Driving health beyond insurance: NIB's strategic shift and leadership renewal

Company/ASX Code	NIB Holdings Ltd/NHF
AGM time and date	11:00am AEDT Thursday, 7 November 2024
Location	Newcastle City Hall, NSW, and online
Registry	Computershare
Type of meeting	Hybrid
Monitor	Chad Moffiet assisted by Thivyan Aravindan
Pre-AGM Meeting	David Gordon (Chair), Jacquline Chow (RemCom Chair), Dan Anderson (Investor Relations), Chad Moffiet (ASA), Thivyan Aravindan (ASA)

Monitor Shareholding: The individual(s) (or their associates) in preparing this voting intention have no shareholding in this company.

1. How we intend to vote

No.	Resolution Description	
2	**Remuneration Report**	For
3	**Re-election of Ms Jacqueline Chow**	For
4	**Re-election of Mr Peter Harmer**	For
5	**Approval of Participation in LTIP for Ed Close**	For

2. Summary of Issues and Voting Intentions for AGM

Key Themes:

Strategic Transformation and Payer-to-Partner (P2P) Model

NIB's ongoing strategic shift through its Payer-to-Partner (P2P) model signifies a transformative expansion from conventional insurance towards becoming an integral health partner. This approach underscores NIB's commitment to proactive and preventive health measures, aligning with evolving member expectations. The P2P model encompasses digital and preventive health initiatives, such as telehealth consultations, personalised health management tools, and wellness programs designed to empower members in their health journey. By advancing these offerings, NIB differentiates itself within a competitive market, aiming to foster member engagement, trust, and long-term health outcomes.

Partnerships with entities like Honeysuckle Health and Midnight Health further accelerate NIB's digital transformation and serve as foundational elements of the P2P model. These collaborations enable NIB to integrate innovative healthcare solutions and continuously adapt its model to reflect advancements in health management. Through the P2P approach, NIB is positioning itself as an insurer and a proactive health partner dedicated to promoting wellness, preventive care, and a sustainable value proposition for its members.

Leadership Transition

The CEO transition from Mark Fitzgibbon to Ed Close highlights NIB's forward-looking strategy, ensuring continuity and strong leadership in its transformative journey. Fitzgibbon's tenure evolved NIB from a regional health fund into an ASX100 company, laying the groundwork for the P2P model emphasising digital health, preventive care, and member engagement. His leadership has been instrumental in building a member-centric health framework that aligns with NIB's commitment to addressing long-term health trends.

Having previously led NIB's Australian Residents Health Insurance (ARHI) division, Ed Close is well-suited to advance the company's P2P goals. His expertise in digital health and operational excellence positions him to drive the next stages of transformation effectively. With a deep understanding of NIB's mission and objectives, Close's leadership will be essential in maintaining the momentum of the P2P model while fostering innovation in health engagement and member services.

Share Price Movement

NIB's share price has recently shown volatility, especially following its FY24 results; despite solid performance indicators, 67.4% NPAT growth and a 77.3% increase in UOP, the share price experienced declines. Analysts attribute this partly to sector-wide pressures, particularly elevated claims inflation and market uncertainties, which may have affected investor sentiment. NIB's shareholder composition, with a higher proportion of retail investors and lower liquidity, may also amplify these movements in both directions.

ASX Aware Query and NIB's Disclosure Response

The ASX queried NIB's earnings disclosures after the FY24 results announcement, citing potential market sensitivity after the share price fell. In response, NIB detailed its rigorous monitoring of analyst consensus to ensure transparency, noting that its variances from consensus (UOP at -5.5% and NPAT at -10.1%) were within the ASX-recommended threshold of 15%. NIB's Continuous Disclosure Committee, working with the Board, confirmed that these variances did not necessitate additional disclosure under ASX rules.

Challenges faced by NIB and the broader health insurance sector

Claims Inflation: Although within expectations, NIB's claims inflation aligns with a trend across the industry, which may pressure margins and future pricing adjustments.

Regulatory Considerations: As noted by analysts, government-regulated pricing reviews scheduled during an election period create additional uncertainty for the sector. This regulatory environment complicates premium pricing, adding to NIB's strategic considerations.

Highlights at a Glance:

- **Full-Year Financial Results (FY24)**: NIB Holdings reported a net profit after tax (NPAT) of $181.6 million for FY24, a significant 67.4% increase compared to FY23. Additionally, total group revenue increased by 9.3%.

- **Dividends**: The company declared a fully franked final dividend of 14.0 cents per share, bringing the total dividend for the year to 29.0 cents per share. The final dividend is set for payment on 8 October 2024.
- **CEO Transition**: Mark Fitzgibbon, NIB's long-serving Managing Director and CEO, announced his retirement, effective later in 2024. He will be succeeded by Ed Close, marking a significant leadership transition.
- **Growth in Core Businesses**: NIB's private health insurance business grew, adding over 17,000 new policyholders in Australia, with growth in international students and workers insurance. The company's NDIS plan management business, nib Thrive, also grew, supporting almost 40,000 participants.
- **Payer-to-Partner (P2P) Strategy:** Central to NIB's future direction, the P2P strategy transforms the company from a traditional insurer to a proactive health partner, emphasising digital and preventive health services. This shift, supported by strategic partnerships, positions NIB uniquely in the market and drives its long-term vision for member-centric healthcare.
- **Switch in accounting standard**: NIB Holdings (NHF) adopted the new AASB17 standard for insurance contracts in its 2024 annual report, replacing AASB 1023. The company reported financial results under both standards to provide a comparative view. However, this dual reporting could confuse retail shareholders unfamiliar with the complexities of AASB17. The new standard affects the timing and recognition of insurance profits.

See ASA Voting guidelines and Investment Glossary for definitions.

3. Matters Considered

Accounts and reports

NIB Holdings (NHF) introduced the new accounting standard AASB17 for insurance contracts in its 2024 annual report, replacing the previous AASB 1023. The company has reported financial results using new and old standards to provide a comparative context. However, this dual reporting might confuse retail shareholders unfamiliar with the latest standard's implications. AASB17 impacts the timing and recognition of insurance profits, increasing complexity in financial interpretation. The below information will be based on AASB17 reporting.

Continuing its stable earnings growth, NIB delivered Total Group Revenue of $3.3b in FY24, up 9.3% from FY23. This is indicative of the waning effects of COVID as earnings growth returns to similar pre-pandemic levels. Underlying Operating Profit (UOP) for the group was up a stellar 77.3% from FY23 at $257.7m, driven by solid policyholder growth across all insurance segments. This financial stability should instil confidence in our shareholders.

After a turnaround in FY23, net investment income grew to $61.7m, up 12.8%. NPAT rose 181.6m, up 67.4% from FY23, allowing the Board to announce a full-year dividend of 29 cents, up 3.6% from FY23. This dividend reflects a payout ratio of 75.7% of FY24 NPAT. Whether NIB can sustain a growing dividend with falling margins remains to be seen.

Australian Residents Health Insurance (ARHI) continues to drive over 70% of group revenue, posting UOP of $220.1m, up a little over 100% from FY23. Despite rising claim inflation and easing margins heading back to pre-pandemic levels, NIB's resilience is evident. Premium revenue was up 8.5% to $2.6bn after accounting for $21.1m of the 2023 premium price deferral decrease. Claims expense increased 4.9% to $2.1bn, reflecting hospital cost pressures and lower underwriting margins.

NIB New Zealand delivered positive results, with premium revenue up 10.2% to $371.2m. The UOP, however, was down 35% to $19.3m from FY23 UOP of $30.1m. High inflation in New Zealand has affected the private health insurance sector, hence a rise in premiums.

Following its planned entry into the NDIS sector in 2023, nib Thrive has delivered a UOP of $15.3m, much higher than $3.1m in FY23. NIB also completed two plan manager acquisitions in 1H24, adding around 9000 participants. FY24 saw the acquisition of Kynd Group (a digital marketplace for people using the NDIS Scheme). Kynd Group saw an average increase of 17.3% in active participants.

Regarding capital management, Net Debt increased by 7.6% to $264.6m. Group Net Tangible Assets also decreased due to NIB Thrive acquisitions in 2024 and increased software development. The share price tumbled 13% to $7.35 (30 June 2024) from a previous financial year high of $8.45 (30 June 2023); it currently sits at $6.01 (8 September 2024).

The risk management section summarises insurance risks to the company, such as claims inflation and affordability, government policy, and pricing risks. Climate change is identified as an emerging risk; however, nib concludes that it is not currently determined to be a material financial risk in the short term.

Dividends: The company declared a fully franked final dividend of 14.0 cents per share, bringing the total dividend for the year to 29.0 cents per share. The final dividend is set for payment on October 8, 2024.

Financial performance (under the new AASB17 standards)

(As at FYE)	**2024**	**2023**	**2022**	**2021**	**2020**
NPAT ($m)	181.6	108.5	205.7	110.4	161.2
UOP ($m)	257.5	145.2	339.9	133.5	252.7
EPS (cents)	38.3	24.1	45.3	24.3	35.5

The information below will reference the previous accounting standard (AASB1023):

- Group revenue increased 9.6%
- Group UOP increased 5.9% for the 12 months to 30 June 2024.
- NPAT rose 2.8% from the previous corresponding period.
- ROIC decreased by 150 bps to 17.3%.

Financial performance (under the previous AASB1023 standards)

(As at FYE)	**2024**	**2023**	**2022**	**2021**	**2020**
NPAT ($m)	196.4	191.1	133.8	160.5	87.0
UOP ($m)	278.6	263.2	237.0	204.9	146.9
Share price ($)	7.35	8.45	7.38	6.51	4.62
Dividend (cents)	29	28	22	24	14
Simple TSR (%)	(9.6)	18.4	16.7	46.1	(38.0)
EPS (cents)	41.4	41.4	29.6	35.2	19.3
CEO total remuneration, actual ($m)	3.8	3.4	3.2	2.0	3.7

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking, by the share price at the start of the year.

Remuneration Report

The executive remuneration structure is designed with a benchmark against a peer group of listed companies, determined in consultation with external remuneration advisors. The goal is to position the total target pay for the Executive Management team between these comparable companies' 50th and 75th percentiles. Shareholder input is also considered when setting the remuneration for the MD/CEO and the broader Executive Management team, with the Remuneration Committee collecting and reflecting this feedback in its decisions. PwC has audited the remuneration report and has ensured its compliance.

A substantial portion of executive pay is "at risk," meaning it is performance-based and tied to the company's Short-Term Incentives (STI) and Long-Term Incentives (LTI). The STI and LTI plans include provisions for malus and clawback, ensuring that executives are accountable for their performance. For FY24, the MD/CEO had an STI target equivalent to 90% of their fixed remuneration, while other executives had STI targets ranging from 60% to 75%. The maximum possible STI payout for all executives is 150% of their target. A key condition of the STI is that 50% of the awarded amount must be deferred into company shares, with half deferred for one year and the other half for two years. During this time, they are subject to forfeiture under malus and clawback conditions.

Following the assessment of FY24 performance, the MD/CEO received 94.6% of their target STI, driven by strong financial performance and success in advancing the company's P2P strategy. However, some non-financial performance metrics moderated the payout. Group executives earned between 75.2% and 93.6% of their target STI, with an average payout of 87.7%.

The 2021 Long-Term Incentive (LTI) plan concluded its four-year performance period on June 30, 2024, resulting in 95.93% of the award vesting. This was based on 91.86% vesting for the relative Total Shareholder Return (TSR) hurdle and 100% vesting for the Statutory Earnings Per Share (EPS) hurdle, demonstrating solid shareholder returns over the period.

Regarding fixed remuneration, the MD/CEO's pay for FY24 increased by 3.5%, while other executives received raises between 5.9% and 18.4%, with an average increase of 13.85%. These adjustments ensured the remuneration levels remained competitive and aligned with the executives' responsibilities. Non-executive director fees also saw a modest increase of 3.5%-3.95%, except for the fees for New Zealand Directors, which rose by 24% to better reflect competitive positioning in that market.

The MD/CEO's fixed remuneration for FY24 amounted to $1.25 million, with an STI payout of $706,397 in cash and an equivalent amount in shares, bringing the total STI award to $1.41 million. The MD/CEO also received $1.13 million from the LTI plan, bringing the total remuneration to $3.8 million.

Governance and culture

NIB's governance structure is essential to its transition to a proactive health partner, and the Board's broad expertise provides comprehensive oversight of the P2P model. Directors' backgrounds in finance, healthcare, risk management, and digital innovation are crucial for guiding the company's shift to a member-centric health provider.

There are 8 Board Members, five male and three female, close to satisfying ASA guidelines that encourage boards to aim for a 40:40:20 structure—40% male, 40% female, and 20% flexible based on skills and experience.

The Corporate Governance Report's Board Skills Matrix does not satisfy ASA guidelines that require skills to be attributed to specific directors. NIB's current skills matrix makes it difficult for investors to assess the skills of individual directors.

Key board or senior management changes

Mark Fitzgibbon, Managing Director and CEO of NIB will retire by the end of 2024 after more than 20 years of leadership. Under his guidance, nib has grown from a regional health fund to an ASX100 company, expanding into new areas like health management and disability services.

Ed Close, the Group Executive of nib's Australian residents' health insurance business, will become the Managing Director and CEO. Ed brings a shared passion for better health outcomes and a clear vision for NIB's growth. The Board looks forward to working with him to continue nib's strong trajectory.

Sustainability/ESG

NIB's ESG framework aligns closely with the P2P strategy, incorporating environmental responsibility, social impact, and governance standards into its core operations. This commitment supports NIB's role as a responsible corporate citizen and enhances its reputation among members, stakeholders, and the wider community.

- **Environmental Impact:** NIB achieved carbon neutrality in 2022, reflecting its proactive stance on reducing its ecological footprint. The company actively pursues energy efficiency, waste reduction, and renewable energy initiatives, contributing to its goal of long-term environmental sustainability and meeting the expectations of environmentally conscious members.

- **Social Responsibility and Health Equity:** The company funds preventive health and mental wellness programs in underserved communities through the NIB Foundation. The Toi Ora partnership in New Zealand highlights NIB's commitment to addressing health disparities, delivering culturally sensitive healthcare services to Māori communities, and demonstrating NIB's dedication to social equity.
- **Governance and Ethical Standards:** NIB's board oversees ESG-related initiatives, ensuring they are strategically aligned with company goals. Transparent ESG reporting gives stakeholders a clear view of NIB's environmental and social impact, reinforcing its dedication to responsible business practices and ethical standards.

4. Rationale for Voting Intentions

Resolution 2 Remuneration Report (For)

- It supports the alignment of executive incentives with long-term P2P goals and features malus and clawback provisions for accountability.

NIB's remuneration report reflects a comprehensive approach to aligning executive incentives with the company's long-term strategic objectives, particularly the Payer-to-Partner (P2P) model. The remuneration structure is well-balanced, with a significant portion of "at-risk" compensation tied to Short-Term Incentives (STI) and Long-Term Incentives (LTI). This design motivates executives to meet immediate targets and ensures accountability for sustained performance through malus and clawback provisions. Given the pivotal role of executive leadership in driving the P2P transformation, the proposed remuneration model is appropriate and encourages executives to deliver value that aligns with shareholders' interests and NIB's.

Resolution 3 Re-election of Ms Jacqueline Chow (For)

- Her expertise in digital transformation strengthens NIB's customer-focused health initiatives integral to the P2P strategy.

Ms Chow's re-election is recommended due to her significant expertise in digital transformation, a core element of NIB's strategic shift. Her background strengthens NIB's capacity to leverage technology to enhance customer engagement and deliver innovative health solutions as part of the P2P model. Ms Chow's insight and contributions will be invaluable as NIB continues to expand its digital and preventive health services, ensuring the company remains agile and responsive to changing healthcare needs. Her expertise aligns directly with NIB's commitment to improving member health outcomes, making her an essential asset to the board.

Resolution 4 Re-election of Mr Peter Harmer (For)

- Risk management experience is critical for NIB's expansion in digital health and strategic risk oversight in the P2P context.

Mr Harmer's risk management experience is crucial as NIB navigates the complexities of expanding digital health services within the P2P framework. His skill set supports strategic oversight in an environment where regulatory compliance, data security, and risk mitigation are increasingly critical. NIB's evolution toward preventive health and proactive member engagement entails managing various strategic risks, and Mr Harmer's background equips him to provide oversight in these areas effectively. His continued board presence will support the resilience and sustainability of NIB's transformation efforts, protecting both shareholder interests and long-term company objectives.

Resolution 5 Approval of Participation in LTIP for Ed Close (For)

- Aligns Close's incentives with P2P objectives, focusing on digital health, preventive care, and long-term shareholder value.

The proposed Long-Term Incentive Plan (LTIP) for Ed Close aligns with NIB's strategic priorities, directly linking his incentives to the success of the P2P model and broader company goals. As the incoming CEO, Close's participation in the LTIP underscores the board's confidence in his ability to lead the next phase of NIB's transformation. The focus on digital health, preventive care, and member engagement as key LTIP performance criteria ensures Close remains motivated to enhance NIB's member-first approach and deliver sustained shareholder value. The LTIP framework further secures Close's commitment to the company's vision, reinforcing stability and continuity during this critical leadership transition.

Appendix 1
Remuneration framework detail

CEO rem. Framework for FY24	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.25	31.7%	1.25	26.7%
STI - Cash	0.56	14.2%	0.94	20.0%
STI - Equity	0.56	14.2%	0.94	20.0%
LTI	1.56	39.6%	1.56	33.3%
Total	3.94	100.0%	4.69	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration. It is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting. Some remuneration frameworks set a maximum opportunity amount, but not all.