KPMG

Life Insurance Financial Results Update

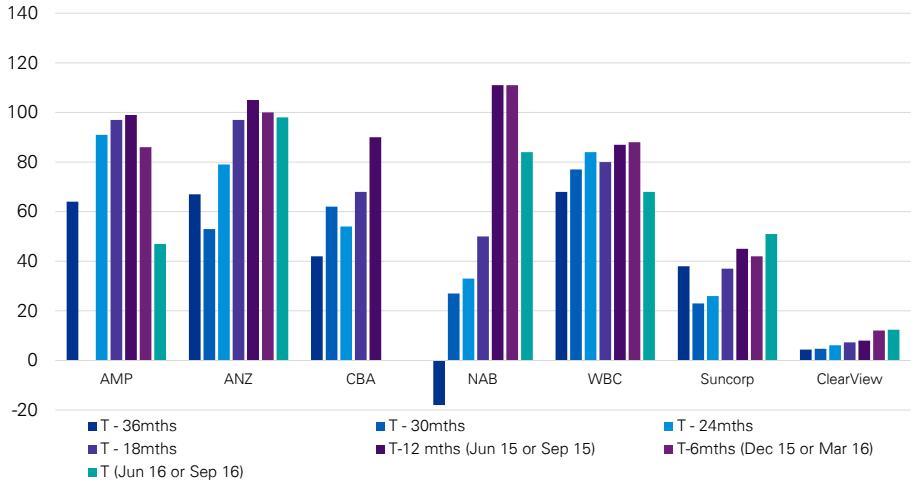
November 2016 Reporting Season

Growth in operating earnings from the previous half year update, amongst the listed life risk insurers and bancassuers, has been varied with many life insurers reporting lower operating earnings.

Planned profit margins for the most recent reporting period remain broadly stable or slightly lower than the last few reporting periods. Planned margins are around 10 percent for most insurers, and remain below historical highs, with ClearView and Suncorp being the outliers at about 17 percent and 5 percent respectively.

Operating earnings & margins

Operating earnings[1]



We observe the following with regard to individual company results:

AMP: While AMP planned margins are only slightly lower from the previous half year, AMP has seen a large reduction in its actual profit margins and operating earnings. This is due to experience losses of $42 million emerging which is largely driven by $23 million in claims losses on retail IP and $13 million from retail lump sum claims.

Westpac: Westpac's actual profit margins reduced from the previous half year update largely due to an increase in claims, primarily related to Death and TPD, and also due to the impact of a rise in lapses.

Suncorp: Suncorp's actual margins were higher compared with recent historical periods at around 6 percent and were higher than its planned margins which remained low at under 5 percent. Suncorp had experience profits of circa $21 million resulting from positive lapse and claims experience. It is noted that Suncorp's margins remain low relative to the other insurers considered here.

ClearView: ClearView's planned and actual margins remain relatively high despite planned margins trending lower over recent reporting periods.

CBA: CBA's full year life insurance operating earnings is estimated to be $140 million (excluding Sovereign). Full year life insurance planned profit margins are estimated to be $180 million implying an experience loss of circa $40 million[2].

Recent industry activity

The recent reporting season shows that some listed life risk insurers and bancassuers are facing profitability pressures. Owing to the high capital requirements of operating a life business and profitability concerns in recent years, coupled with increased regulatory scrutiny, we are observing a growing trend of M&A and reinsurance transactions emerging. Of note, Crescent Capital has recently announced the divestment of a 14.9 percent stake in Clearview to Sony Life, AMP has entered into a significant reinsurance deal with Munich Re, ANZ has announced a possible sale of a few of its businesses (including its life insurance business) and Suncorp has highlighted that it is considering options of reducing the capital tied to its life business (including reinsurance options).

These developments follow the recent sale of NAB life insurance to Nippon Life and Macquarie Life to Zurich Insurance. We are seeing a growing presence of foreign insurers in the Australian life insurance market.

Annual Premium Inforce (API)

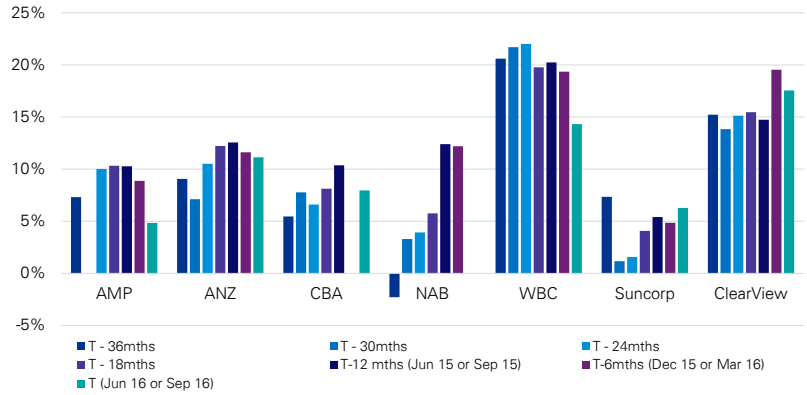
Growth in API has been varied across the listed life insurers and bancassurers with some companies experiencing higher growth relative to others. Premium growth is largely driven by age or inflation related price increases, insurer premium rate increases, improvements in lapses and new business volumes. In particular:

- ClearView has experienced relatively high growth in API over FY16 primarily driven by new business on its LifeSolutions product. Although, it is noted that ClearView is coming off a relatively low API base compared to other companies.
- Westpac also continues to experience reasonable growth in inforce premiums, however, growth over FY16 is lower than over FY15. While new business levels have broadly been sustained year on year, lapsed premiums have increased by 22 percent over the same period thereby reducing the growth in inforce premiums.

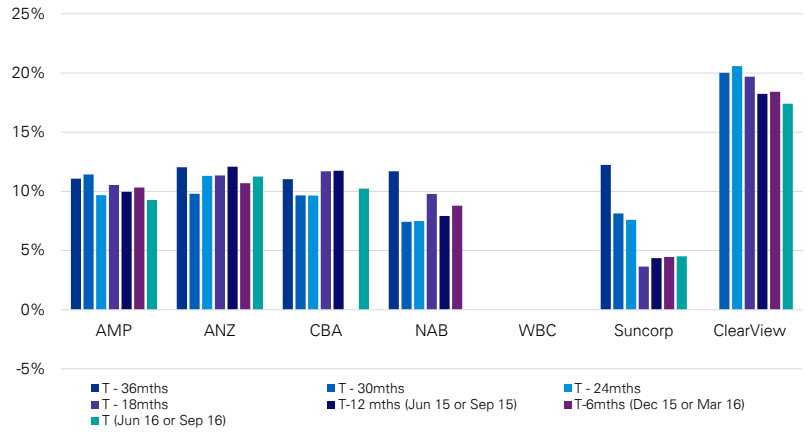
API Growth Year on Year[4]

Company	Total (%)
AMP	0.5
ANZ	4.5
CBA	-0.1
NAB	n/a
WBC	9.1
SUN	6.4
CVW	30.3

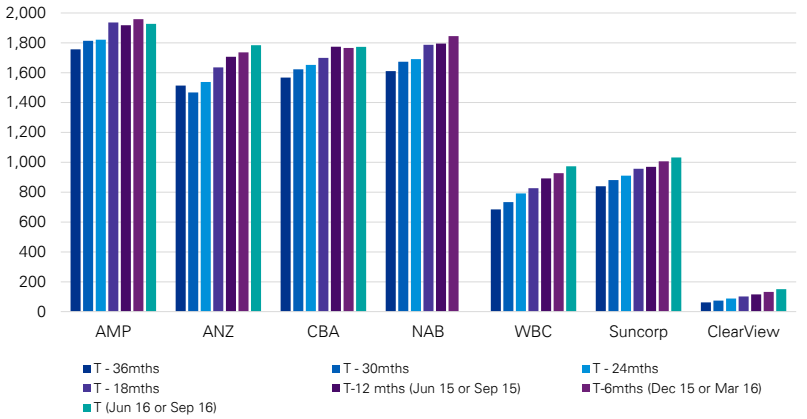
Actual margins[3]



Planned margins[3]



Inforce premium - total[5]



- Suncorp has cited that its API growth has been impacted by new business sales trending below prior periods stemming from pricing increases and uncertainty around industry reform. However, Suncorp also cites that API growth has been supported by better than expected retention.
- While ANZ has experienced reasonable growth, ANZ has also seen new business premium reduce and lapsed premium increase year on year (over September 2015 – September 2016 relative to September 2014 – September 2015) which has caused in-force premium growth to reduce.
- CBA noted broadly stable API year on year with sales and lapses largely offsetting. AMP has also experienced largely stable in-force premiums year on year.

June - September 2016 result – Life Insurance only[6]

AMP (Wealth Protection)

- Planned profit margins decreased by $6 million (6 percent) to $90 million in 1H16 compared to 1H15. This is largely due to the strengthening of lump sum claim assumptions in 2H15. IP claims assumptions were strengthened during 1H16 with the impact on profit margins largely offset by premium increases. Actual profit margins also decreased between 1H15 and 1H16.
- Experience losses of $42 million were recorded in 1H16; primarily driven by $23 million in claims losses on retail IP and $13 million from retail lump sum claims. Of note, lapse experience in 1H16 was largely in line with assumptions, albeit seasonally weaker than in previous first halves.
- Individual risk API increased by $11 million to $1.49 billion at 1H16 from $1.48 billion at 1H15. The increase in API largely reflects the annual benefit from CPI and age premium increases on risk policies.
- The Wealth Protection business continues to target actions delivering value over volume in the short term whilst looking for opportunities to generate growth as the business recovery takes effect.
- Following the release of its results, AMP announced a binding quota share reinsurance agreement with Munich Re to reinsure 50 percent of $750 million API of the AMP life retail portfolio (IP and lump sum). This agreement is expected to release up to $500 million in capital, reduce earnings volatility and decrease profit margins by $25 million annually from FY17. AMP also announced an expected strengthening of its best estimate assumptions with $44 million in experience losses emerging for Q3 2016.

ANZ (Insurance)

- Life insurance planned profit margins increased from $141 million to $151 million which is an increase of 7 percent from September 2015 to September 2016.
- ANZ's annual life inforce premiums increased to $1,784 million over the year to September 2016 compared with $1,707 million at September 2015.
- ANZ cites that it has benefited from favourable retail and group lapse experience, partially offset by adverse claims experience.
- ANZ has also commented that it is exploring a range of possible strategic and capital market options that will maintain strong outcomes for customers. This includes the possible sale of the life insurance, advice and superannuation and investment businesses in Australia.

ClearView

- Life insurance operating NPAT increased 60 percent to $24.5 million, driven by growth in inforce premiums which was up 30 percent to $150.7 million, with new business written increasing 14 percent to $39.2 million (all year on year).
- Inforce premium growth was driven by sales of the LifeSolutions product suite, which was also broadened out of distribution to the IFA segment.
- Direct sales were down 36 percent to $4.5 million (FY15: $7.0 million), impacted by the closure of Your Insure to refocus the business towards mid-market consumers and away from lower socioeconomic customers.
- ClearView's result included positive claims experience of $1.1 million, however, given the current size of the life insurance portfolio and reinsurance arrangements in place, some statistical claims volatility can be expected. Clearview also had positive lapse experience of $0.5 million. The $1.2 million expense experience loss is attributed to a lack of scale with the experience loss reducing from FY15 as the company grows ($4.5 million loss in FY15 to $1.2 million loss in FY16).
- Going forward, ClearView is focussed on expanding distribution reach by embedding growth via the third-party IFA market and enhancing the Direct offering to preferred mid-market customers.
- Following the release of its results, Clearview announced that Sony Life insurance has agreed with Crescent Capital Partners to acquire a 14.9 percent stake in ClearView at a price of $1.48 per share.

Commonwealth Bank (Insurance)

- Wholesale life insurance income increased year on year reflecting continued benefits from repricing activity in the prior year, partly offset by higher claims.
- Retail life income decreased due to higher claims and lower sales partly offset by an improvement in lapses. In addition an increase in income protection claims reserves resulted in loss recognition.
- Life insurance inforce premiums were stable year on year at $1,773 million at June 2016 with sales and lapses largely offsetting.

NAB (Insurance)

- On 30 September 2016, NAB group deconsolidated MLC Limited in line with the sale of 80 percent of NAB Wealth's life insurance business to Nippon Life and the operation is now being considered as a 'discontinued operation'. The effect of the life insurance 20 percent share of profit adjustment on NAB's September 2016 full year is to increase cash earnings by $39 million (after tax).

Suncorp

- Underlying profit was $124 million, up 9.7 percent year on year. Underlying profit included positive lapse and claims experience of $21 million.
- IFA risk inforce premium growth was impacted by new business sales volumes trending below prior periods due to industry reform and increases in Suncorp pricing. Better than expected retention has benefited inforce premiums with total inforce premiums increasing to $1032 million up by 6.4 percent year on year. Suncorp Life continues to focus on value over volume.
- Suncorp has also previously commented that it is looking at ways of reducing capital tied to its life business and considering its options including reinsurance.

Westpac (Insurance)

- As at December 2015 Westpac's inforce life insurance market share represents 9.9 percent of the industry and their share of new business represents 10.9 percent of the industry.
- Life insurance net earned premiums increased $34 million, with in force premium rising 12 percent year on year and loss ratios remaining flat.

Latest reporting period along with links to ASX company announcements:

CBA Full Year 30-Jun-16, AMP Half Year 30-Jun-16, AMP Update, NAB Full Year 30-Sep-16, ANZ Full Year 30-Sep-16, ClearView Full Year 30-Jun-16, CVW Update, WBC Full Year 30-Sep-16, Suncorp Full Year 31-Jun-16

[1] CBA half year data is not available for the current update. Full year data is available per above footnote. NAB result for the half year is estimated using the full year result of $39m for 20% share on page 4 of the full year update minus $111m of cash earnings at the March half year update on page 51: http://www.asx.com.au/asxpdf/20160505/pdf/4370z4rdcpr04m.pdf.

[2] This is based on CBA's Life insurance planned and experience profit result as reported in its annual report page 133: http://www.asx.com.au/asxpdf/20160815/pdf/4399zdfsnr5b2k.pdf minus the equivalent result for Sovereign as reported in the profit announcement page 41, based on the reported exchange rates on page 104 http://www.asx.com.au/asxpdf/20160810/pdf/4396f2g3sybl5g.pdf

[3] Latest CBA actual and planned margins are based on the life insurance result for full year to Jun-16 (excluding Sovereign) per footnote 1. WBC planned margins and current period NAB results are not available.

[4, 5] NAB data unavailable for this update

[6] ANZ, NAB and WBC are September year end, the remainder are June year end

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