ASX announcement

23 August 2021

nib delivers strong FY21 performance and commits additional COVID support for members

- Group underlying revenue $2.6 billion – up 2.9%
- Group claims expense[1] $2.0 billion – up 2.5%
- Total Group expenses[2] $362.1 million – down 8.8%
- Group UOP $204.9 million – up 39.5%
- NPAT $160.5 million – up 84.5%
- Statutory EPS 35.2 cents – up 82.4%
- Final dividend of 14 cents per share fully franked (up from 4 cents), with DRP available
- COVID-19 member and community support package totals more than $60 million following additional $15 million support
- Transitioned to 100% renewable energy procurement for all nib-controlled locations

nib holdings limited (ASX: NHF) today announced its operating performance for the 12 months to 30 June 2021 (FY21). Group underlying revenue grew by 2.9% to $2.6 billion and Group underlying operating profit (UOP) by 39.5% to $204.9 million. Net profit after tax (NPAT) of $160.5 million further benefited from net investment income of $51.8 million. Return on invested capital (ROIC) of 19.1% was similar to pre-pandemic levels.

nib Managing Director, Mark Fitzgibbon said the extraordinary disruption of the pandemic didn't prevent nib producing a strong result in FY21.

In comparing FY21 with the previous financial year, Mr Fitzgibbon highlighted the impact of COVID-19 on relative claims, business activity and financial performance.

"Neither FY21 or FY20 can be considered "normal" given fluctuation in healthcare utilisation and claims experience. A high level of provisioning in our accounts for deferred claims especially caused a substantial decline in FY20 UOP while our FY21 claims experience has turned out better than expected," he said.

Mr Fitzgibbon remarked that nib had introduced various measures across the Group to support members and the community throughout the pandemic.

"We've supported our members by postponing premium increases, providing premium waivers and suspension options, expanding cover for COVID-19 related treatment at no additional cost while also giving financial and in-kind support for many public health efforts. Together these initiatives account for over $45 million in value since the onset of the pandemic," Mr Fitzgibbon said.

"Today we're announcing the return to eligible members of $15 million in additional claims savings by way of an ex-gratia payment to be applied as an automatic adjustment to their next premium payment between the period 1 September and 31 December 2021," he added.

Mr Fitzgibbon said the pandemic has demonstrated nib's resilience with this year's financial performance indicative of real progress and investment in the company's preeminent aim of 'your better health'.

"Our flagship Australian residents health insurance (arhi) business added over 26,000 policyholders representing a growth rate of 4.2%, above the industry average of 3.1%. Over the past five years we've accounted for more than 20% of total industry growth. Similarly, New Zealand policyholders, excluding foreign students, increased by 5.0%, and has grown 50% since we acquired the business in 2012," he said.

1 Total claims, including claims handling, are underwriting segments only and exclude travel insurance claims.
2 Underlying expenses excluding claims handing

“The pandemic has clearly heightened people’s awareness of the risk of disease and the need for financial protection as well as timely access to treatment. This is reflected in our policyholder growth which has also benefited from improvement in retention and resumption of previously suspended policies.”

Mr Fitzgibbon said total benefits (i.e. claims excluding risk equalisation) increased by 14.5% across the Group supported by a $64.8[3] million partial release of the COVID-19 provision established in FY20.

“While there was some catch-up of deferred treatment during the year it was less than initially anticipated. Its likely best explained by people’s ongoing fear of COVID-19 infection and continued lockdowns. While it remains difficult to forecast, we’ve retained a $34.0 million provision for further claims catch-up in relation to COVID-19,” he said.

Disruption to travel and restrictions on inbound arrivals continued to impact nib’s international inbound health insurance (iihi) and travel businesses. iihi membership experienced a 6.5% fall as well as higher claims while nib Travel sales revenue reduced by 74.1% during the year.

“While it wasn’t positive for our iihi and travel businesses we’re confident they will bounce back post-pandemic. Pre-pandemic in FY19, together these two businesses contributed $41.5 million to Group earnings compared with a loss of $19.5 million in FY21. It speaks of the opportunity ahead and we’re using the current hiatus to modernise our systems and improve operating efficiency,” he said.

Mr Fitzgibbon added strong progress was made towards transforming nib and becoming as much about good health and preventing the risk of disease as it is today supporting people once they’re sick or injured. And that done well, it will make joining nib all the more attractive and value for money.

“Our ‘Payer to Partner’ or P2P strategy saw developments on many fronts none more evident than our escalating effort and investment in Honeysuckle Health and digital engagement. Honeysuckle Health is a joint venture formed in 2019 with global healthcare company, Cigna. It’s deploying advanced data science to predict risk at an individual and population level and then more precisely prevent, manage, or treat that risk. Honeysuckle Health’s potential to change the way we think about healthcare, disrupt the market and place “prevention over cure” cannot be overstated,” he said.

Mr Fitzgibbon said FY21 also saw nib ramp up efforts to meet its social and environmental responsibilities.

“We’ve transitioned to 100% renewable energy across all our controlled locations to reduce overall emissions and in line with our commitment to achieve carbon neutrality by the end of FY22.

“Yet the area where we can make the greatest impact is in more deliberate and precise population health management. We’re well underway in New Zealand and across the Group plan to play a more active role in improving community health and redressing terrible gaps in outcomes especially between indigenous and non-indigenous people,” he added.

“Another significant development has been nib’s shift to distributed working. Essentially, our 1,200 people now have flexibility in where, when, and how they work and only attend a workplace “hub” when necessary for face-to face interaction,” Mr Fitzgibbon said.

Dividends

nib declared a full year dividend of 24 cents per share, fully franked which includes a final dividend of 14 cents per share. The final dividend has an ex-dividend date and record date of 2 September and 3 September 2021 respectively and will be paid on 5 October 2021.

The Board also confirmed the Dividend Reinvestment Plan (DRP) will be available for the final dividend for eligible nib shareholders. Further information can be found by visiting nib.com.au/shareholders

[3] Includes claims handling expense.

Outlook

nib expects market conditions for FY22 to remain similar to the past 12 months with the pandemic having mixed consequences.

Mr Fitzgibbon said the ongoing COVID-19 threat will further encourage private health insurance participation throughout Australia and New Zealand although the economic impact of lockdowns on many households is a countervailing factor and a risk to growth.

nib said it expects arhi net policyholder growth to be in the range of 2% to 3% and for growth in its New Zealand business to be consistent with recent years.

“The near-term outlook for our iihi and travel businesses remains challenged by restrictions on foreign entry and travel.

“It’s a small step, but through our joint venture with Tasly we now have a licence to sell health insurance in China and made our first sales in July. While the business won’t be profitable for another year or two, the medium to long term opportunity is considerable,” Mr Fitzgibbon said.

Mr Fitzgibbon added the trajectory of claims experience across its arhi, New Zealand and iihi businesses was equally difficult to forecast while ever the pandemic maintained its grip on populations.

“There will be less healthcare treatment of all kinds so long as lockdowns persist, people continue to fear infection and social distancing reduces the incidence of other diseases. However, it is impossible to predict with any precision the implications for claims expense, so we remain cautious about forecasting insurance loss ratios for our businesses in FY22 and beyond. We will consider reinitiating earnings guidance as circumstances become clearer,” he said.

Despite the uncertainty, Mr Fitzgibbon said he is confident a combination of policyholder growth, productivity gains and pricing would support nib achieving profit targets in its arhi and New Zealand businesses and that losses within iihi and travel businesses would stabilise.

Investor Briefing

nib will conduct an investor briefing at 10.00am (AEST) today via webcast and teleconference.

Teleconference details:

Phone: 1800 148 258 or +61 2 8038 5271
Conference ID: 8677534

The webcast will be accessible via nib.com.au/shareholders

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This announcement has been authorised for release by Roslyn Toms, nib Company Secretary.