

S1 2019 Earnings Call

Company Participants

- Inder Singh, Group Chief Financial Officer
- Patrick Regan, Group Chief Executive Officer

Other Participants

- Andrew Buncombe, Analyst
- Daniel Toohey, Analyst
- Kieren Chidgey, Analyst
- Matthew Dunger, Analyst
- Nigel Pittaway, Analyst

Presentation

Patrick Regan {BIO 15131018 <GO>}

Thank you for joining us here today. Our program of work in 2019 is very much built on the strategy that we put in place at the end of 2017, which, as you all know was centered around simplifying the group, introducing the cell review process as a group-wide, consistent underwriting performance management tool, embedding a Brilliant Basics program for underwriting pricing and claims, and embracing a common QBE culture defined in our QBE DNA.

In 2019, we worked hard to further embed, deepen and improve all elements of this strategy, and hopefully, that's evident in today's results. From my perspective, the highlights of today include continued group-wide rate momentum, solid underlying growth, a further strong improvement in attritional claims ratio, a further improvement in our combined ratio despite the foreshadowed increase in our cat and risk allowance and headwinds in Crop and LMI, a better-than-expected investment result and a strong increase in our interim dividend. Overall, I'm really pleased with the shape and underlying quality of the result today.

Cell reviews have been the cornerstone of both our 2018 and our 2019 programs work. As you know, it's a detailed, rigorous underwriting performance management tool, and I've personally completed over 200 reviews during the half, with more importantly, many times that number completed by the divisions themselves.

We're also continuously looking to improve the cell review process, particularly with respect to the management information that we look at and the questions that we ask. The MI being presented in these reviews is better, and we now have a more complete suite of forward-looking MI. For example, obviously, including premium rate adequacy,

exposure changes, limit deployment strategies, cell-level volatility maps, et cetera, et cetera.

The Brilliant Basics program is the second cornerstone of our improvement work. Brilliant Basics was initially very much focused on creating high-quality, consistent, group-wide standards for how we price risk, how we underwrite and how we manage claims in every portfolio, everywhere that we do business.

And although that sounds simple, it is, in fact, very difficult to implement in practice, and very few, if any, international insurers have done so. We've made huge strides on this over the last 18 months. I'm going to refer in a bit to a few specific examples of some of the underwriting work we're doing in cell reviews and Brilliant Basics a little bit later.

On pricing momentum, we maintained strong pricing momentum again in the first half with average rate increases of nearly 5%. As you will have seen from some of the results of our competitors, the global pricing environment is gradually becoming more supportive, particularly in the US and in the London market. We achieved strong premium rate increases in all divisions led by Australia Pacific at 6.8%, North America at 4.1% and international at 3.8%.

On the results itself, probably the two most pleasing aspects for me were the combined ratio of 95.2%, a little more than 0.5 point better than a year ago despite those headwinds, and then nearly 4% improvement in the attritional claims ratio, with all three divisions reporting strong improvement.

Rounding out on our operating performance, our investment team had a cracking start to 2019, delivering an annualized net return of 6.8%. This obviously includes significant gains as a result of the decline in risk-free rates, but even excluding those gains, the annualized net return is stronger 4.5% and compares favorably with our targeted full-year net investment return of 3% to 3.5% on the same basis.

During the half, we took the opportunity to slightly extend fixed income duration to 2.5 years, 2.25 years. And we also slightly increased our weight into growth assets, ending the half towards our planned 15% allocation. We've maintained a strong balance sheet. Our PCA multiple remains towards the upper end of our target range at 1.75 times, and we've continued to buy back both equity and debt, our debt-equity ratio falling to 36.8% from 38% at 31 December, 2018.

Just a couple of things on the results. Excluding the impact of disposals and a little portfolio repositioning, gross written premium grew by 3% on a constant currency basis. I'll give you a little bit more color on where we're growing in a moment. And the cash profit ROE was 13.4%, up significantly from 9.6% in the prior period. And reflecting the Board's confidence in both balance sheet and earnings momentum, our interim dividend increased to AUD0.25 per share, up 14% from AUD0.22 per share in the prior period.

We again saw strong rate increases on all of our major markets, leading to an average group-wide increase of 4.7%. When comparing this to the second half of 2018, it's

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probably worth noting the seasonality of some of our portfolio renewals. So for example, our reinsurance renewals, which saw lower overall rate increases than our insurance businesses. Reinsurance renewals mainly occur in the first half and, indeed, mainly in the first quarter of the year. Rate momentum accelerated across the half with the average increase being 5.3% in the second quarter, up from 4.1% in the first quarter. North America, we saw average rate increases of 4.1%, with around two-thirds of the portfolio achieving increases, a notable exception being workers' comp and we saw double-digit increases in property programs, accident and health, general aviation, and directors and officers insurance.

International achieved a rate increase of 3.8%, which included just under 4% in our European operations and just over 2% in our Asian business. Our London Market insurance business achieved an average rate of just over 6%. After years of flat or falling rates in the London market, this momentum is encouraging and indicative, I think, of a market demonstrating much improved pricing discipline. Finally, in our home market, Australia Pacific, achieved rate increases of nearly 7% ex-CTP. And particularly pleasing, I think, is the breadth of those increases, 17% in commercial property, 10% in strata, 8% in commercial motor and 6% in commercial packages, to give you just a few examples. I think, overall, based on the trends we're seeing right around the world, I'd expect to see continued positive rate momentum when we report our full year results.

Moving to the attritional claims ratio, this is one of my favorite slide. I think this slide really does speak volumes to the work we're doing across the group. The continued improvement experienced in all divisions over what's now a sustained period is testament to the work our underwriting teams have been doing. Just for what I've noted, you'll see the light blue lines there is the old basis of reporting, so pre-Equator. And the dark blue lines are the new basis of reporting, and you can see the trends are virtually identical. Since peaking in the second half of 2017, the group's attritional claims ratio has improved by nearly 7%. All divisions have made good progress in this half, reporting around a 3% or better improvement in the attritional claims ratio, but obviously, the pricing environment has helped a little. However, I firmly believe our rigorous performance management culture and underwriting strategies have contributed significantly to this material and sustained improvement. On growth, we previously said, we expected to see opportunities for targeted growth across all of our divisions, but also that we would remain disciplined around risk selection and remain focused on margin overgrowth. Whilst the pricing environment has improved, we still need to remain highly disciplined and selective in assessing new business opportunities. Underlying growth is up a little bit versus the same period a year ago at 3% compared to 2%. And growth in the recent half again reflects targeted rate increases and strong retention levels of our better risks. North America grew modestly overall. Our alternative market division grew 4%, underpinned particularly by growth in property programs. And our Crop business grew 1% despite lower commodity prices, reflecting a 6% growth in policy count on the back of our strong Crop customer service proposition.

In international, the European operations grew 5%, with notable growth in our London Market business, particularly in natural resources and liability and our Continental Europe business, particularly France and Spain. Australia Pacific achieved solid growth in strata. We saw rate increases of nearly 10% -- or above 10%. Similarly, strong rate increases

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contributed to a nearly 10% growth in workers' comp, while both commercial pack and farm grew mid-single digits. Cell reviews. Since rolling out cell reviews globally at the start of 2018, we've seen a material reduction in those cells generating current accident year underwriting losses, which is what we're showing you on the chart here, particularly in North America and international. But probably worth noting, for the current period on Australia Pacific, this is adversely impacted by the cats we had at the start of the year. And if you adjust for excess cat experience, you see roughly half of that gray bar disappear.

And as you can see from the chart, the cell review discipline is helping reduce both the absolute number of cells generating underwriting losses as well as the size of those losses. But we're also growing the most profitable cells. The current accident year profit from our profitable cells, i.e., the dark blue bars, has increased by 60% from the same time last year. And the number of cells contributing to that figure has grown from just over half to around two-thirds now. So, we're both turning loss-making cells to profitability, but also generating stronger earnings from our profitable cells. Hopefully, what all of this means is while we're never going to get to the nirvana where all cells are performing optimally at the same time, it does give us improved earnings resilience and enables us to resort -- absorb reduced contribution of many individual cells, so for example, Crop, in the current period.

A little bit on Brilliant Basics. Initially, the focus of Brilliant Basics program has very much been on establishing high-quality standards and consistency across the group. That work is now largely complete, and we've moved into the phase of building brilliant and distinctive capabilities in underwriting pricing and claims. And I really do think this will be the hallmark longer term of QBE.

I want to give you a feel for some examples of what this means in practice. So on pricing, we focused on the continued enhancement of our individual pricing models, including, for example, a much greater use of third-party data and applications. We've also improved the quality and the accessibility of our pricing adequacy tools, making sure we're using them everywhere across all portfolios and adopting a globally consistent approach to how we calculate the premium rate adequacy.

We've also launched a global commercial property pricing project today to standardize and improve the pricing approach for every single commercial property portfolio right across the globe for what is a AUD2 billion business. We've also now recruited global heads of long-tail pricing and a global head of short-tail pricing to drive further best practice and cross-divisional collaboration.

Under Brilliant Basics claims, our claims and data analytics teams are collaborating to improve our data-led decision-making and also to use digital technologies such as artificial intelligence, robots, chatbots to improve customer experience and reduce claims costs. Give you an example of that in Australia Pacific, our claims and data analytics teams designed and developed a new property triage tool for use during claims lodgement. The tool helps simplify the decision complexity for our claims officers, which then hopefully reduces leakage and balance the workflow to suppliers, thereby, improving our customer experience.

We've rolled it out to 270 claims offices, and early benefits include a 16% reduction in the time taken for work to repent -- commence and a 23% reduction in the time taken for repair work to be completed, all leading to an 8 point increase on our net promoter score.

In Brilliant Basics underwriting, we focus on many things, including standardization and tightening of underwriter-delegated authority levels and improving the governance of our third-party agency business. Probably more important, we've also put in place many new or enhanced underwriting strategies right across our portfolios themselves. We worked hard on achieving the right mix of hazard grades, reducing exposure to higher hazard-grade business, optimizing line sizes and aggregations.

Give a couple of examples of that. In London, what we call our property book of business that we call our international D&F, direct and facultative property. And there, we implemented new cat management tools to reduce our average annual expected losses from cats. This is a very detailed process, resulting in reducing limits. So, we reduced our limits of greater than AUD20 million by 65%, and very significantly reduced our cat exposures in peak territories by between 40% and 65%, all while managing the premium pool, thereby reducing our combined operating ratio current year on that book of business by 28% half-on-half.

In North America, the D&O class of business has been -- seen a very heightened level of claims activity right across the insurance sector, particularly for larger risks. We got at what -- we think we've got ahead of some of those trends in 2018 by introducing a new D&O risk selection tool and that helped us implement a strategy to move -- to change the shape and the mix of the book of business, focusing more on private company D&O, away from public company and reducing our overall maximum line size to AUD10 million and less on all accounts.

These actions helped reduce our prior year exposure in primary accounts by 35%, excess accounts by 20% and our average line size by 24%. And our current year accident year combined ratio there has improved 34% half-on-half.

Finally, similarly, in commercial property in Australia, as you all know, this is a market segment that's been wildly unprofitable for the entire industry in recent years, generating combined ratios well in excess of 130%. We put in place a comprehensive overall program of work. We updated our property pricing models, implemented new underwriter training, created new underwriting tools and analysis and significantly limited our underwriters ability to discount for the model price.

We also worked hard to reposition the book away from higher hazard-grade risks, actively reducing our exposure to sectors such as mining, pubs and clubs, abattoirs and food manufacturing. As a result of all of those initiatives, we reduced our exposure to higher hazard-grade risks by 32% but only reduced our premium pool by 10%. What does all that mean? Well, this led to a 66% reduction in large claims from high-hazard risks, a 50% reduction in large claims overall and a 40% improvement again in our combined ratio half-on-half. With that, I'm going to hand you over to Inder to take you through the results in a little bit more detail.

Inder Singh {BIO 20594382 <GO>}

Great. Thank you, Pat. Good morning, all. So, I'll take you through some of the detail of our half year result, which demonstrates the continued improvement in both the quality and the resilience of our earnings.

I'll start with our overall group P&L, and just call out a few key metrics on this slide. Written premium was up 1% on a constant currency basis, and up 3% when adjusted for divestments and portfolio-repositioning initiatives. The combined operating ratio improved by just over 0.5 point to 95.2%. This was driven by a significant improvement in the attritional claims ratio, partially offset by a lower earnings contribution from our LMI and Crop businesses, as well as a flagged headwind from the restructure of our reinsurance program.

Our annualized net investment return of 4.5% was meaningfully higher than our target range of 3% to 3.5%. We've had quite an extraordinary run in investment markets over the last six months, with our returns supported by a sharp fall in risk-free rates, the narrowing of credit spreads and a rally in growth assets.

Cash profit after tax for the half was AUD520 million. Adjusting for non-recurring items, including gains on disposals, the impact of the Ogden decision and restructuring costs, the cash profit from continuing operations was \$565 million. This equates to a very strong return on equity of 13.4%.

We have declared an interim dividend of AUD0.25 per share, which represents a healthy 14% increase on the prior period. And it underscores our confidence in the momentum of our business. The dividend equates to a payout ratio of 45% of cash profit. And if we normalize our investment performance to the midpoint of our target range, the payout ratio is closer to 61%.

Overall, I'm encouraged by the ongoing improvement in both the quality of our earnings and the strength of our balance sheet. Year-to-date, we bought back AUD174 million worth of QBE shares. And when we add this to our interim dividend, we'll have just -- we'll have returned just over AUD500 million to shareholders in the first half.

I'll now briefly walk you through the year-on-year movements in our key metric, the combined operating ratio. As you can see from the waterfall, our combined ratio improved by just over 0.5 point from 95.8% in the prior period to 95.2%. The reduction in our attritional claims ratio, which is the very first block you see in the walk here, was the biggest single driver of this improvement. Pleasingly, we saw a consistent level of improvement in our attritional claims ratio across each of our three divisions.

The second block on the walk represents the headwind from the lower earnings contribution from Crop and from LMI. As many of you are aware, our US crop business has been impacted by an unusually wet spring season. And this is flowing through to an elevated level of preventive planting claims.

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To reflect this, we booked our business to a current year combined ratio of around 98% compared to around 93% in the prior period. And this equates to a ratio -- this equates to around 0.5 point headwind to the group combined ratio. In addition, the lower earnings contribution from LMI represents a further 0.5 point impact compared to the prior period. As we flagged in our market update in December, we expected the restructure of our reinsurance program in 2019 to impact our combined ratio by around 1 point.

The third block on the chart here shows that this year-on-year movement is in line with our expectations, with our higher allowance for large risk and cat claims, partially offset by lower reinsurance spend. Releases from prior year reserves contributed a modest 80 basis points to our underwriting results, and this was in line with the prior period.

I'll now turn to our divisional performance in more detail. This year, we have simplified our reporting and folded the results of our internal captive reinsurer, Equator Re, back into the relevant business units to give you a better view of performance in each of our operating divisions.

I'll start with our home market of Australia Pacific. Gross written premium of AUD1.96 billion was up 2% in constant currency terms and up 3% when adjusting for the sale of our travel insurance business and the contraction in LMI.

Rate momentum remained strong at 6.8%, with most of the increases targeted in areas where the rate adequacy or return on capital is not sufficient. We're carefully tracking how our pricing and underwriting initiatives are translating into sustainable improvements in our attritional claims ratio.

To give you a few portfolio-specific examples, in commercial motor, we achieved a rate increase of 8% and a year-on-year improvement in the attritional claims ratio of 9 points. In workers' comp, we achieved a rate increase of 6%, and the attritional is down over 10 points. Similarly, in our strata business, we achieved a rate increase of 10%, and the attritional is down over 10 points.

Importantly, our retention ratio remains stable at around 83% across our book of business. As you can see from the chart here, the headline combined ratio was a very impressive 90.5% with a year-on-year movement driven by a few key components. The attritional loss ratio improved by 3.5 points, and large-risk losses were slightly better than expected. However, these impacts were more than offset by an elevated level of cat activity, particularly the Townsville floods, with our reported cat loss ratio around 4 points higher than the prior period and about 1 point higher than our divisional allowance.

The combined ratio of LMI increased to 58.5% from 50.6% in the first half of 2018, and was also marginally higher than the 55% reported for the full-year 2018. This increase in LMI was primarily driven by the contraction in earned premium, resulting from the slowdown in home lending that we've seen in recent years. Key credit metrics continue to trend broadly in line with our expectations. And the near-term outlook for this business is stabilizing given the recent adjustments in Australian policy settings.

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I'll turn now to international. Gross written premium in this division of AUD2.9 billion was up around 4% in constant currency terms, with 5% growth in European operations, partly offset by a contraction in Asia, which reflected the flow-through of the remediation activities in this region over the last 18 months.

Overall, across international, premium rates increased by around 4% with retention steady at around 81%. As Pat referenced, we are seeing better trading conditions in the London Market than we have for many years with good rate momentum and quality new business.

In our UK regional businesses, we're achieving strong rate increases in the areas we've seen elevated claims costs, in particular, commercial motor and financial lines. As you can see from the chart, the current accident year combined ratio of 92.9% was 2.3 points lower than the prior period, driven by a strong 3 point decrease in the attritional claims ratio, lower operating expenses and benign cat activity, all of which more than offset the slightly higher than expected cost of large risk claims. It's worth noting that our large risk experience in this division tends to be a little bit more volatile given the nature of the exposure and the line sizes we write out of our London Market operations.

Targeted underwriting and pricing actions have improved our current year claims ratio across several lines where returns have been challenged, including international property and European financial lines, which both saw a more than 10 point improvement, as well as UK liability, which saw a 5 point improvement.

Pleasingly, our expense ratio also improved by 0.5 point versus the prior period. Our cost-out initiatives are improving the efficiency of our operating platform, and we're also starting to benefit from the economies of scale as market conditions improve.

Turning now to North America. Gross written premium of AUD2.8 billion was broadly flat if you exclude the impact of asset sales. Underlying growth was closer to 3%, adjusting for some portfolio repositioning we have undertaken in our corporate and our excess & surplus lines books. The premium adequacy and quality of business in these portfolios require remediation. So, we've shed some business and are now achieving more appropriate rate on the new business that we're writing.

More broadly, we achieved a healthy rate increase of around 4% across our North American business, with positive rate momentum across nearly two-thirds of the book. Overall, retention was around 72%, adjusting for some of the portfolio repositioning I referenced earlier.

As you can see on the chart, our current accident combined -- current accident year combined ratio improved by around 1 point to 98.8%, driven by a strong 3 point improvement in the attritional claims ratio and a lower expense ratio, both of which more than offset the impact of lower contribution from our Crop business.

Targeted underwriting and pricing actions have improved our attritional claims ratios across several lines where returns have been under pressure, including professional lines

where we've seen a 9 point improvement, specialty programs, more than 10 point improvement, and Assumed Re, around a 5 point improvement.

The simplification of our business in North America is an important component of our efficiency program. We've made a good start on this with the expense ratio of the business improving 1.5 points versus the prior period. The sale of our retail personal lines business, which we completed on the 1st of August, is another important enabler of this program.

Turning to the next slide, and more broadly on operational efficiency. You'll recall that we are targeting around AUD200 million of gross cost savings, AUD130 million of net savings and an expense ratio of less than 14% by 2021.

We're only six months into this program of work, but I'm pleased with the progress that we're making. We've achieved around AUD20 million in underlying net savings, and we're on track to deliver AUD40 million by the end of this year. Our expense ratio stands at 14.8%, which is lower than both the first half 2018 of 15% and the second half last year at 15.3%.

Within our 2019 numbers, we are absorbing an elevated level of regulatory and compliance costs. And importantly, this doesn't change the underlying trajectory of our expense program or our operational efficiency targets for 2021. However, our current expectation is that we will incur approximately AUD30 million of incremental one-time regulatory project charges in 2020, and we will clearly highlight these when we set out our combined ratio guidance for next year.

I'll turn now to investment returns. As I referenced earlier, we've experienced an extraordinary six months in investment markets with a sharp fall in bond yields and credit spreads as central banks have shifted their policy stance to more expansionary settings. Growth assets have also rallied as valuations have rerated to reflect lower discount rates and expected policy stimulus. This backdrop has helped us deliver a remarkably strong annualized net investment return of 6.8% compared with the 2.1% in the prior period.

Excluding the discount rate impact on our liabilities, the investment return was 4.5%, which was meaningfully above our target range of 3% to 3.5%. Fixed income assets generated a return of 2.7% compared with 0.6% in the prior period and growth assets return 7.6%, up from 4.5%.

Our asset duration now stands at 2.3 years, a modest extension relative to 2.1 years at the end of last year. More importantly, the significant extension of our asset duration over the last 18 months has helped protect our P&L from the sharp movements in risk-free rates that we've seen during this half year, with the impact on claims liabilities broadly offsetting the mark-to-market gains on investment assets.

Notwithstanding the fact that our running yield at the half is around 60 basis points lower than at the end of last year, our strong performance in the first half positions us well for the delivery of our full-year investment return targets.

I'll conclude with some remarks on our balance sheet and our capital position. Our APRA PCA multiple at the half is 1.75 times, which remains towards the upper end of our target range. This reflects our solid earnings generation over the half, partially offset by the 2018 final dividend and the share buyback activity we've undertaken in the half. We retained a very strong S&P capital position with a healthy excess above a AA level of capital.

As I referenced earlier, we purchased AUD174 million worth of QBE shares in the first half. And since the commencement of the buyback program, we have purchased AUD646 million in shares, resulting in a cancellation of 58.6 million shares or 4.3% of our issued capital.

Our gearing ratio was 36.8%, lower than the 38% recorded at the end of 2018. We bought back AUD195 million of senior debt in the half, representing the last of our remaining non-capital qualifying debt. The benefit of this buyback on our gearing ratio was partially offset by a stronger US dollar and our adoption of accounting standard AASB 9.

With that, I'll now hand back to Pat to talk through our outlook.

Patrick Regan {BIO 15131018 <GO>}

Thank you, Inder. As we look across the remainder of 2019, the outlook is for more of the same. We are focused on delivering our plan, underpinned by an improving attritional claims ratio. To do this, we need to continue with our cell review processes and the build-out of our Brilliant Basics program.

We're also continuing to focus on creating a distinctive, diverse and high-performance culture at QBE as we embed the QBE DNA right across the company. As we develop our culture, it's important that we act with integrity, do the right thing by our customers and, of course, attract and develop the right challenge right across all levels of the organization.

And finally, we continue to make good progress towards our commitments to sustainability, including identifying and integrating ESG issues into risk management and underwriting decision-making processes. We're also delivering on our climate change action plan.

Our financial targets for the full year are unchanged. Our target combined operating ratio is 94.5% to 96.5%, and we continue to target a net investment return range of 3% to 3.5%.

Finally, you will see in our separate ASX release this morning announcing the appointment of Todd Jones to the role of CEO, North America, succeeding Russ Johnston, who's decided to seek opportunities outside of QBE.

Let me first say a big thank you to Russ. He's helped steer QBE's North American operations through a period of major change, simplifying the business and the operating model there, significantly strengthening our technical capabilities and delivering industry

specialist capabilities. I would like to personally thank Russ for his valuable contribution and wish him all the best in the future.

Also, I'm especially excited by Todd's appointment, who joins us from being the Global Head of Broking at Willis Towers Watson, and prior to that, he was the CEO of Willis Towers Watson. I've now Todd for 15 plus years, and I know him very well from my own time at Willis. And I'm confident he brings significant executive-level experience in insurance and in broking. And he'll bring invaluable perspective to QBE as we look to further orientate our business around customer.

In closing, I'm really pleased with the continued progress we've made against our objectives. We remain focused on our priorities for 2019, and I very much look forward to updating you all again in February of next year.

We are quite happy to take questions.

Questions And Answers

Q - Daniel Toohey {BIO 16751863 <GO>}

Thanks. Good morning, Pat. Dan Toohey from Morgan Stanley. A few questions. Just firstly, on the reserves. I mean you highlighted, I think, in the quarter release, that you talked about underlying of 80 basis points. There's a few moving parts in that. There's Crop, and there's Ogden. And I guess, also just the strengthening that you saw in the US. So, just trying to get a sense of what the moving parts are within that and the US?

A - Patrick Regan {BIO 15131018 <GO>}

Sure. I mean the 80 basis points is a pretty solid number to represent. On Crop, obviously, you get a prior release. But as you cede some of that back to the government, the 80 basis points does not include Ogden. So, there are two things I've referenced on that. On the US, we just had a couple of small pockets, really, much as the industry have seen. So, we saw a little bit on Irma from 2017. We saw a little bit on financial lines, but nothing that was individually significant.

Q - Daniel Toohey {BIO 16751863 <GO>}

So the 95.2%, just to be clear, does that include 2% reserve releases or is it 80 basis?

A - Patrick Regan {BIO 15131018 <GO>}

It includes 80 basis points of reserve releases.

Q - Daniel Toohey {BIO 16751863 <GO>}

Okay. Thanks. And just on Crop, obviously, a former view on the 98% COR, traditionally, we don't really get a view on the profitability until -- I think until post harvest and whether the prices we're seeing so...

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A - Patrick Regan {BIO 15131018 <GO>}

Yeah. I've got a great app on my iPad now that measures all sorts of things, including daily soil moisture. It's harder this year. There's literally a whole industry that tracks this in addition to our own experts. So the kind of things you've all read about, that more soil moisture in the planting season, that will lead to a higher level of preventative planting claims, so we will have a higher level of preventative planting claims this year than last year. So that's why we've upped our half year just to reflect that. Look, I think if you compare to what we've booked currently, actually, around at 98% compared to some other folks, we booked it a number of percentage points higher than they have. I feel good about where we're at. There's a series of outcomes that could flow from here. Some of that could be positive to how we've booked up. We won't know, obviously, until later in the year.

Q - Daniel Toohey {BIO 16751863 <GO>}

Okay. And just finally on LMI. I mean that's -- we've never seen a cycle there. I know that's been ticking up a little bit over recent times. How confident are you that at 58%, that is a normalized view and we won't see continuing deterioration in the second half?

A - Inder Singh {BIO 20594382 <GO>}

Yeah. Look, I might take that one. In terms of -- we booked the business at 55% at the end of last year, so 58% in this first half. As you know, we've probably -- the claims emergence we've continued to see has mainly come from Western Australia and in Queensland. And that's really the continued fallout from the mining boom, which is a few years now in the rearview mirror for us. And we're not really seeing anything in terms of forward-looking metrics, be it arrears, which we've now stabilized, new delinquencies, which are stabilized. So, it's the kind of arrears working through the system, which we're conscious of and what's happening with cure rates and what's happening with average claim sizes, et cetera. But Dan, look, there's nothing to say. I mean the policy settings are now a bit more stable and supportive, I guess and we feel the business feels like it's stabilizing, albeit we'd need to see kind of how the full year shapes up.

Q - Daniel Toohey {BIO 16751863 <GO>}

Okay. Thanks.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Kieran Chidgey, UBS. Let's start with a question on claims inflation. You're clearly seeing very good premium momentum across most regions. But just came for sort of how you think real premium rates are going into claims inflation in each of the regions particularly given the earlier comments that we have seen, some long-tail top-ups in both the UK and to a lesser extent, probably in the US that seems to suggest you actually do need rate to be rising in some of those long-tail classes.

A - Patrick Regan {BIO 15131018 <GO>}

Sure. Thanks, Kieren, for the question. Kieren, let me kind of whiz around the world then. So starting here, we see a bit of inflation on things like motor, but that's true in -- I mean I

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could do that around the world in one sentence. There's inflation in the motor in all markets and you need rate in motor in all markets, including commercial motor. So, that's definitely true. You'll have seen that commented by everybody who's reported. Other than that here, there's much more modest inflation, and there's very modest inflation on long-tail lines, and we continue to price in and reserve for inflation and not so yet in -- and have reserve releases accordingly.

As you go to Europe, I mean the two things to reference there are financial lines and, again, motor. Motor, I've talked to. Financial lines, there is clearly a heightened level of claims activity in every financial lines market in the world. We've tried to get ahead of as much of that as we can by recutting. I referenced the North American example. I could have used the European example similarly. There's a lot more claims activity, particularly on bigger accounts.

There's more rate. I mean you've seen double-digit rates on D&O in both London and in the US. Is that enough to cover inflation? It's hard to say categorically yes. I think we'll continue to see rates in financial lines. And in North America, it's similar. The most obvious pockets of inflation would be motor, financial lines and anything with health. And so we're getting double-digit rates in accident and health because you've probably got high single-digit inflation similarly.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Okay. Thanks. Just a second question on the investment return outlook. Can you give us a feel for where the running yield is on fixed income today? Obviously, I think you sit at 1.6% on average during first half.

A - Inder Singh {BIO 20594382 <GO>}

Yeah, Kieran. So just to -- in terms of what we referenced was that as we've gone through the first half, we've sort of seen probably 60 basis points to 70 basis points come off in terms of risk-free and the narrowing of credit spreads. So if you think about the midpoint of our range, which we've guided to sort of 3.25%, and take 60 basis points, 70 basis points off that, that kind of gives you a sense of the total return on the portfolio which we are probably running at as of today.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Thanks.

Q - Nigel Pittaway {BIO 3406058 <GO>}

All right. It's Nigel Pittaway here from Citi. First of all, just a question on sort of cell review and Brilliant Basics. So if you take those two programs combined, when do you think you get the biggest delta in terms of improvement to the attritional claims ratio from those two? Have we seen it already or is that still to come?

A - Patrick Regan {BIO 15131018 <GO>}

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Look, I've got various folks in the room who could answer that. So, there's loads of things we can still do better. Even -- every time we do a turn to the cell reviews, our information gets better. We just did a big slug of them in Australia. And Australia, we've seen 10 points of improvement on attritional since we started. There's loads -- the cells are all clearly performing better, 10 points later. There's loads of things we're improving and doing and looking at.

Forward information looks as better. Jason, our -- where is Jason, our Chief Underwriting Officer? On Brilliant Basics, it's still -- the global program for property is really interesting. It both gives consistency, but also ups our game on the analysis we're using. But probably, it's not the only portfolio you can do that on. There'll be other ones that come -- motor's a great example where, I mean, that needs something to improve because everybody's struggling to make money on commercial motor. So look, I think -- I doubt we've even got halfway there on what we can do and how we're building our capability on that.

Q - Nigel Pittaway {BIO 3406058 <GO>}

So, does it last 12 months, 18 months? Is that how much time you need?

A - Patrick Regan {BIO 15131018 <GO>}

I don't know. I don't know.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Moving on. Previously, Pat, you've mentioned that you felt there were some opportunities now just to start growing in North America, particularly since you were saying you've done your improvement a bit ahead of some of the other players. And obviously, AIG springs to mind. How are you feeling about that currently?

A - Patrick Regan {BIO 15131018 <GO>}

Look, we're -- the premium environment is clearly better and that gives us more opportunities. The only portfolio we had to pull back on a bit in the reference was E&S. E&S has been -- there's more opportunities and more rate, but there's a lot of business you don't want to touch in E&S. So the rest of the business is much better positioned now.

Our program business is really well positioned. We can grow well. We're writing some really high-quality, really rate-adequate property cap business, is a good example of that. And the corporate specialty business now, we've launched two industry verticals. We're launching another soon. This is just a nice way to grow in areas we got good capability. So, I don't think -- you don't really want to be posting double-digit volume increases in our line of business. But just gentle growth now in a better rate environment feels sensible.

Q - Nigel Pittaway {BIO 3406058 <GO>}

And then maybe finally, I mean you mentioned that risk losses were a tad ahead of expectations in international. How are you feeling now with your sort of large loss on risk allowance of close to 12% of NEP in terms of the experience that you've seen there?

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A - Patrick Regan {BIO 15131018 <GO>}

Yes. So we feel good, I think. So as everybody knows, that -- and I referenced some of the work we've been doing to reduce the frequency. They're sort of working. I would expect we'll continue to see a little benefit from that as we go forward in reduction of frequency and that's sort of showing up in most of our territories. So, I think the allowance for large risk and cat allowance looks good. It's in line with our expectations.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Okay. Thank you.

Q - Andrew Buncombe {BIO 19921333 <GO>}

Thanks. Andrew Buncombe from Macquarie Securities. Two questions from me, please. Just your thoughts on the buyback at this point. We're getting closer to the end of that period. You had said previously that you had extended through the end of this calendar year to finish out the full AUD1 billion. But given the group gearing ratio continues to come down, you're buying back that other debt. Is there a possibility that, that could be extended going forward?

A - Patrick Regan {BIO 15131018 <GO>}

Was that both questions, Andrew?

Q - Andrew Buncombe {BIO 19921333 <GO>}

No, that was the first one.

A - Patrick Regan {BIO 15131018 <GO>}

Look, we'll certainly carry on and finish our commitment for this year. We're very focused on doing that. That will get us probably not all the way to AUD1 billion but the lion's share of it. I think I'll update you more on the year-end. I think there's a case for doing a bit of both next year. You could buy back a bit of debt and a bit of equity probably, but we'll give you a more complete answer at year end.

Q - Andrew Buncombe {BIO 19921333 <GO>}

Sure. And then the other one was maybe if you can give us a bit of color on your New South Wales CTP portfolio. Have you started to book any charges from excess profits just yet?

A - Patrick Regan {BIO 15131018 <GO>}

No. It's still -- I mean there's still kind of -- despite the fact it's quite some time since reforms went into effect, reforms have obviously done what they expected to do in terms of letter reduction of premiums for customers, letter reduction of frequency of claims for ourselves. We've adjusted our price a little bit as we've gone through. Our market share is 25%, 26%. It's sort of stable around there. But it's too early to make a long-term call on profitability on that.

Q - Andrew Buncombe {BIO 19921333 <GO>}

Excellent. Thank you.

Q - Matthew Dunger {BIO 20863237 <GO>}

Thanks very much. It's Matt Dunger from Bank of America. Just wondering if I could follow up on Nigel's question on North America. You mentioned on pricing that you've shed business and now starting to see some rate improvements. Can you talk to the timing of when that business was shed and should we expect better trajectory on pricing into the second half?

A - Patrick Regan {BIO 15131018 <GO>}

Yeah. The -- as I mentioned, the portfolio we're really, really focused on that was E&S, which was a first quarter -- a first quarter thing. Look, I think, generally, in the US, you've seen the rate environment has picked up and there is a million sources for this whether we much as referenced on the competitor commentary. Second quarter was better than first quarter. Expectation is that, that will continue, not maybe a hard market but a better pricing environment as we go through. It's clearly been helped by a more market-wide pricing discipline from some of the more major players there. And we can just tuck in behind that and focus on getting a little bit of rate where we need it.

Q - Matthew Dunger {BIO 20863237 <GO>}

Thank you. And just to confirm, in February, you mentioned the incremental PCA benefit of around AUD285 million due to the reduction in capital charges. Is that now fully reflected in the PCA?

A - Inder Singh {BIO 20594382 <GO>}

Yeah. I mean, look, that came about as we reset our reinsurance program to some extent and so absolutely. So, we're kind of at, what I'd say is a run rate level of risk charges reflecting the risk that we're carrying in the business.

Q - Matthew Dunger {BIO 20863237 <GO>}

Thank you.

A - Patrick Regan {BIO 15131018 <GO>}

Do we have any more? Great. Thank you for everybody for joining us. And we look forward to seeing you again next time.

A - Inder Singh {BIO 20594382 <GO>}

Oh, was there some questions on the line?

A - Patrick Regan {BIO 15131018 <GO>}

No questions.

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A - Inder Singh {BIO 20594382 <GO>}

No questions on the line. Okay. Thank you.

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