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nib holdings limited (ASX: nhf)

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nib welcomes Government's PHI reform measures

nib today welcomed the private health insurance (PHI) reform package announced by Health Minister Greg Hunt as a major step towards improving the consumer experience and premium affordability.

nib Chief Executive Officer, Mr Mark Fitzgibbon, said the reform package especially highlights the Minister's determination to deal with the systematic overpricing of medical devices and attract more young people to private health insurance.

"Patients in private hospitals have been paying wildly inflated prices for medical devices, sometimes as much as five-times what it costs in the public system for exactly the same device. It's bordering on a scandal and all credit to the Minister in taking on the self-interests that have perpetuated the madness," he said.

Mr Fitzgibbon said nib and other insurers had made iron clad undertakings to the Minister to pass on reduced medical device prices to policyholders in the form of lower than otherwise premiums.

"It's a key component in reducing the rate of claims and premium inflation which is ultimately in everyone's best interest. While our average premium increase of 4.48% this year was our lowest in 14 years we still want to see it lower given the pressures on household budgets. That's easier said than done when the combination of price inflation and the growth rate in hospital utilisation are closer to 5% per annum - but we're having a go," he said.

According to nib, the mix of the PHI reform changes highlight Minister Hunt's strong appreciation of private health insurance economics and consumer interest, particularly the proposal to offer a discount on premiums for people aged under 30.

"Easily the most effective thing you can do for lowering pressure on premium increases for everyone is to attract more young people into private health insurance. That's simply because it lowers the average claims cost," Mr Fitzgibbon said.

Mr Fitzgibbon observed that participation rates amongst independent under 30 year olds was less than 30%* and that insurers need to do more to convince 'millennials' to take out health cover given they typically don't see themselves at risk of having a major health issue.

"We need to better harness the digital age and give them more reason to have private health insurance. For example, putting in their hands information and content which is relevant to their own health circumstances as well as tools that help them choose, book and pay a doctor or dentist, share their experiences with others and access health and wellbeing services or deals," he added.

nib indicated the proposed changes to product classification (Gold, Silver, Bronze and Basic) is not expected to have a material impact with nib's existing "on sale" product range already designed and 'stamped' to reflect the level of cover, such as Top Hospital, Mid Hospital and Basic Hospital.

Mr Fitzgibbon noted that the new ability for people to upgrade their cover to immediately access mental health treatment was a sensible acknowledgment of the times, however insurers would have to closely monitor the risk of people 'gaming' the change.

nib expects the changes will have no immediate impact upon its FY18 guidance given further medical device pricing reductions will occur over two years and not commence until April 2018.

"However, to the extent that lower premium prices can lift future PHI participation, the medical device pricing initiative combined with other reforms are clearly very positive for private health insurance and nib generally," Mr Fitzgibbon added.

* Source: APRA, ABS and nib estimates. Figure excludes dependents, participation rate approximately 40% including dependents.

Media and Investor Enquiries

Matthew Neat

Tel: 02 4914 1777 or 0411 700 006

Email: m.neat@nib.com.au