

23 March 2020

Company Announcements Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

Letter to Shareholders regarding COVID-19

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

The COVID-19 threat has created profound uncertainty about nib's previously communicated commercial outlook and financial year 2020 market guidance. So much so that it has become necessary to withdraw that market guidance.

nib will provide shareholders and the ASX with further updates if circumstances warrant.

Yours sincerely,



Roslyn Toms
Company Secretary

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

Letter to Shareholders

COVID-19

23 March 2020



Dear Shareholder,

The COVID-19 threat has created profound uncertainty about nib's previously communicated commercial outlook and FY20 market guidance. So much so that it's become necessary to withdraw that market guidance.

This same uncertainty and volatility means we are not in a position to provide you with new guidance. We have however, attempted to share here some of our insights and assumptions about what the near term future might hold for the company. The near term is defined as the remainder of the calendar year, 2020.

In forming our assumptions we have made best endeavours to understand possible developments and drawn upon a range of quantitative, qualitative, anecdotal and historical data. However, our insights should be regarded as directional and speculative. Our only certainty is that COVID-19 will, at least for the near term, have a significant impact upon the private health insurance industry (PHI) and our business.

Easily the most significant near term impact is the likely consequence of COVID-19 on discouraging discretionary treatment within private hospitals. Approximately 94% of all private hospital admissions in Australia are elective or planned with private hospitals accounting for about 66% of all elective surgery.

Longer term assumptions around COVID-19 are of course, much more problematic. While we all hope the crisis will pass quickly and market conditions repair, the timing is extremely unpredictable. And macroeconomic consequences, shifts in consumer behaviour, Government policy responses and a range of other factors could impact the PHI market and nib permanently (including in a positive way).

As such, we have not attempted to form any assumptions beyond the near term other than that nib will emerge from the COVID-19 crisis in good shape and as full in ambition as we've ever been. The fundamentals in both Australia and New Zealand of an ageing population, growing healthcare spending and stress on public healthcare delivery and financing gives us confidence to assume an increased reliance on the private healthcare system in the longer term.

Group nib membership

Heightened concern about COVID-19 and disease risk currently appear to be assisting PHI sales and retention in both nib's Australian Residents Health Insurance (arhi) business and New Zealand (NZ) residents businesses. Net growth year to date (YTD) in both businesses remains ahead of budget.

However, there is a high risk that economic recession and increased numbers of unemployed in both Australia and New Zealand could weaken demand for arhi and NZ. Whatever the case, we believe near term it is reasonable for us to target a growth rate of 1% to 2% in both the Australian and NZ markets.

Net membership growth in nib's International Inbound Health Insurance (iihi) is YTD ahead of budget and we have not yet observed large scale cancellations as many international students expect to be able to eventually take up their courses. However, we do expect sales will be negatively impacted by new restrictions on foreign entry across Australia and New Zealand for the time being.

nib Travel insurance (travel) sales are below budget YTD and will be severely damaged in the short term by extreme travel restrictions. We believe that travel may face an extended period of recovery post COVID-19.

Prospects for nib's joint venture (JV) in China will be enhanced by heightened awareness of health and disease risk. Similarly, we believe our joint venture Honeysuckle Health (HH) will benefit by elevated third party interest in its capacity to better predict, prevent and manage disease risk.

Group claims expense

Private health insurance claims in Australia and New Zealand are heavily skewed towards funding healthcare treatment that tends to be more discretionary (or elective) than that undertaken by public systems, where health issues are of higher medical acuity, more immediate and less discretionary. Of 4.5 million private hospital admissions in 2017/18 in Australia, 94% were elective or planned according to the Australian Institute of Health and Welfare.

This dichotomy is highly relevant because in times of pandemic and deep concern about the safety of hospitalisation and treatment, people and their doctors may avoid or delay discretionary treatment. This same reluctance also applies to allied or general treatment services such as dentistry.

At the time of preparing this update, there is only limited quantitative evidence to support this hypothesis. However, it is early in the COVID-19 cycle in Australia and New Zealand and there is significant anecdotal evidence to suggest elective surgery across private hospitals will decline significantly within the weeks and months ahead. Importantly, private hospital operators appear to share this view. Private health insurance funding accounts for approximately 83% of all private hospital admissions.

Forecasting the magnitude of any diminution in hospitalisation and other healthcare treatments is extremely difficult.

For context, in FY19 arhi paid \$988 million in claims related to 281,757 episodes of hospital care in Australia and AUD\$119.4 million related to 54,782 episodes in New Zealand. In Australia nib also paid \$229.5 million in net risk equalisation transfers based upon the hospital claims experience of other insurers.

By way of example, nib calculates that for every 1% drop in hospitalisation for the remainder of 2020 (i.e. 9 months) arhi claims expense (including risk equalisation) would fall by \$8.8 million and a 1% drop in dental treatment would reduce claims expense by \$3.5 million.

As hospital admissions increase for COVID-19 related illness nib does face some additional claims exposure. Subject to their cover we anticipate claims for “lung and heart” treatment. However, this is expected to be minor relative to what we anticipate occurring with the diminution of elective treatment.

Of course, any fall in hospitalisation and other treatment would be temporary pending COVID-19 passing when we would expect claims to resume usual patterns of development. Yet the “one off” impact of the delay may be indefinite given supply side limitations upon “catching up” the unmet demand during COVID-19.

The implications for iih are likely not as significant given international students and workers tend to access medical and more immediate non-discretionary health care. However, action is already underway to protect the gross margins for our iih businesses reported for the first half of FY20.

We are expecting an increase in claims for our travel business however for the greater part nib does not underwrite risk. Nevertheless, there is some risk sharing with underwriters and in combination with the poor sales outlook, profitability will be significantly impacted in the months ahead.

Acquisition and operating expenses

Prior to the COVID-19 outbreak, nib had already embarked on a cost reduction program including the consolidation of all “back office” operations such as claims, policy administration and most sales/service into a single Group division. Last Friday, a further initiative was announced concerning reduced executive costs.

Our aim is to reduce Group operating expenses to support affordability and price competitiveness and maintain profit margins. Acquisition and marketing costs which comprise a significant part of our expenses will be calibrated to reflect market conditions and opportunities.

Capital and debt

nib remains well capitalised and secure. As at 31 December 2019 we had surplus capital of \$69.2 million after allowing for APRA prudential requirements, our own internal capital target and our interim dividend.

We do not expect any issues around servicing and refinancing debt. We have total debt of \$234.3 million (all bank debt) with a debt to debt/equity ratio of 27.9% and interest coverage of 28x. None of nib’s debt is due to mature before December 2021.

Investment losses are anticipated as a consequence of the investment market response to COVID-19 but are well within our capital stress testing and appetite.

Our members and employees

We’re are doing our best to maintain member and traveller service levels in the face of large volumes of enquiries and workforce changes. Across our various channels (including nib.com.au) we are also supporting members and travellers navigate COVID-19 by providing information on their cover, how to minimise infection risk and related matters.

We are also alert to how some members could encounter financial difficulty and we are currently considering options to best support them.

Of course, of equally high priority for us is the health and safety of our workforce. Throughout the nib Group we’ve implemented a number of operational changes for the health and safety of our employees including working from home.

Conclusion

I certainly don’t recall an economic and social crisis like we’re dealing with in COVID-19. However, across the entire nib Group we are well prepared and responding to evolving events with what your Board believes is total professionalism.

I’d like to add that beyond supporting our members and travellers, nib is totally committed to playing a role in ameliorating COVID-19. We are exploring and open minded to how we, and PHI, could assist in disease containment and public health.

We expect to provide you with further updates when circumstances warrant.

Yours sincerely,

Steve Crane
Chairman



Investor Relations

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