MARKET RELEASE

SYDNEY, 14 November 2019

CLEARVIEW WEALTH LIMITED 2019 ANNUAL GENERAL MEETING ADDRESSES TO SHAREHOLDERS

ClearView Wealth Limited (ASX: CVW, **ClearView**) will address shareholders today at its Annual General Meeting (**Meeting**) to be held at 9.00am at its offices located at Level 15, 20 Bond Street, Sydney, New South Wales.

In accordance with Listing Rule 3.13.3, attached is a copy of the Chairman's address and Managing Director's address that will be delivered at the Meeting.

ENDS

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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.

Additional information is available at www.clearview.com.au

ClearView Wealth Limited
Annual General Meeting 2019

Addresses to shareholders | 14 November 2019

Chairman's address

Mr Bruce Edwards, Chairman

On behalf of the Board, I would like to welcome you to our Annual General Meeting.

In 2019, ClearView continued to make progress implementing its long-term strategy, despite an extremely challenging operating environment and a disappointing group performance.

In the aftermath of the Banking and Financial Services Royal Commission, the industry faces unprecedented regulatory and structural change, and the important task of rebuilding trust in the sector.

ClearView has not been immune to the challenges affecting the broader industry.

In the second half of FY19, ClearView focused on resetting its business which included a comprehensive technology review. A strategic review of our approach to our wealth management business, including the wrap platform and superannuation fund and trustee, is also underway.

The business is now focused on effective cost management, coupled with a reinvigorated IT strategy and road map. The material investment in technology, alongside ongoing expansion of our distribution footprint, will support medium- to long-term growth, notwithstanding short-term headwinds. At times of industry disruption and change, there are opportunities to be seized by companies which are entrepreneurial, with a strong focus on creating ways to build out and enhance the business. We are exploring these opportunities and are optimistic about the long-term future of our business.

In a moment, I will invite ClearView Managing Director Simon Swanson to provide an overview of our business including some of the current challenges and opportunities we are facing and our response to them.

But before I do, I'd like to also touch on our capital position, some key risks associated with this and some of the capital initiatives that are underway.

At the full year result, we outlined that the Board believes that the current share price, in a relatively illiquid market, does not reflect the intrinsic value of the business. Accordingly, it was decided to suspend the dividend payment for FY19 and instead to recommence the current on-market share buy-back program as this was the best use of capital and in the interests of shareholders. We also highlighted that the buy-back was initially intended to be funded by the Debt Funding Facility in the short-term, before being replaced by a longer-term capital solution.

Work on the longer-term capital solution continues to progress noting that NAB has been engaged to investigate the prospect of an issue of Tier 2 Subordinated Notes (Notes), whilst application for regulatory approval has been made. The proceeds from the issue of such Notes is intended to be used for capital management purposes, including to fund or support the funding of Tier 2 Capital of a Regulated Entity within the ClearView Group. Timeframes for the implementation of this longer-term capital solution are ultimately driven by the regulatory approval process and market conditions.

As previously disclosed, the ongoing operation of the buy-back is subject to our capital management requirements from time to time.

As outlined in our Annual Report, ClearView currently has two material capital reserving risks, that is, a reinsurance concentration risk issue with Swiss Re which limits the amount of reinsurance recoveries we can count under the APRA capital standards and carried forward accumulated tax losses for tax credits within the ClearView Retirement Plan, our superannuation fund. Good progress has been made on both of these issues but given the current capital risks, and projects in train to implement viable solutions, the Board has adopted a limited and cautious approach to the on-market buy-back program since year end and will continue to do so until such time as these risks are fully addressed.

Thank you again for attending today's AGM. I will now hand over to Simon.

Managing Director's address

Mr Simon Swanson, Managing Director

Thank you Bruce.

As Bruce mentioned, these are challenging times. However, let's start off with why we consider the long-term fundamentals to be strong.

Market fundamentals

First, life insurance is inherently attractive given there is an underlying fundamental need for the product. Household debt to income levels effectively underwrites this need. The increase in debt levels in Australia has, over time, been driven by the structural decline in the level of nominal interest rates allowing borrowers to service a larger loan, constraints on bank lending being eased and an increase in household debt.

Secondly, wealth management is inherently attractive given there is also an underlying fundamental need for the product. Pre-retirement, compulsory super drives inherent demand as well as other society demands such as school fee funding; home deposits and other savings needs. Post-retirement needs include pension draw down management, investment management and allied product demand such as longevity management and sequencing risk management.

Thirdly, in financial advice notwithstanding the likely material reduction in adviser numbers, there is an ongoing need and demand for goals-based advice due to Australia's compulsory superannuation system; complex tax and social security rules; and ageing population.

According to the recent ASIC report: *Financial advice - What consumers really think*, 27% of Australians have obtained financial advice in the past; 41% intend to get financial advice in the future; and 25% intend to get advice in the next 12 months.

The report concluded that Australians are aspirational and motivated to take charge of their financial affairs. They are keen to learn and acquire knowledge.

The overall needs of our products and services are linked to income and society wealth, population growth and an ageing population. Other drivers also include increasing compulsory superannuation contributions and tax benefits for structured products versus personal savings.

What an opportunity.

Over the next 20 years, an estimated $3.5 trillion in wealth will be transferred from one generation to the next[1]. Baby Boomers will need help planning and executing the smooth transfer of assets while beneficiaries will need advice on how to properly structure and prudently invest and protect their wealth.

However, in the short- to-medium-term, as Bruce noted, the industry is grappling with unprecedented regulatory and structural change; economic uncertainty and poor consumer sentiment, following, amongst other things, the Banking and Financial Services Royal Commission.

ClearView's overall core strategy is to be an integrated life insurance and wealth management business:

- **Wealth Management**: Accumulation of wealth to secure retirement and other saving needs;
- **Life Insurance**: Managing life's risks that can undermine one's financial position, security and wealth due to a loss of income, unexpected costs or out living financial/family resources; and
- **Financial Advice**: Financial advice is critical to most Australians to manage their financial affairs soundly.

ClearView understands financial advisers and advice. Life insurance and wealth management are complementary businesses; they provide synergies and diversification.

Business focus and performance

In response to the challenging market conditions, ClearView has focused on resetting the business including completing a cost-out program; conducting an IT strategy review; communicating to advisers a new dealer group pricing model; launching LaVista Licensee Solutions; and reviewing our pricing profile versus competitors. We are working with our reinsurer on more sustainable pricing models.

ClearView has also increased its risk and compliance resources and is strengthening the Group's risk management framework.

Recently the role of Chief Actuary and Risk Officer was separated and we announced the appointment of Orla Cowan to the newly-created position of Chief Risk Officer. I would like to welcome both Orla and Judilyn Beaumont, ClearView's new General Counsel and Company Secretary, to their first AGM.

Overall we believe that the longer term fundamentals across our business units are strong, with an underlying fundamental need for the products and services.

IT strategy review

In FY19, ClearView undertook a comprehensive IT strategy review to assess the Group's technology; scope the future technology needs of our customers; and establish a clear development roadmap for a robust, scalable platform that can grow as the business grows.

As part of that review ClearView is exploring a new life insurance Policy Administration System (**PAS**) and Underwriting Rules Engine (**URE**), with a formal tender process underway. The business has also gone to market for a new wealth wrap administration platform solution, with a goal to simplify back-office systems and enhance the customer experience.

This month, work began on upgrading ClearView's core IT infrastructure including desktop technology. The company will consolidate its data centres from six to two and change suppliers which will deliver a faster, more effective IT infrastructure (as a service).

The focus of these changes are to ensure that ClearView can improve both client and adviser service and adapt to recent and future industry changes in a fast and effective manner.

Repositioning Financial Advice

In our Full Year results, I announced a number of priorities for the business including repositioning and repricing our Financial Advice segment to create a sustainable revenue model that better reflects the true cost of providing that support.

This month, a new licensing and pricing model has been implemented across our dealer groups.

Striking the right balance between cost and benefits is never easy, and this task has been made even more difficult by external factors which are driving up the cost of providing personal advice including increased compliance and regulation; higher consumer expectations; and the removal of grandfathered commissions and rebates.

In the past year, the industry has rightfully shifted its attention to strengthening consumer protections and delivering improved client outcomes, which practically means advisers must spend more time servicing clients and demonstrating the value they add. This makes it absolutely imperative for advisers to partner with a well-resourced, experienced licensee with the systems and processes to underpin the delivery of quality advice.

We are proud that our dealer groups have been consistently recognised for their commitment to advisers. In 2019, Matrix received the prestigious CoreData Licensee of the Year Award for the third consecutive year, cementing its position as Australia's leading licensee.

At a time when many of our traditional competitors are shying away from their commitment to advisers, ClearView is ramping up its support.

In late 2018, we launched our dealer-to-dealer offer LaVista Licensee Solutions to cater to the needs of the growing number of self-licensed advisers.

The launch of LaVista and the repositioning of our dealer groups demonstrates that ClearView is in personal advice for the long-term. It will take some time for us to achieve our goal of building a "stand alone" profitable Financial Advice business but we are committed to this end because demand for professional advice is only going to get stronger.

Life Insurance

Which brings me back to Life Insurance; ClearView's key profit driver.

The advised retail life insurance market has numerous challenges that are impacting sales, lapse rates and performance in the short- to-medium-term. Key contributors to reduced industry new business volumes include:

- Bank distribution withdrawal (bank referral network reduction);
- Life specialists ageing and retiring (as part of overall adviser exits) ;
- FASEA distraction for advisers (studying not selling); and
- LIF commission reductions: less worthwhile for advisers (costs/effort).

This has resulted in price discounting in the advised life insurance market that is not sustainable. Some insurers appear to be engaging in price discounting across certain life insurance products to maintain market share rather than remaining focused on delivering long-term sustainable products for the benefit of their customers.

The other major problem with short-term discounting is that after the honeymoon period is over, customers are inevitably hit with steep premium increases they can't afford. Anecdotally, advisers are spending a disproportionate amount of time trying to convince clients to retain valuable cover.

Economically this makes no sense.

ClearView has not participated in this to any material extent and it is obviously impacting on our shorter term new business volumes, but we believe our decision is sound for the longer term sustainability of our business and our customers. Our in-force premiums continue to grow which ultimately drives the underlying profit performance.

We are encouraged by signs that life insurance Approved Product Lists (**APLs**) are finally beginning to open up, which is creating opportunities for ClearView to do business with more IFAs.

This is largely due to the breakdown of vertical integration.

Restricted life insurance APLs have historically been used by institutionally-owned licensees to channel clients into in-house product and prevent aligned advisers from recommending competitor products. However, the exit of the banks from life insurance and personal advice has forced many former institutionally-aligned advisers to join boutique AFSLs or establish their own AFSL.

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.

For the year to 30 June 2019, the IFA market represented 84% of ClearView LifeSolutions sales, compared to 80% in 2018.

The widening of the distribution landscape and potential opening of APLs, coupled with the narrowing in supply of manufacturers due to market consolidation, positions ClearView well in the advised life insurance market which is expected to benefit from the changes in the group and direct life insurance markets.

This expanding distribution footprint, and increasing in-force book, continues to underpin our growth profile.

That said, adverse life insurance claims and lapse performance in recent years is holding the business back from translating solid growth in in-force premium to corresponding material profit growth.

Key contributors to the poor lapse and income protection (**IP**) claims experience across the industry include, amongst others, poor wages growth and rising consumer costs; step premium rating structures; IP product and rating design issues which are amplifying claims trends including social trends such as mental health; working trends that are driving changes in underlying claims causes; risk management gaps; and reducing interest rates.

Lapse and claims assumptions were increased and reshaped to reflect recently observed industry experience at 30 June 2019. However, given the price discounting in the market (in particular on lump sum products) and industry issues with IP products as noted earlier, in the first quarter of FY20, we continue to experience adverse lapses and IP claims. These were consistent themes in our FY19 result.

Our focus remains on lifting business quality, continuing to review our pricing profile versus competitors and fixing the fundamental issues associated with the IP products that are offered in the market.

The industry still has plenty of work to do to rebuild trust in the sector and solve the IP dilemma.

Wealth Management

The current wealth management retail market is being impacted by similar factors to the life insurance market. Furthermore, there are impacts from platform (product) pricing and technology competition, technology cost and disintermediation (removal of rebates).

Our response includes a major project that is underway to:

- Seek a modern replacement solution for our wrap technology that is well priced in the market;
- Address the tax credit issue in our superfund; and
- Deliver structured products to the market in the future.

We are also focused on the further development of products and making better use of wealth management as a lead for life insurance.

Low interest rate environment

Prolonged, ultra-low interest rates are also presenting challenges for life insurance and wealth management companies for a number of reasons.

Not only are retail investors earning less on their deposits but insurance companies, with their capital reserves primarily invested in conservative assets like cash and fixed interest, are seeing depressed returns.

Negligible investment returns on capital also has implications for IP portfolios because IP claims are paid out over a period of time (as opposed to a lump sum payment in the case of life, trauma and TPD insurance). The cost of paying IP claims is therefore higher in a low interest rate environment.

Similarly, low interest rates curb the ability of insurers to maintain relatively stable level premium rates.

Against this backdrop, the industry is under pressure from the Australian Prudential and Regulation Authority (**APRA**) to address problems with the design of IP insurance to improve the product's sustainability, amid heavy losses. For the year to 30 June 2019, the life insurance industry recorded losses of $417.9 million, driven by over $1.1 billion in losses on retail IP alone[2]. The retail lump sum risk market remained profitable with profits of $739.2 million. Clearly, IP is the key issue that needs to be addressed.

Conclusion

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.

Today's landscape is changing rapidly due to ongoing consolidation by larger international players, the exit of the banks from personal advice and the introduction of new legislation. And there are more changes ahead as the industry plans for the implementation of the Royal Commission Final Report recommendations.

All of this change and disruption creates opportunities for the industry to learn and grow.

For a nimble, customer-centric company like ClearView it also creates opportunities to better support our 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.

While there are many challenges ahead, ClearView is focused on delivering value for our customers and helping them navigate life's ups and downs to achieve their goals.

We have a clear strategy for adapting to the changing financial services landscape and we retain a positive longer-term outlook.

1. https://www.bdo.com.au/en-au/insights/private-wealth/articles/wealth-transfer-planning-taken-a-back-seat
2. Australian Prudential and Regulation Authority (**APRA**) statistics for year ended 30 June 2019