

5 April 2017

The Manager
Company Announcements
Australia Securities Exchange Limited
Level 4, Bridge Street
SYDNEY NSW 2000

Presentation to Morgan Stanley 2017 Australian Healthcare and Private Health Insurance Forum – April 2017

Attached presentation delivered by nib at the Morgan Stanley 2017 Australian Healthcare and Private Health Insurance Forum (5 April 2017).

Yours sincerely



Michelle McPherson
Company Secretary/Chief Financial Officer



Morgan Stanley Private Health Insurance Forum 2017

Wednesday 5 April 2017





Rhod McKensey

Group Executive, Australian Residents Health Insurance

Agenda



1. PHI Industry – status and recent trends
2. What nib is seeing and doing

Claims inflation has slowed in recent times

- Recent trends indicate claims inflation may have “bottomed” with reversion to more normal trends and seasonality expected for 2H17.
- FY17 full year drawing rate inflation (nib) expected to be in the order of 2% – 4%.

**Overall benefits (hospital & ancillary)
per person inflation**



**Hospital benefits per person inflation
(industry)**



**Ancillary benefits per person inflation
(industry)**



Source: nib and APRA

Industry Outlook



- Market conditions for arhi* to remain “soft” with affordability a key consumer concern. PHI participation rates likely to remain steady. Medium to longer term growth prospects favourable.
- Increasing healthcare spending reflecting a combination of price inflation and utilisation growth. Annual claims inflation per capita to be in the 4-5% range subject to the success of efforts to improve system efficiency.
- Rising healthcare spending and an increasing ratio of taxpayers to retired (often high cost) Australians means on balance, any policy or regulatory change needs to encourage PHI participation. Some real prospects to improve system efficiency such as further prosthetic pricing, risk equalisation and community rating reforms. New Minister Hunt seems very determined to improve system efficiency and we will continue to prosecute for change.
- An expanded role for PHI in the healthcare system if healthcare homes concept is to be successful. There is and will be rising consumer demand for PHI to add more value.

* arhi - Australian Residents Health Insurance

Potential regulatory reform

Expect PHI reforms and potential regulatory changes to be a net positive



- Redefinition of minimum cover and introduction of Gold/Silver/Bronze.
- Removal of second tier default benefits.
- Further reductions to prostheses prices.
- Private patients in public hospitals.
- Improved value for rural consumers.
- Deregulation of premium setting.
- Federation White Paper Option 2.

Push to cut costs of medical devices

EXCLUSIVE

SEAN PARNELL

Health Minister Greg Hunt has called for fresh data on the cost of medical prostheses in public hospitals, signifying that the federal government will consider additional measures to reduce the price of similar devices in the

committee to recommend further reforms mid-year.

In a letter to authority chairman Shane Solomon, the minister said "there is more to be done in the area of medical devices" and asked for more information, including whether stakeholders in the industry could be compelled to provide such data.

"The public system has no set price for medical devices and greater competition around purchasing from private companies which is then passed on through premiums, can pay twice as much for a device than someone

health insurance for Australian families."

The Senate committee has received submissions from key areas, including insurers lobby Private Healthcare Australia and prostheses industry body Medical Technology Association of Australia.

In its submission, Private Healthcare Australia, the major funder of devices used in private hospitals, argued the list played an important role in the past but had since become "a disaster for the Australian consumer". "It prevents new entrants into the field, fails to encourage medical device innovation and is the reason that Australians with private health insurance pay substantially more for a medical device than someone

Health funds' hit list to save members \$1.5bn

SARAH-JANE TASKER
HEALTHCARE

The private health insurance sector's peak body has outlined measures in its pre-budget submission that it says could save health fund members \$1.5 billion each year.

Private Healthcare Australia told the government that while it understood the climate was not right for sweeping fundamental reform of the health system, there was scope to address the sustainability of healthcare through a range of actions.

creased competition and transparency," she submission states.

Rachel David, head of the independent body, said: "I think the government's ministerial advisory committee on private healthcare was already looking at some of the issues raised in the budget submission."

"We would like to move to a system where funds can increase or decrease at different times of the year in response to different signals," said David.

Private Healthcare Australia also raised concerns about legislation that prevented insurers from covering medical services that were provided out-of-hospital and covered by Medicare.

The body called on the government to review the legislation with

million annually. This would potentially drive premiums up a further 2.8 per cent," the submission said.

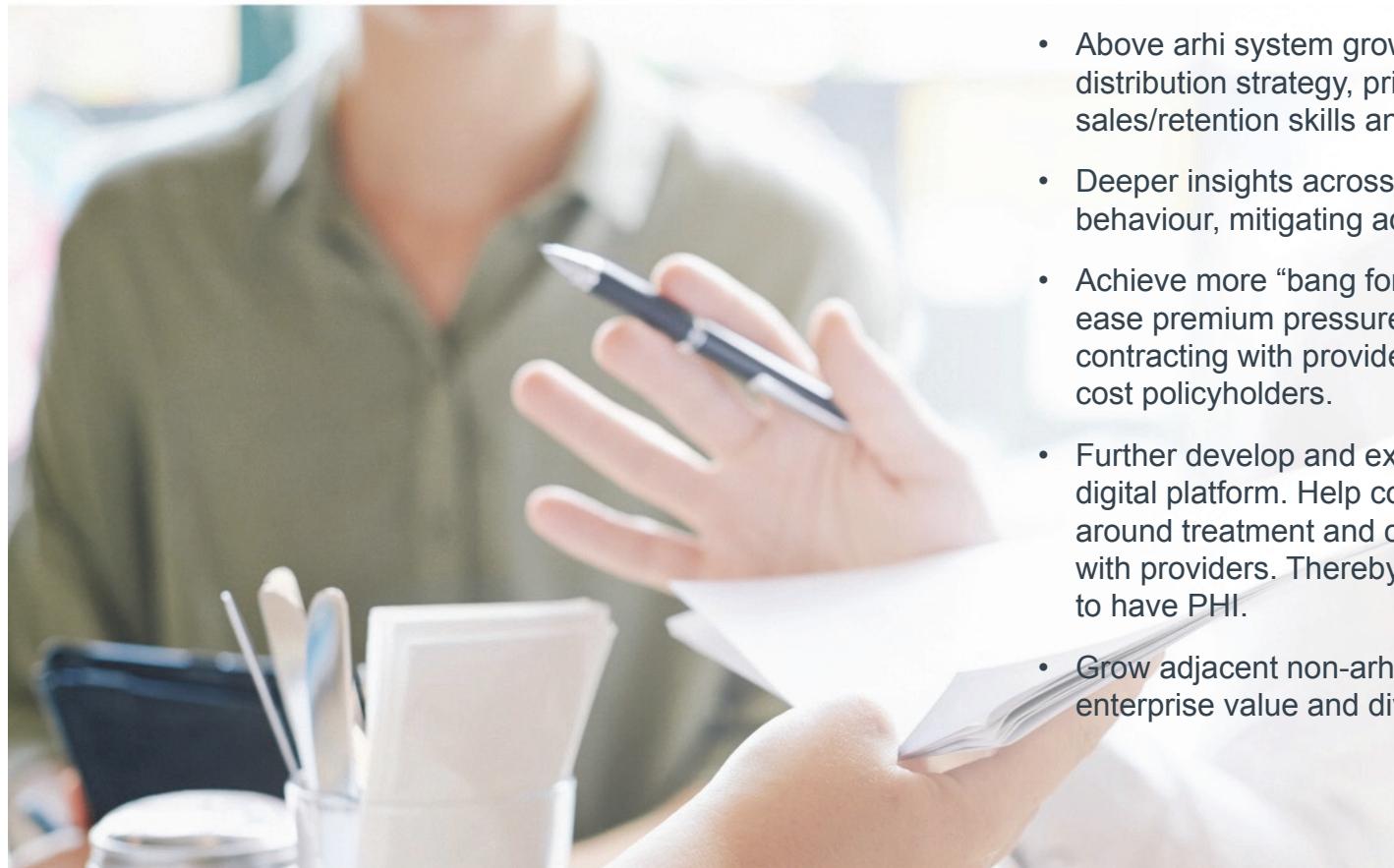
Reforming the annual premium increase process was another key recommendation, with the submission calling for an independent statutory authority to monitor premium changes by assessing health funds' adherence to a set of guidelines.

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Our focus



- Above arhi system growth (target 4-5% pa) through distribution strategy, price competitiveness, improved sales/retention skills and world class customer service.
- Deeper insights across the Group into consumer behaviour, mitigating adverse selection and retention.
- Achieve more “bang for buck” for policyholders and ease premium pressures through more sophisticated contracting with providers and risk management of high cost policyholders.
- Further develop and extend penetration of Whitecoat digital platform. Help consumers make better decisions around treatment and choice of provider and transact with providers. Thereby give consumers another reason to have PHI.
- Grow adjacent non-arhi businesses to create further enterprise value and diversify earnings.

Multi-channel strategy

Continuing to expand our distribution reach



Prostheses cost variation

- Reforming medical device pricing could save \$800 million in annual expenditure. Prostheses benefits payments comprise 14% of total PHI reimbursements in Australia.
- There is significant variation in what private patients are charged compared to the public system as well as international benchmarks.

Device category	Device name	Prosthesis list (min benefit PHI)	Price negotiated by Public hospitals	Difference
Single chamber pacemaker	Lumax 740 DR-T DX	\$43,920	\$17,000	\$26,920
Dual chamber pacemaker	Lumax 740 DR-T	\$45,760	\$19,000	\$26,760
Implantable cardioverter defibrillator	Sprint Quattro Secure S	\$9,000	\$2,200	\$6,800

Source: WA Health website showing difference between Prostheses List minimum benefits and prices paid by public hospitals for a range of devices.

Variation by device compared to international benchmarks Pacemaker (Anthem RF PM3212)

Country	Price (A\$)
Australia (Prosthesis list)	\$13,520
Japan ¹	\$5,840
France ²	\$5,840

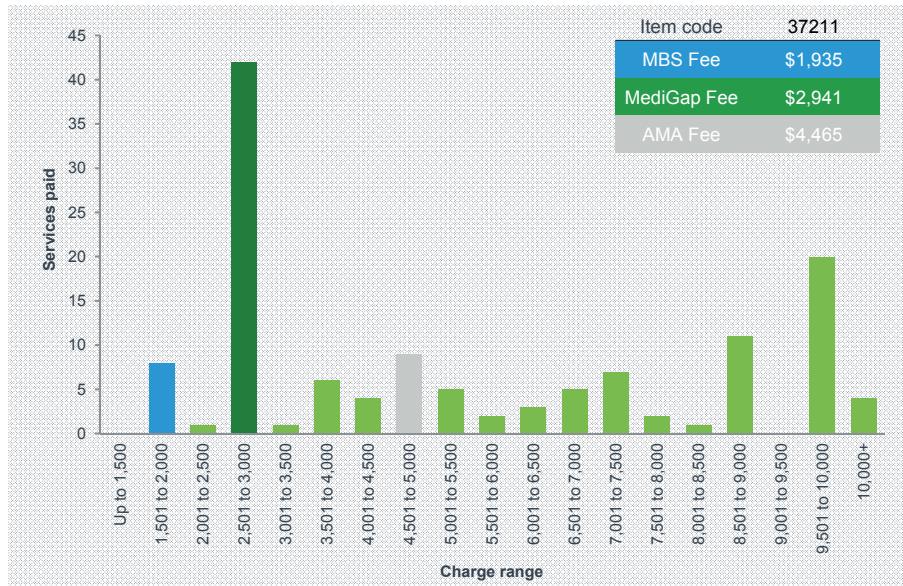
1. Source: direct comparison with items on Japanese Prostheses List.

2. Source: direct comparison with French Prostheses List

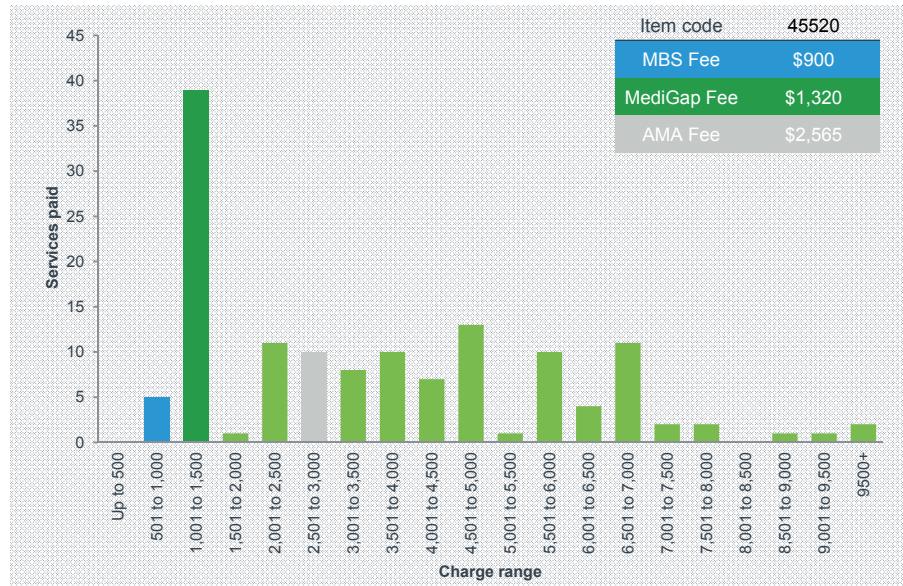


Medical specialist cost variation

Prostatectomies (CY16)



Breast reductions (CY16)



Source: nib

Variation in health outcomes is a world-wide problem

Outcome customer measurement and transparency is key to driving down variation.

Measuring outcomes of prostate cancer care

Focussing on mortality
alone

Germany

94.0%

Sweden

94.0%

Best in class: Martini Klinik

95.0%

5 year survival

Swedish data rough estimates from graphs; Source: National quality report for the year of diagnosis 2012 from the National Prostate Cancer Register (NPCR)
Sweden, Martini Klinik, BARMER GEK Report Krankenhaus 2012, Patient-reported outcomes (EORTC-PSM), 1 year after treatment, 2010

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5 year survival

... may obscure large differences in outcomes that matter most to patients

Germany

43.3%

Sweden

50.0%

Best in class: Martini Klinik

6.5%

1 year incontinence

Germany

75.5%

Sweden

80.0%

Best in class: Martini Klinik

34.7%

1 year severe erectile dysfunction



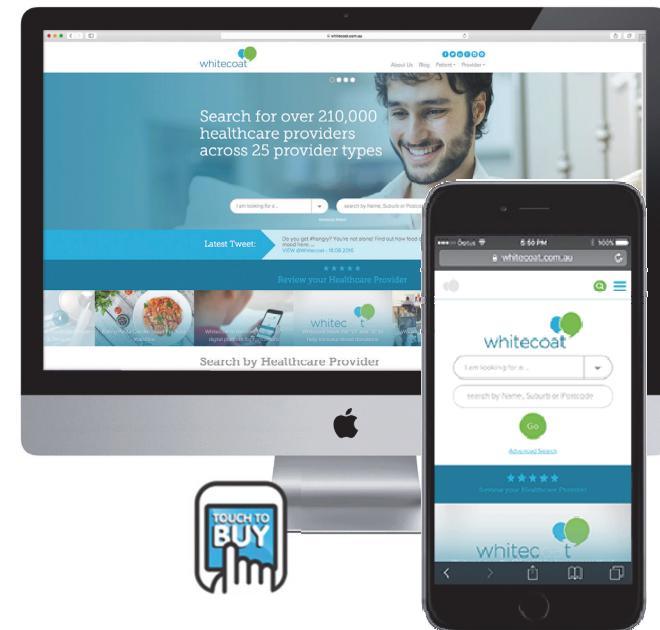
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Whitecoat

Tackling information asymmetry



- Whitecoat currently reaches 250,000 providers (mostly allied) and 350,000 patient reviews.
- Rapidly expanding to include GPs and medical specialists.
- Entered agreement with BUPA and HBF to join platform.
- Allows insurer/payer to host “customer only” portal for deeper engagement and insurer/payer specific information such as preferred clinical providers and “no gap” arrangements.
- When fully developed will also include accredited clinical performance information including self-reported patient outcomes.
- Additional near term opportunities to automate patient/provider transactions such as payments and prescriptions.

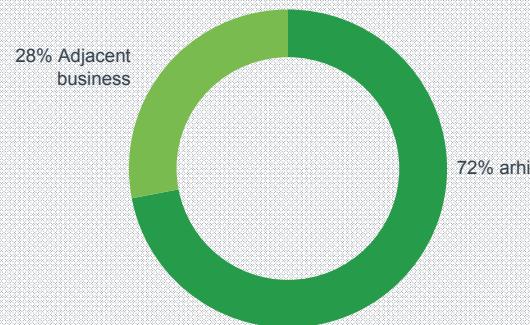


Diversifying our earnings

Adjacent non-arhi businesses

- Overall growth in adjacent non-arhi businesses (which includes international students and workers, nib New Zealand and World Nomads Group) creating further enterprise value and diversify earnings.
- Our adjacent businesses accounted for 28% of Group Underlying Operating Profit (UOP) in FY16 (FY15: 18%).

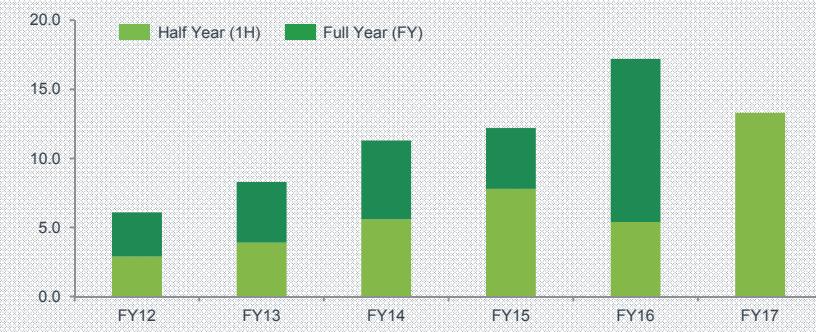
Group Underlying Operating Profit Contributions (FY16)



International inbound health insurance (iihi)

- A large contributor to our non-arhi earnings has been our iihi segment (international students and workers), with UOP up 146.3% in 1H17.
- Significant increase in revenue and earnings within this segment underpinned by ongoing growth and improved scale.
- Outlook is positive with strong customer growth, particularly within international students with current market conditions supporting ongoing strong margins.

iihi Underlying Operating Profit (\$m)





Thank you