KPMG

Life Insurance Financial Results Update

May 2017 Reporting Season

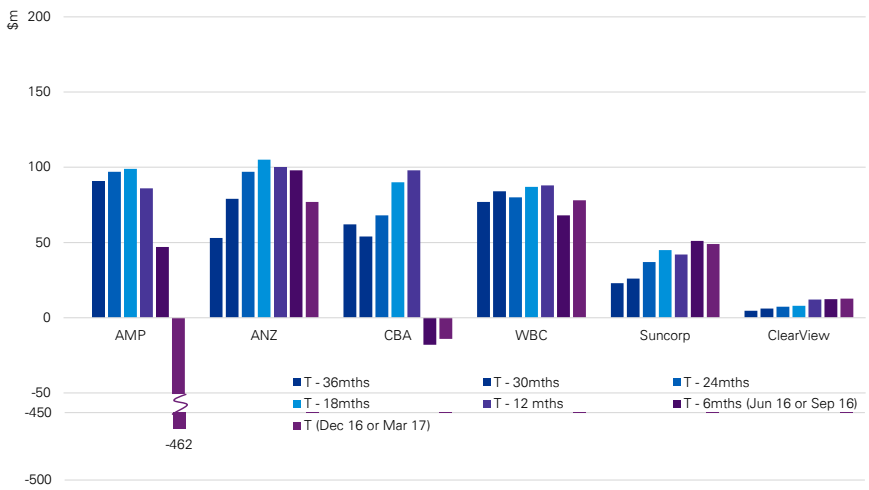
The recent reporting season shows that listed life insurers and bank subsidiaries continue to face profitability pressures with few exceptions.

Operating earnings & margins

Listed life insurers and bank subsidiaries have generally reported lower or negative operating earnings over the May reporting season. Poor profitability on income protection (IP) portfolios appear to be of particular concern with some insurers citing poor termination experience resulting in capitalised losses where the product is no longer profitable. Premium growth has been varied amongst individual insurers and has been fairly low overall. Planned profit margins have also generally been stable with margins for most insurers remaining around 10 percent and well below historical highs. Of note, ClearView's margin remains high at close to 18 percent while Suncorp under 5 percent.

AMP and CBA have reported negative operating earnings primarily resulting from further loss recognition on their IP portfolios as well as claims experience losses. Westpac and Clearview have reported higher operating earnings, however, it is noted that Clearview's actual margins have reduced due to adverse claims experience and changes in business mix. Suncorp earnings are slightly higher while ANZ has reported a drop in operating earnings citing adverse IP and lump sum claims experience.

Figure 1: Operating earnings & margins



AMP: Planned margins have continued to trend lower due to strengthening of assumptions on lump sum business and implementation of a 50 percent quota share reinsurance arrangement. AMP's operating earnings reflect substantial experience losses of $105 million (largely claims) and capitalised losses on IP of $424 million. Excluding one-off impacts, operating earnings are at $22 million and actual margins at circa 2.3 percent.

ClearView: Planned margins increased slightly from the previous half year while actual margins reduced further reflecting adverse claims and lapse experience. Clearview cites that margins have been impacted by the run off of the higher margin legacy book and lower margin new business.

Westpac: Westpac's actual profit margins have increased slightly from the last reporting period but still remain lower year on year.

Suncorp: Planned margins have been fairly stable and is currently at 4.6 percent. Actual margins for the current reporting period were close to planned margins at 5.2 percent.

ANZ: Actual margins have reduced from 11.1 percent at September 2016 to 8.7 percent at March 2017 as a result of adverse IP and lump sum claims. Planned margins have remained stable having reduced slightly over the same period.

CBA: Planned margins are lower and are currently at 9.1 percent. Operating earnings are -$14 million for the 1H FY17 reflecting further loss recognition of $90 million on IP (this follows $65 million of loss recognition taken up in the prior half year).

Annual Premium Inforce (API)

Across all listed insurers and bank subsidiaries, total premium growth has been fairly low and close to stable. Across each of the insurers, API growth year on year has been varied with some companies experiencing higher growth relative to others (as shown in the table). Premium growth is largely driven by age/inflation related price increases, insurer premium rate increases, improvements in lapses and new business volumes. In particular:

ClearView: ClearView's API has grown from $132 million at December 2015 to $171 million at December 2016. This was driven by strong new business growth with lapses partially offset by age based premium increases and inflation. Income protection price increases of 10 percent on average were also implemented in October 2016.

Westpac: Westpac also continues to experience strong growth in in-force premiums which is at 11 percent year on year from $927 million at March 2016 to $1030 million at March 2017. This growth rate reflects improved lapse rates over the recent half year.

Suncorp: Suncorp's inforce API has increased year on year from $1,007 million as at December 2015 to $1,041 million as at December 2016. This increase is driven largely by new business in Retail and Direct offset by lapses and run-off of the closed Group Risk portfolio in Australia.

AMP: AMP's total inforce premium remained broadly stable year on year, increasing slightly from 1,958 million at December 2015 to $1,964 million at December 2016. Lapses have largely offset the impact of new business and premium/CPI increases over the year. AMP has cited that it is targeting delivering portfolio value over volume.

ANZ: ANZ's Group Life annual premium inforce reduced year on year as new business failed to offset the reduction from losing a large group scheme and other lapses. However, this reduction was more than offset by an increase in retail inforce premiums due to a reduction in lapse rates to 13.8 percent for the half year (15 percent previous half year) and strong new business volumes. Total API increased year on year from $1,736 million as at March 2016 to $1,775 million as at March 2017.

CBA: CBA inforce API has reduced year on year as low new business volumes and premium rate increases are more than offset by the impact of lapses.

Figure 2: Actual margins

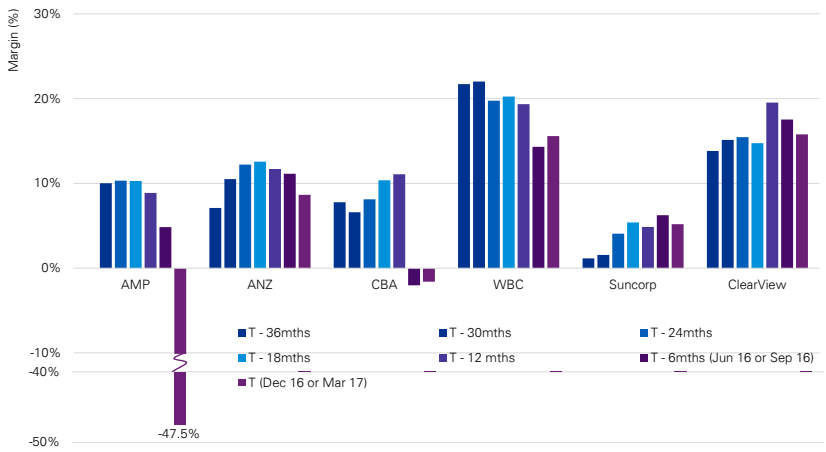


Figure 3: Planned profit margins

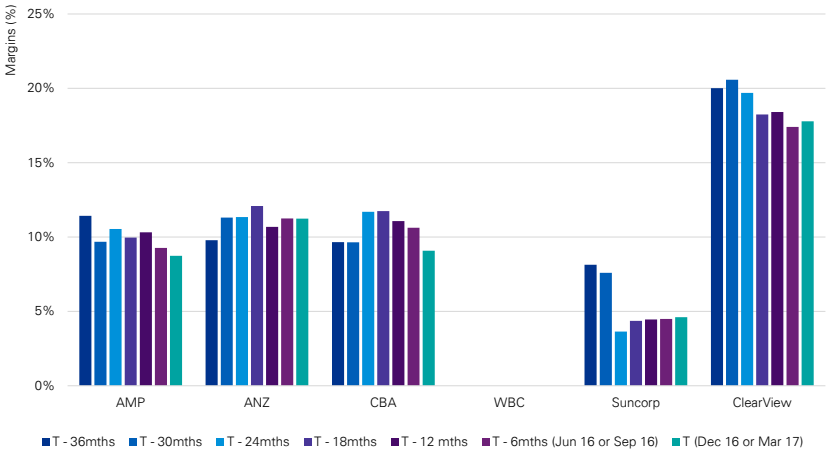
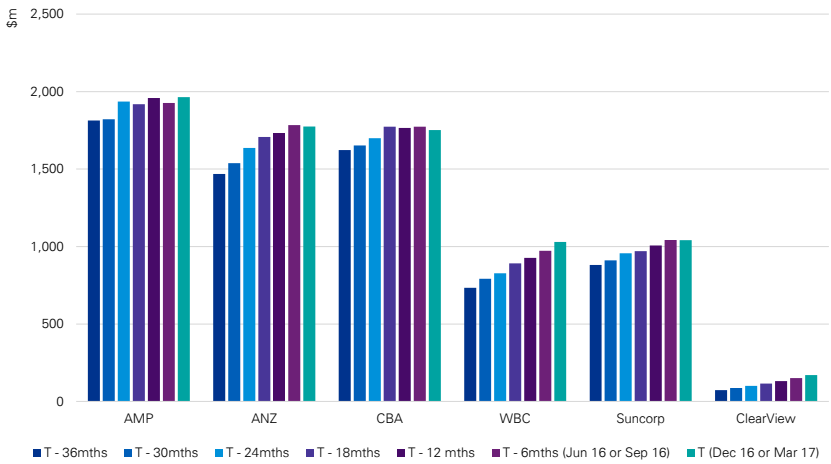


Table 1: API growth year on year

Company	Total (%)
AMP	0.3
ANZ	2.2
CBA	-0.8
WBC	11.1
SUN	3.4
CVW	29.5

Figure 3: Total inforce premium



December 2016 - March 2017 result – Life Insurance only[1]

AMP

- 2HFY16 operating losses were -$462 million which was largely driven by experience losses of $105 million and capitalised losses of $425 million across AMP's income protection book. Accumulated capitalised losses for this book are $503 million as at December 2016.
- Experience losses were largely driven by poor claims experience including $54 million loss on retail IP as a result of lower terminations, $26 million loss on retail lump sum due to higher claim volumes and $15 million loss on group risk. Experience was also impacted by a lapse loss of $9 million. AMP's trading update for Q1 2017 indicates that claims and lapse experience have since been broadly in line with revised assumptions.
- AMP's 50 percent quota share reinsurance arrangement with Munich Re was effective from 1 November 2016.
- AMP's embedded value has dropped to $2.5 billion as at FY16 from $3.3 billion as at FY15 largely reflecting adverse assumption changes and using a discount margin of 5 percent. This was partly offset by pricing initiatives with the Munich Reinsurance deal having a neutral EV impact.

ANZ

- Life insurance planned profit margins decreased slightly from 11.3 percent to 11.2 percent over the half year while actual margins dropped from 11.1 percent to 8.7 percent.
- ANZ's annual life in-force premiums increased year on year from $1,736 million as at March 2016 to $1,775 million as at March 2017.
- Insurance income decreased as a result of adverse disability and lump sum claims experience and a one off experience loss due to the exit of a Group Life insurance plan.
- ANZ's Australian insurance and investments business has been estimated to have an EV of $4.4 billion as at March 2017 which is broadly stable form the previous half year after taking into account assumptions changes and transfers. Discount rates used vary from 7.75 percent to 9.25 percent. The New Zealand business is estimated to have an EV of 0.5 billion.

Commonwealth Bank (Insurance)

- Wholesale life insurance income decreased slightly year on year reflecting higher claims experience, partly offset by benefits from new business.
- Retail life income decreased year on year due to higher claims. In addition, an increase in income protection claims reserves resulted in further loss recognition of $90 million.

ClearView

- Clearview has cited that in-force premium growth was driven by strong new business with lapses partially offset by age-based premium increases and inflation (CPI) increases on insurance benefits. New business has increased to $20.6 million for the half year which is a 31 percent increase on the prior comparable period.
- Clearview's adverse claims experience of $0.6 million compares to an experience profit of $1.7 million in the prior comparable period. This experience is driven by a loss on the Lifesolutions portfolio of $1.8 million which is partly offset by positive experience on the Old Direct book of $1.2 million.
- Clearview's embedded value increased slightly from $624.1 million at June 2016 to $632.8 million at December 2016.

Suncorp

- Inforce API has increased year on year from $1,007 million as at December 2015 to $1,041 million as at December 2016.
- Experience profits compared to prior periods have reduced due to the implementation of revised income protection claims and lapse assumptions at the end of FY16.
- Suncorp's embedded value increased slightly from $2,019 million at June 2016 to $2,036 million at December 2016 reflecting assumption changes, changes to the capital run off assumptions and transfers. This is based on a risk discount rate of 6.8 percent for the Australian business and 7.4 percent for the New Zealand business.

Westpac

- WBC has cited growth in in-force premiums which is at 11 percent year on year from $927 million at March 2016 to $1,030 million at March 2017.
- Life insurance income was higher compared to the previous half year as a result of higher inforce premiums and stable loss rates.
- Compared to the previous comparable half year, life insurance income was lower as the benefits from repricing activities were more than offset by higher claims.

Links to Financial Statements:
CBA, AMP, AMP Q1 2017 Update, ANZ, ClearView, Westpac, Suncorp

1 ANZ and WBC are September year end, the remainder are June year end

Contact us

James Collier
Partner in Charge
Actuarial, Insurance
& Superannuation
P: 9335 8933
E: jamescollier@kpmg.com.au

Julian Braganza
Manager
Actuarial, Insurance
& Superannuation
P: 9455 9883
E: jbraganza1@kpmg.com.au

kpmg.com.au