



AUSTRALIAN STOCK EXCHANGE



QBEO00382

21 October 2003

The Manager  
Company Announcements  
Australian Stock Exchange Limited  
Level 6  
Exchange Centre  
20 Bridge Street  
SYDNEY NSW 2000

**QBE INSURANCE GROUP LIMITED**  
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Dear Sir/Madam,

**re: CEO presentation to the Securities Institute of Australia**

Please find attached a copy of a slide presentation to be delivered today to the Securities Institute of Australia.

Yours faithfully,

A handwritten signature in black ink that reads 'D Ramsay'.

Duncan Ramsay  
Company Secretary



# **QBE Insurance Group Limited**

**Presentation to the Securities Institute of  
Australia**

**Frank O'Halloran, CEO**

**21 October 2003**





# Overview

- Established 1886
- Merger of three companies in 1973 to form QBE
- Operates in 38 countries
- Market capitalisation A\$6.8 billion – A\$3m in 1974
- Total assets A\$21.5 billion – A\$120m in 1974
- Gross premium income 2003 estimated A\$8.5 billion (99.9% non-life) – A\$1.2 billion in 1994 – A\$70m in 1974
- 75% general insurance; 25% reinsurance
- Over 90% of general insurance is commercial lines
- Over 70 acquisitions in past 20 years
- QBE in top 25 general insurers worldwide





## Overview (cont'd)

- S&P A+ rating for main operating subsidiaries
- Over 7,000 staff (who understand QBE's approach to business)
- Prudent approach to risk management, e.g.
  - Minimal exposure to asbestos
  - Last six years overall releases from claims reserves in each year
  - Claims reserves consistently held at in excess of 85% degree of adequacy
  - Conservative provision against receivables
  - Low exposure to equities (7½% of total portfolio prior to collapse of equity markets in 2002) – now 10%
  - Quality cash and fixed interest portfolio of A\$10.5 billion at very short end of yield curve to maximise yields and avoid losses from rising interest rates.
- Detailed approach to product and financial business plans



## Overview (cont'd)

### ➤ Division Mix – gross premium

	%
Lloyd's	28
European Company (ECO)	27
Americas	16
Asia-Pacific	8
Australia	<u>21</u>
	<u>100</u>

- Record operating profit after tax in 2002 of A\$279 million.
- Record operating profit after tax for 2003 first half of A\$241 million
- Record cash flow in 2002 of A\$1.511 billion and A\$0.73 billion for 2003 first half
- Consistent increase in dividend over past 23 years. 2003 interim up 33% to A\$133 million.





## Overview (cont'd)

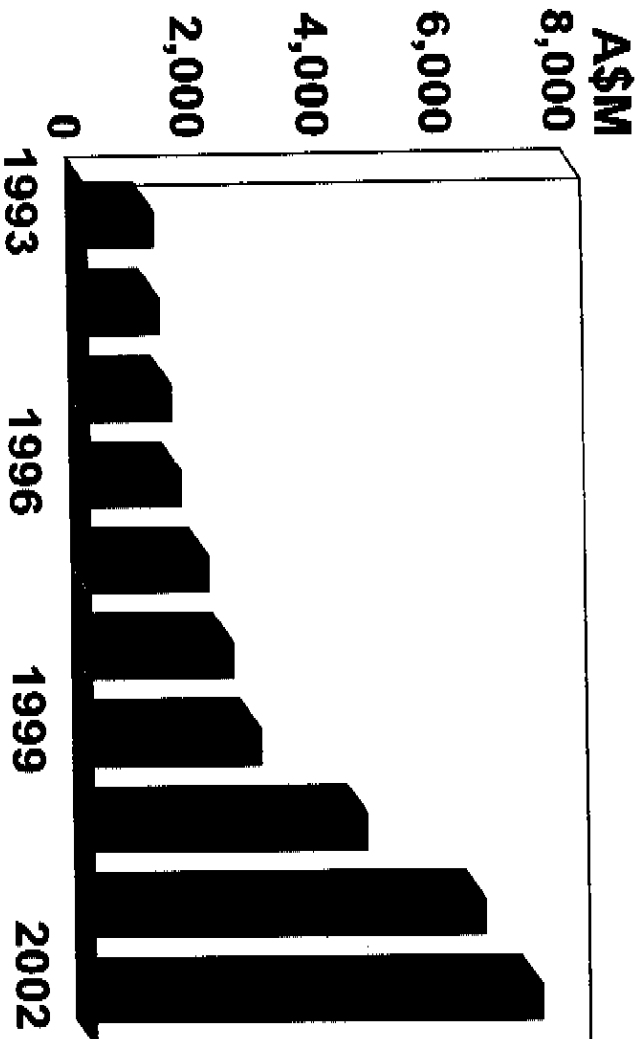
- 35 out of 38 countries made operating profits in 2003 first half – exceptions Bulgaria, Guam, Japan (run-off)
- All divisions made underwriting profits and improved insurance results for six months to June 30 2003.
- Group combined ratio was 96% for six months to June 30, 2003 and 97.7% for 12 months to December 31, 2002.
- All costs, including Group head office and a proportion of interest payable, are allocated to insurance results, unlike other listed insurers in Australia



# History of growth

year ended 31 December 2002  
gross and net earned premium

Compound average growth rates over last 10 years:  
- gross earned premium 23.2%  
- net earned premium 22.3%



TARGET  
2003

GWP A\$8.5B

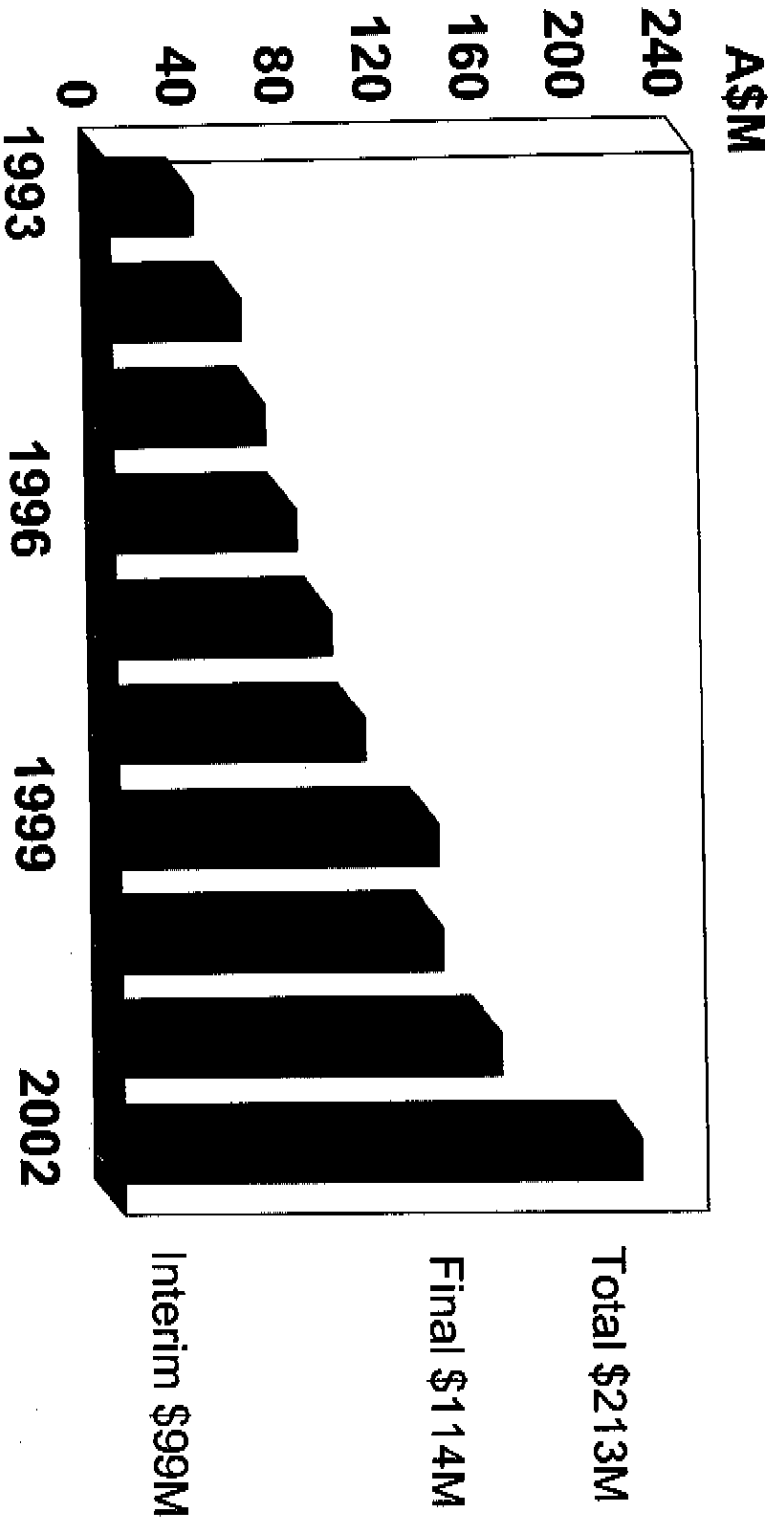
NEP A\$6.3B





# Dividend performance

year ended 31 December 2002





# Vision

To be internationally recognised as:

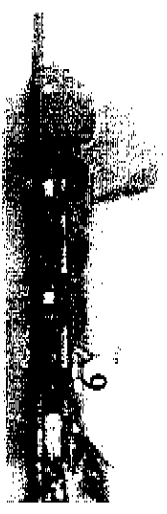
- a highly successful general insurance and reinsurance group;
- a builder of shareholders' wealth;
- a developer of "can do" people; and
- an organisation that excels in the continuous delivery of new and proven quality products and services.





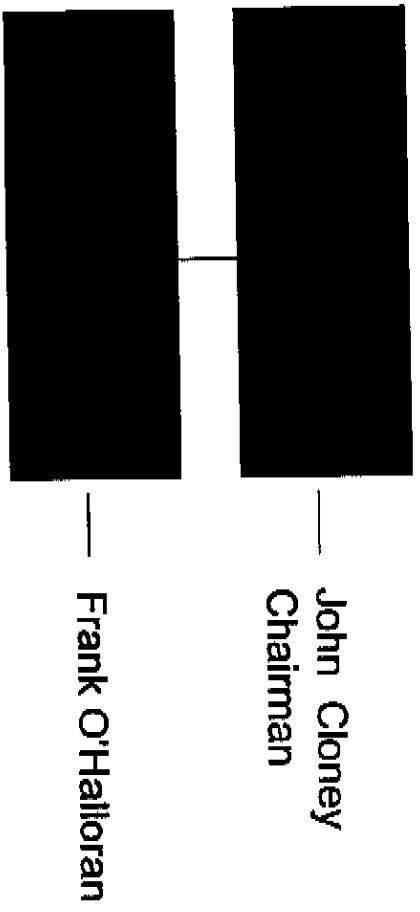
# Values

- Increasing the long term wealth of shareholders;
- Customer satisfaction and retention;
- Employee motivation; and
- Integrity.





# Management Structure



## GROUP MANAGEMENT

- Neil Drabsch (CFO)
- Gayle Tollifson (Finance & Business Risks)
- Duncan Ramsay (General Counsel & Secretary)
- Alan Williams (Internal Audit)
- Grant Conway (Tax & Regulatory Compliance)
- Blair Nicholls (Group Actuary & Business planning)
- Joan Cleary (Group Financial Controller)
- Peter Bailey (Risk & Reinsurance)
- Susan Jones (Shareholder Relations)

## OPERATIONS

- Raymond Jones (Australia)
- Vince McLenaghan (Asia Pacific)
- Steven Burns (Lloyd's)
- Paul Glen (European Company)
- Tim Kenny (Americas)
- Peter Grove (underwriting/reinsurance)
- Mark ten Hove (Investments)





# Balance Sheet

30 June 2003    \$M    31 Dec 2002    \$M    30 June 2002    \$M

<b>ASSETS</b>			
Investments and cash	11,495	11,508	9,493
Receivables	4,157	3,278	3,949
Recoveries on outstanding claims	3,289	3,666	3,885
Deferred insurance costs	1,620	1,131	1,589
Intangibles	502	516	491
Fixed and other assets	369	438	466
<b>TOTAL ASSETS</b>	<b>21,432</b>	<b>20,537</b>	<b>19,873</b>
<b>LIABILITIES</b>			
Outstanding claims	11,088	11,660	11,321
Unearned premium	3,861	3,180	3,592
Borrowings	1,452	1,456	1,033
Other creditors and provisions	1,904	1,220	1,142
<b>TOTAL LIABILITIES</b>	<b>18,305</b>	<b>17,516</b>	<b>17,088</b>
<b>NET ASSETS</b>	<b>3,127</b>	<b>3,021</b>	<b>2,785</b>
<b>EQUITY</b>			
Equity attributable to shareholders	3,064	2,954	2,720
Outside equity interests	63	67	65
<b>TOTAL EQUITY</b>	<b>3,127</b>	<b>3,021</b>	<b>2,785</b>



# Balance Sheet

30 June 2003

- A\$ impact on 30 June 2003 balances compared to 31 December 2002
- Investments - low risk strategy
  - liquid and highly-rated
- Receivables - highly rated counterparties
  - adequate provisions for doubtful debts
- Insurance provisions in excess of 85% of probability of adequacy
- Borrowings 6% short term, 48% long term subdebt, and 46% hybrid 20 year zero coupon convertibles



# Current Market Conditions

## Positives

- Substantial premium rate increases since 2001 continuing, although at a lower rate
- Improved terms, conditions, and deductibles are prevailing
- Lower risk profile - terrorism exclusions or government cover and, for QBE, reduced aggregates and maximum event retentions
- Low inflationary environment
- Reduced claims frequency (partly from higher deductibles)
- Equity markets improving
- Slightly higher interest yields expected

## Negatives

- Overall lower investment yields (compared to 2 years ago)
- Volatile bond markets
- Lower ratings of a number of global reinsurers



## How long can this cycle continue?

- **Fundamental changes have occurred in industry:**
- **Significant consolidation already happened (and continues)**
- **12 of the top 20 global reinsurers' ratings have reduced over the past 2 years**
- **Losses from prior years for many global insurers and reinsurers need to be recovered**
- **Capital in past 2½ years not sufficient to cover losses from WTC, fall in equity markets and reserve deficiencies.**
- **Low investment yields require focus on achieving underwriting profits**
- **Increased regulatory and rating agency requirements**
- **Investor pressure for improved returns**
- **Greater understanding of need for sound insurance industry**



## QBE Business Strategy

- Increase profits consistently over time
- Achieve ROE in excess of 1.5 times weighted average cost of capital – 2003 half year ROE 16.0%
- Increase profit by more than 75% in 2003
- Net premium growth around 10% p.a. in 2004 subject to A\$ value
- Continue successful acquisition strategy
- Increase customer retention
- Further reduce risk profile
- Premium rates up 5% on average for 2004. Current premiums includes 17.5% allowance for large losses and catastrophes to achieve 8.5%-9.0% insurance margin
- Maintain improved policy terms, conditions and deductibles



## QBE Business Strategy (cont'd)

- Premiums after 2004 to increase in line with claims inflation (subject to competition)
- Reduce inwards reinsurance to 20% or less of group premium income
- Continued focus on expense management (target 12.2% (or less))
- Reduce reinsurance cost from 21% to 19% of gross premium
- Maintain a low risk strategy for investments and achieve above benchmark returns
- Retain quality team and continue to promote QBE Manager Program
- Maintain capital adequacy in excess of 1.5 times minimum
- Maintain capital and debt ratios within S&P AA rating category



# Lloyd's Division

- CEO – Steven Burns
  - Largest manager of capacity at Lloyd's for 2003 - £1.04 billion
  - QBE provides 78% of capacity (No.2 at Lloyd's)
  - 5 Syndicates
- |   |               |
|---|---------------|
| 386 - non-US liability (EL, PL, PI)   | 2003 capacity |
| 566 - property and aviation reinsurance and retrocession  | <u>£'m</u>    |
| 1036 - direct marine & energy, specie, war etc  | 450           |
| 2724 - direct marine & energy, specie, war etc  | 161           |
| 2000 - direct property, casualty X/L reinsurance, USA property X/L reinsurance (nationwide), IT liability, financial institutions | 90            |
|   | 163           |
|   | <u>176</u>    |
|   | <u>1,040</u>  |
- Major lead market in Lloyd's
  - Gross premium income estimated £1.22 billion in 2003 (for 100%) – QBE's share £0.95 billion
  - Insurance profit 2003 first half 11.0% (compared to 7.2%)





# European Company Operations

- Managing Director – Paul Glen
- Operates in London market, Dublin, Paris, Milan, Hungary, Macedonia, Ukraine, Moldova, Bulgaria and Slovakia
- Largest London market general insurer (with Lloyd's)
- Gross premium estimate of £0.95 billion in 2003 with 70% London and Ireland general insurance, 2% Paris domestic, 8% CEE, 20% reinsurance
- General insurance products offered in London:
  - Employers' Liability (No.2 with Syndicate 386)
  - General Liability (No.1 with Syndicate 386)
  - Professional Liability/D&O
  - Kidnap & Ransom
  - Sabotage & terrorism
  - Medical malpractice (selected countries and professions only)
  - Bloodstock
  - UK Property
  - XL 500 property
  - Facultative Property
  - Leisure & Sport (PA, PL & Property) + Dublin
  - Extended warranty (large manufacturers 100% only)
  - Motor Fleet
  - Private Medical (corporate only)
  - Financial Risks



# European Company Operations

- Reinsurance products offered in London & Dublin:
  - Property catastrophe and X/L (non-USA)
  - Casualty X/L
  - Motor X/L (non-USA)
  - Agriculture (mainly X/L)
  - Credit & Surety XL
  - Marine X/L
  - Facultative Property X/L (Dublin)
  - Personal Accident X/L
- Insurance profit 2003 first half 6.5% (compared to 4.8%)



## Americas Division

- President and CEO – Tim Kenny
- Based in New York
- Operates in general insurance in USA, Argentina (workers only), Brazil (4 products) and reinsurer in Latin America through our offices in USA, Panama, Mexico, Venezuela, Peru and Columbia.
- Gross premium income 2003 estimated US\$0.95 billion with 70% general insurance, 30% reinsurance
- Other than Argentina and Brazil, all general insurance comes from USA program business (23) from 19 Managing General Agents (MGA's) and Managing General Underwriters (MGU's).



## Americas Division

- Main USA general insurance products
  - Condominium insurance
  - Health – specific and aggregate
  - Contractors
  - Small to medium commercial businesses
  - Standard and non-standard commercial automobiles
- Reinsurance is primarily regional USA and Latin America (includes facultative)
- Do not write workers compensation or heavy casualty in USA
- Insurance profit 2003 first half 5.6% (compared to 1.8%)



## Asia-Pacific Operations

- Managing Director – Vince McLenaghan
- Operates in 18 countries with management and shareholder control (except Vietnam 50%)
- Mainly agency business in Asia. However, specialist commercial lines offered in Asia, e.g. Pl, Trade Credit, Property and Marine (Hull & Cargo)
- All general insurance products in Pacific except New Zealand (commercial lines, extended warranty and travel only)
- Gross premium income in 2003 estimated A\$0.7 billion
- Insurance profit 2003 first half 11.2% (compared to 9.1%)





# Asia-Pacific Operations

## ➤ Countries of Operation:

### Asia

Hong Kong

Macau

Singapore

Malaysia

Philippines

Indonesia

Thailand

Vietnam

Japan (run-off)

### Pacific

New Zealand

Papua New Guinea

Fiji

Solomon Islands

New Caledonia

French Polynesia

Vanuatu

Norfolk Island

Guam





## Australia

- **Managing Director – Raymond Jones**
- **Operates in all states and territories covering all lines of business (except bloodstock, builders' warranty and extended warranty)**
- **Joint venture with ING for small to medium businesses (except workers' compensation) written through intermediaries**
- **Direct marketing company Western QBE writing personal lines**
- **Gross premium income estimated in 2003 A\$1.8 billion (or A\$2.3 billion including ING's share of joint venture)**



## Australia

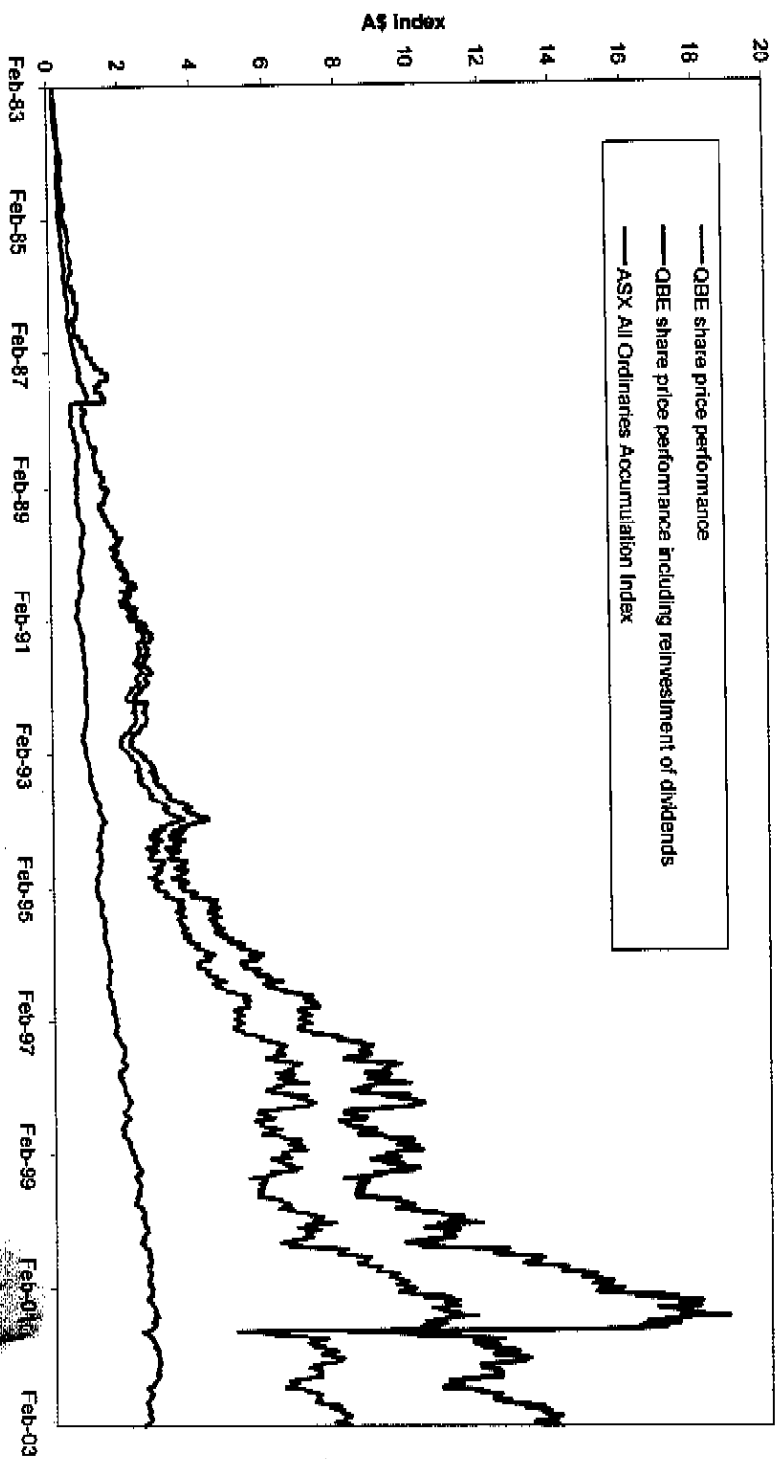
- Product driven strategy outside of joint venture.
- Products are:
  - Workers' compensation (No. 3)
  - Corporate liability (No. 1)
  - Corporate property (No. 1)
  - Professional liability (including D&O and selected medical malpractice) (No. 1)
  - Trade credit & surety (No. 1)
  - Aviation (non-major airlines) (No. 1)
  - Compulsory third party (motor liability) New South Wales (No.3) and Queensland (No. 4)
  - Travel (No. 1)
- Insurance profit 2003 first half 9.0% compared to 7.2%





# Historical share price performance

An investment in QBE has outperformed the Australian All Ordinaries Index and inflation with a compound average annual growth rate of 12.0% over 5 years, 20.1% over 10 years and 24.9% over 20 years





**Internet**

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

