

16 October 2014

The Manager
Company Announcements
Australia Securities Exchange Limited
Level 4, Bridge Street
SYDNEY NSW 2000

Presentation to Australian Healthcare Summit – 16 October 2014

Attached presentation delivered by nib Managing Director, Mr Mark Fitzgibbon at the Australian Healthcare Summit on 16 October 2014.

Yours sincerely



Michelle McPherson
Company Secretary/Chief Financial Officer

Australian Healthcare Summit 2014

The Tardis of Private Health Insurance

Mark Fitzgibbon
Chief Executive Officer/
Managing Director

16 October 2014

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2014 – Age of Aquarius

- Insurers and policyholders mostly pay whatever doctors and hospitals demand based upon fee for service.
- Insurers pay the same fee irrespective of clinical performance and quality.
- Doctors, hospitals and every other clinical provider has an economic incentive to drive volume. Consumers don't know any better (information asymmetry) and mostly don't care (moral hazard).
- Doctors and hospitals have a guaranteed "floor price" irrespective of clinical performance and efficiency.
- Hospitals buy prosthetic and medical devices but insurers do the paying.
- Private healthcare is overwhelmingly a national market.
- Private health insurance premiums are rising 6-7% pa.

2016 – Waxing consumers sovereignty

- Insurers collaborate and contract with GP's for the purposes of better managing “frequent flyers” and reducing unnecessary volume, especially hospital admissions.
- All hospital provider contracts exclude payment for “never ever” events and other markers of poor clinical quality such as readmission within seven days.
- Consumers and their GP's have “trip advisor” style data on doctor, dentist and hospital performance to improve decisions and choices.
- Hospital contract fees reflect greater cost transparency and market forces with ACCC oversight. Insurers collectively negotiate and buy prosthetic and medical devices.
- People travel overseas for medical and dental treatment more frequently.

2020 – The earth is flat after all

- All hospital payments are DRG based but largely remain fee-for-service thereby still rewarding volume. But some capitation based integrated care networks are growing.
- There are four major health insurers with further international ownership.
- DVA is outsourced and operated by an insurer.
- Private hospitals role in building and operating public hospitals is significant and accelerating. Greater private supply brings demand and a massive cost shift from public to private.
- Doctors and hospitals compete with international providers but conversely, service many foreigners.
- Private sector actually delivers all government funded payment mechanisms such as Medicare and PBS.

2025 – The end of the policy Darleks

- “Medicare Select” is in place with insurers covering the entire healthcare spectrum. Insurers compete for customers via product, service and price.
- Public healthcare funding accounts for 50% of total funding and is centred upon those who would otherwise be left behind via comprehensive Medicare cover. Insurers compete for Medicare participants and intermediate.
- Private sector operates entire public hospital system under contract.
- Integrated care organisations (GPs, specialists and hospitals) are paid on a capitation and outcome basis.
- PHI coverage is global.
- People move freely across international borders for healthcare.

A brave new world – inescapable truths

- More of our national spending will be in private sector because:
 - Superior value proposition and increasing consumer wealth.
 - Greater efficiency.
 - Government fiscal challenges.
- But cost inflation must be managed to keep private health insurance affordable and maintain value. There can be no place for unwarranted care and cost inefficiency.
- Insurers will look to shift risk to hospitals and doctors as they are better placed to manage risk. Hospitals will not be paid upon volume but upon health and clinical outcomes for capitated insured population.
- The market for healthcare will be global market and all other things being equal, Australia should do very well.