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12 September 2014

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

Presentation to Ramsay Health Care Managers Conference - 12 September 2014

Attached presentation delivered by nib Managing Director, Mr Mark Fitzgibbon at the Ramsay Health Care Managers Conference in Sydney on 12 September 2014.

Yours sincerely

Michelle McPherson
Company Secretary/Chief Financial Officer

Ramsay Health Care Managers Conference 2014

The Tardis of Private Health Insurance

Mark Fitzgibbon
Chief Executive Officer/
Managing Director

12 September 2014

nib

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 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.
- Aggregate private hospital revenue is estimated at $13 billion.
- Private health insurance premiums are rising 6-7% pa.

2016 – Waxing consumers sovereignty

- Insurers contract with GPs 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 makers of poor clinical quality, such as readmission within seven days.
- Consumers and their GP’s have “trip advisor” style data on doctor and hospital performance to improve choices.
- Insurers collectively negotiate and buy prosthetic and medical devices.
- Hospital contract fees reflect greater cost transparency and market forces with ACCC oversight.
- Aggregate private hospital revenue is estimated at $14.5 billion.

2020 – The earth is flat after all

- All hospital payments are DRG based but remain fee for service thereby still inviting volume.
- There are four major 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.
- Doctors and hospitals compete with international providers but conversely, service many foreigners.
- Private sector delivers all government payment mechanisms such as Medicare and PBS.
- Aggregate private hospital revenue is estimated at $20 billion.

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 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.
- Aggregate private hospital revenue is estimated at $25 billion.

A brave new world for Private Hospitals

- More of our national spending will be upon private hospitals because:
  - Superior value proposition and increasing consumer wealth.
  - Greater efficiency.
  - Government fiscal challenges.
- But cost inflation must be managed to keep PHI affordable and value.
- 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.
- Australian private hospitals will be part of a global market and all other things being equal, should do very well.