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7 May 2020

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Letter to Shareholders: COVID-19 update

nib Group (ASX: NHF) attaches a copy of a Letter to Shareholders from nib Chairman, Mr Steve Crane in relation to COVID-19.

Yours sincerely,

Roslyn Toms
Company Secretary

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This announcement has been authorised for release by Roslyn Toms, Company Secretary.

Letter to Shareholders

COVID-19 UPDATE

7 May 2020

Dear shareholder

In late March I wrote to you with an assessment of COVID-19 and its possible implications for the company. We think in times of such great uncertainty and absent market guidance, we should as best we can, keep shareholders apprised of business developments.

We continue to closely monitor developments and model various scenarios to guide our decision making and planning. Although the social and economic outlooks are still extremely unclear, thankfully we are seeing some positive signs. We especially welcome the apparent decline in community infection rates and the National Cabinet's recent decision to relax restrictions upon elective surgery and dentistry.

Importantly, we remain very confident in our capacity to navigate the turmoil and our business fundamentals are strong. And while, like everybody, we regret the suffering and disruption caused by COVID-19, we do see increased opportunity for nib to accelerate our business strategy and play an expanded role in the health and wellbeing of the communities we serve.

In this note I briefly share our latest thoughts on a number of key issues.

Membership and premium revenue

As expected, sales are weak across our flagship Australian Residents Health Insurance (arhi) business and other business lines, with higher than normal levels of membership lapse and cover suspension.

April sales in arhi of 7,684 were 22% down on 2019. Lapse of almost 5,900 policies was 23% below last year, but excludes 5,114 policy suspensions, some of which may also eventually lapse.

Economy-wide conditions and constraints upon people accessing healthcare treatment no doubt are both having an impact although, at least this far, the impact on our membership is relatively minor.

To redress the COVID-19 threat for our members and the challenges for sales and retention we have several measures in place across the Group. In arhi we have for example:

- Postponed the general April 2020 premium increase by six months until October 2020.
- Actively offered premium relief or suspension of cover (while retaining cover for COVID-19 related treatment) for those in financial hardship.
- Extended product coverage at no additional costs to include COVID-19 related treatment on products that specifically exclude cover (including mental health).
- Extended cover to include telehealth consultations for a range of ancillary treatments including but not limited to, psychology, physiotherapy, podiatry and speech pathology.
- Offering frontline healthcare workers a $250 wellness rebate in recognition of their elevated risk exposure.

No doubt the gradual return of elective surgery and allied healthcare treatment such as dentistry will help maintain consumer confidence in private health insurance. In the fullness of time, we hope the loss of access to much hospital and other treatment will be remembered as short-lived.

There has been some recent media coverage about an effective loss of a large part of health insurance cover during COVID-19 because of a member's inability to access treatment. There have been assertions that savings in claims expense made by private health insurers should therefore be returned to members.

Without reservation we acknowledge the likely savings in claims expense and that there is a strong case for compensating members in some form. This includes the possibility of a cash refund.

However, the level of compensation can only be calculated and considered once we become more certain about expected savings. Our first and foremost obligation to members is to ensure we remain well capitalised and prudentially sound throughout and beyond the COVID-19 crisis. Shortly, I describe several factors that could yet undermine the favourable claims outlook and savings.

As I explained in my previous letter, we do not believe in "freezing" premiums as a form of compensation or remedy. Keeping underlying premium growth aligned with underlying claims inflation is already an enormous challenge and risk for private health insurers. Any freeze would compound the risk when claims return to normal levels of growth.

Claims savings

Savings as at the end of March 2020 were relatively modest compared to what we anticipate for April 2020 and the coming months.

Claims for ancillary cover (e.g. dental and optical), which account for approximately 30% of our outlays, are largely automated and paid in real time so savings become quickly apparent. Since the beginning of COVID-19 restrictions, ancillary claims expense has been about 40% of what we'd normally expect.

However, doctor and hospital claims, which account for the lion's share of outlays, typically take up to three months to be received and settled. As such, it's still early days in attempting to estimate these savings. We expect to be better placed to calculate savings in June 2020, as actual hospital treatment and claims experience across March, April and May 2020 become known.

Calculating savings is made all the more complex by three complicating factors.

First, there remains great uncertainty about the duration of the pandemic and the pace at which healthcare treatment and claims will return to "normal" levels. Present indications suggest treatment could return to normal levels much sooner than when we were predicting just a couple of weeks ago.

Second, post COVID-19 there will almost certainly be some surge or "catch up" in treatment and claims as doctors seek to meet the needs of their patients. This is extremely difficult to predict.

Third, there are additional claims costs associated with our enhanced member coverage for COVID-19 treatment, the quantum of which is yet to be seen.

Profitability

We are not in a position to provide guidance for FY20 and beyond given the ongoing uncertainty. However, what I've outlined hopefully provides some confidence about our near term outlook for the nib Group.

While the COVID-19 impact remains clouded for arhi and our New Zealand operations, we have more clarity about the likely performance of our international visitors (i.e. foreign students and workers) and travel insurance businesses in FY20. The former is feeling the effect of restrictions on foreign entry yet will remain profitable. The latter is encountering more difficult conditions and will be loss making in FY20.

As I previously reported, we expect investment income will also be well down on previous years.

The FY20 financial accounts will likely accommodate various provisions associated with COVID-19. For example, only last week, the Australian Securities and Investments Commission (ASIC) made it clear to private health insurers we should in the FY20 accounts be allowing for any additional liability associated with the possibility of a "catch up" however unpredictable that may be.

Community health and wellbeing

From the outset, we have viewed COVID-19 as a threat to the various communities in which we operate, and not just our members.

As such, nib is actively supporting or undertaking multiple initiatives across Australia, New Zealand and other locations towards combating the pandemic. Grants so far total $1.0 million (including a $500,000 donation to support Lifeline) with an emphasis upon mental health initiatives.

And last week, nib took delivery of 100,000 surgical masks courtesy of our joint venture in China with Tasly. The masks are being distributed at no cost to GPs, pharmacists and allied healthcare providers in the Hunter, New England and Central Coast regions.

We are also looking to actively support the community take-up of the Australian Government's new COVIDSafe app.

Capital position and dividends

In our interim FY20 financial results we reported $69.2 million in capital surplus to our own internal target. This position has strengthened over the course of COVID-19 but as I've highlighted, will be tempered by how we respond to key issues such as the possibility of member compensation, further disease risk mitigation and provisioning for claims catch-up, as well as by the performance of our investment assets.

The final dividend for FY20 will be considered in August 2020 as part of the FY20 results.

Business strategy

As I wrote in my last update to shareholders, nib is attempting quite an ambitious business transformation. We see our future as being as much about keeping our members and travellers healthy as it is about providing them with the ability to access and afford treatment.

It explains many initiatives, such as the large investment we've made in creating Honeysuckle Health in partnership with the USA-based Cigna Corporation. Honeysuckle Health's purpose is to ensure disease prevention, management and treatment is "personalised" and more precise.

The devastation of COVID-19 reinforces our business strategy and will add considerable momentum to our efforts.

Steve Crane
Chairman

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