

Market Release

9 April 2020

ClearView: Update on COVID-19 and Future Board changes

9 April 2020: Diversified financial services company, ClearView Wealth Limited (ASX: CVW) (ClearView) has provided the following update to its current financial performance and its response to the coronavirus (COVID-19) pandemic.

COVID-19 update and Capital related matters

The world is facing unprecedented circumstances including significant economic, social and health challenges caused by the COVID-19 pandemic. In these difficult times, and whilst ClearView is not immune to the challenges faced, we are fortunate to have a sound business model, strong Balance Sheet and recurring revenue base that creates a level of security for our customer base, adviser network and stakeholders.

Whilst ClearView is unable to provide guidance to the market in relation to its financial performance to 30 June 2020 given the fluidity of the COVID-19 pandemic and the operating environment, key potential impacts to the business are outlined below:

- ClearView is a recurring revenue business. The majority of the revenue base is generated from premiums and fees charged in respect of in-force policyholders, funds under management and financial adviser services and licensing.
- ClearView Life Assurance Limited's (ClearView Life) life risk insurance business key attributes both current and in relation to COVID-19 include:
 - ClearView's products provide 24/7 worldwide cover without pandemic exclusions.
 - ClearView operates in the retail life insurance segment. This has a diversified customer base and 86% of the in-force portfolio of \$263m¹ has been written via financial advisers. ClearView Life does not participate in the group life insurance segment.
- ClearView Life has noted:
 - No observed material changes to new business applications, new business volumes and collections of premiums from policyholders to date (end March 2020) (albeit there has been an increase in requests for premium waivers).
 - Claims experience has continued to reflect recent adverse trends. ClearView has increased its income protection premiums for renewals from 22 April 2020 in response. It is too early to assess future experience and reaction to the rate changes in the current environment. We are actively supporting APRA's intervention to improve the sustainability of income protection products.
- ClearView's relatively strong Balance Sheet and liquidity position supports its ability to continue to meet obligations to policyholders and customers, and fund operating expenditure in the current environment:
 - ClearView has a net shareholder cash position of \$195m¹.
 - Shareholder capital has been conservatively invested in at call deposit accounts or term deposits at the big four banks, with focus on retaining a strong and conservative cash position.

¹ As at 31 March 2020 based on management accounts

- ClearView Life's longer term income protection claims liability reserves (circa \$30m net of reinsurance) are invested (via Vanguard and Macquarie funds) into underlying CPI inflation linked government bonds (AAA) and high quality corporate debt (AA+ average), that intend to duration match those liabilities.
- The majority of our shareholder capital is not exposed to mark to market movements.
- Premium income collected includes both profit margins and an allowance to recover past acquisition costs that were incurred to write the new business. The past policy acquisition costs yet to be recovered are reflected on Balance Sheet (\$348m¹), which is not counted for regulatory capital purposes. This asset converts to cash as these future premiums are collected (subject to lapse risk).
- ClearView has access to a \$60m Debt Funding Facility, with \$50m drawn down as at 31 March 2020. The remaining \$10m has more recently also been drawn down to hold on Balance Sheet to further strengthen ClearView's liquidity position. The Facility has recently been extended for a further three year period, with a new maturity date of 1 April 2024. ClearView currently remains well within the Facility's covenants.
- Given the above, the ClearView Group is relatively conservatively positioned to ride out the coronavirus storm, and the Board does not currently anticipate the need to raise any equity capital in the current market environment.
- For ClearView's medium-to-long term capital solutions however, the Board has previously outlined that it is considering alternative capital management initiatives, in particular the prospect of an issue of Tier 2 Subordinated Notes (subject to regulatory approvals and when market conditions improve).
- There is currently considerable uncertainty as to how long the COVID-19 crisis will last and as such the timing of any potential issuance of Tier 2 Subordinated Notes is on hold.
- A potential Tier 2 debt issuance will be considered in due course (as market conditions improve in the medium term), with the intention of repaying at least part of the Debt Funding Facility and to fund or further support the needs of the regulated entities from time to time.
- ClearView Life's LifeSolutions product range is heavily reinsured with Swiss Re. Discussions with the reinsurer are ongoing concerning the management of any counter party concentration risk. A \$45m letter of credit is currently held to protect part of the income protection claims recoveries whilst an incurred claims treaty is in place to protect reinsurance recoveries for lump sum claims.

All of the above initiatives should ensure that ClearView remains on a sound footing financially. The situation is being very closely monitored.

COVID-19 Specific Responses

- ClearView has assessed certain stress test scenarios of its business over the next two years. The projections include a 'Base' (Pre-COVID-19) case, a 'Plausible COVID-19' case (reasonably foreseeable, conservative scenario), and a 'Severe COVID-19' case (severe scenario).
- These stress scenarios consider business impacts (both capital and profitability) from COVID-19, including direct COVID-19 claim impacts (based on assumed infection and mortality rates), indirect claims impacts (economic downturn induced), asset value impacts, adverse impact on delivery of key projects, reduced sales and elevated lapses and premium suspension impacts.
- ClearView's regulatory capital position appears resilient to each of these scenarios. These will continue to be closely monitored and potential actions in response have been developed and are being considered (for example, expense reductions) but are not allowed for in the projections.
- Profitability can be very sensitive within each scenario, in particular to claims and lapse assumptions. The COVID-19 pandemic will likely see an increase in claims and lapses in the months ahead that will have a negative impact on the 'Base' (Pre-COVID-19) case projections. It is too early to quantify any financial impact as it will be some months for the impact to be known.
- ClearView has successfully implemented its business continuity plan and has asked our employees to work from home in order to ensure their health and safety over the coming weeks and months. This has occurred relatively seamlessly with no material disruption to our operations or service.

1 As at 31 March 2020 based on management accounts

- The ClearView Crisis Management Team and the Board are meeting regularly to monitor the situation and are well prepared to take further corrective or remedial actions as required should the situation further deteriorate beyond our worst case stress test scenarios.

Share buy-back position and discretionary capital distributions

ClearView does not intend to undergo any on-market share buy-back activity given the current environment and market conditions. The Australian Prudential Regulation Authority (APRA) has also asked that life insurers consider limiting discretionary capital distributions in the coming months given these conditions.

Upcoming Board changes

Current Independent Non-executive director (NED) and Chair of the Board, Mr Bruce Edwards, who has served the ClearView Group for over seven years has signaled his intention to retire from the Board on 30 June 2020. It is proposed that current Independent NED Mr Geoff Black will be appointed as Chair. The Board, in consultation with the Nomination and Remuneration Committee, is currently undertaking a market search for an appropriate new Independent NED and details will be notified to the market in due course.

ClearView would like to thank its stakeholders, advisers, customers and employees for their ongoing support and our thoughts are with everyone who has been affected so dramatically by this unprecedented crisis.

ENDS

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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 www.clearview.com.au

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