Q2 2016 Earnings Call

Company Participants

- John D. Neal
- Patrick Charles Regan

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Other Participants

- Daniel P. Toohey
- David Ellis
- David Humphreys
- James Coghill
- Jan van der Schalk
- Kieren Chidgey
- Nigel Pittaway
- Siddharth Parameswaran
- Toby Langley

MANAGEMENT DISCUSSION SECTION

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John D. Neal {BIO 20988613 <GO>}

Okay. Good morning, ladies and gentlemen. I think we will make a start. And welcome to our 2016 Half Year Results Presentation which as per normal, Pat Regan, our Group CFO and I will be presenting today.

So we wanted to illustrate on one slide the significant improvement and solid trends you can see in the key metrics of our business, particularly when you look through the various impacts of asset sales that you've seen take place, foreign exchange, crop earnings patterns and the reinsurance transactions that have been affected for long tail classes in our European division.

Accordingly and on a constant currency basis, gross written premium for the half was broadly flat, which is a good result in 2016 against the backdrop of competitive pricing globally. Our Emerging Markets division grew by 10% on a constant currency basis and we have seen modest growth in the home market in Australia, and premiums broadly flat in the northern hemisphere divisions of Europe and North America.

If you apply those same factors, our net earned premium was up by 3% relative to the prior period, reflecting reduced reinsurance spend. But it's very important to stress here that our risk appetite is largely unchanged year-to-year and our reinsurance covers and

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purchase remains extremely extensive. So, there are many components of the 2016 half year results that are pleasing.

So, whilst our statutory combined operating ratio was 99%, and that 99% reflects a $283 million pre-tax charge associated with lower risk-free rates used to discount net outstanding claims, and can I say that compares to $45 million benefit in the prior period. So that aside, the adjusted combined operating ratio was 94%, and well within our 94% to 95% target range.

Our claims ratio shown on the slide at 59.8%, and reflects the same adjustment criteria I have just referred to, is underpinned by fourth consecutive period of positive prior accident year claims development. And the structure of our reinsurance programs has quite literally weathered us from the spate of catastrophe activity recorded by our global peers in the second quarter.

And furthermore, we've made a really good start towards our targeted $300 million of expense savings by the end of 2018. In fact, during the first half, we've reduced our expense base by $124 million, which is reflected in the 1.2% improvement in the expense ratio.

So our objective of achieving gross written premium growth of 3% per annum across the cycle remains and we anticipated that this level of growth would be achievable through 2016. I can't overstress that margin is much more important to us than growth. And the macro-pricing conditions are little more challenging than we expected, notably in Asia and in Europe. And therefore, growth through the first half and for the full year is expected to be nominal.

Our reinsurance structures have responded really well against the notable claims catastrophe activity that we're seeing in the second quarter, particularly in North America, Canada, Ecuador and Fiji. And indeed an optimization of these reinsurance structures has generated savings of around about $54 million this year, and very important to stress that we have significant headroom in our aggregate treaties available for the second half.

So whilst we've seen a stable claims ratio overall, the deterioration in our attritional claims ratio of 3.1% is disappointing, and a little over 80% of this movement is in our Australian and New Zealand operations. We're a combination of increased accident frequency and average claims cost on the New South Wales compulsory third-party scheme coupled with premium pricing pressure and higher than normal claims inflation on the short tail portfolios has required decisive action to increase price, tighten terms and improve risk selection. These actions will benefit the attritional claims ratio during 2017.

It's pleasing to report a fourth consecutive period of positive prior year claims development, notably from Europe, which has a long history of prior year releases, and encouragingly continued releases from our long-tail classes here in Australia. The prior year positive claims development has not been at the expense of our balance sheet, where our probability of adequacy is unchanged at 89%.

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So stable premium levels and notably the uptick in net earned premium has allowed us to begin to show the benefit of the significant action we're taking in reducing acquisition costs, notably on the expense line with $124 million of savings coming through the half. Our balance sheet remains in particularly good shape. The investment team took advantage of global bond market volatility to add a little duration through the half. So ending at 1.3 years, up from 0.9 years at year end. And as a consequence, we've executed a half year investment return well ahead of expectations.

So cash flow through to head office is now sitting in excess of $600 million for the half and our S&P capital ratio stands at 1.2 times A rated capital. And so therefore comfortably equivalent to AA capital evidenced by Standard & Poor's decision earlier in the year to place QBE's A-plus rating on positive outlook. So the board is pleased to report an interim dividend of A$0.21 per share which is up 5%.

So I wanted to provide a quick update on our North American division where we're pleased that continued performance improvement will manifest this year in 2016 and the division remains on track to delivering a mid-90s combined operating ratio by 2018.

Our Specialty Lines portfolio is tracking both, in line with our growth and profitability expectations. Crop has made a very promising start to the year with low preventative planting claims and stable commodity prices. Our Reinsurance and Standard Lines businesses continue to improve, and re-underwriting in respect of the latter remains a key priority for the division.

So we now have a recognizable commercial and specialty business in North America, established regionally, and with a solid suite of specialty and standard lines products and service offerings. We are launching an excess and surplus lines business to complement our admitted capability as well as broadening our product suite in the personal lines area.

So our claims ratio encourage us that our underwriting and risk selection parameters are achieving the right level of performance, and as elsewhere in the group, we have a series of focus claims initiatives designed to reduce claims fraud and improve claims recoveries opportunities.

Our North American business is now realizing a significant improvement in its combined commission and expense ratio, which is forecast to improve or reduce by 4% by the end of the year. Russ Johnston has settled in extremely well in the CEO role in North America and the progress being made in this important division continues to encourage us.

In Australia and New Zealand, the solid headline result of 93.9% combined operating ratio reflects continued strong returns and performance in our long-tail business lines as well as our lenders' mortgage insurance business. The movement in the attritional claims ratio, however, is both disappointing and unacceptable.

Some of the movement in the attritional claims ratio is foreign exchange impacted where, of course, we report our Australian business in U.S. dollars, as well as reflecting the increased component of CTP business. The increase in the attritional claims ratio importantly is correctable and the improvement can be relatively swift.

So the increased frequency and average cost per claim we've seen in New South Wales CTP has already been counted by a series of four rate increases to a compound benefit of 16%, and these coupled with the proposed reforms and risk selection criteria give us comfort in our ability to pull this portfolio back into shape. This portfolio accounts for 2.5% of the attritional claims ratio movement shown on the chart.

The frequency of large individual risk losses of our trade credit and surety portfolio has been arrested by remedial underwriting action, strong economic assessment of exposed industries and a reduction in premium writings. This portfolio accounts for 1% of the attritional claims ratio movement. And so a combination of price increases, tightened terms and conditions, and improved risk selection on our short tail classes is designed to counter the balance of approximately 3% to 4% of the movement on the attritional claims ratio in our Australian business.

So, the group-wide reinsurance structures are of a benefit to the Australian division, as in fact they are to all of our divisions and the robustness and quality of our reserves with releases emulating from the long tail classes gives us confidence that there is no systemic problem in the underwriting account.

So as I reflected on the previous slide, a combination of strong rating action, clear risk selection and scheme reforms will allow us to pull CTP in New South Wales back into shape through 2017. Encouragingly, our CTP portfolios elsewhere in Australia, notably in Queensland and South Australia, are producing solid returns.

In the Australian market, we've seen a period of zero price activity for almost two years, now coupled with true claims inflation, which in itself is exaggerated by superimposed claims inflation as the Australian dollar has weakened. This has manifested itself particularly in a rise in the average cost per claim. It's simply the case that with a commodity-orientated portfolio, we have to continue to achieve a level of rate increase and tighten particularly deductibles. These actions have already been initiated through the second quarter and will be repeated through the second half.

With immediate effect, Pat Regan, our Group CFO will take responsibility for the Australian and New Zealand business, whilst we undertake a search for a new permanent CEO for the division. I believe this change in leadership, together with the management strengthening that we've already made through the second quarter, and the near-term focus on tight management of underwriting performance and cost control will quickly improve the results, and set the division up for future success.

So if I may, I'll now hand over to Pat Regan.

Patrick Charles Regan {BIO 1443834 <GO>}

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Thanks, John, and good morning, everybody. As usual, I'm going to take you through some of the financial detail of the results today as well as an update on our balance sheet metrics. Starting with the full results, overall, the group reported net profit after tax for the half was $265 million down 42% on 2015, but entirely due to the impact of discount rates in the first half and, to a lesser extent, foreign exchange.

Obviously, the dramatic 70 odd basis points fall in global yields since December 31 has resulted in a $283 million pre-tax negative impact from discount rates, equivalent to about 5% on the half year combined ratio. Because of that, virtually all the analyses I'm going to talk to you today is going to show excluding that unusually large impact from discount rates.

Few of the other kind of headlines, GWP for the half year on constant currency and adjusting for the sale of the mortgage and lender services business was flat. Encouragingly, we saw 10% growth in emerging markets, offset by small declines in Europe and North America. Net earned premium actually grew by 3% on the same basis, as we made early strategic savings on the restructure of our reinsurance program and kind of more to come on that in 2017.

Our adjusted combined ratio excluding discount rate improved very slightly from 94.1% last year to 94% this year, albeit with a stronger contribution from prior year development than we had originally envisaged. We had $218 million positive contribution from prior development. We had reduced reinsurance costs in the half year, significantly reduced expenses which is then offset by that increase in attritional loss ratio and was entirely in Australia.

Notwithstanding volatile investment markets, we achieved a strong investment return at a 3.3% annualized net return in the half year. And this coupled with the combined ratio at the bottom end of 94% to 95% target helped us achieve an insurance margin if you exclude the impacted discount rates on liabilities of 10.8%. I will give you a bit more color on all of those in a moment. And finally, our tax rate was 23% for the half year, broadly in line with our long-term expectations target.

Turning then to the divisional results, and starting with North America, the combined ratio decreased, excluding discount rate, very slightly to 100.5% reflecting good underlying performance in North America, but also 2.5 points of prior year development in commercial auto very consistent with what we are seeing in industry-wide trends on commercial auto in North America.

GWP was down 1% in North America and that's entirely due to a change in buying patterns in the crop business, farmers essentially choosing high deductibles and that crop buying pattern change made actually a 2% impact on the group's growth in the first half. And that offset continued growth in our North American specialty business.

The North American attritional loss ratio adjusted for Mortgage & Lender Services sale in crop was up only slightly at the half year, despite that growth in Specialty Lines which is obviously a naturally higher attritional. And crop conditions are actually pretty positive year-to-date and, I think, bode well for the harvest season.

Expenses in North America down nearly $100 million from half year 2015 due both to the sale of Mortgage & Lender Services, but also our continued expense reduction efforts. And importantly, our expense ratio North America decreased by almost 400 basis points, actually over 400 basis points at the half year.

Our standout result clearly was Europe, which had another very strong combined ratio at 85.6%, a slight improvement even versus last year. The overall European combined ratio again benefited from about eight percentage points of positive prior year development, a direct result of both conservative reserving, low inflation there, and the claims work we've been doing in Europe over the last couple of years. And we have a particularly strong performance in Europe in the half from both the retail business there and the international markets division with both divisions recording combined ratios in the mid-80s.

Top line growth in Europe was down 1% constant currency, reflecting continued pretty competitive market conditions there with average rate reductions of 3%. And we're also seeing some premium pressure in areas such as our Energy business. Somewhat offsetting that, we are seeing more growth opportunities from our expanded distribution in both Canada and in Europe.

On Australia, while the headline combined ratio was, I guess, solid, we have seen two distinct trends in the half year, a positive trend on the long-tail classes with lower inflation leading to positive prior development and an increase in attritional claims ratio, and this has been due to a combination of premium pricing pressure, higher than -normal claims inflations on our short tail classes, a continuation of the claims trends on New South Wales CTP, and some higher claims frequency on trade credit.

And these trends, as I've mentioned, were partly offset by the positive performance on our long-tail classes such as liability, professional indemnity and CTP itself. And overall, the long tail classes generated positive prior development in Australia in the half year of $83 million.

Our LMI business continues to perform well and in line with our planning assumptions. While we've seen an uptick in delinquencies in Western Australia and South Australia, the performance of the rest of the book which is obviously, where the majority of the risk enforces, is pretty stable and in line with our planning assumptions.

And I guess just one last comment on Australia, kind of a personal one for me, I do think we've got strong foundations in that business. Clearly, there are some issues we need to address and I guess that's the reason we've made the leadership changes today. But I'm confident we can get on top of those in relatively short order.

On Emerging Markets, despite more difficult trading environments there, we did continue top line growth in Emerging Markets with GWP, up 10% versus last year. And growth was

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particularly strong in Indonesia, Malaysia, Argentina and Brazil. The Emerging Markets combined ratio was stable at 99.5%, notwithstanding the earthquake in Ecuador and Cyclone Winston in Fiji.

And the claims ratio actually improved by nearly two percentage points due to a better attritional claims ratio, primarily coming from the work we've been doing in Colombia. And while there is more work to do, we are encouraged by the progress on the improvement on underwriting quality in Latin America.

Offsetting this was a higher expense ratio as we made investments in the longer term growth strategy, particularly in technology and in underwriting. And finally, the Equator Re combined ratio at 70% was very much in line with half year 2015.

Looking at overall results, there are number of things building on from Investor Day, three positive things and obviously the attritional Aussie ratio as well. Firstly, positive prior year development, this is now our fourth half year in a row positive prior year development and our largest at $218 million. As in the last year, we had strong contributions from Europe, from Australia, but we are now also seeing an aggregate positive from the rest of the group, so small positive in Asia, small positive in LatAm, small positive in Equator and just a modest negative in North America.

As we talked about before, these continuing positives are the result of better processes, better data, I think conservative reserving and low inflation on some of the long tail classes, as well as certainly in Europe, some of that claims transactions activity. And I think at this stage, we would acknowledge it is reasonable to expect some continuing positive prior year development in future periods.

Second on our reinsurance protections, and really as we got in the chart there, most notably our aggregate protection for large risk claims and cat claims. Despite the cost of large risk claims and cat claims going up in half year from 12.5% last year to 14% this year and you'll have seen obviously from a number of particularly North American reinsurers, their results impacted by cat in the half, the increased recoveries under the treaty neutralized that impact. It's also worth noting that we're conservative in how we do these bookings at the half year such that actually we'd expect - so you can see 9.8% of NEP at the half year, we'd expect that to be around 9% for the full year. So in others words, that second half number should be at least a point lower.

Thirdly on expenses, total expenses have fallen by $124 million in the half year, obviously, a good start to our target of $150 million for 2016, partly is flagged due to the sale of Mortgage & Lender Services, also due to increased heads in Global Shared Services Centre in the Philippines, reduced heads and cost in North America, and reduced costs in both Europe and in Australia.

As we said, we have reinvested some of the savings in a combination of new technology and emerging markets growth. And for the first time in a number of years, we're able to combine reduced dollars of expenses with higher net earned premium and meaningfully reduced our expense ratio from 17.3% to 16.1%.

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I'm not going to go into the detail the Aussie results again but really to show you the increase in attritional is very much confined to Australia. Excluding crop, which is obviously not naturally an attritional product, North America is almost flat, as I mentioned, despite our growth in Specialty Lines. Despite a prolonged period of rate reductions in Europe, we've only seen a very slight movement in Europe, and again, I think partly due to the contribution we're getting from the claims transformation activities, we've actually seen an improvement in emerging markets. And all of this is really before our claims transformation activity really kicks in outside of Europe.

Turning to investment performance, certainly an interesting six months for managing investments, with China fears, early market volatility, Brexit, massive declines in risk-free rates, and obviously continuing geopolitical uncertainty. Our strategy has been to stay defensive and gradually increase duration and that serves us, I think, generally pretty well.

Our annualized investment return at 3.3% was helped partly by mark-to-market gains, but also good credit selection. And you see we've delivered decently in excess of market returns across most of our asset classes, particularly fixed income, developed market equities, and property. And our investment book remains what we think is conservatively positioned. 91% of the portfolio is still being rated A or better and we currently hold less than 10% of the portfolio in growth assets.

Then finally for me on the financial strength. Notwithstanding, the volatile economic foreign exchange investment markets, pretty much all of our capital ratios have stayed stable at the half year, with profit broadly been offset by a little bit of foreign exchange in our dividend payment. What that means is, as we described before, our capital remains very strong. And through an S&P lines, we're at the right top end of the AA range.

In addition to that, our free cash flow or cash remittances as we call it, has also been strong. We've achieved actually a record level of the half year of $648 million, actually three times what we had this time last year, and we actually now expect for the full year 2016 cash remittances to be over $1 billion. I think a great start to our three-year target of $3 billion cumulatively, and we do expect a dividend from all of our divisions this year.

It obviously leaves us in a great position to think about capital flexibility, as we go forward, and has allowed the board, at the half year, to look beyond the discount rate impact when considering the dividend for the half year, and that better reflects the underlying earnings power of the business, and therefore allowing them to increase the dividend 5% to A$0.21 given a year.

With that, I'll hand back to John.

John D. Neal {BIO 20988613 <GO>}

Thanks, Pat. And just looking at our outlook, so our assumption is that global pricing will remain under pressure in 2016, albeit our expectation is that overall premium rate reductions of a little over 1% will be broadly in line with that which we experienced in 2015.

So we've adjusted our 2016 forecast gross written premium and net earned premium for our current view on foreign exchange rates, market conditions, and in the case of net earned premium the $176 million charge incurred during the first half to reinsure UK long-tail liabilities. So this has resulted in a minor reduction in our gross written premium target range to $13.7 billion to $14.1 billion, and for our net earned premium target range to be $11.5 billion to $11.9 billion.

Our targeted combined operating ratio and insurance profit margin, respectively, remain unchanged at 94% to 95%, and 8.5% to 10%, and these obviously exclude any impact from risk-free rates used to discount net outstanding claims, but now do include allowance for further positive prior accident year claims development.

So we are implementing the necessary actions to address the movement in the attritional claims ratios in Australia and New Zealand, and therefore improve the profitability for this division. We're encouraged by the underlying improvement in North America and indeed in Latin America. We're making really good progress against the strategic objectives that were reported to the market in May, and would now be hopeful of exceeding our $150 million 2016 expense reduction target that puts us well on the way to achieving the $300 million in the aggregate that we're seeking by 2018.

Our early work on the claims line which is now being actively rolled out both here in Australia and in North America sets us up well to achieve those run rates savings on the claims line of $200 million by 2018. And so we have every confidence in our ability to execute against our combined operating ratio target of 94% to 95% for the full year this year in 2016.

As Pat just discussed, our capital position remains extremely robust and the reinsurance protections, we have in place, are clearly designed to withstand all but the most abnormal of catastrophe and large risk claims activity.

We are on course to deliver cash remittances up to group of greater than $1 billion in 2016. And again as Pat referred, the board has elected to look through the impact of discount rates when assessing dividend payments in the first half, and is likely to do so in the second half, and on this basis, a payout ratio of up to 65% of cash profits will be maintained and we therefore expect to grow dividends both in 2016 and in the near-term.

As Pat Regan has discussed, we have no intention other than to maintain a conservative position in our investment portfolio. But noting the strong performance in the first half, we've upgraded our targets for the full year to 2.7%.

So what I would like to do now is to hand over to questions.

Q&A

Q - James Coghill {BIO 14006200 <GO>}

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James Coghill, UBS. I had just a couple of questions on the obvious area in the result that has obviously disappointed Australia, New Zealand. And so it seems fanciful to believe that all the fixes are going to restore this to profitability or to reverse that deterioration in such a short time period you are flagging 2017. So, just a couple of questions around that. I mean, firstly on CTP, what additional rate increases do you think you need to put through over and above what you've already put through to get to that target? I think you said you will hit target returns by the end of 2017?

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A - John D. Neal {BIO 20988613 <GO>}

Yeah. So CTP, I think, particularly dealing with New South Wales. So direct answer to the question is, yes, we do anticipate putting further rate increases through in the second half. I think they'll be a lot smaller than the rate increases we put through in the first half. So, a couple of further 1% to 2% rate increases I would see going through.

Second thing to say is, we have seen some good positive improvement in the prior year on CTP, actually in New South Wales. So if you look at combination of current accident year and prior year, the combined ratio is already sub 100%. So I think take the two factors together and we are encouraged that they'll get the portfolio in shape.

We've done our own preliminary analysis of the reforms that are proposed to be introduced next year, and are comfortable that a combination of reform and price expectation will get that portfolio back to a sort of mid- to high-90s combined operating ratio. And frankly, the final thing I would say is that if we have to shed market share to get to where we want to be then we will.

Q - James Coghill {BIO 14006200 <GO>}

Yeah. It's a good lead into the second question, John, because this ramp of CTP business that you now have in New South Wales, over time the only way to actually restore profitability is to shed it, and I was just interested to see that your Australia forecasts for GWP have actually increased slightly. So could you just comment on how realistic that is? You've taken rating action in other classes of business and yet it appears that you're still quite optimistic that you can hold the premium base in Australia.

A - John D. Neal {BIO 20988613 <GO>}

Yeah. I think the growth that you've seen through the first half has really come as a result of some growth in CTP, which has clearly been arrested by the rate actions. It's likely that income will fall in Australia, New Zealand, as we take some remedial action through the second half. So I would say, if we were to lose 4% or 5% of income I wouldn't be too surprised by that number.

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Q - Kieren Chidgey {BIO 7268946 <GO>}

Thanks. Kieren Chidgey, Deutsche Bank. Couple of questions, just again, starting with the obvious and maybe one for Pat, when you came in and you joined, you spent a fair bit of time working on management information systems to improve the accuracy and the timeliness of information and it seems like there's been quite a big gap in performance expectations since the AGM and the Investor Day in May, relative to the end of June. So I

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mean, what conviction do you have that you're getting a good read on how these underlying businesses are actually performing in a timely manner?

A - Patrick Charles Regan {BIO 1443834 <GO>}

So I think that the trends we've seen in Australia, so one, CTP, we have talked about back end of last year. We talked about on Investor Day, so that's obviously continued on. In terms of the other classes, we saw a bit of an uptick in January and February, but actually March had a much better performance across our short tail classes on the attritional claims ratio. So at that point in time - and none of those trends were apparent in the back half of 2015.

So this is something obviously that we do keep close watch on. Those trends weren't apparent, absent CTP on the back end of 2015. And then we saw April, May and June were higher in the attritionals partly offset, as John said, by better performance on prior year and some of the long tail classes so we have both trends coming through in the second quarter. So this is something that we monitored very closely in that period of time when we had a series of meetings with the Australian management team on what actions we were taking and the speed of actions we were taking to get on to top of that.

So I think there was a change in the data coming through in kind of the second quarter versus kind of the back end of the first quarter. And I think we've decided that we need to move some of those actions at a more rapid pace to get on top of some of these.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Okay. Two other questions, the reserve releases, can you indicate whether or not you've lowered any of your inflation assumptions on a go forward basis to assist that?

A - Patrick Charles Regan {BIO 1443834 <GO>}

No. We're just literally comparing our actual versus expected, that's really where the savings have come from. It's not that we've done a wholesale exercise to lower assumptions within our reserve in that.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Okay. And finally, just on the investment yield outlook for the full year of 2.7% now, you've done 3.4% in first half, so that's implying 2.0% in second half. Is that where you see the underlying run rate on asset yields taking into account growth assets?

A - Patrick Charles Regan {BIO 1443834 <GO>}

(35:15) I think all I'd read into that is we were roughly round about 3.3% for the half and that implies about, on my mind, it's about 2.1% for the second half. I think we've lost - since we kind of put together the assumption, we probably lost 30 basis points of running yield. So that took our original assumption 2.4% to 2.1%. We always try and do a little bit better than that through our obviously good investment selection. But that's broadly what the maths were. If we can do a bit better than the 2.1% second half, we'll try and do that. But that's how we constructed the 2.7%.

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Q - Kieren Chidgey {BIO 7268946 <GO>}

Thanks.

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

Yeah. Thanks. Daniel Toohey from Morgan Stanley. Question on the top line, recognize the focus on profitability but just noticing that the exchange rate of the class rates you're using in the guidance on the pound is sitting 4% higher on the Aussie, 5%. So just in terms of that guidance, I mean, if rates sit where they are, you're sort of going to miss that. Should we take a more conservative view?

A - Patrick Charles Regan {BIO 1443834 <GO>}

I mean, obviously, the revenue we report is the average for the year. So the sterling is the one that's really moved significantly. Here we've seen some movements in Aussie but nothing like we saw in 2015. So really the movement, obviously in sterling versus the dollar came right at the end of the period. So didn't affect too much in the first half revenues so you're just taking kind of half of the year's impact of that into the second half revenues.

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

And just on the top line outlook, you're just taking a more of a normal view sort of stepping back from the 3% through the medium term. How should we think about your thoughts into the sort of next couple years when you're sort of talking about in the three-year plan, 3%? Is it now sort of more of a normal lifetime?

A - John D. Neal {BIO 20988613 <GO>}

No. I think, Daniel, I've said nominal for this year, but I'm not stepping away from 3% as you look at through 2017 and 2018, really the big driver this year was crop. As Pat referred to in his remarks, we've seen a change in buying habits, As the adjustments in price has gone up for crop, we've seen the farmers in the U.S. elect to take higher deductibles and spend a little less on premium, and that's net, net good news for us we think actually in terms of improving the result, but in terms of our planning that took 2% off top line.

So, on an underlying basis, we are seeing retentions do what we want them to do. They're nudging up about 1% per annum and that growth rate we're able to achieve in emerging markets is worth plus or minus 1% per annum for us in any event. So those two factors delivered two-thirds of the growth we'd look for. So, 3% looking out 2017, 2018 we still think is realistic.

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

And the statement on reserve releases that you think expectation of 1% to 2%. So should we assume within an underlying sort of 1.5% reserve releases going forward, is it sort of the norm?

A - John D. Neal {BIO 20988613 <GO>}

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Yeah. I mean, obviously, I've got kind of resisted saying that in the past. And I think kind of our track record is built up and I think partly because we're now in a position where we're not recording negative even relatively small ones in the Emerging Markets in particular, in Equator, that gives us more of the positive slowing through from Europe and Australia. So, obviously, if you look back over the past two years and the past four periods, that's sort of what we've averaged.

Certainly, we're seeing – whilst we're seeing and we're talking about the increase in attritional claims in Australia, we are also seeing a partially offsetting trend on the longer tail classes and we would expect to continue to see that in Australia. So, yeah, probably something in that in the average of what we've seen in the last couple years is I think reasonable.

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

And just a quick color on the reinsurance deal in the UK liability book, can you just make comment whether that is margin neutral?

A - Patrick Charles Regan {BIO 1443834 <GO>}

Yes. Good question. So the impact of that it is profit neutral or the impact of it is very, very small. It's $1 million or $2 million. And what it does is it takes of our book some of the longer tail liabilities as opposed to those type claims have come up via public liability and employees' liability, indebtedness . As we were happy to reinsure those away on a profit neutral basis, and the impact is a reduction of earned premium and a reduction of claims incurred in the period, so that just moves the ratios around a little bit which Tony's kind of adjusted for in the pack but it is profit neutral.

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

Thank you.

Q - Siddharth Parameswaran {BIO 15037291 <GO>}

Siddharth Parameswaran from JPMorgan. A couple of questions if I can. First question just on LMI, I was wondering if you could just give us an idea numerically what the combined ratio actually was and whatever contribution it made?

A - Patrick Charles Regan {BIO 1443834 <GO>}

Yes, so as we talked about at Investor Day, we said we've got a plan and we're going to book a higher loss ratio than we saw last year. We saw a very unusually low number last year. So we're booking loss ratio now in the kind of mid teens which we think is conservative based on the experience we're seeing and that, together with expense ratio, means we're high 20%s on the combined ratio.

Q - Siddharth Parameswaran {BIO 15037291 <GO>}

Great. Thank you. And just a question on seasonalities, is there any seasonality in your combined ratios now, given that you've got rid of the (41:11)

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A - John D. Neal {BIO 20988613 <GO>}

Yes is the short answer. Two areas that are notable, one is crop which is predominantly a second-half business as you know, and the second really is around the skew on the way in which the aggregate reinsurance treaty works on large individual risk and cat claims. So our sense, if you're trying to do the maths for the full year reconciliation is that there's about 1% to 1.5%, which is in those two factors alone as you try and look through to get to the full year forecast.

Q - Siddharth Parameswaran {BIO 15037291 <GO>}

1.5% on the combined ratio or...

A - John D. Neal {BIO 20988613 <GO>}

1% to 1.5%. So if you look at the underlying performance through the half year and they are adjusting for those two factors, it's worth about 1% to 1.5% for the full year.

Q - Siddharth Parameswaran {BIO 15037291 <GO>}

On the combined ratio.

A - John D. Neal {BIO 20988613 <GO>}

On the combined ratio.

A - Patrick Charles Regan {BIO 1443834 <GO>}

So, yes, I mean, to your question, we've got less seasonality that we used to have obviously because of less cat. The way we do – we are conservative on how we do the half year bookings, so exactly as John said, we'd expect cost of larger cat, net of reinsurance with at least a point lower in second half. You then got, in addition to that, probably kind of half a point or so of crop benefits. In a good harvest year, it would obviously be more than that. Then the last thing that which is less of a seasonality more kind of what we're thinking, as we talked about we got some of the claims activities coming on stream, we would like to see the non-European benefits of that start to flow through the second half and a bit of our expenses as well. So first two, kind of genuinely seasonal; last two, kind of more things that we're doing.

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Q - Siddharth Parameswaran {BIO 15037291 <GO>}

Okay. That's very clear. Thank you. And just last question just on the premium rate increases in Australia I think, they're down 3%, but I mean, you mentioned that you've put through 16% increases in CTP. So, are we to take away that there were significant rate reductions on the portfolio ex-CTP?

A - John D. Neal {BIO 20988613 <GO>}

Yeah there were. So if you look through first quarter, I would say premium rate reductions were around about 4% to 5%. That's almost been eroded completely through the second quarter. So therefore, our expectations is we'll go into net positive territory, ignoring CTP in the second half.

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Q - Jan van der Schalk {BIO 4168372 <GO>}

Hi. It's Jan van der Schalk from CLSA. Some detail questions and a bigger one. The reinsurance in the UK, I guess there's two things I'd like to know. One, is it actually capital accretive? And secondly, what is the limit on it or what is the nature of reinsurance?

A - Patrick Charles Regan {BIO 1443834 <GO>}

Obviously, our European business is now on a Solvency II economic capital basis. And in that sense, you're removing a liability that has kind of large 100 in 200 outcomes, so it is capital accretive in that sense, yes. Do you want to...

A - John D. Neal {BIO 20988613 <GO>}

Yeah. On the second one, the reinsurance cover is unlimited and it's structured in two ways very similar to what we did a couple years back, you might remember, on the medical malpractice liability in Italy and Spain. So we have AA-rated security that is giving us up to 155% of the book reserves and then there's a special purpose vehicle being used through Bermuda that takes us to an unlimited basis in excess of that.

Q - Jan van der Schalk {BIO 4168372 <GO>}

Great. On LMI, can you just remind me, you changed the reinsurance program. What does that do to, if you like, the earnings pattern on LMI here in Australia?

A - Patrick Charles Regan {BIO 1443834 <GO>}

Excuse me, there's couple of changes we did. One was kind of out to the money excess of loss protection which doesn't make a lot of difference. We also cancelled the external quota share which was 25% quota share, so that's kind of now an internal to Equator quota share so actually that gives us back that's what would have been a reduction of net earned premium is back in earned premium, if that makes sense. So we have a little bit reduction of top line, and that's partially offset by the cancellation of the external quota share.

Q - Jan van der Schalk {BIO 4168372 <GO>}

But it gives you access to the tail that you previously had sitting under the quota share? Is that...

A - Patrick Charles Regan {BIO 1443834 <GO>}

We've got the excess of loss protection. So as we talked about it basically that protects us against a reasonably significant downturn where the combined ratio basically locks it in for and slightly simplistic terms at a less than 100% combined ratio. So it gives us after the money projection.

Q - Jan van der Schalk {BIO 4168372 <GO>}

Yeah. I guess what I'm trying to get is the risk levels in the book going forward, particularly are improving. If you cancel the quota share, the tail, if you can't recycle that capital, kind of brings more margin into the book. Is that the way to think about it?

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A - Patrick Charles Regan {BIO 1443834 <GO>}

Indeed, yeah. Indeed that's one of the reasons why we did it. Yes.

A - John D. Neal {BIO 20988613 <GO>}

I mean, the other way we explain is the back book seasoning nicely. So if you are looking at loan to value ratios they are going down very quickly. And certainly there is nothing to indicate other than positive development coming through as older years.

Q - Jan van der Schalk {BIO 4168372 <GO>}

Thank you. That's useful. One last question, we've seen an excess frequency of large losses globally. We've seen the issues that Zurich is trying to tackle and there is a bunch of other companies doing the same thing. I mean, can you give us some sense of when you think there might be a market turn in terms of pricing?

A - John D. Neal {BIO 20988613 <GO>}

It's a great question, Jan. I think if you recall at the Investor Update in May, we set our forward plans, assumed a macro backdrop that wouldn't help us. So we were assuming no free kick from interest rates and no free kick from price. I think both of those remarks turned to be a little more prophetic than we thought. So in that period, interest rates have gone down as we know. I can't see any obvious factor that will move price in the short-term.

My sense is you're going in the right direction. It won't be a major cat. I think there is enough capital in the world in insurance to reload after a big cat. As you know, we put the reinsurance protections in place in advance to negate the impact of that loss should it occur. It's going to be a spate of attritional cat activity or unexpected loss. So if we keep seeing terrorist-related losses that we're seeing maybe that might be something that would trigger price, but, no, I can't see an obvious factor that will move price quickly.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Hi. It's Nigel Pittaway here from Citi. A couple of questions, if I can. First of all just on the guidance for premium. I mean you said it's only been modestly adjusted but the constant currency GWP for the full year is down $800 million at both the bottom and top end. Are you basically saying $500 million of that effectively relates to Crop because you're assuming that the shortfall you saw in the first half flows through into second half? Am I interpreting that correctly?

A - Patrick Charles Regan {BIO 1443834 <GO>}

No, no. Crop's kind of done. We've basically written the premiums. So it was about $150 million short in the first half and that won't repeat into the second half.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Mostly of the $650 million of that? (48:38)

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A - Patrick Charles Regan {BIO 1443834 <GO>}

The overall premium adjustment is basically reflecting with flat in the first half versus roughly about 3% growth, so that's - you're just capturing that in the full year, and then second half standalone reflecting that where we do think we can grow, but slightly less than 3% that broadly how the numbers work, first half versus second half.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Sure.

A - John D. Neal {BIO 20988613 <GO>}

You're comparing constant currencies, you're comparing the wrong constant currencies so that one that you're comparing there is 2015 currency. You just need to compare that with the new, so it's down $500 million - $100 million of FX and $400 million.

Q - Nigel Pittaway {BIO 3406058 <GO>}

So $400 million...

A - John D. Neal {BIO 20988613 <GO>}

You're comparing the wrong - yes, underneath it. But you can't compare that with the full year. That's the wrong...

A - Patrick Charles Regan {BIO 1443834 <GO>}

Of that $400 million, $150 million is Crop.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Yeah. Okay. Fair enough. And the drop-in NEP was less now despite having the extra UK reinsurance deal. So isn't all that due to reinsurance savings? Just asking on that. (49:48)

A - Patrick Charles Regan {BIO 1443834 <GO>}

Essentially, yes. If you think about the strategic, we're not - we don't want people chasing premium unnecessarily, we should rather good business where it's available, if we can then make some strategic sensible savings in reinsurance to grow our NEP that's probably a better way of doing it.

A - John D. Neal {BIO 20988613 <GO>}

Just to add a bit of color on that, there are three areas. One is direct savings, you've seen that I called out earlier on, and two is, we bought slightly less quota share reinsurance, as Pat referred to on LMI, and the other is crop. So some of that quota share reinsurance we've elected to retain in the captive. So that obviously increases net earned premium.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Right. So it's lower quota share on LMI than you would have expected here?

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A - Patrick Charles Regan {BIO 1443834 <GO>}

Yes. Yes.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Okay. And second question, just on – I'm sorry to pick on the one area where you had reserved top ups, but commercial auto in North America you did say sort of about six months ago that you thought that was done and dusted and you were very optimistic about that portfolio moving forward. It's in fact damaged the North American insurance margin by 2% in the half.

A - Patrick Charles Regan {BIO 1443834 <GO>}

Yes.

Q - Nigel Pittaway {BIO 3406058 <GO>}

So again it goes a little bit back to Kieren's question, that I guess. What changed?

A - Patrick Charles Regan {BIO 1443834 <GO>}

I mean, if you have been reached to that (51:04) it's been a bit of a thorn in the side of the overall industry. So all of the things that people have talked about there's been an increase of trucks on the road, that's grown a bit more, there's been an increase in – which driven an increase in frequency and a bit higher increase in severity, newer trucks probably more distracted driving, those kind of trends. So we try to get ahead of that trend. We've tried to get ahead of that trend in how we've done the half year booking. I mean the size of our overall North American reserves, it's not huge amounts. Ideally we wouldn't have it at the half year because there is a couple of points on the combined. As I say, it is a trend all of the North American insurers are pretty much saying on both personal motor and commercial lines.

A - John D. Neal {BIO 20988613 <GO>}

And just to add, Nigel, and closing on that. It's actually a $200 million book now. We've halved the size of the book of business as well in the last two years. So it's a hard look at it, both in terms of current accident year loss picks, how much of that business we think we can support and the prior year movement you're talking about.

Q - Nigel Pittaway {BIO 3406058 <GO>}

And then maybe just a final question obviously if the running yield on the portfolios, 2.1% at the Investor Day, only May 10, not long ago really, but you're obviously targeting 3% yield by 2018, so probably looking a little bit hard from this juncture?

A - Patrick Charles Regan {BIO 1443834 <GO>}

Yes, I deliberately didn't comment on the 3% through 2018 here because I think probably important for all of us to see how the world settles down over the next few months. I mean since we did that update, yields have fallen significantly. Can we build up our yield from where we are today in broadly the same manner? Yes I don't think any of you think that (52:52) change. Will it reach all the way to 3%? I think we'd rather talk about that at the year end. Directionally we will look to do the same things to enhance yield over the next couple of years, as we talked about at our Investor Day. So I think we - it's not our expectation, we'll stick at 2.1%.

Q - Nigel Pittaway {BIO 3406058 <GO>}

Thank you.

A - Patrick Charles Regan {BIO 1443834 <GO>}

I think we've got a call - a question on the line from David Humphreys at JCP.

Q - David Humphreys {BIO 18797143 <GO>}

Good morning, gentlemen. I had a stark reminder just about deciding what can happen where you grow into a plus where you are underweight and you arguably don't have the deep expertise your incumbents do. Moving on from that, what makes you confident that we won't see similar outcomes in U.S. and Asia given your stated growth strategy there, or do we now have to consider whether you push ahead with those growth ambitions given what's appeared in Pacific RIM? (53:47)

A - John D. Neal {BIO 20988613 <GO>}

Yeah. Thanks. Thanks, David. To answer the question directly on Asia, the growth in Asia through the half was actually quite low, 2.4%. So what growth you saw in emerging markets came from two areas, really, the Pacific, which was a reflection of one or two other insurers. I think problems more generally not specifically with the Pacific, and growth in Latin America where obviously you're operating with much higher inflation rates. But I'd like to think, and we've demonstrated that pretty consistently in Asia. We've got a good handle on risk selection and pricing control, and where competition exist which particularly does in Hong Kong and Singapore we're a bit frustrated that we can't grow the level that we would've thought.

In North America, I would say we're being careful, David, so we've not jumped on AIG or Zurich's decisions to correct that book of business. So our strategy for the Specialty Lines business is completely unchanged actually, from what it was three years ago. So you might recall that we had a trajectory where we felt we could build $1 billion Specialty business over five years and that's continuing to be the case. I would suggest that one of the reasons that you see low claims activity in the U.S. on the prior year is as I've said before we will book those Specialty Lines cautiously. So they're still being booked at a claims ratio of roughly 62% which as far as I can judge is ahead of the market. So I think we're one or two years away from determining whether there is better quality in that book. Incurred ratios are very small on that book still.

Q - David Humphreys {BIO 18797143 <GO>}

Thank you.

A - Patrick Charles Regan {BIO 1443834 <GO>}

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I think we've also got a question on the phone from Toby Langley.

Q - Toby Langley {BIO 15924432 <GO>}

Hi, good morning, everybody. It's Toby Langley from Merrill Lynch. A question, if I can, on intangibles. I recognize that these are likely to be non-cash and not part of the capital position, but they do potentially improve ROE and the headline result. You disclosures in the back show that there's only $79 million of headroom in terms of goodwill impairment testing on the U.S. business. And I'm just wondering if you fall through that, does that result in some wholesale change in appraisal of the business with regards to that goodwill recognition?

A - Patrick Charles Regan {BIO 1443834 <GO>}

Yeah. Thanks for the question, Toby. I'll pick that if that's okay. So if you remember going back a couple of years when you do the goodwill adjustments, so the question relates to the goodwill in North America and we've disclosed for the last few periods what the sensitivity of the calculation is and what headroom is. And when you do do a goodwill write down, you start essentially from zero headroom. So we've been building up a bit of headroom on just executing the business plan, taken out cost and we've continued to disclose what that looks like.

The only thing sort of new in this period is the is the year reduction of risk-free rates. So the two kind of important factors of the goodwill the long-term combine ratio and the long-term investment yield. And we've reduced the long-term investment purely because of lower risk free rates. The other factor is obviously the discount rate you used we've actually reduced the investment income yield by more than we reduced the discount rate, which you could argue is a bit conservative and that is why the headroom went down. It is kind of if you think in that sense a bit mathematical and not reflective of the whole (57:21) no.

Q - Toby Langley {BIO 15924432 <GO>}

Okay. And then a question I've asked before already, the tripling of your remittances to what extent is that a catch-up with regard to Europe because that didn't contribute as I understand to the FY 2015 out flow. Could you give us a sense of what constitutes that $600 million plus?

A - Patrick Charles Regan {BIO 1443834 <GO>}

Yeah. We'll get the full breakdown when we get to the year end. There's a little bit, so is it, are we running at $650 million half year run rate? No. And that's why I pointed to we do think we're running at kind of billion a year run rate. So there's not so much of catch-up from Europe. There was a little bit. It's a bit - it's not entirely seasonal in the remittances that come through in kind of lumpiness. So this year, we do expect a dividend from all the division. So we will get a dividend from Europe. It won't be a double dividend if that makes sense but we should get the dividend. And we don't think we've got dividend blocks in the rest of the group. As I talked about before, the one area where we got a bit extra in the first half is the one area that is best suited to this, which is the internal captive. So

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that's the reasons there, both for internal risk management but also for capital fungibility and that helped our half year remittances.

Q - Toby Langley {BIO 15924432 <GO>}

Okay. That's great. And one more question, if I may. The experience in short tail lines in Australia, could you be any more granular on the class there, in terms of average claim trends?

A - Patrick Charles Regan {BIO 1443834 <GO>}

Yeah. So as I mentioned, what we saw just talking through a few of the different classes, so CTP has been a topic we've all talked about back end of last year and into this year. Two things that we've talked about, one is obviously the rate increases have gone through and probably would need to go through a bit more and then the reform package to address the claims activity. On the shorter tail, we've also seen a bit of an uptick in trade credit. On the shorter tail classes it really is both motor, household and property. And we have seen an increase in both – and this is really featured a little bit in January and February, but fell back in March. And then really, we've seen an increase in April, May and June and that was both in average claim size and in frequency as well.

So there is a bit of an impact of obviously rate that we haven't seen a loss of rates, as John talked to earlier, in those classes, but we have also seen a higher amount of frequency which is in some cases obviously related to Aussie dollar, important parts in motor lines and also availability of labor I think on some of the household lines.

Q - Toby Langley {BIO 15924432 <GO>}

So I mean, (01:00:06) statements from one of your peers and that you're talking to systematic trends here rather than your own is a (01:00:17) issue. Is that the right way to interrupt what you're saying there on those sort of personal lines issues?

A - John D. Neal {BIO 20988613 <GO>}

I think it is. I think it's not one of our peers. I think it's both of them, to be honest with you. Coupled with the fact that we've seen no rate increase for two years. It's unusual – we don't see claims inflation even on short tail lines in the northern hemisphere. We do here in Australia and I think it's been exaggerated by the weakening of the Australian dollar. So you have to counter that with rate increase at one end of the spectrum and you have to tighten terms and conditions particular deductibles. So our view is enough is enough on that and we will do both. So to one of the earlier questions, if that means sacrificing some top line to get it right then that's exactly what we'll do.

Q - Toby Langley {BIO 15924432 <GO>}

Okay. That's helpful. Thank you, guys.

A - Patrick Charles Regan {BIO 1443834 <GO>}

Thank you. I think we have a question from James.

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Q - James Coghill {BIO 14006200 <GO>}

John, just a follow-up to that. In the past, we've always had a concern around management reporting from the rest of the globe into Australia and your competitors and I'm sure many analysts in this room have been telling you about claims problems in CTP and obviously across short tail lines in Suncorp last year for some time. And yet QBE seems to have got across these issues very late in the process. Do you not have a concern around management reporting within the Australia, New Zealand business? Are we going to hear about additional investments been to correct that in the second half as you get your mind on this problem? Why has QBE been so late to identify these issues?

A - John D. Neal {BIO 20988613 <GO>}

Can I break it? It might be easier to break the answer down. So on CTP I think we foreshadowed the same issues that the market dealt with. I think we've put the rate increases through really starting back in the last year. So what we have done is moved I think from behind the others in pricing to right in the middle to the top of the pack. So that's what we've sought to do with rate increases that have been put through. So my view on CTP is the right action has been taken to put that portfolio back into shape. We didn't see the trends coming through in the back half of last year on the short tail classes. They have come through this year almost uniformly, as Pat said across both the property personal and commercial and later classes. And really through March, April, it appeared that these trends were slackening. That's not been the case through the second quarter.

So we certainly didn't see the volume of trends that those seen on personal lines. I think now we're seeing some of that comes from commercial lines, so the good news to me on it, it's quite straightforward to correct and you can correct it quickly. So we've had the information, we have at byline of business, and we have good data both on frequency and average cost per claim. So the last part of your question, no, I don't see that there's a need to spend more information, more money on management information systems.

Q - James Coghill {BIO 14006200 <GO>}

Thank you.

Q - David Ellis {BIO 5248623 <GO>}

David Ellis from Morningstar. I've got a couple questions on the LMI business. Firstly, is GWP declining, and what is your current market share, and is that changing? And I've got another question on the loss rates in the LMI business as well.

A - Patrick Charles Regan {BIO 1443834 <GO>}

Yes, we talked about before the GWPs coming down for a couple reasons. One is general housing markets writing less higher loan to value business so that the size of the overall markets come down a bit. Trend existed into 2015, has flow through into 2016 and also Westpac took their accounts kind of in-house and then reinsured offshore which was part of our premium as well. So both of those have happened and the GWP has come down as result of both of those factors.

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Q - David Ellis {BIO 5248623 <GO>}

And market share?

A - Patrick Charles Regan {BIO 1443834 <GO>}

Our current market share, we would be 40%...

A - John D. Neal {BIO 20988613 <GO>}

Slightly less, near 30%. So the two big players, us and Genworth, have 70% of the market. We're round about just shy of 30% or over 40%.

Q - David Ellis {BIO 5248623 <GO>}

And my question on loss rates, am I missing something, with Genworth's first half loss rate around 33%, and if I understood you earlier saying your loss rate was in the mid teens?

A - Patrick Charles Regan {BIO 1443834 <GO>}

Yes.

Q - David Ellis {BIO 5248623 <GO>}

Am I missing something comparing those two?

A - Patrick Charles Regan {BIO 1443834 <GO>}

No, our loss rate has run very consistently significantly lower than Genworth's for some period of time. And I think there's various different things you can look at in terms of how you analyze it. I think the single biggest difference is where we get our business from. We get ours from a much broader range of banks, a big chunk of Genworth business obviously comes by the CBA relationship. But, no, they have consistently run at that sort of difference.

Q - David Ellis {BIO 5248623 <GO>}

Thank you.

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

Yeah. Thanks. Just a follow-up question. Daniel Toohey from Morgan Stanley. On the sort of 3% to 4% of the deterioration in attritional lines you talked about coming from short tail classes, given your positioning in your portfolio pretty small in the personalized is it greater contribution that's coming from the commercial property or is it – can you comment on the mix?

A - John D. Neal {BIO 20988613 <GO>}

Yeah. The predominant cause is on the commercial property lines. It is across all property lines. So you can see it across all property classes, but there's more on commercial than there is on personal.

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

Okay. Thank you.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Kieren Chidgey, Deutsche Bank. Just a quick question on the – following on from your crop comments of farmers taking high deductibles, what impact does that have on the budgeted combined ratio, and does that further improve the half point skew you talked about on underlying margins in the second half?

A - John D. Neal {BIO 20988613 <GO>}

The answer is it could do. So we have not changed our assumptions through the second half in terms of the combined ratio pick. What it does mean in terms of encouraging us as you might recall that those deductibles can get eroded partially by preventative planting claims and we've seen a very, very low frequency of that type of loss. So it's very, very early but 2016s tracking as well as 2015 was at the same point in time. But it's really all about the quality of the harvest. So the early signs are very encouraging, but our view is, let's wait and see.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Okay. But has there been a structural improvement in the combined ratio?

A - John D. Neal {BIO 20988613 <GO>}

We think there has which has got more to do with a heightened use of data and analytics in terms of our pick around state farm, county and crop that really showed through in a very substantial improvement. You might recall in 2015 we've not yet reflected that in loss packs, we've reflected some improvement, but not all of it. So we just like to see that come through for second half or second year, I beg your pardon, before we take full credit for it.

Q - Kieren Chidgey {BIO 7268946 <GO>}

Thanks.

A - John D. Neal {BIO 20988613 <GO>}

Okay. Thanks, everyone, if that's closing questions. Thanks for joining us this morning.

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