Start of Transcript

Ed Close: Good morning everyone, and thank you for joining us for nib's FY26 full year results. I'm Ed Close, nib Group CEO and Managing Director, and I'm joined here in Newcastle by our Group Chief Financial Officer, Nick Freeman. Before we begin, I'd like to acknowledge the Awabakal people, the Traditional Custodians of the land we are joining you from today. I pay my respects to Elders past and present.

We are pleased to report a solid FY26 Group result with pleasing strategic progress, positive customer outcomes, a strong capital position, and a more balanced contribution across our businesses. Our purpose of your better health and wellbeing continues to shape our strategy and guide our people to deliver sustainable value for our customers, shareholders, and the communities we operate within.

nib is now a simpler, more focused, and more efficient business with a clear emphasis on private health insurance and related services, supported by leading digital and AI capability, strong customer advocacy, our high performing people, and a disciplined approach to risk and capital management. This morning, I'll cover the highlights, segment performance, and strategic progress. Nick will then take you through the financial results in more detail before I return to discuss strategy and outlook.

So if we head across to slide 6, our FY26 highlights. It was a year of disciplined execution and meaningful strategic progress across the Group. Group underlying operating profit increased 9.1% to $260.9 million supported by strong revenue growth and improved operating efficiency. Net profit after tax was $186.9 million, ahead of expectations.

Our balance sheet and cash generation strengthened, and this supported the Board's decision to increase a targeted dividend payout ratio to 65% to 75% and declare a final dividend of $0.21 per share, including a $0.05 special dividend.

A major feature of the year was the conclusion of the strategic review of nib Travel. Both sales transactions are expected to complete in the first half of FY27, simplifying the portfolio, sharpening our focus, and providing further capital management flexibility as sales proceeds are received.

Productivity was another key highlight. Our digital and AI program continues to scale, delivering $61 million of value. In Australian residents, we delivered record sales, strong customer advocacy, and the net margin was managed in the 6% to 7% target range, while absorbing elevated risk equalisation volatility and higher acquisition offer costs. We are also repositioning policy holder growth towards higher value, more sustainable segments.

Our related businesses delivered a substantial improvement in strategically important adjacent markets. Underlying operating profit increased by $41.9 million to $86.1 million in these important segments, lifting their contribution from around one fifth to around one third of total Group earnings. The results reflect another strong international performance, a rapid recovery in New Zealand, and health services reaching profitability for the full year.

If we turn to slide 7, and the Group performance metrics, top line revenue growth was strong, increasing 6.2% at $3.8 billion, and as the fourth largest health insurer in Australia and the second largest in New Zealand, we now cover more than 1.95 million health insurance lives across our core PHI segments. Pleasingly, the operating expense ratio reduced to 16.6%, down 110 basis points on FY25. This is particularly important within the result. It shows the productivity is now structurally embedded and flowing through to the P&L.

Across to slide 8, to our Australian residents portfolio, the industry remains attractive and continues to grow. Industry hospital coverage increased by around 308,000 lives in the 12 months to 26 March, reaching a record 12.8 million Australians. With more than 15 million Australians holding an extras policy, this demonstrates the strong appeal of maintaining private health cover.

Our value proposition continues to attract customers. We achieved more than 147,000 sales, up 4.3%, and net switching remained beneficial to nib. Our policyholder growth was 1.9% and is expected to be broadly in line with industry. We are now deliberately shifting growth towards higher value and more sustainable segments. 85% of net growth came through our target silver category compared with 46% last year.

Our FY26 policyholder growth outcomes reflects deliberate choices on pricing, product design, and portfolio quality, including exiting uneconomic corporate groups and shifting away from lower value cohorts. These actions have some impact on short-term lapse in churn, impacting net growth by approximately 60 basis points, but they're the right decisions to support sustainable growth, long-term affordability, and margin quality.

We also see increased customer churn through broker channels, elevated by higher promotional activity from competitors. Retention and lifetime value in our higher value segments are clear priorities for nib in FY27. We continue to refine our channel mix, targeting acquisition investment more deliberately, and reviewing partner economics alongside investment in the nib brand and direct capability.

Our customer proposition remains strong. Net promoter score was +32 and more than 70% of members are now digitally connected. Our First Choice network helped customers save $57 million in out-of-pocket costs. Our hospital payout ratio was almost 89%, well above pre-COVID levels, and reflects the support that we continue to provide to members and the private hospital sector. Disciplined pricing and productivity absorbed claims inflation and mix. Our gross margin is now at a sustainable level and net margins were well managed in the target 6% to 7% range.

I do want to spend a moment on two items that impacted the Australian residents margin, higher acquisition offer costs and claims inflation impacts as a result of elevated risk equalisation volatility. Firstly, on risk equalisation, nib's own claims inflation continued to improve in FY26, moderating the 4.1%, excluding the New South Wales bed rate changes. Over the long term, our risk equalisation outlook remains supported by the same structural drivers that we've spoken about previously.

That is a younger membership base at nib progressively ageing and deliberate growth in older and higher value segments. These factors have historically improved nib's relative position in the risk equalisation pool, and we see no reason to believe that these long-term trends have changed. However, risk equalisation volatility in FY26 was largely driven by industry claims inflation appearing to have accelerated, potentially reflecting a combination of catch up activity, hospital contracting cycles, and faster claims processing across the sector.

This narrowed nib's historical gap to industry and increased our risk equalisation costs by about 10% and was about $10 million above expectations. While we remain cautious on new term volatility and have factored this uncertainty into FY27 planning, the longer term outlook remains constructive. If higher industry costs persists, then this can of course be considered in future pricing submissions while a higher industry cost environment should enhance nib's overall competitiveness.

On higher offer costs, a material contributed to the increase was the industry clarification on the Australian Government rebate treatment, which mean offers can no longer attract the rebate. The other contributors reflected a genuine step up in promotional intensity across the industry. We saw elevated offer use along with nib shift to higher premium silver products, particularly late in the year.

Given the environment, we intend to be far more selective in the use of acquisition offers moving forward, taking a more targeted approach, aligning channel investment with retention and lifetime value, and building more sustainable partner arrangements. The use of industry offers are driving very high levels of unsustainable churn with often little benefit to consumers. From a distribution perspective, intermediaries and comparison services provide valuable choice, transparency, and advice for consumers.

Sustainable offers also play a role in this sector. However, we see opportunity for greater transparency and more sustainable settings across offers, discounts, and broker commissions so that the market better balances new customer acquisition with consumer affordability and value towards existing loyal customers. Nick will step you through the margin drivers in a bit more detail shortly and will provide some further perspectives on reform opportunities in the strategy and outlook sections.

So if we head to slide 9, our related adjacent businesses, it was a strong year for the broader portfolio. Underlying operating profit increased to $86.1 million, up $41.9 million, and now represents around one third of Group earnings. This gives nib greater earnings depth, diversification, and strategic flexibility.

International health insurance delivered another strong result with underlying operating profit up 15.1% to $35.1 million and policy holder growth of 4.4%. New Zealand delivered a decisive turnaround, returning to profitability with underlying operating profit of $27.5 million. Pricing and claims actions restored the business to a sustainable position, and the focus is now on maintaining that momentum and rebuilding growth.

Pleasingly, health services achieved full-year profitability. This is an important milestone. It shows the business is moving beyond investment phase and beginning to contribute meaningfully commercially. It also strengthens the broader PHI proposition through health management, care navigation, and PHI services.

nib Thrive delivered a positive UOP contribution, and this was a solid result in a period of significant sector reform. The business is investing in service capability, operational excellence, and remains well positioned for future plan management reforms that favour scaled, compliant, and high quality providers.

On Travel, as mentioned earlier, the strategic review is now concluded. This sharpens our focus and retains the opportunity to support a capital light partner-led nib branded distribution model across Australia and New Zealand.

So if we head to slide 10, productivity is now embedded in how we operate and a material driver of Group performance. Our digital AI and productivity agenda delivered $61 million of value in FY26, taking cumulative savings since FY24 to $79 million. More than 86% of Australian residents claims are processed through automation, and our service contact centre interactions reduced by 6.7%.

More than 700 employees are now using nibGPT, our AI frontline tool, which supports around 340,000 queries. Our AI-enabled tools saved more than 26,000 hours of manual effort in the Australian contact centre last year. Our digital and AI agenda is now scaling quickly, delivering better service, faster decisions, and a lower cost to serve.

Our Australian residents non-marketing expense ratio is now among the lowest in industry with further opportunity ahead. Lower cost to serve gives us more flexibility to invest in customer value, improve price competitiveness, support service quality, and maintain sustainable margins within our target range. So with that, I'll now hand over to Nick. He'll take you through the financial results in more detail.

Nick Freeman: Thanks, Ed, and good morning to everyone. I'll now take you through the financial results in some more detail before I'll hand back to Ed for the outlook. If we go to slide 12, thank you. FY25 was a strong year financially with the Group underlying operating profit increasing 9.1% to $260.9 million, which was within our guidance range. The result was supported by continued revenue growth, margins in the target range in our ARHI business, strong contributions from our adjacent businesses and ongoing productivity across the Group.

Importantly, as Ed has just said, the productivity program is continuing to translate into financial outcomes with Group operating expenses reducing by 0.7% despite inflationary pressures and the operating expense ratio improving by a further 110 basis points to 16.6%. Net profit after tax was $186.9 million, which was a

5.9% decline on last year. While lower than the prior year, this largely reflects positive impacts in the FY25 year normalising.

FY25 was a relatively high investment return year, and additionally, we had a lower effective tax rate due to the recognition of Midnight Health tax losses upon gaining a consolidating interest in the Company. Our balance sheet remains very strong with gearing reducing to 15% and EBITDA leverage a very low 0.6x. That strength combined with the expected proceeds from the sale of the Travel business has enabled the Company to declare a final year dividend of $0.21 per share, which includes a $0.05 special dividend.

Go to the next slide, please. The nib Group balance sheet did strengthen materially through FY26. Net tangible assets increased almost 15% to $341 million while EBITDA leverage reduced to 0.6 and gearing improved by nearly 500 basis points. The improvement was driven by stronger operating cash generation, lower capital expenditure, as well as reduced acquisition activity and capital optimisation within the health funds.

The health funds PCA ratio finished at 1.65x above our target range of 1.5x to 1.6x. Given the strength of the capital position and cash generation, the Board has increased the target ordinary dividend payout ratio to 65% to 75% and a $0.165 ordinary dividend has been declared. Additionally, we expect to receive around $97 million in net cash after the sale of the Travel business. While these proceeds are yet to be received, all CPs have been fulfilled and we expect completion in the first half of '27.

As such, the Board considered it appropriate to provide a $0.05 special dividend as a result, taking the total final dividend to $0.21 per share with future capital management optionality available. We've outlined an indicative framework for the expected net proceeds from the Travel transaction at the table on the bottom left.

Turning to the Australian Residents Health Insurance Business, revenue increased 6.4% to just over $3 billion, reflecting premium increases aligned to claims inflation and policy holder growth of 1.9%. Underlying operating profit was $187.9 million and net margin was 6.2% within the target 6% to 7% range. While policyholder growth moderated from FY25, it remains within our estimate of system growth and reflects portfolio repositioning towards higher value segments as well as heightened competition and aggregator activity.

Claims inflation moderated further to 4.1% or 4.5%, including the New South Wales bed rate changes. A key highlight was productivity with the non-marketing expense ratio reducing to 5.3%, its lowest level since 2007, and that helped offset elevated risk equalisation volatility and higher offer costs. Customer advocacy also remained strong with NPS holding at +32.

There's a bit going on in the net margins, so I've got a couple of ways of looking at this. If we have a look at this slide, it just provides a bit of context around the margin performance. So I'll walk you through it. The key message is that our underlying margins have been stable at 6.3% across FY25 and FY26.

Beginning from the left-hand side, the reported net margin at 7.3% needs to be reduced by 1% for LIC claims development. This was highlighted in the FY25 results presentation. This is mainly due to the LIC at the end of FY24 being overstated with the benefit of hindsight. The reduction in the FY24 LIC occurred in the first half of FY25, elevating reporting margins due to that provision release.

So then starting at the 6.3% underlying margin FY25, we can see that pricing largely offset the impact of mix and claims inflation netting out to a small impact of 10 basis points. The two major impacts to margin were firstly risk equalisation, and we'll have more on that in the next slide and secondly, increased offer costs as a result of clarifying the removal of the government rebate on offers and also a general increase in offer intensity during the year.

Our productivity then managed to offset these impacts to allow the underlying net margin to be stable at 6.3% in FY26. We've also highlighted the first half, second half margin profile in the table at the bottom left. Again, the LIC development is an important factor. While reported margins were 6.8% in first half '26 and 5.5% in second half '26, when we adjust for the LIC development impact and also seasonality, underlying margins remain stable in that 6.3% range.

In this case, with the benefit of hindsight claims development, the LIC balance was understated at the end of the first half of '26. As a result, we had to re-accrue in the second half of '26 impacting margins with the effect being magnified because the impact is only across half the full year.

Looking at the gross margin walk. This is effectively the same margin walk, but just looking at the gross margins. Again, we have reported gross margin in FY25 at 18%, which then needs to be reduced to an underlying margin of 17% after the FY24 claims development that impacted FY25. With an underlying gross margin of 17%, we have the same price mix inflation impact and also the impacts from risk equalisation and offer costs.

However, there's no offset via the productivity and hence gross margin underlying declined to 16.2%. We continue to see opportunities through claims management. portfolio mix optimisation and pricing discipline as we manage margins into FY27. Importantly, across the last two slides, our pricing actions accommodated mix and inflationary pressures, increased hospital benefits while productivity improvement supported net margin resilience.

Looking to the next slide. Claims inflation continued to improve during FY26. Underlying claims inflation moderated to 4.1%, despite risk equalisation contributing about 40 basis points of inflation, which was about 30 basis points in margin.

A significant issue this year has been the industry wide risk equalisation volatility. You can see in the two bottom graphs that risk equalisation has been the highest relative contributor to nib's inflation in FY26, with risk equalisation growing at 7.1% and our annual risk equalisation payment growing at 10%, versus a long-term average of closer to 4%.

The table in the top middle part, which is entitled, Risk equalisation impacted by gross deficit inflation, explains why. The gross deficit is the amount of claims each insurer submits into the risk equalisation pool that is then risk equalised by other insurers. The more you submit, the more you tend to get back.

As you know, nib is by far the single largest contributor at $268 million. To put this in context, the next largest contributor is around $40 million to $60 million. The reason is largely due to nib's younger age profile, however this has meant that nib's gross deficit inflation is generally higher than industry.

You can see that in the table, our gross deficit inflation has remained largely stable at 6.5% to 7%, however the industry inflation has shifted from around 5% up to 7.5%. The normal gap to industry that we would see, which is about that 1.5%, has not been present in FY26 and that's increased our risk equalisation payment above trend.

We do not have a line of sight as to why the industry gross deficit grew so strongly this year. Reasons could include claims inflation or payment speeds that have accelerated faster in the industry versus nib, or the timing of hospital contracting.

While this created a near term earnings headwind, a sustained increase in claiming by the industry relative to nib, should that continue, will be reflected in relative lower levels of total inflation and we believe could improve our relative competitiveness over time. But there have definitely been some unusual and volatile results in how some health funds have contributed or received this year, and we continue to support reform of the risk equalisation system towards a more prospective framework that better rewards prevention, claims management and participation by younger members.

Moving to international please. International delivered a standout result. Revenue increased 7.4% an underlying operating profit grew 15% to $35.1 million. Policyholder growth accelerated to 4.4% driven by strong growth across PALM, temporary graduate and skilled worker segments.

Margins improved with gross margin up 160 basis points and net margin increasing to 15%. Customer outcomes also remained exceptional, with NPS of +62 and approximately 90% of interactions occurring through digital channels.

Overall this business continues to demonstrate the benefits of disciplined growth strategy, strong customer propositions and operational efficiency.

New Zealand. New Zealand delivered a very pleasing outcome for the Group this year, with underlying operating profit improving from a loss of $2.9 million in FY25 to a profit of $27.5 million in FY26. The turnaround reflects deliberate pricing actions, claims recovery initiatives and disciplined expense management. Gross margin improved by more than 600 basis points and net margin recovered to 6.5%.

Importantly, customer outcomes were also a focus with NPS recovering in the second half. We deliberately prioritised sustainable margin restoration over volume growth in FY26 and we now believe the business has returned to a stronger footing from which disciplined growth can resume.

The next slide illustrates the mechanics of the recovery in New Zealand. We can see that significant pricing actions restored portfolio economics and enabled revenue growth to outpace claims growth.

At the same time, claims recovery initiatives reduced utilisation trends and improved claims discipline. With claims inflation now moderating, pricing actions are beginning to normalise. The focus from here shifts from recovery to sustainable growth, while maintaining the stronger margin profile achieved over the last year.

nib Health Services achieved full year profitability and continued to build momentum. Underlying operating profit improved from a loss of $5.9 million to a profit of $2.4 million. This reflects growth in Honeysuckle Health, improved operating efficiency and the benefits of full year ownership.

Honeysuckle Health continues to demonstrate quite strong customer outcomes, while ItsMyGroup has become an increasingly valuable strategic asset. ItsMyGroup now supports 18 health insurance brands, powers 20 comparison platforms and facilitates more than 10% of industry sales, and together these businesses strengthen our relationship across the health insurance ecosystem, while creating attractive future growth opportunities.

nib Thrive operating profit was $16.3 million, $600,000 lower than last year and was impacted by the removal of setup fees and lower participant numbers, however strong productivity outcomes largely offset these impacts.

Importantly we see emerging NDIS reform agenda as a net opportunity. The proposed reforms increase compliance, governance and operational requirements for plan managers. Additionally there is recognition that plan management is an important part of the NDIS fabric, with a clear direction towards a small panel of high-quality plan managers.

We believe these changes are likely to favour scaled, well governed operators such as nib Thrive. Accordingly, our focus remains on efficiency, payment integrity, customer experience and leveraging broader Group capability and we are well positioned to meet the commissioning requirements of any future panels.

In terms of Travel, the strategic review of Travel has delivered a successful outcome. Both transitions announced during FY26 are expected to complete in the first half of FY27. Upon completion, we expect to receive approximately $97 million of net cash proceeds providing additional capital flexibility.

Importantly, nib will retain a long-term distribution partner with Allianz Partners, allowing us to continue offering travel insurance to customers through a capital light model while generating future commission income. The transaction simplifies the Group and further sharpens our focus on private health insurance and related services.

Finally, turning to cash flow, operating cash flow was strong, increasing 20.2% to $199 million. The improvement reflects recovery in New Zealand, productivity gains across the Group, and continued operating discipline.

Capital expenditure reduced significantly, contributing to free cash flow improving from an outflow of $21.7 million to an inflow of $27 million. Strong cash generation also supported a reduction in borrowings further strengthening the balance sheet.

Overall, the combination of earnings growth, strong cash generation and lower leverage positions the nib balance sheet well as we enter into FY27.

I will now hand back to Ed to discuss the outlook.

Ed Close: Thanks, Nick. If we jump across to slide 26, our strategy has two clear priorities. Firstly, growing and strengthening our core private health insurance businesses and, secondly, scaling in related health and insurance services.

Across core PHI insurance, the focus is on leading customer and digital experiences, stronger loyalty, disciplined distribution and sustainable growth in high value segments.

Our multi-brand multi-channel model is a genuine advantage. Alongside the nib brand, in direct and intermediary channels, as well as GU Health, our flagship corporate offering, we work with leading insurance, banking and loyalty brands as a strategic health insurance partner, extending our reach into trusted customer communities.

This approach is differentiated and strategically valuable to target high value segments. Claims excellence is equally important. Better provider contracting, benefits management, payment integrity and care navigation support affordability, customer value and better health outcomes.

In health and insurance services, we have the opportunity to provide a second source of growth. Honeysuckle Health, ItsMyGroup, nib Thrive and complementary insurance partnerships are capital light platforms that leverage capabilities close to our core. They strengthen the private health insurance proposition and create further diversified earnings potential in strategically related markets.

Our digital and AI advantage supports better experiences and productivity. Disciplined capital and risk management provide flexibility and strengthen customer outcomes and our purpose led people bring this strategy to life every day.

The FY26 result gives us confidence that this strategy is working. We’ve simplified the portfolio, strengthened the balance sheet, improved efficiency and delivered growth in Group UOP, as well as increasing the contribution from our related adjacent businesses.

If we head across to slide 27, on focus and outlook. We expect continued Group underlying operating profit growth with guidance of $265 million to $285 million, excluding nib Travel and subject to risk equalisation outcomes.

In Australian residents, we’re targeting sustainable policyholder growth, a broadly stable gross margin subject to risk equalisation and an underlying net margin within our 6% to 7% target range.

Improving retention in high value segments is central to this plan. We're strengthening the nib brand and direct channels, targeting acquisition investment more strategically and establishing partner arrangements that place greater value on customer tenure and quality.

We also retain performance improvement levers through pricing and product design, claims management, provider partnerships, payment integrity and productivity. International and New Zealand are expected to continue making strong contributions and health and insurance services are targeting further positive underlying operating profit growth.

At the Group level, we expect further productivity gains, continued improvement in the operating expense ratio and significantly lower one-off costs. The completion of the Travel transactions and receipt of the sale proceeds are expected to provide further balance sheet flexibility and capital management options.

As mentioned earlier, from both Nick and I, I did want to spend a moment on industry reform opportunities, because affordability remains central to participation and the overall sustainability of private health care in Australia.

Firstly, on acquisition offers and incentives. Offers can attract customers to private health insurance, but the current settings significantly favour switching over loyalty.

New customers can receive an effective first year discount of up to 24%, compared with 12% capped benefits for existing members. Better alignment would create a fairer balance and reduce the costs ultimately shared across the broader membership base.

The use of offers, gift cards and other inducements create high levels of churn, and impact premium affordability over time as these costs get priced in. Offers have also become prevalent across the broker channel, and this activity is driving unsustainable consumer and commercial outcomes.

Secondly, on intermediary commissions, brokers and comparison services provide valuable choice, information and transparency for consumers and they have an important role to play across the sector in helping consumers find better value and the most suitable cover for their needs.

However, clearer disclosure and sustainable commission guardrails would preserve those benefits, support competition and ensure additional cost is not added to the system and borne by consumers through higher premiums.

Thirdly, on risk equalisation. We strongly support community rating and the principle of risk equalisation, but the opportunity is to modernise the current retrospective model through a carefully designed prospective approach that preserves fairness, while creates stronger incentives for health funds and ultimately consumers to improve member health outcomes, invest in prevention, manage claims effectively and attract younger, healthier lives into the sector.

This would support affordability for all consumers, strengthen participation and help ease the demand on the public health system.

Finally, on contemporary models of care, delivering the right care in the right setting at the right time can improve health outcomes, customer experiences and overall system sustainability, and this includes care at home and in the community settings across areas such as mental health, maternity and hospital substitution.

The tests should be clear. Care must be safe, high quality, genuinely substitute for hospital treatment and not cost additive and then be appropriately priced which is fair, transparent and deliver measurable value for consumers.

Taken together, these reforms can improve affordability, support participation and strengthen the value and sustainability of private health cover. We continue to engage actively and constructively with government, regulators and industry partners on these reform priorities.

More broadly, we enter FY27 with good momentum. Our core health insurance businesses are performing well, our adjacent businesses are contributing more meaningfully, and productivity continues to improve. Supported by a strong balance sheet, a clear strategy, we are confident in the outlook and our ability to deliver sustainable long-term value for customers and shareholders. So with that, we'll open up the call to questions. Thank you.

Operator: Thank you. As a reminder, to ask a question, please press star one-one on your telephone and wait for your name to be announced. To withdraw your question, please press star one-one again. Please stand by as we compile the Q&A roster. First question comes from the lines of Julian Braganza from Goldman Sachs. Please go ahead.

Julian Braganza: (Goldman Sachs, Analyst) Good morning, guys. Just on New Zealand, can you maybe just comment on why your policyholder growth was so weak? First thing, down about 7% annualised over the second half and can you just maybe comment on what's being done just to address that unit growth?

Ed Close: Good morning, Julian. Yes, thanks for the question. So as we've called out, some disciplined choices have to be made in New Zealand across the portfolio around pricing, product design and competitive positioning to ensure that we could really get back on stable footing around the structural components of the portfolio.

So the choices we've made, and we've been quite transparent around the pricing discipline that we've put through that market, alongside some additional product changes, that has come with some higher lapse and also did impact in the first half, in particular, service levels around our ability to support some customers. So that did come with a short-term impact to lapse and you can see that reflected in the policyholder growth.

We also saw a shift in downgrading as consumers started to look for higher excess tiers and lower levels of cover. One of the things I guess is unique about where – we moved quite quickly and decisively on some of our choices, and that did mean our competitive positioning relative to peers was disadvantaged across the cycle. So we've now pleasingly started to see that the actions we've taken puts us on strong sustainable footing and gives us a better comfort around our pricing outlook and ultimately, our competitive positioning.

So a few factors there really around ensuring that we could restore margins to a sustainable level and confident in the outlook now that we are in the range that we're in. Our competitors are starting to react with similar and higher, both pricing and product design changes, which gives us some confidence around our proposition moving forward.

Julian Braganza: (Goldman Sachs, Analyst) Okay, thanks. In terms of the outlook for net margins, so second half was clearly very strong, above your historical target ranges for the business of 8% to 10%. So what's the outlook for margins from here, just given what you're putting through on price and what you're seeing on claims inflation?

Ed Close: Yes, so we talk about sustainable margins. We're not providing any specific outlook on the margin trajectory at this point, Julian, just given some of the movements that we've just touched upon. One thing that we are certainly committed to though is now that we have restored to a sustainable level is that investment and focus on sustainable policyholder growth. So the balance for us moving forward is around disciplined investment in those areas, but also ensuring that that net margin remains stable and improving over time. But Nick, anything you want to add there?

Nick Freeman: Yes, Julian, one of the reasons that the second half was a bit stronger than everyone expected was that we had two months of really very low inflation that the industry is still scratching its head on, be it providers or health insurers. So we're not going to factor that into the inflation, into the first half. It looks a bit like an anomaly at this stage, so maybe that might help a little bit.

Julian Braganza: (Goldman Sachs, Analyst) Okay, got it. Then maybe just on the resident business, if I look at your market share data, that's reduced now, market share to about 9.7% as at March 2026. So it looks like your policyholder growth is now tracking below system. So I just want to get your view here in terms of the outlook, the strategy around how you're thinking about policyholder growth and what initiatives you have in place to improve the trends relative to system? Thanks.

Ed Close: Thanks, Julian. We've certainly signalled a shift in our focus and intent around disciplined policyholder growth in high value segments and we've called out a couple of factors there. Firstly, the choices we made around pricing and product design, as well as the exiting of some uneconomic corporate groups and low value cohorts, has materially impacted policyholder growth in the last 12 months. They were necessary and deliberate choices that we've made.

So this focus on high value over high top line growth is an important aspect of our proposition moving forward. I've also talked to some of the unsustainability around the use of offers, ensuring that we are not seeing high levels of churn across some of the intermediated channels, are other factors that have now got us thinking around what is a sustainable pathway.

The other piece we just need to remain alert to is that there are some proposed rebate changes coming later in the second half of 2027 and so it is difficult for us to, with confidence, predict exactly what that will look like in terms of our book and composition. So I think we're guiding to high quality sustainable growth moving forward and that should be a hallmark of our proposition moving forward.

Julian Braganza: (Goldman Sachs, Analyst) Okay, just a last question for me in terms of the expense ratio. So you're flagging further benefits that could come through from here. I just want to understand what is the sort of magnitude of the opportunity that could potentially offset any further risk or downside risk to gross margins? I think you were 9.9% for ARHI. How are you thinking about that in terms of flexibility that could come through into next year from your productivity focus? Thanks.

Nick Freeman: We're going to see a decent reduction because of the Travel business going. So depending on the timing of that, that will assist. Then I think it does depend a bit on how much simpler we can make the business as a result of Travel exiting the Group. So I think that at this stage, we probably outperformed everyone's expectations this year in terms of productivity. We still think there's more to go, but that'll depend on how much we can leverage the simplification and also the AI opportunities.

Julian Braganza: (Goldman Sachs, Analyst) Great. Thanks so much for that.

Operator: Thank you. Next we have Siddharth Parameswaran from JP Morgan.

Siddharth Parameswaran: (JP Morgan, Analyst) Good morning, gentlemen. A couple of questions, if I can. I just wanted to ask about claims inflation in the residents division. If I look at slide 14, the incurred claims cost grew 8.9% and you had policyholder growth of 1.9%. I know there was a lower reserve release this year and last year, but it still suggests that underlying incurred policy inflation, as you see it per policy, stripping out the claims inflation, was roughly 6%.

That seems quite high. I know that you're flagging underlying inflation as 4.1%, but you're stripping out the risk equalisation impact there. I'm just keen to understand exactly what is driving these numbers. It seems very high, much higher than your revenues per policy. I'm just keen to understand whether it's likely to continue into next year and if you could give us some colour around that?

Nick Freeman: I think, Sidd, there's two things. The first one is that inflation's on per customer basis. So there's also that exposure gap between the policyholder growth and the customer growth. We would include all of that in mix around the net pricing because pricing's on a per policy basis. Then the second is that the LIC had a big benefit in the prior comparable period.

Ed Close: Sidd, just building on Nick's comments, the 4.1% that we referenced there, that includes the risk equalisation impacts. So we haven't backed that out, the risk equalisation volatilities…

Siddharth Parameswaran: (JP Morgan, Analyst) Okay, well maybe you could just help me…

Ed Close: You go.

Siddharth Parameswaran: (JP Morgan, Analyst) So sorry, I was just going to ask then maybe if you could just help me. Actually, sorry, maybe you just finish, but I just can't reconcile the high incurred claims number that we're seeing here. If I take out the – I stripped that out in the question that I asked, it still seems very, very elevated versus the 4.1%.

So you're saying that includes the RE, but maybe if you just comment on 8.9% minus the 0.8% you had, which was the LIC development last year, there's not much contribution this year. We're still looking at 8% incurred inflation. You've got roughly 2% policyholder growth. That was the 6% that I was referring to. Just keen to make sure I understand the gap between the 6% and the 4.5% or the 4.1%, whichever one you're focusing on.

Nick Freeman: So rough numbers, I think I'm seeing about 8.9% growth in incurred, less 2.2% average policy growth, less about 0.7% - 0.8% of people growth, less about 1.1% of LIC impact gets me down to about just under 4%. Sorry, just under 5% and I'd have to sort of work through the next 40 basis points to the 4.5%, Sidd. Maybe we can do that this afternoon?

Siddharth Parameswaran: (JP Morgan, Analyst) Okay, no worries. Okay, I'll ask it a different way then. It seems like there is gross margin pressure, which was partly offset by MER savings, which were very substantial. I'm just keen to make sure I understand your views on trajectory into next year on the MER versus the gross margin trajectory. Can you sustain that level of improvement again next year in your view? Whether there'll be any [straggler] costs from the Travel sale, which might have to be taken up? Also just whether you think that - I mean, the 4.1% seems very low.

I'm just wondering, are you suggesting that that should be the increase that we should be factoring in for next year?

Ed Close: Sidd, we've guided to - we've given you some guidance around the gross margin in the outlook. We've given you some indication around the net margin target range, and we've given you a Group UOP guidance range. I guess there's a number of variables there that we've talked in around risk equalisation, volatility in particular, that can be one of the key movements there. But I thought it was important to then introduce that additional outlook statement around broadly stable Australian resident gross margins.

We also feel between pricing, discounting optionality and other levers, you've called out MER as a material one as well, that we've got practical ways that we can manage that margin well in 6% to 7% target range. So that's the outlook from our perspective, and we haven't specifically given claims inflation, but you've touched on some of the key numbers there.

Siddharth Parameswaran: (JP Morgan, Analyst) Okay, that's helpful. Thank you. Okay, if I could ask one other just around international. So I just want to make sure I'm clear on understanding your [inaudible – audio cut out] listed competitors that they are now one of the providers on the PALM contract. Maybe if you could just comment on whether that's likely to have any impact on policyholder numbers at all?

Ed Close: Yes, we're really proud and pleased with the work that we've done in that PALM segment in particular, Sidd. So we've had a longstanding relationship with industry and government. You're right in that there are - it's always been a non-exclusive preferred partnership. I should stress that. Those having another competitor on panel presents an opportunity for both players to really deliver great outcomes for that seasonal worker offering in the Pacific Islands.

We have really built those relationships through the employers and directly with those end customers. So whilst it is important to have preferred provider status, ultimately our go-to-market proposition and the strength of those relationships directly with the employers and the individuals is what is giving us confidence around continued growth in PALM market share. We're really proud of that work that we've done in that space. Also aided by some positive signs in skilled workers as well.

So, yes, it's been a fantastic result, more generally in the international visitors segment, supported again through pricing discipline and the productivity piece, and being very selective around which segments we play in, because we know particularly in the backdrop of migration settings, not all segments will behave equally. So, we feel well positioned to continue with some ongoing performance in that segment.

Siddharth Parameswaran: (JP Morgan, Analyst) Thank you.

Operator: Thank you. Just a moment for our next question, please. Next, we have Andrew Buncombe from Macquarie.

Andrew Buncombe: (Macquarie, Analyst) Hi, guys. Thanks for taking my questions. Just two from me, please. Apologies if I've missed it, but I seem to remember in February on the Group call, you made comments about doing a holistic end-to-end review of benefits across the Group, but I can't see it this time around. Maybe just an update on how that is tracking would be great. Thanks.

Ed Close: Morning, Andrew. No, it certainly continues as a key part of our strategy and focus moving forward. I think we called it out explicitly in the strategy slide for our core business, and that extends to both our Australian business there, you'll see through the bottom section, customer value through claims excellence, but we do see material opportunity in both Australia and New Zealand around improving and enhancing our proactive claims management.

It is multifaceted, everything from partnership contracts with hospital providers through strengthening payment integrity and assurance, particularly with the role of AI and patent recognition giving us further clarity and opportunity and delivering better consumer outcomes through affordability in some of our network strategies.

So, certainly a fundamental part of our proposition moving forward and the progress has been solid in the last 12 months in both businesses, and you see how we are containing claims inflation in New Zealand but equally starting to see some positive moderation in the Australian business as well.

Andrew Buncombe: (Macquarie, Analyst) Excellent. Then the other one from me, given some of the scheme reforms that are coming down the pike for Thrive and NDIS, how should we be thinking about participant growth for yourselves in Thrive in FY27? Thanks.

Ed Close: Yes, we remain alert to modest growth in the plan management and NDIS sector more generally in '27, and that's because these reforms are still gaining traction and we're still seeking clarity as to what exactly they look like. So, the pleasing part has been lapse has materially stabilised over the past 12 to 18 months. We did have a significant service disruption about 18 months ago and we're now really improving customer advocacy. So, our proposition has really strengthened over the past 12 months.

We actually remain quite excited about the future potential of plan management more generally, despite some of the changes around eligibility and scheme sustainability, which we fully support, we see a really important role for plan managers, particularly those plan managers that are scaled, compliant and acting in the best interests of all participants, and we certainly believe that nib Thrive is one of those.

So, we anticipate that off the back of these reforms that we will see further consolidation across the plan management market. We are seeing some indications now that plan managers of varying shapes and sizes are starting to exit the system as the compliance burden is increasing, which we see is an absolutely valuable thing for overall participant outcomes. So, we do see some opportunity here around market share growth that we are guiding to in the medium term.

That said, these changes will take some time to bed down and we're not expecting any wholesale change in the next six to 12 months. Our priority focus in this business is ensuring that we ready the proposition to be well-placed when these reforms take effect.

Andrew Buncombe: (Macquarie, Analyst) So, on that basis, would you see M&A as an option for your Thrive business in FY27 then, or continue to focus on the organic as the sector continues to shake out?

Ed Close: Yes, we're very focused on maximising the return on those existing investments, Andrew, and we do see some opportunity around organic growth. As I mentioned, starting to see some players exit the sector. So, not at this stage, not anticipating any inorganic growth in this market.

Andrew Buncombe: (Macquarie, Analyst) Great. That's it from me. Thank you.

Operator: Thank you. Next, we have Nigel Pittaway from Citi. Please go ahead.

Nigel Pittaway: (Citi, Analyst) Good morning, guys. Just first of all, coming back to claims inflation in ARHI, it seems as if you must be expecting some further modest improvement next year with this flat gross margin guidance, because obviously if you even take the 4.1%, add back your revenue mix impact, you are getting a number slightly higher than the price rise you got on 1 April. So, is that a reasonable expectation that claims inflation does continue to moderate a little next year?

Ed Close: Morning Nigel, it's a good question but we have guided to those broadly stable gross margins. So, it's certainly a good guide looking forward. There are some material things and just on the prior question, I touched on the progress we're making around benefits management and claims management, in particular product design and making sure that our product design is appropriately fit for purpose in this new environment.

That includes some fairly significant changes across our dental proposition that we've put through more recently that will take effect from 1 October. That's a big opportunity for our consumer value proposition around better outcomes where our members choose a first choice dental provider in network, they will receive enhanced benefits.

If our customers continue to choose to go out of network, which they are – which we make available, then they'll see a different benefit construct. So, we are pushing through a combination of product design and claims management changes that gives us confidence around that gross margin stability.

Of course, as we've stressed on the call, we do remain alert to this risk equalisation volatility. So, if you take a longer term outlook and based on that pre-COVID and five year trend, that gap to industry on gross deficit inflation has consistently been in nib's favour as our younger book ages and we also shift our focus to older consumers that do benefit from risk equalisation.

So, we were surprised, I think it's fair to say, particularly in Q3 and Q4 around this volatility occurring in risk equalisation. We remain cautious. It's prudent to do so in the short term, but those underlying settings around our book ageing and also this shift in policyholder mix should bode well around gross deficit inflation moving forward.

Nigel Pittaway: (Citi, Analyst) Thank you for that. Secondly, just on obviously the lapses at 16.2% and probably above 17% in the second half, probably reflecting the industry conditions to some degree, but it is something that you've sort of identified potentially as an area of focus before moving forward. So, presumably so far none of those initiatives have gone in, but they're still in hand and you expect – are they still sort of a strong focus for next year in terms of getting that lapse down from the above 17% it reached in second half?

Ed Close: Retention is certainly high priority for the business, Nigel. We did signal some deliberate choices that were made around pricing and off-boarding some unprofitable cohorts. They were necessary decisions and that did impact net growth by about 60 basis points. So, if you normalise for that, net growth for the year would have been more around the 2.5% mark rather than the 1.9% and that directly hit that lapse number.

Those choices are important and I have signalled some other product design changes. So, this will come with some short-term lapse volatility, but certainly we are stepping into this opportunity to drive high-value retention in those priority segments. I’ve indicated that portfolio repositioning and a shift around channel mix and also being more disciplined around acquisition offer costs, particularly off the back of the rebate clarification. Just to give you some colour around that, effectively that means the average cost of an offer increased overnight by about 25%.

So, we've had to adjust quite quickly in the back half of ‘26 and looking forward that will then mean we take a more focused view around quality growth with a bias towards retention and loyalty. We do have a range of different initiatives particularly around the way we support members, our longer tenured members through improved discounts and offers. So, we'll be looking to maximise that total growth investment which you can see there in the marketing MER to make sure that it has a balanced – positive balance towards retention as well as acquisition.

Nigel Pittaway: (Citi, Analyst) Great, thank you for that. That's useful colour. Then maybe just finally on New Zealand. I mean, can you sort of maybe comment on whether the lapses post the change in pricing and co-contributions were in line with expectations and give us some idea of how that sort of growth, well, sort of contraction, I should say, was more – was it more lack of new business growth than it was lapses going higher than expectations, I guess, is the crux of the question?

Ed Close: So, whilst we did experience that 8.3% decline in policyholders, it actually performed ahead of expectation, Nigel, on a total book basis. We did anticipate that when you're putting through premium increases of the order of magnitude that we have had to, alongside some fairly material changes in the product space, particularly around the introduction of co-pays, and us leading the market, that it was always going to come with a material reduction in policyholder growth. So, it wasn't a major surprise to us.

Nonetheless, now that we are on sustainable footing from a margin profile and we have that stronger base, we can certainly turn our attention now as the team are around discipline policyholder growth and we think there's a couple of opportunities both in the advisor, the financial advisor market and how we can strengthen relationships in our partnerships with advisors but also in our direct to consumer offering both through nib and the strategic partnership we have with AA Health in New Zealand who's one of the leading insurance brands in that market.

So, we feel well-placed both through direct, advisor and increasingly looking at the corporate Group that there are growth avenues available. As I stressed earlier, because of that price leadership approach and first mover position, we have now started to see our competitive positioning move much closer to the rest of the market and all of our peers are putting through material price increases and further product changes.

So, feeling well-placed around the outlook. We do remain cautious that these things don't turnaround overnight, given that is a material reduction in policyholder growth, but our proposition does remain compelling, and we're starting to see, particularly around customer advocacy, strong improvement in the second half there around NPS.

Nigel Pittaway: (Citi, Analyst) Great. Thank you very much.

Operator: Thank you. Next, we have Andrei Stadnik from RBC.

Andrei Stadnik: (RBC, Analyst) Yes, good morning. Andrei here from Royal Bank of Canada. Can I ask just one question really around some of the Australian residential margin movements, half on half and year on year? So, I appreciate that risk equalisation is something that's very difficult to avoid in terms of some of the margin movement noise. But the LIC, or the claims development, has also, I think, been featured now three times in the last 18 months. So, what are some of your thoughts on how you can improve margin stability for the benefit of your shareholders?

Nick Freeman: I think it's a good question. It's around, I think, if you look at historically our results, we've always had claims development and the under or the over of the LIC or OSC as it was. We've always reported that in terms of our margin walks.

This has been relatively unusual, especially the FY24 to FY25, and I think that's more a hangover from COVID, whereupon the LICs were very high, they then got released. We suggested that we were all done in FY23, then it wasn't so much in FY24, but now you can see that the current year is only 10 basis points.

In terms of what was happening in the first half and the second half, that's really more like a 0.3% or 30 basis point impact across the full year, because we've got to remember that that 70 basis point that you're seeing in that table is actually just a half, which is only half a year's claims. So the margin impact is magnified because the claims base is smaller at about $1.25 billion, whereas it's $2.5 billion over the full year.

But the LIC impact is the same no matter what, it just is a balance sheet amount that just gets accrued or released at the end of each period. So I hear you on trying to see that, I think the half on half is hard to avoid because of those impacts, but across the full year we would like to see a smaller impact going forward.

Ed Close: Andrei, just to build on that, a couple of things that are happening at the industry level and nib's also experiencing this, is that over the last 18 months, as you referenced, there's been quite a significant uplift in processing speeds at both the fund level, but also the hospital level as well. So that adoption of automation, straight through processing and accelerated payment patterns can materially distort particularly our modelling around, well when is that claim actually being incurred and in which period does that actually relate to.

So there are some unusual circumstances as we've come out of COVID, as Nick stressed, that some of that base has been distorted. But you'll see on slide 16 in the pack, where we actually step out that continuing acceleration around faster claims processing, which can then have LIC volatility, particularly around which periods that those impacts take place.

We've also called out previously the workday and claim seasonality, which again has been a little bit more unique in the last 12 months as an increased feature. We're expecting that to start to stabilise a little bit moving forward. So some of those factors, I guess, are unique in some ways around the last 18 months.

But I guess what we haven't stepped away from and what we've been consistent in our messaging to the market has been that underlying stable margin of 6% to 7%, is what we've typically targeted and whilst there is sometimes variation across the cycle, as we've stepped out this morning, that continues to remain in the ‘27 and outlook.

Andrei Stadnik: (RBC, Analyst) Thank you so much.

Operator: Thank you. Next we have Vanessa Thomson from Jefferies.

Vanessa Thomson: (Jefferies, Analyst) Good morning and thank you for taking my questions. I just wondered if you could give us a bit more colour around the hospital contribution to claims inflation. I see you've got bigger growth from medical this period. I just wanted to understand the hospital claims and the proportion covered by contracts and dynamic indexation therein. Thank you.

Ed Close: Good morning, Vanessa. It's a good question. So you will see in the chart on slide 17 that the big drivers have been risk equalisation and also medical. That medical inflation is primarily driven by our investment in known gap and so that investment has been really starting to wash through the book now and that's about giving our members better certainty around any of the no gap or known gap when they go in for surgery. So that's why you're seeing that driver particularly more pronounced than others.

We have started to see that hospital inflation stabilise. We've also called out the hospital payout ratio at almost 89% which, again, around meeting the statement of expectations and industry expectations more generally, we're very proud of the work that we've done around supporting the hospital viability and the broader sector.

So a combination of those things, we feel that the package that we're delivering now around risk equalisation and how we manage that and that gross margin that we've talked about at more stable levels around the 16s is a more sustainable proposition moving forward and it gives us more flexibility when you think about being able to make sure that we're managing all stakeholder expectations through the cycle.

Vanessa Thomson: (Jefferies, Analyst) All right, thank you. So if there's a known gap arrangement, the cost of that to you is reflected in medical claims, not hospital claims?

Ed Close: Yes, that's correct, because effectively it's the cost of the specialist, that we are trying to contain that through dedicated agreements that we hold with those doctors and specialists.

Vanessa Thomson: (Jefferies, Analyst) Okay, thank you. Then just one more question, just following up on the nib Thrive question, is the target still for 50,000 participants? I think that was in FY25, because I’ve just seen there's a little bit more of a drift into FY26 downwards. Thank you.

Ed Close: Yes, as I touched on earlier, Vanessa, it is more difficult for us to project with confidence given some of this reform uncertainty around that 50,000 target. So we do reference on slide 22 that we do see material market share growth opportunity as these reforms take effect, but as we're going through this – at the NDI scheme level, that is – a broader reset and refocus around, well, what does eligibility mean, what's going to be the adoption of plan management within the scheme moving forward, it's prudent for us to take a more cautious outlook in the short term on participants.

But, as I mentioned, we remain really encouraged around the opportunity that can present itself with a much smaller cohort of plan managers on a commission panel, where they are high-quality, scaled and compliant, delivering great participant outcomes. We're actually very encouraged and buoyed by that trajectory of where the sector's going. But given the near-term uncertainties, we have a bit more of a cautious outlook around participant growth.

Vanessa Thomson: (Jefferies, Analyst) Presumably that plan management panel, you guys will be on that, right? So October ’27, so that's, I guess, the timeline we should be thinking about?

Ed Close: Yes, no surprises. We're very motivated to ensure that the business is well-positioned to respond to those reforms, Vanessa and place nib Thrive within that panel.

Vanessa Thomson: (Jefferies, Analyst) Yes, great. Okay, thank you.

Operator: Thank you. Last question comes from the lines of Kieren Chidgey from UBS. Please go ahead.

Kieren Chidgey: (UBS, Analyst) Morning, Ed and Nick. Ed, can I just go back to your commentary on policyholder growth in ARHI, you're talking about a shift in strategy. When I have a look at your sales channel data for this period, the use of aggregators has gone up, on my maths, 12% growth in sales year on year through that channel, 8% drop in direct to consumers.

So it appears that you've more leant into that aggregator channel where we're seeing more offers and more churn. Is the change in stance you're talking about from FY27 onwards and are you signalling sort of a clean or clear desire to pull back in that aggregator channel, which is quite material to your overall sales composition?

Ed Close: Yes, morning, Kieren. Good call out. So certainly from ‘27 onwards, we are looking to optimise that mix of business coming through direct, brokers, white label partners and corporate, to a more sustainable composition, I guess, in line with where we've been historically.

You're right that there is increasing uptake of – and this is at an industry level, of the usage of brokers and aggregators across the system and that is being fuelled further by offers now becoming very prevalent in the broker space.

We're now of the view that there's certainly a strong role for the brokers and intermediaries to play, but we do want to ensure that those partnership terms that we do set down and agree with, with those partners, are on sustainable terms that drive retention and lifetime value.

So you will note that I've guided around this shift towards higher-value policyholder growth and that, with the short term, is coming with some lapse impact because that means we need to address uneconomic cohorts within the book, as well as think about our go-to-market proposition moving forward.

So we are proactively engaging with all of our partners both in the corporate space but also in the broker space and our white label partners around what are the most prudent sustainable commercial outcomes that we can deliver, but equally what is going to drive the best outcome for consumers, given that there are elevated usage of brokers and offers more generally.

So health funds themselves, ourselves included, need to think deeply around the use of these offers. Sometimes these offers are 12, 14 weeks at a time, plus gift cards, plus waivers. Is that a sustainable proposition or is that driving short-term churn? I think a good question that all health funds, ourselves included, need to step into.

Kieren Chidgey: (UBS, Analyst) Ed, if you don't see enough of behavioural change from your competitors, are you signalling a desire to maximise margin or sustain margin, is probably a better way of putting it, and forego growth or grow below system as we move forward?

Ed Close: Yes, well I think you'll see that we've quite deliberately signalled that shift, just to stress again, to repositioning to higher value and be very disciplined around our approach moving forward, Kieren. You'll also no doubt be alert to the fact that in our Australian residents business, if you look at the total MER composition, there is a lot of investment that is flowing through that marketing expense line and we need to step back.

The work that we've done around productivity, digital and AI, giving us material benefits and capacity in the non-marketing expense – and we're proud to now have a non-marketing expense ratio that is one of the leading health funds in the marketplace, we do need to now step into that other very large bucket of investment, which is our marketing and growth investment and make sure that that is optimised appropriately for the conditions that we're navigating.

So we think there's some material capacity in that value, given the material spend that we spend on commissions, offers, intermediated sales and also our direct investment and so we want to be very prudent around how we lay that investment down.

Kieren Chidgey: (UBS, Analyst) All right, thanks. A second question, just on claims inflation, Nick, I know a lot of noise through last year with risk equalisation, reserve movements that you've called out. When I have a look at the payment data you guys provide in your appendix, that is a pre-risk equalisation, so putting that aside, 5.5% per policy year on year.

Now clearly we saw an improvement in second half on paid, given that bring forward you'd spoken about previously in first half, but 5.5% does feel like payments across the full year are still tracking comfortably ahead of where net revenue per policy is likely to land next year. So just interested in your views on reconciling that with the stable gross margin outlook.

Nick Freeman: I think it is the continuation of that payment speed that we have been experiencing back on, I think it was about slide 16 or thereabouts. We put that chart in because it has been really quite noticeable and you have seen that additionally from the start of FY23. So back to Andre's question, the FY24 LIC was so overstated because of this acceleration in payment speed, we've adapted a bit better to that, but it is flowing through from a cash perspective.

What I would say is that our operating cash flow continues to strengthen, so I see that as a positive. We would look to see the two normalise more closely together, but I'd also highlight that looking at the gross deficit anyway – and we don't see obviously everything across the industry until November when the annual report comes out from APRA, but looking at the gross deficit, it does look like the gross deficit, which is on a paid basis, has also increased quite a lot across the industry, because it was going along at that 4% or 5% and now it's 7.5%.

So I think that the industry phenomena is there. It's in our numbers as well and we…

…phenomena is there. It's in our numbers as well and we would look to see it hopefully improve or be more closely aligned into ‘27 and ‘28, but at this stage we are seeing that acceleration occur.

Kieren Chidgey: (UBS, Analyst) Thanks. Just one final quick question. Your PCA coverage in the health fund fell quite a bit year on year, 1.89x down to 1.65x. I think you call out some changes around investments and the like. But is that all complete, Nick? Is that all in the base? Just interested in how you’re thinking about that capital coverage moving forward.

Nick Freeman: It's a really good question. So roughly that 30 basis points, you've got about 10 basis points in the increase in the PCA, of which half is just normal growth and half is that change in asset risk charge which is due to shifting over the bond portfolios to a different investment manager who has more corporate bonds versus sovereign bonds and they attract a higher rate. They should get a higher return but they attract a higher rate. So we'll consider whether we go back to more sovereign bonds, but literally over the last few months we've just been changing that across into one of their normal funds.

In terms of the capital base, roughly an increase in the DAC, so that was essentially cash coming out of the health fund and into commissions. Then there was about half of that also in a dividend up to the shareholder or up to the Group, so that assisted the gearing.

So looking at it, I mean we'll manage above the 1.5x to 1.6x target range. This time, because of the payment that we made last year in terms of the health fund dividend, it was probably a little bit higher than we were anticipating at 1.65x, but we'll continue to manage it above that.

We'll look at the Group balance sheet as well, quite importantly, because that gearing ratio has really come down. That's a good sign of strength and also the leverage ratio is right down. So I think the Group is in a really, really strong position. We could send some more money down into the health funds if we had to and it was just really an alignment of that dividend payment.

Kieren Chidgey: (UBS, Analyst) All right. Thank you.

Operator: Thank you. Thank you for all the questions. This concludes the Q&A session. I'll now pass back to Ed for closing remarks.

Ed Close: Just a big thank you for everybody for joining us. A big thank you to the nib team more broadly for the outstanding work that happened across FY26 and looking forward to delivering in FY27. So thank you very much for joining us and we'll leave it there.

End of Transcript