



Market Release

26 August 2020

ClearView FY20 result impacted by industry-wide deterioration in claims

Diversified financial services company, ClearView Wealth Limited (ClearView ASX: CVW) has reported an underlying net profit after tax (**NPAT**) of \$14.7 million for the year to 30 June 2020, down 41% on 2019, and a reported NPAT of \$13.1 million, up 230%.

The decline in FY20 profitability was driven by poor underlying claims performance in the Life Insurance segment (▼\$12.5m) and material changes to claims assumptions in FY20, including an allowance for an expected increase in COVID-19 related claims (▼\$5.9m).

The result reflects broader industry trends and should be viewed in the context of overall industry performance, amidst extremely difficult market conditions. For the year ending 31 March 2020, the life insurance industry risk products lost \$1.65 billion, largely attributable to a \$1.4 billion loss on income protection (**IP**). This extended five-year industry IP losses to nearly \$3 billion.

COVID-19 is also likely to drive a further increase in IP claims from the secondary economic impacts of the pandemic.

Deteriorating performance across the industry saw the Australian Prudential Regulation Authority (**APRA**) recently intervene to start to force structural change.

APRA's actions included a range of IP sustainability measures including a review of the design and pricing of IP products, a ban on the sale of certain IP benefits, and a Pillar 2 capital charge on all life insurance participants that sell IP products.

ClearView is supportive of APRA's measures to address the poor performance of IP and move it to a sustainable state. The effectiveness of APRA's intervention will be important for the industry to achieve acceptable longer-term margins.

In response, ClearView has acted swiftly to address challenges presented by both deteriorating industry profitability and COVID-19.

ClearView has prepared an IP action plan, which includes a body of work to ensure the Group's products are appropriate and satisfy the regulator's intent and requirements.

ClearView made an early decision to cease the sale of Agreed Value IP contracts in mid-March (earlier than required by APRA) and shifted its focus to policy retention to manage price changes and COVID-19 impacts, including providing alternatives to customers to improve premium affordability.

ClearView also implemented price changes to its flagship LifeSolutions product from April 2020 and launched a new simplified Indemnity 60 IP option, as a cost-effective alternative to the existing indemnity payment type.

Changes have also been made to lapse and claims assumptions to allow for price increases, increased claims and reinsurance costs, and potential impacts from COVID-19.

While allowances have been made in the Group's updated claims and lapse assumptions as at 30 June 2020, the fluidity of the COVID-19 situation means actual experience relative to the revised assumptions will need to be closely monitored.

ClearView reported a significant improvement in life insurance lapse performance in 2H FY20, due to the implementation of repricing and customer retention strategies.

The Group also continued expanding its distribution footprint in FY20, with 60 financial planning groups adding LifeSolutions to their Approved Product List (**APL**), bringing the number of advice groups to 592.

The Wealth Management and Financial Advice segments performed relatively strongly. There was a significant uplift in net inflows of \$189 million into contemporary Wealth products and adviser numbers increased by 35 to 264, as 16 advisory firms joined the Group's B2B dealer services offer, LaVista Licensee Solutions.

Results summary

- Life Insurance remains the key profit driver
- FY20 result adversely impacted by poor claims performance, particularly income protection and death claims
- Significant improvement in lapse performance
- Action taken to achieve more sustainable IP claims and pricing outcomes
- Revenue up 4% and a reduction in cash costs of \$11.5 million, down 13%
- Strong balance sheet and recurring revenue base
- Net shareholder cash position of \$212 million, with shareholder capital conservatively invested
- Embedded Value of \$0.95 per share, reflecting strong cashflow generation on in-force portfolio
- Actively investigating Tier 2 debt issuance

Business outlook

ClearView is strongly-positioned to capture opportunities arising from the institutional retreat from life insurance, wealth management and personal advice. The addressable independent financial adviser (**IFA**) market is becoming larger as heavily restricted life insurance APLs are increasingly abandoned and once-institutionally aligned advisers flock to boutique AFSLs.

Progress in the life insurance sector is being impeded by irrational competitor pricing and unsustainable product features alongside shifting industry dynamics including changes to adviser remuneration, higher education and training requirements, and declining risk adviser numbers leading to shrinking life insurance sales.

Overall, FY21 is expected to be a base, transitional year. Over time, as the industry shifts to rational competitor pricing, increasing life sales and sustainable product features, this will lead to improvement in underlying profit margins and return on capital.

A key priority in FY21 is achieving profitable, sustainable growth in the Life Insurance business by building customer loyalty, improving product design and pricing, and effective claims management.

ClearView is also focused on the development of the Wealth Management business, and building out a self-sustaining Financial Advice business.

ClearView's current actions to build customer loyalty, simplify and improve products, and invest in technology are focused on ensuring ClearView is easy for advisers and customers to do business with.

This strategy is likely to underpin medium-to-long term performance improvement objectives.

ClearView Managing Director Simon Swanson said the Group remained well-positioned to meet its obligations to staff, customers and other stakeholders, despite the significant headwinds facing the financial services industry.

"The world is grappling with unprecedented circumstances including significant economic, social and health challenges caused by COVID-19. ClearView is not immune to these challenges, however, in these difficult times, we are fortunate to have a sound business model, strong balance sheet and a recurring revenue base that creates a level of security for our staff, customers and other stakeholders," he said.

"In the face of challenging economic conditions and shifting client and regulator expectations, ClearView continues to invest across the business, particularly in technology, governance and risk management."

"We are taking action to ensure the sustainability of our Life Insurance business and position our Wealth Management and Financial Advice businesses to compete effectively, so when conditions inevitably improve, ClearView emerges as a leader."

The Company confirmed that there will not be a FY20 dividend and there are no plans to undergo any on-market share buy-back activity in the current environment, given the focus on prudent capital management.

Segment results

Life Insurance underlying NPAT down 53% to \$10.4 million; reported NPAT down 52% to \$9.4 million; in-force premium up 7% to \$270.7 million

ClearView continued expanding its distribution reach in FY20, demonstrating the strength of its relationships in the Independent Financial Adviser (**IFA**) market.

The Group's flagship LifeSolutions product is now on 592 Approved Product Lists (**APLs**), up 11% on FY19.

Despite deteriorating economic conditions, in-force premiums increased 7% to \$270.7 million, underpinning ClearView's growth profile. However, the segment's performance continued to be adversely impacted by poor claims experience (relative to claims assumptions in the life insurance policy liability determined at 30 June 2019), resulting in an experience loss of \$18.5 million. This includes the adverse impact of \$5.9 million after tax in 2H FY20 from the change in claims assumptions.

In response, ClearView made material changes to claims assumptions for valuations and business management as at 30 June 2020, including an allowance for COVID-19 impacts.

On a like for like basis, excluding the impacts on claims assumption changes on each reporting period, Underlying NPAT would have reduced by 30% to \$16.7 million (FY19: \$23.8 million).

Premium rate changes were also implemented from April 2020 to reflect increased claim costs, revised claims assumptions on IP products and higher reinsurance costs.

Pleasingly, there was a significant improvement in lapse performance in 2H FY20, driven by the implementation of repricing and customer retention strategies.

Ongoing action to build customer loyalty and retention, material investment in technology and product innovation with a focus on sustainability and simplicity is expected to support medium-to-long term growth.

Wealth Management underlying NPAT flat at \$3.6 million; reported NPAT up 20% to \$2.2 million; funds under management up 1% to \$2.78 billion

FY20 recorded a significant improvement in net inflows of \$189 million into contemporary products (\$25 million of outflows in FY19) while net outflows from the closed Master Trust product slowed to \$94 million in FY20 (net outflows of \$137 million in FY19).

Funds under management¹ remained broadly flat at \$2.78 billion.

Overall, a decrease in gross fee margin to 1.16% (1.23% in FY19) and net fee margin earnings (0.68% v 0.63%), led to a 6% reduction in fees to \$32.5 million.

Key drivers of the margin changes include pricing changes made to WealthSolutions from 2H FY19 and shifts in the mix of business, between both products and investment options.

During the year, ClearView also announced a partnership with HUB24 Limited (**HUB24**) to build a modern replacement for its wrap technology, develop competitive new products and address the tax credit issues in the ClearView Retirement Plan (**CRP**).

Financial Advice underlying NPAT up 127% to \$2.3 million; reported NPAT of \$2.0 million; net financial planning fees up 6% to \$18.1 million

ClearView's dealer groups, Matrix Planning Solutions and ClearView Financial Advice, have 212 financial advisers operating under their licenses. A further 16 Australian Financial Services Licensees (**AFSLs**), representing 52 financial advisers, utilise the services of the Group's B2B outsourced offer, LaVista Licensee Solutions.

In 1H FY20, the dealer groups implemented a new remuneration and fee model, designed to create a fairer, more sustainable revenue base.

The successful implementation of the new pricing model, resulted in a \$1.5 million increase in membership fees, including a contribution of \$0.4 million from LaVista Licensee Solutions.

In FY20, the business completed a back file review of a limited number of advisers, as part of its ongoing compliance and monitoring efforts. This resulted in program and compensation costs of \$2.1 million.

¹ FUM includes Funds Under Management (ClearView Master Trust, WealthFoundations and ClearView Managed Investment Schemes), Funds Under Administration on WealthSolutions and FUM in ClearView MIS platform funds on external platforms.

All other outstanding remediation programs are now complete. These costs have been included as part of underlying NPAT in the full year result.

The Group is focused on building a sustainable, profitable standalone financial advice business.

Summary of Result:

The ClearView Group achieved the following results for the year ended 30 June 2020.

After Tax Profit by Segment, \$M	FY20 \$M	FY19 \$M	% Change ¹	2H FY20 \$M	1H FY20 \$M	% Change ¹
Life Insurance	16.7	23.8	(30)%	8.0	8.7	(8)%
Wealth Management	3.6	3.6	0%	1.9	1.7	12%
Financial Advice	2.3	1.0	130%	1.7	0.6	Large
Listed	(2.0)	(1.5)	33%	(1.3)	(0.7)	86%
Business Unit Underlying NPAT Prior to Claims Assumption Changes	20.6	26.9	(23)%	10.3	10.3	-
Claims assumption changes	(5.9)	(1.8)	Large	(5.9)	-	Large
Reported Underlying NPAT²	14.7	25.1	(41)%	4.4	10.3	(57)%
Policy liability discount rate effect ³	2.2	6.6	Large	2.6	(0.4)	Large
Amortisation of acquired intangibles	-	(1.2)	Large	-	-	Large
Impairments ⁴	(2.6)	(18.9)	Large	(2.6)	-	Large
Cost out program implementation costs	-	(3.8)	Large	-	-	Large
Other costs ⁵	(1.2)	(3.8)	Large	(1.2)	-	Large
Reported Profit After Tax	13.1	4.0	Large	3.2	9.9	Large
Embedded value ⁶	643.4	672.7	(4)%	643.4	669.0	(4)%
Net asset value ⁷	452.7	439.1	3%	452.7	449.4	1%
Reported diluted EPS (cps) ⁸	2.08	0.62	235%	0.53	1.55	(66)%
Underlying diluted EPS (cps) ⁸	2.34	3.94	(41)%	0.72	1.62	(56)%

1 % movement, FY19 to FY20; 2H FY20 to 2H FY20; unless otherwise stated.

2 Underlying NPAT consists of consolidated profit after tax adjusted for amortisation (not including capitalised software), the effect of changing discount rates on insurance policy liabilities and incurred disabled lives claims reserves and costs considered unusual to the Group's ordinary activities.

3 The policy liability discount rate effect is the result of changes in the long-term discount rates used to determine insurance policy liabilities and the incurred IP disabled lives claims reserves. The life insurance policy liability (based on AIFRS) and IP incurred disabled lives reserves are discounted using market discount rates that typically vary at each reporting date and create volatility in the policy liabilities and the disabled lives claims reserves, and consequently, earnings. ClearView reports this volatility separately.

4 Impairments:

FY20 - Impairment to receivables from ClearView Retirement Plan (CRP) due to write down of DTA in CRP from a reduction in accumulated tax losses carried forward (\$2.6m).

FY19 - Impairment related to certain software development costs (obsolete or reduced functionality) (\$6m) and the carrying values of goodwill and client books in the Financial Advice cash generating unit (\$12.9m).

5 Other Costs:

FY20 - related to costs associated with the HUB24 transaction (\$1.2m). Further costs to be incurred in FY21 as project progresses.

FY19 - related to costs associated with Direct Remediation Program (\$0.9m), Royal Commission costs (\$1.5m) and retention bonus payments paid to key individuals in September 2018 (\$1.4m).

6 Embedded Value at 4% discount rate margin, including a value for future franking credits, accrued franking credits and Employee Share Plan (ESP) loans. Embedded Value at 30 June 2020 includes various assumption changes. Refer to further detail in the sections that follow.

7 Net Asset Value as at 30 June 2020 excluding ESP Loans.

8 Impacted by ESP shares vested/forfeited during the period and changes to the number of ESP shares 'in the money' given the changes in ClearView's share price period on period.

ENDS

For further information, please contact:

Investor inquiries

Trevor Franz
Principal, Catapult Partners
M: 0406 882 736
E: trevorfranz@catapultpartners.com.au

Media inquiries

Leng Ohlsson
Head of Marketing and Corporate Affairs
T: (02) 8095 1539 **M:** 0409 509 516
E: leng.ohlsson@clearview.com.au

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 clearview.com.au

ClearView Wealth Limited
ABN 83 106 248 248

ASX Code: CVW

GPO Box 4232
Sydney NSW 2001
T 132 979

clearview.com.au