medibank
For Better Health

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CHAIRMAN AND CHIEF EXECUTIVE OFFICER AGM PRESENTATIONS

CHAIRMAN

Good morning and welcome to the 2019 Medibank annual general meeting.

On behalf of the Board I acknowledge the Wurundjeri people of the Kulin Nation who are the traditional owners of the land which we meet on today and pay my respects to their Elders past, present and emerging.

We recognise the health gap between Indigenous and other Australians and acknowledge the ongoing commitment of those working within their communities to close this.

Joining me on stage is the Medibank Board of Directors. I will ask them to stand as I introduce them to you.

On my far right is Dr Tracey Batten, followed by Peter Hodgett who is Chair of our Investment and Capital Committee. Next is Linda Nicholls who is Chair of the People and Remuneration Committee, and who is standing for re-election today, followed by Chief Executive Officer Craig Drummond.

On my far left is Anna Bligh, followed by Mike Wilkins. Next is Christine O'Reilly, who is Chair of the Audit Committee, and then David Fagan, who is Chair of the Risk Management Committee and is also standing for re-election today. Finally, to my left, is our Company Secretary Mei Ramsay.

Today I will start with a summary of our performance and then hand over to Craig for some comments, including last week's update to our FY20 outlook.

I now formally declare the meeting and the poll on the resolutions open, so that any shareholders who need to leave the meeting may lodge their voting cards as they leave.

Medibank delivered a good quality result this year, with a Group net profit after tax for our total operations of $458.7 million.

Importantly, we achieved this while balancing better outcomes for shareholders and customers alike.

To you our shareholders, the owners of Medibank, we paid a fully franked full year ordinary dividend of 13.10 cents per share.

This represents a payout ratio of 80% of underlying NPAT which is at the top end of the Board's target range for FY19.

The Board’s revised policy from FY20 is to target a payout ratio of between 75% and 85% of underlying NPAT.

As a result of the decision to lower our target capital range, Medibank was able to pay a fully franked special dividend of 2.5 cents per share to our shareholders.

By way of background, the Australian Prudential Regulation Authority (or APRA) requires insurers to keep capital on hand in the event of a period of stress.

Our revised target capital range of 11% to 13% of premium revenue ensures our customers remain protected.

For our customers, to which value for shareholders is inextricably linked, we achieved our highest ever Service Net Promoter Score across both brands.

And we saw improvements in acquisition and retention, with net resident policyholder growth of 15,100.

This is a solid result that shows we’re tracking in the right direction following net growth of 4,800 policyholders in FY18 and a loss of 24,200 in FY17.

Pleasingly, we paid benefits for customers of more than $5.4 billion, with Medibank and ahm supporting more than 1.3 million hospital admissions, more than 500,000 surgical procedures and more than 24.3 million extras services during the year.

We are clear about the value and choice our customers are looking for through their private health insurance, and our result reflects how Medibank is delivering on this.

But I also acknowledge the ongoing discussion around the private health sector, particularly around affordability and out-of-pocket costs, and what this means for the future sustainability of the sector.

With private health insurance funding four in every 10 hospital admissions and paying for more dental care than the Federal government, we are clear about the value of our sector to the 13.6 million Australians who hold private health insurance.

We’re also clear about how this alleviates pressure on the public system.

The Federal Government’s introduction of reforms this year signalled its recognition of the role of private health, but also the need to provide customers with more choice, better support and greater affordability.

We adopted each of the reforms including voluntary measures because it is the right thing to do for our customers.

This includes applying a young adult discount to 150,000 existing customers.

We recognise that affordability is a real concern for customers.

The annual cost of healthcare in Australia has risen by 4.5% above inflation over the past decade.

With a corresponding increase in premiums impacting consumers, ongoing and substantive change is needed.

There is a raft of reforms that would deliver unequivocal savings, and in many cases better health outcomes for our customers.

This will remain the basis of our engagement with the Government on further reform, which Craig will talk to shortly.

As Medibank transforms into a broader healthcare company we are able to create more choice for customers to receive their care at home.

We are also offering personal and proactive support to more people living with chronic conditions and to customers in the lead up to a hospital stay.

Medibank also delivers a range of programs on behalf of government, our peers and community organisations.

As the largest provider of telehealth in Australia, Medibank's health professionals speak with thousands of Australians every day, providing services ranging from after-hours health advice, palliative care support, through to the national sexual assault, family and domestic violence counselling service 1800RESPECT.

It has now been five years since Medibank was listed on the Australian Securities Exchange.

And strong corporate governance was paramount throughout the IPO process, and it remains just as critical today.

Being a part of the health sector and playing the role we do in supporting the health of our customers and the community is a privilege.

With this comes responsibility and the need to meet the expectations that our shareholders, customers and the public have of us.

This is a responsibility that I, my fellow directors and Medibank's leadership team take seriously.

We have spent a lot of time looking at the relevant industry issues identified by the Australian Prudential Regulation Authority and the Hayne Royal Commission.

This focus spans governance, culture and accountability, and with an eye to the respective interests of all stakeholders, including the broader community.

There are areas where we are performing well, areas where we are in the process of uplifting, and areas where we see opportunities to enhance and formalise our practices.

This will remain an ongoing priority for the Board and Executive Leadership Team, and Medibank is and will be a stronger company as a result.

Doing the right thing by our customers, shareholders and our people allows us to have a greater impact on the community and a credible voice on the issues important in Australia.

Medibank is committed to the United Nations Sustainable Development Goals, and because of who we are and what we stand for, we are focused on areas that connect to our Better Health for Better Lives purpose.

This year we focused on supporting greater access and inclusion for people living with disability in Australia.

The Board met with Dylan Alcott and his organisation Get Skilled Access to better understand the experiences of people living with disability and the opportunities we have to increase awareness and drive genuine change for our customers and people.

We are holding ourselves to account on this by publishing our action plan to achieve this.

I am proud that our leadership in this area has been recognised by the Australian Network on Disability with Medibank ranked one of Australia's top two companies on its Access and Inclusion Index.

As you'd expect, climate change is another issue we see as having an impact on the health and wellbeing of our community, and experts support this view including the World Health Organisation.

In recognition of this issue, Medibank became the first health insurer in Australia to be carbon neutral, and with the transition of our domestic equity investments, our entire equity investment portfolio is now low carbon.

We will continue to track our greenhouse gas emissions to identify areas for action and will make the details of our progress public each year.

What we also know is that 'better health' extends beyond physical health.

Medibank is increasingly focused on mental health and wellbeing, which we see as one of Australia's biggest health challenges.

And we have a unique perspective on this issue, through our delivery of the Beyond Blue phone support service in Australia and the fact that psychiatric admissions are consistently among the most common hospital claims, including the most common for customers in their twenties.

This year we launched a round-the-clock mental health phone support line and partnered with a range of organisations who provide support to homes, schools and workplaces, and who are shining the light on this important issue across Australia.

All of this is about giving back to the communities that we're proud to serve.

In summary, and before I hand over to Craig, I would like to recognise my fellow directors and acknowledge the skills and expertise they bring to the Board.

Importantly, they also bring with them a diverse range of views and perspectives which equips us to better oversee your company.

Two of these directors, Linda Nicholls and David Fagan, stand for re-election today with the Board's full support. Linda and David will address you shortly.

Driving Medibank's ongoing transformation is Craig Drummond and the Executive Leadership Team.

On behalf of the Board, I wish to thank them for their performance this year and the way they have delivered for our customers.

Their continued vision and leadership ensure that Medibank is strong now and fit for the long term.

Thank you also to our people who demonstrate every day their commitment to our customers and to Medibank's Better Health for Better Lives purpose.

And most importantly, thank you to all of you as shareholders for your continued support.

I will now ask Craig to give you an update, before we then move to the business of the meeting.

CHIEF EXECUTIVE OFFICER

Welcome to all of you in the room and those joining us via the webcast.

I'd also like to acknowledge the Traditional Owners of the land on which we meet today, and pay my respect to their Elders, past, present and emerging.

We are a very different company to the one we were three years ago – and I'm proud of the progress we have made for you, our shareholders.

By focusing on our customers we've made our business stronger and more sustainable, in a challenging market environment.

For the first time in a decade, we grew our market share by 5 basis points over the full year.

At the same time, customer advocacy improved – with record levels of Service Net Promoter Scores across both Medibank and ahm.

And we did this while continuing to transform into a broader healthcare company.

For the 2019 full year we delivered a Health Insurance operating profit of $542.5 million, a 1.3% increase.

On a continuing basis, Group operating profit of $528.5 million and Group net profit after tax of $437.7 million, were up 1.9% and 3.2% respectively.

This reflected the growth in policyholder numbers and discipline around our own costs.

In recognising the importance of managing costs within the health system, we delivered $40.4 million of productivity savings in our own business over the past two years – and are targeting a further $50 million over the next three years, including $20 million this financial year.

Last week we provided additional information to the market regarding our full year 2020 outlook.

We reported that we've experienced higher than expected claims and that the underlying claims growth per policy unit ended up being 2.4% in FY19 versus the 2.0% reported at our full year results announcement in August.

This has resulted in a $21 million under provision from the 30 June 2019 claims reserve.

When combined with our October claims payments, this indicates a trend and we now expect the increase of claims per policy unit in the second half of FY19 to continue throughout FY20.

These higher claims have been driven predominately by higher private hospital payments, which reflects an increase in the average benefit size, along with the continuation of elevated prostheses costs.

There is no change to expectations around hospital and extras utilisation growth which we expect to remain around current levels.

As a result of these higher claims we are looking at additional measures that we can take within our business, as well as a continued focus on payment integrity and portfolio management.

Additionally, we will continue to maintain our focus on our own costs and we expect management expenses to be around $545 million for FY20, down from $560 million in FY19.

There are no other changes to the outlook comments we provided at the FY19 financial results.

This includes our expectation that Medibank brand volumes will stabilise by the end of FY20 and grow during FY21.

In the first three months of this current financial year, we have had net resident policyholder growth of 0.6% or approximately 10,000 policyholders.

This is double the rate of growth seen in the same period in FY19.

Our recent claims experience highlights the challenge that Medibank, and indeed all health insurers, face in managing rising healthcare costs.

We continue to focus on the elements of our business that we can control, including increasing our policyholder numbers, growing market share, and driving productivity.

Medibank has welcomed and supported the Government's reforms, but the sector and our customers need further government reform that will take unnecessary costs out of the health system and promote higher young adult participation.

There has never been a more urgent time for ongoing change; and there are real opportunities to deliver greater value for our customers through additional reforms.

Unless we address the issues including the growing demands on both the public and private health system, the future sustainability of our world class health system will be under threat.

In 2017, researchers at the New York-based Commonwealth Fund ranked Australia's mixed public-private system second best – out of 11 different national health care models including the UK, US, Netherlands, Norway and New Zealand.

And in 2018, out of 195 countries, Australia was ranked equal fifth in the Global Healthcare Access and Quality Index, with private healthcare a key contributor.

Medibank has led the conversation around the need for further reform – and we won't stop until we secure further reforms to ensure a sustainable healthcare system for all Australians in the future.

The immediate opportunities for the sector include, at a minimum $90 million that could be saved in the more obvious instances of low value care, which are procedures that either have no effect, cause harm or are not worth their cost. Additionally, there are meaningful savings in shifting to more out-of-hospital care. But again reform in the funding model is needed to quicken the pace of this change.

And of course, there is the further $500 million in savings if patients in the private health system paid the same for prostheses as those in the public system.

Prosthetic devices include pacemakers, hip and knee joints, stents, sponges and bone cement amongst others.

An Abbott cardiac pacemaker in the Western Australian public health system costs around $2,100 yet private health insurers are required to pay around $8,200 for the same device, and that's after the reduction of prices on the prostheses list following the reforms in 2017.

That said we have seen some recent helpful Government reforms to prostheses, the benefits of which have been passed on in full to our customers in advance through the premium review period.

In 2019, we again passed on the expected savings through our lowest average premium increase in 18 years.

However, these savings have not materialised, with the agreed lower prices almost all offset by an unexpected increase in volume.

The latest data from APRA, published in August, shows total prostheses benefits paid by insurers were down $13 million in 2019, not the expected $193 million.

This is curious, as the increase in volume was not a result of an increase in the number of people insured or an increase in surgical volumes.

Improvements to the prostheses list – such as establishing a national independent body to manage the procurement of prostheses – need to be implemented, with the focus firmly kept on delivering the best possible health outcomes for patients at the most efficient cost.

Another area of potential reform is the restoration of the private health insurance rebate.

The rebate has been allowed to fall in relative value over the past six years, from 30 per cent to 25 per cent for those under the age of 65.

Restoring the rebate, if only for younger people as a start, would go some way to addressing the affordability challenge.

And I firmly believe that business should be given some modest incentive to provide health insurance for their employees, which would not only help family budgets but give employers an even greater reason to invest in the health and wellbeing of their workforce.

Let me be clear, in a highly regulated industry we do need Government to facilitate reform. That said we also need a concerted effort from all participants in the industry, and not just the insurers, to address the affordability challenge and to encourage greater industry participation.

Failure to do so will see hundreds of thousands of Australians added to growing public hospital waiting lists.

And I think we would all be in agreement, no one wants to see our public system swamped.

Australia has one of the best health systems in the world, due to the strength of the dual public and private system.

The private health system in Australia plays an important role. Not only does it give people access to the hospital and experienced doctor of their choice, the treatment can be performed relatively quickly.

But importantly, it also relieves pressure on public hospitals.

It's why a strong private health system is worth fighting for.

Australia's health system depends on the delicate balance of private and public funders and providers.

Undermining one will undoubtedly have an adverse effect on the other.

Reducing and eliminating unnecessary costs and increasing participation unequivocally means downward pressure on health insurance premiums and a more efficient private health system.

Which is a worthwhile ambition for our customers and you our shareholders.

Delivering greater value for our customers has been key to our success this year, at a time when more Australians are questioning the value of their private health cover.

This year:

- We conducted almost 520,000 customer cover check-ins
- Had 1.5 million health interactions with our customers

- Introduced a new 24/7 early intervention mental health line; targeted personalised health promotions; and expanded programs such as Health Concierge
- And we also launched our Live Better rewards program, rewarding customers for making healthy choices

Another way we're driving value has been with this year's launch of the Members' Choice Advantage dental network.

In its first nine-months, we've saved customers more than $4.5 million in out-of-pocket costs.

And I'm pleased to report we've just launched the Advantage network for optical providers too, with Specsavers stores across the nation offering better value on glasses and the opportunity to earn Live Better points for Medibank customers.

Over the years, you've heard us talk about focusing more on the delivery of health services.

That's because we believe we have a greater role to play in the health system than just as a payor.

In particular, I'm pleased that this year we have taken significant steps in transitioning towards a broader healthcare company.

We're funding an Australian-first trial by Nexus Hospitals and orthopaedic surgeons.

In line with international best practice, we've commenced a two-year trial with early-to-home discharge on hip and knee replacements with Nexus offering Medibank customers a zero out-of-pocket medical experience.

Where clinically appropriate, post-operative recovery and rehabilitation programs are then delivered at the customer's home by clinicians and funded by Medibank.

This development has driven considerable additional inbound inquiries from other clinicians, and we think this is a game-changer for our customers.

More broadly, Australia has a very hospital-centric health system which is out of step with international trends.

We believe hospitals should be for complex and acute episodes, hence our strategic focus to provide alternative ways of delivering care, giving customers greater choice and enhancing patient outcomes.

In 2019 we doubled the number of customers who were able to have treatment in their own home, including offering rehabilitation, dialysis, chemotherapy and palliative care.

The early feedback from customers and their families on these services has been very positive.

With last year's acquisition of Home Support Services, our focus is to continue accelerating the growth of our in-home care business across Australia.

This will provide more choice for Medibank customers as well as other funders – both in the public and private systems.

With this expansion, we're uniquely placed to become a leader in the in-home care market.

Medibank now provides more than 200 virtual hospital beds within Australia's healthcare system, with an aspiration to increase this to more than 300 by the end of FY22.

We're also doing innovative work with the South Australian government on co-designing a rapid response model for mental healthcare, and we're continuing to work with the Department of Veterans' Affairs which will be using our payment integrity expertise to examine hospital claims.

As we broaden our focus to healthcare, it is appropriate that we look at how we respond to the health risks associated with climate change.

The scientific evidence is very clear about the impact of climate change on human health and we have ramped up our focus on this in recent years.

While our operations are certified as carbon neutral and our equity investment portfolio is low carbon, I recognise that Medibank can and should go further.

We are developing a plan that will help drive this change in our business and which aligns to the recommendations of the Task Force on Climate-related Financial Disclosures.

Looking forward to 2020, the Health Insurance business is positioned to grow, and we are well placed to become a leader in the in-home care market.

Our dual brands are working well together, and our strategy is unchanged and remains driven by the needs of our customers.

We will continue to pursue opportunities to differentiate and deepen our offer for customers and transform into a broader healthcare company.

Above all, I'm excited about what is ahead for Medibank, despite the challenging environment.

Before closing, I'd like to also take this opportunity to thank my team for the incredible work they do.

I have confidence in our highly engaged employees to continue delivering results for our customers and shareholders – from the people in our retail network, through to the 1,300 health professionals delivering health services to Australians every day.

And finally, to you as the owners of Medibank, thank you for helping us support millions of Australians to achieve Better Health for Better Lives.

Thank you.

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2019 Annual General Meeting_

14 November 2019

Outlook – update to FY20

Full year outlook at FY19 result	AGM comment
Expect flat overall PHI market volumes.	No change in expectation.
On the current policyholder trajectory we expect to see Medibank brand volumes stabilise by the end of FY20 and grow during FY21.	No change in expectation. On track with first quarter of FY20 net resident policyholder growth of 0.6% or approximately 10,000 policyholders.
Hospital and extras utilisation growth to remain around current levels for FY20, with prostheses expenditure to add modestly to claims growth compared to FY19.	Revised FY19 claims growth of 2.4% vs 2.0% reported at the full year has resulted in a $21 million under provision from the 30 June 2019 claims reserve. This, when combined with our October claims payments, indicates a trend, and we now expect the increase of claims per policy unit in the second half of FY19 to continue throughout FY20. No change to hospital and extras utilisation growth expectation.
Management expenses for FY20 are targeted to be below those recorded in FY19, with modestly lower cash costs and depreciation expense approximately $5 million lower.	Management expenses are expected to be approximately $545 million in FY20 versus $560.1 million in FY19.

Outlook – update to FY20 (continued)

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Full year outlook at FY19 result	AGM comment
Dividend payout ratio expected to be at the top end of our revised target range of 75%-85% for FY20.	No change in expectation.
Targeted inorganic growth for Medibank Health and PHI remain areas of focus.	No change in expectation.
We will continue to optimise our capital settings.	No change in expectation.
Our intention is to continue to aspire for stronger growth in volumes at a reasonable margin, while retaining ongoing tight control of our management expenses.	No change in expectation.