would face large premium increases in the year following a claim.

Other key issues for 2008 included:

- The commitment to maintain high quality claims and membership service
- Action embedding 'Treating Customers Fairly' into the Society's business including involvement of the Board. TCF is now a requirement by the FSA
- Development of marketing activity based on price/value aimed at both new members and switches
- A growth in staff numbers from 33 to 39 at end of 2008
- Continuing changes in the medical insurance and NHS markets with new technologies and drugs emerging

The Chief Executive said that the Society's performance in 2008 could be summarized by:

- Relatively strong financial performance
- Static premium income at about £19.5M, with claims costs increasing slightly by 4%
- Moderate premium increases although a rise in claims costs in late 2008 led to higher rises in early 2009
- Increased investment for the future
- Asset base remaining strong at about £10M in addition to the Rebate Fund
- Strong new member growth but a concerning increase in loss of existing members

Q&A Session

A member asked if there were particular sources from which the new members were coming or whether it was random. The Chairman said that while recruitment was from a wide variety of sources certain trends could be identified. Recommendations by existing members remained important but on-line recruitment through the Society's website was now a major source; brokers were of increasing importance as were partnership arrangements.

A member asked whether any of the members who had left the Society due to 'no longer can afford', were older or newer members or a mix of both. The Chairman said it was mainly older members but the reasons for losses were often difficult to establish – many of those resigning declined to give an explanation and deaths of members were not always reported to the Society.

A member asked whether members stopped having medical insurance when they get older. The Chairman said that some older members did resign, for example if they moved into residential care, but the majority stayed members throughout their lives. Death remained the main reason for membership loss. The Chief Executive added that whenever members informed the Society that they intended to resign, their attention was drawn to lower cost options to try to encourage them to stay.

A member praised the Society for the excellent standard of service he had received. He asked why Standard and Premium member figures had not been included within the 'New Members' chart. The Chief Executive explained that almost all new members entered Your Choice. The Standard and Premium schemes were closed to new business although a very small number of new members still entered as a result of splits in existing policies, for example children becoming members in their own right.

A member said that after 40 years of paying for PMI he did not feel guilty about using it for some treatment. He suggested that the Society could encourage members to use the NHS for treatment when it could be provided quickly and effectively. The Chairman said that it obviously saved the Society money if members chose to use the NHS and this was welcome, but if they had paid for insurance they were clearly entitled to use it if they wished. The Head of Medical & Provider Services, Joanne Lumb, added that the Managed Care Team specialized in advising members when it might be appropriate to use the NHS in conjunction with their medical insurance.

A member asked what the situation was with respect to NHS 'top up' drugs Mrs Lumb said the Society did pay for such drugs but only for chemotherapy and other cancer therapy.

A member congratulated the Finance Committee on their work in protecting investment funds and asked whether the rebate fund was kept separate from the general reserves. The Chairman said that the rebate fund had been ring-fenced to be paid back to members of the former funded schemes. It was being drawn down by approximately £3 ½ - £4M per year.

Adoption of Resolutions

The following resolutions were considered:

1. To agree the minutes of the meeting held on 11 July 2008
The minutes were agreed
2. To adopt the audited Annual Report and Accounts of the Society for the year ended 31 December 2008
The Annual Report and Accounts for 2008 were agreed.
3. To re-appoint Moore Stephens as auditors, and to authorize the Board to fix their remuneration
The re-appointment of Moore Stephens was approved.
- 4&5. To accept the retirement from the Board of Robin Martin and Alan Shannon and approve their re-election
Robin Martin and Alan Shannon were re-elected to the Board.
6. To accept the retirement from the Board of Jonathan Green
The Chairman said he was sure the members of the Society would wish him to express their appreciation to Jonathan Green for his major contribution during 11 years service on the Board, including as a member of the Strategy Review Group and the Finance & Investment Committee, and to wish him well in the future. The resolution was approved by acclamation.
7. Resolution 7 was withdrawn. The Chairman explained that following a recent Rule change Keith Walton did not need to stand for re-election at this AGM as he was only 2 years into his current 3 year term.

The Chairman thanked members for attending and invited them to join the Society's Board and staff members for tea, which would provide the opportunity to raise any further matters on a more informal basis.