Q2 2017 Earnings Call

Company Participants

- John D. Neal, Group Chief Executive Officer & Executive Director
- Patrick Charles Regan, Group Chief Financial Officer & Executive Director
- Tony Jackson, Group Head-Investor Relations

Other Participants

- Alexander Chau, Portfolio Manager
- Andrew Buncombe, Analyst
- Brett Le Mesurier, Analyst
- Daniel P. Toohey, Analyst
- David Humphreys, Analyst
- James Coghill, Analyst
- Kieren Chidgey, Analyst
- Nigel Pittaway, Analyst
- Ross Curran, Analyst
- Siddharth Parameswaran, Analyst

MANAGEMENT DISCUSSION SECTION

Tony Jackson {BIO 1729093 <GO>}

We must get underway. Good morning, ladies and gentlemen. My name's Tony Jackson. I'm Head of Investor Relations at QBE. Welcome to QBE's 2017 Interim Results Briefing. This morning's briefing is being webcast live and a copy will be made available on our website later today. Today's presentation will run for approximately one hour and Pat and John will give a formal presentation that will take up roughly half of that time and that will leave plenty of time at the end for questions and answers.

Before I hand over to John, if I could just ask everyone please to first mute their phones. And with that, I'll hand over to the Group Chief Executive Officer, Mr. John Neal.

John D. Neal {BIO 15681439 <GO>}

Thanks, Tony and morning everyone. And welcome to QBE Insurance Group's 2017, half-year results presentation. The results Pat Regan and I are presenting today are in line with the update that we provided to the market on the 21st of June as this is snapshot of our first half results shows our key performance analysis includes a healthy increase in our insurance profit, growth in our return on equity and, more generally, in terms of the quality of the result we're about to discuss.

On a constant currency basis gross written premium is up 3% for the half, sponsored by healthy rate increases in our home market in Australia & New Zealand, coupled with strong levels of business retention. And notably, a return to top line growth in our North American division.

Net earned premium is up slightly more at 6% due to a combination of premium earnings and the savings achieved in our reinsurance spend for the 2017 year. We are recording a sixth consecutive half of prior year claims reserve improvement, albeit you will note that the half benefit to the claims ratio this time is 1.8% compared to 3.4% 12 months ago, and this, in turn, explains the increase that you can see in our claims ratio overall of 1.8%.

We are recording a 0.9% reduction in our expense ratio, which is supported by an absolute dollar reduction in the expenses for the half hot on the heels of $158 million of expense reduction achieved in 2016.

Our combined operating ratio of 95.3% is bang in the middle of the range we communicated to the market on the 21st of June, being 94.5% to 96.0% and just outside the top of the range, that was set out in February.

In noting my earlier comments on prior year contributing less to this half's result, it is important to draw your attention to the current accident year combined operating ratio, which stands at 97.1% being a 0.8% reduction on this time last year, and encouragingly reflecting the performance improvements we're seeing in the aggregate in our three largest divisions.

A very solid investment return of 1.83% for the half has seen our insurance profit margin climb to 9.3%, and our return on equity to 8.8%. Overall, the combined operating ratio of 95.3% supported by strong investment performance in the first half adds to a healthy improvement in the insurance profit margin and the return on equity numbers of 9.3% and 8.8%, respectively.

We're now in a rhythm of reporting consistent positive prior year claims development. I will discuss the reasons why our Emerging Markets division deteriorated and so significantly to a combined operating ratio of 110.8% in just a moment. The pace and manner of improvement in our Australian division is encouraging, underpinned by healthy rate increases of a little over 5% through the first half and where we've done well to maintain renewal retention at or around 83%. The performance improvement is further reflected in the reduction in attritional claims ratio by 4.2%, excluding the lenders mortgage insurance portfolio. At the same time, we're encouraged by the continued trajectory of improvement in our North American division, recording a 98.2% combined operating ratio for the half, which is a 2.3% improvement on this time last year.

The hard work committed to reduce our administration expenses is now beginning to show in the expense ratio, which has improved by an 0.9% for the half to 15.2% overall. The COR strength of our balance sheet is unchanged from year end with our key capital metrics remaining strong as evidenced by the rating agencies notably Standard & Poor's maintaining our A plus financial strength rating and with a positive outlook. Our PCA multiple stands at 1.7 times and the board is proposing a 5% increase in dividend at the half year to AUD 0.22, which is 30% franked and we intend to begin our buyback of shares this month.

Let's have a look at each of the operating divisions in turn. Underwriting conditions in the Northern Hemisphere remain challenging and we've seen rates up marginally and by 1% in North America for the half. As we conclude the rationalization of our Property & Casualty portfolio, the underlying growth in our Specialty Lines have shone through in the half with gross written premium up 4%, Specialty Lines premium, in fact, up 27% for the half.

Our current accident year underwriting is solid and the improved combined operating ratio of 98.2% reflects a small positive prior year release largely originating from our Crop business. There is much more work to do in the second half to further improve the quality of our Property & Casualty business and reduce our expense ratio, but we are encouraged by the start made to 2017.

We flagged as we came into 2017 just how challenging the market conditions are for our European business, and on average, premium rates are off by 1%, albeit we are seeing modest growth on a constant currency base – constant currency basis, largely originating from our Continental European businesses and from our reinsurance arm. Europe continues to translate a sensibly cautious current accident year loss pick into prior year improvement, and we are reporting $131 million of prior year reserve releases for the half.

The style of our European business, including a conscious move away from attritional loss exposure, does mean that the attritional claims ratio here is subject to more volatility than would be normal and, accordingly, a combination of weaker sterling, some additional reinsurance purchase, and some increased claims activity shows through in the increased attritional claims ratio for the half. The numbers here I should stress are excluding the Ogden discount rate impact, where we think it unlikely, there will be any further debate on this topic before the first half of 2018.

Pat will provide more color on our performance in Australia & New Zealand in just a moment. And suffice to say, we are encouraged by the progress we're making as evidenced by a strong combined operating ratio of 92.2%.

Similarly, I will discuss our Emerging Markets performance in more detail in the next slide, but clearly at a 110.8% combined operating ratio, this represents a significant miss to plan and an underwriting loss of approximately $70 million.

Can I remind you that our captive reinsurer, Equator Re domiciled in Bermuda, serves two purposes for the group. The first is efficient management and deployment of capital being its primary function, and second is its representative role as the excess of loss reinsurer for the group's operating divisions wherein our main reinsurance treaties are bought by the captive for and on behalf of the group, and where the divisions largely buy their reinsurances from the captive. The combined operating ratio here for Equator, a little under 80%, continues to represent a satisfactory outcome outturn.

So, the result in our Emerging Markets division is extremely disappointing. And there are three primary reasons as to why we are reporting a combined operating ratio of 110.8% and these reasons add up in themselves to a little over 10% on the claims ratio. We had agreed in principal to sell our business in Chile at the end of last year but regulatory approvals saw us retain this business for the majority of the first half and where flood losses left us with an adverse performance to plan, which is recorded on the slide here at 1.2%. A combination of attritional catastrophe claims and medium to large risk losses added 5% to the plan. Somewhat unusually, we saw a heightened frequency of catastrophe claims activity in Latin America through the first half and notably through Crop losses in Ecuador. The aggregate value of these catastrophe claims was around $20 million. An increased frequency of medium to large risk losses in Asia have cost some $30 million, with 70% arising from the property portfolio and 30% in marine lines and where in part our decision to underwrite some higher hazard classes for property has counted against us.

In Hong Kong, we have needed to review the premium bookings and reserving methodology for some of our long-term workers' compensation contract risks and this has resulted in a reserving charge for the half year compared to actually a reserve released 12 months ago. In addition, our SOAT will move to (11:44) Personal Accident business in Colombia has continued to trouble us and produce some prior year deficiency.

Accordingly and, whilst frustrating, the loss position is explainable, notwithstanding – and notwithstanding the absence of the rate increases in the region able to be remediated.

We have elected to reconstitute Asia Pacific and Latin America as two operating divisions reflecting respective geographic footprints of each division. In so doing, we have appointed Jason Brown, our current Group Chief Risk Operating Officer as CEO for Asia Pacific and Carola Fratini as CEO for Latin America. Carola is currently our CEO in Argentina.

We have worked hard to create the appropriate level of board and underwriting governance in the Emerging Markets regions and these will both be maintained and strengthened through this reorganization notably with the appointment of dedicated Chief Underwriting Officers and the Chief Risk Officers for the two new divisions.

We are implementing new pricing models for property, marine and workers compensation insurances in Asia, which comprise approximately 56% of all of the business that we underwrite in Asia. We believe that our reserving challenges with workers' compensation in Hong Kong are being addressed and will be further remediated through the balance of 2017. We see value in our geographic footprint in Asia with the exception of Thailand, which we will dispose of.

Our challenges in Latin America are slightly different. We have a remediation plan, notably for our property business underwritten out of Mexico, and we'll exit and place into runoff our Colombian SOAT business. Our macro challenge here remains to reduce our total acquisition costs, which are significant and in excess of 40%.

We are equally and currently undertaking a strategic country-by-country review of our footprint in Latin America to assess both the strategic merits of the group of each country in which we operate as well as its proposition and capability to produce a sustainable underwriting profit. Our expectations here are to see a modest improvement in our combined operating ratio in the second half, further improvements in 2018 and a return to underwriting profit by 2019.

There are four key features that I wanted to draw out of the result on which we've covered briefly earlier on. The first is to note that we have returned to some premium growth in the first half, and as you can see from the graph on the top left here, the growth features in every division. For the time being, it's important to stress that growth will remain modest, reflecting the challenging market conditions in which we are operating notably in the Northern Hemisphere.

Secondly, we have demonstrated a rhythm of positive prior accident year claims improvement and there is no reason not to assume such a pattern and practice can continue into the future. As we have noted through the result, we have not sought to impair the quality of our balance sheet and, accordingly, our probability of adequacy for claims reserves remains unchanged at 89.5% from our full year 2016 position.

Thirdly, we are operating in a period of heightened large risk claims activity, which has been a notable feature through the latter part of 2016 and into early 2017. The comprehensive aggregate reinsurance treaties that we have purchased mean that our allowances for catastrophe and individual large risk losses are, in the vast majority of circumstances, locked in at approximately 9.5% of net earned premium. And so in 2017, we have largely eliminated volatility of loss that this category of claim can bring to our performance. And finally, on this slide, we've worked hard to reduce our operating expenses both in terms of a need to do so, as we've reduced top line in recent years, and to improve underwriting performance. As now can be seen through 2015 into 2016 and now into 2017, we are seeing a reduction in the expense ratio itself.

Now, I'd like to hand over to Pat Regan to report in more detail our result, progress made in Australia & New Zealand, our investment return and indeed the quality of our balance sheet. Pat?

Patrick Charles Regan {BIO 15131018 <GO>}

Thanks, John. Good morning, everybody. In addition to taking you through the usual financial highlights of the group results, I'm also going to give you a brief update on the progress we've been making in our Australia & New Zealand business.

Starting though with our group results and just a few of the key headlines. In the first half on a constant currency basis, our GWP grew by 3% and that was due to 5% growth in Australia & New Zealand on the back of 5% rate increases and broadly flat retention at about 83% and 4% growth in North America with growth in our Specialty business and in Crop as well. Net earned premium grew by 6% also on a constant currency basis.

Our overall combined ratio improved to 94.9% compared to 99.1% but that improvement is really reflecting the reversal of last year's $267 million negative impact of discount rates compared to a $29 million benefit this year. Excluding that discount rate impact and the impact of the Ogden changes; our combined ratio was slightly higher at 95.3%, largely due to both the reduced level of positive prior year development and the Emerging Markets impact.

Our investment returns overall, we achieved a net annualized investment return at the half year of 3.6%, up from 3.3% last year and all of which meant we delivered an insurance margin of 9.3%, up from 5.6% in the first half of 2016.

Our half year tax rate was just under 20%, which was a little lower than last year's half year tax rate of 23%, primarily due to the use of tax losses in North America. And the group reported a net profit after tax of $464 million, which was a $76 million improvement from the first half of 2016, largely due again to the reversal of risk-free rates and higher investments income.

Our cash profit, which is the only number here which is including the impact of Ogden, for our cash profit which includes the impact of Ogden, grew by 30% to $374 million compared with $287 million last year.

Turning then just to the operations of Australia & New Zealand, just giving a little bit more detail on what we've been up to over the last number of months. Overall, I've been really pleased actually with the momentum we've built on our remediation activities. And much similar to what we talked about in February those key actions have been - firstly, I think achieving a real sense of accountability and focus on our underwriting disciplines and our detailed financial performance.

Our cell review process is but one of the tools that we use, and that's certainly not the only tool we use. And we are still doing our 50 cell reviews on a very regular basis.

We've achieved further significant premium rate increases, and we're now less reliant on rate increases in CTP, and are now achieving rate increases across pretty much all classes of business. For example, nearly 10% to commercial motor, 12% in aviation, 7% in workers' comp. And our overall average premium rate increases in the first half were 5.2%, and that actually went up to 6% in July.

Notwithstanding that, and you can see on our chart there, in the top left hand corner, our retention has actually stayed rock solid at around just over 83%, which I was really happy with and a real testament, I think, to our distribution teams and underwriting teams.

We've been working hard on our risk selection, tightened policy terms and conditions, moderating discount rating authorities - discounting authorities, increased policy deductibles where there's a loss history, writing lower amounts of high hazard indexed property business, all of which has helped us.

We've implemented significant new improvements in our pricing models. We now have a new Chief Pricing Actuary, and we've got more improvements to come in that area. And we've also implemented much tighter controls around our claims practices. For example, motor recoveries, fraud prevention, user data analytics in claims and supply chain management. And again, there's quite a bit more, we think, we can do there.

And I'm pleased to report all of that meant that during the first half of 2017 compared to the first half of 2016, we improved our attritional loss ratio by 420 basis points excluding the impact of Lenders' Mortgage Insurance, which I'll talk to in a moment.

And we've seen improvements across pretty much all of ourselves, with some of the biggest improvements in things like New South Wales CTP, trade credit, commercial property, household and commercial motor. And just a few exceptions of things that didn't improve, things like aviation where we just had a number of losses, and commercial packages where we had a number of medium-sized or somewhat seasonal losses in the first half.

Turning to LMI, much as we expected, the business recorded a higher combined ratio in the first half of 2017, up to 44% combined ratio from 35% for 2016 full year, driven by both a higher commission rate which is really the absence now in external quota share and a higher loss ratio.

Although we didn't see a material increase in our COR arrears rates, we did see a moderate increase in hardships declared in the first six months. The arrears and hardships continued to be predominantly driven by Western Australia and particularly in mining towns, and to a lesser extent in Queensland. Conversely, ACT and New South Wales have continued to see extremely low arrears rates.

Finally, for the business overall, we continue to see positive prior development. We've shown we've got positive route to prior development consistently over the last six halves and averaging just over 4% over that period, and we received - benefited again from just under $80 million of positive prior development in the first half of 2016. And as in previous years, this predominantly came from our long-tail classes.

Okay. Could you just move the slide forward for me please? Thank you.

Turning to the group's investment performance, our investment portfolio delivered an annualized net return of 3.6% for the half with both our fixed income book and our growth assets delivering strong gains and higher than we originally anticipated.

During that first half, mark-to-market capital gains from tighter credit spreads enhanced our fixed income book. And coupled with some proactive management of our duration, we saw an annualized return from fixed income of 2.6% for the first half.

We have now slightly reduced our duration to 1.6 years, partially to protect gains, but also to position us well for higher yields if they happen going forward. We also thought with credit spreads tightening to kind of almost record lows, we took some profits on longer-dated, higher beta credit and redeployed into some shorter-dated, more defensive credit.

Similarly on growth assets, we saw a strong return of 12.6% on an annualized basis for the half year. It's probably worth mentioning actually that since we moved to provide more money into growth assets since 2015, the growth assets have delivered a return of just under 5% in excess of our fixed income book over that period.

Similarly, we did turn back growth assets a bit at the end of May, and that helped protect us against some of the market reductions we saw towards the end of June. And at the end of June, our growth assets stand at about 8% of the portfolio overall. Based on that, our expectations are that we should see a full-year return for 2017 of around 3%.

Finally, for me then, the group's capital position remains strong. Our APRA PCA multiple is 1.7 times, right in the middle of our 1.6 times to 1.8 times benchmark. As John mentioned, S&P reaffirmed their positive outlook on the group earlier this year. And as you can see, we continue to hold capital equivalent to a strong AA rating.

Furthermore in July, A.M. Best upgraded our long-term issuer credit rating from BBB to BBB plus. And Fitch lifted the group's outlook from stable to positive.

Our other key metric we would like to use here is free cash flow or dividend remittances from the businesses of the center, and this obviously provides cash cover for our external dividend. As you can see in the first half of 2017, cash remittances remained strong and actually were slightly up on 2016. And this leaves us well on track to deliver more than $1 billion of cash remittances by year-end.

And all of this (26:53) confidence to increase the interim dividend by 5% to AUD 0.22 per share representing 61% of our cash profit, and also to signal that we intend to be active in our share buyback in the second half of 2017.

With that, I shall hand you back to John.

John D. Neal {BIO 15681439 <GO>}

Thanks, Pat. So, I just wanted to sum up our priorities for the second half. And as you can see on this slide, they are encapsulated in three key areas being performance improvement, the specific activity in Asia Pacific and Latin America, and in terms of our targets for the full year.

Our three largest divisions that performed well through the first half and our expectation is that this will remain the case through the balance of 2017. That's notwithstanding pretty challenging market conditions that confront our businesses in the Northern Hemisphere, notably in Europe and in North America.

In Asia Pacific and Latin America, we are undertaking the right corrective actions on our underwriting account and will deploy the appropriate reinsurance measures to eliminate volatility in either the operating businesses or indeed in some of the legacy portfolios.

Our initial cost reduction plans here designed to eliminate $20 million of cost, which would be largely matched by restructuring costs in 2017, but will show a net absolute benefit for 2018. As I mentioned earlier, we are undertaking a thoughtful strategic review of our footprint in Latin America. We have worked hard to create the quality of the balance sheet that you see today. And indeed, even in times, when our performance disappoints, we have no intention of compromising the quality of this balance sheet even in the short term.

For a second year, we will be repatriating, as Pat just said, $1 billion of cash from our divisions into the center, which we believe will allow us to initiate an effective capital management program for the benefit of our shareholders by way of an ability to increase dividend payments and to effect the share buyback that we announced earlier this year.

Our financial targets for 2017, therefore, continued to reflect modest expectations around premium growth. The result in the first half for Emerging Markets will add 1% to our combined operating ratio for the full year. And therefore, at this stage, we expect a combined operating ratio towards the upper end of our forecast range being 94.5% to 96.0%. We now expect our investment return for the full year to be at the top end of our initial range, and therefore, at or close to a 3% yield.

As we begin the process of constructing our plans for 2018, these will be informed by the rate of improvement we can achieve in our Emerging Markets division and the reality of prevailing market conditions as to price expectations in both Europe and North America. And of course, we'll discuss these thoughts with you on 2018 in far greater detail when we report our full-year results for 2017 in February next year.

What I'd now like to do is to turn over to questions and answers. Thank you.

Q&A

Q - Daniel P. Toohey {BIO 16751863 <GO>}

Good morning, John, Pat. Daniel Toohey from Morgan Stanley. John, just on the guidance, the sort of emphasis towards the upper end of the 94.5% to 96%. Can you sort of perhaps elaborate on what's sort of driving that view?

A - John D. Neal {BIO 15681439 <GO>}

On this, we'd talked about this quite a lot because you are, of course, playing with fractions of 1% in this conversation. There are three factors driving our assumptions. First is the reality that the Emerging Markets business will add 1% to our full-year result. The second is we're assuming some less prior-year improvement. We're assuming prior-year development, but less prior-year development in the second half. And the third is just acknowledging that if you look at our North American Crop business, what looked like being another good year, I think, in May and June, now looks like being a normal year. And it's really a combination of those three factors that have driven us to suggest that you should nudge more to the upper end than any better than that.

Q - Daniel P. Toohey {BIO 16751863 <GO>}

So, when you set your view on the target for the year on the combined ratio, did you assume that Crop would be anything other than an average year?

A - John D. Neal {BIO 15681439 <GO>}

No, we didn't. The one thing we didn't see obviously was that we would take an impact of 1% on Emerging Markets. So, net-net, if you look at the ultimate change from where we thought we'd be beginning of the year to where we are now, it is that one factor that is the difference.

Q - Daniel P. Toohey {BIO 16751863 <GO>}

Okay. Two other questions, just on when you look at the U.S. reserve releases, I mean it was net, I think, $2 million positive. But there was a comment in it that says there was some strengthening on the Specialty Lines. Can you talk about the moving parts in the U.S.?

A - John D. Neal {BIO 15681439 <GO>}

Yeah. I mean, the release comes from Crop. So, Crop, which was a very good year last year, has continued to improve in the early half of this year as it's matured. On the balance of the business, the majority of the strengthening is actually on the accident and health book which obviously is a short-tail book, where I think some of you would have read of the issues that have most insurers grappling with healthcare in the U.S. So, we've taken a view on prior year and the prior year particularly last year's current accident year (33:46) which has resulted in some prior-year deficiency. And we're also seeing rate increases on that book of around 16% in the first half. So, predominantly (33:56) book, not the long-tail lines in that specialty book.

Q - Daniel P. Toohey {BIO 16751863 <GO>}

And Pat, just on the duration of the book on the investment side, is it still the intention that you would sort of progress towards lengthening that (34: 12) duration throughout 2018? I know you made some comments that you sort of pulled back the duration a little bit...

A - Patrick Charles Regan {BIO 15131018 <GO>}

Yes.

Q - Daniel P. Toohey {BIO 16751863 <GO>}

...given the changes in the U.S. market.

A - Patrick Charles Regan {BIO 15131018 <GO>}

So, a good question, Dan. No change to our overall philosophy on that, that we will move to a matching duration of assets and liabilities. As we've always said, we have obviously have to have a mind for yield curve. If we do that, it's obviously – that's come off a little bit, so no great change in – no change in our philosophy on that. We're just slightly cognizant to market conditions.

Q - Daniel P. Toohey {BIO 16751863 <GO>}

Okay. Thanks.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Kieren Chidgey, UBS. Two questions, John, just following on from your comments around Northern Hemisphere as still being challenging. If we take the U.S. COR and strip out Crop, looks like you're doing one on one there. You're growing premium 4%, and you're still topping up reserves consistently albeit by small amounts each halves. So, are you confident sort of we still – it's the right environment to be growing that business in the U.S?

A - John D. Neal {BIO 15681439 <GO>}

Yeah. It's a good question. I think I've described the U.S. market as manageable, let's come to Europe in a moment. We've really been developing our Specialty business over the last four years. Our P&C lines actually reduced, so gross written premium on the Property & Casualty lines fell $140 million through the first half. So, the growth in the U.S. is a combination of Specialty continuing its trajectory of growth, I think I called out 27% and Crop actually has grown as well through the first half, which is all commodity prices.

Our actual policy count (35:56) for Crop is up 3%. So, there's a reversal from 12 months ago of a negative premium on Crop to positive, and Specialty is where the growth is coming from.

So, it's not the Property & Casualty lines that are growing. In fact, they're shrinking. And our efforts in North America, I think you know as we've discussed in past reports, so really around the expense line. We're not unhappy with the claims ratio which we think benchmarks well against the market. The drive in North America is to continue just to finish the process of taking costs down. So, the majority of our cost-out activities that we're deploying through 2017 and 2018 continued to be in North America. So, we really need to take out about another, plus or minus, $100 million of costs in the U.S., and that remains the focus of us keeping a tight handle on particularly the Property & Casualty lines at this juncture at the market.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Thanks. The second question, just on your medium-term outlook that you gave at the Investor Day early last year, 93% COR by 2018. A lot has changed since we've seen a big downgrade in Australia and maybe half in attritional loss ratio deteriorations come back. But now, we had Emerging Market issues as well. So, where do you see that medium-term target at the COR, and also that 3% GWP target now given Emerging Markets was contributing a third of that?

A - John D. Neal {BIO 15681439 <GO>}

Yeah. I think on the former, I think it's just a little too early to comment in detail on that. I'd really like to see how our plans come together for 2018 through the second half. The reality at the moment is obviously the Emerging Markets is detracting from the groups' combined operating ratio by 1%. So, in part, the answer to your question is determined by how quickly we can eliminate that drag is one factor. And the other factor is really getting line of sight through the second half as to where we think pricing is going to go in 2018, 2019.

At this juncture, our assumptions have been correct. Absent Australia, global pricing is flat. So, I think it's going to take us a couple of months as we go through our 2018 plans, particularly around the Emerging Markets to see what drag that will actually have on our medium-term forecast. In terms of premium, I think we've got to get the balance right on premium growth. I do not want us to grow into too challenging a marketplace.

At the moment, as you've seen with – on one of the slides we've put up, we're getting some modest growth across all of our businesses. That feels like it's in the range of 1% to 2% at the moment, and growth can't be our priority focus. It's got to be maintaining and improving the margin, at least, in the short term.

Q - Ross Curran {BIO 15090587 <GO>}

Hi, gents. It's Ross Curran from Deutsche Bank. Can I just circle back to Dan's question on your guidance, and just a very subtle wording there? First half guidance was bang in the middle of the range and the full-year guidance is for the upper end of the range. It does imply the second half guidance is going to be beyond the top of the range, is that the right way to think about it?

A - John D. Neal {BIO 15681439 <GO>}

Can you take that?

A - Patrick Charles Regan {BIO 15131018 <GO>}

I think, Ross, we were – you should take the guidance as the full-year guidance, and the points kind of influencing that are just the points John made earlier, so. In putting together the full-year guidance, we've assumed the Emerging Markets has roughly 1% impact on the full year. We've assumed less prior year in the second half than the first half. And we've assumed Crop is no better than the normal year.

Q - Ross Curran {BIO 15090587 <GO>}

Okay. And into FY 2018, can we expect a step-up in costs from splitting out the Emerging Markets business into two businesses? Is that going to be a drag on operating expenses into next year?

A - John D. Neal {BIO 15681439 <GO>}

No, not into next year. It will be a benefit in operating expenses. If you - once you get underneath the numbers, the Emerging Markets divisions costs us $300 million a year, so around - so it's a comparatively expensive business. There are good reasons for that. I think we've worked hard to make sure the right governance and discipline frameworks are in place in what are difficult economies in which to operate. Going into 2018, we think we can protect that framework, but do it at a lesser cost.

So, our immediate plans are to take $20 million out, and that dollar value will be out in 2018. So, we're taking it out now, but there are restructuring costs in 2017. And there ought to be a bit more frankly. As we look into 2018, into 2019 we ought to be able to reduce that cost base further still.

Q - Ross Curran {BIO 15090587 <GO>}

And then, finally, how much premium do you expect to save in your portfolio review that you're going through in LatAm, like, at a big group level, what ballpark sort of - what are you thinking of?

A - John D. Neal {BIO 15681439 <GO>}

It's a bit too early to tell. I mean, the one point I would draw to your attention is ironically two-thirds of our income in Latin America is in one country, in Argentina. That business is running really well. Pleased with what we've been able to achieve there since 2014, you might recall when we sold our workers' compensation business. And that's running with a combined operating ratio in the sort of high mid-90s, and hence, asking Carola Fratini to take on a broader role across the region. So, I think whatever decisions we take, you were talking about a few hundred million at the top end. So, in terms of premium impact, it's not significant for the group.

Q - James Coghill {BIO 14006200 <GO>}

James Coghill, UBS. And first question for Pat, if you don't mind, John.

A - John D. Neal {BIO 15681439 <GO>}

Sure.

Q - James Coghill {BIO 14006200 <GO>}

Just on Australia and New Zealand, and this is on very similar lines with the question that Kieren asked on the U.S. So, you back out LMI, and the combined ratio there is still running a little bit above 100% in Australia and New Zealand, and you've had 5% premium growth largely rate driven.

A - John D. Neal {BIO 15681439 <GO>}

Yeah.

Q - James Coghill {BIO 14006200 <GO>}

Your competitor at North shared a 5% reduction in premium in their commercial segment not so long ago. So, could you just give us an indication of where you're actually seeing shrinkage in the portfolio and where you're seeing growth, and whether you think you've got that balance right between rate and exiting lines of business that aren't profitable?

A - Patrick Charles Regan {BIO 15131018 <GO>}

Thanks, James. Yeah. I mean, it's a big focus for us, I mean just not correct what you said obviously that the combined ratio ex-LMI - including LMI is 92%, ex-LMI is 95% compared to 99% last year. Only if you exclude prior development would you get up to a higher number. So, we're 95% excluding our LMI in its entirety, but it's still an important question for us as we go through the portfolio. So, where were we seeing shrinkage? In the areas of our commercial property. I mean, our retention is really what's kept our top line high. We're lower on new business this year to last year. And we're very, very conscious of where we're getting rate adequacy in doing that. So, that's much tougher in commercial property. So, particularly higher hazard indexed business, our retention is a lot lower on that by design.

And overall, actually our volumes, if anything, are nudged down. And we've only grown through rate, so it's a - daily that's an important question for us. And it's less true, it's less relevant in the aggregate more of our 50 portfolios coming through those and making sure we've got all of those rates. Premium adequacy is getting better in things like commercial motor, (43:59) getting better. Things like property is still - they're still reasonably tough, I would say.

Q - James Coghill {BIO 14006200 <GO>}

Okay. That's good. Yeah, and my comment was underlying its reserved releases. And John, just on your comment about reserved releases likely to be lower in the second half and what drivers sit behind that assumption?

A - John D. Neal {BIO 15681439 <GO>}

I think, it's just - there've been two primary drivers in reserve releases, Australia and New Zealand is one and Europe is the second. It's more on the latter. I think we can't continue to expect the levels of performance in Europe that we certainly saw in 2015, 2016. You might recall they were running with combined operating ratios sub-90%. That market's continued to be the most challenging of the markets that we're in. I think the guys are doing a terrific job in maintaining the level of performance they are. But I think it's unrealistic to expect prior-year releases at the levels of 7% and 8%, which is what we've seen in the last couple years. That's an assessment. Obviously, the reserve processes and reserve reviews that we'll see in the latter part of the year will actually inform us properly around that. But my working assumption is that Europe will continue to give us positive prior-year releases, but not to the same degree they have in the past couple years.

Q - James Coghill {BIO 14006200 <GO>}

And perhaps just a final one, I guess, and more on process and governance. I do recall a few years ago, you set up that unit in Sydney to just try and improve the budgeting and guidance setting process across the group. And I mean it doesn't feel like it's improved a lot or to where it should be, and this year obviously being a case in point. Even over the last two months, there's a shift in emphasis in where you've guided us in the range. And I guess the frustration that a lot have is that the range never really seems to be a range. The top end seems to be aspirational (45:59) maintains to be a more realistic level. And is there anything you've been doing to try and make further improvements to that whole process to the governance around it to avoid surprises (46:10) again this year?

A - John D. Neal {BIO 15681439 <GO>}

Yeah, I've said the frustration, i.e., the result in Emerging Markets is disappointing. I think what I'd say is that in terms of our ability to consolidate data and present numbers, our Emerging Markets performance was evidencing through the second quarter. We updated the market 10 days before we ended the quarter period and well in advance of us actually going through any actuarial reviews that we would normally do for the quarter-end. And we're able pretty accurately not just to give you any Emerging Markets result, but the result for the group and our assessments around prior year. So, I think – don't get me wrong, I'm not dismissing the disappointment in Emerging Markets. I think elsewhere, you can see each of the big divisions is at or running slightly better than planned.

Per your previous question, I'm confident we'll have a prior-year release for the second half of the year. I just think it's just sensible to assume that that's going to be slightly less. And equally that the early indications on Crop are that you kind of expect outperformance there. So, I think we're just being careful in terms of messaging we're putting in front of you today.

Q - James Coghill {BIO 14006200 <GO>}

Thank you.

A - John D. Neal {BIO 15681439 <GO>}

Should we take Nigel's call?

Q - Tony Jackson {BIO 1729093 <GO>}

Sorry. Michelle Wigglesworth from Milton Corporation. I have a question on the reinsurance savings. You said that you've saved over $350 million, and that's a combination of many things including taking on some more – putting some of that reinsurance through Equator Re, and that your risk profile hasn't changed. I was just wondering if you're actually retaining – aren't you retaining a bit more risk by that insurance going through Equator Re? And where are the majority of your – where is the majority of that $350 million in savings coming from? Is that from price reduction or the Equator Re arrangement? Thank you.

A - John D. Neal {BIO 15681439 <GO>}

It's a combination of the two, really. It's a combination of price reductions in reinsurance costs over the last two years, and it's also the way in which we've been able to consolidate more of our reinsurance purchase and protect the captive. So, the reason that we say that there's no net increase in risk is that ultimately the greater risk sits with the captive and the way in which we manage the protections there is with the aggregate treaty that sits behind the captive. So, when you look at large risk in catastrophe claims, they consolidate into the captive and there's a big reinsurance treaty that sits behind those. So, that's why we say there's no incremental risk that's being taken with the restructuring of the reinsurance programs.

In terms of the cost savings, it just takes time for those to earn through. So, you're looking at about $100 million showing through in the first half, in terms of the value proposition of the reinsurance savings. And you should see a similar amount come through in the second half. And the balance of the earnings will come through in 2018.

A - Patrick Charles Regan {BIO 15131018 <GO>}

I think we've got some questions on the telephone. I think Nigel is on the phone.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Right, thanks. It's Nigel Pittaway here from Citi. Just about the – we're just returning to this comment that the only difference to the guidance from the start of the year was the extra (49:43) in Emerging Markets. I mean I think originally when the guidance was set, there was an allowance for reserve releases of under 1%. Now, we can expect zero in the second half. You've come in obviously at 1 point – whatever it is, 1.8% in Re (49:59) in the first half. So, that means they're going to be 0.8%, 0.9%, so pretty close for that less than 1%. So, is it really fair to say that the only difference in guidance is the Emerging Markets difference?

A - John D. Neal {BIO 15681439 <GO>}

I mean broadly, yes, Nigel, I mean that the – compared to our assumptions at the start of the year, Emerging Markets at 110% obviously is very different from the assumption we'd have built into the budgets at the start of the year. And as we mentioned that we're assuming in the guidance now, that still has an impact of at least 1% on the full year. So, that is yes, very much the predominant...

Q - Nigel Pittaway {BIO 3406058 <GO>}

But the reserve release assumption is also close to 1% higher, right, or at least 1% higher?

A - John D. Neal {BIO 15681439 <GO>}

What we said, I think – well, I think you sort of said it, Nigel, that the – we're assuming less than the first half. So, we're assuming less in the second half versus the first half. So, (50:56) that was an enormous delta versus your original expectations.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Okay. All right. And just secondly, just on the Crop business. I mean obviously you're saying now a normal year. I mean can we be sort of assured, I guess, that that includes sort of any problems in North Dakota or in any sort of changes in pricing that we've seen so far? Is that – that's taking all that into account?

A - John D. Neal {BIO 15681439 <GO>}

Yeah, I mean the short answer is it's pretty early in the development. We would do the same as you do. The first report that you can actually make any sense of were actually out to the weekend, anything earlier is hard to fathom. Even then, it's still very early days in assessing the quality of the summer crop. We've taken into account both from our own data and some third-party sources we use what's actually happened in North Dakota around spring wheat and assumptions into the summer crops.

Look to the rest of the states. And the indications you would have today, taking all factors into account, is you should be looking at a classic normal underwriting near performance for crop, and that's on the basis of the information that's available. It's really the next 30 days, probably near to 60 days that give you stronger data coming through. But on what we're seeing at the moment, we would say it's a normal year.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Okay. Just another one on Europe, I mean it seems as if there was quite a lot of activity in financial lines there in the first half now, and the only thing I can think why it has appeared in your result is it's been offset by lower catastrophe experience. Is that basically what's happened in respect to that or...

A - John D. Neal {BIO 15681439 <GO>}

No, (52:47)...

A - Patrick Charles Regan {BIO 15131018 <GO>}

No...

Q - Nigel Pittaway {BIO 3406058 <GO>}

...did you receive any financial lines, misuse of financial lines in the first half, and now they are somewhere in your results, I guess is the question.

A - John D. Neal {BIO 15681439 <GO>}

They are. So, they're all taken into account in the prior years of movement you've seen. So, you're correct, Nigel, that we have taken some charges against financial lines. We have views on where we think loss activity will materialize in the future on the financial lines business to clear on the banks, and we've taken that into account in our prospective reserving views. So, there are some charges for that, but they are all taken into account and rolled up in a net release overall of $131 million in Europe.

Q - Nigel Pittaway {BIO 3406058 <GO>}

(53:30). And then, finally, would it be possible just to get some color around your thinking surrounding the buyback? I mean obviously you announced the buyback back in February, then did nothing in the first half, and now you're sort of saying we're definitely going to stop buying back shares in the second half. So, can we maybe just get some colors as to what sort of you're thinking around that?

A - John D. Neal {BIO 15681439 <GO>}

Yeah. So, two things, I mean the Chairman actually, I think, dealt with this at the AGM acknowledging that we would commence the buyback in 2017, but equally saying that we'd be opportunistic, reflecting the actual value of the share price. So, I think what we wanted to assert today is that buyback will commence and it will commence this month. And I think we'll do that thoughtfully. But clearly, we'll also do it with an eye on the share price and through the balance of 2017.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Okay. Thanks very much.

A - Patrick Charles Regan {BIO 15131018 <GO>}

I think we got a question from Alex Chau of Goldman.

Q - Alexander Chau {BIO 21937082 <GO>}

Yeah. Hi. My question is just on the European division. So, there is a comment, I think in the Investor pack, that talks about weaker sterling and additional reinsurance protection impacted the European attritional by 2.8%. So, I just wanted to kind of work out whether how much of that - if you assume sterling kind of stabilizes, how much of that? Is it one-off and kind of weighing on the second half? Thanks.

A - Patrick Charles Regan {BIO 15131018 <GO>}

Yes. It's actually particularly a good question. I think in terms of the - the one-off items - FX very much is a one-off item of how dollars versus sterling unearned through and reinsurance (55:26) probably got 2 points to 3 points that is more reflective of underlying market conditions.

Q - Alexander Chau {BIO 21937082 <GO>}

And so, just to clarify, so if the sterling is stable at 2 points to 3 points to the European attritional.

A - Patrick Charles Regan {BIO 15131018 <GO>}

Yes. I mean, 2 points to 3 points - that's what happened in the first half, was reflective of the underlying market conditions. The other thing I'd add to that, Alex, is that the - our European business is no different from every other European - every other London market business where you reserve very conservatively on the current year and then you see very large amounts of prior year coming through as well, and that's sort of a similar trend for them in the first half. What we've seen is, Nigel just mentioned kind of 7 points, 8 eight points of positive prior-year development.

Q - Alexander Chau {BIO 21937082 <GO>}

Okay. Thank you.

A - Patrick Charles Regan {BIO 15131018 <GO>}

I think we have a question from Brett.

Q - Brett Le Mesurier {BIO 5909278 <GO>}

Yes. Thanks very much. Your accident year claims ratios on an adjusted basis is 64.2%. Your commission and expense ratio is 32.2%, I put the two of those together, and I get 96.4% if we combined operating ratio that you're currently operating at. That's a fair way to think about your business, isn't it?

A - Patrick Charles Regan {BIO 15131018 <GO>}

Yeah. I mean, this – I mean, as you know, Brett, we're in the 96% to the 97% range for current accident year. There's just one or two other kind of elements of the discount rate movements out at in the claims ratio. But yes, on a current accident year basis, I think it's one of the reasons we've put the slide up where we're at around 97% combined ratio. As John said, also we have guided to lower positive prior developments in the second half. We have equally had a pretty consistent record of that over the last six halves or so.

Q - Brett Le Mesurier {BIO 5909278 <GO>}

Are you still thinking about the same through the sustainable level (57:31)?

A - Patrick Charles Regan {BIO 15131018 <GO>}

I think we've always said, it's less in the first half than we had in the – sorry, less in the second half than we had in the first half.

Q - Brett Le Mesurier {BIO 5909278 <GO>}

Okay. Second question, the central estimates, I mean training, you don't provide that anymore. But given the attritional claims ratio has increased, should I see that central estimates training premium has similarly increased in your unearned premium reserve?

A - Patrick Charles Regan {BIO 15131018 <GO>}

So, nothing great to kind of highlight on that. The same kind of risk margin analysis we do on the reserving, we do, as you know, on the premium. And that's, as I said, at very similar levels it was at year-end.

Q - Brett Le Mesurier {BIO 5909278 <GO>}

Right. So, given what I see in the balance sheet, it looks like that risk margin in the unearned premium has declined, is that correct?

A - Patrick Charles Regan {BIO 15131018 <GO>}

No, I mean there's really kind of no change to note on risk margin or POI on either unearned premium or on our liability account claims reserves. Claims reserves dollars went up slightly because our central estimate went up slightly, but our POI was unchanged. It was similarly – very similar to year-end on our unearned premiums as well.

Q - Brett Le Mesurier {BIO 5909278 <GO>}

Okay. Great. Thank you.

Q - Tony Jackson {BIO 1729093 <GO>}

John, if you don't mind we're just following up on your phrase that you used in response to Nigel's buyback question, thoughtfully on the buyback. I mean, that's probably one area where we'd appreciate less thought and not more thought. And why don't you just delegate an amount and get on with it, subject to liquidity constraints, rather than trying to overview on the share price? Because if you're not in the market buying stock, as we saw in the first half, there's a view that you either (59:23) profit warning or you believe that stock is overvalued. So, why don't you just get on with it?

A - John D. Neal {BIO 15681439 <GO>}

So, let me clarify the statement because I think it's a fair challenge. I think having not bought back stock in the half year than what we're mindful of doing is not over-influencing the price, so we will trade carefully through the second half, but consistently.

Q - Tony Jackson {BIO 1729093 <GO>}

So, if you have a specific amount in mind that you wish to buyback in the second six months...

A - John D. Neal {BIO 15681439 <GO>}

No, no, we don't.

Q - Tony Jackson {BIO 1729093 <GO>}

Thanks.

A - Patrick Charles Regan {BIO 15131018 <GO>}

I think we've got another - can we take another question in the room. We've another one in the phone, I think David, (01:00:00).

Q - Tony Jackson {BIO 1729093 <GO>}

Yeah, hi. John, seems like it's almost five years to the day that you started as CEO and I was sort of taken with some of the comments that you made at that time about QBE having a vision to be the most successful global insurer in the world for operational excellence, for repeatable global scale, and the likes. And I find it interesting that over the last five years, the executive team on average has been paid over $20 million a year. My only problem is, when I look at the share price over the last five years, it's come down to 3% per annum. And when I look at your peers, the global peers in A$ terms, on average, they've done 20%. What are they doing that QBE is not doing?

A - John D. Neal {BIO 15681439 <GO>}

It is five years to the day, you're right. What's happened in that five-year period for us. I think, two things, and let me come back to global peers because I was looking at their results as well. If you sort of take a macro view at the world, interest rates have probably halved in that period, so interest rates have fallen about 2%, pricing globally has fallen by about 20%. So I think you've seen a very significant difference in the last five years to the macro backdrop at the market we find ourselves in. What are we doing? I think we've worked hard to prove that we're relevant globally to customers and trading partners with sharper focuses of business and I think we're trying to balance short and medium-term opportunity, i.e., trying to execute to a result that the shareholder will consider worthwhile, 8.8% return on equity, 4.5% yield on the stock.

It's difficult to dole the benchmark to the globals. I've been looking at the globals and they're running at combined operating ratios of pretty much between 95.5% and 98%. So they're running slightly higher than we are, but is that a fair comparison, not necessarily because their business mix and our business mix is different. So I think we compare to the globals in terms of outlined performance. I still think there's value in the stock today and I think there's opportunity in the stock if you look out one, two, and three years.

Q - Tony Jackson {BIO 1729093 <GO>}

Yeah. I'm sort of more interested in the fact that you've spoken about operational excellence, you've spoken about repeatable global scale, and the global peers seem to have been able to operate in this and do it productively, like I say. Their total returs are 10 times higher than yours over the five years. What are they doing that you're not doing?

A - John D. Neal {BIO 15681439 <GO>}

I think it's different start points is the answer to the question. We had a strong period of transformation for the business, which I think saw us reduce top line and, therefore, revenue and income by 20%. We're not in that phase anymore and our sense is actually, if you look at the opportunity, our opportunity this year and looking forwards, we think is greater than theirs in terms of outperforming from here.

Q - Tony Jackson {BIO 1729093 <GO>}

Is there any chance that in regard to operational excellence, that you're actually not operationally excellent, and that you've got the wrong people or you've got the wrong businesses and that somebody else should be doing it better?

A - John D. Neal {BIO 15681439 <GO>}

I think we've done – so the job's not finished in that respect.

Q - Tony Jackson {BIO 1729093 <GO>}

Five years on John.

A - John D. Neal {BIO 15681439 <GO>}

In real terms, we've taken what - $700 million of cost out of this business in a way in which we've structured it and organized it. Still think there's a bit more what we can do now - frankly, there's a bit more that everyone's going to have to do. So we're all going to have to drive for greater efficiency in the way in which we run our business.

Our sense at the moment is can we run the business better than we're running it today, yes. What's going to make that business a lot better, well, it'll be as and when the macro of that job changes and I think, as you know, we are very well-leveraged opportunistically to either an increase in price or an increase in interest rates. So I think we can run the business well, we can run a decent return on equity, we can run a decent yield to the shareholder. I think if and when - and prices will increase, you've seen it in Australia in the last 12 months, prices will increase. When they do, that's a terrific opportunity for us. Similarly, it's a terrific opportunity for us as and when interest rates rise.

Q - Tony Jackson {BIO 1729093 <GO>}

Has there been any thought to actually breaking the company up because, like I say, all of this rhetoric has been going on for quite some time now. And the only thing that seems to be repeatable on a global scale are these accidents - operational accidents, and I don't think that's a real great thing for shareholders.

A - John D. Neal {BIO 15681439 <GO>}

You know...

Q - Tony Jackson {BIO 1729093 <GO>}

Because all of your - all the competitors are dealing with low interest rates, all of your competitors are dealing with a macro backdrop, but this year, prices are actually performing exceedingly well consistently over the last five years whereas QBE is the worst performer.

A - John D. Neal {BIO 15681439 <GO>}

All of the peers that you're talking about are producing, on average, a low return on equity than we're presenting to you today. It's worth looking at those numbers, that is the reality, they are running to a low return on equity than we are. U.S. peers are typically running to a return on equity of 5% or 6%, some lower. So we are running to a better level of return to them. Our view and the board's view is that there is value in the global franchise, there is value in our ability to connect more broadly with customers and with key trading partners as a global insurer than there is as a regional insurer, our view on the medium to long-term is that regional insurers, other than those that are hyper specialist, will find themselves challenged.

Q - Tony Jackson {BIO 1729093 <GO>}

So how much buyback will be conducted between now and the end of the year?

A - John D. Neal {BIO 15681439 <GO>}

I've said in answer to that question that we're going to be consistent in the marketplace between now and end of the year. But I haven't said exactly by which – what amount will be effective.

Q - Tony Jackson {BIO 1729093 <GO>}

John, thank you.

A - John D. Neal {BIO 15681439 <GO>}

Thank you.

Q - Daniel P. Toohey {BIO 16751863 <GO>}

Yeah. Thanks. Dan Toohey from Morgan Stanley. Just a follow-up question to clarify the point on guidance and reserve releases. So when we set the guidance, I think the view was reserve releases for the full year would be 1%. You've done 1.8% in the first half. So it effectively implies you're pretty well there at 0.9% annualized. So is the 94.5% to 96%, hold that as true, and therefore assume that there's virtually no reserve releases second half?

A - Tony Jackson {BIO 1729093 <GO>}

You could say that...

A - Patrick Charles Regan {BIO 15131018 <GO>}

I'd say, Dan, I think, we're just going to say, we've assumed less in the second half than the first half.

Q - Daniel P. Toohey {BIO 16751863 <GO>}

Okay. Thanks.

A - Tony Jackson {BIO 1729093 <GO>}

I think, we've got a couple more, we'll come back to the one here. I've got couple more questions on the phone. I think (01:08:01)

Hi, John. And thank you for the question. I have just a very quick one for you, cash profit, just wondering, what the percentage increase on a constant currency basis was?

A - Patrick Charles Regan {BIO 15131018 <GO>}

Very similar actually to the 30% increase. Currency had about a 1% impact on things like GWP. It didn't have an enormous impact on our profit level, so roughly similar to the 30%.

Q - Tony Jackson {BIO 1729093 <GO>}

Great. Thank you very much. Thank you.

Q - Andrew Buncombe {BIO 19921333 <GO>}

Hi. Andrew Buncombe, Macquarie Securities. Just two quick questions from me please. The first one on the reinsurance options for the Emerging Markets division. In the pact, you said you're doing a strategic review to see if there's anything more that can be done. Can you give us a bit of an update as to where that review is at? Have you already pulled the trigger on it, any more color?

A - John D. Neal {BIO 15681439 <GO>}

Yeah. I'm literally looking at it at the moment. The reality is, is what would be called a large large loss in North America or Europe is not a large loss in the Emerging Markets. So, the aggregate protections that we have in place don't offer the same level of benefit to the Emerging Market economies as they would for the bigger divisions. So the question is do we drop that type of cover down and offer a different type of benefit and opportunity in the Emerging Markets. So we're looking at that now, that's something we will look at through the second half, more likely to be something we'll introduce for 2018 and through the balance of 2017.

Q - Andrew Buncombe {BIO 19921333 <GO>}

Yeah. Fantastic. And the other question from me was around New South Wales CTP, as of about June, you became the lowest price in the market given scheme (01:09:40) reform comes in from 1st of December, is that a place you're happy to be?

A - John D. Neal {BIO 15681439 <GO>}

I think I'll push that across to the experts on my right.

A - Patrick Charles Regan {BIO 15131018 <GO>}

So as you can imagine, I mean, New South Wales CTP is a big portfolio within our business. So we've all spent a lot of time looking at that. A few things have happened. So at the time it was most talked about, we saw both QBE frequency and industry frequency increasing from around 0.2% to about 0.26%. That caused us to make a number of changes from a predominantly price (01:10:14) we really needed to put more price through. Since that point in time, both industry frequency and QBE frequency have reduced. QBE frequency has reduced quite more than industry. So right now, it wouldn't be - our profitability's improved markedly on that basis and so, absolutely, yes, we are confident we are achieving a good level of profitability and achieving our adequate technical price on that book of business.

Q - Andrew Buncombe {BIO 19921333 <GO>}

So given your skew towards more rural business and your overall market share, is there something that you could potentially be missing?

A - Patrick Charles Regan {BIO 15131018 <GO>}

No, I'm kind of happy where we are at the moment. Our market share was 23%, it's now 22%. I think as we led a bit on price over the last year in New South Wales CTP and, actually, that was probably a moderate amount of reduction, that was probably inevitable we're going to lose a little, there were others who've been more aggressive on price, probably who're experiencing higher claims frequency than we are, so I'm happy where we are with the portfolio now.

Q - Andrew Buncombe {BIO 19921333 <GO>}

Excellent. Thank you.

A - Tony Jackson {BIO 1729093 <GO>}

Well, I think we got one more question on the phone from Sid.

Q - Siddharth Parameswaran {BIO 15037291 <GO>}

Hi, gentlemen. I just had a couple of questions if I can, firstly just on the rates increases you've achieved this half, I think it's 1.7% across the group. We saw that the attritional ratio deteriorated compared to a year ago, yes, are the increases you're getting now enough to see that turn around? So are you basically getting increase above inflation?

A - John D. Neal {BIO 15681439 <GO>}

I think there is two ways you can look at the attritional claims ratio, I mean, that if you draw a line across all of QBE's businesses then the adverse impact you've seen on the attritional claims ratio equals Emerging Markets, so that significant increase in claims cost in Emerging Markets actually answers that question if you want to look at it simply. I think the more complex answer, which I think is equally relevant, is how to look at our businesses. I think, when we discuss the attritional claims ratio, it's critically important in the way in which Pat's running our Australia & New Zealand business. I'm not saying it's unimportant, but it's less important in Europe. The very nature of that business and the way in which that business is set up, as Pat described earlier, you see some conservatism in current accident year loss picks materializing in prior year improvement. So, the team are much more focused around ensuring they've got the balance of exposure right particularly around larger risk and cat claims. So, you will see a bit of volatility around their attritional claims ratio. Third thing I'd say, though, is if market conditions continue to be tight, then you've got to assume that it's going to be hard to maintain the attritional claims ratio globally and then we've got to look to counter that elsewhere in the P&L.

Q - Siddharth Parameswaran {BIO 15037291 <GO>}

So, I mean, should I take it that price means that you're not getting increases coming through? In terms of...

A - John D. Neal {BIO 15681439 <GO>}

It depends, I think the – in Australia, obviously, yes. I think in Europe, no, you're not getting a rate increase that would – if you were writing an attritional book with (01:13:33), which is why we've stayed away from it. U.S. is slightly different because our business mix is changing, but I would say broadly speaking in the U.S., even the modest level of rate increase that we're getting is enough to allow us to maintain the current accident year attritional loss pay.

Q - Siddharth Parameswaran {BIO 15037291 <GO>}

Okay. Great. Okay. If I could ask one more question just about the U.S. I mean, you talked about significant improvements needed in your expense ratio there, I think you mentioned a $100 million or more of cost out opportunities, I mean, where are these, I suppose, you've been restructuring that business for some time. Do we – is there any reason we should have confidence that you can actually get those improvements through by sometime next year?

A - John D. Neal {BIO 15681439 <GO>}

Sure. I think it's going to take us – you're right, it will take us through next year. It's the simplification of the businesses so, as we've reconstructed the business to what you look at today, there is still a legacy component to that portfolio in terms of its cost base particularly around the infrastructure and technology. So as we consolidate systems and turn-off legacy and old systems, so the cost base will fall. That's work that's been going on through last year and into this year already.

Q - Siddharth Parameswaran {BIO 15037291 <GO>}

So, I mean – so should we be thinking that the benefits will be visible – stop to be visible from next year onwards...

A - John D. Neal {BIO 15681439 <GO>}

They'll be visible...

Q - Siddharth Parameswaran {BIO 15037291 <GO>}

Or are – I mean, the...?

A - Patrick Charles Regan {BIO 15131018 <GO>}

Yeah. Yes.

A - John D. Neal {BIO 15681439 <GO>}

Yes, they'll be visible in the expense ratio this year and next year.

Q - Siddharth Parameswaran {BIO 15037291 <GO>}

Okay, great. Thank you.

Q - Tony Jackson {BIO 1729093 <GO>}

Yeah. (01:15:14) Ausbil. Pat, a question for you to start with on the retention ratio in Australia, you've been putting up prices, I would have expected that when you were thinking about taking that remedial action, you would've expected retention ratios given the competitive nature of the market to come down, yet they haven't done that. So that's won a great result. How sustainable is that? Because it obviously leads to some margin expansion if you can maintain it.

A - Patrick Charles Regan {BIO 15131018 <GO>}

So, the answer to the first part of question, yes, we did assume they would come down more than they have and I think that's really been – I'd love to take kind of lots of credit for that but the market's moved a little bit behind us, but generally it's moved in a similar way, certainly the most part of SME, mid-sized corporate market in Australia. So, as we've kind of – could've hopefully selectively increased price to market has advanced with that and so, most across the book retentions held up pretty well. Obviously, as we try and do that, the key for us is to try and retain the good business and lose the bad businesses. You have a – 100% successful doing that and what we're trying to do is target higher retention in the good parts of the business where we've a higher rate adequacy and obviously tolerate lower retention where we got lower rate adequacy, and that's, as I mentioned, a little bit would question this question, broadly what we are trying to do. So, yes, that's – I would agree has been slightly better than we thought it would be at this point. I didn't think we'd necessarily net net grow and we have to because (01:16:35) the prices kind of held through.

Q - Tony Jackson {BIO 1729093 <GO>}

And a slight follow-up. So given that the market has stayed that way and you've managed to – well, the market has at least followed you and hasn't aggressively tried to take book – yield book away, how sustainable is it?

A - Patrick Charles Regan {BIO 15131018 <GO>}

I think, I mean, it seems so at the moment – the market still seems broadly to be in that state as we go enter into the second half, we didn't see any great change at June 30 renewals. If anything, I think it was slightly more consistent across the market at that point. I think the only buts continues to be bigger ticket property where you're attracting, for want of a better term, more offshore capacity that tends to be more competitive. We're less active in that part of that market and deliberately so.

Q - Tony Jackson {BIO 1729093 <GO>}

Because I'm assuming it's doesn't meet your margin or your...

A - Patrick Charles Regan {BIO 15131018 <GO>}

It's less profitable, yes, exactly.

Q - Tony Jackson {BIO 1729093 <GO>}

Second question. John, thinking about the action you're going to take in Thailand, if you could do that relatively quickly, how much drag would it remove from the combined ratio over the margin in the Asian business?

A - John D. Neal {BIO 15681439 <GO>}

It's a kind of small business, it's about $30 million of gross written premium for the Asian business you're talking in terms of their combined operating ratio plus or minus a percent. It's more around it being a business we've looked hard at for two years or three years and it's just not a market that fits commercial and specialty insurance and an underwriting profit.

Q - Tony Jackson {BIO 1729093 <GO>}

Thank you.

A - John D. Neal {BIO 15681439 <GO>}

One last question.

A - Tony Jackson {BIO 1729093 <GO>}

Yes. I think David Humphreys is on the phone.

Q - David Humphreys {BIO 18797143 <GO>}

Good morning. Question for John. John, I asked this question last year. For second year in a row, we've had this stark reminder on what happens when you ground your business where you're underway, that will be done at the deep expertise (01:18:27) your competitors do. Why is Specialty in the U.S. going to be the winner for you? What in 12-month plan – what will it be reflecting on (01:18:39) has been another example of why you shouldn't ground in a very soft market?

A - John D. Neal {BIO 15681439 <GO>}

Yeah. I think David, yes, you have asked this question before and I understand why you ask it again. For the same reasons you had asked the question we keep a very close eye on it, including actually having reviewed it once again through the first half of this year. The benchmarks that we look at in terms of how we price that business, how that business is performing, continue to tell us that we've priced it appropriately and reserved it sensibly, particularly around the long-tail classes. And I think as I've said to you before we're not taking any credit for that long-tail performance yet, it's still too early. So the business is performing exactly as we would expect it to. It's a mid-90s combined operating ratio business across the piece and building exactly in line with our expectations. So we look at it closely, we look at it very closely every half year and it continues to perform in line with our expectations.

Q - David Humphreys {BIO 18797143 <GO>}

So you've got a good handle on risk selection and pricing then?

A - John D. Neal {BIO 15681439 <GO>}

Yeah. We have. We have the advantage, I'd say, with that business is that having formed it, it started with new technology, new pricing tools, there's no legacy associated with it. And with each passing year, the data gets better because obviously we have another year of our own data, let alone the market benchmark data we look at comparably.

Q - David Humphreys {BIO 18797143 <GO>}

Thank you.

A - John D. Neal {BIO 15681439 <GO>}

Thanks, David.

A - Tony Jackson {BIO 1729093 <GO>}

Thank you, David. I don't think there are any more questions on the phone. So with that thank you, everybody.

A - John D. Neal {BIO 15681439 <GO>}

Thank you.