

19 June 2014

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

Subject: 2014 nib investor strategy briefing – 19 June 2014

Attached is nib's 2014 investor strategy briefing presentation. The 2014 strategy briefing is being held in Sydney for investors and analysts.

Within the presentation, nib has stated that latest forecast indicates that FY14 consolidated operating profit will be at the lower end of the previously published range of \$73 million to \$80 million.

The presentation also includes an update to nib's available capital position and internal capital targets. At 30 June 2014, the nib Group is forecast to have \$50 million to \$60 million in available capital above internal targets, with approximately \$40 million forecast to be available for distribution to shareholders either through a special dividend or a share buy back, with the balance being available for business investment opportunities (noting capacity to also use debt).

nib will announce its FY14 full year results on Monday 25 August 2014.

Yours sincerely



Michelle McPherson
Company Secretary/Chief Financial Officer

For further information contact

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2014 INVESTOR STRATEGY BRIEFING

19 JUNE 2014

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STRATEGIC UPDATE

Mark Fitzgibbon

Chief Executive Officer & Managing Director

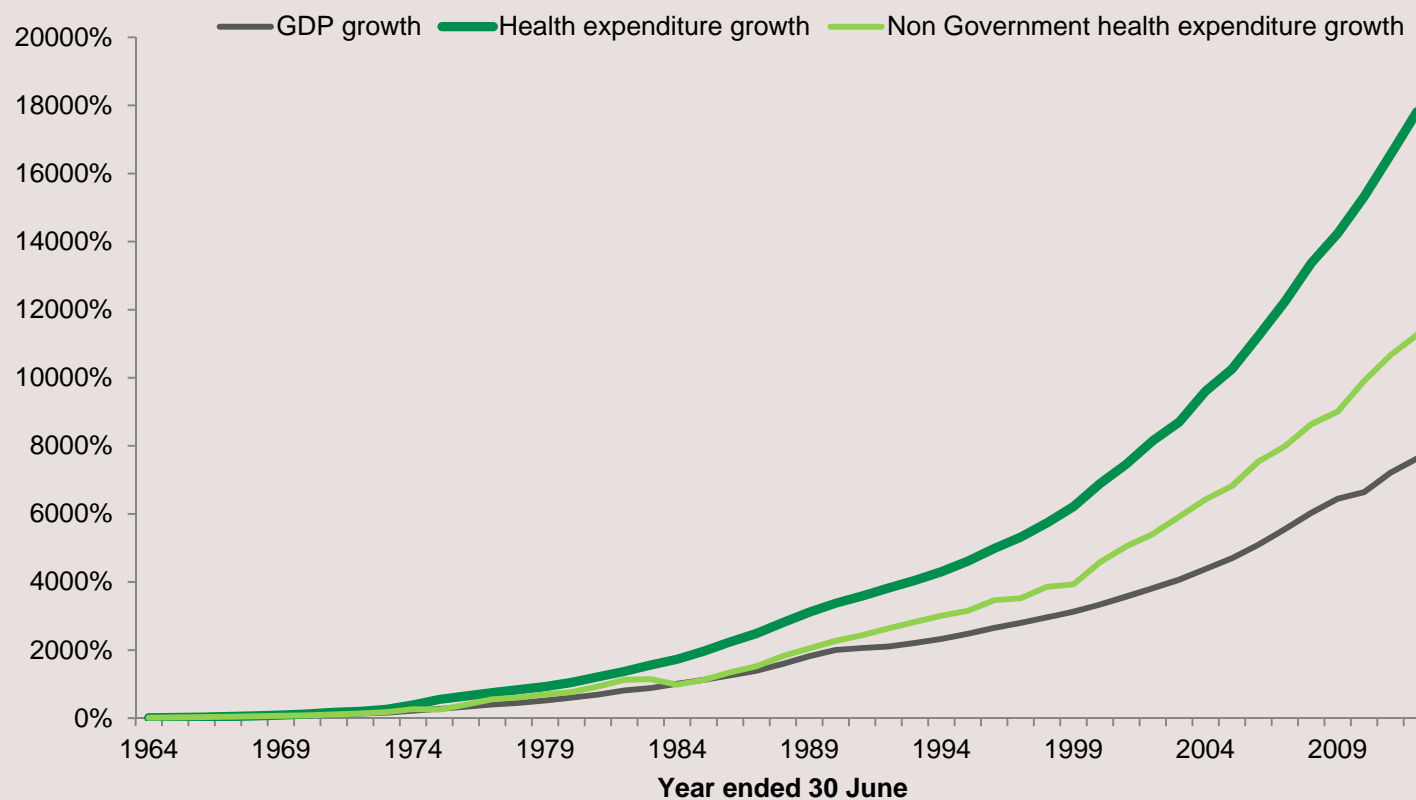
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TODAY'S AGENDA

Time	Topic	Presenter	Duration
9.00am	Welcome & strategic update	Mark Fitzgibbon CEO & Managing Director	30 mins (10 mins Q&A)
9.30am	Capital	Michelle McPherson CFO and Deputy CEO	30 mins (10 mins Q&A)
10.00am	Morning tea		15 mins
10.15am	Australian Residents Health Insurance (arhi)	Rhod McKensey Group Manager – arhi	1 hour (15 mins Q&A)
11.15am	Benefits & Provider Relations	Justin Vaughan Group Manager – Benefits & Provider Relations	1 hour (15 mins Q&A)
12.15pm	Lunch		30 mins
12.30pm	nib New Zealand	Rob Hennin CEO nib New Zealand	1 hour (15 mins Q&A)
1.30pm	International & New Business	Mark Fitzgibbon and Justin Vaughan	45 mins (10 mins Q&A)
2.15pm	Innovation & IT	Brendan Mills Chief Information Officer	30 mins (5 mins Q&A)
2.45pm	Close	Mark Fitzgibbon	5 mins

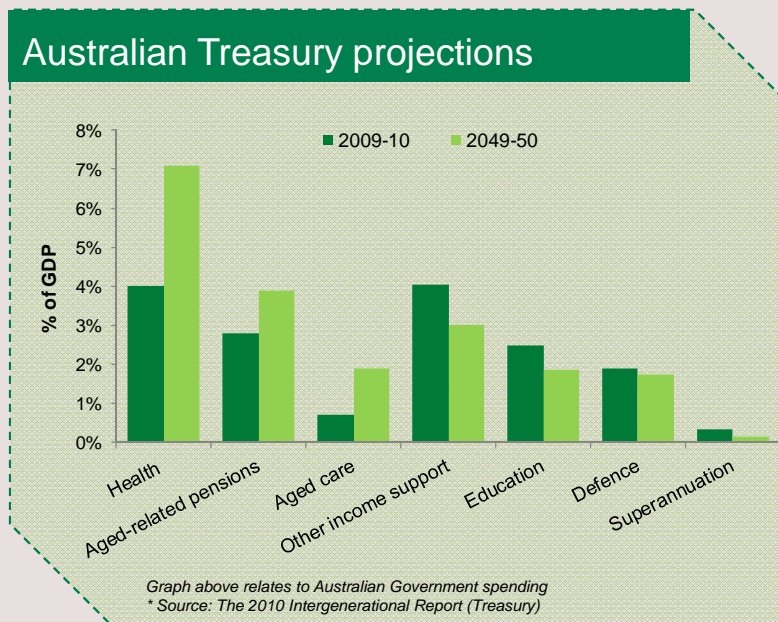
“THE JAWS OF DEATH”

Cumulative annual growth rates (from actual dollar expenditure)



INVESTMENT THESIS

1. We're spending more and more on our healthcare
2. Spending growth is probably sustainable but not Government's current relative share
3. The private sector and private funding will increasingly play an enhanced role



BUSINESS STRATEGY

1

Grow our Australian residents health insurance business (arhi) organically at circa 10% annual premium growth (4-5% policyholder growth) through building national brand presence and with an emphasis on <40 market (Virgin Green), >55 market (Virgin Silver), other tactical niche opportunities (Western Australia) and improved policyholder retention

2

Position and develop our new business in New Zealand as a challenger and grow the market and our market share

3

Grow our inbound international workers and students business and create a new “global cover” product for insuring outbound long stay Australians and New Zealanders

4

Build a new business “nib Options” to capture and commercialise burgeoning demand in Australia and Asia for medical travel especially cosmetic surgery

5

Ensure across the nib Group that the design, payment and management of benefits better meets our strategic and commercial objectives

6

Pursue increased customer satisfaction, productivity and efficiency through continual process improvement and ongoing investment in technology

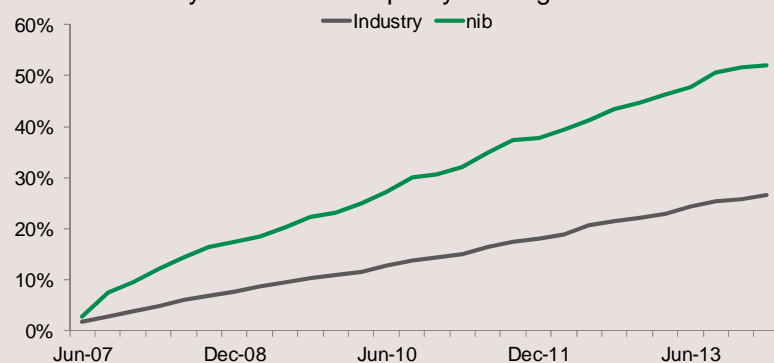
7

Actively develop a high performance organisational culture and the engagement of our people

SO FAR SO GOOD

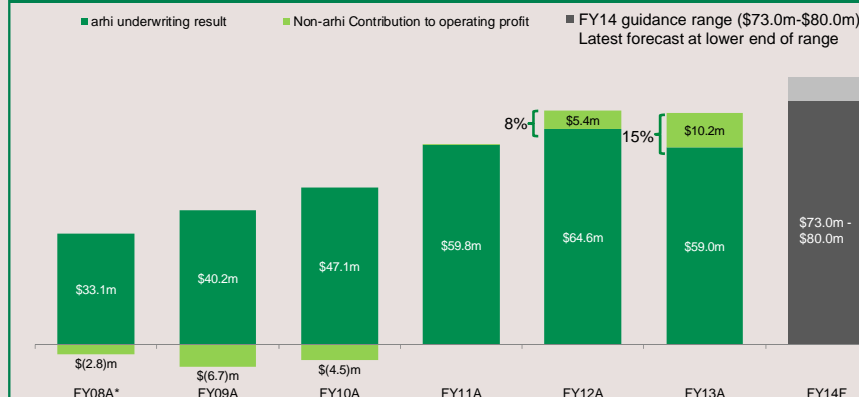
arhi policyholder growth

nib versus industry cumulative net policyholder growth



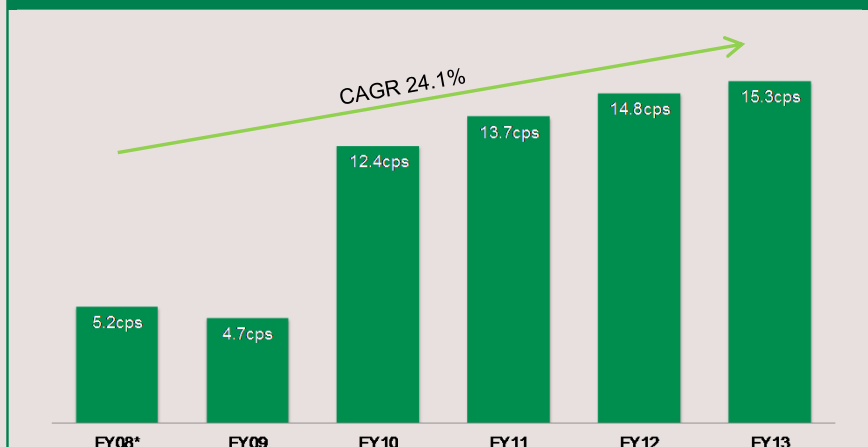
Source: nib/Private Health Insurance Administration Council
arhi: Australian Residents Health Insurance

Consolidated operating profit – split of earnings



arhi: Australian Residents Health Insurance

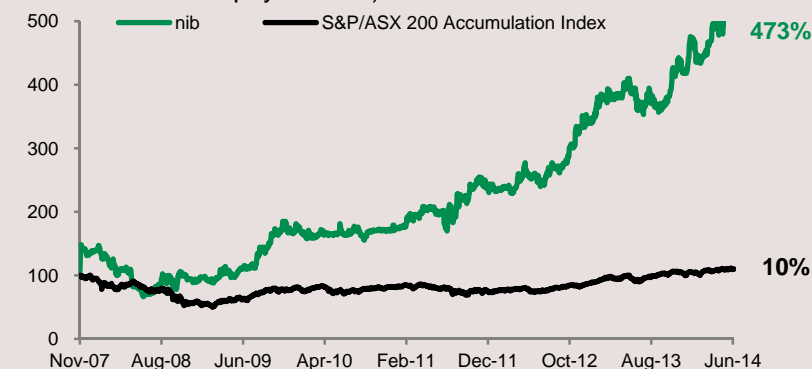
Earnings per share



* Includes demutualisation and listing costs

Total shareholder return

TSR rebased to 100 (assumes capital returns and dividends re-invested at the payout date)



FY14 GUIDANCE

- Latest forecast indicates that we will be at the lower end of the previously published range for consolidated operating profit of \$73 million to \$80 million

QUESTIONS

nib

CAPITAL


Michelle McPherson
Chief Financial Officer & Deputy CEO

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nib AVAILABLE CAPITAL

- As reported in 1H14 results the introduction of the new PHIAC capital standards has resulted in a new internal capital target for nib health funds limited and has seen an increase in nib holdings limited group (the Group) available capital
- A full review of all internal capital targets for the Group has been completed and the updated capital targets are set out on subsequent slides
- At 30 June 2014 the Group is forecast to have \$50m - \$60m in available capital above internal targets, with approximately \$40m forecast to be available for distribution to shareholders either through a special dividend or a share buy back, with the balance being available for business investment opportunities (noting capacity to also use debt)
- Available capital determined taking into consideration the following elements:

\$ million	Forecast at 30 June 2014
nib Group net assets	
Less: nib health fund capital required	
Less: nib nz limited capital required	
Less: nib nz holdings limited group intangibles	
Less: International workers intangibles	
Less: nib options intangibles	
Add: External borrowings	
Add/Less: Other assets and liabilities	
Less: Allowance for forecast final dividend	
Available capital before debt covenant	
Less: Reduction in available capital due to debt covenant	
Net available capital	\$50m - \$60m

nib INTERNAL CAPITAL TARGETS

The internal capital target at Group level is the greater of:

- the sum of the Australian and New Zealand regulated entities' internal capital targets, plus the liabilities for other group entities
- the capital required to meet the Group net tangible assets debt covenant, plus a \$5 million allowance for forecast variability (\$185 million includes the \$5 million variability allowance)

Both assessments are made looking forward 12 months, so that forecast capital equals the target in one month and exceeds the target in all other months

The available capital is the difference between the groups actual capital and the capital target, as defined above. It excludes capital able to be raised by increased borrowings.

nib health funds limited (Australian Regulated Entity)

- new internal target is 13.5% of total projected premiums for the next 12 months from any given date
- new internal target has been determined under the new PHIAC capital standards and represents the Board's risk appetite. The current determination by the Board is that nib should:
 - Maintain sufficient capital to meet minimum capital requirements under stressed conditions with a low probability of occurrence. Specifically the Board wishes to continue to meet regulatory capital requirements following a:
 - 1 in 50 underwriting loss event, and
 - a 1 in 150 investment return outcome, and
 - a write-off of half of the deferred acquisition cost asset

For the avoidance of doubt, the risk appetite is to continue to meet regulatory capital requirements in the event that each of the above events occur simultaneously.

nib INTERNAL CAPITAL TARGETS (CONT)

nib NZ limited (New Zealand Regulated Entity)

- New internal target is 175% of the minimum solvency capital (previous target) plus NZ\$10 million
- The overriding objective underpinning nib nz's capital management approach is to operate with a level of capital judged to be commercially prudent and within the bounds of nib's risk appetite which achieves a balance between:
 - maintaining a buffer above the RBNZ Minimum Solvency Requirement (MSR) for nib nz limited (as defined by the IPSA Solvency Standard for Non-life Insurance Business);
 - maintaining a level of capital that ensures an appropriate financial strength rating; and
 - avoiding holding an excessive level of capital, which would otherwise act to reduce returns on capital for nib holdings limited

nib GEARING TARGETS

Target gearing at the Group level set in order to achieve an optimal WACC is:

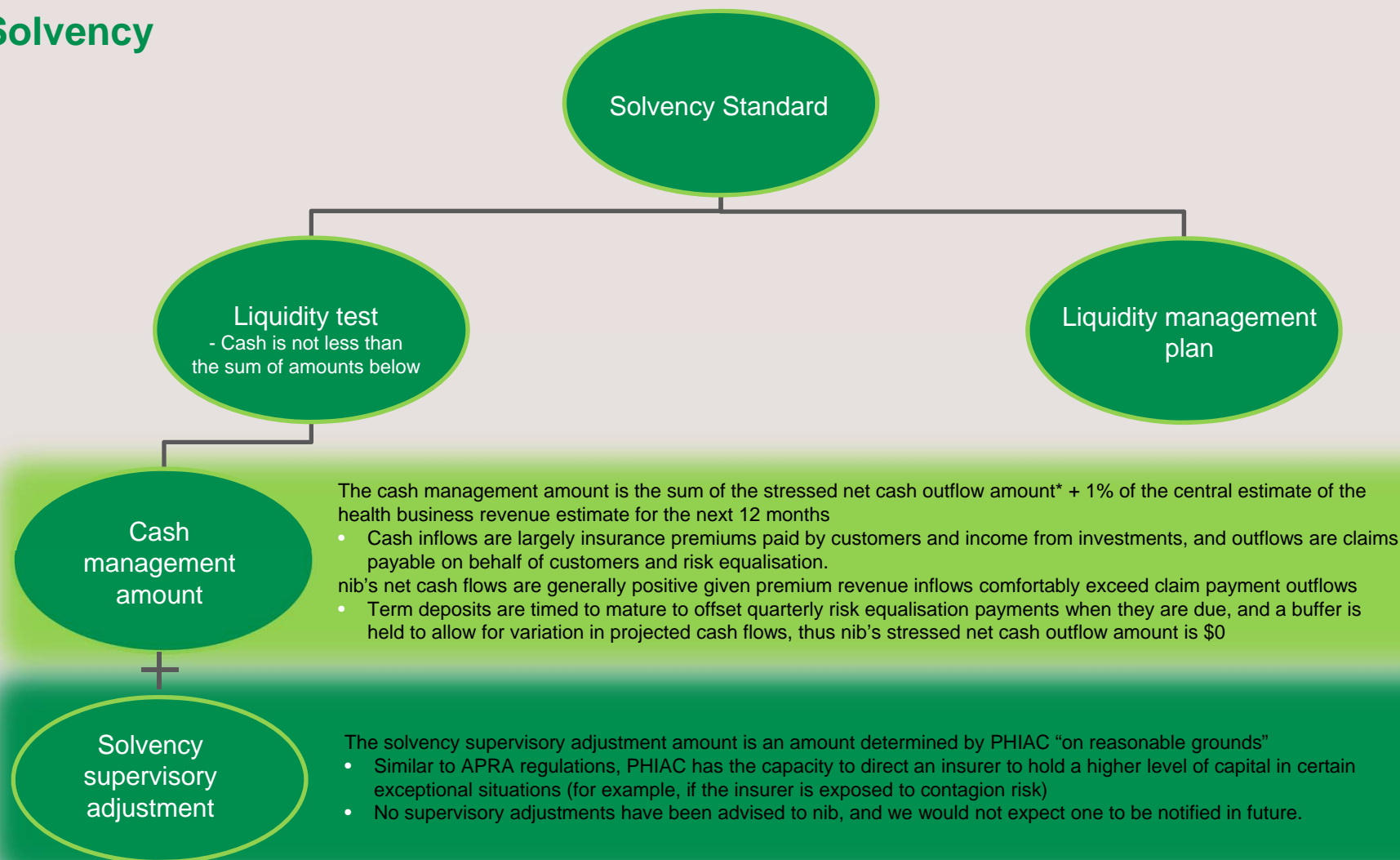
- nib will raise debt up to a level that achieves a long term average gearing ratio of 30%, with a short to medium term target of 25% based on business as usual with the remaining 5% available for strategic M&A opportunities, noting that for a significant transaction gearing may be above 30% for a short time if necessary to effect the transaction
- This results in an improved WACC, where the benefits of introducing debt are not outweighed by a higher “leveraged cost of equity”

NEW PHIAC CAPITAL STANDARDS

- The new capital standards have moved the focus of capital standards away from the previous calculations based standards to more principles based ones, with insurers needing to be more “in touch” with their levels of risk. There has also been a push for insurers to look through their various investment holdings to understand various counterparty exposures
- PHIAC to be absorbed into APRA and ACCC by 1 July 2015. Note change may result in future changes but not expected in short/medium term
- The Solvency Standard has the following two requirements:
 1. The value of an insurer’s cash must be equal to or greater than the “cash management amount”, plus any solvency supervisory adjustment amount:
 - Cash has the meaning given in Australian Accounting Standards Standard 107.6
 - The Cash Management Amount is the sum of the stressed net cash outflow amount plus 1% of the health business revenue estimate
 - It is unlikely nib would have a solvency supervisory adjustment amount
 2. Insurers must have, and comply with, a board endorsed, liquidity management plan designed to ensure compliance with the solvency requirement described above, and set minimum liquidity requirements and management action triggers
 - It must give regard to the extent to which assets could readily be converted to cash, the concentration of exposures to related counterparties, the seasonality and variability in cash flows, and the potential of drawing down on cash to repay borrowings. Each of these is to be considered under “stressed market conditions”, and the board are required to review the liquidity management plan at least every two years

PHIAC SOLVENCY STANDARD

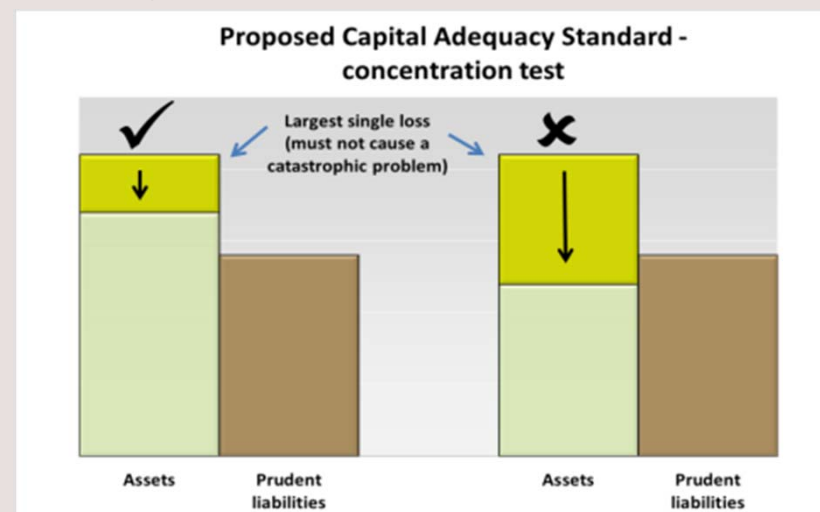
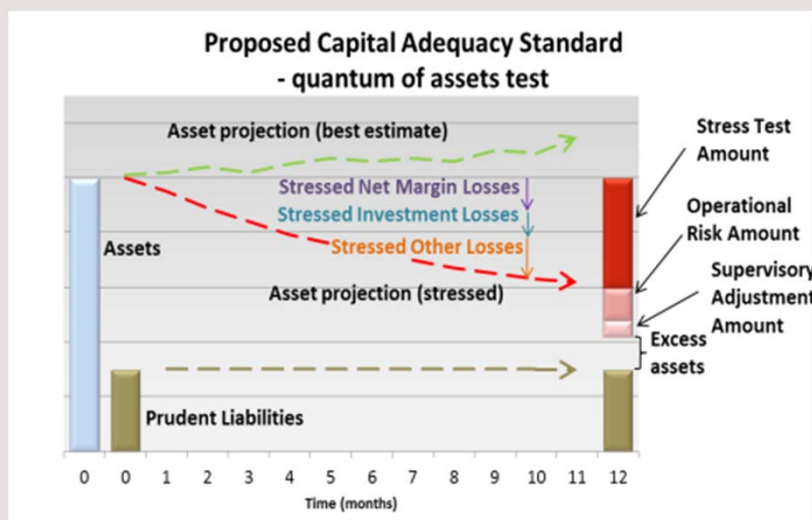
Solvency



* The 98th percentile estimate of the net cash outflows for a 30 day period from the relevant day

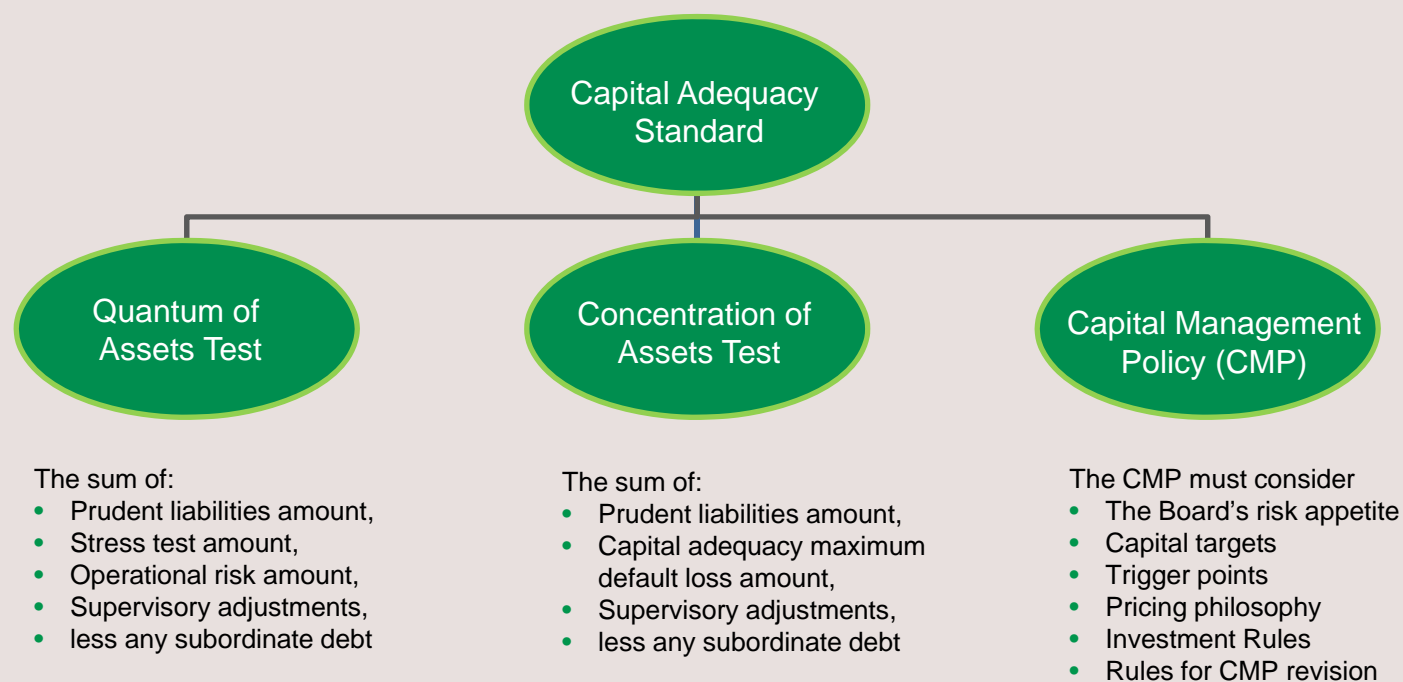
NEW PHIAC CAPITAL ADEQUACY STANDARD

- The Capital Adequacy Standard (“Are the health fund’s assets large enough to ensure that it can survive a very bad year with its balance sheet intact?”) has two tests:
 1. Test 1 – quantum of assets test (see example graph below)
 2. Test 2 – concentration of assets test (see example graph below)
- In addition to the 2 tests, the Capital Adequacy Standard also requires insurers to have a Board-endorsed Capital Management Policy. This would include:
 - probabilistically-determined capital targets and triggers;
 - a pricing philosophy, with explicit consideration of capital implications;
 - liquidity requirements designed to ensure ongoing compliance with the Solvency Standard;
 - and investment rules, which include consideration of capital strength

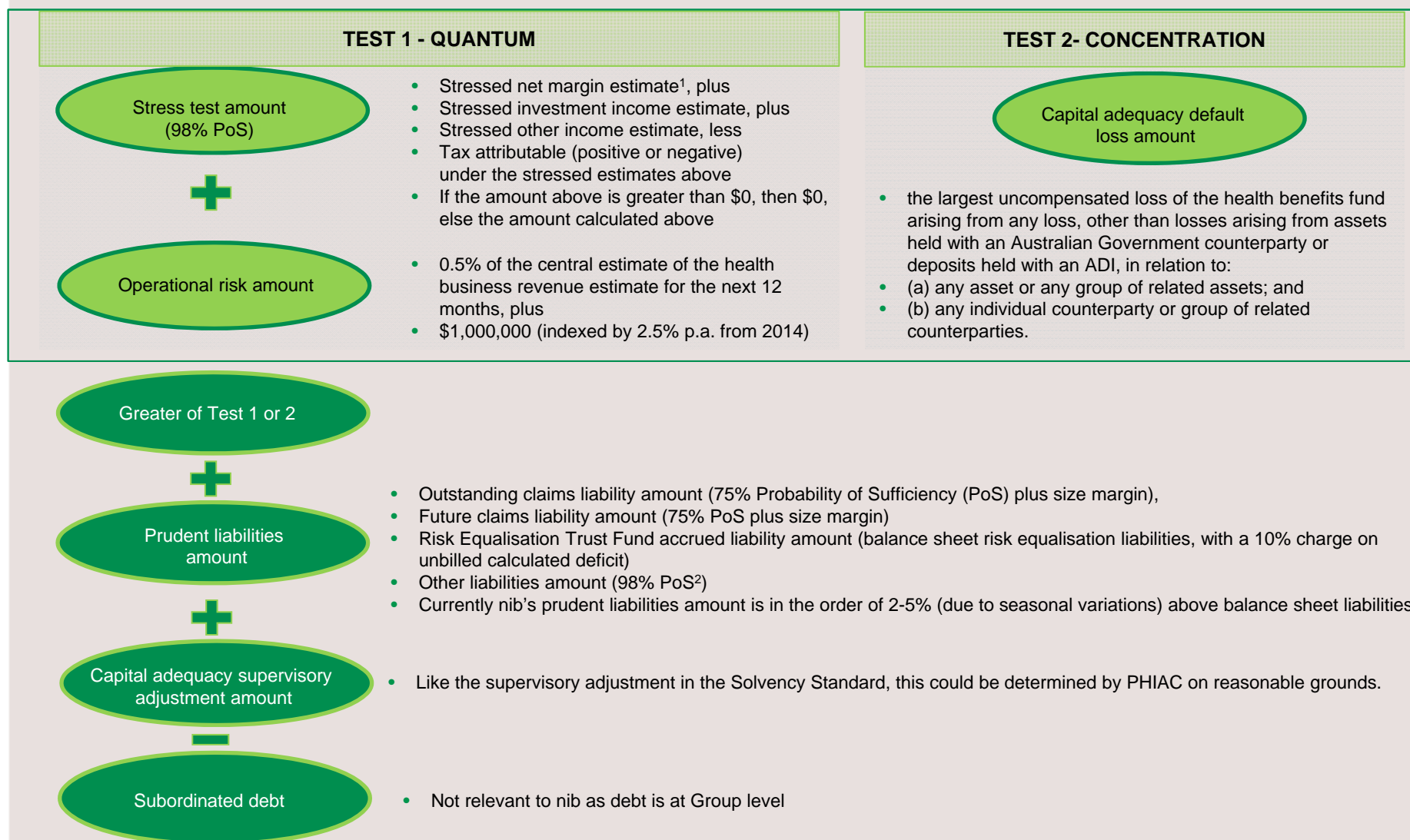


PHIAC CAPITAL ADEQUACY STANDARD

Assets must not be less than the greater of the amounts calculated under the two tests described below



PHIAC CAPITAL ADEQUACY STANDARD (CONT)



¹ the maximum assumed price increase is 1.5x the industry average hospital inflation rate for the preceding 12 months
² nib values other liabilities at 98% PoS on the balance sheet

QUESTIONS

nib

AUSTRALIAN RESIDENTS HEALTH INSURANCE

Rhod McKensey

Group Manager - Australian Residents Health Insurance

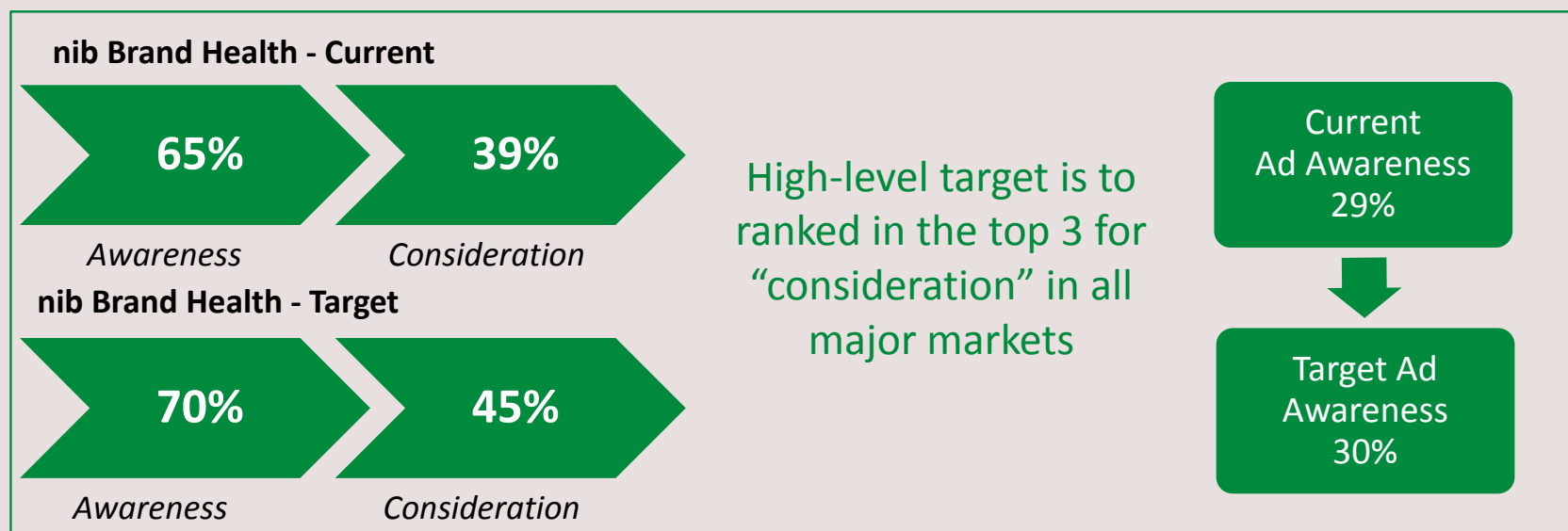
The nib logo consists of the lowercase letters 'nib' in a bold, white, sans-serif font, positioned inside a dark green square.

STRATEGY.... OUR 5 AREAS OF FOCUS

1. Continue to focus our Direct-To-Consumer (DTC) efforts upon the under 40s segment (Virgin Green)
2. Look for additional growth and market share in the over 55s market via retail brokers and affiliations (Virgin Silver)
3. Maintain our brand reputation around price competitiveness and “value for money”
4. Place the customer at the centre of everything we do
5. Reduce claims inflation

BRAND STRATEGY

In an environment of strong forecast industry growth and an increasing propensity of customers to switch, having a strong brand is critical



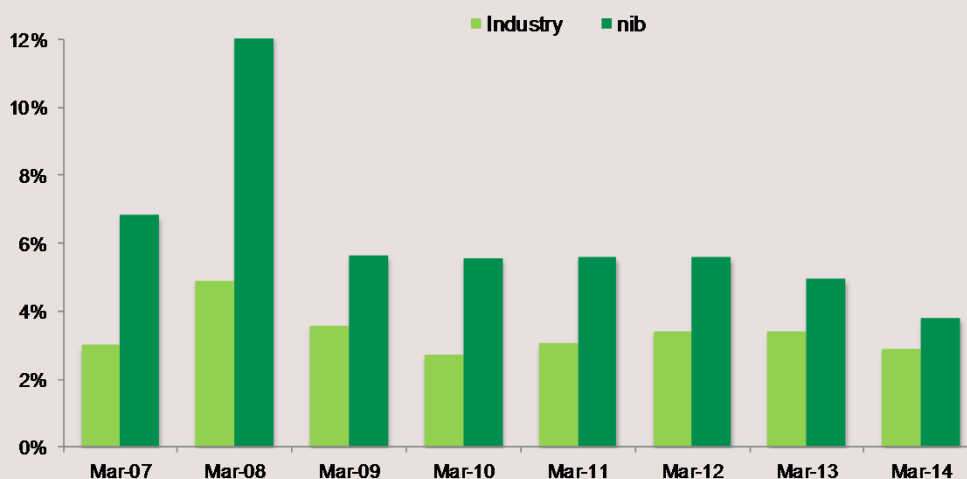
nib Awareness and Consideration

Region	Unprompted Awareness	Prompted Awareness	Current Consideration	Target Consideration	Current Rank	Target Rank
Newcastle	61%	90%	56%	60%	1	1
Sydney	37%	68%	28%	40%	4	3
Brisbane	30%	59%	33%	40%	3	3
Melbourne	27%	56%	26%	40%	3	3
Perth	18%	52%	21%	40%	4	3

Source: nib Brand Tracker April 2014, n=809

INDUSTRY AND nib GROWTH HAS BEEN STRONG

Annual policyholder growth – 12 months to 31 March



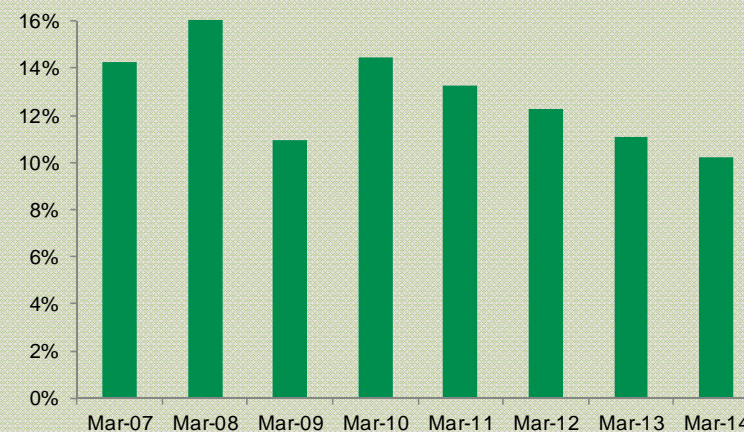
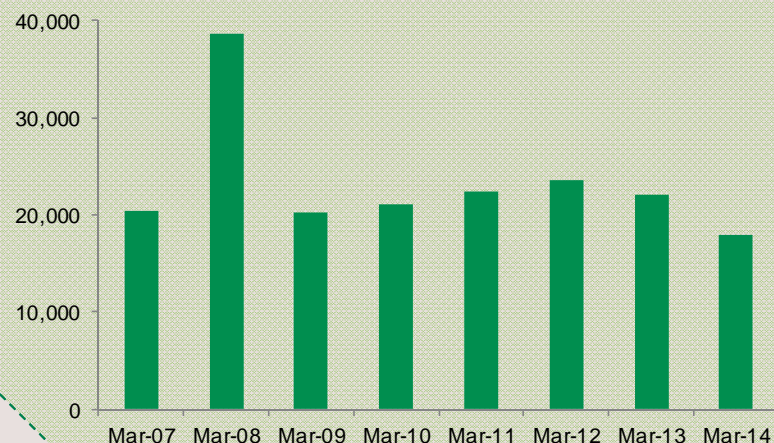
nib has achieved above industry growth for over a decade

Australian PHI growth drivers

- Government “carrots and sticks”
- Increasing wealth and favourable economic circumstances
- Dissatisfaction with public system and rationing
- Competition and investment in marketing and growth

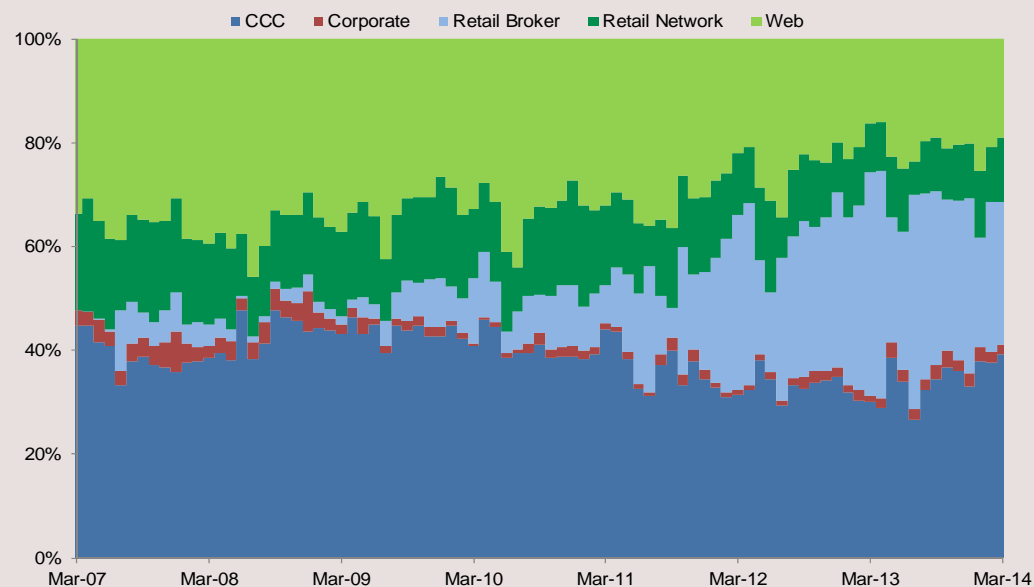
Last 12 months have been impacted by higher than expected lapse

nib growth in hospital persons covered (LHS) and share of industry growth (RHS) – 12 months to 31 March



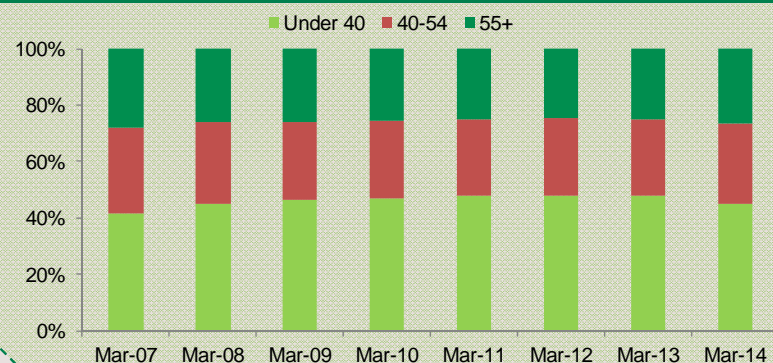
DISTRIBUTION STRATEGY

nib policyholder sales (monthly) by channel (% of all sales)



- Sales mix is changing based on optimising the cost of acquisition across channels
- Recent reduction in retail brokers (as a % of all sales), as channel now focussed on over 55s
- Introduction of Apia as new channel from 2 June 2014

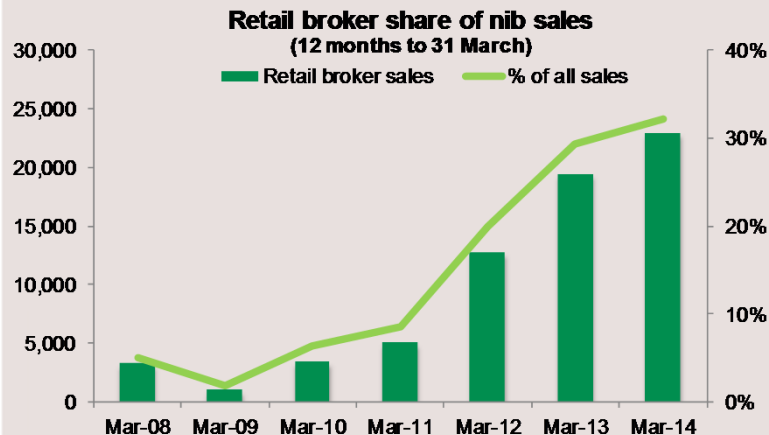
nib policyholder sales by demographic (% of all sales) – 12 months to 31 March



- Slight reduction in proportion of sales in under 40s due to increased competition in this demographic and nib focus on over 55s segment
- Renewed focus and investment planned for FY15 on under 40s market

RETAIL BROKERS AND NEW CHANNELS

Retail Brokers



- Retail brokers currently account for around 30% of all policyholder sales
- Remain a low risk, profitable and scalable channel to target niche segments (over 55s) and new markets
- Retail broker competition has intensified over past 18 months allowing nib to not rely on one retail broker for majority of sale volume. This is expected to continue
- Retail broker strategy over next 12 months is to achieve a higher API per sale subject to close scrutiny over return of investment compared to other channels

New Channels - Apia

FINANCIAL REVIEW

NIB, Apia join up to target over- 50s

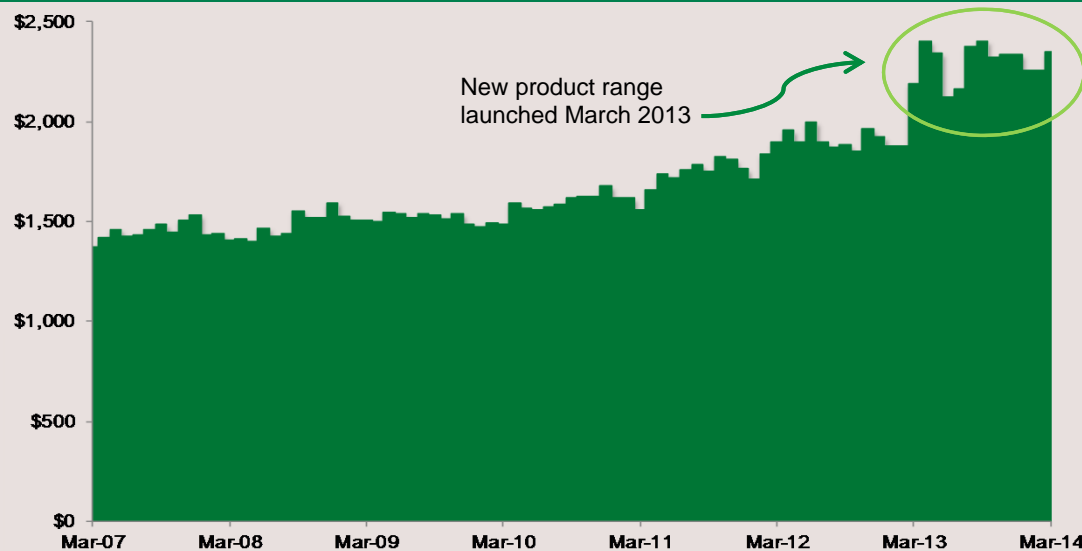
23 May 2013

NIB has teamed up with Suncorp's Apia business to target the \$10 billion over 50s health insurance market for the first time, in a move that may steal market share from sector leaders Medibank Private and Bupa.

- Announced “white-labelling” alliance with Apia in May 2014, with product launch this month
- Apia are selling its own branded (co-designed) health insurance product suite to existing and new customers
- Apia are supporting launch with marketing and advertising campaign, leveraging Apia’s brand and distribution channels (online, telephony)
- Apia will be paid a commission per policyholder (at a rate comparable to other nib channels), with nib providing all back office services (claims processing, business intelligence, provider networks and contracts)
- Alliance allows nib to maintain focus and strong positioning in the under 40s demographic, as well as tap into the very attractive and increasing over 50s market

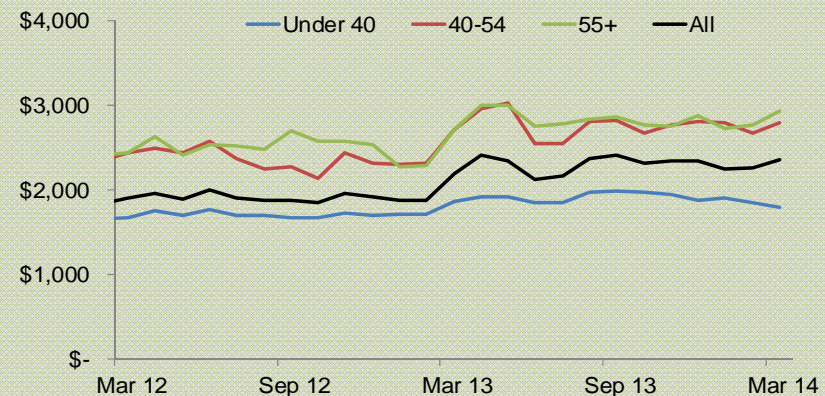
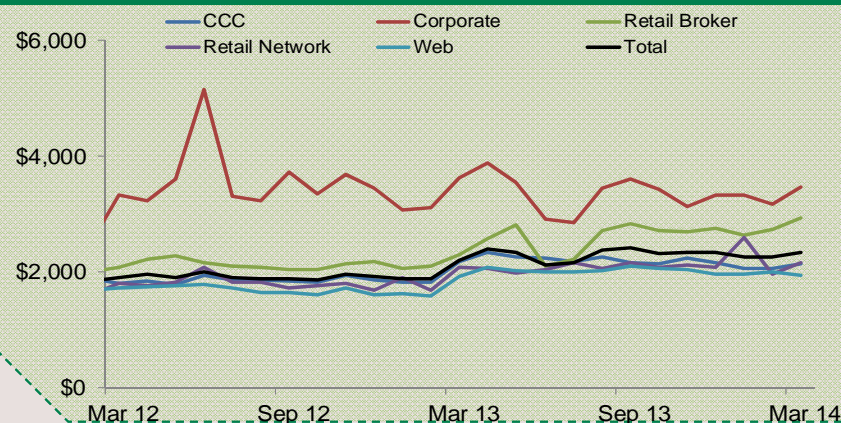
AVERAGE PREMIUM INCOME (API) CONTINUES TO GROW

Monthly sales API (all products)



- API of our sales has significantly increased, due to launch of new product range and an increased focus on over 55s sales
- Profitability of over 55s remains attractive due to higher average premiums and impact of risk equalisation

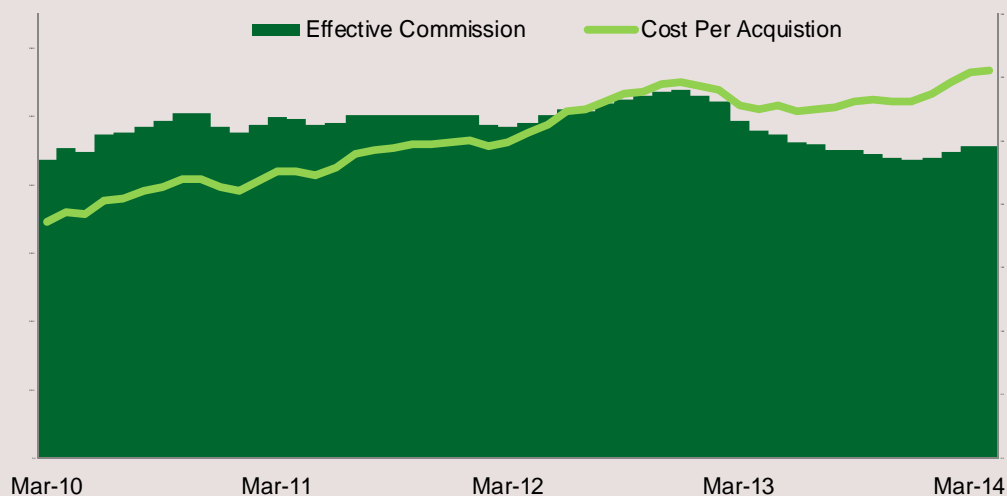
API by channel (LHS) and demographic (RHS)



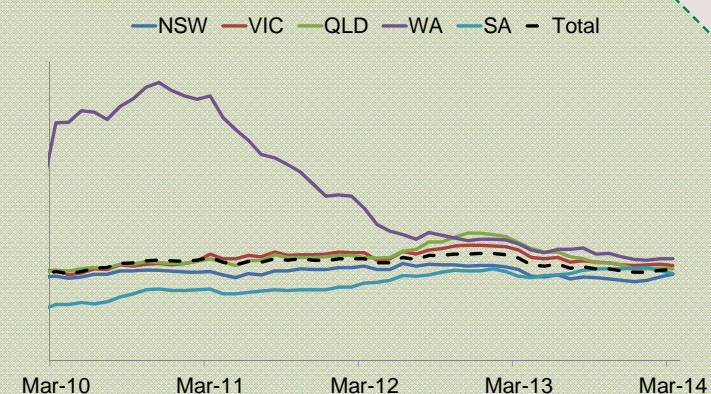
NEW POLICYHOLDER COST OF ACQUISITION

Effective commission* and cost per acquisition per policyholder - 12 months rolling

- Competition from other health funds and retail brokers has seen cost of acquisition increase
- Increasing cost per acquisition is a function of distribution strategy – selling high value and over 55s products through retail brokers
- Increasing cost per acquisition has been offset by higher average API, so keeping effective commission relatively stable
- Acquisition costs remain well below breakeven levels



Effective commission* by state



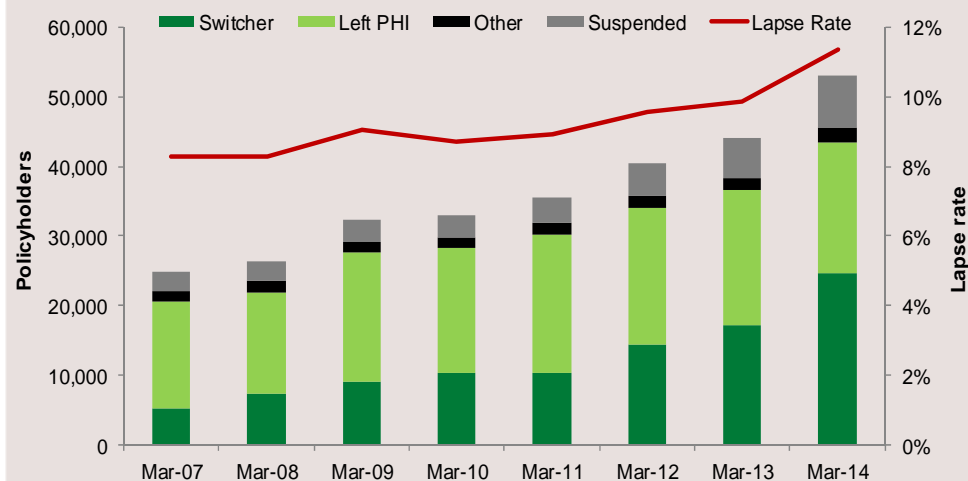
- A judicious marketing investment has resulted in our effective commission remaining relatively stable
- Most notable is the change in WA, primarily due to a reduction in marketing investment with our brand becoming more established

* Effective Commission: cost to acquire customer as a percentage of first year's premium

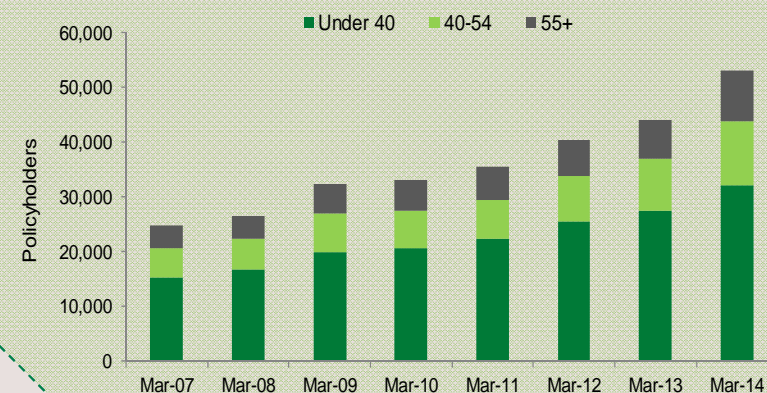
RETENTION

nib policyholder lapse by classification

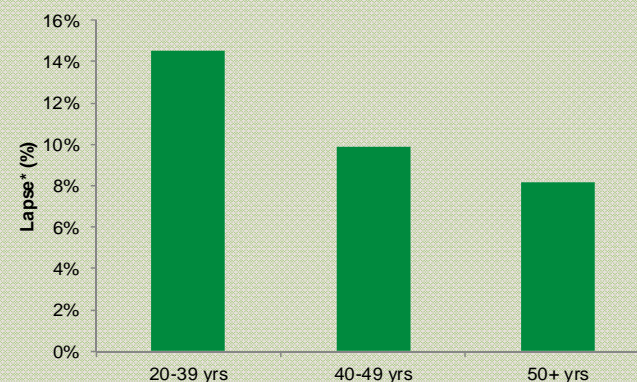
- Retention (lapse and churn) is an industry problem
- Our lapse rate is in line with the industry average when age standardised (under 40 customers lapse at a higher rate than other cohorts)
- The increasing propensity of customers to switch funds is both an opportunity and a challenge



nib policyholder lapse by demographic



nib's lapse rate is higher in under 40s target segment



* Annual lapse rate to 12 months to 31 March 2014

PRODUCT DESIGN PRINCIPLES

1. Value leading

Design products to align to customer expectations rather than industry norms

2. Minimise cross subsidisation

Price each product fairly and not subsidise loss leading products

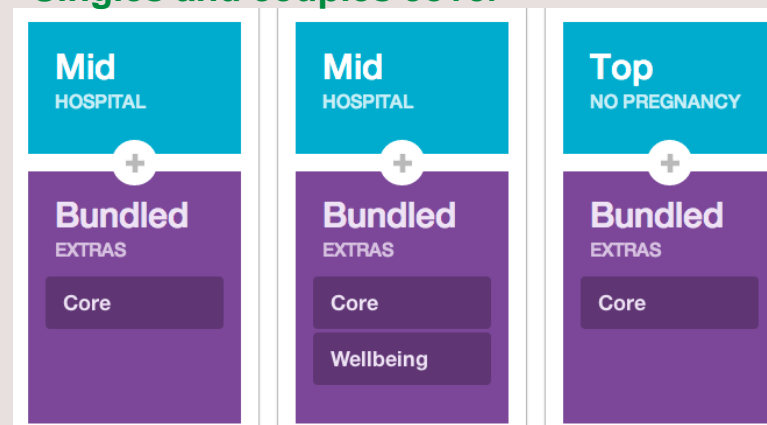
3. Simplicity and fairness

Make certain that product inclusions and exclusions are clear and reduce the customer “unknown” by removing benefit limitation periods and restricted benefits

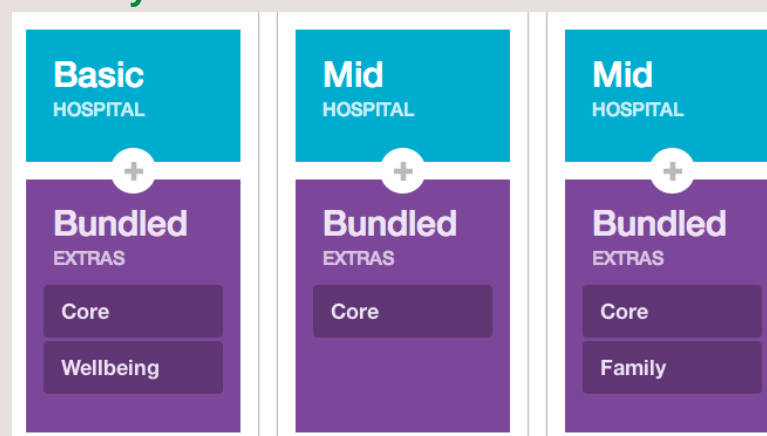
4. Flexibility and tailoring

Ensure that customers feel that the product they have chosen is relevant to their lifestage and can be designed to meet their needs

Singles and couples cover

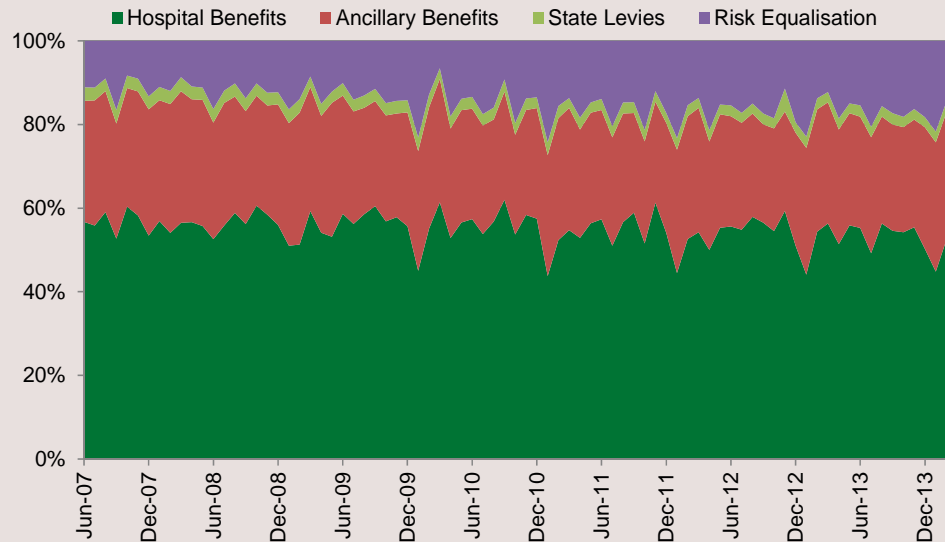


Family cover



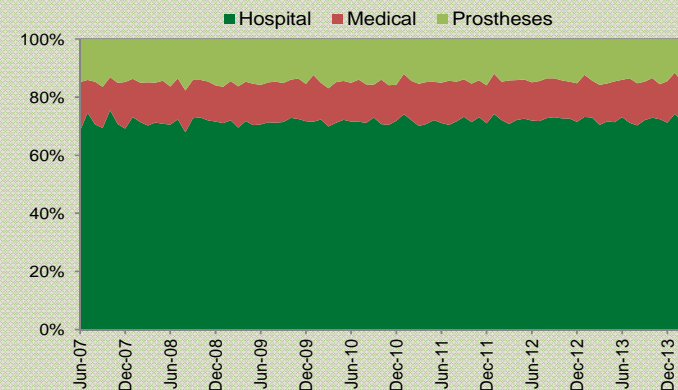
GROSS MARGIN CHALLENGES AND LEARNINGS

Net claims incurred as a % of all claims



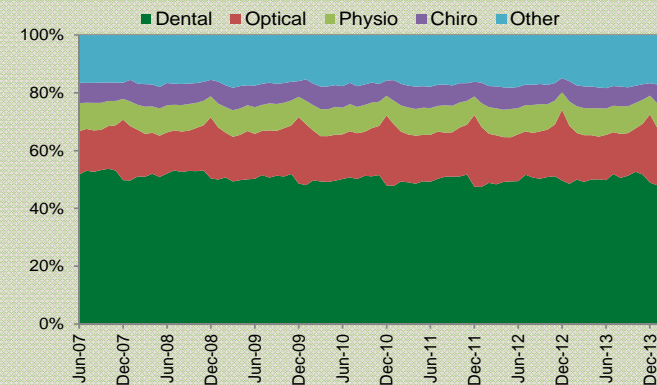
- Top Extras 85% (launched March 2013, closed to new sales from September 2013 and subject to significant price increase on 1 April 2014) claiming significantly higher than original modelling
 - Causes include adverse selection and increased utilisation of “natural therapies”, e.g. remedial massage
- Risk equalisation continues to consistently grow as a proportion of total claims (National Commission of Audit recommendations regarding Risk Equalisation reform to promote claims and operational efficiency are positive)

Hospital claims by speciality as a % of all hospital claims



- Proportion of “in hospital” claims remains steady

Ancillary claims by modality as a % of all ancillary claims



- Ancillary, particularly optical benefits are subject to seasonal variance due to annual limits re-setting (1 Jan)

CLAIMS INFLATION - OUR 5 AREAS OF FOCUS

1. Service costs

- Rely more upon data and evidence of variation in contract price negotiation
- Seek to avoid payment for medical misadventure
- Expand preferred ancillary provider network

2. Utilisation management

- Contract with GPs to reduce avoidable hospital admissions and improve health status of “frequent fliers” (e.g. advanced care plans, home care, health management programs)
- Continue and expand selective chronic disease management plans

3. Claims leakage

- More aggressively pursue fraudulent behaviour
- Pursue compensable claims from 3rd parties

4. Customer empowerment

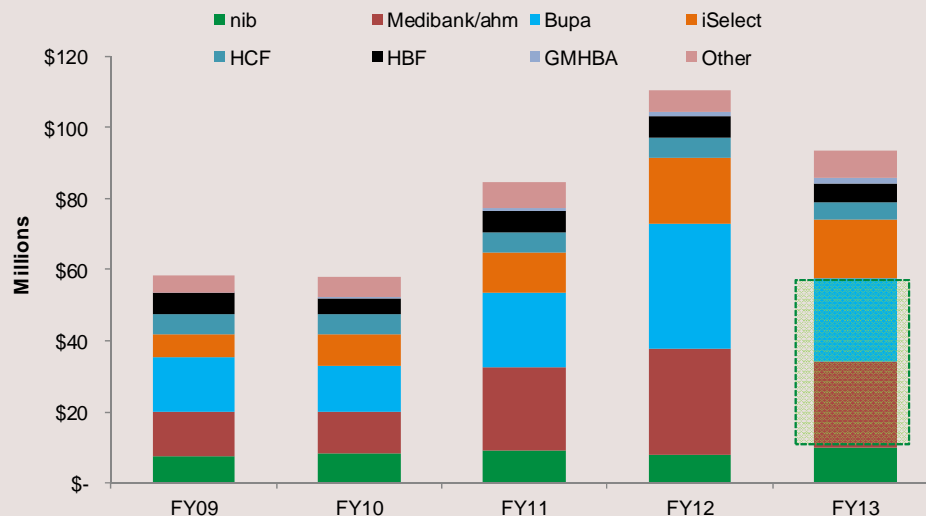
- Support policyholder decision making with information and data on clinician and hospital performance (e.g. Whitecoat)
- Contract with GPs to assist policyholders in navigating and using information

5. Product design

- More rigorous assessment of clinical efficacy
- Review benefits structure for unprofitable products

COMPETITOR ACTIVITY

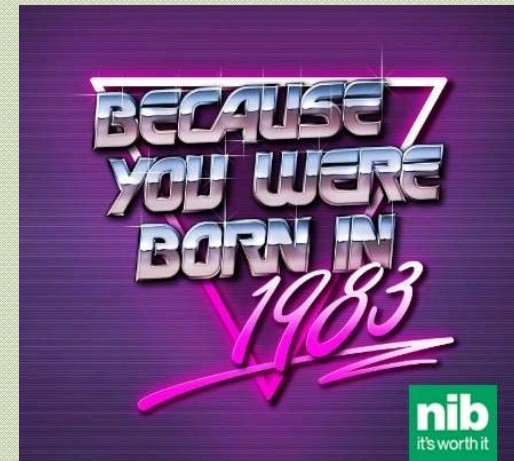
Estimated PHI Advertising by fund (excluding online)



Data source: Nielsen AQX Fusion 2014

- Industry continues to spend ~\$100m on advertising annually (excluding online)
- Decrease in FY13 due to reduction by Medibank and BUPA
- Increased competitor and retail broker advertising is expected to increase as funds compete for customers (new to category and switchers)

Industry marketing and competitor activity

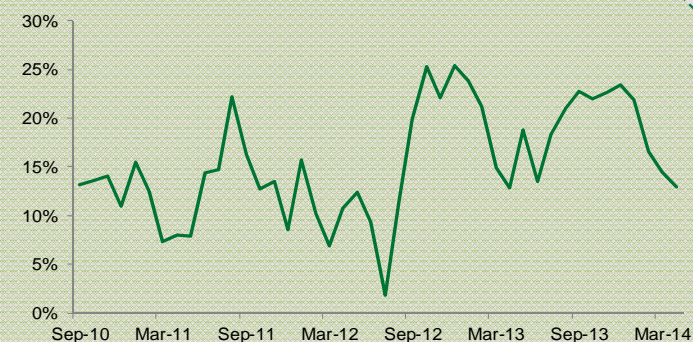


- Expected funds and retail brokers will continue to focus on value based selling (price and benefits) targeting new to category and switchers, particularly in under 40s
- Competitor activity and advertising still expected to be skewed to peak acquisition periods (April – July)

FOCUS FOR NEXT 12 MONTHS

1. Building brand awareness and consideration in target market
2. Web improvements
3. Stabilisation of lapse
4. Delivery of claims savings
5. Top Extras 85% rectification
6. Apia relationship
7. Leads management
8. Customer communications management

Net Promoter Score



- We have worked to create a customer-focused culture
- Introduced the Net Promoter Score (NPS) in July 2010 (survey sent to customers following contact with nib)
- Embedded within organisation, as the “voice of the customer” and used as an assessment, coaching and continuous improvement tool with frontline employees
- NPS also a KPI in each Executive's STI
- Recent NPS experience can be attributed to seasonal impact of annual premium increase

NATIONAL COMMISSION OF AUDIT

The National Commission of Audit Report (released in May 2014) outlined a number of recommendations aimed at reforming Australia's healthcare system:

- Effective move towards compulsory PHI for those on higher incomes
- Expanded cover into primary care to promote increased effort and investment in chronic disease management and prevention
- Deregulation of premium pricing with only Government surveillance
- Review of risk equalisation to promote claims and operational efficiency
- Allowing private health insurers to reward good health behaviour with premium discounts

These measures if implemented will significantly change and improve the face of Australia's healthcare system and PHI

FEDERAL BUDGET (2014-15)

According to the Government, the Health Budget (2014-15) was framed with four guiding principles:

- That taxpayer funds must be spent on programmes and services that improve health outcomes for Australians;
- That bureaucracy and red tape should be cut, and efficiencies and productivity improvements continually found;
- That people should take more responsibility for their own health, including through modest contributions to the cost of care; and
- That the health system must be set up for the future.

FEDERAL HEALTH BUDGET (PHI) - WHAT'S CHANGED?

- Income tiers for the Medicare Levy Surcharge (MLS) and premium rebates will not be indexed for three years from 1 July 2015, saving government \$1.5 billion over that period.
 - This means more people will be pushed into the high income tiers, and so get lower premium rebates
 - The MLS currently applies penalties to singles earning more than \$88k per year (or \$176k for families). Not indexing these thresholds means more “middle income earners” will have to insure or pay the penalty
- PHIAC (PHI Regulator) will be absorbed into APRA and ACCC by 1 July 2015. PHIO (PHI Ombudsman) will merge into the Office of the Commonwealth Ombudsman
- Pausing indexation of Medicare Benefits Schedule rebates - From 1 July 2014 all items listed in the Medicare Benefits Schedule, except for GP items, will not be indexed for two years

QUESTIONS

nib

BENEFITS & PROVIDER RELATIONS

Justin Vaughan

Group Manager - Benefits & Provider Relations

The nib logo consists of the lowercase letters "nib" in a white, bold, sans-serif font, positioned inside a dark green square. The square is located in the bottom right corner of the slide.

nib BENEFITS MANAGEMENT

To more effectively manage utilisation and benefits outlays that lead to:

- Best value healthcare (i.e. funding services that make a difference in the most cost-effective manner)
- Lower claims and premium inflation and thereby improve price competitiveness
- An improved experience for customers
- Better clinical outcomes for customers

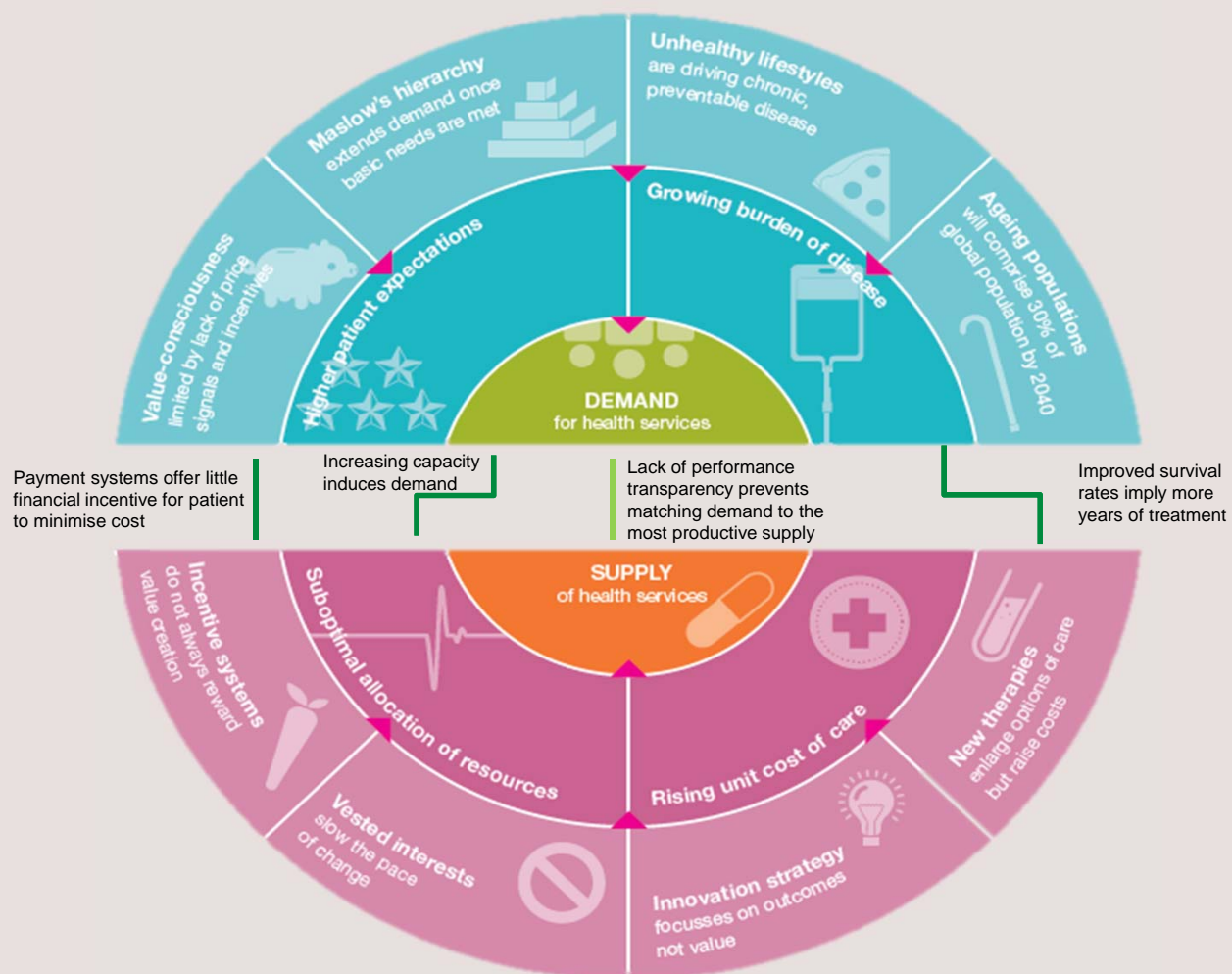
We achieve this by focusing on 5 areas:

1. Service costs
2. Utilisation management
3. Claims leakage
4. Customer empowerment
5. Product design

CLAIMS INFLATION

nib

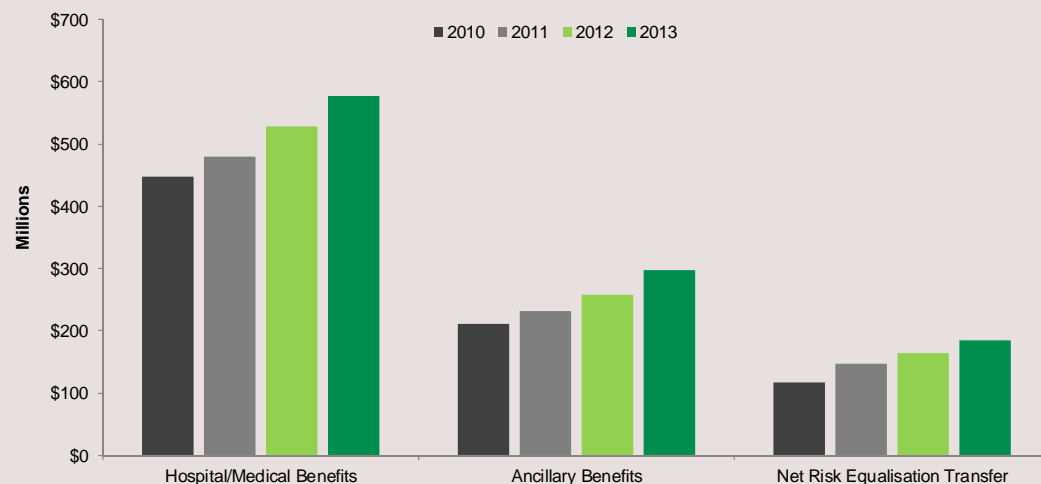
DRIVERS OF HEALTH CARE COSTS



Source: McKinsey & Company

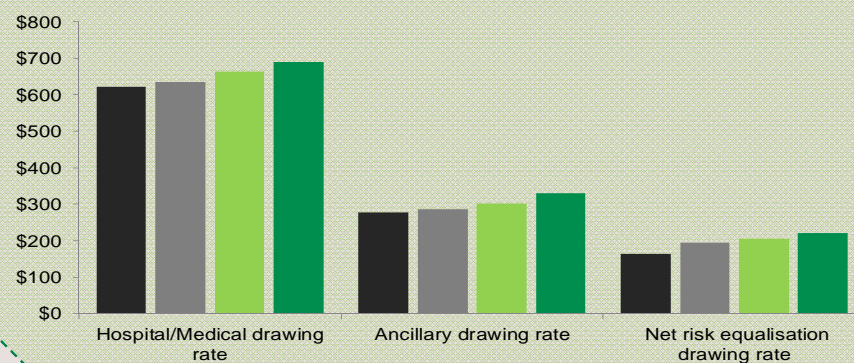
OVERALL CLAIMS COSTS

nib paid benefits and year-on-year change by calendar year



	2011	2012	2013
Hospital/Medical Benefits	7.3%	10.1%	9.1%
Ancillary Benefits	9.7%	11.1%	15.0%
Net Risk Equalisation Transfer	25.1%	12.3%	12.3%

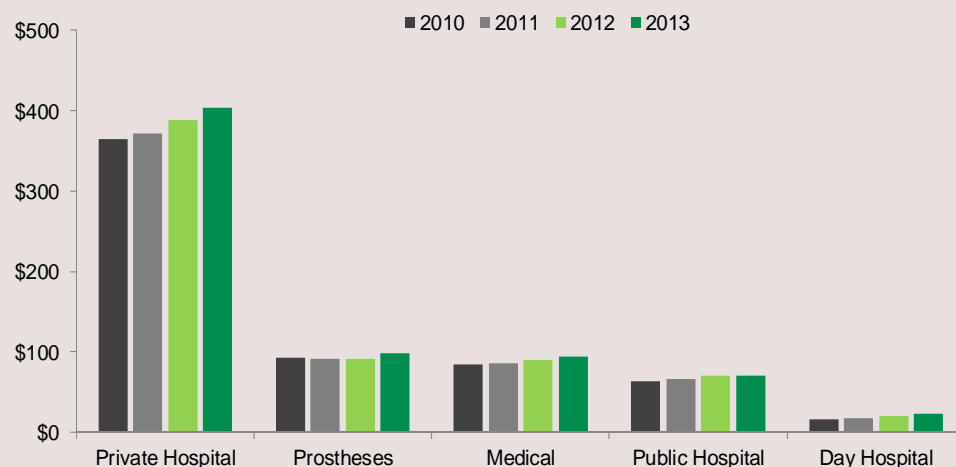
nib paid benefits per person and year-on-year inflation by calendar year



	2011	2012	2013
Hospital/Medical drawing rate	1.8%	4.5%	4.0%
Ancillary drawing rate	3.7%	5.1%	9.6%
Net risk equalisation drawing rate	18.7%	6.5%	7.0%

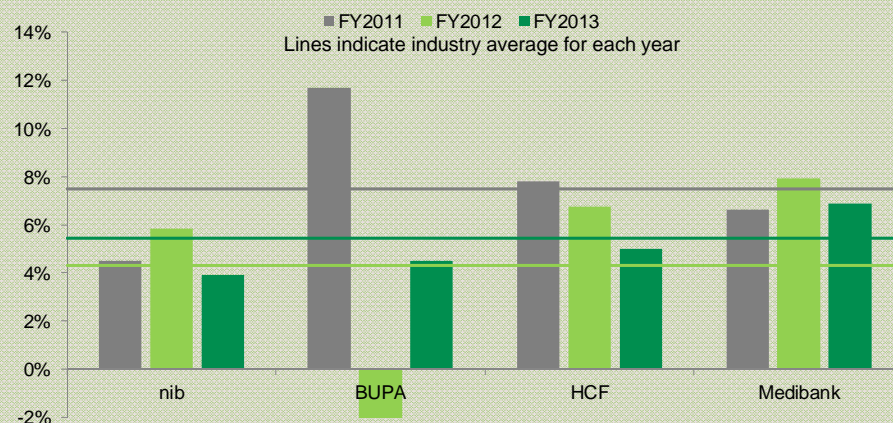
nib HOSPITAL & MEDICAL BENEFITS

nib hospital drawing rate by benefit type and year-on-year inflation by calendar year



	2011	2012	2013
Private Hospital	1.6%	4.8%	3.7%
Prostheses	-0.9%	0.4%	6.4%
Medical	3.0%	3.5%	5.1%
Public Hospital	4.3%	6.1%	-0.7%
Day Hospital	6.2%	17.1%	8.6%

Hospital drawing rate per hospital person by fund – year on year inflation (financial year)

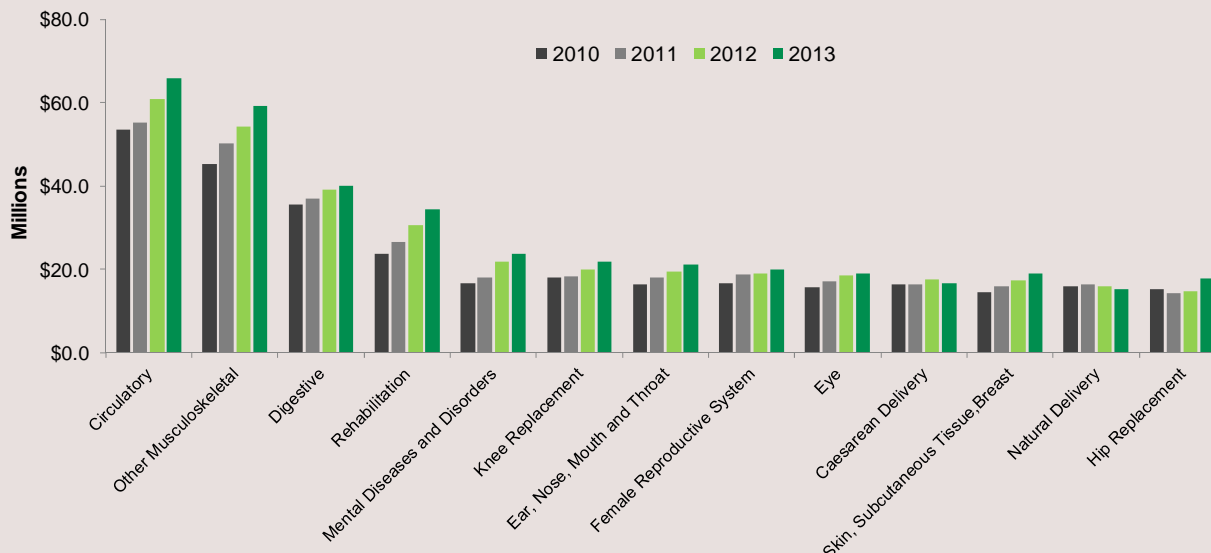


- For the 2013 calendar year, per person hospital costs (incl. medical, prostheses and risk equalisation) have increased 4.7% (4.0% pre risk equalisation), compared to industry average of 5.3%

Source: Private Health Insurance Administration Council – The Operations of Private Health Insurers Annual Report 2012-13

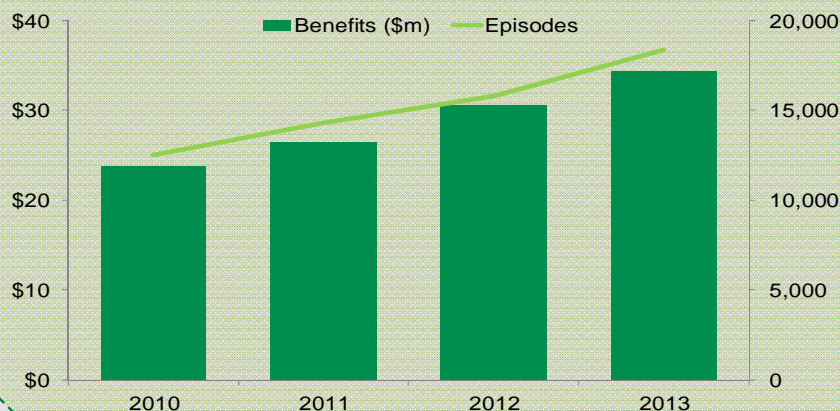
DRIVERS OF HOSPITAL & MEDICAL INFLATION

nib high cost procedures by calendar year (by nib DRG grouping)



Greatest growth in utilisation and overall claims costs = cardiac, orthopaedics and associated rehabilitation

Rehabilitation benefits (LHS) and episodes (RHS) by calendar year

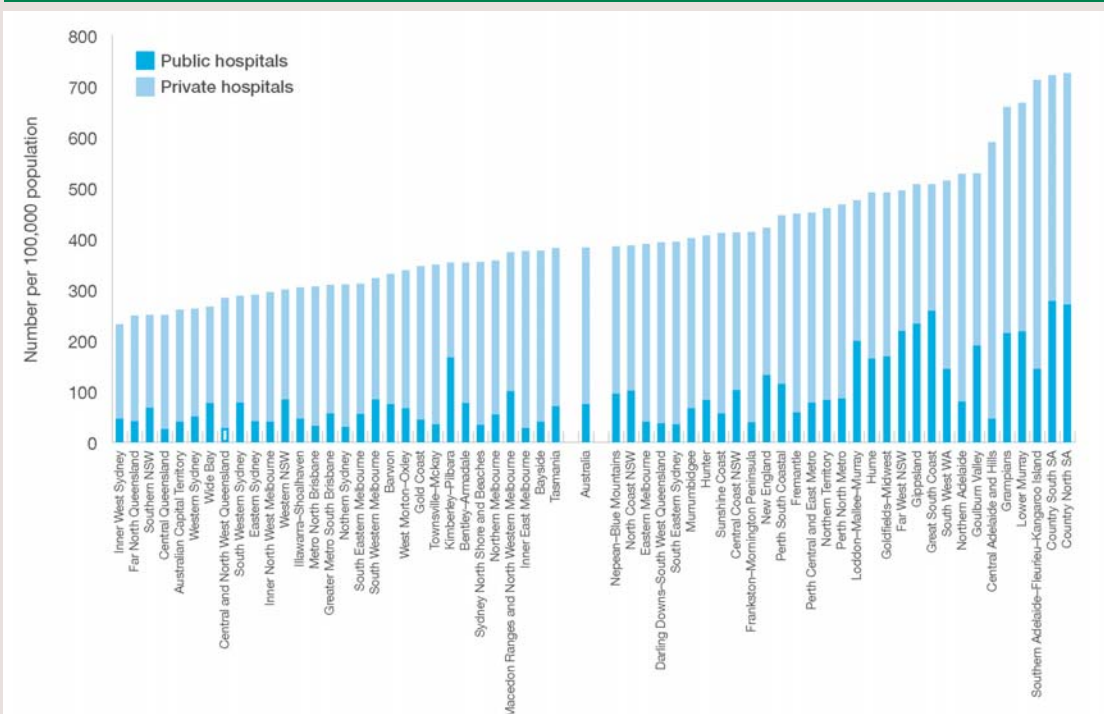


- Growth in rehab driven mainly by utilisation (rather than unit cost)
- Capacity-driven demand is significant contributor

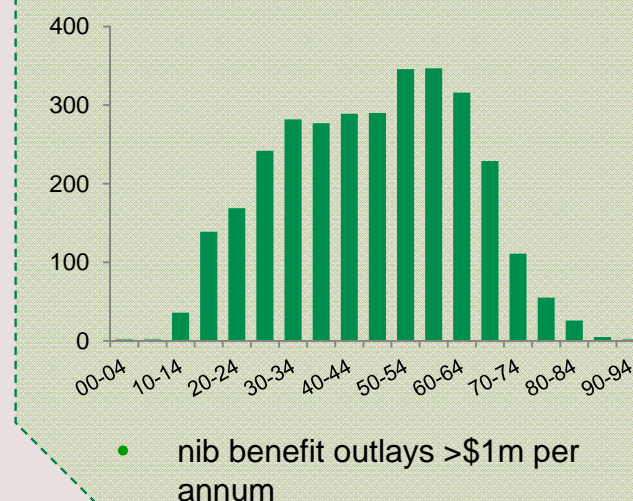
UNWARRANTED VARIATION

Case study – knee arthroscopy

Admissions for knee arthroscopy by Medicare Local and peer group, 2010-11



Number of knee arthroscopic episodes by age group (nib, FY13)



- nib benefit outlays >\$1m per annum

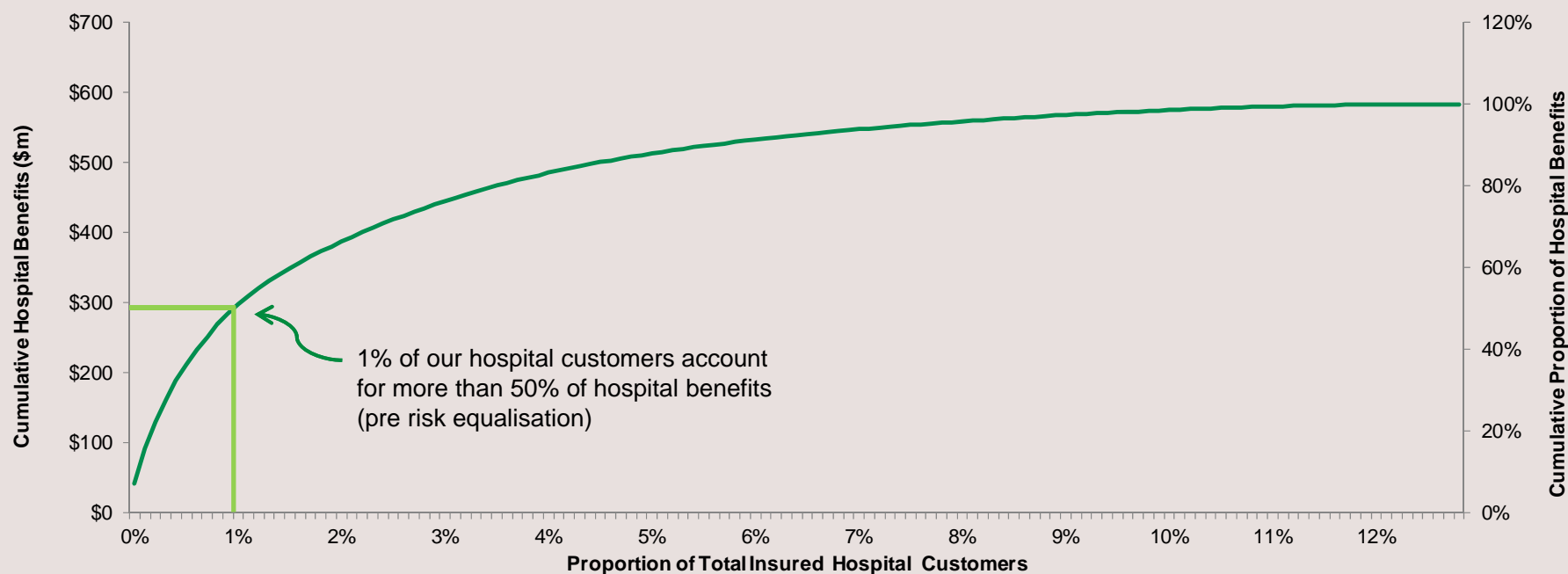
- Significant regional variation around Australia in terms of procedure utilisation (90% performed in private hospitals)
- Minimal evidence of benefit where underlying degeneration exists, but useful in younger ages where no degeneration exists

Source: Australian Commission on Safety and Quality in Health Care and Australian Institute of Health and Welfare. *Exploring Healthcare Variation in Australia: Analyses Resulting from an OECD Study*. Sydney: ACSQHC, 2014.

HIGH COST CLAIMERS

Small proportion of our policyholders consume a large percentage of overall benefit outlays
...we call them our “frequent flyers”

Distribution of hospital benefits amongst nib insured customers (incurred CY13)



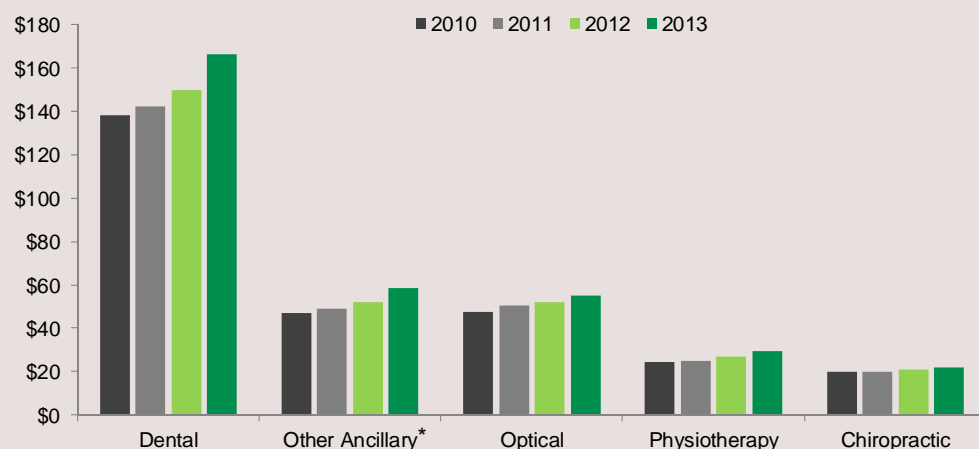
HOSPITAL & MEDICAL BENEFITS – KEY TAKEAWAYS

Drivers across all areas:

- Utilisation more than unit cost
- Orthopaedic procedures and subsequent rehab are a particular issue
- Growth in cardiac and psychiatry also areas to watch
- Unwarranted variation
- “Frequent flyers” represent significant proportion of claims expenditure
- Inflation from public hospital charges controlled but potential risk subsequent to reduced future Government funding
- Costs of (poor) quality are significant

nib ANCILLARY BENEFITS

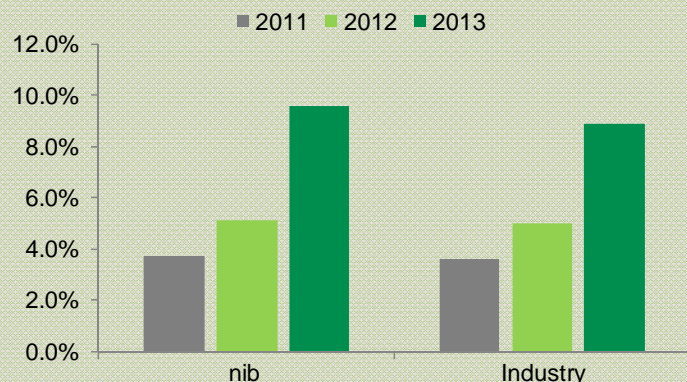
nib paid ancillary benefits per ancillary person by benefit type and year-on-year inflation by calendar year



	2011	2012	2013
Dental	3.1%	5.3%	10.9%
Other*	4.3%	5.7%	12.3%
Optical	5.7%	3.9%	5.2%
Physiotherapy	2.8%	6.2%	9.8%
Chiropractic	2.2%	3.7%	4.2%

* Other includes ancillary benefits such as remedial massage, podiatry, acupuncture, etc

Ancillary drawing rate per person – year on year inflation (financial year)



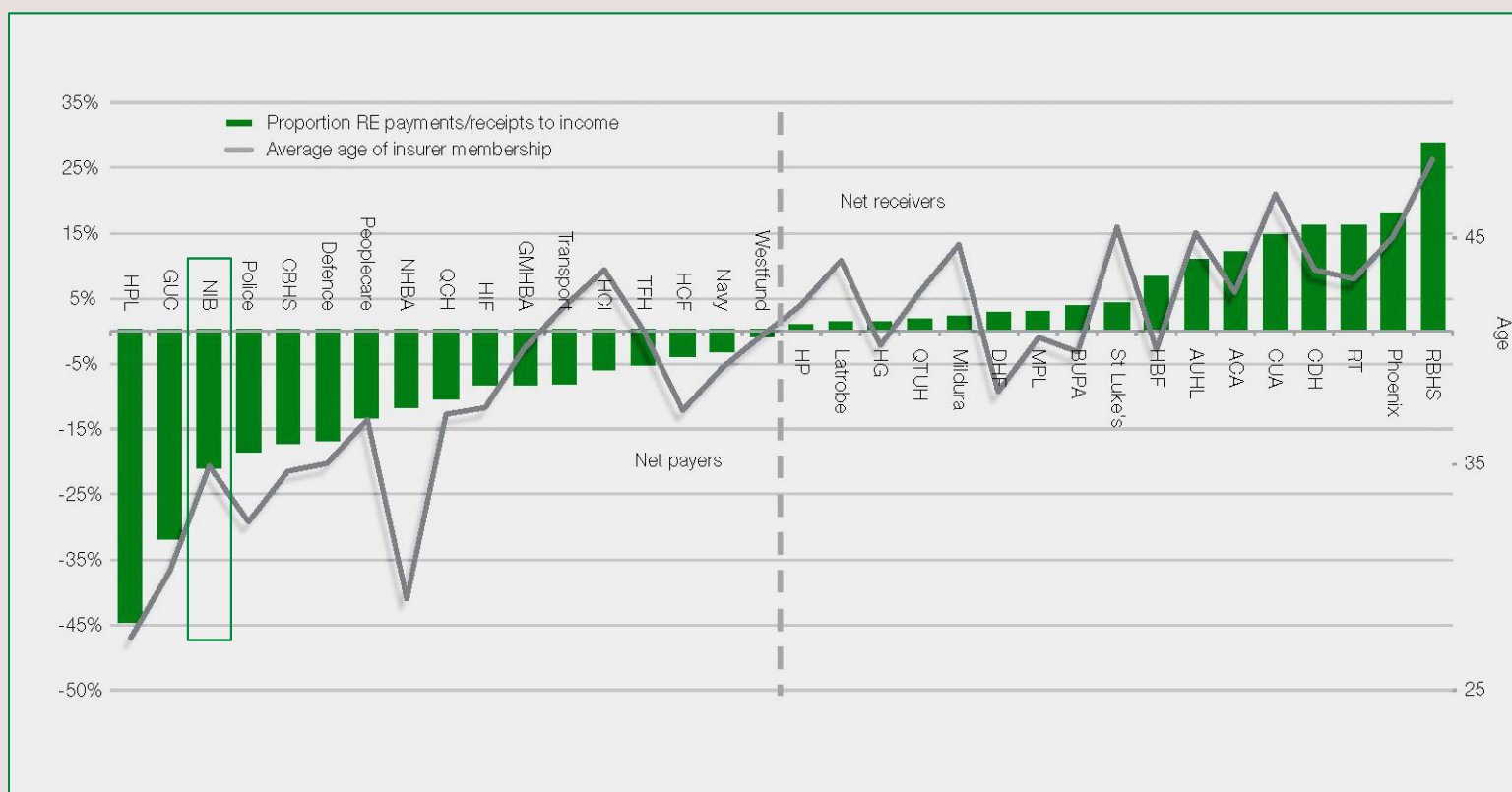
	2011	2012	2013
nib	3.7%	5.1%	9.6%
Industry	3.6%	5.0%	8.9%

Source: Private Health Insurance Administration Council

ANCILLARY BENEFITS – KEY TAKEAWAYS

- Utilisation more than unit cost
- Changes to Government funding contributing factor (e.g. Chronic Disease Dental Scheme ended Nov 2012) and supply induced demand
- Product design and adverse selection
- Effective preferred provider relationships can add value
- Provider registration and fraud (provider and consumer) need to be monitored closely

RISK EQUALISATION...WHO PAYS WHAT?



Source: Private Health Insurance Administration Council – The Operations of Private Health Insurers Annual Report 2012-13

- Current model does not incentivise preventative and other health management initiatives
- Potential for some (nib) gross deficit relief through targeting over 55s demographic (e.g. Apia relationship), however unlikely to reduce liability given our significantly younger than average age profile compared to industry

BENEFITS MANAGEMENT PRIORITIES

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CASE STUDY - TECHNOLOGY AT WHAT PRICE

Da Vinci Robot

- Approximately 80% US prostatectomies performed robotically
 - Procedure costs ~\$3,000 additional
 - Inconclusive proof of better outcomes
- JAMA (Journal of the American Medical Association) study of >250,000 hysterectomy surgeries – no better outcomes – 32% more expensive
- Recent safety concerns prompting an audit by US Food and Drug Administration
- Robotic surgery increases US healthcare costs by \$2.5 billion per annum (and is increasing)
- Significant usage in Australia despite minimal reimbursement from health funds



“There is no good data proving robotic hysterectomy is even as good as – let alone better than existing, and far less costly minimally invasive alternatives”

American Congress of Obstetricians and Gynaecologists 2013

OUR AREAS OF FOCUS

1. Service costs

- Contract price negotiation supported by enhanced information
- Seek to avoid payment for poor quality
- Expand ancillary preferred provider network

2. Utilisation management

- Contract with primary care to reduce avoidable admissions and improve health status of “frequent flyers”
 - For example health management programs, advanced care plans, home care visits
- Continue and expand selective chronic disease management plans

3. Claims leakage

- More aggressively audit providers and monitor for fraudulent behaviour
- Pursue compensable claims from 3rd parties

4. Customer empowerment

- Support decision making with clinical information and data on provider performance (e.g. Whitecoat)
- Partner with GPs to assist policyholders in navigating and using information

5. Product design

- More rigorous assessment of clinical efficacy
- Review benefits structure for unprofitable products

6. NZ and international businesses

- Preferred provider networks
- Interaction with primary care
- Consumer empowerment

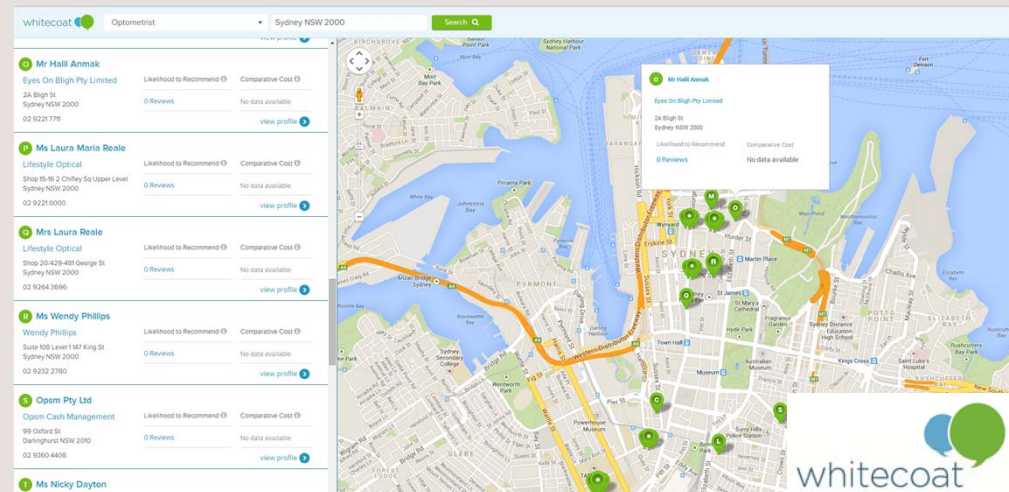
CASE STUDY - CONSUMER ENGAGEMENT & EMPOWERMENT

- **Value consciousness**

- Transparency of information, Whitecoat, nib Options
- Narrow networks may suit segment of population
- Incentives for cost consciousness – overcoming moral hazard

- **Healthy lifestyles**

- Tackling obesity and diabetes a huge challenge
- Unhealthy lifestyles difficult to change
- How to incentivise – how to deliver effectively
 - Local pilot of weight management programmes, healthy lifestyle initiatives



QUESTIONS

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NEW ZEALAND

Rob Hennin
CEO nib New Zealand

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PHI IN NEW ZEALAND

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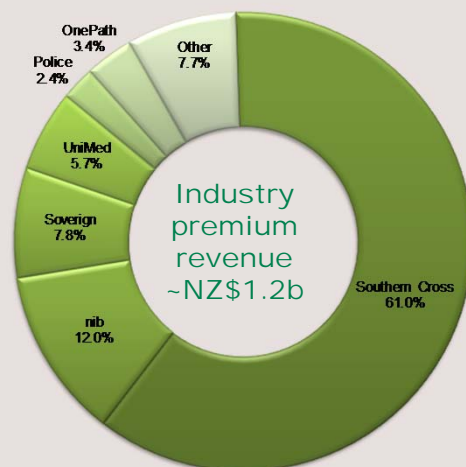
nib

nib NZ BUSINESS STRATEGY

1. Build Direct-to-Consumer (DTC) channel and grow the market and our share
2. Recalibrate the adviser channel
3. Pursue increased share in group market
4. Build and execute “white labelling” capability
5. Reduce claims inflation
6. Place the customer at the centre of everything we do
7. Pursue mergers and acquisitions at the right price
8. Innovate – “choice, flexibility and affordability”

INDUSTRY STRUCTURE & OVERVIEW

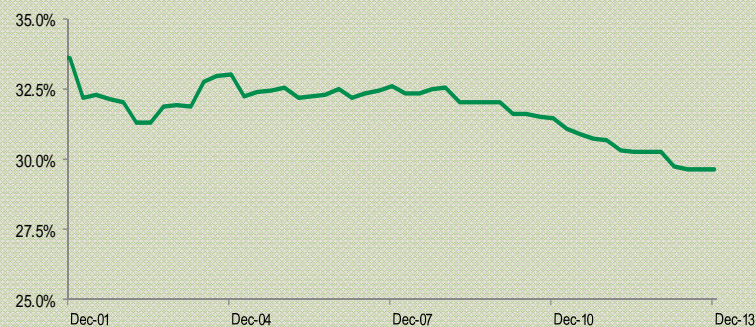
NZ PHI is dominated by top three funds



- There are currently 10 registered health funds in NZ
- Top 3 PHI players represent 87% of the industry by premium revenue
- Majority of health insurance is sold through advisors or employer groups
- Policies are risk rated (unlike Australia)

* Source Health Funds Association New Zealand (March 2014)

NZ PHI coverage (% of population)



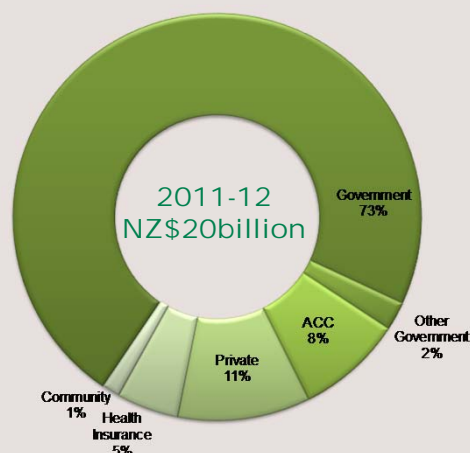
Source : Health Funds Association New Zealand (Dec 13)

NZ PHI participation factors

- Increasing wealth and favourable economic circumstances
- Vast majority of population is not insured
- Growing dissatisfaction with public system (elective surgery)
- Ability to cover full spectrum of healthcare (unlike Australia) enhances value proposition

LIKE AUSTRALIA, NZ GOVERNMENT ACCOUNTS FOR BULK OF HEALTHCARE SPENDING

Components of NZ healthcare spending



- Currently NZ healthcare spending accounts for more than ~10% of GDP and is increasing at ~5% per year
- NZ Governments funds ~80% of all healthcare spending

Government spending = NZ Government direct expenditure through Ministry of Health
 Local Government = includes local public health initiatives and services
 Other Government = other NZ Government agencies, such as Defence and Research

* Source: Ministry of Health – Health Expenditure Trends (2010)

NZ Treasury projections (Government spending)



- The Treasury estimates NZ Government healthcare funding will go from 6.8% of GDP in 2010 to 10.8% in 2060
- By 2061, 20%-30% of New Zealand's population will be aged 65 years+, compared to 14% now

* Source: The Treasury – Affording our Future (2013)

PHI IN NZ COMPARED TO AUSTRALIA

	Australia	NZ
<i>Supportive Government policy (ie “carrots and sticks”)</i>	✓	X
<i>Public Hospital (accommodation, theatre, etc), choice of specialist</i>	✓	X
<i>Private Hospital (accommodation, theatre, etc), choice of specialist</i>	✓	✓
<i>Medical specialist (surgeon, anaesthetist) in hospital</i>	✓	✓
<i>Medical specialist (surgeon, anaesthetist) outside hospital</i>	X	✓
<i>General Practitioner</i>	?*	✓
<i>Pharmaceuticals</i>	X	X
<i>Diagnostics (xray, blood tests)</i>	X	✓
<i>General Treatment cover (dental, optical, etc)</i>	✓	✓
<i>Ambulance</i>	✓	✓

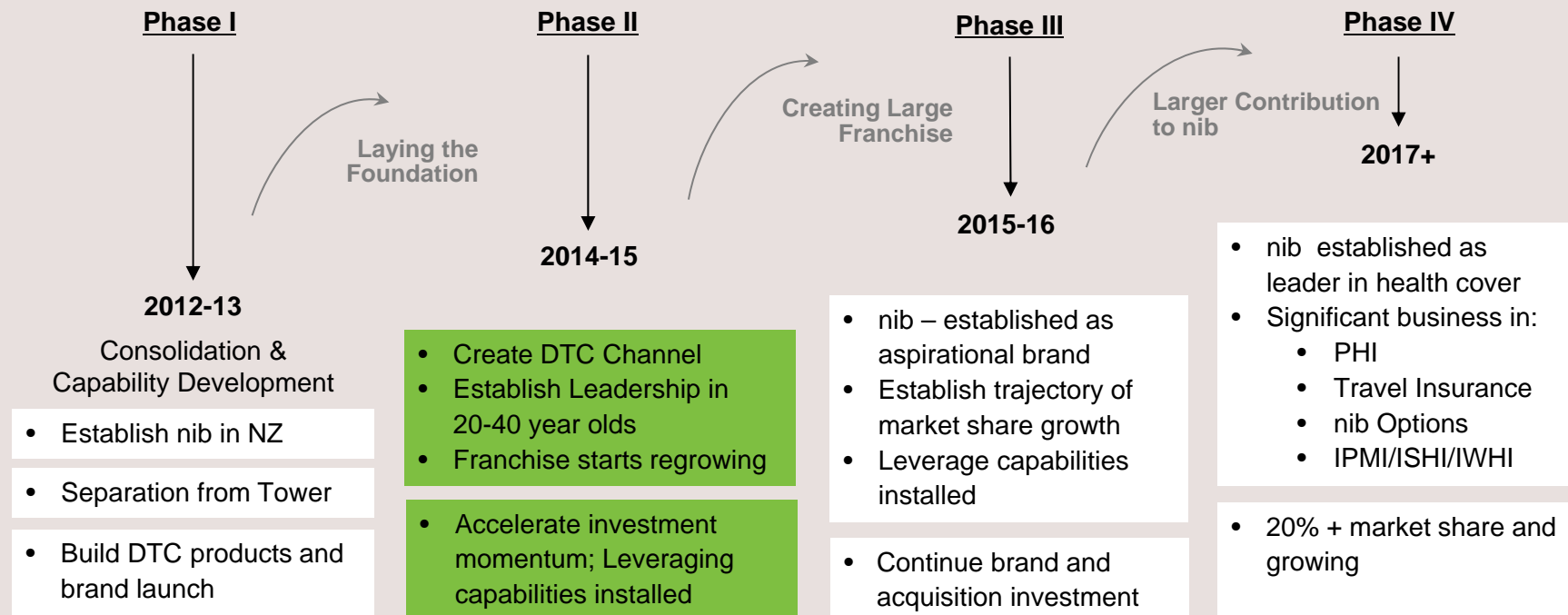
* National Commission of Audit Report recommends expanding PHI cover into primary care, including GPs

OUR SUCCESS & RESULTS TO DATE

nib

nib NEW ZEALAND STRATEGIC FRAMEWORK

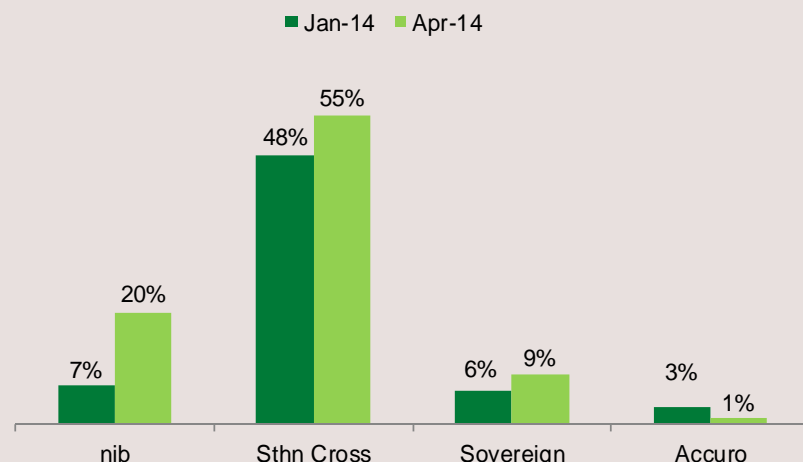
WORK IN PROGRESS





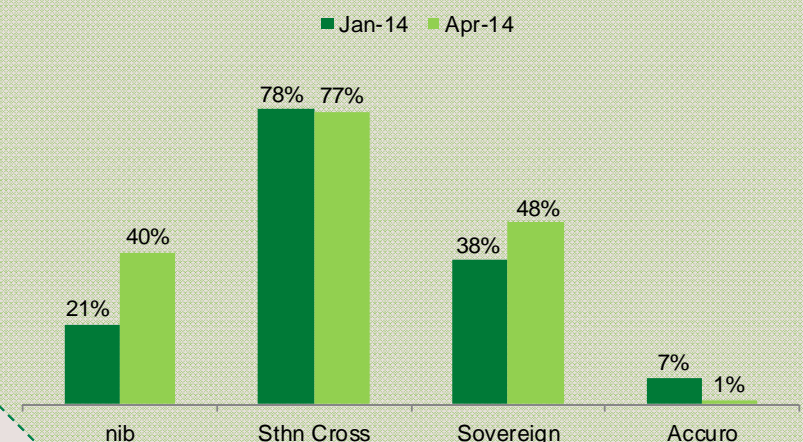
nib BRAND NOW IN CONVERSATION IN NZ

Spontaneous awareness (Target segment 25 – 39 year olds)



- Since launch in New Zealand in October 2013, nib is now ranked number 2 “top-of-mind” amongst consumers for health insurance
- nib unprompted awareness has grown by almost 300%

Prompted awareness (Target segment 25 – 39 year olds)

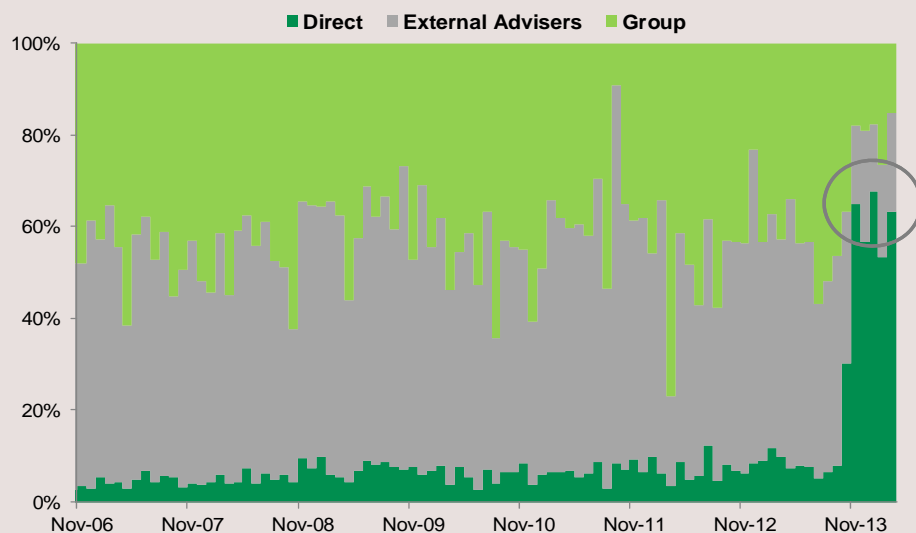


- The nib brand is cutting through at a faster rate than other more established brands
- Prompted brand awareness has almost doubled since January to 40%

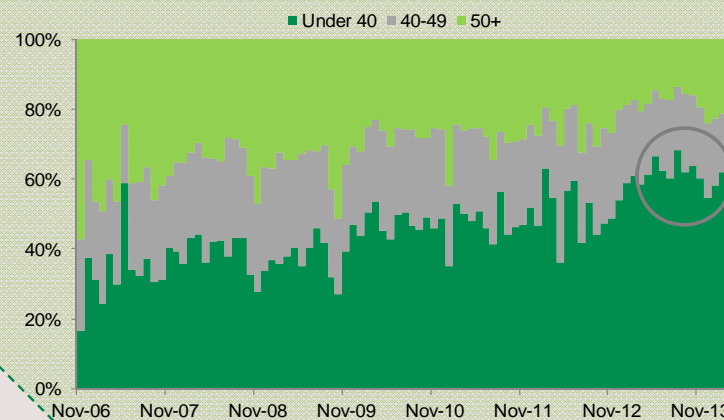
DTC* IS CONTRIBUTING STRONGLY TO SALES

nib NZ monthly policyholder sales by channel (as a % of all sales)

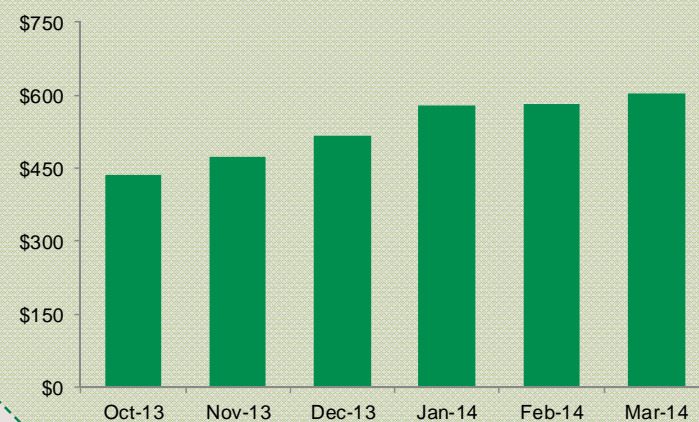
- DTC offering (launched October 2013 – refer highlights on graphs) now our biggest channel
 - 5,400 policyholder sales since launch of DTC (1 October-31 March 2014), up 86% on PCP
 - Forecasting ~10,900 policyholder sales for FY14 (FY13: 6,500) with DTC accounting for 40% of all sales FY14 YTD
- Growth in sales to under 40s target market drives design, brand/marketing and distribution strategy
- New advisor only products (launched February 2014)
- Distribution arrangement with Fidelity Life improves coverage
- New focus on group market to grow our share



nib NZ policyholder sales by demographic (as a % of all sales)



Average Premium Income per DTC sale



* DTC – Direct-to-Consumer

FOCUS ON CLAIMS & LAPSE TO GROW MARGIN

Net claims as a % of all claims (Hospital surgical claims only)

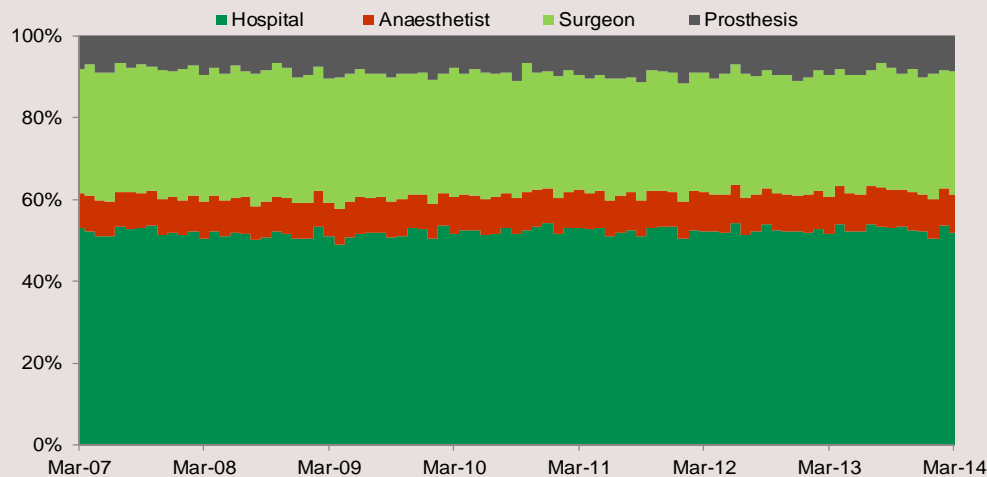
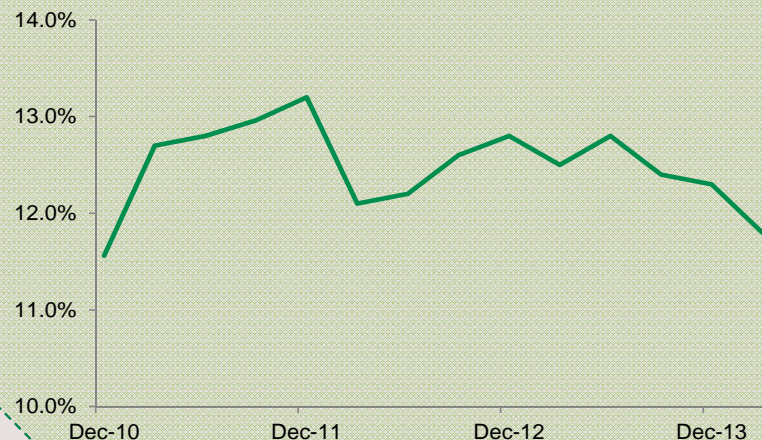


Chart does not include bundled bills (mix of hospital, medical and prosthesis)

- Growth and targeting better risk policyholders (<40) through DTC, and an increase in low value claims such as diagnostics are resulting in steady average claims cost per person
- Underlying claims inflation within some cohorts still experiencing high single digit growth (%)
- Provider Relations strategy moving from development to implementation

nib NZ lapse rate (Rolling 12 months lives covered)



- nib lapse rate remains above overall industry average, although recent trend positive
- Despite strong sales since October 2013, lapse remains a headwind for positive net policyholder growth for FY14
- Focused retention campaigns for new customers
- Ongoing proactive campaign to address lapse through arrears
- Resolve root cause issues with nib Group "Think Like the Customer" (TLC) initiatives
- New migration plan to retain customers on "legacy" products

PRODUCT DESIGN TAILORED FOR NZ CUSTOMERS



- **Value for money**
 - Align customer expectations rather than industry norms
 - Appeal to low risk customers who see immediate value in extras
- **Mitigate adverse selection**
 - Product exclusions and underwriting
- **Minimise cross subsidisation**
 - Price each product fairly and to be profitable
- **Simplicity and transparency**
 - Ensure product inclusions and exclusions are clear (e.g. one excess applied per year, stand down periods clearly communicated)
- **Flexibility and choice**
 - Customers can choose the product relevant to their needs and lifestyle
- **Innovate to add future value**
 - Provider contracting
 - Loyalty and wellness strategies

FOCUS FOR NEXT 12 MONTHS

DTC

- Choice, flexibility, affordability
- 20-40 years of age target
- Advertise benefits and price points

Recalibrate adviser channel

- Best in class products
- Arrest lapse
- Migration plans
- Fidelity Life partnership

Refresh group business

- Maintain current groups at good margins
- Innovate to address market need

Provider contracting

- Establish nib as partner of choice
- Contract strategy and address claims leakage

Service

- Excellence at each touch point
- Drive online
- Operational efficiency

M&A

- Remains a focus with real and attractive opportunities



QUESTIONS

nib

INTERNATIONAL & NEW BUSINESS

Mark Fitzgibbon

Chief Executive Officer & Managing Director

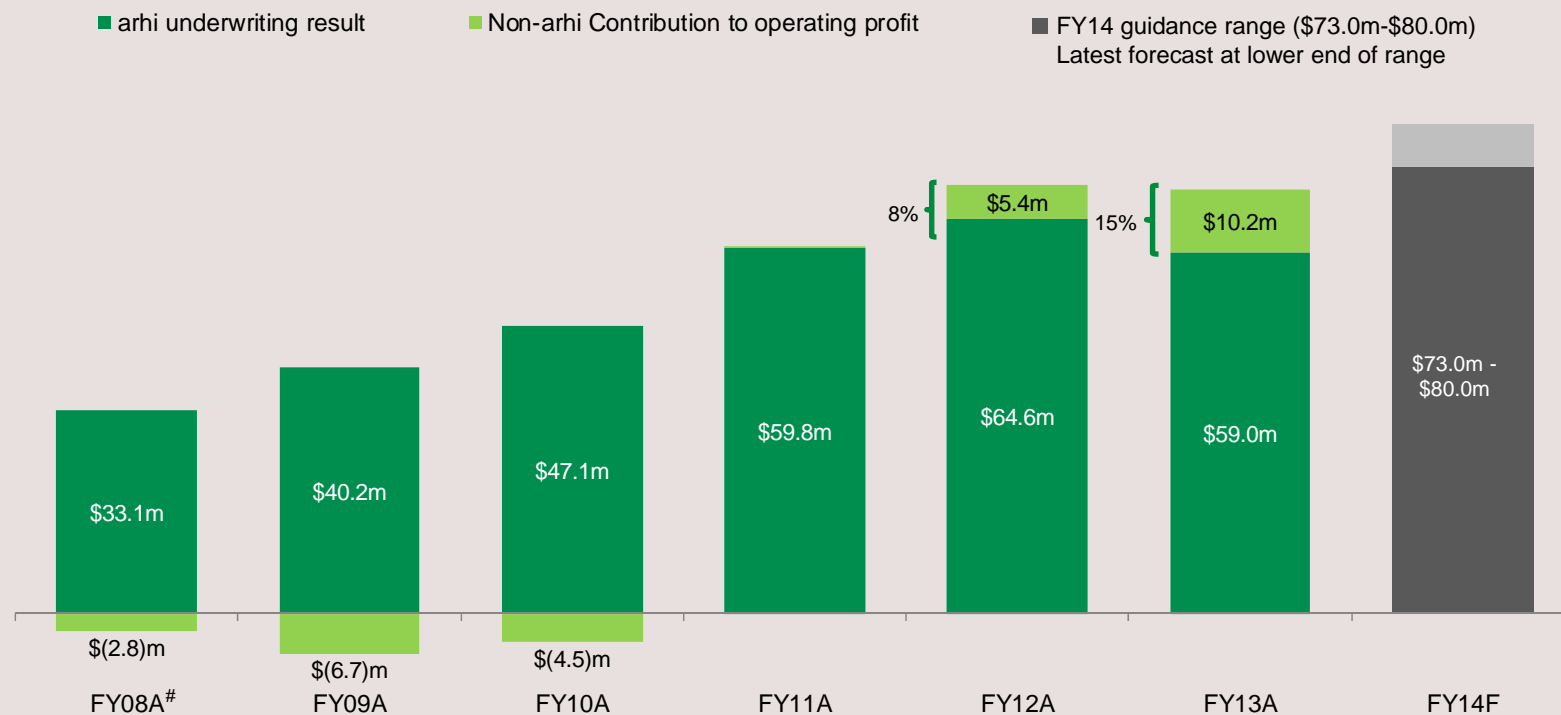
Justin Vaughan

Group Manager Benefits & Provider Relations

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NON-ARHI* CONTRIBUTION TO OPERATING PROFIT

Contribution of adjacent businesses to Group operating profit

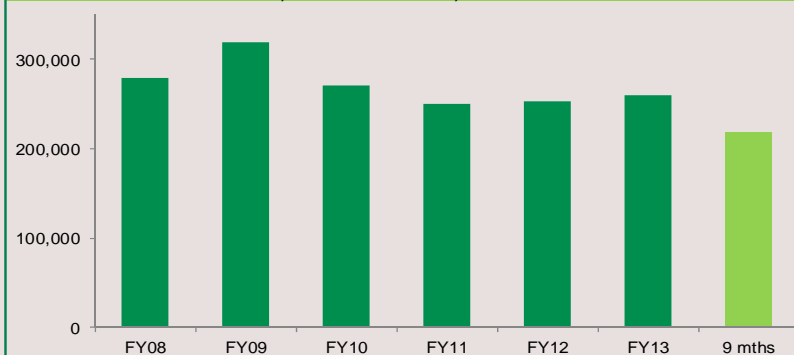


* ARHI - Australian Residents Health Insurance
[#] includes demutualisation and listing costs

INTERNATIONAL STUDENTS (ishi)

International students visas granted (500 class) in Australia

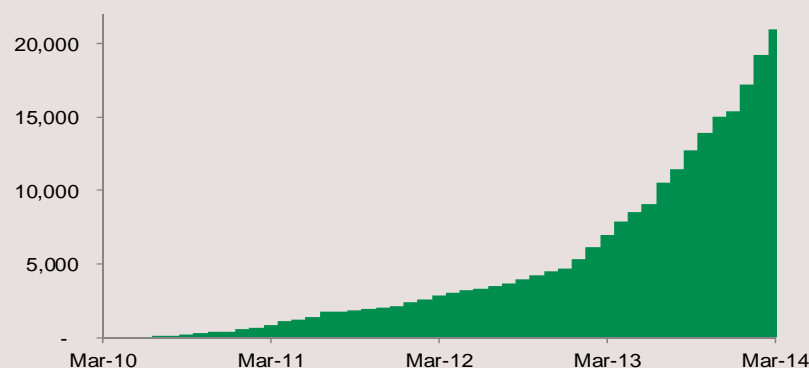
- International student market continues to show positive signs of recovery and growth, with total student visa grants increasing by more than 11% in the March 2014 quarter
- As at 31 March 2014, there were 366,914 student visa holders in Australia



Source: Department of Immigration and Border Protection (2014)

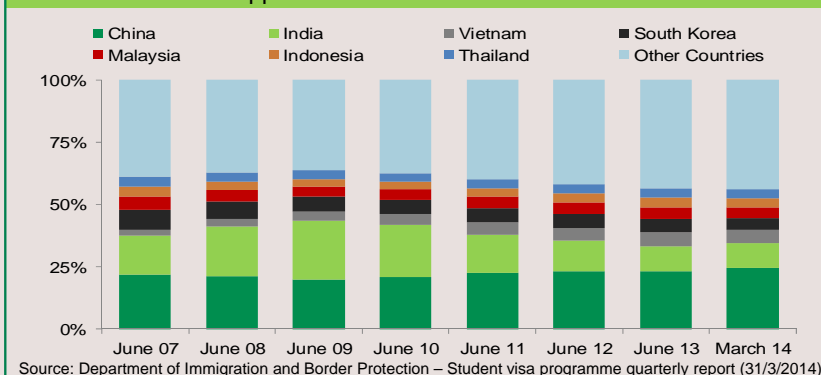
Distribution strategy delivering outstanding policyholder growth

- Ongoing success with upstream distribution strategy as well as successful product design and market positioning continues to drive strong policyholder growth
- Will surpass 25,000 total policyholders by 30 June 2014



International students (visas granted) - country of origin

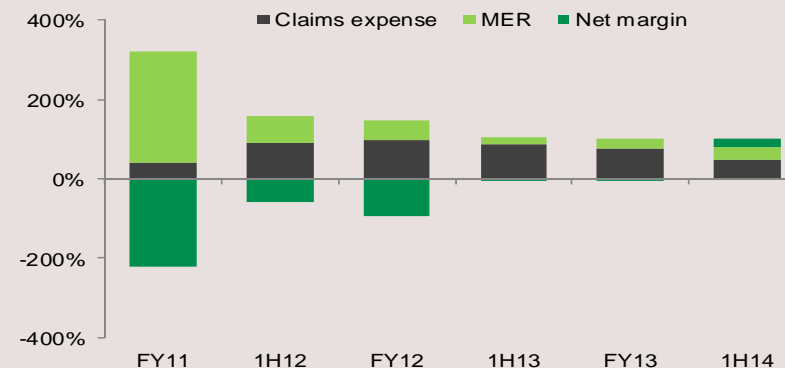
- Of the total student visas granted in FY13, almost 25% were to Chinese nationals, followed by 10% to Indian nationals
- Other countries include countries such as Saudi Arabia, Japan, Brazil, Pakistan and Philippines



Source: Department of Immigration and Border Protection – Student visa programme quarterly report (31/3/2014)

Components of net underwriting result as a % of premium revenue

- Strong policyholder sales has delivered premium revenue growth, with business now having scale to be profitable
- Claims ratio declining as a percentage of revenue due to product design
- Management expenses have increased in 1H14 with business now operating in standalone mode (i.e. no internal cost subsidisation)



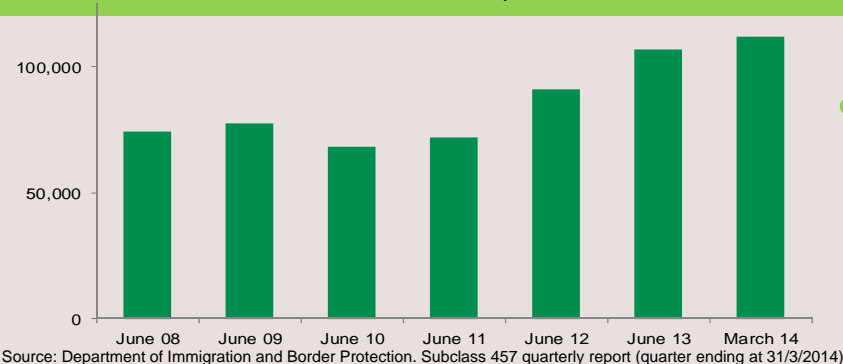
ishi BUSINESS STRATEGY

1. Disrupt traditional distribution system and sell “upstream”
2. Focus direct to consumer efforts upon better risk, single policyholders
3. Reduce claims inflation
4. Place the customer at the centre of everything we do
5. Innovate, innovate and innovate

INTERNATIONAL WORKERS (iwhi)

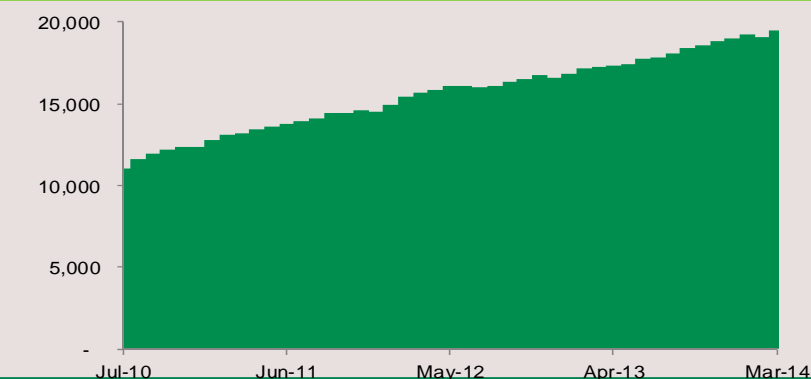
Number of 457 visas (primary visa holders) in Australia

- The number of primary visa holders in Australia on 31 March 2014 was 111,780; 5.9% higher compared with PCP
- However, number of subclass 457 primary visas granted 30 June 2013 - 31 March 2014 was 39,760; 23% lower compared with PCP



Policyholder growth continues to be strong

- Marketing and distribution strategy continues to drive policyholder growth
- Market conditions tougher than previous years due to softening labour market (FY14 net policyholder growth will be similar to previous year)
- Now established as number 3 brand in market



Subclass 457 students visas (primary) granted by sponsor industry

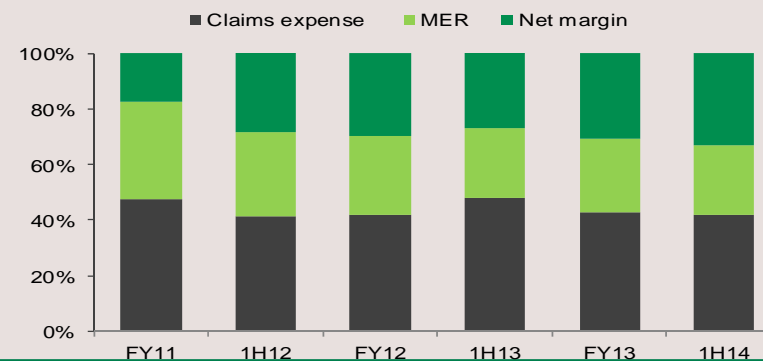
- Majority of 457 primary visas granted are for hospitality, IT and health care industries
- Resources downturn impacted number of mining industry 457 primary visas (5.2% of all 457 visas granted in 9 months to 31 March 2014, compared to 9.3% of all granted PCP). iwhi has little exposure to mining (~15%)

Industry	% of total 457 visa applications granted*
Accommodation and Food Services	12.5%
Information Media, Telecommunications	10.8%
Health Care and Social Assistance	10.3%
Professional, Scientific and Technical	9.3%
Construction	8.9%
Education and Training	5.5%
Mining	5.2%
Retail Trade	4.9%
Manufacturing	4.7%
Financial and Insurance Services	3.3%

* Percentage total of 457 primary applications granted from 1/7/2013 – 31/3/2014
Source: Department of Immigration and Border Protection. Subclass 457 quarterly report (quarter ending at 31/3/2014)

Components of net underwriting result as a % of premium revenue

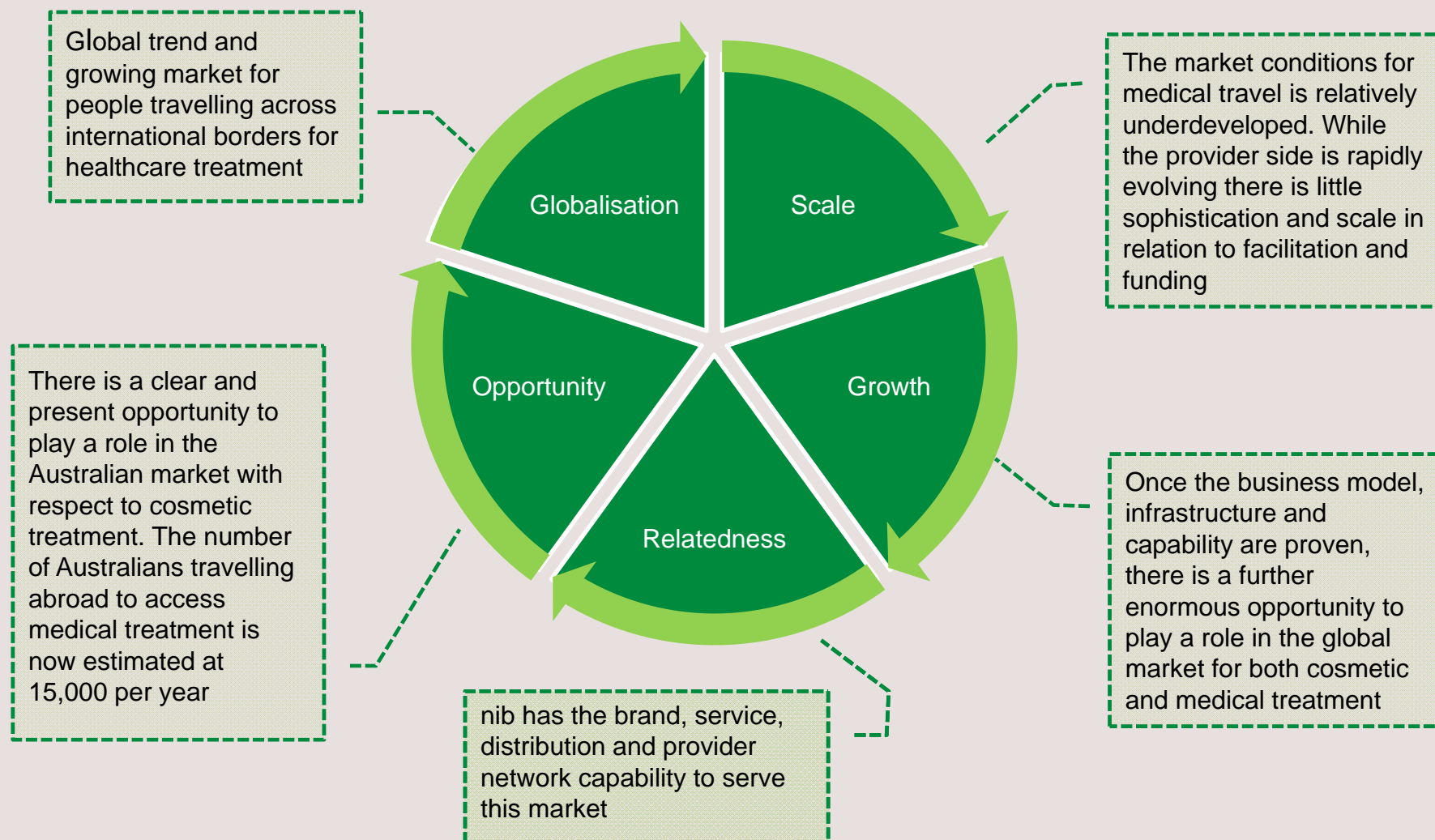
- Track record of stable claims expense, management expenses and net margin
- Premium revenue lagging policyholder growth due to sales of lower premium products (price point and products to meet minimum visa requirements)
- Lower price products have lower benefits, benefiting claims ratio
- Outlook is positive as well as opportunity to grow other visa classes



iwhi BUSINESS STRATEGY

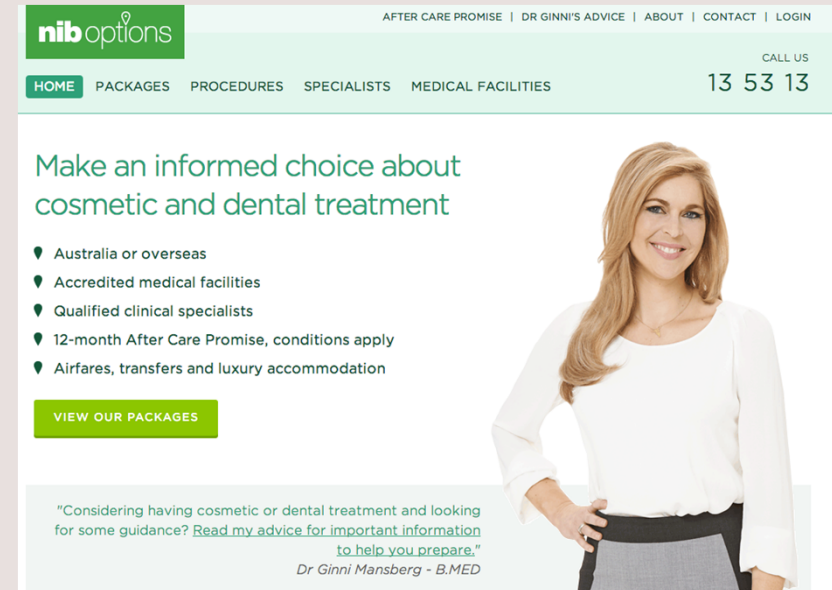
1. Focus efforts on direct-to-consumer with key emphasis on price
2. Escalate risk rating within the business
3. Reduce claims inflation
4. Place the customer at the centre of everything we do
5. Innovate, innovate and innovate
6. Explore opportunities to win corporate business

nib OPTIONS – STRATEGIC LOGIC

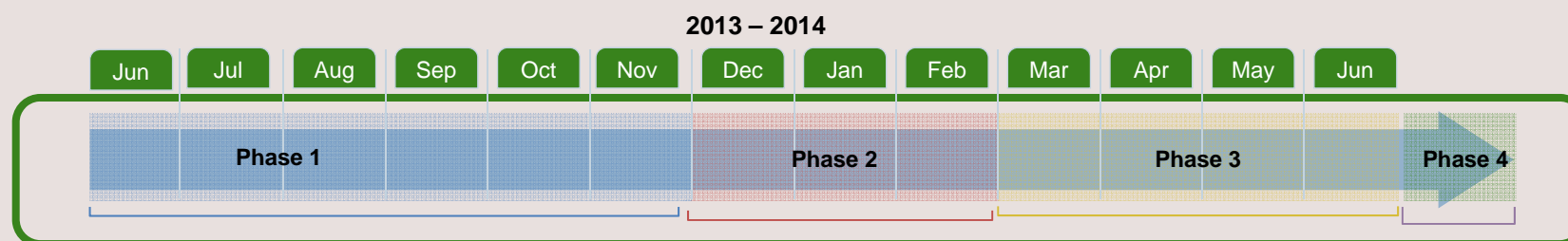


nib OPTIONS – KEY STRATEGIC PILLARS

1. We focus the value proposition, product offering and client service around reliability, quality, safety and trust
2. Build a marketing and sales culture and systems which capture market attention and delivers sales by putting the client at the heart of everything we do
3. Continue to invest in and develop the people, technology and capability
4. Research and prepare for the expansion of the business into supplying medical procedures both in the Australian and New Zealand markets and cosmetic and medical procedures in foreign countries, especially Asia



nib OPTIONS – STRATEGIC MILESTONES



Phase 1 (June – November 2013)

- Announced plans to launch cosmetic and major dental treatment business (to be called nib Options)
- Began establishing Australian network of plastic surgeons (through Realself acquisition)
- Started development of CRM, applied for travel agency licence
- Web and booking engine build began

Phase 2 (December 2013 – February 2014)

- Set up Medical Advisory Committee (MAC) to oversee facility accreditation, provider credentialing and administration of “after care promise”
- Began credentialing providers and ensuring overseas facilities are accredited to Australian standards, with initial focus on Thailand (cosmetic and dental)
- Established provider networks (medical specialists and dentists) in Thailand

Phase 3 – (March – June 2014)

- Soft launch of nib Options (March) using PR and search engine marketing
- First cosmetic procedure booked and performed in Thailand
- Consistent level of customer enquiry without full marketing

Phase 4 (FY15)

- Above the line advertising and marketing campaign to begin, as well as social media investment
- Expand facilities – inclusion of Malaysia and New Zealand options
- Launch nib Options in New Zealand

QUESTIONS

nib

INNOVATION & IT

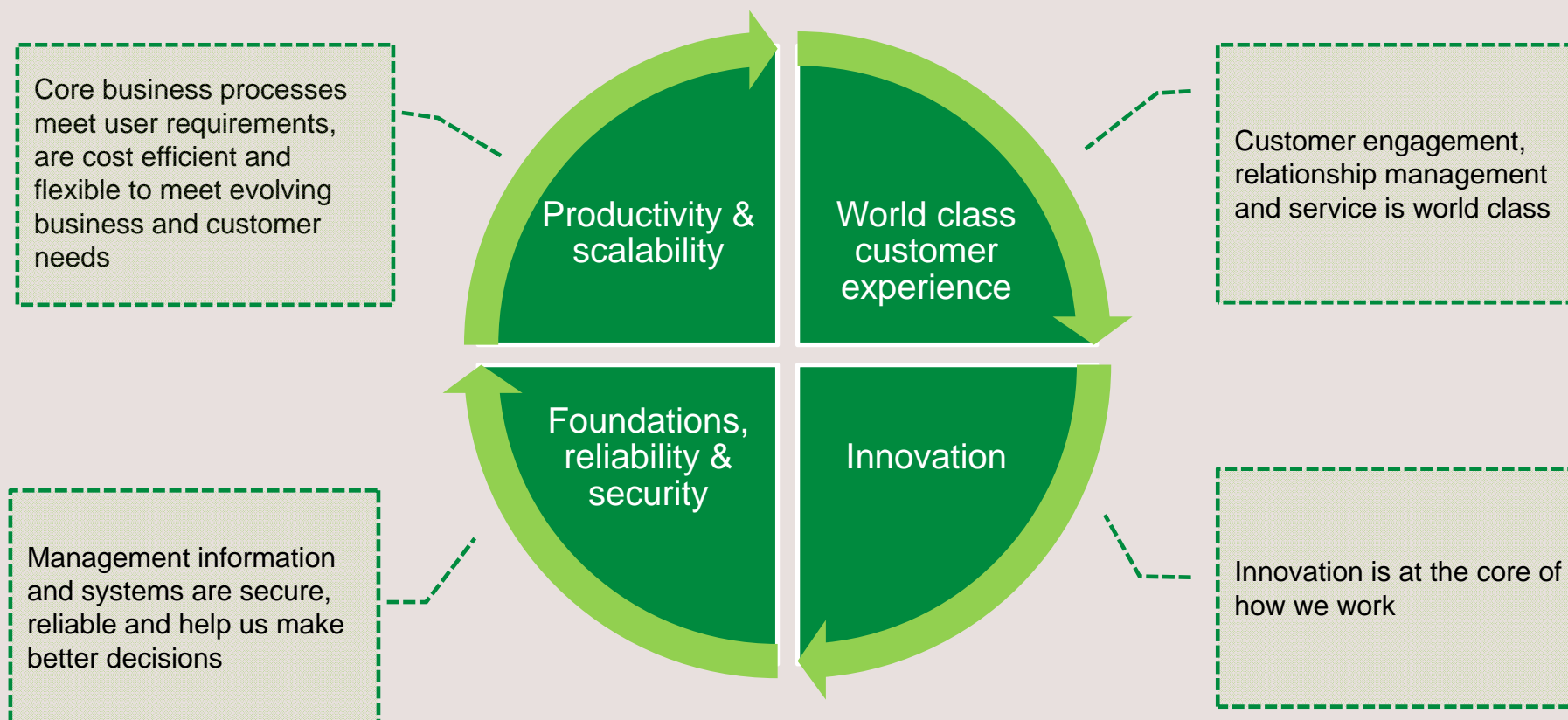
Brendan Mills
Chief Information Officer

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IT STRATEGY

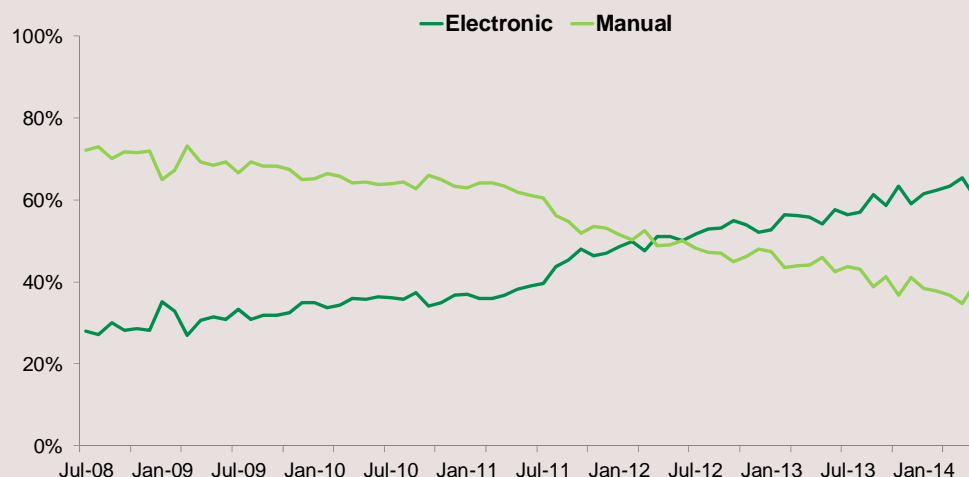
Mission

Support the achievement of our Group business strategy and improve performance across business operations through the application of technology



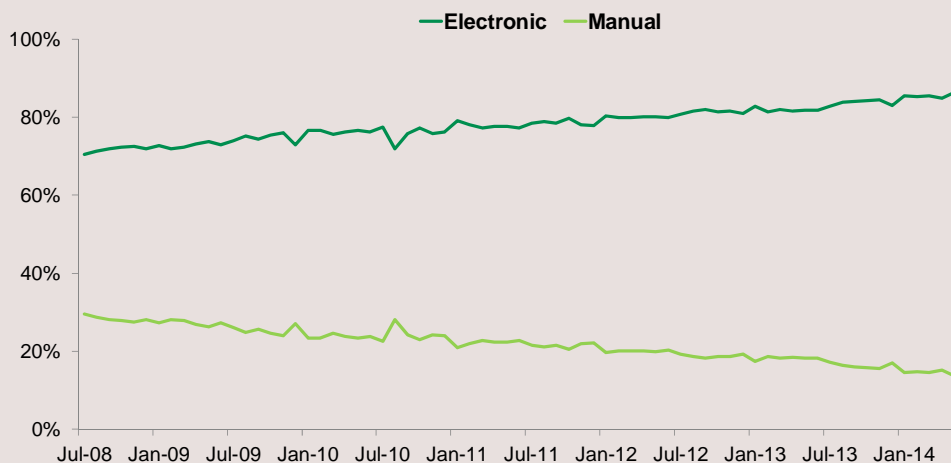
PRODUCTIVITY & SCALABILITY

Hospital claims processing (electronic versus manual as a % of all claims)



- Approximately 60% of medical claims (specialists, etc) today are processed electronically (July 2008: less than 40%)
- Almost 65% of hospital claims today are processed electronically (July 2008: ~5%)
- Manual processing of medical/hospital claims now accounts for ~40% of all claims, compared to more than 70% in July 2008

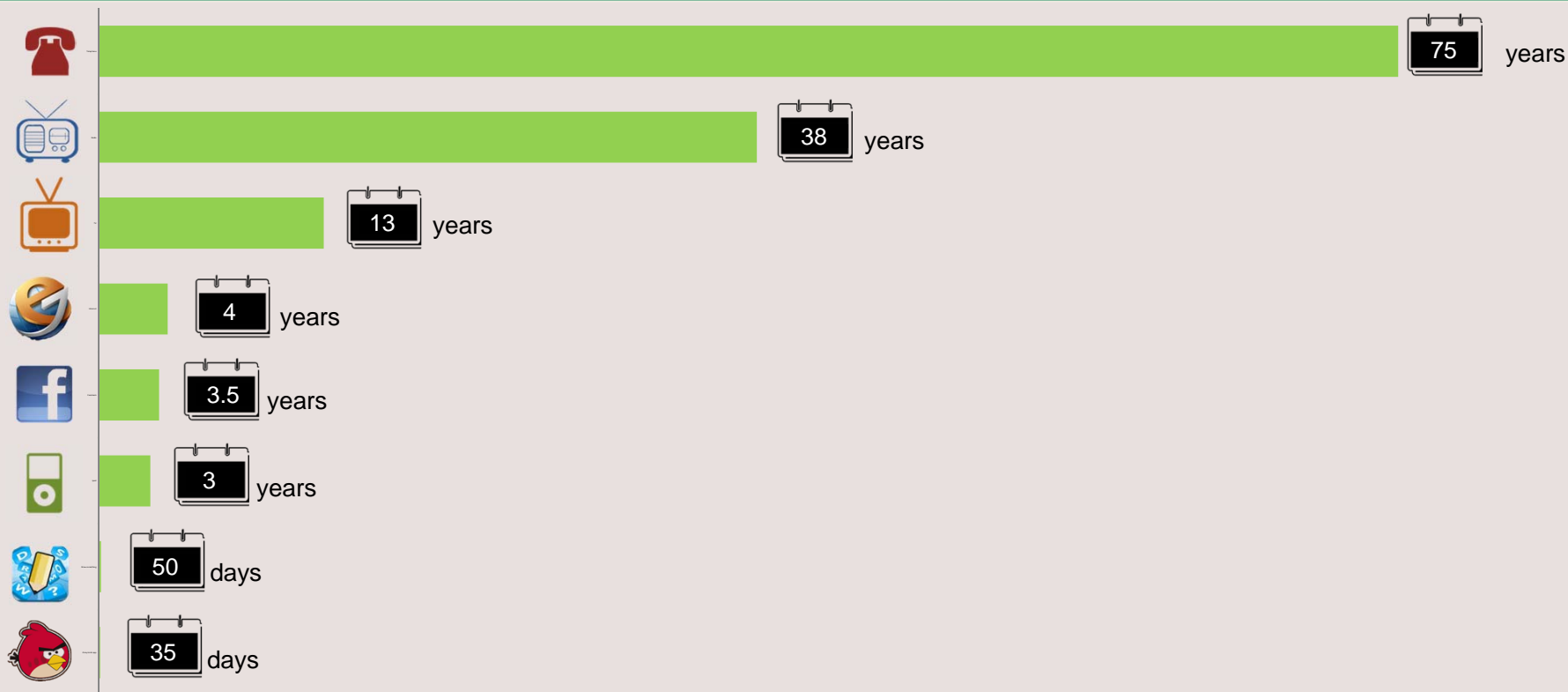
Ancillary claims processing (electronic versus manual as a % of all claims)



- Widespread use of point-of-service claiming systems (ie HICAPS) continues to see a majority of ancillary claims processed electronically
- Online and mobile app claiming are proving popular with consumers and we have further developments in mind

THE PACE OF TECHNOLOGY

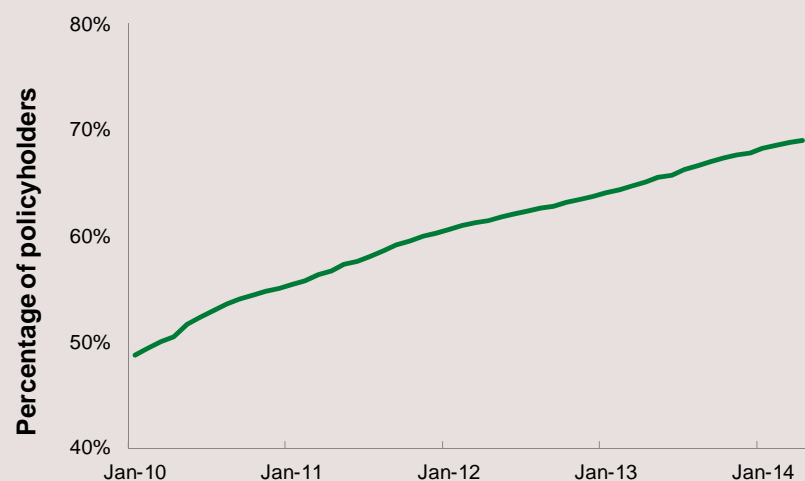
Reaching 50 million users



Source: G. Kofi Annan/ @gkofiannan/gkofiannan.com

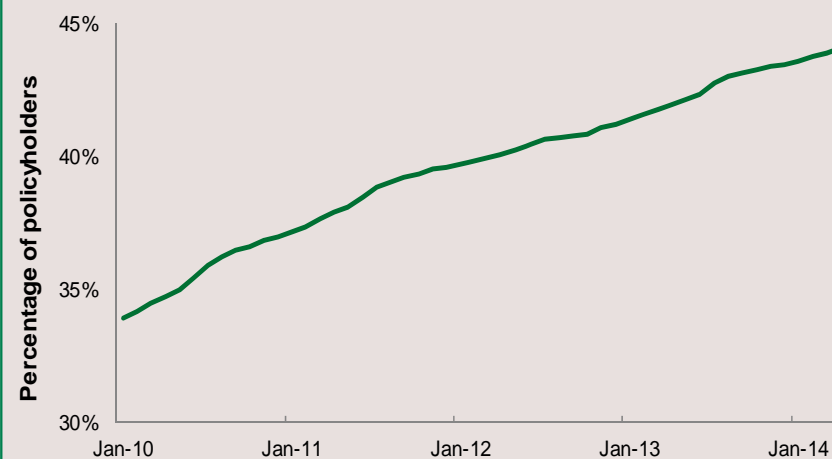
WORLD CLASS CUSTOMER EXPERIENCE

nib online services



- Almost 70% of nib's policyholders are registered for online services, allowing the customer to self manage their health cover online (change details, view remaining benefits)

Customer PMOC*

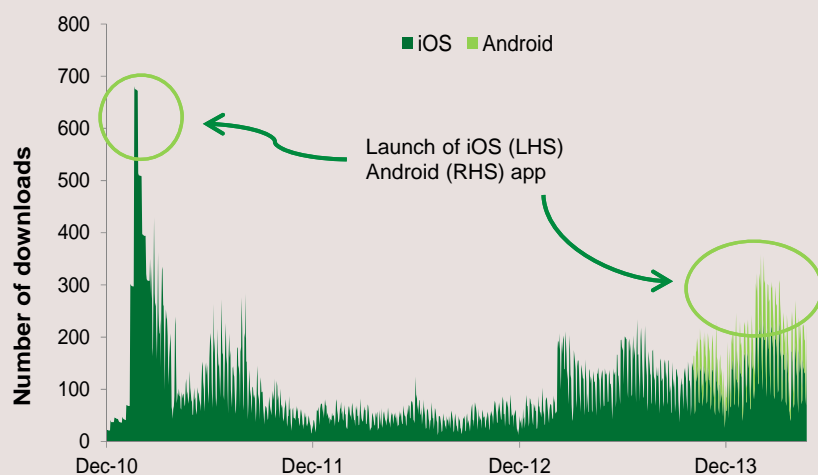


- Almost 45% of nib policyholders now choose to receive their health fund correspondence by email (150x cheaper per policyholder than mail)

* PMOC – Preferred method of contact

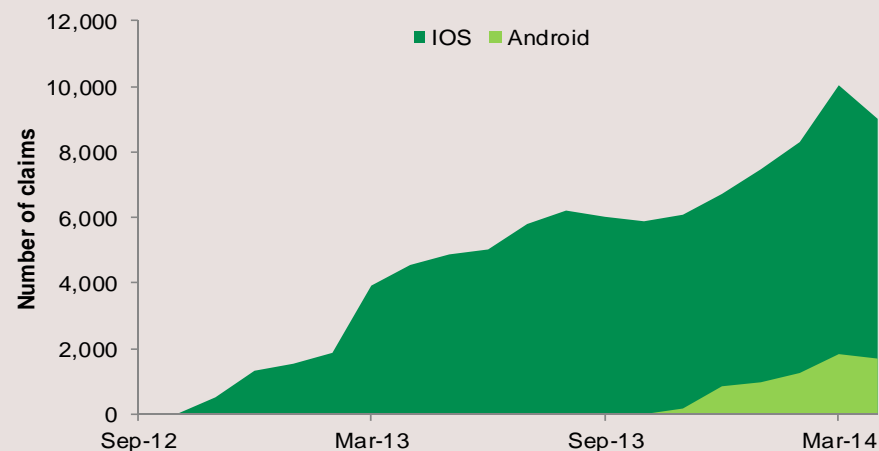
WORLD CLASS CUSTOMER EXPERIENCE

nib mobile app



- nib's iOS (Apple) and Android app has been downloaded by almost 140,000 users
- On a monthly basis we currently have approximately 50,000 iOS and 5,000 Android users

Customers claiming on mobiles



- Making claims from mobile devices has been embraced by nib customers
- Increase in claims from November last year due to launch of Android version of nib app and continued uptake (across all platforms)

WORLD CLASS CUSTOMER EXPERIENCE



- iPad app launched throughout retail network in April 2014 to allow customers to process claims in-store
- Retail app has three main purposes:
 1. Better in-store customer experience – quicker claims processing
 2. Productivity gain – allows retail consultants to focus on other customer enquires (selling)
 3. Channels customers to download app and transact electronically
- Early results are positive with some stores finding 20%-30% of claims being processed through retail app during peak times (11am – 2pm)

FOUNDATIONS, RELIABILITY & SECURITY

- Core systems - challenges that can be overcome without some of the legacy issues of the financial services industry
- System architecture - core is still key but must be supported with appropriate CRM and service layers
- Customer Communication Management - ensuring customers have what they need, when they need it, through their preferred channel
- Infrastructure refresh and automation project has created significant operational savings
- Moving away from our traditional core system thinking - nib Options and IPMI
- TLC* process improvement - unlocking value creation in core system processes

* TLC is nib's quality improvement initiative which we have called Think Like the Customer (TLC)

FOUNDATIONS, RELIABILITY & SECURITY

- Building greater resiliency through technology
- The role of Agile and cross functional teams at nib
- Our innovation culture - 'FedEx Day' or 'Hack Days'
- Data sovereignty - a new consideration as our business model changes
- Significant uplift in investment on security and IT risk management
- Technology and innovation changes the threat landscape including customer fraud

NEW OPPORTUNITIES - WHAT'S NEXT?



nib claims processing and payment in 1950s



nib claims processing and payment today



nib claims processing and payment tomorrow

- nib in discussion with joint venture partner
- “Incubator” style innovation centre with “start-up” mentality
- \$3m investment over three years
- “Consumerisation” of IT driving customer behaviour
- Harness the development in mobile such as Apple’s iOS 8
- Focus on digital customer service channels

QUESTIONS

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2014 INVESTOR STRATEGY BRIEFING

19 JUNE 2014

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