

Profitability & Capital Summary

Life Insurance Institution Level – Financial years ended in 2015

In June 2016, APRA released the 2015 Life Insurance Institution Level Statistics publication. This annual publication shows statutory profits and capital for each insurer and reinsurer with an APRA life insurance license operating in the Australian Market. KPMG's Profitability & Capital Summary provides a snapshot of the key take-outs from this publication.

Profit performance

Overall, for financial years ended in 2015, the life insurance industry reported statutory profits of \$3,036 million, a 51 percent increase compared to the profits reported in financial years ending in 2014. This is an increase from 9.1 percent to 15.2 percent of net policy revenue. The increase in profitability reflects a return to normal levels of industry profitability.

On an institution level:

- all 20 direct insurers reported a profit
- 11 direct insurers and 4 reinsurers reported an increase in profit compared to the prior year
- as a group, reinsurers continue to show poor performance, reporting a net profit of 1 percent of net policy revenue.

Capital

- Australian life insurers continue to be well capitalised.
- In 2015, the capital coverage ratio ranged between 1.2 and 3 for 19 insurers, while 6 insurers had coverage ratios above 3
- 4 life insurers now include additional Tier 1 capital in their capital base, up from 2 insurers in the prior year.
- Proportion of additional Tier 1 and Tier 2 capital as part of the capital base increased to 14 percent in 2015 relative to 9 percent in 2014.

Return on net assets

Insurers writing CCI have the highest level return on net assets. Although insurers focusing on retail business achieve higher margin as a percentage of net policy revenue than those focusing on group, when capital is taken into account, they show similar level of return on net assets.

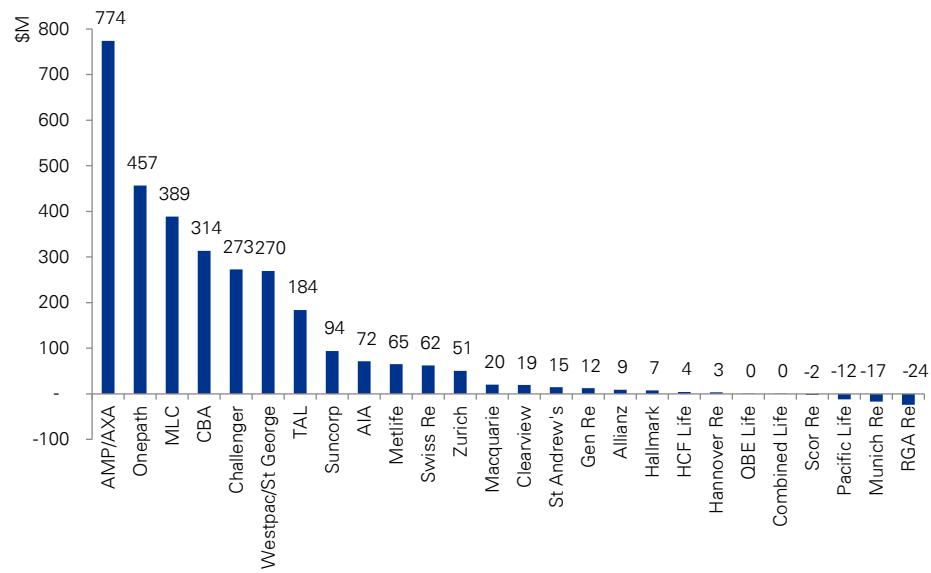
Overall profitability

For financial years ended in 2015, the life industry reported net profit after tax of \$3,036 million. This is a 51.3 percent increase compared to 2014 (\$2,006 million).

\$730 million was from Investment Linked business and \$2,307 million was from Non-Investment Linked business.

All direct insurers declared a profit for financial years ending in 2015. Four out of seven reinsurers reported losses.

Net Profit – Financial Years Ended in 2015



Profits mean statutory profits and include impact of discount rates and investment return on capital. It is net of tax and after reinsurance retrocession.

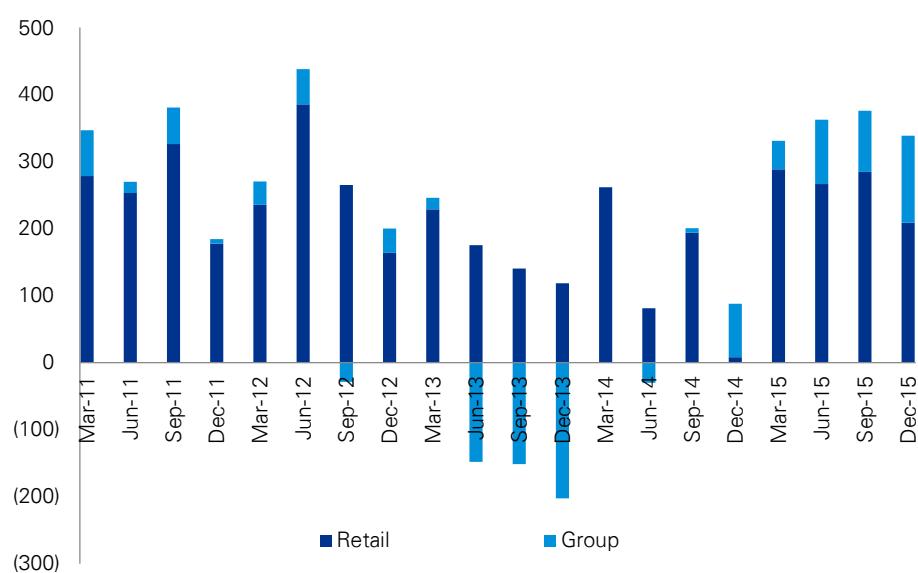
Risk product profitability trends

Risk product profitability in calendar year 2015 shows a return to normal levels of profitability, with profits from risk products recovering to 2012 levels.

Group risk profitability in calendar year 2015 is high relative to historic averages.

Retail risk profits remain between \$200 million-\$300 million per quarter.

Risk Product Quarterly Profits – 2011 to 2015



Source: APRA Quarterly Life Insurance Performance Statistics December 2015

Non investment linked profitability – Direct Insurers

Year-on-year change in net profit

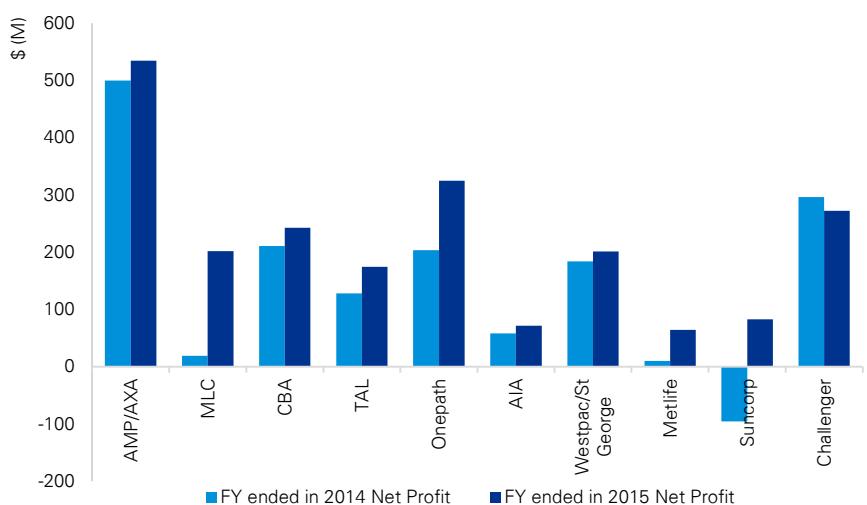
– Top 10* Direct Insurers

Of the top 10 direct insurers:

- Nine out of 10 insurers reported higher profit results in 2015 relative to 2014.
- Suncorp reported profits compared to a loss in 2014.
- Challenger reported slightly lower profit results in 2015 relative to 2014.

*Top 10 by policy revenue. Each insurer had net policy revenue greater than \$400 million in financial years ending in 2015.

Top 10 Direct Insurers – Non-Investment Linked – Net Profit after Tax (\$M)



Note : Non Investment Linked business includes risk products, participating products, investment accounts, annuities.

Year-on-year change in net profit

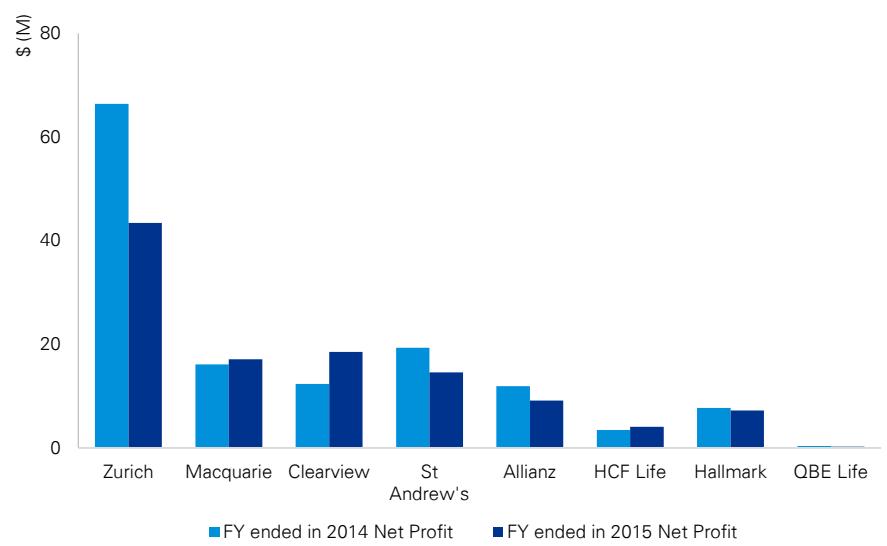
– Other Direct Insurers*

The majority of smaller direct insurers reported a similar level of profits in 2015, except for:

- ClearView which reported the largest percentage increase in profits in 2015 vs 2014 (50 percent increase).
- Zurich which reported the largest relative drop in profits in 2015 vs 2014 (35 percent decrease).

*Other insurers each had net policy revenue less than \$400 million in financial years ending in 2015.

Other Direct Insurers – Non-Investment Linked – Net Profit after Tax (\$M)



Source: APRA Life Insurance Institution Level Statistics, for Financial Years ended in 2015 and 2014

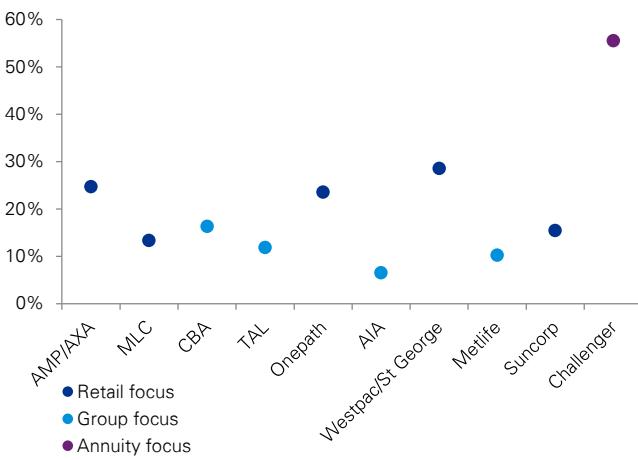
Non investment linked – direct insurers Profit as percentage policy revenue

Top 10 Direct Insurers

Most of the top 10 direct insurers reported net statutory profits between 10 percent to 30 percent of net policy revenue.

Westpac/St George reported 29 percent, followed by AMP/AXA (25 percent). Annuity writer Challenger continues to report the highest profit as a proportion of net policy revenue (56 percent).

Top 10 Direct Insurers – Net Profit after Tax as percentage of Net Policy Revenue Non-Investment Linked

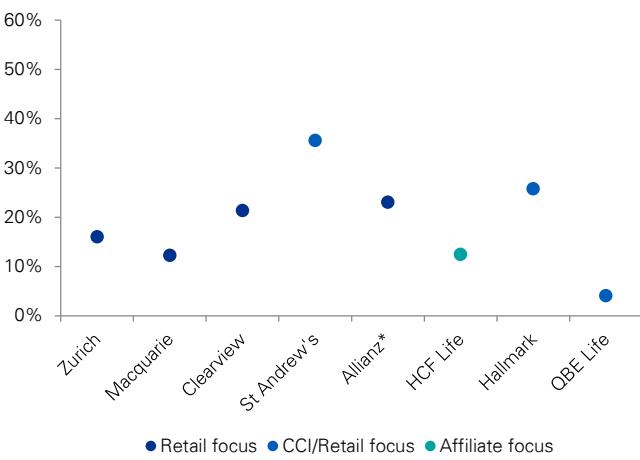


Source: APRA Life Insurance Institution Level Statistics, for Financial Years ended in 2015

Other Direct Insurers

St Andrew's and Hallmark showed the strongest net statutory profit per net policy revenue, for the financial years ended in 2015 (36 percent and 26 percent respectively).

Other Direct Insurers – Net Profit after Tax as percentage of Net Policy Revenue Non-Investment Linked



*Allianz is mostly direct business

Source: APRA Life Insurance Institution Level Statistics, for Financial Years ended in 2015

Non investment linked – reinsurers

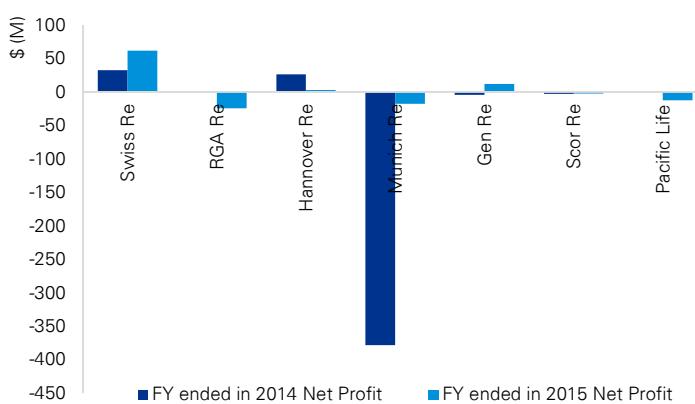
Reinsurers' profitability remains below long term profitability levels.

Overall, reinsurers made a net profit of 1 percent of net policy revenue for financial years ended in 2015. This is an improvement from a 10 percent loss of net policy revenue in 2014.

New entrants show losses, consistent with having lower levels of policy revenue relative to more established players.

Profit is after retrocession to overseas parents.

Reinsurers - Non Investment Linked - Net Profit after Tax (\$M)



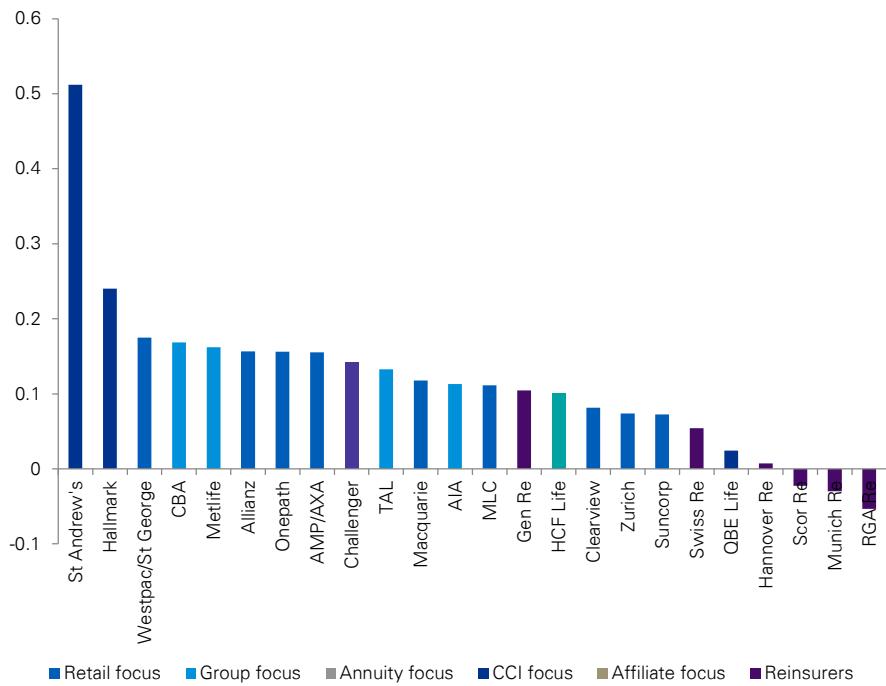
Source: APRA Life Insurance Institution Level Statistics, for Financial Years ended in 2015

Return on net assets

Return on net assets gives an indication of financial performance, and shows how efficiently a company is using its assets and working capital.

Insurers with a CCI focus have the highest returns; reinsurers have the lowest returns in the financial years ending in 2015.

Return on Average Net Assets (Non-IL Products)



Source: APRA Life Insurance Institution Level Statistics, for Financial Years ended in 2015, and 2014

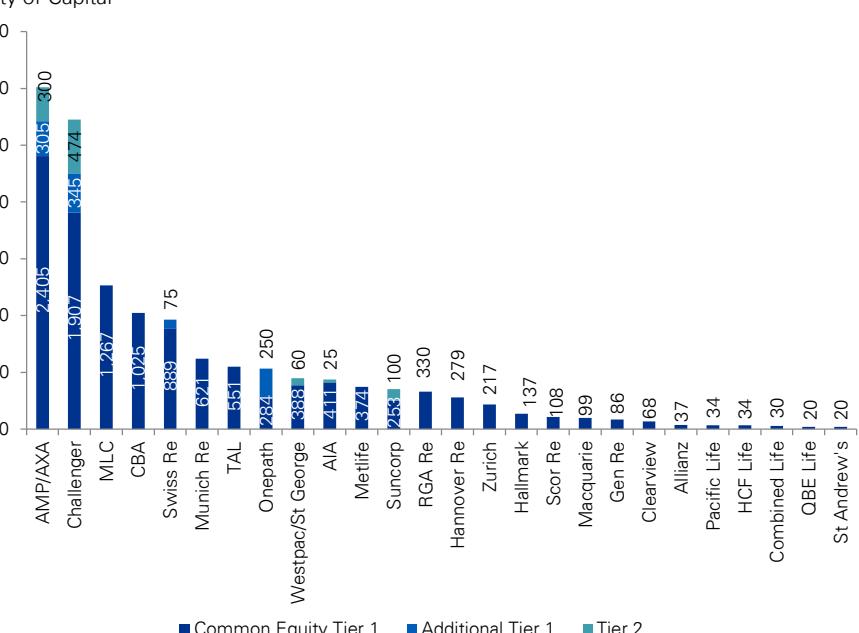
Capital

Quality of Capital

For financial years ending 2015, the Life Insurance Industry's Capital Base continues to be of high quality: 86 percent Common Equity Tier 1, 7 percent Additional Tier 1, and 7 percent Tier 2 capital.

- The proportion of Additional Tier 1 or Tier 2 capital as part of the capital base increased to 14 percent in 2015 relative to 9 percent in 2014.
- AMP/AXA, Challenger and OnePath introduced Additional Tier 1 capital in 2015; while Hallmark no longer held Additional Tier 1 capital in 2015.

Quality of Capital



Source: APRA Life Insurance Institution Level Statistics, for Financial Years ended in 2015

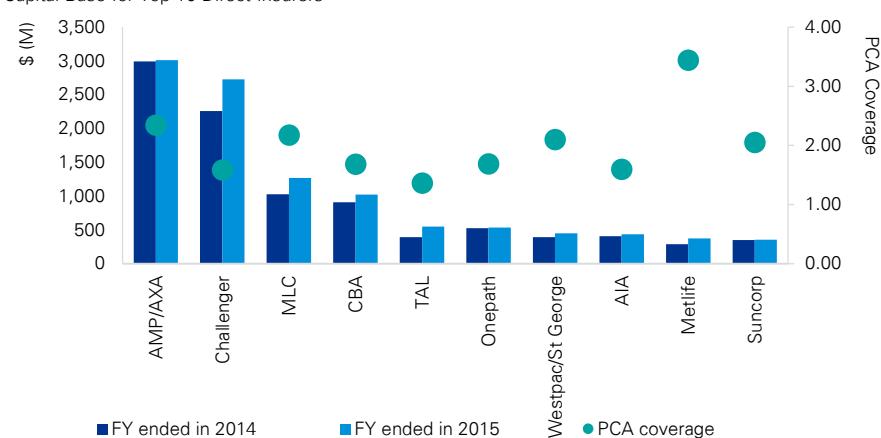
Capital coverage ratio

The Capital Coverage ratio* gives an indication of the level of capitalisation of different life insurers. In 2015, the capital coverage ratio ranged between 1.2 and 3 for 19 insurers, while 6 had coverage ratio above 3.

The Life Insurance industry overall Capital Coverage ratio is 1.9 (up from 1.8 in 2014).

*Capital coverage ratio is defined as the ratio of the capital base over the Prescribed Capital Amount.

Capital Base for Top 10 Direct Insurers



Top 10 Direct Insurers*

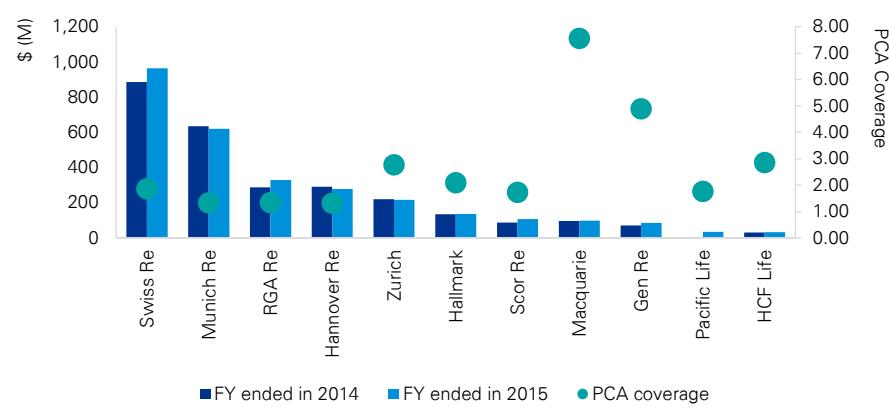
The capital coverage ratio for most larger insurers was between 1 to 2 times in 2015.

The exceptions were MetLife (3.4), AMP/AXA (2.3), MLC (2.2) Westpac/St George (2.1) and Suncorp (2.1).

*by size of capital base in 2015

Source: APRA Life Insurance Institution Level Statistics, for Financial Years ended in 2015, and 2014

Capital Base for Medium Insurers



Medium Insurers

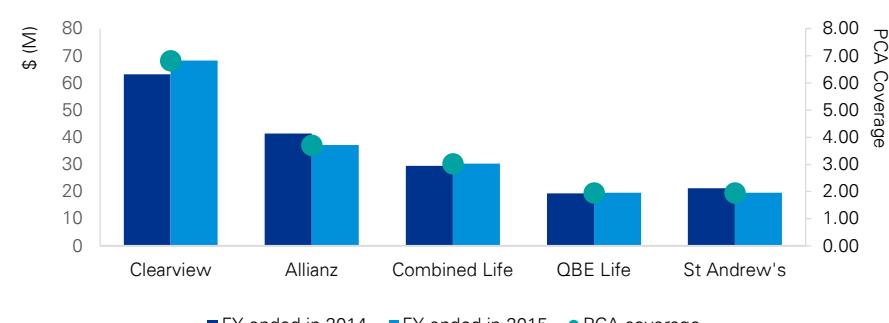
There was more variation in the capital coverage ratio for medium companies.

Six out of 11 medium insurers had a capital coverage ratio between 1 and 2.

Two insurers had a capital coverage ratio above 3: Macquarie (7.6) and GenRe (4.9).

Source: APRA Life Insurance Institution Level Statistics, for Financial Years ended in 2015, and 2014

Capital Base for Small Insurers



Small Insurers*

The capital coverage ratio ranged from 1.9 to 6.8 for smaller companies. ClearView (6.8), Allianz (3.7) and Combined Life (3.0) reported PCA coverage ratios above three times.

*Small companies have the Minimum Prescribed Capital Amount of \$10 million.

Source: APRA Life Insurance Institution Level Statistics, for Financial Years ended in 2015, and 2014

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