ClearView Results Half Year ended 31 December 2019 Investor presentation

Presented by
Simon Swanson – Managing Director
Athol Chiert – Chief Financial Officer

Agenda

Executive summary

About ClearView

HY20 Result overview

Regulatory and business outlook

Executive summary

Business Profile	• Compulsory superannuation and rising household debt underpins long-term demand for life insurance, wealth management and financial advice • Drives a fundamental customer need for ClearView's products and services that are distributed through the independent financial adviser (IFA) channel • Strong reputation and national presence in the IFA market – continuing to maintain share in a declining market[2] (measured by life insurance new business). Life insurance in-force will trend to new business market share over time • Opening of APLs (approved product lists) is creating further opportunities to reach new audiences • Leads to a focus on creating efficiencies for advisers by improving ease of doing business and automation of back office functions • Diversified strategy meets end customer needs and adviser (distribution) trends • Industry consolidation and the effective exit of the banks from personal advice strongly positions our advice offerings to recruit quality advisers
Financial Performance and Earnings	• Underlying NPAT[1], the Board's key measure of Group profitability and basis for dividend payment decisions, decreased 23% to $10.2m (HY19: $13.3m). Reported NPAT, decreased 15% to $9.8m (HY19: $11.5m) • Recent periods have been very challenging for the industry (poor claims and lapse performance) and this has also impacted heavily on ClearView's financial performance, despite underlying premium (top line) growth • Income Protection (IP) in particular has had a material adverse impact over the last few financial years • Started to implement analytics and early intervention techniques to improve IP claims outcomes (return to work) in addition to optimising claims resourcing (case management) • Furthermore, commenced a comprehensive review of its LifeSolutions IP product series with a focus on reviewing product pricing and design • ClearView is supportive of APRA's sustainability measures that are required to be undertaken by the industry and can implement these relatively quickly • Significant improvement in wealth net flows and investment performance but fees adversely impacted by repricing and mix of business (contemporary products) • Dealer group pricing model rolled out; overall flat fees in half year with expenses impacted by remediation and program costs • Embedded Value (EV)[1] of $669m; or 99 cents per share. EV is based only on in-force portfolios excluding the value of any future growth potential • EV is also supported by past costs of acquiring new business (DAC) that is on Balance Sheet ($340m) and that converts to cash as future premiums are collected, but is not counted for regulatory capital purposes under the APRA capital standards
Capitalisation and Leverage	• Now achieving underlying self-funding capability (in FY20) • Low leverage with $31m drawn down under Debt Funding Facility • Board is investigating longer term capital solutions (such as the issue of Tier 2 subordinated notes) that is intended to repay at least part of the debt and to fund or support regulated funding requirements of ClearView Life from time to time (subject to regulatory approvals and market conditions) • ClearView Group does not currently anticipate the need to undertake further capital management actions beyond these projects and actions • Board will continue to adopt a limited and cautious approach to on-market buy-back program • Declaration of any FY20 final dividend to be considered at the time of the full year result and outcome of the capital initiatives outlined above

Notes
1. 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 costs considered unusual to the Group's ordinary activities.
2. Excluding terminated relationships. Source NMG Risk Distribution Monitor as at 31 December 2019.

About ClearView

Section 1

History of ClearView

- **1976** – NRMA INSURANCE – NRMA Life
- **2010** – ClearView – MMC Contrarian Ltd acquires Bupa Australia's Life Insurance and Wealth Management business and is rebranded ClearView
- **2011** – ClearView LifeSolutions; ClearView WealthSolutions
- **2012** – CrescentCapitalPartners
- **2013** – Support for LifeSolutions building
- **2014** – MATRIX PLANNING SOLUTIONS; ClearView WealthFoundations
- **2016** – Sony Life
- **2017**, **2018**, **2019** – Investment Trends WINNER – 2017, 2018 and 2019 Planner Risk Report – Overall Satisfaction: Insurer – ClearView; Adviser Choice Risk Awards WINNER
- **2019** – LaVista

Strategic rationale behind ClearView

ClearView was established in its current form in 2010 to meet an identified gap in the market for a customer-centric life insurance and wealth management business

Significant arbitrage opportunity due to the structure of industry profit pools

- Incumbents had legacy issues including multiple, outdated systems, products and pricing
- Cross-selling opportunity arising from the convergence of life insurance and superannuation
- Focus on Retail Advised segment
- Avoid Group Life and Consumer Credit Insurance

Deep experience across distribution and advice

- Vertically-integrated institutions did not understand the needs of advisers and clients
- Consolidation created space for an IFA-focused entrant
- Strong relationships with IFAs built on quality products and services
- Ability to help advisers meet their clients' needs

An integrated business with the right licences

An APRA-regulated Non-Operating Holding Company

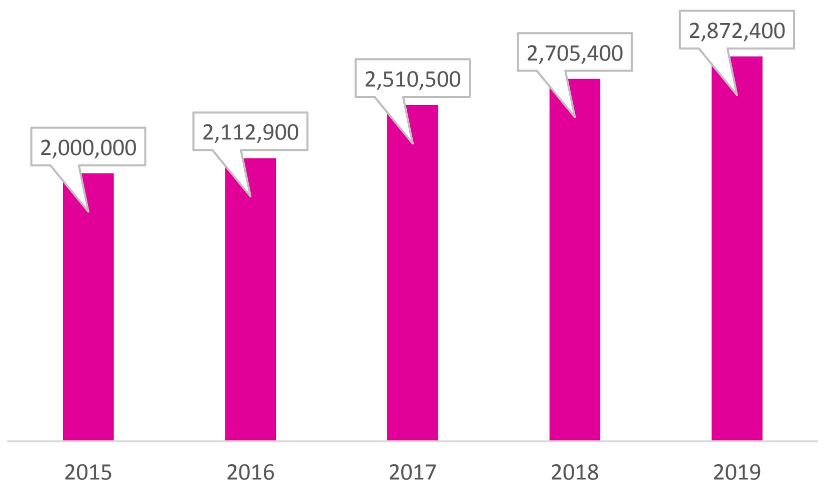
An integrated structure with three segments: Life Insurance, Wealth Management and Financial Advice

Strategic rationale remains relevant in 2020

Fundamental demand for products

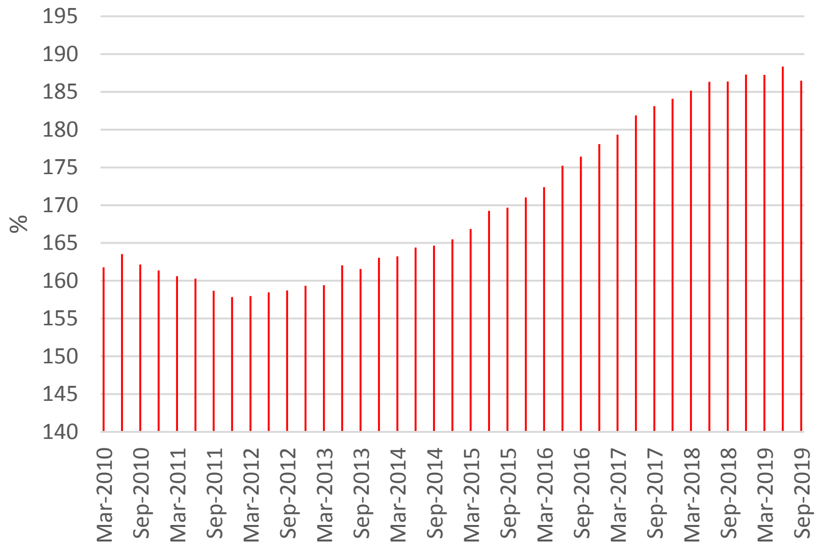
As a diversified financial services company ClearView is well positioned to meet the needs of consumers by delivering both life insurance and wealth management products. Compulsory superannuation and rising household debt underpins long-term demand for life insurance, wealth management and financial advice.

Growth of Compulsory Super ($m)
Underwritten by Compulsory Super



Source: RBA, ABS

Household Debt to Income

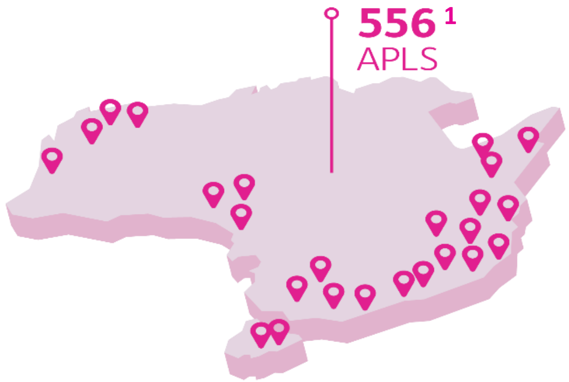


Source: RBA, ABS

- Fundamental drivers of life insurance
  - Pre-retirement risks
    - Short term income protection; substantial disability; large medical event impacts; death cover
  - Post retirement risks
    - Long term income protection (longevity); aged care risks; large medical event impacts
- Favourable tail winds
  - Need for life insurance tied to income and society wealth
  - Population growth
  - Aging population – rising demand for post retirement products
  - Underinsurance gap

Comprehensive product and service offering

Third party APLs



ClearView's distribution footprint is set to expand further as more APLs open up. The group's diversified model and strong presence in the IFA market ideally-positions us to forge new relationships and support a growing number of advisers.

Financial Advice

ClearView Financial Advice

MATRIX PLANNING SOLUTIONS

Aligned advisers can provide strategic advice and have the autonomy to write business with any APRA-regulated life insurance provider.

Life Insurance

ClearView LifeSolutions

Established in 2011

- Term Life
- Permanent Disability
- Trauma and Critical Illness Benefits
- Child Cover
- Accident Cover
- Income Protection
- Business Expense Cover

Investment Trends WINNER

2017, 2018 and 2019 Planner Risk Report

Overall Satisfaction: Insurer

ClearView

Best Claims Staff – Claims Customer Choice Awards – WINNER 2018 – afa – Beddoes institute

Money Management Adviser Choice Risk Awards WINNER

Money Management Adviser Choice Risk Awards WINNER

Wealth Management

Established in 2011

ClearView WealthSolutions

Super 2020 Chant West 4 Apples · High Quality Fund

Pension 2020 Chant West 4 Apples · High Quality Fund

Established in 2014

ClearView WealthFoundations

24 Model Portfolios including nine index portfolios, designed to suit five risk profiles (Moderate, Balanced, Growth, High Growth, Equity Growth)

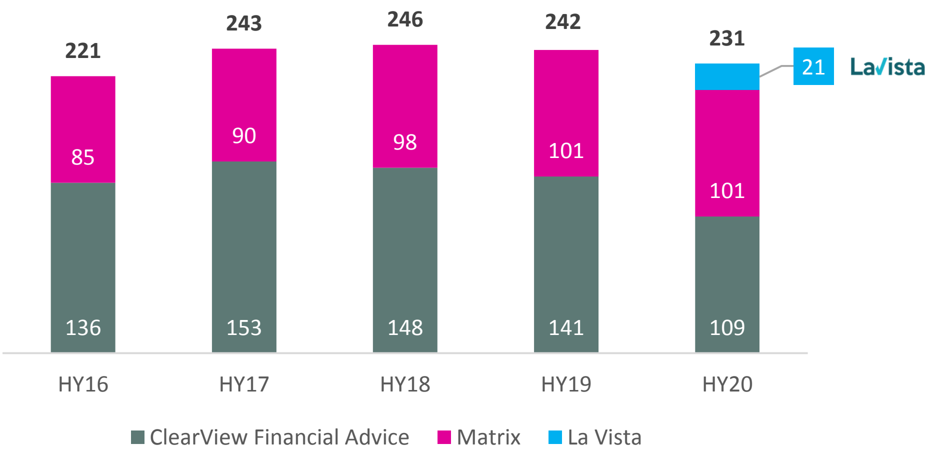
Notes

1. APLs are where ClearView products that are placed on third party dealer group approved product lists.

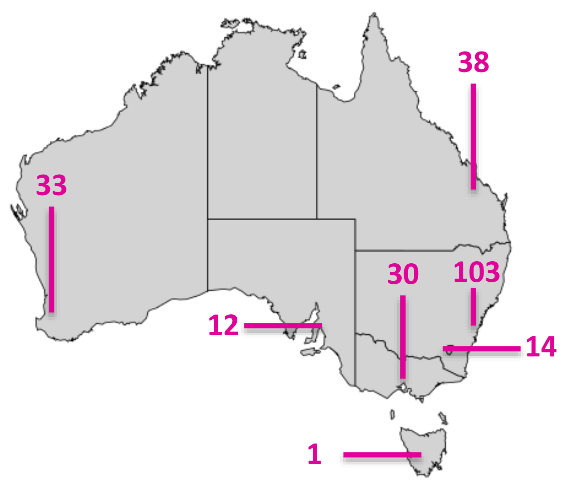
Financial Advice adviser breakdown

Leading provider of licensing and back office services for advisers and own-AFSLs (B2B). Experienced team and significant early investment in technology underpins the group's ability to attract quality advisers. 231 financial advisers across ClearView aligned dealer groups and LaVista.

Adviser numbers



Geographical composition



A compelling offer

Focused on quality not quantity

Why ClearView?

Life product proposition

- ✓ Competitive and relevant life insurance products
- ✓ Strong service culture and understanding of advisers' needs
- ✓ Trusted relationships and the ability to respond quickly to change
- ✓ An advocate for independent financial advice

Wealth product proposition

- ✓ Experienced team behind investment research and unbiased implemented models
- ✓ Competitively priced contemporary products
- ✓ Diversify product and distribution by offering both life insurance and wealth management products

Financial Advice proposition

- ✓ Non-institutionally owned
  - Unrestricted life insurance APL
- ✓ Selective recruitment of the 'right' advisers; focus on quality not quantity
- ✓ Targeting a sustainable revenue model (over time)
- ✓ Investment in technology (including front end compliance monitoring system) – strong back-office infrastructure
- ✓ Leading licensee support services including newly launched LaVista to third party AFSLs

Key benefits

IFA distribution

- ✓ ClearView has a strong relationship with IFAs built on mutual respect
- ✓ Highly-rated contemporary products
- ✓ Well-regarded service and claims culture

Quality aligned network

- ✓ An experienced, non-bank owned AFSL
  - Strong foundation to attract professional advisers
  - A broad investment APL and unrestricted life insurance choice is very attractive
  - Advisers displaced due to consolidation are actively looking for alternative licensing arrangements

Distribution opportunities

Consolidation is creating growth opportunities, with ClearView focused on gaining access to more IFAs by getting products on their APL. Our diversified model enables advisers to meet and manage their clients' holistic needs through a single manufacturer.

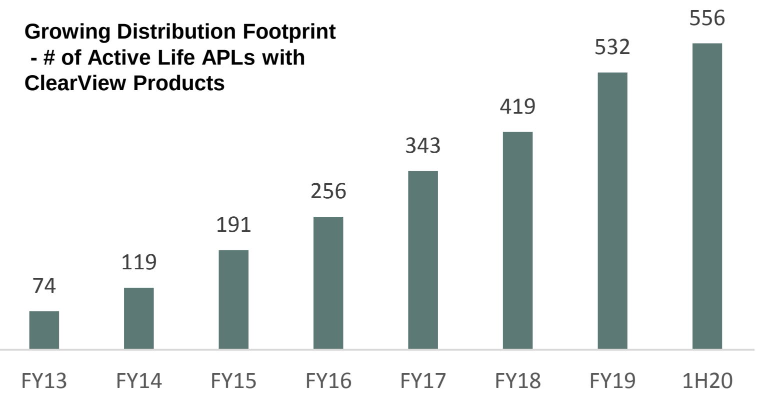
ClearView LifeSolutions

- Consolidation has narrowed the competition
- Competitors are distracted by regulatory issues and the integration of acquired businesses

- Historically, closed institutionally-aligned Approved Product Lists (APLs) have been a barrier to entry
- The effective exit of the banks from the personal advice market has forced many aligned advisers to join boutique AFSLs or establish their own AFSL
- ClearView is ideally-positioned to support IFAs and forge new relationships
- Anticipated market rate increases, and product changes will have IFAs considering clients needs

ClearView WealthFoundations and WealthSolutions

- Growing number of distribution agreements, leveraging established Life Insurance relationships
- Increased compliance obligations forcing advisers to streamline the execution of advice and ongoing client management
- Ability to manage and transact through a single manufacturer for life and wealth is advantageous



How ClearView is addressing issues

Life Insurance	• Key actions are underway to **improve claims performance**: – Use of analytics and early intervention (return to work) techniques to improve claims outcomes in addition to optimising resourcing (case management) – Commenced a comprehensive review of the LifeSolutions IP product series including repricing of the product, reviewing the product design and underlying claims assumptions (considering increasing claims costs) – Ceasing the sale of Agreed Value and Guaranteed Agreed Value contracts for IP by 12 March 2020 – Launching a new indemnity type IP option to a lower maximum monthly benefit at a lower premium rate in 2H FY20 – Working with the reinsurer on more sustainable products and pricing • Key actions are underway to **improve lapse performance** (retention strategies take time to fully implement and flow through to overall lapse performance): – Termination of certain distribution relationships (adviser groups) in FY19 – No 'honeymoon discounting' which has impacted short term new business volumes – Commenced work on retention, product pricing and positioning with further initiatives planned for 2H FY20 – Assessment of potential impacts from any premium rate increases and related retention initiatives to manage lapse exposure
Wealth Management	• A major project is underway to: – Identify a modern, well-priced replacement for our wrap technology that also provides the ability to deliver simple and transparent investment products across platforms – Deliver an investment administration solution that can effectively compete in the master trust market – Address and close out the tax credit issue in its superfund – Facilitate the distribution of new products to the market in the future
Financial Advice	• ClearView is focused on **developing a sustainable revenue base** in Financial Advice business (over time) – A new dealer group pricing model has been rolled out – Launched LaVista Licensee Solutions (9 practices; 21 advisers signed up) with a strong pipeline
Business reset	• ClearView has **focused on resetting the business** - effective cost management and executing its reinvigorated IT strategy and road map – Measures undertaken include a cost-out program and IT strategy review – Proof of concept underway for new life insurance PAS and selection of underwriting rules engine complete – Changes targeted at improving both client and adviser service and adapting to ongoing industry changes in a fast and effective manner

Notes
1. PAS is life insurance policy administration system.
2. IP is income protection

HY20 Result Overview

Section 2

HY20 Segment P&L – HY20 vs HY19

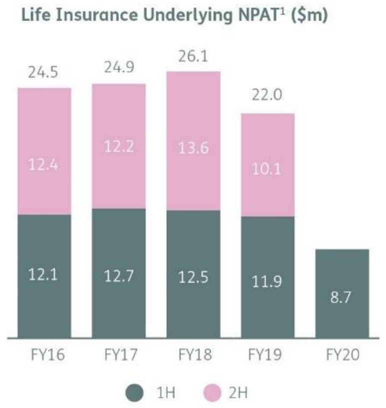
Result impacted by poor claims and lapse performance. ClearView's focus is on lifting business quality, reviewing our pricing profile and addressing the fundamental issues with IP

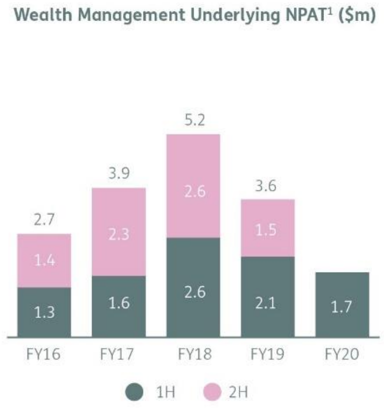
	HY20	HY19	% Change[1]
Life Insurance	8.7	11.9	(27%)
Wealth Management	1.7	2.1	(19%)
Financial Advice	0.6	0.1	Large
Listed Entity and Other	(0.7)	(0.7)	(1%)
Underlying NPAT[2]	**10.2**	**13.3**	**(23%)**
Items Reported Below Underlying NPAT	(0.4)	(1.8)	Large
Reported NPAT	**9.8**	**11.5**	**(15%)**

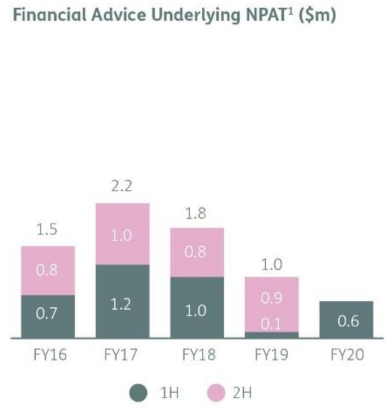
	HY20	HY19
Underlying NPAT	**10.2**	**13.3**
Policy liability discount rate effect[3]	(0.4)	2.2
Amortisation of acquired intangibles[4]	-	(0.6)
Direct remediation program and Royal Commission costs[5]	-	(1.9)
Other costs[5]	-	(1.5)
Reported NPAT	**9.8**	**11.5**

Notes
1. % movement, HY20 to HY19 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 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. Amortisation of intangibles is associated with the acquisition of wealth management and life insurance businesses from Bupa, and financial advice businesses, ComCorp and Matrix Planning Solutions. These are reported separately to remove the non-cash effect of the write-off of these acquired intangibles.
5. Costs that are considered unusual to ClearView's ordinary activities and therefore not reflected as part of Underlying NPAT. No such costs were incurred in HY20. In HY19 these related to costs associated with the Direct Remediation Program ($0.6 million after tax), Royal Commission costs ($1.3 million after tax) and retention bonus payments paid to key individuals in September 2018 ($1.4 million after tax).

HY20 Results overview







Life Insurance:

- Challenging market environment
- Poor lapse and claims performance (mainly attributed to income protection products)
- Unsustainable competitor pricing models impacting new business volumes
- Initiatives underway to achieve more sustainable IP claims and pricing outcomes - APRA IDII Sustainability Measures

Wealth Management:

- Significant improvement in contemporary net inflows
- Increased flows and positive investment performance were offset by pricing changes (in 2H FY19 to improve competitive positioning) and mix of business, leading to reduction in fees
- Progress continues on development of the Wealth Management business including addressing and closing out tax credit issue

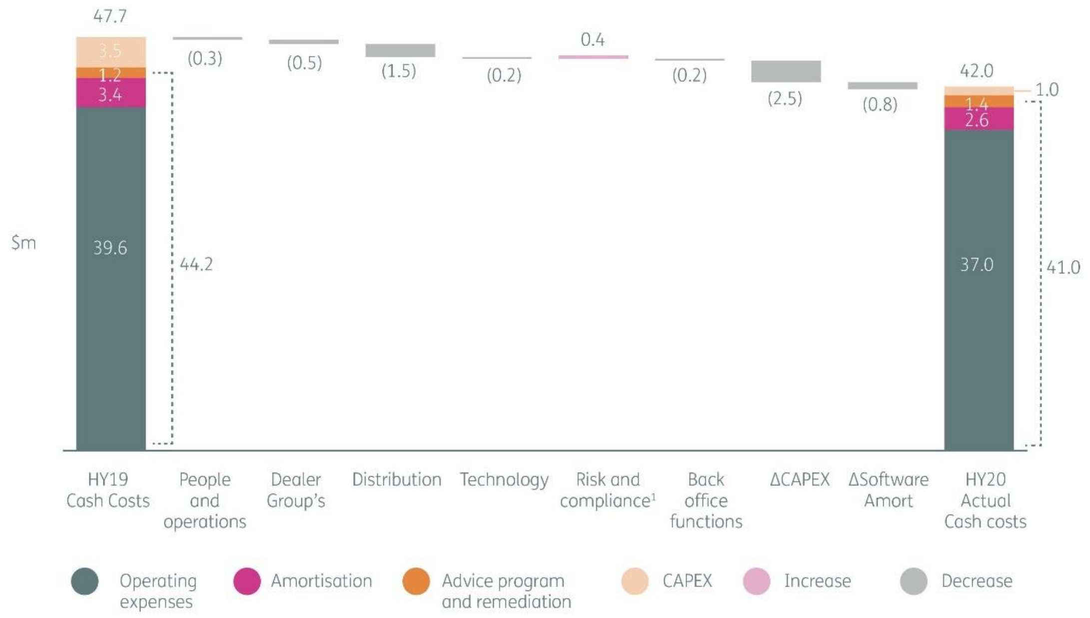
Financial Advice:

- Reviewed dealer group pricing model and launched outsourced licensee services business
- Net financial planning fees are broadly neutral with costs impacted by advice program and compensation costs (ongoing monitoring and compliance reviews under 'business as usual' functions)
- Continued roll out and enhancement of compliance monitoring and supervision technology across the dealer group

Notes

1. 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 costs considered unusual to the Group's ordinary activities.

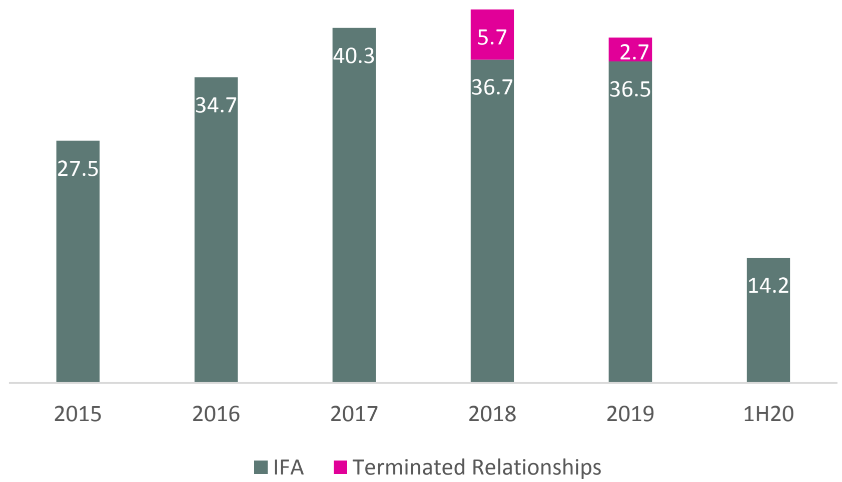
Operating expenses



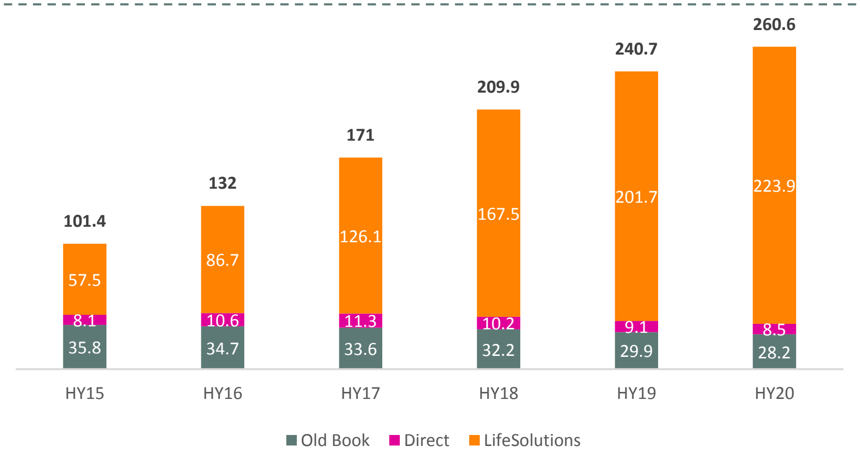
- 14% decrease in cash costs ($47.7m to $42.0m) or 7% decrease in operating expense cost base ($44.2m to $41.0m)
- Reduction in cash costs by $5.7m is reflective of implementation of the cost transformation program in 2H FY19:
  - Cost base was rebalanced through staff and non-staff savings across functional and shared services areas
  - Was partially offset by reinvestment into risk and compliance teams and also reflects the reduction in capitalised IT costs (and related software amortisation)
  - Includes program, compliance and restitution costs incurred from ongoing compliance monitoring and file reviews and includes a best estimate provision for compensation costs in relation to this
- IT investment:
  - Exploring implementation of new life insurance Policy Administration System (PAS) and Underwriting Rules Engine (URE)
  - Upgrade of core IT infrastructure: consolidating data centres and transitioning suppliers

Historical growth for life product lines new business and in-force premium

LifeSolutions New Business Sales[1]



LifeSolutions In-Force Premiums[2]



Commentary

- Key issues impacting on new business flows include:
  - despite weaker market conditions, maintained share in a declining market[3] (measured by life insurance new business). Life insurance in-force will trend to new business market share over time
  - terminated certain poor performing life insurance distribution relationships in FY19
  - honeymoon discounting from competitors resulting in unsustainable pricing models
- Material in-force portfolio growth given size of new business as a proportion of in-force book
  - growth of in-force is key profit driver
  - claims and lapse performance holding back effect of translating into corresponding profit growth
  - Further increases to IP claims assumptions intended to be recovered through premium rate increases (sustain profit margins)
  - Positioned business to capitalise on opportunities arising from opening up of APLs:
    - more advice businesses are able to access products and services for the first time

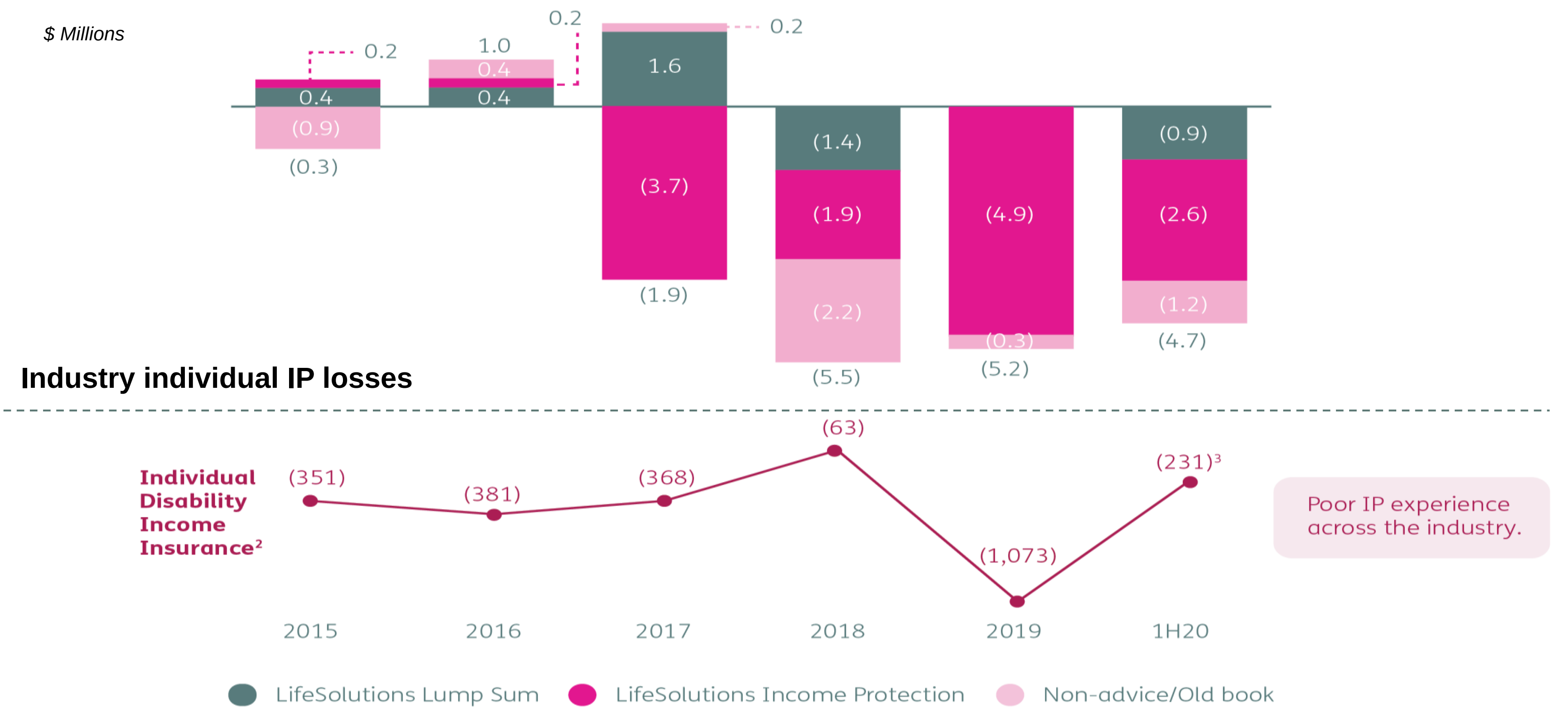
Notes

1. Life Insurance contemporary new business or sales represents the amount of new LifeSolutions annual written premium sold during the period, net of policies cancelled from inception and excludes age based/ CPI increases.
2. In-force premium is defined as annualised premium in-force at the balance date.
3. Excluding terminated relationships. Source NMG Risk Distribution Monitor as at 31 December 2019.

Claims experience

Over recent periods net claims adverse performance is mainly attributed to the income protection (IP) book, with the lump sum claims losses in HY20 largely reflecting statistical volatility for death claims.

Claims experience[1]

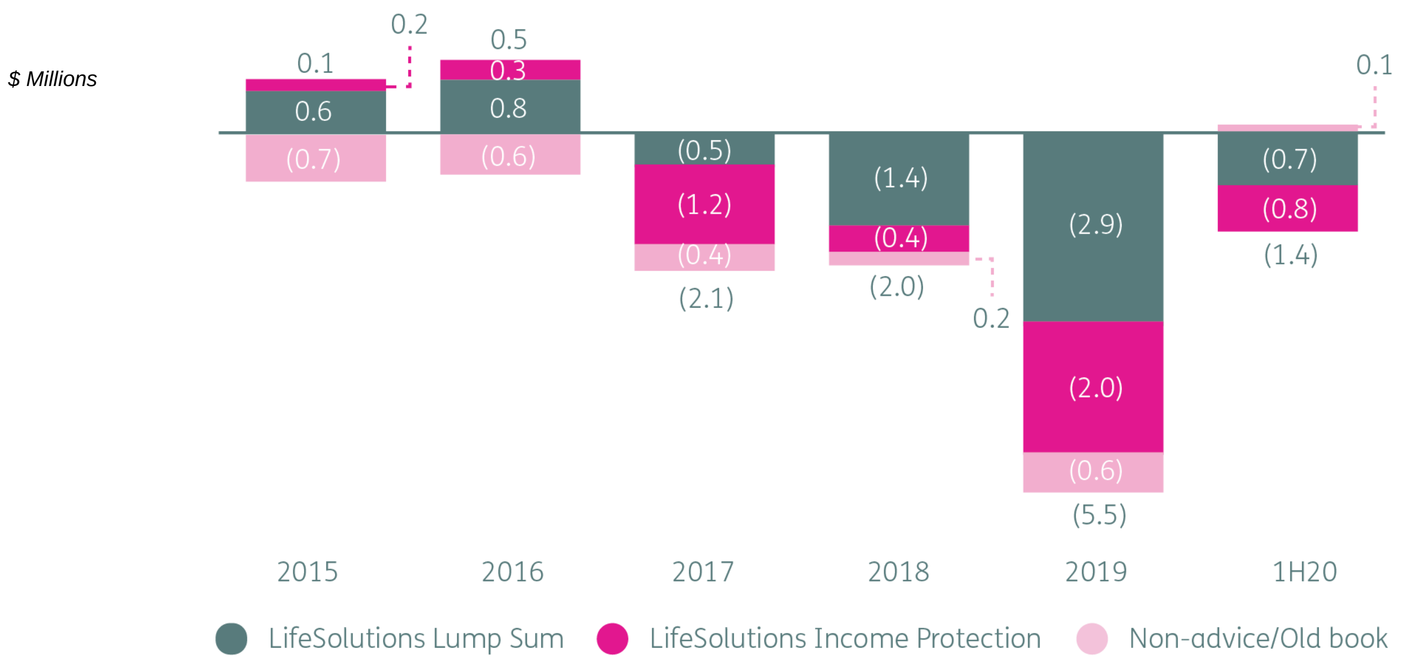


Notes
1. Experience measured against the assumptions applicable at each reporting date.
2. Individual Disability Income Losses for relevant year end period. Source: APRA Quarterly Life Insurance Performance statistics September 2019
3. Individual Disability Income Losses for quarter ended 30 September 2019. December 2019 quarterly result not available. Source: APRA Quarterly Life Insurance Performance statistics September 2019

Lapse experience

Recent elevated lapse experience has been concentrated in certain poor performing relationships as well some impact from competitor pricing actions. Lapse performance improved significantly in 2Q FY20.

Lapse Experience[1]



Notes
1. Experience measured against the assumptions applicable at each reporting date.

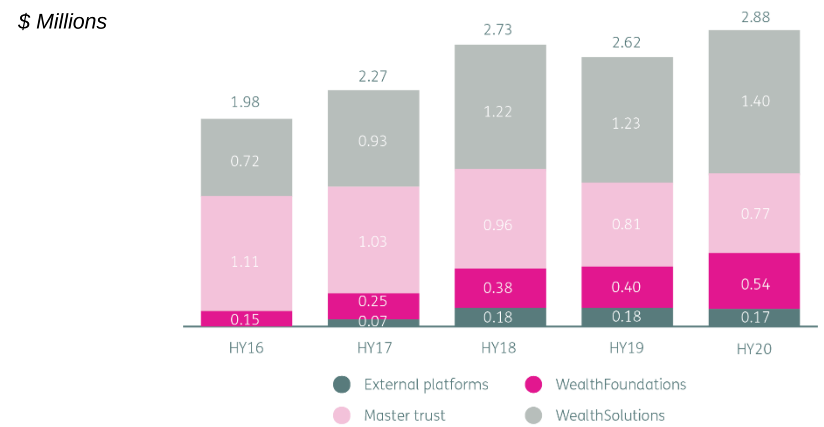
Historical growth for wealth product lines flows and in-force FUM

Significant improvement in net inflows in contemporary products and outflows from closed Master Trust product in HY20. This resulted in an increase in FUM[1] of 10% to $2.88bn and overall net inflows of $66m across products

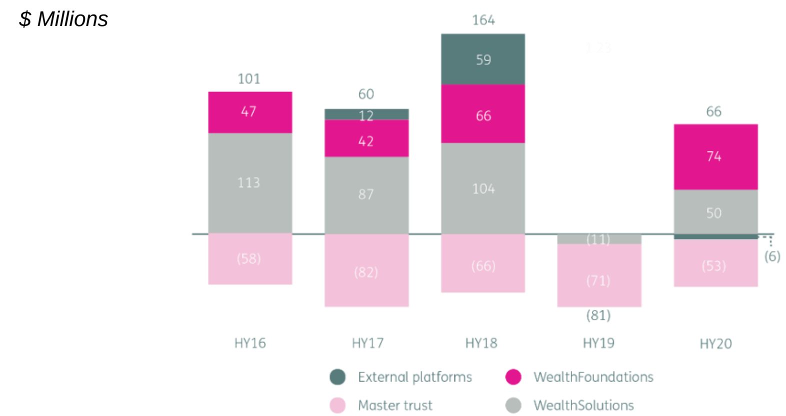
Commentary

- HY20 reflects improvement in FUM[1] due to several proactive initiatives:
  - price reduction on wrap platform
  - the introduction of lower cost true index options
  - Investment market performance (+7%) compared to a negative investment return in HY19 (-4%)
- Mix of products making up the portfolio has changed materially with contemporary products now representing 73% of total FUM.
  - Links to margin shifts across the portfolio
  - Performance of investment markets remains key to attracting flows and supporting higher margin Master Trust FUM given the product is not actively marketed to new customers
- Key initiatives are also underway which will have a further potential impact to volumes and profitability in FY20 and beyond:
  - retail market continues to be impacted by platform (product) pricing and technology competition, technology cost and disintermediation (removal of rebates)

Historical FUM[1]



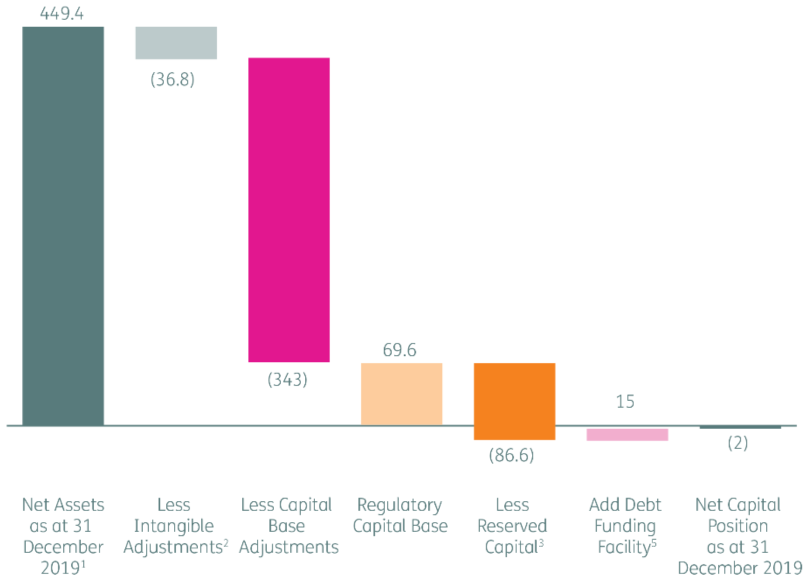
Drivers of FUM – Net Flows[2]



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
2. Wealth Product Net Flows is defined as inflows less redemptions into FUM[1] but excludes management fees outflow. ClearView Master Trust product net outflows given that the product is not marketed to new customers.
3. ClearView Retirement Plan

Capital position at 31 December 2019

Group Capital Position Bridge

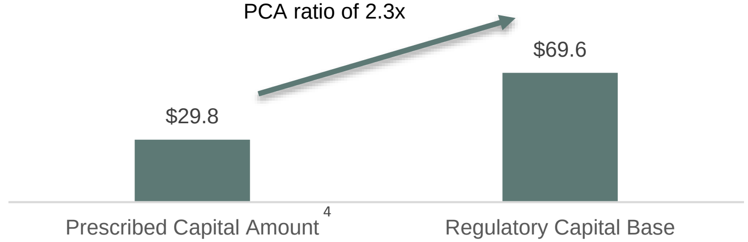


Notes

1. Net Asset Value as at 31 December 2019 excluding ESP Loans. Net assets includes the deferred acquisition costs (DAC) component of insurance policy liabilities.
2. Intangible adjustments relate to goodwill, acquired intangibles and capitalised software. It also includes a $16.0 million tax asset for tax credits within the ClearView Retirement Plan (CRP) relating to insurance premiums paid via rollover. There is currently not sufficient taxable income in the CRP currently to utilise these tax credits. While strategies to utilise the carried forward losses in the CRP are in progress there are risks and uncertainties involved. Furthermore, a project for the CRP (part of a broader wealth strategy review), has commenced. Regulatory capital also includes a further $1.1m related to the tax credits that is treated as an offset to risk capital.
3. Reserved capital includes the minimum regulatory capital, risk capital which is additional capital held to address the risk of breaching regulatory capital and a working capital reserve held to support the capital needs of the business beyond the risk reserving basis.
4. ClearView's credit exposure to Swiss Re exceeded its regulatory admissibility limits as at 30 June 2019. ClearView has implemented an incurred claims treaty with Swiss Re for lump sum business, where claims (including reserves) are paid when a claim is incurred which reduces the exposure by circa $24m. In addition, ClearView has implemented a letter of credit (LoC) with ANZ to cover the remaining exposure above LPS 117 limits. As a result, there is no Asset Concentration Risk charge under LPS 117 relating to the Swiss Re exposure as at 31 December 2019.
5. The Debt Facility is repayable on 23 August 2021, where after an assessment can be made on the future needs and/or use of the debt facility. The debt facility will remain open and subject to any further drawdowns as required, including for the parent entity to cash settle the CRP tax asset currently held within the regulated entity. $16m of the debt facility was drawn down in December 2019 to settle the majority of the balance that was held within the regulated entity.

Regulatory Capital Coverage

$ Millions



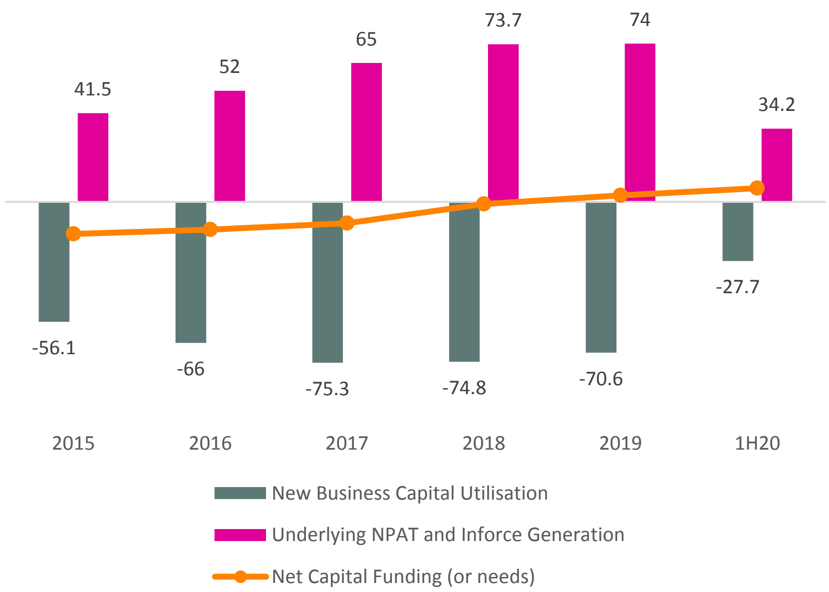
Commentary

- Capital base adjustments reflective of the removal of the deferred acquisition costs that are not permitted to be counted in the regulatory capital base under the APRA capital standards
- Net capital position above the internal benchmarks at 31 December 2019 was broadly neutral across the Group.
  - Includes $15m drawn down under debt facility[5]
  - Part of debt facility to be repaid as part of proceeds of issue of Notes[5]
- Board is currently investigating longer term capital solutions (such as the issue of Tier 2 subordinated notes)
- Proceeds from issue of such Notes is intended to be used to repay at least part of the debt and further for capital management purposes, including to fund or support regulated funding requirements of ClearView Life from time to time
- ClearView Group does not currently anticipate the need to undertake further capital management actions beyond these projects and actions
- Board will continue to adopt a limited and cautious approach to on-market buy-back program.
- Declaration of any FY20 final dividend to be considered at the time of the full year result and outcome of the capital initiatives outlined above
- .

Underlying capital generation

Reduced capital needs over time reflects the growth in in-force portfolio given increased scale of business from start up phase and changes in new business volumes between periods; ClearView has now reached underlying self funding capability in HY20

Underlying Capital Generation[1]



Notes

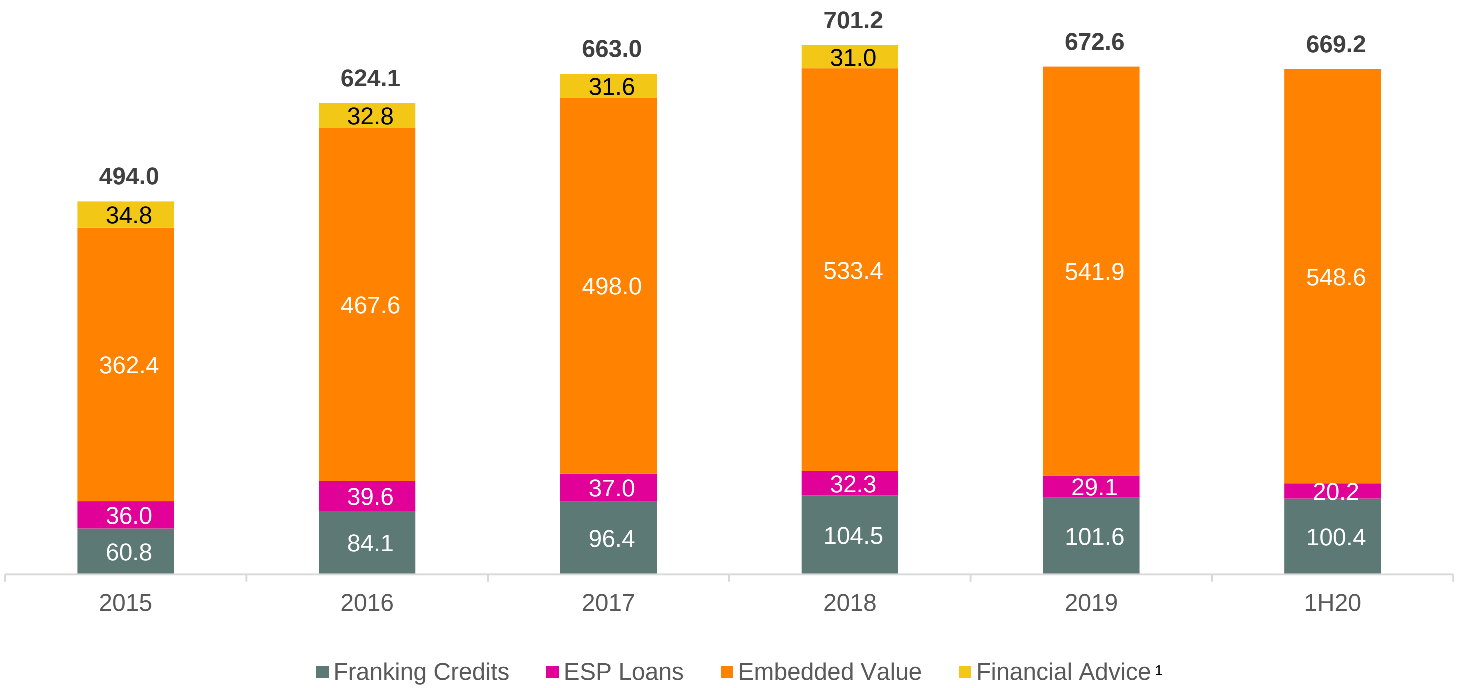
1. Excluding costs considered unusual to ordinary activities in each relevant financial year as disclosed as part of full year results, tax impacts due to the interest rate effect on DAC and growth in regulatory and ICAAP reserves.
2. Deferred acquisition costs are the upfront costs associated with policy acquisition that are collected via the premiums from policyholders over the life of the policy.
3. 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 costs considered unusual to the Group's ordinary activities.

Commentary

- ClearView generates positive cash flows from the in-force portfolio which is subsequently reinvested into new business generation:
  - Now achieving underlying self-funding capability (in FY20)
  - New Business capital utilisation is related to the upfront costs associated with policy acquisition that is collected via the premiums from policyholders over life of the policy – converts to cash over time subject to lapse risk. These are referred to as deferred acquisition costs (DAC)[2]
  - In-force capital generation reflects a combination of the Underlying NPAT[3] achieved and DAC[2] released (collected) from the in-force portfolios in a particular financial year
  - Reduced capital needs over time reflects the growth in in-force portfolio given increased scale of business from start up phase
  - New business capital needs driven by volumes and lower upfront commission caps post implementation of the life insurance reforms
  - Capital generation from in-force portfolios now provides the ability to start to use this (over time) to repay debt in the medium to longer term.

Embedded value

Embedded Value at 4% Discount Rate Margin



Embedded Value (EV)[1] (including ESP loans and franking credits) has decreased by 1% to $669m or increased 1.2% (excluding ESP loans and franking credits) from Jun 19 to Dec 19; 99 cents per share. EV is based only on inforce portfolios excluding the value of any future growth potential

The key assumptions for the Embedded Values (EVs) shown above include:

- The EVs have been calculated at a 4% discount rate margin. Discount rate margin represents the discount rate risk margin which refers to the margin above the assumed long term risk free rate. The long-term risk free rate adopted for the HY20 EV is 2% (June 2019: 2%).
- The EVs include a value for future franking credits, accrued franking credits and Employee Share Plan (ESP) loans.
- Claims rates assumptions were based on FSC-KPMG industry tables, adjusted to ClearView's experience (with assumptions reviewed on an annual basis based on underlying claims experience).
- Lapse rates assumptions were based on historical experience, adjusted for factors impacting future experience (e.g. Life Insurance Reforms). Rates are duration based for the first three years and age based afterwards. They are further split by commission type, by premium type (stepped, level), and between pre and post the Life Insurance Reforms (LIF).
- Life Insurance maintenance expense assumptions were benchmarked against industry experience, adjusted for ClearView's actual maintenance costs.
- From June 2019 onwards, no value of inforce is calculated for the financial advice business.

Notes

1. Financial Advice value of inforce at relevant date.

Regulatory Changes and Business Outlook

Section 3

Regulatory changes

APRA is implementing measures to address industry issues. ClearView is undertaking a body of work to ensure our IDII Products are appropriate for our customers and satisfy APRA's requirements

Regulatory Response

1 Disability Income Thematic Review

- APRA conducted a Disability Income Insurance ("IDII") thematic review in 2018-19 and asked companies to conduct a self-assessment against themes including strategy and governance, pricing and profitability, improving data quality and resourcing
- Retail life insurance industry lost $1.1bn on Income Protection (IP) in the year ended 30 June 2019, extending five-year losses to over $3bn
- On 2 December 2019 APRA announced several IDII sustainability measures to improve the sustainability of IDII including changes to policies offered and Pillar 2 capital charges on life insurance companies
- APRA's measures are aimed at driving the industry to examine the appropriateness and sustainability of their products and take the necessary action to satisfy the requirements of all stakeholders

ClearView Response

- ClearView is supportive of APRA's initiatives to strengthen consumer protections, improve the design of life insurance products and encourage more Australians to gain adequate cover
- Based on APRA's position in relation to the IDII Sustainability Measures, ClearView does not currently anticipate the need to undertake any additional capital management actions beyond the projects and actions previously outlined to the market (subject to regulatory approvals and market conditions)
- A review is underway to ensure our IDII Products are appropriate and satisfy the intent and requirements of APRA's initiative
- ClearView is in a strong position to implement any necessary changes relatively quickly
- Given APRA's recent policy measures and the continued underperformance of our IP portfolio, ClearView has already commenced a comprehensive review of the design and pricing of LifeSolutions IP with a focus on sustainability

Regulatory changes (cont'd)

Both APRA and ASIC have renewed their focus on risk culture across the industry

Regulatory Changes

2 **Risk Culture**

- 'Risk Culture' is continuing to have significant regulatory focus.
- In November 2019, APRA released the Information Paper Transforming Governance, Culture, Remuneration and Accountability.
- APRA defines risk culture as the norms of behaviour for individuals and groups that shape the ability to identify, understand, openly discuss, escalate and act on an entity's current and future challenges and risks
- This paper followed ASIC's report in October 2019 containing significant detail around the 'what' and 'how' of board oversight of non-financial risk.
- In particular, risk appetite statements, risk information and Board Risk Committees were subject to comprehensive analysis. ASIC sent a clear message that its expectations of these three elements of governance had increased substantially.

ClearView Response

- In response, the relevant ClearView Boards endorsed a proposal to conduct a Board workshop to discuss, review and update the current Risk Appetite Statement (RAS).
- ClearView has also recently completed a governance review incorporating themes included in APRA's Prudential Inquiry into the Commonwealth Bank of Australia. An externally facilitated Culture program with oversight by the Board and the Senior Management Team was also undertaken.
- ClearView continues to review its remuneration framework with the intention of aligning it with the BEAR regime (as it applies to ClearView). Treasury published a draft proposal known as the Financial Accountability Regime (FAR) in January 2020. ClearView is also closely monitoring the regulatory guidance and changes recently issued by APRA.
- In the interim, the remuneration framework continues to be developed.

Regulatory changes (cont'd)

While ClearView is implementing a number of recommendations as are all participants in the financial services industry, the ClearView Group has identified various recommendations most relevant to the ClearView business

Regulatory Changes

3 Financial Services Royal Commission Recommendations

- Design and Distribution Obligations and Product Intervention Powers (ASIC)
- Life insurance related reforms including the application of unfair contract terms to insurance, and treating Claims handling and settlement as financial service
- Superannuation related legislative reforms including Protecting Your Super, and Putting Members Interests First
- Executive Accountability regime being extended to superannuation and life insurance industries
- Advisers will now be subject to greater educational requirements, which has led to the exit of older advisers, and advisers not able or willing to invest the time to improve quality of service provided

ClearView Response

- The ClearView Regulatory Reform Process is designed to ensure it implements the changes in legislation and regulatory expectations in a timely manner
- ClearView has increased its investment in risk and compliance resourcing (quantity and expertise) to deliver an uplift in its overall risk and compliance capacity and delivery
- ClearView has a significant body of work underway to support advisers through their change process

Outlook

Life Insurance	• Though recent periods have been challenging (adverse claims and higher lapse experience), ClearView is implementing initiatives to now start addressing the issues its income protection portfolio with a focus on reviewing product pricing and design • This is in line with the APRA IDII sustainability measures that need to be undertaken by the industry to improve the sustainability of disability income insurance including • Any further increases to income protection claims assumptions are intended to be recovered through premium rate increases which should sustain profit margins. The potential impacts on lapses as a result of further price changes (and related retention initiatives) will be assessed as part of the overall pricing review • Also started to implement analytics and early intervention techniques to improve IP claims outcomes (return to work) in addition to optimising claims resourcing (case management) • While further analysis continues to be undertaken, the revised claims assumptions are expected to have an upfront adverse impact on the reported incurred claims reserves. The current estimate of the potential impact on the 2H FY20 Underlying NPAT in respect to the incurred claims reserves at 31 December 2019 is expected to be between $2m -$3m after tax • Retention strategies take time to fully implement and flow through to overall lapse performance, noting the improvement in lapse performance in second quarter of the financial year • The near-term focus is on continuing to further improve lapse performance and sustainable pricing of products (which is likely to have an impact on shorter term new business volumes) • The opening up of APLs is creating opportunities for ClearView to reach new audiences. ClearView's strong presence and reputation in the IFA market, as well as our diversified model, positions us strongly to support advisers and forge new relationships. • Intention is to create efficiencies for advisers by improving ease of doing business and automation of back office functions • Strategy to upgrade major elements of the core Life Insurance technology, with a proof of concept underway for the policy administration system
Wealth Management	• Pursue an integrated growth strategy in life insurance and wealth management products, reflecting end customer needs and adviser (distribution) trends • Complete a major project to seek a modern replacement solution for our wrap technology, have an internal platform capability that can compete in the master trust platform market, address and close out the tax credit issue in our superfund and deliver new products to the market in the future
Financial Advice	• Continue to reposition and reprice the dealer group core offering and roll out of LaVista to create a sustainable revenue model over time • Continued investment in front end compliance and monitoring technology and ongoing compliance resources
Capital Initiatives	• Now achieving underlying self-funding capability (in FY20) • Board is investigating longer term capital solutions (such as the issue of Tier 2 subordinated notes) that is intended to repay at least part of the debt and to fund or support regulated funding requirements of ClearView Life from time to time (subject to the regulatory approval process and market conditions) • ClearView Group does not currently anticipate the need to undertake further capital management actions beyond these projects and actions • Board will continue to adopt a limited and cautious approach to on-market buy-back program • Declaration of any FY20 final dividend to be considered at the time of the full year result and outcome of the capital initiatives outlined above
Summary	• These are challenging times for the financial services industry, as it grapples with significant structural, regulatory and economic changes including a record low interest rate environment • The landscape is also changing rapidly due to ongoing consolidation by larger international players, the exit of banks from personal advice and introduction of new legislation. There are more changes ahead as the industry commences the implementation of the Royal Commission Final Report recommendations and the regulatory reform agenda • For a customer-centric company like ClearView it also creates opportunities to better support its increasing number of customers and advisers • The fundamental purpose and need for quality life insurance and wealth management products, and professional advice, has not changed. Australia's ageing population, compulsory superannuation system and rising household debt levels underpins demand for ClearView's high quality products and services. • Notwithstanding the significant shorter-term headwinds (including subdued growth and increased variability), we retain a positive longer-term outlook

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