Life Insurance Financial Results Update

2nd Half 2017 Reporting Season

Operating earnings across the listed life risk insurers remains subdued with some volatility from adverse claims experience and loss recognition.

Operating earnings

Operating earnings across the listed life risk insurers remain subdued featuring income protection loss recognition with repricing initiatives underway across a number of insurers. The life insurance industry continues to experience volatility in profit primarily from adverse claims experience offset by varying levels of premium growth across insurers. M&A activity within the life sector also continues with ongoing consolidation resulting from poor profitability in recent years. CBA recently announced the sale of CommInsure to AIA for $3.8b and AMP also announced another significant reinsurance transaction which is expected to release circa $500m in capital across its life risk book, subject to regulatory approval.

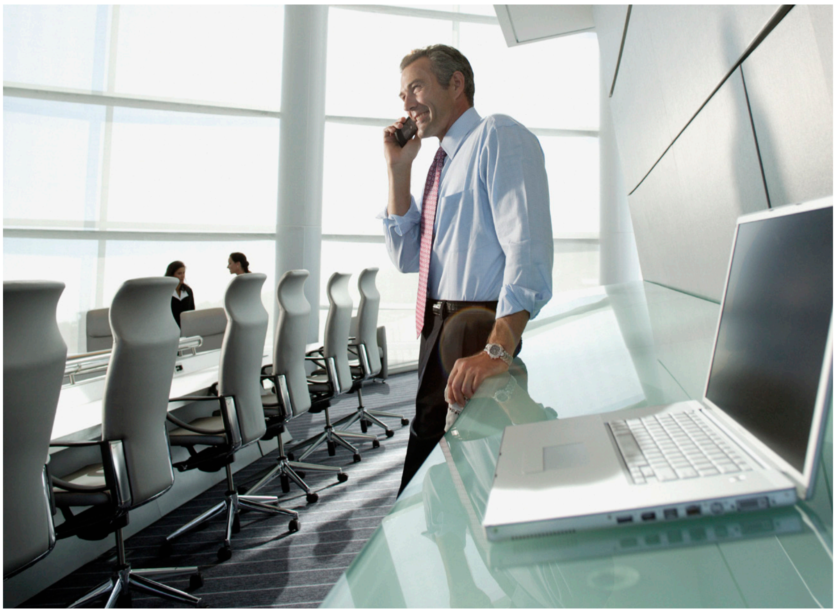
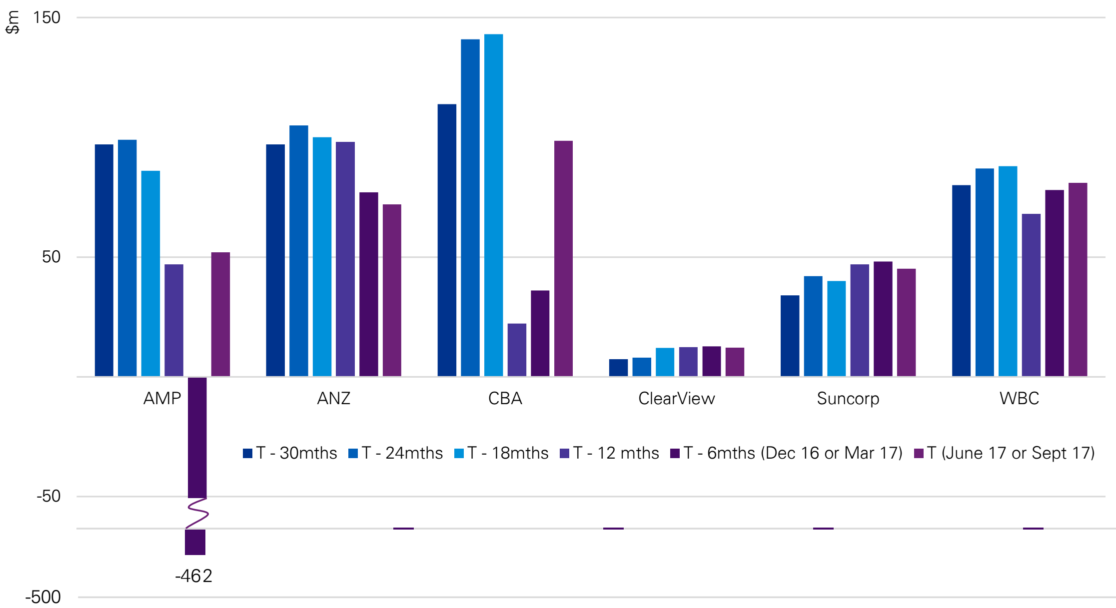


Figure 1: Operating earnings



Planned profit margins

Planned profit margins have been stable from the previous reporting period noting a drop for AMP due to implementation of its reinsurance treaty with Munich. ClearView planned margins remain high compared to other companies despite having trended downward due to changes in business mix. Actual profit margins remain relatively low compared to the previous three year period, with many insurers reporting a decrease from the prior reporting period. AMP actual margins were higher noting significant loss recognition on Income Protection (IP) taken up in the previous period with recent experience broadly in line with assumptions. Growth in annual inforce premium remains varied amongst individual insurers and has been low overall with Clearview remaining a stand out marking year on year total inforce premium growth of 26 percent.

1 CBA historical results restated to include Sovereign. Conversion rates are based on the foreign exchange rate as at the end of the reporting period.

2 Suncorp's operating earnings restated to include planned profit, underlying investment income plus claims, lapse and other experience items. The results combines the Australian and New Zealand business in AUD. Conversion rates are based on the foreign exchange rate as at the end of the reporting period.

Figure 2: Actual profit margins

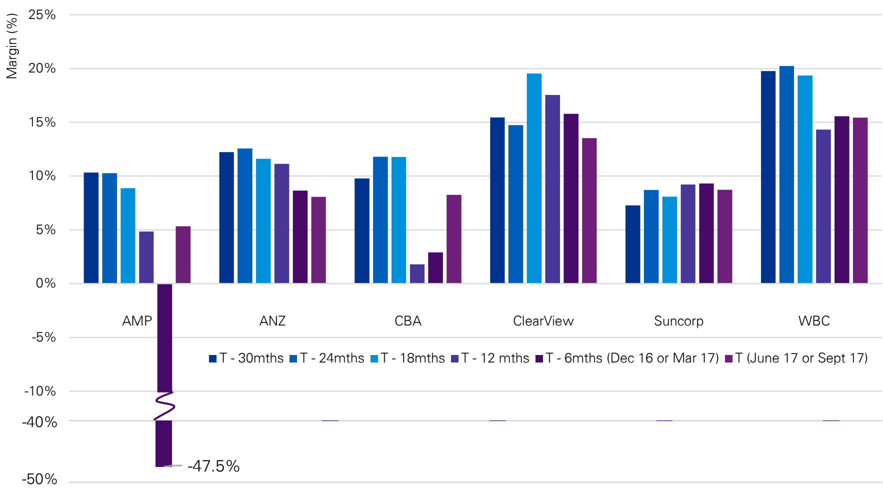
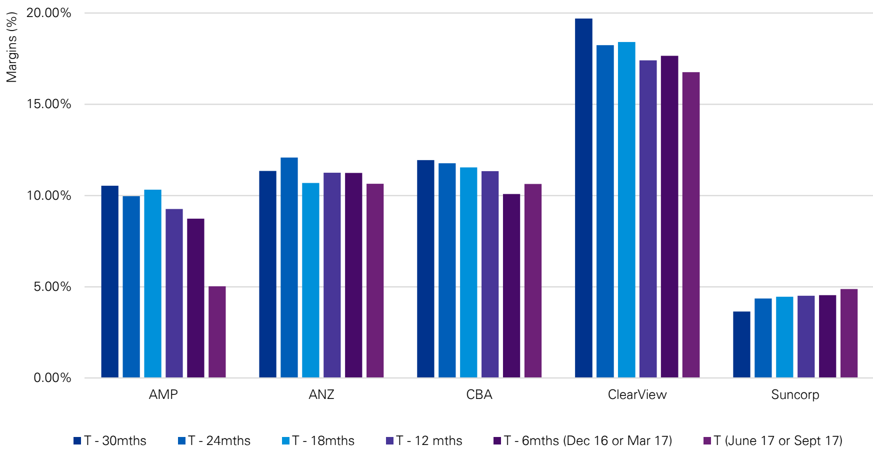


Figure 3: Planned profit margins



AMP: Planned margins have decreased due to strengthening of assumptions and implementation of its 2016 reinsurance treaty with Munich Re. AMP signed another significant reinsurance treaty effective 1 November 2017. AMP's 1H17 experience was in line with expectations with margins recovering, noting previous capitalised losses.

ANZ: Both actual and planned margins are slightly lower from the previous reporting period. Experience profits were negative primarily driven by adverse claims experience for the retail book.

CBA[1]: Planned margins have improved slightly, currently at 10.6 percent at 2H17 with actual margins also recovering. Operating earnings are higher at $99m for 2HFY17 compared with $36m for 1H17 noting additional $143m of IP loss recognition taken up over 2017 compared with $65m over the prior year.

ClearView: Actual margins have trended lower from 15.8 percent as at December 2016 to 13.5 percent as at June 2017. Planned margins reduced slightly over the same period. Experience profits were negative due to adverse claims, lapse and expense experience.

Suncorp[2]: Planned margins have increased and are currently at 4.9 percent. Actual margins are at 8.7 percent, showing a slight decline since June 2016 while operational earnings for Suncorp are slightly lower at $45m for 2H17.

Westpac: Westpac's actual profit margins have decreased slightly from the last reporting period and increased year on year, currently at 15.4 percent. Westpac notes that its insurance claim rate of 35 percent for the current reporting period is a slight improvement from the 38 percent reported in the previous reporting period.

Annual Premium Inforce (API)

Total premium growth across Direct/Retail/Group has been fairly low across the listed life insurers. API growth year on year has been varied with some companies experiencing higher growth relative to others (Figure 4). Premium growth is largely driven by age/inflation related price increases, followed by premium rate increases, improvements in lapses and new business volumes. In particular:

AMP's total inforce premium remained stable year on year, increasing slightly from $1,927m at June 2016 to $1,930m at June 2017. It is noted that low sales volumes have largely offset the impact of new business and age related premium/CPI increases over the year.

ANZ Group's life annual premium inforce remained stable year on year from $1,784m in FY16 to $1,793m in FY17 across individual and group products.

CBA's Inforce API has decreased year on year from $2,485m at June 2016 to $2,291m at June 2017. This is largely driven by higher lapses for CommInsure and lower sales year on year.

ClearView's API has grown from $151m at June 2016 to $190m at June 2017 which was largely driven by strong new business growth. Income protection price increases (10 percent on average) were also implemented in October 2016 following market price increases.

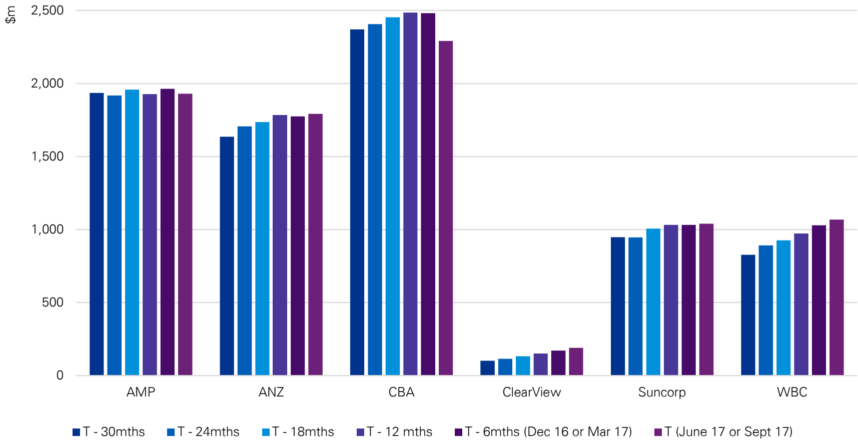
Suncorp's Inforce API increased slighly year on year from $1,032m as at June 2016 to $1,040m as at June 2017. Life risk inforce premium in Australia decreased from $813m as at June 2016 to $806m as at June 2017, driven by run-off of the closed Group Risk portfolio partially offset by stepped age and CPI increases in Retail and Direct businesses. Inforce premiums in New Zealand show growth of 7 percent driven by new business and policy retention with cancellations remaining at the lower end of the NZ market.

Westpac also continues to experience strong growth in inforce premiums at 9.8 percent year on year from $973m at September 2016 to $1,068m at September 2017. This is driven by higher new business which is $234m for the year ending September 2017 compared to $213m for the year ending September 2016, partially offset by higher lapse rates over the last year.

Table 1: API growth year on year

Company	Total (percent)
AMP	0.2
ANZ	0.5
CBA	-7.8
WBC	9.8
SUN	0.7
CVW	25.7

Figure 4: Total inforce premium



June 2017 - September 2017 Financial Results Commentary – Life Insurance only

AMP

- AMP notes that planned profit margins fell by $41m (46 percent) from 1H16 to $49m in 1H17, largely due to the strengthening of assumptions at FY16 and the implementation of a 50 percent quota share reinsurance arrangement with Munich Re.
- 1H17 planned profit margins as a percentage of average API also decreased from 1H16.
- Operating earnings increased by $5m (11 percent) to $52m in 1H17 compared with 1H16, with improved experience more than offsetting the lower profit margins.
- Individual risk API increased slightly by $3m from 1H16 to $1,490m at 1H17.
- 1H17 lapse rates of 13.4 percent were unchanged from 1H16.
- 1H17 EV increased by 1.1 percent before transfers at the 5percent discount margin to $2,310m. 1H17 VNB decreased by $17m to $1m, largely due to the impact of strengthened assumptions in 2H16, the reinsurance agreement with Munich Re which took effect on 1 November 2016 and lower sales volumes.

ANZ*

- Life insurance planned profit margins (including Australian and New Zealand) decreased from $100m to $95m from March 2017 to September 2017.
- ANZ's annual inforce premiums increased by approximately 1 percent over the year to September 2017 compared with September 2016.
- The retail insurance lapse rates for Australia slightly worsened during the year ending September 2017 at 14.1 percent compared to 14.0 percent during the year ending September 2016.
- The EV for the Australian business as at September 2017 is $4,492m, decreasing from the EV of $4,536m as at September 2016. The decrease is partly driven by experience losses and adverse economic assumptions changes. Negative experience was primarily driven by adverse claims experience during the year. Claims assumptions were also strengthened across the Retail products. The value of new business contributed an additional $138m of EV.

Commonwealth Bank (Insurance)

- Operating earnings for the Australia and New Zealand life insurance business decreased from $165m in FY16 to $135m in FY17, which CBA noted is driven by a decline in CommInsure Retail life income, due to loss recognition of $143m on the income protection portfolio during the year.
- It is noted that lapses for CommInsure have increased YOY from $243m over FY16 to $430m over FY17.
- In September 2017, CBA announced the sale of 100 percent of its life insurance businesses in Australia and New Zealand to AIA Group Limited for $3.8b. The sale agreement also includes a 20 year partnership with AIA for the provision of life insurance products in Australia and New Zealand.

ClearView

- Inforce premium growth was driven by strong new business growth in the advice portfolio which is partially offset by the gradual run off of the legacy non advice portfolio. New business premium was up 16 percent over 2017 to $40.3m for the year. IP price increases were also implemented over the year.
- It is noted that the inforce product mix has skewed to the advice portfolio with LifeSolutions now representing 77 percent of the total life insurance inforce book. This has contributed to the lower margins observed as the higher margin legacy portfolio runs off.
- Actual margins were lower than planned due to adverse claims and lapse experience and slightly higher expense experience. The poor claims experience was driven by IP claims and reserve strengthening offset in part by claims experience profit on the lump sum portfolio.
- Adverse lapse experience was partly due to the IP price increase which resulted in a short term spike in IP lapses.

Suncorp

- Planned profit margins were slightly higher for the Australian business compared to FY16 due to the implementation of revised income protection and lapse assumptions at the end of the previous FY. However, planned margins fell slightly for the NZ business compared to FY16 largely due to adverse changes in claims assumptions. It is noted that price increases have been applied to help support future margins.
- NZ claims experience was lower reflecting lower lump sum claim levels offset by a small increase in Income Protection claim volumes.
- Total inforce premiums for the Australian book decreased slightly impacted by the run-off of the closed Group Risk book offset by growth in retail and direct due to stepped age and CPI increases. Inforce premium for the NZ book increased from $219m to $234m from June 2016 to June 2017.

Westpac*

- Compared to June 2016, lapse rates increased slightly while claims rates decreased slightly compared to 1H17.
- Compared with 1H17, life insurance income increased by $11m, primarily from lower claims and an increase in inforce premiums. Comparing FY16 with FY17, life insurance income was reduced slightly (down $3m) with higher claims offset by a 6 percent increase in net earned premiums.
- Market share in terms of new business volumes continues at levels above the market share of its inforce business volumes.

Links to Financial Statements:
AMP, ANZ, CBA, ASX Annoncement on Divestment of CommInsure, ClearView, Suncorp, Westpac, Westpac Annual Results Presentation

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

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