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11 December 2018

The Manager  
Market Announcements Office  
ASX Limited  
Level 4  
Exchange Centre  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir/Madam,

**MARKET UPDATE**

We refer to the attached presentation for release to the market.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'Carolyn Scobie'.

Carolyn Scobie  
**Company Secretary**

Attachment



## MARKET RELEASE

11 December 2018

### QBE UPDATES ON PORTFOLIO SIMPLIFICATION, 2019 REINSURANCE RENEWAL AND A THREE-YEAR OPERATIONAL EFFICIENCY INITIATIVE<sup>1</sup>

QBE has completed the Group's portfolio simplification agenda with the sale of its insurance operations in Puerto Rico, Indonesia and the Philippines.<sup>2</sup>

At the same time, QBE has fully placed its 2019 reinsurance program and announces a three-year operational efficiency program targeting net cost savings of \$130M and an expense ratio of around 14% in 2021.

#### **2019 reinsurance program**

The recently finalised 2019 reinsurance program is structured to better suit the Group's simplified portfolio and improving underwriting risk profile.

Key features of the Group's 2019 reinsurance program include:

- significantly reduced catastrophe retention;
- greatly increased protection against catastrophe severity;
- protection against frequency of medium-sized catastrophes;
- significantly reduced large individual risk claim retention;
- improved protection against large individual risk claim severity; and
- increased quota share protection to further reduce claims volatility.

The Group's 2019 reinsurance program strikes an appropriate balance between cost, balance sheet protection, capital strength and earnings volatility.

We have moved to a more conventional reinsurance structure with significantly increased catastrophe protection that will deliver better profit outcomes in extreme (severe or benign) catastrophe years as would have been the case in 2017 and 2015 respectively.

To demonstrate the extent to which our exposure to more extreme catastrophic events has been reduced, our 1:20 and 1:200 year probable maximum loss (PML) for Australian cyclone events will fall by around 20% and 35% respectively, while our 1:20 and 1:200 year PML for North American hurricane will fall by around 20% and 25% respectively.

Reflecting the strengthened catastrophe protection, the new structure delivers a modest uplift in both our S&P and APRA capital ratios.

<sup>1</sup> All figures in US\$ unless otherwise stated

<sup>2</sup> Sales subject to regulatory approval



## MARKET RELEASE

11 December 2018

The 2019 program is expected to save around \$125M in reinsurance costs; however, this will be more than offset by an increase in the budgeted allowance for large individual risk and catastrophe claims to around \$1.4BN, up from around \$1.2BN currently, given greater variability around reinsurance recoveries.

Notwithstanding the resulting headwind of around \$50M-\$100M, we remain confident of achieving an improved combined operating ratio and higher overall profitability in 2019 compared with 2018, underpinned by the premium rate increases we are achieving, expected ongoing improvement in the Group's attritional claims ratio and the recently commenced efficiency program.

Over time the Brilliant Basics program is expected to drive a further reduction in claims costs due to improved pricing adequacy, better risk selection and more effective claims management.

### **Operational efficiency**

Having recently announced the consolidation of our regional footprint into three divisions, North America, International Markets and Australia Pacific, QBE has commenced a three-year operational efficiency program.

The Group will work to make its operations more effective and streamlined, consolidating technology tools, reducing IT run costs and re-engineering and automating processes.

Key features of the Group's 2019-2021 operational efficiency program include:

- more than \$200M in gross cost savings by 2021 before underlying inflation and further investment in the Brilliant Basics program, technology and digitisation;
- around \$130M net reduction in expenses by 2021 from around \$1.8BN currently;
- targeting an expense ratio of around 14% by 2021 representing an improvement of around 1.5%, inclusive of very modest and selective premium growth; and
- around \$95M of restructuring costs to be incurred over 2019-2020.

As part of this program, we are investing in our people and ways of working to ensure we operate more efficiently. At the same time, we are investing in technology initiatives, such as the consolidation of underwriting platforms in North America and a more advanced workflow tool for our European underwriters.

None of these technology investments are individually material but they will collectively support our Brilliant Basics agenda of better pricing, risk selection and claims management as well as better outcomes for our customers and our brokers. Our investment will also allow us to retire numerous legacy applications, thereby reducing our IT run costs.

We have a clear set of initiatives to achieve the targeted efficiency outcomes and, most importantly, to ensure that our people are engaged, accountable and will be measured on their performance.

Further details are included in a presentation lodged with the ASX.

- ENDS -



## MARKET RELEASE

11 December 2018

### **TELECONFERENCE**

QBE Group CEO, Pat Regan, will hold a teleconference today from 9.00am to 10.00am AEDT.

### **PARTICIPATION CODE: 245655**

#### **DIAL IN NUMBERS:**

Australia: 1800 908 299  
New Zealand: 0800 452 795  
Hong Kong Toll Free: 800 968 273  
Japan Toll Free: 0066 3386 8000  
Singapore Toll Free: 800 101 2702  
United Kingdom Toll Free: 0800 051 1453  
US/Canada Toll Free: 1 855 624 0077  
Other International: +61 2 9007 8048

### **Q&A SESSION (VIA TELECONFERENCE)**

- To participate in the teleconference, you will need a touchtone phone
- 10 minutes prior to the briefing, please dial your call-in number and follow the prompts
- To ask a question during the question and answer session:
  - Press \* then 1 on your phone to enter the Q&A queue
  - Press \* then 2 on your phone to withdraw your question
- If you are disconnected for any reason during the teleconference, redial your call-in number

For further information, please contact:

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#### **QBE Insurance Group Limited**

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[www.qbe.com](http://www.qbe.com)

QBE Insurance Group Limited is listed on the Australian Securities Exchange, is one of the top 20 global insurance and reinsurance companies as measured by net earned premium and has operations in 31 countries.

#### **IMPORTANT DISCLAIMER**

Any forward-looking statements assume large individual risk and catastrophe claims do not exceed the significant allowance in our business plans; no overall reduction in premium rates in excess of business plans; no significant fall in equity markets and interest rates; no major movement in budgeted foreign exchange rates; no material change to key inflation and economic growth forecasts; recoveries from our strong reinsurance panel; no significant asset sales and no substantial change in regulation. Should one or more of these assumptions prove incorrect, actual results may differ materially from the expectations described in this market release.

# QBE Insurance Group

Market update

Tuesday 11 December 2018

# Discussion points

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**Our agenda: simplify, focus and drive performance**

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**2019 reinsurance program**

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**Operational efficiency**

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# Our agenda: simplify, focus and drive performance



**Simplified and more focused**

**Portfolio simplification complete**

*Puerto Rico, Indonesia and Philippines now sold<sup>1</sup>*

LatAm, Thailand, Travel and NA personal lines



**Cell performance reviews**

**Strong performance mgmt and clear accountability**

Driving consistency of performance and earnings quality

>500 reviews YTD



**Brilliant Basics build accelerating**

**Global underwriting and claims standards in place**

Improved risk selection and reduced Cat exposures



**Pricing momentum**

**3Q average rate increase of 5.9%<sup>2</sup>**

Building on 1H18 rate increase, 3Q YTD average rate increase 5.0%<sup>2</sup>



**Strong balance sheet**

**2018 buyback commitment complete**

PCA stable at upper end of range



**Drive performance**

**New reinsurance program complements Brilliant Basics**

Operational efficiency: competitiveness and scalability

1. Sales subject to regulatory approval  
2. Excludes CTP

# **2019 reinsurance program**



# Simpler, more sustainable reinsurance structure

## Expiring 2018 structure

### “In-the-money” aggregate treaty



Combined limit for Cat and Large Risk  
Locked-in cost of Cat and Large Risk of \$1.2BN (QBE retention)  
Rising exposure to single reinsurer

### Conventional treaties



Cat retention: \$600M  
Risk retention \$100M

## 2019 structure

### 2019 structure fully placed (50% for 2 years)<sup>1</sup>



Early placement led to favourable terms; avoided pricing uptick post recent Cat activity

### Stronger catastrophe reinsurance protection



Reduced peak<sup>2</sup> (\$400M) & non-peak (\$100M) retentions  
Significantly increased Cat limit  
Aggregate protection for frequency of medium-sized events  
Very significant reduction in probable maximum loss scenarios

### Risk XOL structure supported by Brilliant Basics



Lower retention on any single Large Risk claim  
\$50M retention with \$25M sub-layer after three claims

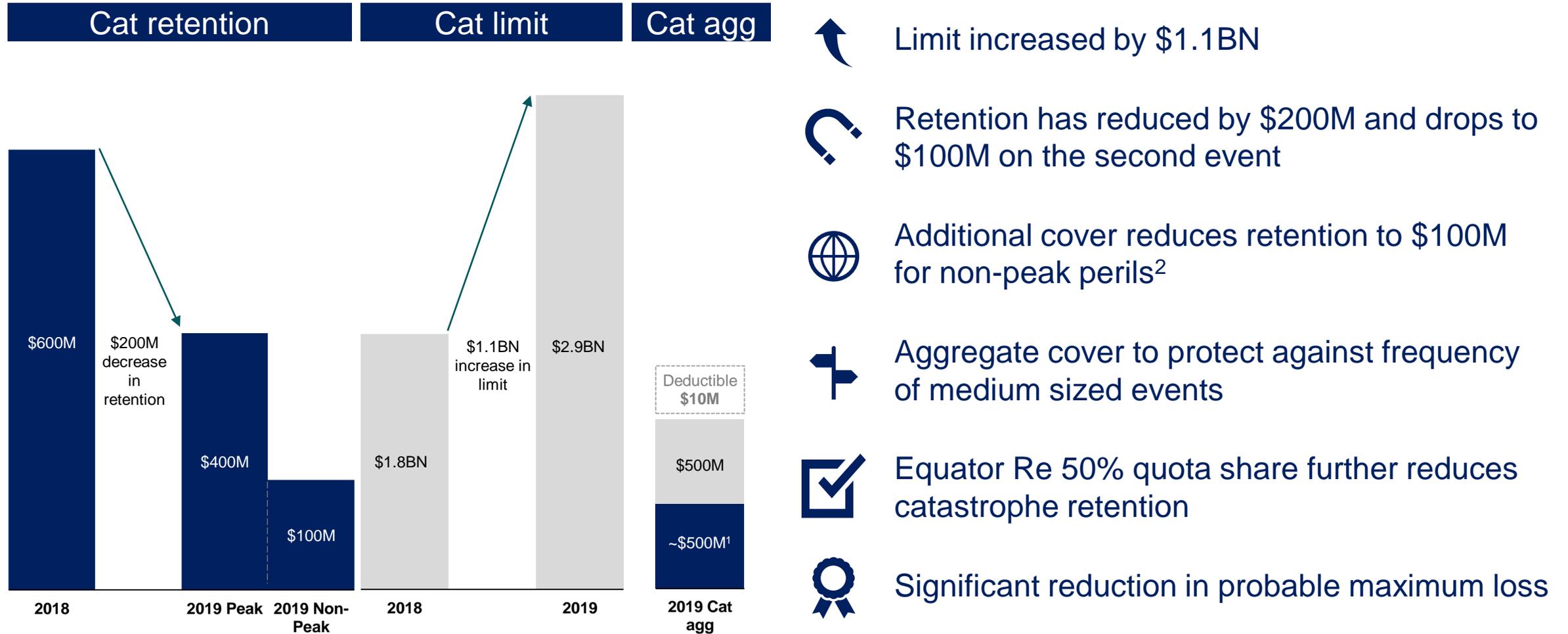
### Equator Re 50% quota share further protects severity



Reduces peak peril first event retention by up to \$162.5M<sup>3</sup>  
Further reduces Large Risk retention by up to \$22.5M<sup>3</sup>

1. 50% of core catastrophe, risk and quota share covers placed for 2 years, subject to final confirmation  
2. Peak perils defined as cyclone, hurricane & typhoon, and earthquake (and fire following) in respects Australia, New Zealand (quake only) and US (excluding Puerto Rico). All other perils are non-peak  
3. Retentions for major divisions (International, Australia Pacific, North America) range from \$50M to \$150M for Cat and typically \$5M to \$20M for Risk (retentions vary by product). Aggregate deductibles apply on some risk covers

# Cat: 2019 program provides greater balance sheet protection



1. Final placed retention likely to be a mix of terms in the \$500M to \$515M range  
 2. Peak perils defined as cyclone, hurricane & typhoon, and earthquake (and fire following) in respects Australia, New Zealand (quake only) and US (excluding Puerto Rico). All other perils are non-peak  
 3. Peak, non-peak and aggregate limits contain shared limits which can only be fully used once in different parts of the program. See appendix for a more detailed explanation

# Significantly reduced catastrophe exposure in 2019

Region & Peril <sup>1</sup>	1:20 Year	1:200 Year
Australian and New Zealand earthquake	-20%	-50%
Australian cyclone	-20%	-35%
North American earthquake	-10%	-25%
North American windstorm	-20%	-25%



## 2019 catastrophe program significantly reduces probable maximum loss (PML)

Additional Cat limit and lower Cat retention are main drivers

Wrap and Equator Re quota share also contribute



## Portfolio optimisation benefit

Portfolio simplification has also contributed to PML reductions



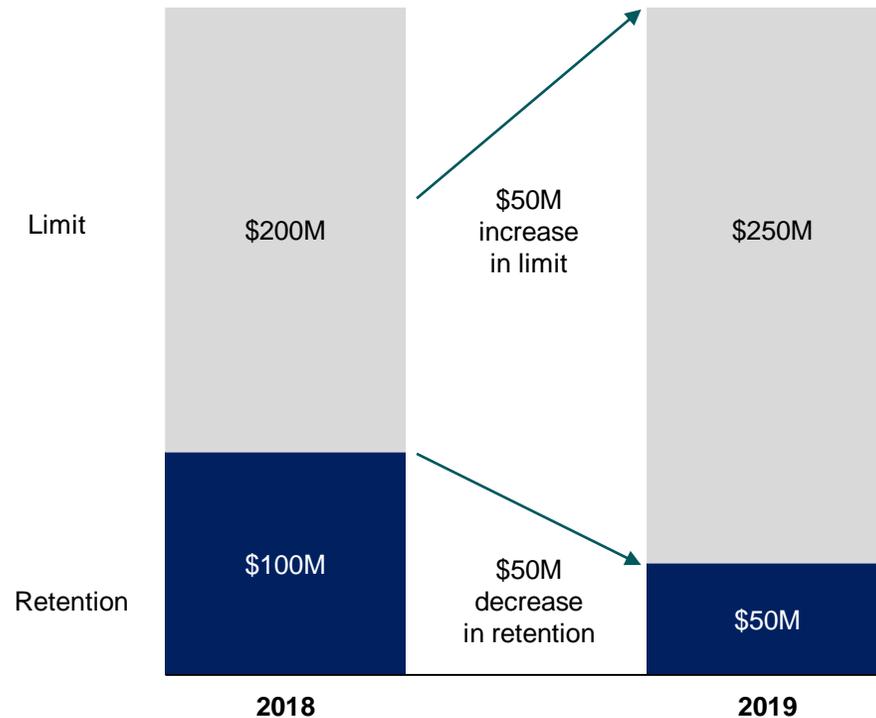
## APRA Capital benefit reflects PML reduction

~\$100M<sup>2</sup> APRA PCA benefit driven by North America 1/200 year OEP<sup>1</sup> reduction

1. Approximate impact on Occurrence Exceedance Probability (OEP) 3Q18 with 2019 Reinsurance vs 3Q17 with 2018 Reinsurance  
 2. Reflects reduction in APRA ICRC of around \$100M at 31/12/18 versus 31/12/17 (subject to APRA approval)

# Risk: Aggregate cover replaced by lower retention on excess of loss cover

Brilliant Basics supports a reduction in Large Risk claims allowance over time



Retention reduced to \$50M



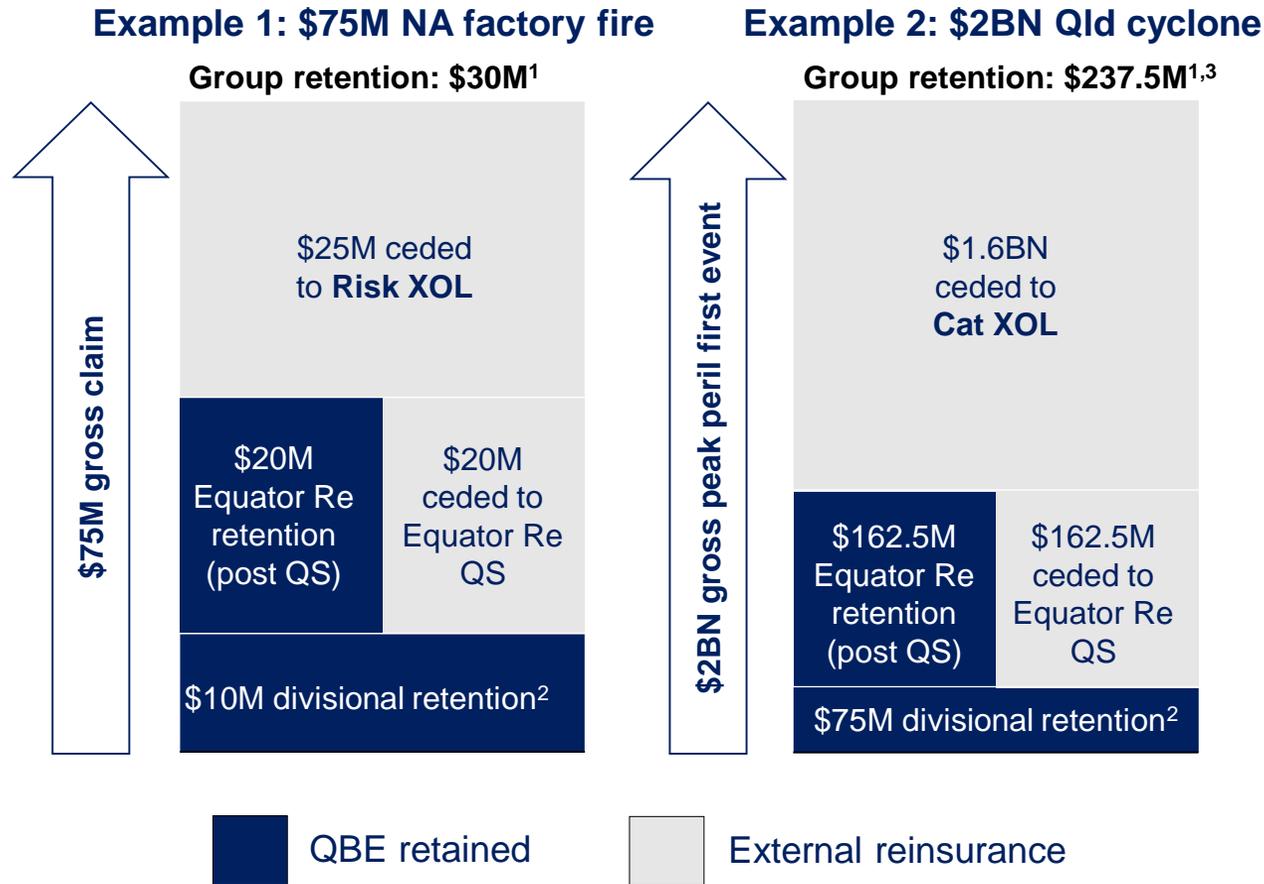
Retention drops to \$25M after three \$50M claims<sup>1</sup>



Equator Re 50% quota share further reduces exposure to Large Risks

1. \$75M aggregate deductible that can be eroded by any combination of claims to the \$25M xs \$25M layer

# Equator Re's 50% quota share significantly reduces Large Risk and Cat volatility



## Equator Re absorbs a substantial amount of the Group's Large Risk and Cat volatility

- Divisions purchase Large Risk and Cat reinsurance from Equator Re to reduce their retentions
- Equator Re cedes 50% of the premium and claims via an external quota share
- Equator Re's quota share cession will increase to 50% in 2019 (from 40% in 2018)

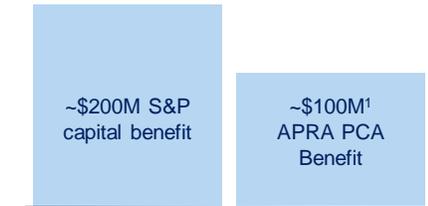
1. Examples are illustrative and retentions will vary depending on mix of claims by division and product  
 2. Retentions for major divisions (International, Australia Pacific, North America) range from \$50M to \$150M for Cat and typically \$5M to \$20M for Risk (retentions vary by product). Aggregate deductibles apply on some risk covers  
 3. Group retention could reach \$250M depending upon the extent of any additional exposure through International Markets – this example assumes nil. The net cost of a large but reasonably foreseeable North American hurricane could be as much as \$300M, depending upon the extent of exposure through International Markets, including no more than a \$150M North America retention, a \$50M International Markets retention and a \$100M Equator Re retention

# 2019 reinsurance program impacts



## Optimising cost, balance sheet protection, capital preservation

- Balance sheet protection stronger than previous structure
  - ✓ S&P capital benefit of ~\$200M
  - ✓ APRA PCA benefit of ~\$100M<sup>1</sup>
- Better P&L outcomes in extreme (severe or benign) catastrophe years



## Higher budgeted Risk and Cat claims allowance, partly offset by lower cost of reinsurance program (~\$125M)

- A conventional “out-of-the-money” program with more variability around recoveries
- Higher budgeted Risk and Cat claims allowance (increased by ~\$200M to ~\$1.4BN), partly offset by lower reinsurance cost
- P&L headwind of around \$50M-\$100M in 2019
- Brilliant Basics expected to drive Risk and Cat claims allowance down over time



## Positive impact on attritional and expense ratios

1. Reflects ~\$100M reduction in APRA ICRC at 31/12/18 versus 31/12/17 (subject to APRA approval)

# Operational efficiency



# Targeting expense ratio <14% by 2021



>\$200M gross savings by 2021, before inflation and further investment in:



Brilliant Basics capability



Technology



Digital



~\$130M net reduction in expenses by 2021



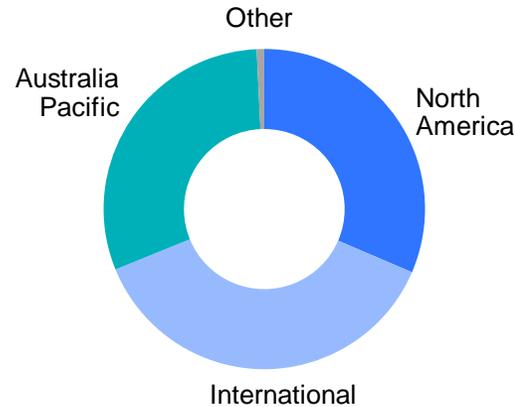
Target expense ratio ~14% by 2021  
(~1.5% improvement)



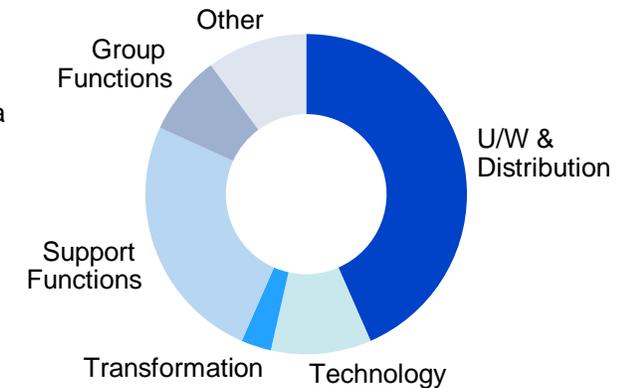
~\$95M restructuring charge over two years (outside of U/W result)

## Current profile of QBE expense base (~\$1.8BN)

### By Division



### By Function



## Simplifying and reducing expense base

FY19

FY20

FY21

~\$130M<sup>1</sup> Net cost-out phased over 3 years

~30%

~35%

~35%

~\$95M Restructuring costs over 2 years

~60%

~40%

1. Reflects earned net cost reduction in respective financial years (before restructuring costs)

# Building a simpler, stronger QBE

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Focused regional footprint  
and a 'Lean & Activist'  
Group Head Office



Simpler and more  
streamlined businesses



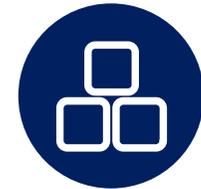
More sustainable operating  
platform with right-sized  
functions and infrastructure



Digital & Process  
Transformation:  
improved customer outcomes



Building a modern  
technology estate



Accelerating Brilliant  
Basics

# Program is underpinned by a clear set of initiatives and direct accountability



## Technology Enablement

- Application rationalisation
- Legacy decommissioning
- Journey to the cloud



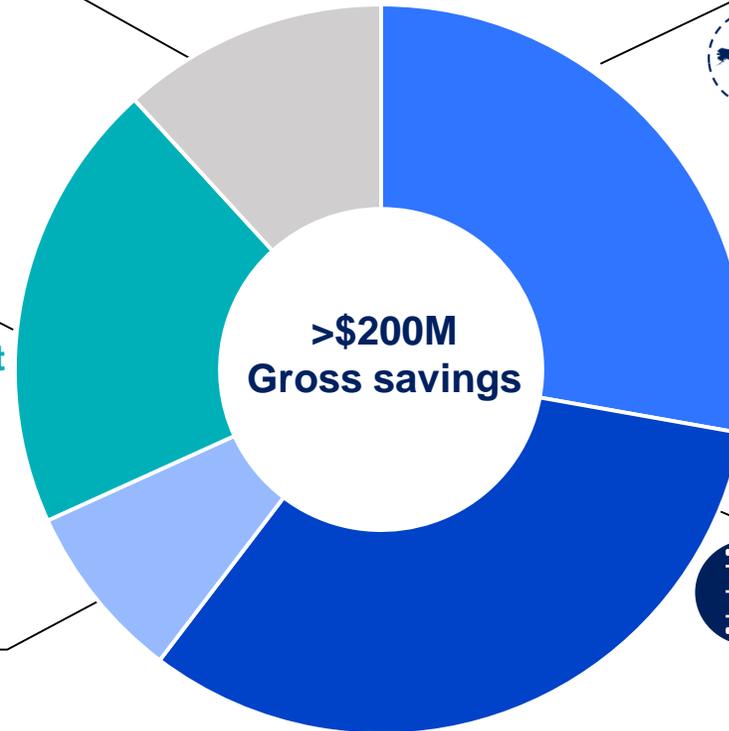
## Process Excellence

- Simplification
- End-to-end process improvement
- Digitisation
- Automation



## Tactical

- Real estate optimisation
- Procurement
- Consulting and T&E



## North America



- More focused business
- Right-size functions and infrastructure
- Technology rationalisation
- Simplification via sale of Personal Lines

## Simplified Operating Model



- Synergies through re-pointing Asia & Pacific, reducing regional infrastructure
- 'Lean & Activist' Group Head Office
- Rationalising organisational structure in Australia & New Zealand

# Questions & Answers



# Disclaimer

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This presentation should be read in conjunction with all information which QBE has lodged with the Australian Securities Exchange (“ASX”). Copies of those lodgments are available from either the ASX website [www.asx.com.au](http://www.asx.com.au) or QBE’s website [www.qbe.com](http://www.qbe.com).

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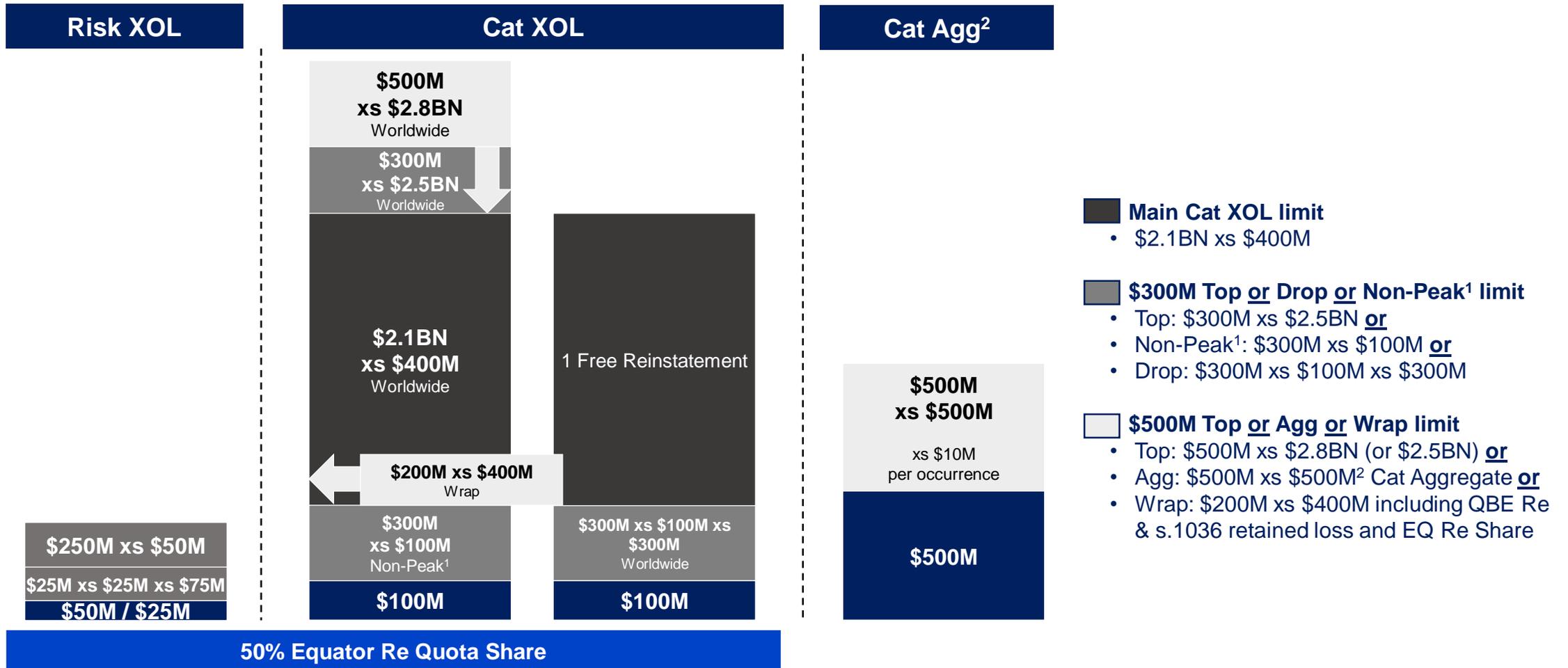
Any forward-looking statements assume large individual risk and catastrophe claims do not exceed the significant allowance in our business plans; no reduction in premium rates in excess of our business plans; no significant fall in equity markets and interest rates; no major movement in budgeted foreign exchange rates; no material change to key inflation and economic growth forecasts ;recoveries from our strong reinsurance panel; no unplanned asset sales and no substantial change in regulation. Should one or more of these assumptions prove incorrect, actual results may differ materially from the expectations described in this presentation.

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# Appendices



# 2019 global reinsurance program



1. Peak perils defined as cyclone, hurricane & typhoon, and earthquake (and fire following) in respects Australia, New Zealand (quake only) and US (excluding Puerto Rico). All other perils are non-peak  
 2. Final placed retention likely to be a mix of terms in the \$500M to \$515M range

# Glossary of reinsurance terms

Term	Definition
Aggregate reinsurance	An aggregate excess of loss reinsurance treaty indemnifies the insurance company (the reinsured) for an aggregate (or cumulative) amount of losses in excess of a specified aggregate amount. An inner deductible generally applies i.e. the treaty only applies to losses in excess of a stated dollar amount.
Catastrophe claim	A loss event resulting from natural perils with two or more claimants where individual claims within the event can be of any size so long as the aggregate cost of these claims exceeds \$2.5m (net of non-aggregate reinsurance) (QBE definition)
Catastrophe reinsurance	A reinsurance contract (often in the form of excess of loss reinsurance) that, subject to specified limits and retention indemnifies the ceding insurer for losses related to an accumulation of claims resulting from a catastrophe event or series of events. The definition of a 'catastrophe' in the reinsurance contract will differ to the QBE definition of a Catastrophe.
Excess of loss reinsurance (XOL)	A form of non-proportional reinsurance in which, in return for a premium, the reinsurer accepts liability for claims settled by the original insurer in excess of an agreed amount, generally subject to an upper limit.
Gross claims incurred	The amount of claims incurred during an accounting period before deducting reinsurance recoveries.
Large Risk claim	Claims that have a net of non-aggregate reinsurance value greater than US\$2.5 million that are not defined as a Catastrophe. (QBE definition)
Large individual risk and catastrophe claims ratio	The aggregate of claims each with a net cost of US\$2.5 million or more as a percentage of net earned premium. (QBE definition)
Limit	The total amount of losses to be paid by an insurer (or reinsurer) under an insurance (or reinsurance) policy, expressed either on a per occurrence basis (e.g. per accident or event) or on an aggregate basis.
Proportional reinsurance	A type of reinsurance in which the reinsurer shares a proportional part of the ceded premiums and losses of the ceding company.
Quota share treaty	A type of proportional reinsurance where premiums and claims are shared based on an agreed percentage.
Reinsurance	An agreement to indemnify a primary insurer by a reinsurer in consideration of a premium with respect to agreed risks insured by the primary insurer. The enterprise accepting the risk is the reinsurer and is said to accept inward reinsurance. The enterprise ceding the risks is the cedant or ceding company and is said to place outward reinsurance.
Reinsurer	The insurer that assumes all or part of the insurance or reinsurance liability written by another insurer. The term includes retrocessionaires, being insurers that assume reinsurance from a reinsurer.
Retention	That amount of liability for which an insurance company will remain responsible after it has completed its reinsurance arrangements.
Syndicate	A member or group of members, underwriting insurance business at Lloyd's through the agency of a managing agent.
Treaty reinsurance	Reinsurance of risks in which the reinsurer is obliged by agreement with the cedant to accept, within agreed limits, all risks to be underwritten by the cedant within specified classes of business in a given period of time.