

Date Friday 2 May 2014

Subject nib responds to National Commission of Audit Report

NOTE: nib will host an investor/analyst teleconference briefing at 9.30am (AEST) on Friday, 2 May 2014, details below.

nib holdings limited (ASX: NHF) welcomes the National Commission of Audit Report recommendations aimed at reforming Australia's health care system and the role of private health insurance (PHI).

nib Managing Director Mark Fitzgibbon said the National Commission of Audit Report released by the Government outlines a number of significant measures which if implemented will significantly change and improve the face of Australia's health care system and PHI.

"Funding our future health care requires major reform and an expanded role for PHI. While it is very early days in the process, these recommendations are consistent with what we have been saying is required to future-proof our health care system," Mr Fitzgibbon said.

"As a nation, health care spending is growing at a rate of about \$10 billion annually. Equally worrying is the fact that health care spending accounts for almost 10 per cent of GDP and an amazing 20 per cent of all government spending," he added.

"We simply cannot afford free health care for everyone and must acknowledge the economic reality that with a growing age dependency ratio those with the means must take greater responsibility for their health care costs. PHI is the obvious mechanism for doing that and consumers stand to benefit from more seamless funding and competition," Mr Fitzgibbon said.

The National Commission of Audit has outlined a two stage plan relating to PHI.

SHORT TO MEDIUM TERM REFORMS

Move towards compulsory PHI - With the objective of requiring higher income earners to take greater responsibility for their healthcare needs, it is proposed to significantly increase the Medicare Levy Surcharge (MLS). This is in effect compulsory private health insurance for those on higher incomes and should drive increased coverage.

Expanded cover into primary care – Private health insurance should be able to cover basic health care services currently monopolised by Medicare and public hospitals. The National Commission of Audit noted that current arrangements "limits the health funds ability to assist in improving the health outcomes of the elderly and chronically ill at the point of diagnosis, which is usually when they visit their local doctor".

Under this proposal, private health insurers will be able to insure the payment to doctors and public hospitals (excluding a planned co-payment). This is a very significant expansion of the breadth and depth of cover with enormous implications for the development of the private health insurance industry.

Deregulation of premium pricing - Ministerial price control would be removed and replaced with price surveillance. Funds could therefore change premiums how and when they choose. This acknowledges that price control has created a "price floor" and limited incentives for efficiency and competition. We can expect, somewhat ironically, increased price competition especially if proposed changes to risk equalisation eventuate (see below). Risk equalisation in its current form has the effect of homogenising claims costs and premiums.

Review of risk equalisation - It is proposed to move risk equalisation from a retrospective payments scheme (where insurers are reimbursed whatever their actual payments happen to be) to a prospective scheme whereby entitlement to reimbursement is based upon a predetermined assessment of underlying health risk of the policy holder. Under a prospective arrangement insurers are therefore not discouraged from investing in health risk management (e.g. the more careful management of chronically ill) and lowering claims cost as they get to retain the full benefit.

Allowing private health insurers to reward good health behaviour with premium discounts - A current failing of community rating is that it doesn't allow private health insurers to encourage and reward

people for pursuing better health behaviour and lifestyle choices through premium discounts (e.g. for not smoking). Community rating should only protect people for health care risks over which they have no or little control (age, genetic diseases etc).

Premium rebate - Given the policy of encouraging higher income earners into private health insurance via the MLS, the National Commission of Audit deems it illogical to pay them a rebate. In respect of other groups, the National Commission of Audit doesn't give an opinion on whether the PHI rebate is a cost effective use of Government money. Rather it calls for further analysis to "examine the interaction between MLS, the Rebate, Lifetime Health Cover loading and the extent of eligible insurance coverage as part of a more fundamental review of the health care system"

LONGER TERM REFORM

The National Commission of Audit focuses upon the need to eventually overhaul the entire system. Its vision appears to be one in which there is a payer for all healthcare needs, compulsory private health insurance for those with higher incomes and lower income people having Medicare as a default option and with Government subsidies reserved for older and high risk people (e.g. the chronically ill).

The National Commission of Audit Report can be viewed at <http://www.ncoa.gov.au/>

TELECONFERENCE: DETAILS

Time: 9.30am (AEST)
Date: Friday 2 May 2014
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MEDIA AND INVESTOR RELATIONS

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