

15 June 2016

Company Announcements Office  
ASX Limited  
20 Bridge Street  
SYDNEY NSW 2000

**nib holdings limited 2016 Investor Day Presentation**

Attached is nib's 2016 Investor Day presentation being held in Sydney today for investors and analysts.

A webcast of the nib Investor Day briefing will also be available from 8.45am – 1.30pm (AEST) today via [nib.com.au/shareholders](http://nib.com.au/shareholders).

Yours sincerely



Michelle McPherson  
**Chief Financial Officer & Company Secretary**

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# 2016 INVESTOR DAY

15 JUNE 2016

**nib**

# Agenda



Welcome and strategic update

Mark Fitzgibbon  
CEO/Managing Director



Australian Residents Health Insurance

Rhod McKensey  
Group Executive Australian Residents Health Insurance

— morning tea



nib New Zealand

Rob Hennin  
CEO nib New Zealand



World Nomads Group

Michael Callaghan  
CEO World Nomads Group



Capital management

Michelle McPherson  
Chief Financial Officer & Deputy CEO



Closing remarks

Mark Fitzgibbon  
CEO/Managing Director

— lunch

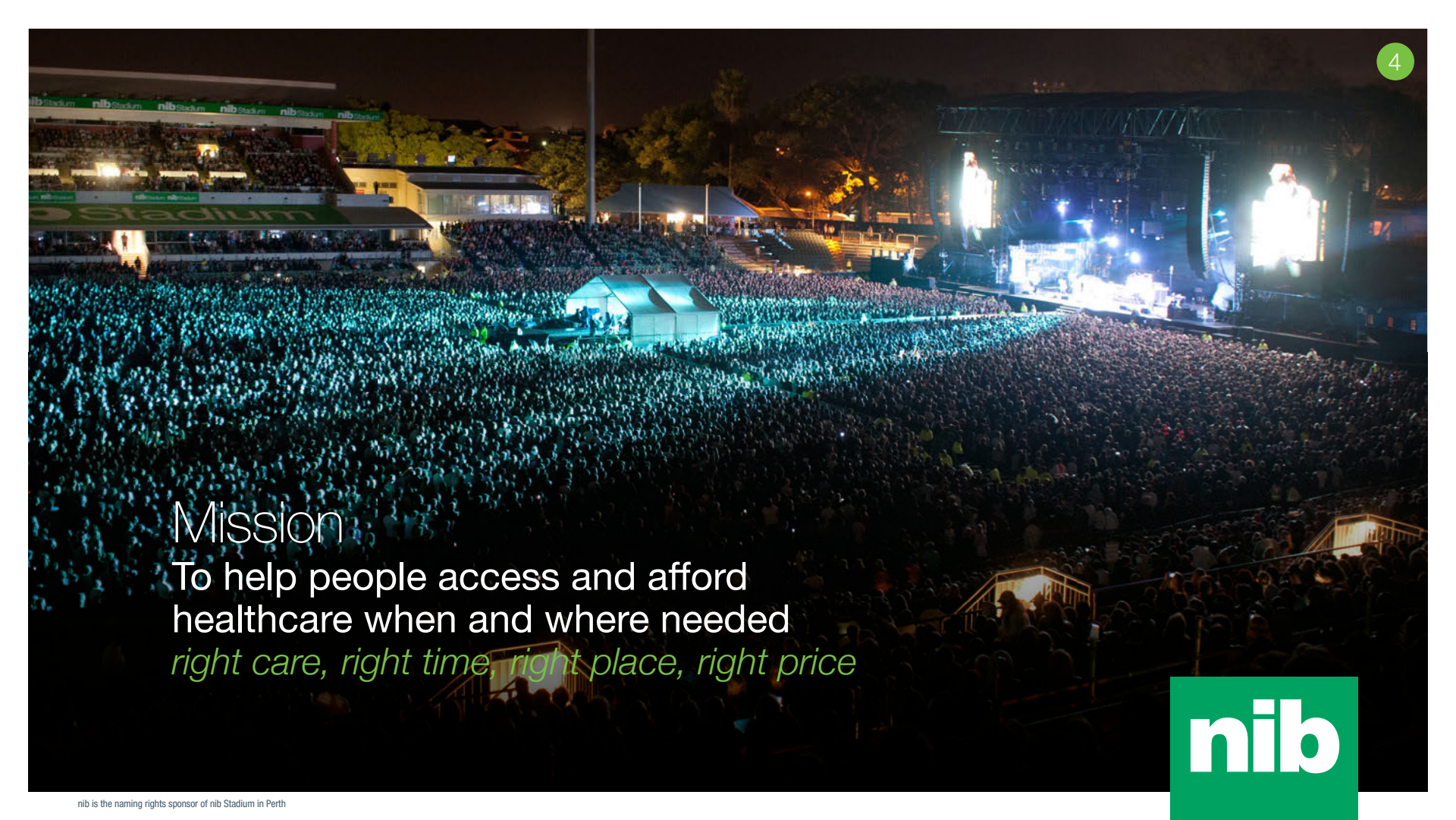


# Welcome and strategic update

## Mark Fitzgibbon





A wide-angle photograph of a large outdoor concert at night. The stage is brightly lit with blue and white lights, and two large screens display the performers. The audience is dense, filling the foreground and middle ground. In the background, stadium seating is visible with 'nib stadium' branding. A small white tent is set up in the middle of the crowd.

Mission  
To help people access and afford  
healthcare when and where needed  
*right care, right time, right place, right price*



## Vision

nib is a leading financier and facilitator of healthcare with a reputation for innovative products, value for money, outstanding customer service, being a good corporate citizen and strong shareholder returns.





# Key strategies

1

Maintain arhi<sup>1</sup> brand positioning and investment in Virgin Green

2

Pursue arhi B2B partnerships (inc whitelabelling) in pursuit of growth via Virgin Silver and in order to adapt to evolving market conditions and opportunities

3

Grow coverage and market share in New Zealand

4

Grow market share in international workers and students markets

5

Leverage core Group assets and capabilities to develop new and existing adjacent business opportunities consistent with Red Queen Racing

6

Opportunistically pursue mergers and acquisitions

7

Continue to drive engagement, creativity and innovation across everything we do with customers at the centre

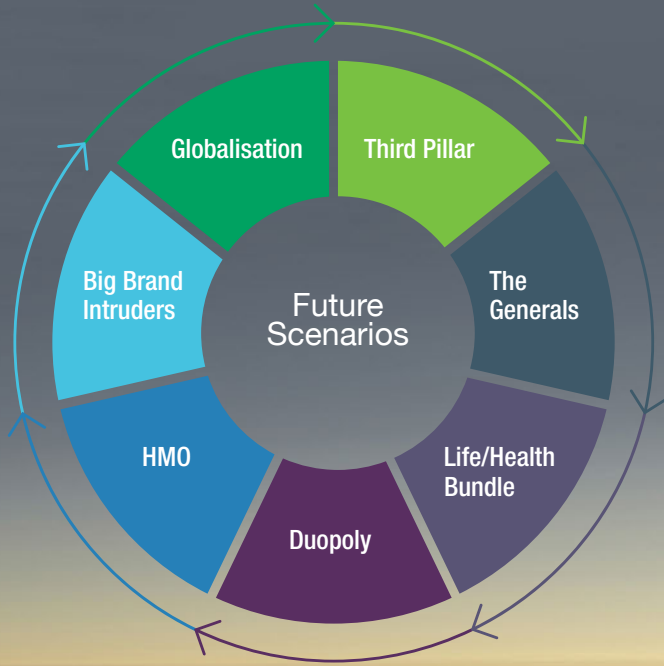
1. Australian Residents Health Insurance







# Future scenarios



The future shape of PHI is by no means certain but nib remains strategically well positioned.







# Variation in health outcomes is a world-wide problem

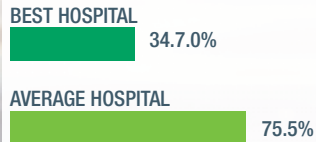
Outcome customer measurement and transparency is key to driving down variation.

## Measuring multiple outcomes | Prostate cancer care in Germany

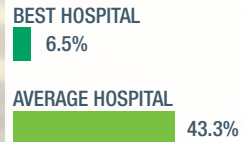
### 5 year disease specific survival



### Severe erectile dysfunction



### Incontinence



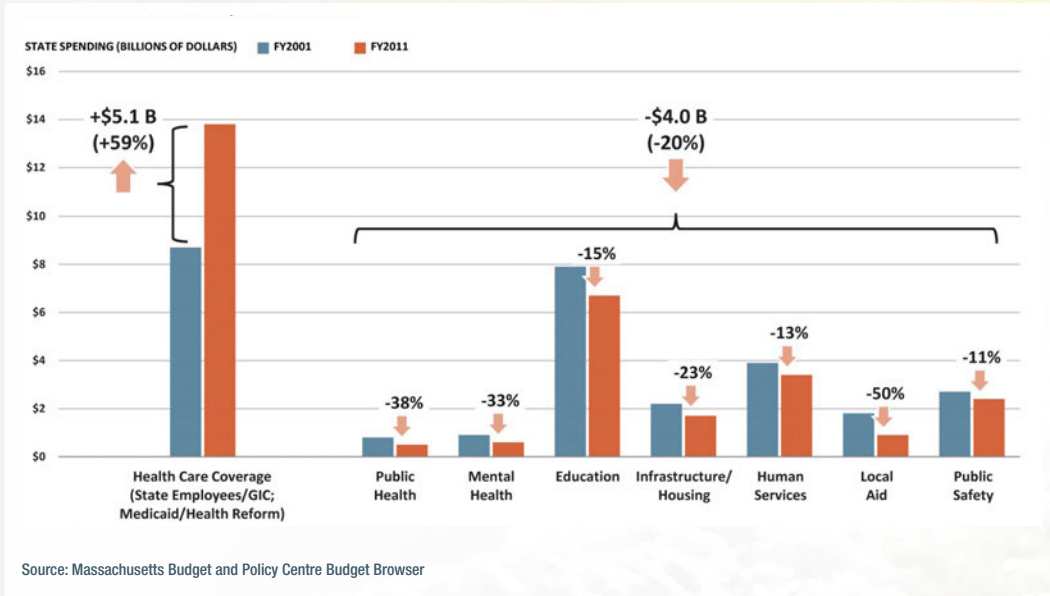
Source: ICHOM





# Increasing health care costs are squeezing out other public spending priorities

Massachusetts State Budget – FY01 versus FY11





## Outlook & guidance

### FY16 outlook remains positive

- Real healthcare spending will continue to grow circa GDP + 2%<sup>1</sup>
- Expect PHI reforms will be a net positive
- Claims inflation taking a lower trajectory with opportunities to improve PHI affordability and stabilise margins
- Adjacent businesses will increase contribution to earnings including significant improvement in international (inbound) business from FY17
- FY16 consolidated underlying operating profit of \$125m – \$135m (statutory operating profit of \$113m – \$121m)

	Total Health Expenditure	GDP
	Average annual growth rate (%)	Growth rate (%)
2003–04 to 2008–09	5.78	3.08
2008–09 to 2013–14	4.23	2.60
2003–04 to 2013–14	5.00	2.84

1. Source: Australian Institute of Health and Welfare 2015. Health expenditure Australia 2013-14. Health and welfare expenditure series no. 54. Cat. No. HWE 63. Canberra: AIHW.

# Australian Residents Health Insurance

Rhod McKensey





# arhi snapshot

Continues to be core earnings driver



History of above industry average policyholder growth



5 year premium revenue CAGR of 9.6% (industry 7.7%)



Customer first culture (NPS)



Brand positioned to target under 40s

**55+**

Successful use of other brands and distribution channels to target other markets (over 55s)



Proven capability in whitelabelling (Apia, QANTAS)



# Market overview

## Current trends

1

Industry policyholder growth has slowed

2

Health fund affordability a hot issue with a number of initiatives being pursued to address rate of premium growth

3

Consumers increasingly empowered and engaged, fuelled by increasing levels of media interest, leading to increasing switching and lapse

4

Competition amongst funds and retail brokers continuing to drive up cost of acquisition

5

More recently, claims inflation is trending on a lower trajectory, but future trajectory remains unclear

6

Industry profitability has improved, leading to nib net margin moving back into target range



# Market overview

## Current state

### What we like

- Supportive Government policies and incentives encouraging PHI take up
- Recent trends in lower claims inflation reducing pressure on future premium increases
- Efforts by funds and Government to improve consumer engagement and transparency
- Efforts by Government regarding PHI reform (PHI Review, MBS Review, Primary Health Care Review)

### What we don't like

- Slowing growth in under 40s segment
- Growing lapse
- Pressure on affordability
  - Current prostheses pricing arrangements
  - Second tier hospital default
  - Medical specialist cost variation
  - Rate of growth of cost shifting by public hospitals
- Current risk equalisation structure that blunts incentives to better manage customers with chronic disease
- Regulating premium pricing





# Our strategy

Focus on sustainable growth

- Direct
- Retail brokers
- Whitelabel partners

Ensure we deliver flawlessly on the basics

- Eliminate sources of failure demand
- Make transacting with us easy
- Focus on delivering a great experience during “moments of truth”

Give our customers a reason to stay beyond just health insurance

- nib Rewards
- Better information and tools to navigate the health system and stay healthy

The nib logo, consisting of the lowercase letters 'nib' in a white, bold, sans-serif font, set against a solid green rectangular background.





# Our strategy

## Growth

Design our business to attract the right kind of customers

### How

- Product design
- Pricing
- Marketing, including messaging and media selection
- Distribution
- Leads management
- Customer experience design
- Retention





# Our strategy

## Marketing and brand

### Acquisition Marketing

- Produce outstanding acquisition campaigns focusing on under 40s and attracting better risks
- Focus on “digital first” amplification
- Increase social engagement and continue to experiment
- Develop a content marketing strategy that’s scalable and sustainable
- Continue to optimise distribution channels based on return on investment
- Grow affiliate, third party and or whitelabelling opportunities

### Customer Communication

- Ensure customer communication is delivered “trouble free”
- Personalise on-boarding correspondence
- Support strategic partners by continuing to develop white label capabilities
- Optimise customer contact program to improve customer advocacy, retention and cross sell

### Loyalty Marketing

- Increase the value of the nib App
- Extend nib Rewards
- Provide customers with better information and tools to navigate the health system and stay healthy





# Our strategy

## Distribution

**Continue to invest heavily in the nib brand, leveraging our brand positioning and omni-channel capabilities to grow the category and our presence in the under 40's segment.**

### How

- Focus on attracting the right kind of customers
- Heavy investment in digital capabilities and digital marketing
- Strong use of online offers aligned with the target segment
- Focus on leads management and conversion – both online and offline
- Judicious use of retail brokers

**Grow our share of the over 55's market**

### How

- Whitelabel relationships
- Other strategic partners

**Niche acquisition of other quality customers**

### How

- Small set of culturally aligned partners
- Strong brands with large existing customer bases





# Our strategy

## Retention and lapse

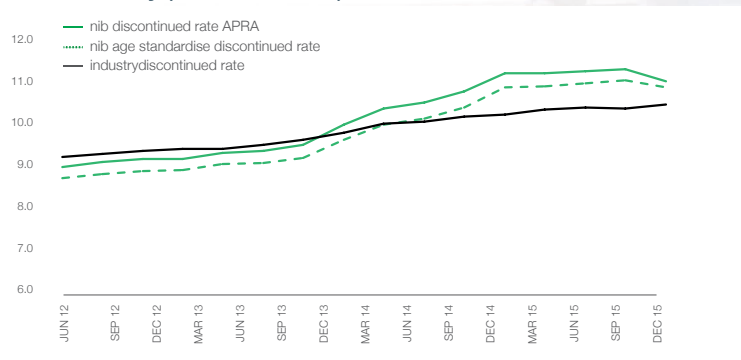
### Customer retention remains a key challenge

- Industry lapse rates continue to edge higher
- Despite the effectiveness of our lapse initiatives, our lapse rate is higher than the industry, even after allowing for age differences
- Some of this difference can be attributed to our higher than industry growth and heavy reliance on the broker channel

### What are we doing

- Continue to optimise the scale and scope of winback and intervention campaigns
- Further refine customer offers to target the right customer
- Develop FirstChoice preferred provider network
- Develop WOW factors, including expansion of nib Rewards

#### Annualised Discontinued Rate (%) nib vs Industry (Insured Persons)



Source: nib and APRA







# WOW Factors

## Going to hospital

20

- A key customer moment of truth is going to hospital. Customers have little access to information to help them make decisions
- In 2015 nib received a total of 430,000 hospital eligibility checks as well as 160,000 calls related to going to hospital
- New tools are being developed to provide customers with information allowing them to make more informed decisions, better manage their health and treatment, avoid out of pocket costs and reinforce the value of PHI
- Launch date in calendar year 2016 with same information available on Whitecoat shortly thereafter

### Am I covered?

- Yes or No
- Information about procedure, health management/treatment options
- Public hospital waiting times
- Total procedure cost (hospital, medical, prosthesis)

### Who should I see?

- Whitecoat style search and compare medical specialist patient reviews, self reported outcomes, procedure volume

### How much will it cost me?

- No gap participation
- Average out of pocket
- Make a booking





# Claims management

Claims inflation has slowed in recent times...  
But is this the new trend or will claims inflation revert to historical levels

## A numbers of claims management initiatives underway

### 1. Active payment integrity function

- Provider profiling
- Up coding
- Fraud

### 2. Hospital contracting

- Per diem versus DRG
- Value-based contracting/quality performance contracting (DRG)

### 3. Recoveries

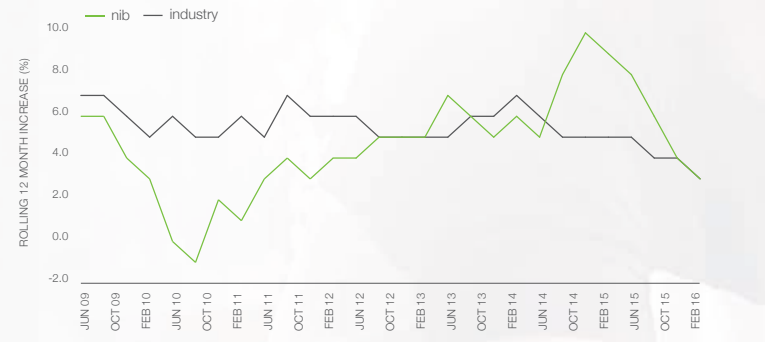
- Other third party insurers and compensable claims

### 4. First Choice provider ancillary network

### 5. Clinical programs for chronically ill

- a number of pilots underway
- Government trial of Health Care Homes (primary health care review)

Total benefits (hospital and ancillary) per person inflation (%) (industry and nib)



Source: nib and APRA



# Our focus for next 12 months

Grow by attracting and keeping the right customers

- Product design and pricing
- Distribution optimisation
- Leads management

Organic sales

Whitelabelling

- Apia
- Qantas
- Others?

Operational excellence

- Failure demand
- Routine transactions
- Moments of truth

Benefits management

- FirstChoice network
- Hospital contracting

Give our customers a reason to stay beyond just health insurance

- Better information to navigate the health system and stay well
- nib Rewards

Opportunistically pursue mergers



# Morning Tea

Webcast will resume shortly

The nib logo consists of the lowercase letters 'nib' in a bold, white, sans-serif font, centered within a solid green square.



nib New Zealand  
Rob Hennin





# Market Overview



### Components of healthcare spending

83%  
Government

10.6%  
Individuals

5.0%  
PHI

1.4%  
Community health

### What PHI does and doesn't cover

	Covered	Not covered
Public & Private Hospital (accommodation, theatre, etc), choice of specialist	✓	
Medical specialist (surgeon, anaesthetist) in hospital	✓	
Medical specialist (surgeon, anaesthetist) outside hospital	✓	
Pharmaceuticals in hospital	✓	
Pharmaceuticals outside hospital	✓	
Diagnostics (x-ray, blood tests) in hospital	✓	
Diagnostics (x-ray, blood tests) outside hospital	✓	
General Treatment cover (dental, optical, etc)	✓	
Ambulance	✓	

### New Zealand PHI Growth Drivers

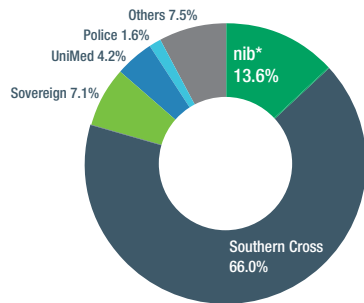
- Increasing wealth and favourable economic circumstances
- Vast majority of population is not insured
- Growing dissatisfaction with public system (elective surgery)
- Ability to cover full spectrum of health care (unlike Australia) enhances value proposition





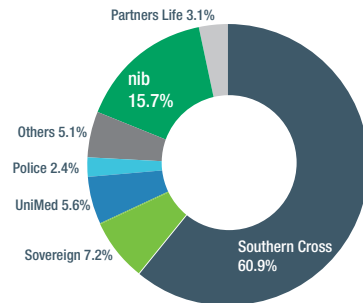
# Market Overview

### Market share (Premium Revenue)

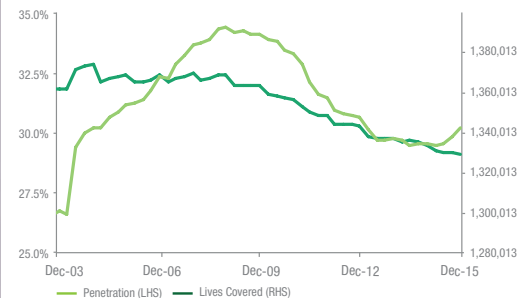


\* Includes one month of premium revenue from OnePath Health with business acquired 1 December 2015

### Market share (Lives covered)



### PHI Coverage (Percentage of population)



- Total industry premium revenue ~\$1.3b
- 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)
- PHI can cover full health care spectrum





# Market Overview

## Current state

### What we like

- Health insurance covers full health spectrum (GPs, diagnostic, pharma, specialists, hospital)
- DTC opportunity to grow new to category and market
- Ability to risk rate
- Considerable latent demand – relative low PHI participation compared to Australia
- Potential to disrupt status quo – industry currently lacks significant investment in brand, marketing, IT/mobile
- Ability to leverage nib Group learnings, sophistication and scale
- Potential M&A to improve scale and scope
- Adjacent earnings opportunities – travel, students, workers
- Multi distribution channel options
- Light touch regulation
- Strong and growing economy

### What we don't like

- Lack of Government carrots and sticks
- Multiple funders (public system, ACC, PHI) dilutes value proposition
- Commissions and cost of acquisition through traditional channels such as advisor network
- Affordability and perceived value by consumers, particularly elderly and chronically ill
- Lack of some community rating means customers typically do not switch (pre-existing conditions, risk rating)







# Our strategy

## Grow the business... across all channels

- Build DTC channel
- Recalibrate advisor channel
- Pursue increased share in corporate market
- Expand whitelabel opportunities with the right partners
- M&A

## Digitise our business

- We acquired a paper-based business

## Lapse and retention

- Protect and retain existing business
- Apply Group learnings

## Our people

- Have the right people on the business

## Build modern value based provider network

- Important cost effective solution to manage claims inflation
- Launch "First Choice" provider network
- Deliver significant improvement in customer service



# Our positioning



To grow the New Zealand health insurance market and our overall share through innovative and affordable products and best in class customer service.

\* nib is the major sponsor of NZ Super Rugby team the Auckland Blues





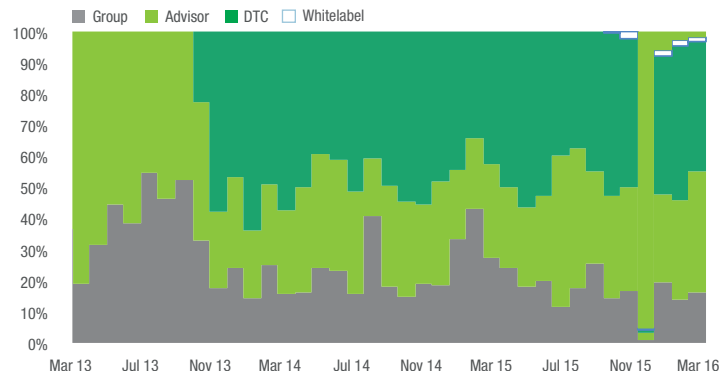
# Our approach to growth

## Distribution

**Our strong growth ambitions are collaborated against a multi-channel distribution strategy:**

1. **Advisor** – in past 12 months have launched “best in class” products and maintained strong key advisor relationships. Focus needs to be on addressing industry’s unsustainable commissions.
2. **Group** – new products and wellness package in market, focus on winning profitable business, pipelines good but market inertia high.
3. **DTC** – good sales momentum and as strong as ever, accounting about half of all new sales, but lapse is high.
4. **Whitelabel** – sales through The Warehouse Group are slow, but early days. New distribution partners expected to be announced in CY16.

**Sales\* (% of sales) by channel**



\* Increase in sales through advisor channel in December 2015 due to acquisition of OnePath Health book of policies.







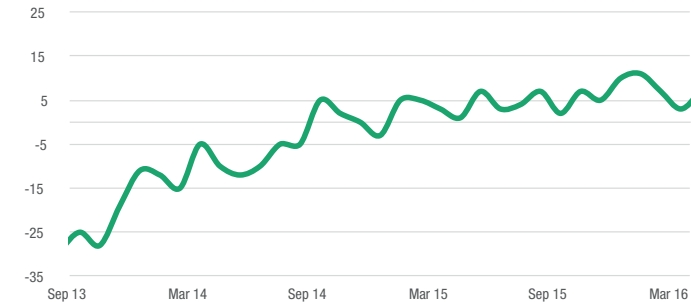
# Our approach to growth

Voice of customer (NPS)

**Our Net Promoter Score has improved significantly since launching brand in 2013, but still much to do.**

- Measure and reduce 'Failure Demand'
- Provide faultless 'Moment of Truth' interactions
- Delivering 'WOW' experiences to delight customers
- Better equip our people with skills and training
- Enhance customer self-service

NZ NPS





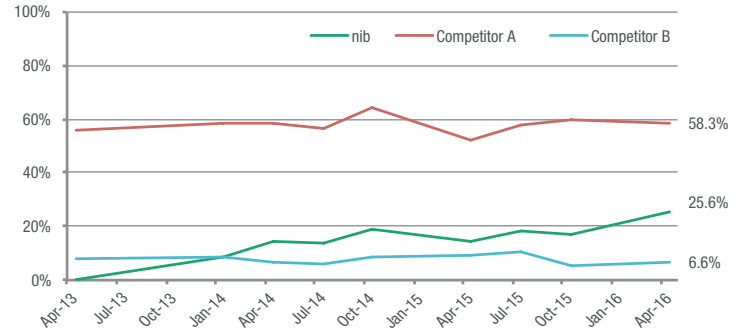


# Our approach to growth Brand

Our investment in brand and marketing is paying off with nib brand (unprompted brand awareness) now clearly number two in market.



## Unprompted brand awareness



- GREATER CHOICE
- FINANCIAL SUPPORT
- FASTER TREATMENT

Source: Q. Thinking about private health insurance companies, which ones come to mind? (Open Ended Response). NZ Brand and Ad tracker Jan '14-Apr '16, n=350, Nielsen NZ Market Study, April '13 n=1000







# Our approach to growth

M&A – Step change with OnePath Health acquisition

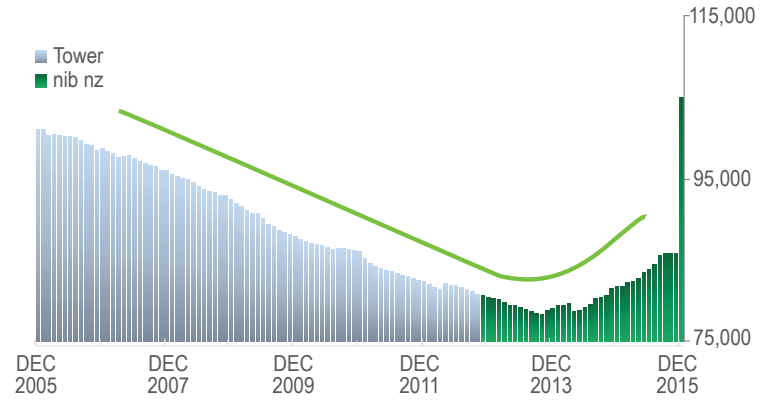
OnePath acquisition... we got exactly what we paid for

While early days...

- Revenue on target
- Positive adviser feedback
- No 'shock lapse' to date
- Bancassurance sales better than planned
- Transition arrangements working well



Policyholder growth





# Our approach to growth

Lapse and retention

While lapse is improving (DTC), our focus is on addressing the 5 top reasons for lapse

- Uncertainty regarding cover
- Perceived value (Not using their cover)
- Customer Service (experience)
- Financial/Affordability
- Offered better deal through work







# Our approach to growth

## Driving digital engagement



Focusing on a digital first approach to improve customer engagement and satisfaction as well as generate operational efficiencies.

Initiative:	Status
Paperless as the default	Target completion June 2016
Paperless as the default	Digital customer journey
Dedicated digital engagement campaigns	CLM in place from April 2016 Digital education begun

### Measure the impact



Activity	December 15 (actual)	December 16 (target)
Customer registered with mynib	22%	40%
Claims now electronic	33%	50%
DTC acquisition online	57%	60-66%
Payments electronic	89%	90%





# Claims and benefit management

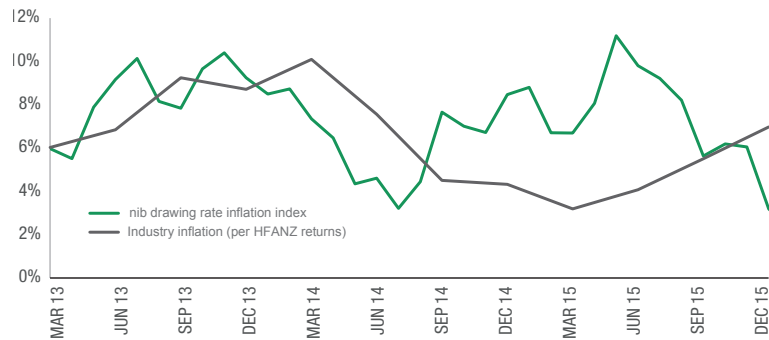
While claims inflation is trending on a lower trajectory, a number of strategic initiatives are in the pipeline to improve affordability slow rate of claims growth.

Product design and deter adverse selection

Outlier (cost and utilisation) management

Cost variation – hospital and medical

Rolling 12 month claims inflation (nib versus industry)



Source: nib and Health Funds Association New Zealand (December 2015)



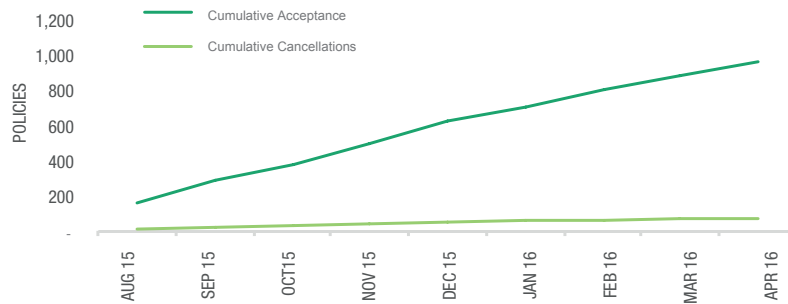


# Premium Payback – Early Settlement Offer

Increasing available capital

- Strong acceptance of the PPB early settlement offer campaign
- Has resulted in the release of risk margin and increase in available capital by utilisation of deferred tax assets associated with PPB liabilities
- Ex-PPB customers are electing to stay with nib

PPB Early Settlement Offer





## Our focus for next 12 months

- Even greater focus on DTC including partners to capitalise on the opportunity
- Digitise and automate our business to create greater engagement and efficiencies
- Launch innovative provider network to control claims cost and achieve better value
- Continue to access and leverage Group synergies



# World Nomads Group

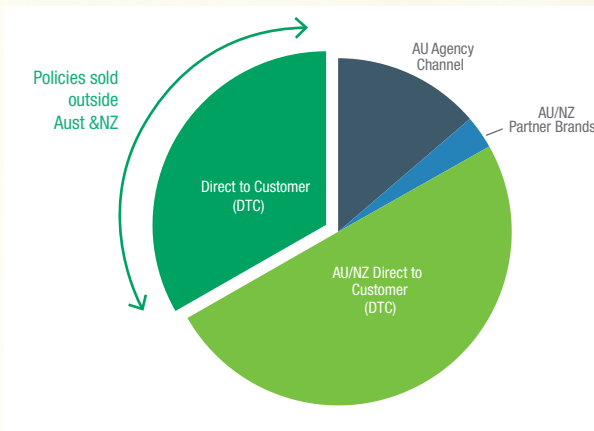
## Michael Callaghan

WorldNomadsGroup

nib



# The World Nomads Group







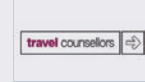





	Channel	Approach	Partner
Australia	All channels	MGA	Lloyd's
NZ	Partner/DTC	MGA	Lloyd's
Asia	DTC	Distributor	BUPA
Europe	DTC	Distributor	BUPA
UK/IRE	DTC	Distributor	Millstream
AME	DTC	Distributor	BUPA/Zurich
CAN	DTC	Distributor	AIG
USA	DTC	Distributor	Tripmate

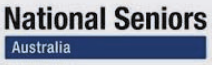



- Global digital DTC specialist in travel insurance – with emerging capabilities in whitelabelling and partner integration
- Operate in 100+ markets, 5m+ online users p.a. through 3,000+ online partnerships
- Digital model allows international reach across WNG’s innovation, sales and marketing platforms













# The Portfolio of Brands

AGENCY		1,000+ agencies	          
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PARTNER			2m+ customers	 
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DIRECT			3,000+ online partners	     
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# Business structured around core capabilities

## INTERNATIONAL DISTRIBUTION

World class acquisition strategy via content and online partnerships

## AU AND NZ DISTRIBUTION

Market leading position across online and mobile: emerging B2B

## TRAVELLER SERVICES

Customer experience across enquiries, claims mgt and emergency assistance

## UNDERWRITING

Unique product development, rational price changes and capital management

## TECHNOLOGY

Strong innovation pipeline across customer intelligence, mobile and experience

- Unique services and content designed across the traveller journey before, during and after their trip
- Create long term relationships directly with travellers
- Development of ancillary and complimentary services that are contextually relevant





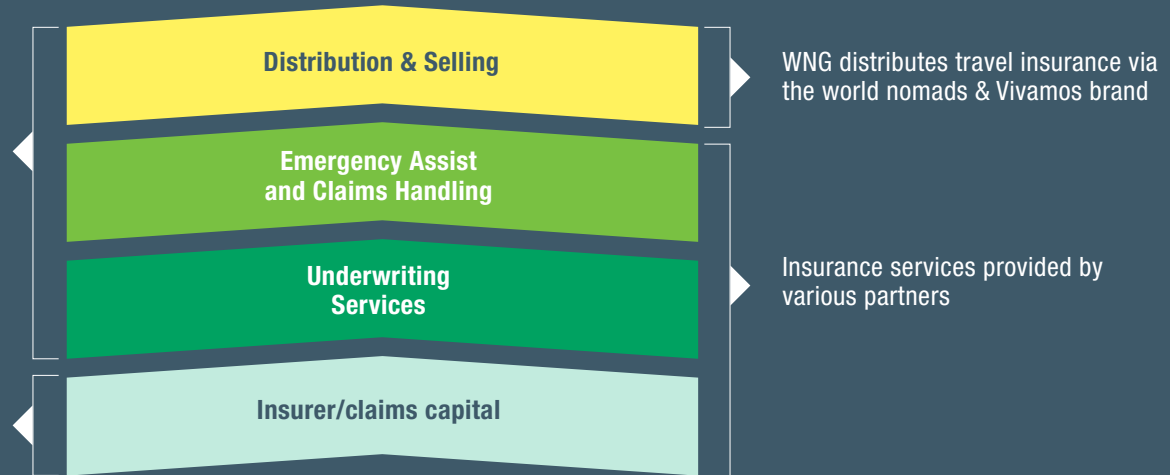
# A scalable, capital light business model

## Australia and New Zealand

## Other International Markets

WNG operates as an underwriting agent of the insurer and generates income from various services

Sourced from Lloyd's of London syndicate (XL Catlin)



- Business model allows influence over customer experience without direct exposure to volatility in claims costs
- A range of global insurers ensures capital flexibility and access to best in class services
- Ability for WNG to control more of the value chain over time

**nib**





# Business has settled under nib

## Minimal disruption and renewed energy

### NEW SCALE & RESOURCE

- Group capabilities assisting WNG to scale business across various functions
- Leveraging Group practices, and infrastructure – particularly across multiple locations

### CULTURAL ALIGNMENT

- Smooth transition of business aided by strong cultural fit (shared entrepreneurial spirit)
- Sharing of knowledge across businesses – including some movement of talent

### INVESTING TO GROW

- Increased investment in sales and marketing
- New in-market capabilities and teams in US and Europe
- Enterprise class systems across business

### SYNERGIES

- Finance and back office synergies well progressed
- Various go-to-market opportunities across ahri, ishi, iwahi and NZ being explored
- Early success with aligned provider and network management across regions

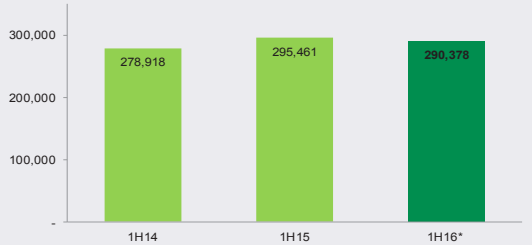
Immediate priorities have been bedding down transition, the right people in the business and assessing current growth priorities



# Business performance

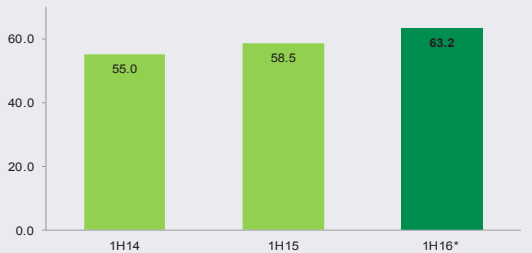
Maiden nib contribution in line with expectations

## WNG Sales (Policies)



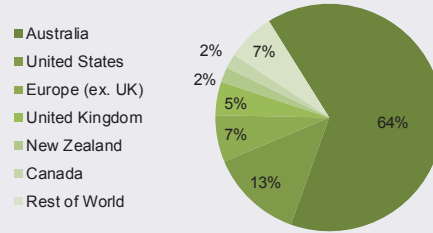
\* 1H16 is a 6 month result including policy sales prior to WNG business acquisition on 31 July 2015

## WNG Gross Witten Premium (\$m)



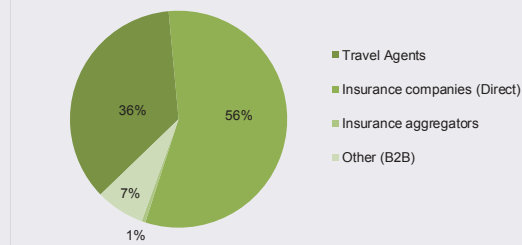
\* 1H16 is a 6 month result including GWP prior to WNG business acquisition on 31 July 2015

## 1H16\* WNG Gross Written Premium by Region



\* 1H16 is a 5 month result with the WNG business acquired 31 July 2015

## 1H16\* WNG Sales (Policies)



\* 1H16 is a 5 month result with the WNG business acquired 31 July 2015





# Our strategic priorities



## INTERNATIONAL EXPANSION

- Invest in world nomads brand
- Local market capabilities
- Explore opportunities to operate further up the value chain

## NEW CHANNELS ACROSS AUSTRALIA AND NZ

- Leveraging online brands offline (nib and wn.com)
- Develop stronger capabilities in whitelabelling
- Emerging channels of social and peer

## MOBILE FIRST

- Continue investment in mobile apps, sites and experiences
- To be relevant, we must be where our travellers are

## BUILD FOR GROWTH

- New talent and team designs
- Increased investment in technology, innovation and content
- More local resources in markets of scale

## MANAGING COSTS TO REMAIN COMPETITIVE

- Drive operational excellence
- Technologies and process that both scale and deliver on experience

**nib**



# Our focus for next 12 months

## INTERNATIONAL

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Increased marketing investment within World Nomads

Exploring new markets within Asia

Establishment of local capabilities – new sales marketing team in Europe

Exploring options to manage more of the value chain

## AUSTRALIA AND NZ

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Roll out of **nib** and **World Nomads** across Australian agency channel

Developing a mobile first strategy within the DTC channel (TID brand)

Increasing core capabilities within B2B

## SHAPING OPERATIONS TO SUPPORT GROWTH

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Right people and talent supporting international expansion

Additional talent for next phase of growth

# Capital management and APRA

Michelle McPherson





# nib capital structure

## nib OPERATES IN THE FOLLOWING SEGMENTS EACH WITH DIFFERENT CAPITAL NEEDS

- arhi (APRA regulated capital requirements)
- iih (APRA regulated capital requirements)
- nib nz (RBNZ regulated capital requirements)
- nib Options
- World Nomads Group (WNG)

## nib's CAPITAL MANAGEMENT APPROACH LOOKS TO ACHIEVE A BALANCE BETWEEN

- Capital management activities to improve ROE
- Flexibility in the event that regulated businesses require additional capital
- Flexibility for alternative strategic investments
- Maintaining financial strength ratings where applicable

And provide frameworks for:

- Distribution of available capital to shareholders
- Ensuring that debt is maintained at a level that optimises WACC

## SUMMARY OF CAPITAL STRUCTURE

- Hold a level of capital that is the sum of the Australian and New Zealand regulated entities internal capital target plus capital required to cover the liabilities for entities in the nib Group looking forward 12 months making sure no single month is below the target but at least 1 month is at the target. Available capital is defined as capital held above this level.
- Hold debt up to level that achieves long term average gearing ratio (debt/debt plus equity) of 30%, noting that for a significant transaction gearing may be above 30% for a short time if necessary to effect the transaction.





# nib internal capital targets

## nib health funds limited (Australian Regulated Entity)

- Internal target at 31 December 2015 was 13.8% of total projected premiums for the next 12 months from any given date
- The current determination by the Board with reference to the APRA capital requirements for PHIs 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
- Current internal target forecast to increase to 14.0% at 30 June 2016
- Latest advice from APRA is that:
  - Industry is currently well capitalised so there is no urgency at this point to make changes to capital requirements
  - APRA does not expect to commence a review of capital requirements before 2018 but will reconsider timing if circumstances change





# nib internal capital targets

## nib NZ limited (New Zealand Regulated Entity)

- 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
- Calculation at 31 December 2015 was as follows:

	NZD million
Nest Asset at 31 December 2015 – nib nz limited	92.2
Less: Adjustments required under RBNZ Non-Life Standard	(55.8)
<b>Actual Solvency Capital</b>	<b>36.4</b>
<b>Minimum Solvency Requirement under RBNZ Non-Life Solvency Standard (MSR)</b>	<b>10.4</b>
<b>Internal Capital Target – (1.75 x MSR) + NZD 10 million</b>	<b>28.1</b>
<b>Capital in Excess of Internal Capital Target</b>	<b>8.2</b>

## WNG Capital Requirements

- As the World Nomads Group is not the underwriter of the travel insurance products it only requires capital to maintain current working capital requirements and fund future growth aspirations.



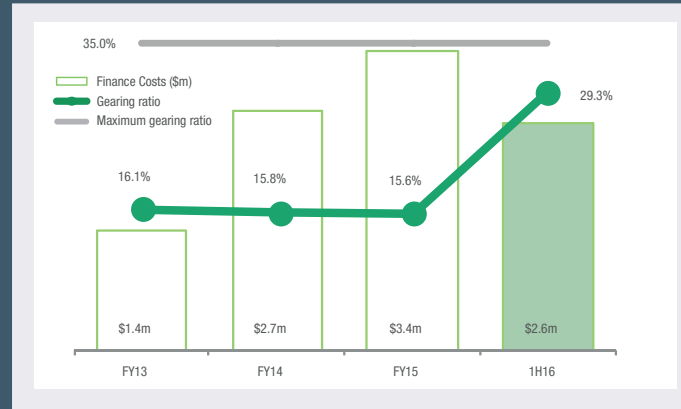


### Debt arrangements 31 December 2015

Facility	Amount Drawn	Lender
NZD 70 million	NZD 70 million	ANZ
AUD 50 million	AUD 35 million	ANZ
AUD 50 million	AUD 50 million	nab

- All facilities have the following covenants:
  - Group Gearing Ratio will not be more than 35%
  - Group Interest Cover not less than 5:1
- All facilities have an end date of December 2017 and will be renegotiated in CY16 in order to remain non current liabilities

### Gearing and Finance Costs



Questions





## Appendix - nib available capital

- At 31 December, 2015 the Group had available capital of \$4.0 million
- Available capital determined taking into consideration the following elements

	31 DECEMBER 2015 \$m)
<b>Net assets</b>	<b>362.5</b>
Less: nib health fund capital required	(238.6)
nib nz capital required	(86.5)
Capital required looking forward 12 months	(1.9)
nib nz intangibles	(39.6)
International Workers intangibles	(22.7)
RealSurgeons intangibles	(0.2)
Digital Health Ventures intangibles	(0.7)
World Nomads Group intangibles	(95.3)
Borrowings	150.6
Other assets and liabilities	1.6
Interim dividend	(25.2)
<b>Available capital (after allowing for payment of interim dividend)</b>	<b>4.0</b>



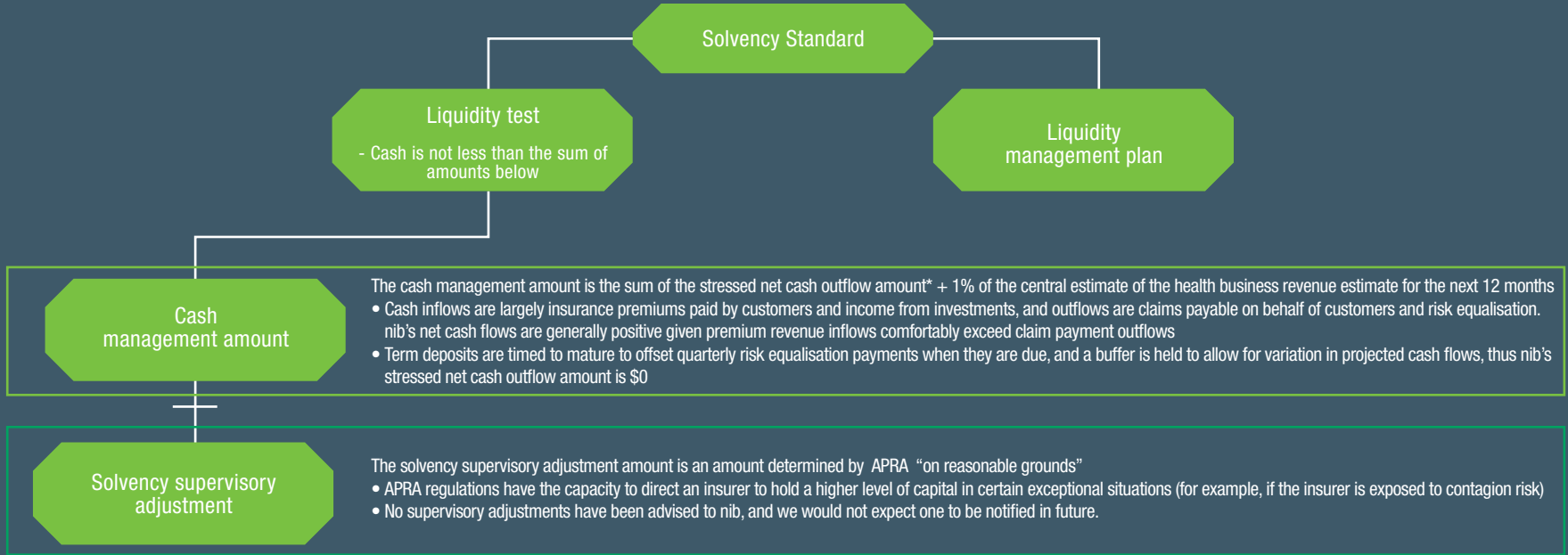
# Appendix - APRA Solvency Standards

## 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.



# Appendix - APRA Solvency Standards





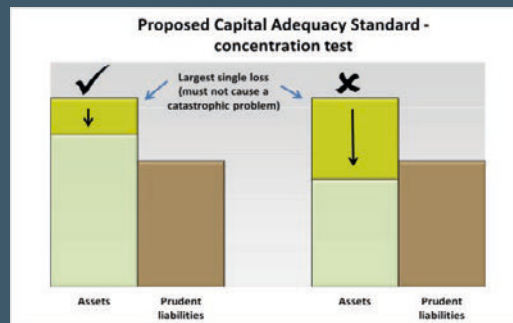
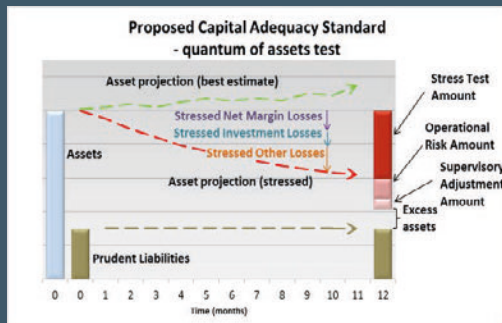
# Appendix - APRA Capital Adequacy Standard

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:

- 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

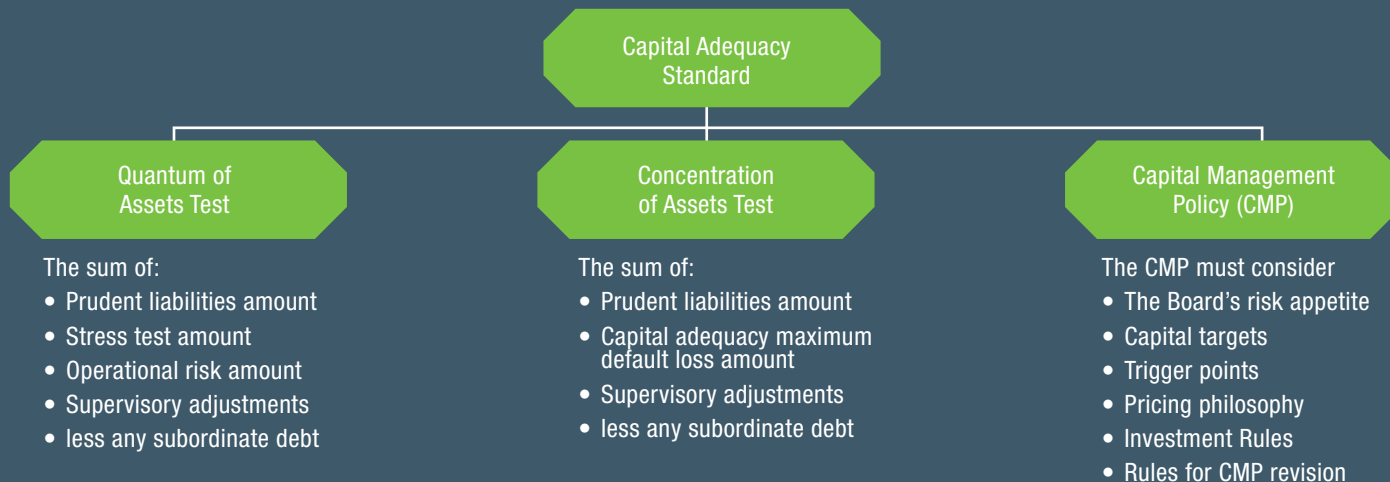


The figures above were published by PHIA in August 2013 “Reform of Capital Adequacy and Solvency Standards” and are provided as a pictorial representation of the two tests



# Appendix - APRA Capital Adequacy Standard

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







# Appendix - APRA Capital Adequacy Standard

## TEST 1 - QUANTUM

Stress test amount  
(98% PoS)

+

Operational risk  
amount

- Stressed net margin estimate<sup>1</sup>, plus
- Stressed investment income estimate, plus
- Stressed other income estimate, less
- Tax attributable (positive or negative) under the stressed estimates above
- If the amount above is greater than \$0, then \$0, else the amount calculated above
- 0.5% of the central estimate of the health business revenue estimate for the next 12 months, plus
- \$1,000,000 (indexed by 2.5% p.a. from 2014)

## TEST 2 - CONCENTRATION

Capital adequacy default loss  
amount

- the largest uncompensated loss of the health benefits fund arising from any loss, other than losses arising from assets held with an Australian Government counterparty or deposits held with an ADI, in relation to:
  - (a) any asset or any group of related assets; and
  - (b) any individual counterparty or group of related counterparties

Greater of Test 1 or 2

+

Prudent liabilities  
amount

+

Capital adequacy  
supervisory  
adjustment amount

+

Subordinated debt

- Outstanding claims liability amount (75% Probability of Sufficiency (PoS) plus size margin)
- Future claims liability amount (75% PoS plus size margin)
- Risk Equalisation Trust Fund accrued liability amount (balance sheet risk equalisation liabilities, with a 10% charge on unbilled calculated deficit)
- Other liabilities amount (98% PoS<sup>2</sup>)
- Currently nib's prudent liabilities amount is in the order of 2-5% (due to seasonal variations) above balance sheet liabilities
- Like the supervisory adjustment in the Solvency Standard, this could be determined by APRA on reasonable grounds
- Not relevant to nib as debt is at Group level

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



# Closing remarks

Mark Fitzgibbon

Questions