

Market Release

29 January 2020

ClearView Business and Trading Update

Diversified financial services company, ClearView Wealth Limited (ASX: CVW) has provided a business update ahead of its HY20 results announcement, citing a significant adverse deterioration in claims (in particular in the month of December 2019) and higher than expected lapses, amid challenging market conditions.

Actual HY20 results are still being finalised and are subject to audit review but ClearView expects:

- Underlying NPAT for the half-year ended 31 December 2019 of \$10.2m;
- Reported NPAT for the half-year ended 31 December 2019 of \$9.8m.

Life Insurance Results

- Life Insurance Underlying NPAT for the half-year ended 31 December 2019 of \$8.7m, adversely impacted by claims (-\$4.7m) and lapse (-\$1.4m) experience (relative to the assumptions adopted at 30 June 2019).
- Life Insurance in-force premiums up 8% to \$260.6m; new business premiums of \$14.2m, down 35%.
- Some insurers appear to be engaging in ‘honeymoon’ discounting to maintain market share rather than focusing on delivering long-term sustainable products and transparent pricing to customers. ClearView is not participating in this approach which is impacting ClearView’s current new business volumes.
- ClearView’s focus remains on lifting business quality, continuing to review our pricing profile, addressing the fundamental issues with income protection (**IP**) products offered in the market and meeting the needs of our customers.
- Initiatives are underway to achieve more sustainable claims and pricing outcomes for IP products and ClearView is very supportive of the Australian Prudential Regulation Authority’s (**APRA**) Individual Disability Income Insurance (**IDII**) Sustainability Measures. It is disappointing that the leading industry players were unable to support sustainable business models without APRA’s intervention and appear to continue engaging in poor pricing practices.

Wealth Management Results

- Wealth Management Underlying NPAT for the half-year ended 31 December 2019 of \$1.7m.
- Wealth Funds Under Management up 10% to \$2.88bn; strong net inflows of \$66m (\$81m outflows in 1H FY19).
- Progress continues on the development of the Wealth Management business including addressing the tax credit issue in the ClearView Retirement Plan and delivering new products to the market.

Financial Advice Results

- Financial Advice Underlying NPAT for the half-year ended 31 December 2019 of \$0.6m.
- Changes to the remuneration and fee model in ClearView’s dealer groups implemented on 1 November 2019, representing a fairer, more sustainable revenue base, albeit it is likely to take time to transition. The launch of a B2B outsourced licensee services offer (LaVista) also allows ClearView to provide business support services to advisers who have obtained their own Australian Financial Services Licence (**AFSL**).

Capital Initiatives

- ClearView confirms that the programs of work undertaken to address the reinsurance asset concentration risks in the medium term have been completed.
- Work on a longer-term capital solution continues to progress, including investigating the prospect of an issue of Tier 2 Subordinated Notes (subject to market conditions and regulatory approvals).
- As recently announced, the ClearView Group does not anticipate the need to undertake further capital management actions beyond the projects and actions previously outlined to the market including those referred to above.

Life Insurance – Details of Lapse and Claims Performance

The adverse claims experience of -\$4.7m, relative to the assumptions adopted at 30 June 2019 (1H FY19: -\$2.1m; 2H FY19: -\$3.1m), is broken down by product as follows:

- ClearView LifeSolutions lump sum portfolio -\$0.9m (1H FY19: -\$0.5m; 2H FY19: +\$0.5m);
- ClearView LifeSolutions IP portfolio -\$2.6m (1H FY19: -\$1.4m; 2H FY19: -\$3.5m); and
- Direct portfolios (closed to new business) -\$1.2m (1H FY19: -\$0.2m; 2H FY19: -\$0.1m).

Lapses remain elevated (relative to the assumption adopted at 30 June 2019), with a loss of \$1.4m in HY20 (1H FY19: -\$2.9m; 2H FY19: -\$2.7m). The lapse performance showed improvement in Q2 of FY20 with the overall loss predominantly arising in Q1 of FY20.

Key contributors to the poor lapse and IP claims experience across the industry (which have also impacted ClearView) include poor wages growth; rising consumer costs; step premium rating structures; IP product design issues; societal trends such as mental health and employment trends; and reducing interest rates.

The lump sum claims losses in HY20 largely reflect statistical volatility for death claims.

The retail life insurance industry lost \$1.1bn on IP in the year ended 30 September 2019¹, extending five-year losses to over \$3bn. The prolonged underperformance of the life insurance sector led APRA to introduce its IDII Sustainability Measures in December 2019, imposing a number of measures including a Pillar 2 capital charge across the industry.

APRA's measures are aimed at driving the industry to examine the appropriateness and sustainability of their products and take the necessary action to satisfy the requirements of all stakeholders by 30 June 2021 or risk further action which may include additional capital charges and/or 'Directions' to cease writing IP insurance.

ClearView is supportive and welcomes APRA's intervention.

ClearView is a nimble player and is in a strong position to implement any necessary changes relatively quickly. Given APRA's recent policy measures and the continued underperformance of the IP portfolio, ClearView has already commenced a comprehensive review of its LifeSolutions IP product series with a focus on reviewing product pricing and design.

As a first step, by 31 March 2020, ClearView will cease the sale of Agreed Value contracts for IP and in 2H FY20 will launch a new indemnity type IP product to offer a lower maximum monthly benefit at a competitive premium rate. It is highly likely that further price changes will be made in the coming months to reflect increased claim rates.

The repricing of the product and a detailed review of the claims assumptions is also underway. Any further increases to the claims assumptions are intended to be recovered through premium rate increases which should sustain profit margins and therefore the underlying Embedded Value. However, while further analysis continues to be undertaken, the revised assumptions are expected to have an upfront adverse impact on the reported incurred claims reserves. The current estimate of the potential impact on the 2H FY20 Underlying NPAT in respect to the incurred claims reserves at 31 December 2019 is expected to be between \$2m-\$3m after tax. The repricing is intended to be implemented in 2H FY20.

A further update on these initiatives will be provided in due course.

ENDS

¹ APRA 2019 Year in Review: Safeguarding Australia's financial wellbeing

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Approval of Announcement

The Board of ClearView has authorised the release of this announcement to the market.

About ClearView

ClearView is an ASX-listed diversified financial services company which partners with financial advisers to help Australians protect and build their wealth, achieve their goals and secure a comfortable financial future. The group's three business segments: Life Insurance, Wealth Management and Financial Advice are focused on delivering quality products and services.

For more information visit www.clearview.com.au