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4 November 2021

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Letter to Shareholders

nib holdings limited (ASX: NHF) attaches a copy of a Letter to Shareholders from nib Chairman, David Gordon.

Yours sincerely,

Roslyn Toms
Company Secretary

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

letter to shareholders

4 November 2021

Dear shareholder

Last year during the peak of the pandemic, nib's then Chairman, Steve Crane, wrote twice to you with a COVID-19 update. Given the extreme uncertainty, Steve's letters were not intended to predict the future trajectory of this dreadful scourge and its implications for the nib Group. Rather, they were a genuine attempt to share as much information as we thought relevant and prudent for shareholders to make more informed judgements about the company's condition.

As your new Chairman, I write to you now with a similar intent and caveat. Although to everyone's relief the pandemic appears to be waning, there are many consequences still playing out for nib and our commercial outlook.

For example, sales and member retention will be likely affected, for good or bad, by macroeconomic conditions as will our investment income. Actual claims experience will be materially impacted by how much surgery and other treatment deferred throughout COVID-19 "catches up" and when. And no one can be sure just how long travel restrictions will continue to buffer important parts of the Group, such as international students and travel insurance.

Yet we are gradually returning to some level of "normality" with additional insight into possible future developments. Our current view has surgery and other allied treatments, such as dentistry, fully resuming in the near future and restrictions on international travel beginning to ease.

Nevertheless, with Commonwealth and State policy settings in flux, we still lack sufficient clarity to reinstate the kind of earnings guidance that we were able to predict in a pre-pandemic time. Instead, I have set out here some high-level business results for the first quarter of this financial year, July – September 2021 (1Q22). Although it's a far cry from an audited quarterly result, it hopefully provides some sense of business conditions and our prospects.

Business growth

Compared to the first quarter of the previous year (1Q21), Group premium income in 1Q22 grew by 8.5% to $669.5 million. This was in part due to the growth in our Australian Residents Health Insurance (arhi) business as well as the deferral of arhi premium increases in 1Q21.

In 1Q22 we grew arhi membership by over 3,800 policyholders or 0.6%. Although that's a modest start by our standards, we're on track to deliver net growth of around 3.0% for the full financial year.

nib's long history of above-industry growth is largely explained by constant innovation. In that respect nothing has changed. For example, this year we launched a new distribution partnership with ING (a leader in its marketplace), further developed our digital service capability and began experimenting with new product concepts such as our treatment package for pregnancy, nib Nurture. More are in the pipeline.

Results in 1Q22 were similarly good in New Zealand where we added over 1,600 members at a growth rate of 1.3%.

While our combined international students and workers business (iihi) lost around 1,300 members in 1Q22, it is holding up reasonably well under the circumstances with a remaining base of over 171,000 members at the quarter's end. The entire decline is attributable to international students, with the number of international workers growing despite obvious pandemic headwinds.

We expect our international students business to recover quickly once restrictions on travel are removed. That appears imminent. We hold a similar view for travel insurance. Although at the time of writing Australian sales are just 5% of the comparable period in FY20 (pre-pandemic), international sales are at about 27%. Typically, Australia versus the rest of world accounts for about 50% of sales. This highlights how the opening up of borders quickly builds momentum.

Claims experience

Lockdowns in their various forms and duration continue to limit elective surgery and allied healthcare treatment. This is having a temporary yet very material impact upon cash flows. In accordance with regulatory requirements, the industry as a whole is attempting to estimate and account for this postponement in activity through a provision known as the "deferred claims liability" or DCL.

At 30 June 2021, we calculated the DCL for the Group at $34.0 million although I must emphasise it is very much a best estimate. The Group DCL increased to $49.8 million at the end of 1Q22 ($46.2 million in arhi and $3.6 million in NZ) as lockdowns persisted.

As already mentioned, how much and how quickly postponed activity "catches up" remains very uncertain and recent lockdowns as well as restrictions on non-urgent elective surgery have added further complexity.

Looking for comparisons with 1Q21 as a guide is problematic because of the slightly different lockdown intensity associated with the COVID-19 Delta variant.

In order to appreciate the downturn, it is probably more useful to compare 1Q22 with two years ago (i.e. 1Q20). In our arhi business, the estimated combination of hospital claims, our risk equalisation obligation and ancillary claims in 1Q22 was $442.5 million including an additional $12.2 million for DCL provision for the quarter. This was 2.4% lower than in 1Q20 and 5.1% lower if the additional DCL provision is excluded.

Membership and community support

Our efforts in supporting members during the pandemic are well documented. For arhi, they include deferred premium increases, waived or suspended premiums and additional COVID-19 related coverage at no additional cost to members. Most recently, we announced a $15 million premium rebate in recognition of treatment members may not have been able to receive during FY21.

We anticipate further support and community health initiatives while ever the pandemic persists and our members have limited access to healthcare treatment. As explained in previous shareholder letters, we do not believe in "freezing" premiums as a form of compensation. Keeping underlying premium growth aligned with underlying claims inflation is already an enormous challenge for private health insurers. Any freeze would compound the risk for when claims return to normal levels of growth.

Our community support initiatives have been widespread, from the supply of facemasks during times of scarcity (particularly in remote communities and amongst frontline healthcare workers) through to $1.5 million in relevant community donations. Our support package to date totals $60 million in value.

Profitability

It is not appropriate to provide detailed profitability information given the uncertainty around lockdowns, likely future claims catch-up, possible further member support and the timing of changes to travel restrictions. Nevertheless, some general observations may be of assistance.

Underlying profitability is currently strong in arhi and ahead of target margins. New Zealand is also performing well. As already detailed, how profitability unfolds will depend upon the duration of lockdowns, surgical restrictions, the pace of "catch-up" of postponed healthcare treatment and the accuracy of our DCL. The DCL will be regularly assessed depending upon the level of further deferred treatment and "catch-up" as lockdowns recede. Under the circumstances, there is a possibility that the DCL will be maintained beyond December 2021.

Profitability remains weak in iihi and travel, however this should correct as market conditions improve. As we highlighted in the 2021 Annual Report, pre-pandemic in FY19 these businesses combined contributed $41.5 million in UOP. In FY21, they incurred losses of $19.5 million. This speaks of opportunity ahead.

Investment income in 1Q22 was $4.9 million which is reflective of general investment conditions. 80% of our investments are in "defensive" assets such as cash and bonds with the residual 20% in "growth assets" such as equities and property.

Business strategy

In pursuit of our mission of "your better health", our strategy gives disease prevention and management equal ranking with our near 70-year history of supporting members once they're already sick and injured. Across the nib Group we're investing determinedly in the "personalisation" of healthcare based upon individual risk profiling as well as the advanced technology needed to make it "real". For the benefit of shareholders, we will be providing an update on our strategy on 9 November 2021 with details to be posted on our shareholder website.

While in no way underplaying the misery and disruption COVID-19 has caused for so many, it is lending momentum to our strategy. The pandemic has made the power of data science in both predicting health risk and more precisely treating disease all the more crucial. It's been an impetus for additional investment in virtual and electronic healthcare delivery. It's also demanded increased digital engagement with our members, travellers and clinicians. As always, we look for opportunity in disruption.

Our strategy also has profound implications for our social licence. Beyond meeting our responsibilities to reduce greenhouse emissions, improve workplace diversity and practice the highest standards of corporate governance, we have our sights set on playing a more active role in improving community health outcomes. We're especially determined to play a meaningful role in redressing terrible gaps in care for indigenous peoples. Fulfilling our ESG responsibilities is good for the community and for our business.

Before concluding, I take this opportunity to acknowledge and farewell our long-serving Chairman, Steve Crane, who retired from the Board in July 2021. Steve made an extraordinary contribution to the company over the past decade. At the same time, I welcome Peter Harmer to the Board. Peter brings over 40 years' experience in the Australian and international insurance and financial sectors, and is already making a valuable contribution on the Board.

And, on behalf of the Board, I want to thank our CEO, Mark Fitzgibbon, and his entire team for their hard work, perseverance, intellect and compassion in steering and managing the business through such a difficult and unprecedented period. In addition to managing "business as usual" and all of the uncertainties and surprises that a global pandemic threw at our Company, they continued to drive innovation and growth and plan for nib's future, always with our stakeholders at the centre of every plan, decision and action. We are fortunate to have such a high quality team at nib and they are surely our most valuable asset.

There is no doubt that we are in challenging times but I want you, our shareholders, to know that we are continuing to grow our businesses and apply the same intellect and prudence to our decisions as we always have, while at the same time increasing the pace and breadth of innovation at nib.

I wish you continued safe and healthy times.

David Gordon
Chairman

Investor Relations

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