

# Acquisition of IMAN

5 July 2010

# Overview and strategic rationale



- nib will acquire the business and assets of IMAN for approximately \$25 million (including estimated completion adjustments in respect of the assumption of certain liabilities), to be funded from existing surplus capital
- Acquisition expected to be completed by 1 October 2010, with the transaction subject to a number of conditions, including the successful novation of at least 11,000 IMAN customer contracts
- Acquisition provides a platform for growth in an attractive niche market:
  - Consistent with nib's business strategy of growing through acquisition in complementary market segments
  - Temporary migrant workers health cover market underpinned by strong growth fundamentals
    - Skills shortages impacting the Australian economy expected to increase demand for temporary migrant workers
    - Recent legislative changes requiring adequate health insurance coverage being a pre-requisite to obtaining visas for a number of temporary migrant workers
  - Temporary migrant worker sector very much aligned with PHI business and nib core capabilities
- IMAN enhances nib's earnings and product diversity:
  - Specialist provider of health cover for temporary migrant workers living in Australia
  - Sensible acquisition that further builds nib's capabilities and provides an attractive entry point into a complementary market segment
  - Provides a platform for new growth and will contribute towards our goal of maintaining double digit earnings growth in the underlying business
- Expected to be EPS and ROE accretive immediately (excluding one off transaction costs)

# Overview of temporary migrant workers market



There are three main temporary migrant visa classes that are non-industry specific and cater to temporary migrant workers

<b>457 visa (business long-stay)</b>	<ul style="list-style-type: none"><li>■ Long-stay business visas (sub-class 457) were introduced in August 1996, following the introduction of short-stay business visas (sub-class 456) in November 1995</li><li>■ The establishment of business long-stay visas was designed to allow employers to quickly recruit workers to fill vacancies that could not otherwise be filled locally</li><li>■ Under visa condition 8501, all new Subclass 457 visa holders (visas granted from 14 September 2009), are required by law to maintain adequate health insurance for the duration of their visa</li></ul>
<b>417 visa (working holiday makers)</b>	<ul style="list-style-type: none"><li>■ Originally introduced in 1975 for working holiday makers from the UK, Canada and Ireland, but since expanded to cover working holiday makers from nineteen countries</li><li>■ Individuals travelling to Australia on a 417 are not covered by the Medicare scheme, unless there is a reciprocal health care agreement between Australia and their home country</li><li>■ Holders are recommended to obtain private health insurance for the duration of their stay, however this is not mandatory</li></ul>
<b>485 visa (skilled graduates)</b>	<ul style="list-style-type: none"><li>■ Introduced in September 2007</li><li>■ This visa is for overseas student graduates who have met the Australian study requirement in the last six months but need additional time to meet the requirements for a permanent General Skilled Migration ("GSM") visa. The visa is valid for 18 months and has unrestricted work and study rights</li><li>■ There is no requirement for 485 holders to be covered by private health insurance however they are not eligible for cover under the Medicare scheme</li></ul>

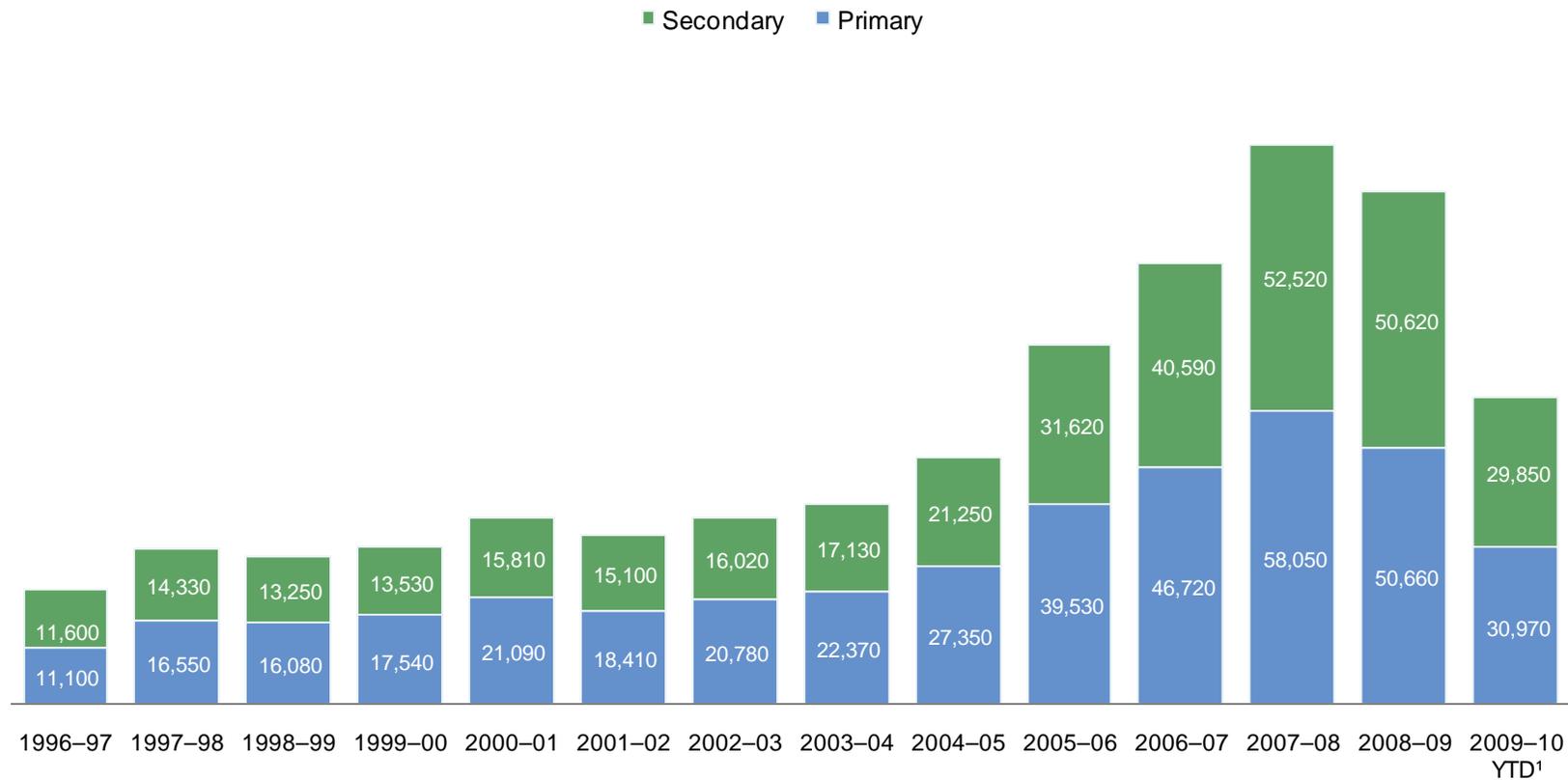
 = Largest category and health coverage is a pre-requisite to obtain a visa

# Overview of temporary migrant workers market



- Demand for 457 visas driven by the shortage of skilled labour in Australia
- Recent reduction in number of new grants of 457 visas due to the impact of global financial crisis and one-off transitional impact of new legislation
- Tightening labour market is expected to facilitate a recovery in new grants, as skills shortages re-emerge

## Long-term trend in new grants of 457 visas (no. of grants)



Source: DIAC

<sup>1</sup> New grants for the 11 months ended 31 May 2010

# Overview of temporary migrant workers market



The introduction of recent legislative changes has made health cover for temporary migrant workers mandatory for all 457 visa holders

## Regulatory changes

- Subclass 457 visa holders are not entitled to access the full benefits of the Medicare system in Australia
  - Visa holders from countries with which Australia has a Reciprocal Health Care Agreement (RHCA) are entitled to limited access to Medicare benefits (however this access may be subject to review)
- Prior to the introduction of the Migration Legislation Amendment (Worker Protection) Act 2008, the responsibility to meet the cost of health care for workers of subclass 457 visas was borne by the sponsor (typically the employer). This meant that there was no requirement mandating health insurance for 457 visa holders, although many sponsors voluntarily chose to take out health insurance coverage for their employees
- The legislative changes took effect in September 2009 and made health insurance mandatory for all 457 visa holders and shifted the responsibility of taking out health insurance from the sponsor to the employee
- Temporary migrant worker health cover providers have a twelve month window from September 2009 in which to make their products compliant with new legislative standards
- Subclass 457 visa holders are not entitled to access the full benefits of the Medicare system in Australia
  - IMAN products are fully compliant with the new legislative requirements

## Key points relating to health insurance cover

- 1 ▪ The Migration Legislation Amendment (Worker Protection) Act 2008 came into effect on 14 September 2009. It applies in relation to all Subclass 457 visas granted on or after 14 September 2009
- 2 ▪ From 14 September 2009, under visa Condition 8501, all new Subclass 457 visa holders are responsible for all health costs for themselves and their family. They will be required by law to maintain adequate insurance for these health costs for the length of their visa. Applicants for Subclass 457 visas will need to provide evidence that they have obtained adequate insurance before their visa can be granted
- 3 ▪ For Subclass 457 visa holders, approved prior to 14 September 2009, the sponsor is still responsible for all medical or hospital expenses arising from treatment administered in a public hospital for the duration of the visa (other than expenses that are met by health insurance or reciprocal health care arrangements), unless the visa holder changes employer
- 4 ▪ Under the changes, the Sponsor may still elect to pay employee expenses associated with health insurance, provided that this is agreed to by the employee
  - If the visa holder is from a country with a RHCA with Australia, and if the holder is eligible to access Medicare, then this is sufficient to meet the health insurance requirement of visa condition 8501, however this is currently under review
- 5 ▪ Access to certain Medicare benefits does not preclude 457 visa holders from these countries from purchasing health cover for temporary migrant workers

# What impact are the proposed changes expected to have?



- The proposed changes have two impacts:
  - Shifts the burden of health care costs from the sponsor (the employer) to the visa holder (the employee)
  - Increases the level of penetration of temporary migrant worker health cover, with health insurance coverage being a pre-requisite to obtain a visa
- The proposed changes are likely to diminish the importance of corporate sales of health cover for temporary migrant workers, with sales originated through migration agents and direct channels (such as online) likely to account for a growing proportion of total 457 sales
- Although visa holders from RHCA countries will not be required to purchase temporary migrant worker health cover, many of them are in the higher earning Australian Standard Classification of Occupations (ASCO) categories (e.g. professionals, managers and administrators, etc) and would be inclined to purchase temporary migrant worker health cover regardless of legislative requirements

**Migration Legislation Amendment (Worker Protection) Bill 2008**  
Second Reading Speech

*“To summarise, this legislation will strike an appropriate balance between facilitating the entry of overseas workers to meet genuine skills shortages, preserving the integrity of the Australian labour market and protecting overseas workers from exploitation.*”

**Senator Chris Evans**  
**Minister for Immigration and Citizenship**

# Overview of IMAN



- Founded in 1981 by its current Managing Director and shareholder John Braithwaite
- Specialist provider of health cover for temporary migrant workers in Australia
- IMAN's products provide 100% in-hospital benefits, and varying levels of out of hospital benefits
- Currently has in place a strategic partnership with nib facilitating referrals
- Fourth largest provider of the non-general insurers of health cover products to temporary migrant workers in the Australian market, with more than 11,000 policyholders
- Estimated 13% share by revenue of the 457 visas market
- Has a recognised brand, competitive product portfolio, and proven distribution network
- Located in Crows Nest, Sydney, IMAN has approximately 45 employees
- IMAN's gross written premium in FY10 is expected to be approximately \$19 million, with NPAT of approximately \$2.8 million
- Since 2006, IMAN has had premium revenue CAGR of more than 30%

# Summary



- IMAN is a sensible acquisition that represents good value:
  - Expands nib's health insurance business into an attractive, high growth, higher margin market segment
  - Delivers on our strategic rationale to explore and deliver new complementary revenue streams and earnings
  - Meets our strict investment criteria in terms of strategic rationale and return on investment
  - Significant opportunities to grow IMAN organically
  - Significant regulatory and reinsurance synergies to be realised due to complementary nature of businesses as well as other revenue synergies (selling nib PHI products to IMAN customers and temporary migrant worker health cover products to nib corporate customers)
  - Expected to be EPS and ROE accretive immediately (excluding one off transaction costs)

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