2018 AGM

CEO'S ADDRESS

Thank you Marty and good morning everyone.

I am delighted to speak to you today at my first Annual General Meeting as the CEO of QBE Insurance Group.

Today I will provide an update on the progress we are making on each of our seven strategic priorities, outline our approach to a number of critical sustainability issues and update on our 2018 year to date trading performance.

Turning first to our seven strategic priorities.

My appointment as CEO came at a challenging time for QBE. The Group reported a Combined Operating Ratio of over 104% in 2017 due to both an unprecedented level of weather related catastrophes, but also a material decline in the performance of our Asia Pacific and Latin American operations.

It is clear that QBE's performance in 2017 was unacceptable and needs to improve.

It is against this backdrop that we have created a significant program of change to both simplify the Group and turnaround performance. Our strategic agenda has been built around seven key priorities with the overarching objective of creating a much stronger and simpler QBE.

**1. First / Simplify QBE**

While QBE has some very strong market positions, most notably in Australia and Europe, it also has some operations that were underperforming and sub-scale. The broad geographical spread of our operations has contributed to the volatility in our underwriting performance.

We are taking steps to significantly simplify the group.

Our first major step was to exit Latin America. We concluded that QBE would not be able to deliver an acceptable level of return in Latin America within a reasonable timeframe and therefore an exit at a good valuation was the best option. For a business that delivered an underwriting loss of $94m last year, the sale of the Division to Zurich for $409m is a clean break at an attractive premium to book value.

In North America Personal Lines we don't have the scale or competitive advantage to deliver consistent underwriting profitability. This business – which has GWP of approximately $350m - also carries a high amount of operational complexity and cost. The exit from this line of business will also enable us to deliver cost reductions. We are now taking steps to exit this book of business over the next few months.

In Asia Pacific, I am pleased to announce that we have found a reinsurance solution to address profitability challenges in our Hong Kong construction workers comp portfolio. We have entered into a Loss Portfolio Transfer Agreement with Swiss Re in relation to over $200m of Hong Kong construction workers comp reserves. This transaction completely removes our exposure to a very challenged portfolio that recorded a $53m underwriting loss in 2017.

There remains much to do to return our Asian business to a solid footing but this transaction represents a key milestone on that journey. We have also recently sold our loss-making business in Thailand.

Taken together, the sale of Latin America, the Asia Pacific transactions and the exit from North America Personal Lines will remove from the Group, exposure to businesses that contributed an underwriting loss of over $200m to our 2017 result.

**2. Brilliant Basics**

The Brilliant Basics agenda is at the core of our strategy and will become the hallmark of QBE. Brilliant Basics is aimed at ensuring we have a consistent level of excellence in underwriting, pricing and claims everywhere that we do business – in every country and in every portfolio.

The Brilliant Basics strategy was designed during my time as CEO of Australian & New Zealand Operations to drive the turnaround of that Division. The implementation of Brilliant Basics resulted in a number of significant changes to the way in which we run our business in Australia & New Zealand including:

- establishing a Chief Underwriting Office and Product Committees to improve governance and oversight of underwriting and risk selection;
- detailed underwriting guidelines to improve local underwriting risk selection;
- increasing the sophistication and granularity of pricing models including greater use of third party data;
- significantly expanding the resources and capabilities of the dedicated pricing team and;
- reducing claims leakage by amongst other things, fraud prevention, better supply chain management, greater use of data analytics and bringing the management of more complex risks back onshore.

As you can see from the slide, the Brilliant Basics agenda in Australia & New Zealand Operations was a major contributor to the turnaround of the Division with the underwriting results of the majority of our 50 cells recording an improvement over an 18 month period and our underlying net combined operating ratio improving by approximately 4% (exc. LMI) over the same period.

The Brilliant Basics program is now being implemented at the Group level and I am pleased with how this important program of work is mobilising so far.

The Brilliant Basics program will include:

- implementation of a new set of Group Underwriting Standards;
- implementation of a new set of Group Claims Standards;
- full assessment of our active pricing models;
- progressive upgrading of our pricing models to use data & analytics and machine learning;
- establishment of a new Group CUO office to oversee the implementation and;
- redesigning our core claims processes to reduce costs, drive further indemnity savings and improve customer service.

While we expect to see early benefits from Brilliant Basics in the second half of the year, this is part of a longer-term journey to transform the culture of the organisation and consistently deliver world class underwriting performance.

**3. Drive Performance Improvement**

Alongside Brilliant Basics, and to ensure a greater degree of rigour around our underwriting performance management, we have also implemented an intensive, detailed, rigorous and action- oriented performance management process across QBE – the "cell review" process. This is a process that we started in Australia & New Zealand Operations over 18 months ago.

The cell reviews are a forensic approach to performance management. In addition to myself, each cell review is attended by the Group CFO (and in future the Group CUO) as well the Divisional CEO, CFO, CUO, Chief Actuary and Head of Claims. Each cell owner presents their strategy, a comprehensive review of current performance and their detailed plan to deliver their underwriting result for the year. The cell owner identifies key risk factors and for those risk factors decisions are made on remediation actions. Decisions may include rate increases for specific segments, more selective underwriting, claims actions, or shifts in distribution.

We have now completed the first round of cell reviews in each of the four Divisions and have expanded it to include approximately 100 cells, making it one of the most comprehensive business performance management tools I'm aware of.

The cell reviews have proven to be a highly effective method to:

- drive accountability throughout the organisation;
- identify performance issues at a very early stage and take corrective action;
- identify where we need additional resources;
- determine any products and portfolios that do not have a realistic plan of action;
- identify top talent within the organisation and;
- pursue opportunities for growth in strongly performing areas.

## 4. Further Reposition North America

The QBE business in North America has evolved significantly in recent years, with a reduced program business, exit of Mortgage & Lenders Services and selective growth in Specialty business. We now have a business focussed on four key segments:

- Crop where we are a top 3 player;
- Programs where we are top 3 player;
- Mid-market commercial and specialty business where we have a relevant growing presence;
- But also, as I mentioned earlier, a sub-scale position in Personal Lines.

We see significant opportunities in the North American market as we operate as a specialist industry focused commercial underwriter. The planned exit from the Personal Lines business will help us to achieve significant benefits from rationalisation of systems and back office. This will improve processes in North America and drive cost savings.

**5. Remediate Asia**

We are implementing a program of portfolio remediation in Asia including exiting unprofitable lines of business, driving a sharper underwriting focus and reducing costs.

The Hong Kong Workers Comp exit was a key milestone in the remediation process for Asia. We also have remediation activities across another 18 portfolios in Asia including Marine in Hong Kong, Singapore and Indonesia and Accident & Health in Hong Kong and Singapore. We have also exited whole segments such as Indonesian Tugs & Barges where the industry risk profile was not acceptable. In Property, across the whole region, we are reducing the risk profile of the portfolio and reviewing our exposures in catastrophe exposed markets. We are seeing early signs of improvement, but it will take time for these improvements to be fully reflected in the region's financial results.

In addition to remediation, the Brilliant Basics program of work has identified a number of opportunities for Asia to improve the sophistication of its approach to risk selection, pricing and claims management, leveraging the practices of other Divisions. We have transferred a number of staff from other divisions into Asia to accelerate this process.

## 6. Talent and Culture

As well as having a clear plan we also need the right team in place to execute that plan. I was delighted to recently announce a number of new hires to our Group Executive team. Vivek Bhatia (ANZO CEO), Inder Singh (Group CFO), and Peter Grewal (Group CRO) are all highly credentialed additions to the team. All have deep insurance expertise and I am confident that we now have in place the right team to execute on our strategic priorities.

We will be appointing a new Group Chief Underwriting Officer. This is a newly established Group Executive position for QBE and will play a key role in driving the cell review process as well as owning the implementation of Brilliant Basics in pricing and underwriting.

In addition to the Group Executive changes, we have also announced the strengthening of our senior management team with the addition of Matt Mansour (Group CIO), Anders Land as Group Head of Internal Audit and Liam Buckley as Head of Talent and Culture.

As a Leadership Team we have also spent a great deal of time defining the attributes of the target culture required to deliver on our strategic plan. Having the right culture is equally as important as Brilliant Basics or the cell reviews. Next week we will host 160 of QBE's employees from across our global divisions in Sydney for our Group Leadership Forum with the focal point of the conference being to align the team around our key cultural attributes – being fast paced, accountable, technically excellent, courageous & high integrity, diverse, customer centred and team oriented.

## 7. Build for the Future

Much of QBE's current focus is directed at addressing issues that face the company in the near term. However, our sector does not stand still and I am equally excited about building a QBE that will thrive in the future. We need to build a company that is innovative, customer centred, agile and technology enabled.

One example of this is QBE Ventures which we formed 12 months ago to provide us with access to the innovation in the InsurTech space. QBE Ventures has recently completed its third investment into a New York based start-up called HyperScience. HyperScience is an artificial intelligence platform that captures and analyses information from documents and handwritten forms. The company provides us with the opportunity to automate a range of tasks.

And indeed one area where we have not yet provided any further detailed guidance is on cost reduction. While this has been a focus in recent years, we believe that more can be done to improve the efficiency of our operations, particularly through the automation and digitisation of our processes. We are currently undertaking a detailed efficiency assessment program and will be in a position to provide further detail on future cost savings later in the year.

## Sustainability

I'd like to turn now to a number of sustainability issues that are important to us as an organisation, to me personally and are critical to the role we play in the broader community. Firstly, let me say I am a big believer that business should make an active positive contribution to the communities in which we operate – beyond the contributions the businesses themselves make. A focus on sustainability needs to be a core part of how we operate and understanding and addressing social and environmental issues is integral to our success as company.

**Diversity and Inclusion**

QBE has a strong commitment to diversity and inclusion, leveraging the ideas, capabilities and experiences of our entire global workforce. We are making steady progress and are now at 30% of women in leadership roles (up 3% since 2015) with our recruitment policy now requiring all senior roles to have both male and female candidates. That said, we can and will do more, and at the very least we need to move quicker to our target of 35% of women in leadership roles. We have signed up to the UN Women's Empowerment Principles and I am now a supporter of Male Champions of Change. In November 2017 QBE launched a Gender Equality Bond raising $400m. We were also recognised in January this year through QBE's inclusion in the Bloomberg Gender Equality Index.

**QBE Foundation**

The QBE Foundation was launched in 2011 to mark QBE's 125th anniversary year. The Foundation has become a core part of QBE's corporate culture, assisting in the community through charity partnerships, donations and volunteering.

In 2017 the Foundation partnered with 34 charities and supported a wide range of other not-for-profits. Initiatives supported ranged from health and education programs to intervention for at risk youth, medical research, encouraging diversity in sport and assisting unemployed and wounded veterans to gain access to employment.

**Impact Investing**

To help us support the communities and environments in which we operate, we offer customers the chance to make a difference with their commercial insurance premiums. Premiums4Good is a unique global initiative that enables a QBE customer to use a portion of their premium to invest in securities with an additional social or environmental objective, such as social impact bonds, green bonds and investments in infrastructure projects with environmental benefits.

**Climate Change**

I want to provide more detail on how management is responding to climate change.

Climate change is a key topic affecting the core business of insurance companies around the world.  As an insurance company we do a great deal of work to assess the impact of climate change – but we need to do significantly more.

What we are now seeing is a range of other potential risks and opportunities resulting from climate change due to everything from changes in client industry sectors, changes in technology, new policies and regulation, new cases of litigation and increasing stakeholder expectations for how corporations manage risk and offer customer solutions.

As such, the recommendations published in June last year by the Financial Stability Board and their Task Force on Climate-related Financial Disclosures should be welcomed. We believe they set a strong framework for improving climate-related management and disclosure. We have signed the public Statement of Support and we are committed to increasing the amount of information we disclose on managing climate change in our Annual Reporting, starting in our next report.

We have created a new senior cross-functional Climate Change Working Group that is chaired by our Group CRO and Group Financial Controller. They have been working with an external expert to further analyse our exposure to climate risk and build a roadmap for implementing the TCFD recommendations over the next three years.

This work will include testing the impact on our strategy, improving our current governance around climate change, doing more detailed analysis of our exposures to climate risk in various products and markets, ensuring our risk management processes incorporate the various physical and transitional risks we see emerging, and identifying further opportunities to assist our customers as they also work through how to manage this issue.

**8. 2018 financial targets**

Let me next update you on our performance in the first quarter.

On the pricing environment, our rate increases in the first quarter of 2018 have been broadly in line with our forecasts and what we saw at the end of 2017. We have experienced premium rate strength of approximately +4% (excluding CTP) in the first quarter, again led by Australia & New Zealand Operations, but also with positive rate movements in North America and Europe.

The team in Asia Pacific have put together a comprehensive plan of action (and I'm pleased with how they have mobilised this work). However, as you would expect the performance improvements in Asia Pacific will be weighted more towards the second half of the year.

But overall, our first quarter underwriting performance is tracking to plan and as a consequence, we remain on track to achieve our Combined Operating Ratio target for the full year 2018.

Obviously, the first four months were challenging for global investment markets due to a combination of rising yields and equity market volatility. Therefore, as you would expect, our year to date investment returns (on an annualised basis) were below our FY18 target range. That said the lower investment returns have been offset by the benefit of higher risk free rates used to discount liabilities.

At the 2017 full year result we reported a debt to equity ratio of 40.8%, outside of our target gearing range of 25% - 35%. In March we bought back $291m of senior debt, thereby reducing the gearing ratio to approximately 37%. We expect the gearing ratio will move towards our target range during the course of the year. We have commenced our previously announced share buyback for 2018 and as at 1 May have acquired $A23.5m of shares on market under the program.

In closing, I am confident that the seven priorities outlined in QBE's strategic agenda are the right ones to develop a stronger and simpler Group with improved consistency and quality in our results. I am encouraged by the progress we have made in the first phase of this process and would like to thank all our stakeholders, customers, employees and shareholders for their continued support. I look forward to reporting back to you with progress against our plans.