



**QBE INSURANCE GROUP**

# CLSA Investors' Forum, Hong Kong

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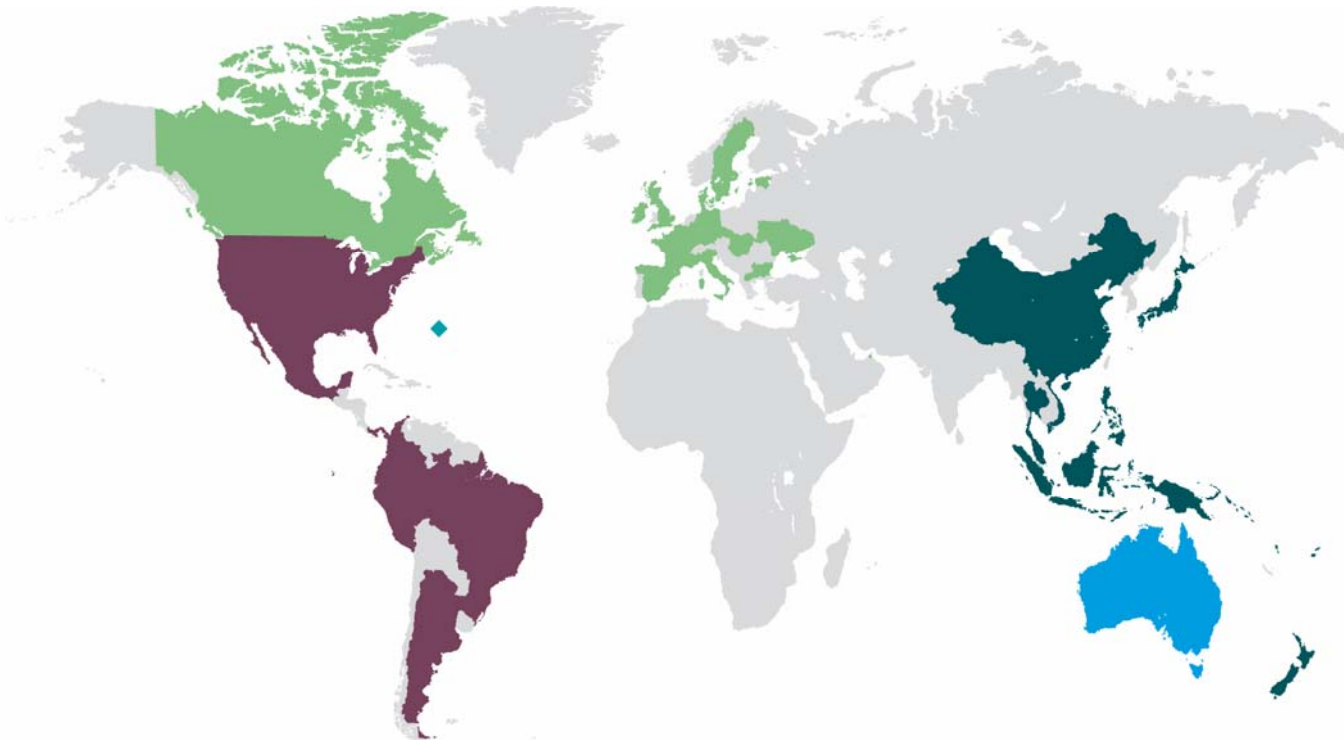
# Introduction to QBE

- Listed on the Australian Securities Exchange (“ASX”) with the Group head office function located in Sydney
- One of the top 25 global insurers and reinsurers based on net earned premium
- S&P A+ financial strength rating for the main insurance subsidiaries
- Industry leader in completing and integrating over 130 acquisitions over a period of more than 25 years
- Strong management team with long tenure at QBE and depth for succession

# Strategy and business model

- Modest risk retention per risk or event
- Spread of risk through diversity by product and geographic location
- Continuing focus on key profit drivers
- Organic growth pursued in hard markets / niches
- Growth mainly acquisition focussed
- Acquisition strategy targeted at:
  - bolt on portfolios and underwriters to enhance existing businesses
  - “renewal books” e.g. eliminate historically poor performing risks
  - acquire using proven formula for acquisition e.g. EPS accretive year one
- Introduce QBE culture in acquisitions as soon as possible

# Competitive advantage through product and geographic diversification across key insurance markets



KEY

■ Australia  
 ■ Asia Pacific  
 ■ Europe  
 ■ the Americas  
 ■ Equator Re

- Group head office in Sydney
- Divisional head offices in London, New York, Singapore and Sydney
- Operations in 49 countries and around 13,400 staff worldwide
- Forecast 2010 FY GWP:

	US\$BN
Americas	5.15
Europe	3.90
Australia	3.70
Asia Pacific	0.65
	13.40

# Top 10 P&C insurers: competitor performance 2005 - 2010

## Average combined operating ratio

Company	Combined operating ratio						
	Fy 2005	Fy 2006	Fy 2007	Fy 2008	Fy 2009	Hy 2010	Weighted average
	%	%	%	%	%	%	%
QBE	89.1	85.3	85.9	88.5	89.6	89.7	88.0
Tryg Vesta	86.4	83.8	82.6	89.0	92.0	100.2	88.3
Chubb	94.4	85.5	84.4	90.9	88.3	94.4	89.2
ACE	98.9	88.1	87.9	89.6	87.4	90.7	90.4
Berkshire Hathaway	99.7	82.2	88.5	87.8	93.8	92.6	90.5
Progressive	88.0	86.7	92.6	94.6	91.6	91.8	90.8
Sampo	90.9	90.1	90.9	91.9	92.3	94.3	91.5
USAA *	93.4	83.7	93.0	99.3	89.0	91.9	91.6
Travellers	103.3	87.9	87.7	92.1	89.3	96.0	92.3
Partner Re	116.0	84.3	80.2	94.0	81.4	103.7	92.3

**Top 50 Average**      101.0      94.0      96.0      98.7      98.4      99.5      97.7

## Average return on equity

Company	Return on equity						
	Fy 2005	Fy 2006	Fy 2007	Fy 2008	Fy 2009	Hy 2010	Weighted average
	%	%	%	%	%	%	%
QBE	24.2	25.8	26.0	22.3	18.0	9.7	19.6
Tryg Vesta	28.0	35.0	23.0	9.0	22.0	0.6	19.5
Sampo	20.6	18.7	16.0	19.9	22.3	18.1	19.2
Progressive	25.0	25.3	19.5	(1.5)	21.4	16.8	18.4
Zurich	15.1	27.8	26.4	11.8	10.4	11.6	15.9
Chubb	16.2	19.2	19.8	12.9	15.0	12.6	15.8
W R Berkley	21.0	25.0	23.0	7.8	10.1	12.7	15.4
ACE	8.9	18.5	17.9	16.8	16.2	13.9	15.3
Aviva	17.9	13.1	11.3	11.3	16.2	16.5	14.1
Royal Sun Alliance	21.6	(2.0)	21.3	16.4	13.4	12.7	14.0

**Top 50 Average**      7.1      12.2      11.1      4.2      5.9      8.4      8.1

### Notes:

1. Tables reflect the top 10 performers of 32 of the worlds top 50 P&C insurers that have reported to date
2. Information sourced from published accounts and company websites for insurance and reinsurance business
3. The CORs include all identifiable expenses related to insurance activities and the COR is expressed as a % of NEP
4. The ROEs are as reported or where not reported are based on average shareholders' equity of general insurance and reinsurance assets
5. The weighted average CORs are the sum of the five years' net earned premiums divided by total claims, commissions and expenses for the 5 years
6. The weighted average ROEs are the sum of the five years' NPAT divided by the sum of the net assets for the 5 years
7. The industry averages are the total of all the top 50 P&C insurers that have reported to date
8. FM Global who appeared at the top of the COR table at 31 December 2009 have not been included as being a mutual, they only report annually

# Strict profit criteria underpins acquisition strategy

	GWP US\$M	NEP US\$M	COR %	Insurance profit		EPS on ins. profit US cents
				%	US\$M	
2005 FY	7,171	5,630	89.1	17.4	982	128
2009 FY	11,239	9,446	89.6	17.0	1,605	159
<b>2010 FY consensus<sup>(1)</sup></b>	<b>13,400</b>	<b>11,300</b>	<b>88.5</b>	<b>16.1</b>	<b>1,826</b>	<b>176</b>
<b>Growth (2005 – 2010)</b>	<b>86.9%</b>	<b>100.7%</b>			<b>85.9%</b>	<b>37.5%</b>

- Over 90% of growth in last five years from acquisitions
- CORs over this period maintained at lower than 90%
- 2009 and 2010 insurance profit impacted by lower interest yields
- Strong acquisition pipeline with over US\$6BN of opportunities ex Australia presented since 30 June 2010

- 42 acquisitions between 2005 and 2009 including:
  - Americas: Colombia, National Farmers' Union, One-Beacon, Praetorian, Winterthur, Mexico, North Pointe, ZC Sterling
  - Europe: British Marine, Mini Bus Plus, Endurance
  - Australia: QBE LMI, Elders
- Four acquisitions in 2010:
  - Americas: NAU, CNA Argentina, Seguros Colonial
  - Europe: Secura NV

(1) Average analysts' forecasts for FY 2010 as at 13 August 2010

# Market conditions: exceptional severity of natural catastrophes in 1H 2010

<b>The first six months:</b>		<b>2010</b>	<b>2000 – 2009 average</b>
Number of events		440	380
Overall economic loss	US\$BN	70	41
Insurance losses	US\$BN	22	11

<b>The five largest natural CATs in first six months of 2010 by insured losses:</b>			<b>Overall losses US\$BN</b>	<b>Insurance losses US\$BN</b>
27 Feb	Chile	Earthquake, tsunami	30.0	8.0
26 – 28 Feb	Europe	Winter storm Xynthia	4.5	3.4
12 – 16 Jan	USA	Severe storm, hail	2.5	1.07
8 – 13 Jan	Europe	Winter damage	1.73	1.0
6 – 7 Mar	Australia	Severe storm	1.38	0.92

Source: Munich Re, Geo Risks Research, NatCatSERVICE

# Market conditions

- Premium rates up 2% to 3% on QBE renewed business
- Strong competition on new business
- Reinsurance rates generally soft with increases only on event driven criteria e.g. marine and energy risks
- Insurance markets remain competitive but resistant to more fundamental change despite conditions of weak economic recovery and low investment yields
- Medium term pressure on earnings continues to build from low investment yields, diminishing prior year claims provision releases, inflation concerns and increased regulation
- Continuing investment market volatility for fixed interest and equity investments
- Acquisition opportunities emerging



# QBE's relative strengths to manage through soft cycle

- Prudent approach to managing insurance and investment risk
- Diversity by geography and product
- Quality reinsurance protections and continued low maximum event retention despite growth (4.0% of forecast 2010 NEP at 30 June)
- Ability to lead on terms and conditions on most business products
- Flexibility to manage risk retention through captive reinsurer, Equator Re
- Excellent loss statistics for monitoring claims ratios and performing portfolio analysis/segmentation
- Focus on key profit drivers targeting lower reinsurance costs and combined commission and expense ratio
- Target acquisitions of selected portfolios and insurance businesses to enhance growth and shareholder value

# Volatile risk-free interest rates impact COR, insurance margin and PoA

	Sensitivity <sup>(3)</sup>	2010 1H	Risk-free rate variations		
			16 June 2010	15 Apr 2010 <sup>(2)</sup>	31 Dec 2009
Weighted average risk-free rates %	3.75	2.75	3.19	3.40	3.20
Impact on key half year ratios <sup>(1)</sup> :					
- COR %	87.8	89.7	89.2	88.1	88.4
- Insurance profit margin %	17.6	15.7	16.2	17.3	17.0
- Probability of adequacy %	90.0	86.0	86.8	88.6	87.5

(1) Impact of restating the 30 June 2010 result and PoA for the effect of interest rates at 15 April, 16 June and 31 December 2009

(2) 15 April 2010 was indicative of market peak

(3) Sensitivity based on an underlying 1% increase in the discount rate (assuming no increase in inflation or other factors) weighted according to the portfolios and payout patterns

# Financial model

	Actual				Sensitivity %
	31 Dec 2007 %	31 Dec 2008 %	31 Dec 2009 %	30 Jun 2010 %	
COR	85.9	88.5	89.6	89.7	88.5
Period premium held <sup>(1)</sup>	1.4 yrs	1.4 yrs	1.5 yrs	1.4 yrs	1.5 yrs
Yield on insurance funds <sup>(1)</sup>	5.9	5.7	4.3	3.8	4.0
Insurance profit/NEP	22.2	19.7	17.0	15.7	17.5
Solvency ratio <sup>(2)</sup>	72.5	75.3	90.0	86.3	86.0
Insurance profit / average shareholders' funds <sup>(1)</sup>	30.6	26.2	18.9	18.2	20.3
Investment yield on average shareholders' funds <sup>(1)</sup>	3.9	2.8	3.4	(6.5)	2.5
Pre-tax profit / average shareholders' funds <sup>(1)</sup>	34.4	29.0	22.2	11.7	22.8
Tax	24.1	22.9	18.4	15.5	20.0
ROE	26.0	22.3	18.0	9.7	18.2

(1) Weighted average during the period (including intangibles)

(2) Ratio of weighted average shareholders' funds to net earned premium

# Financial strength and flexibility

- Operating cash flow continues to be strong at US\$647M for the half year (2009: US\$564M)
- Capital adequacy at regulated entity and Group level strong – Group MCR multiple of 1.6x <sup>(1)</sup>
- Probability of adequacy of total insurance liabilities 94.6% at 30 June 2010 (31 Dec 2009: 95.5%)
- Four acquisitions announced in 2010 to date expected to add GWP of US\$800M in 2H 2010 or US\$1.35BN in FY 2011
- Low debt to equity ratio of 35% provides QBE flexibility for funding future growth and acquisitions
- Capacity under APRA tier 2 debt rules to fund an additional US\$1.2BN of GWP through growth or acquisition

(1) Under APRA risk based criteria for conglomerates

# Outlook and closing remarks

- Initiatives announced to date expected to produce additional US\$2.3BN GWP and annual profit after tax of US\$400M by 2013
- Benefits of global initiatives to improve reinsurance costs, claims and expense ratios – details to be announced by year end
- Action being undertaken to enhance investment yield – subject to our strict risk criteria
- Further slight increase expected in overall premium rates on renewed business
- Underwriting results and businesses are in great shape and poised to take advantage of any increase in interest rates
- Successful growth strategy continues with many opportunities for further acquisitions
- Minimum 15% ROE target for each product remains despite lower investment yields

# 2010 financial performance targets

	2010 FY
Insurance profit margin <sup>(1)</sup>	16% to 18%
Combined operating ratio <sup>(1)</sup>	Less than 89%
GWP and NEP increase	19% and 20%
Reinsurance expense ratio <sup>(2)</sup>	Less than 14%
Combined commission & expense ratio <sup>(1)</sup>	Around 29.0%
Tax rate	Around 18%
Gross investment yield on policyholders' funds – including FX gains	Over 3%
Group capital adequacy multiple	Greater than 1.5x

(1) Ratio to net earned premium

(2) Ratio to gross earned premium

# Disclaimer

The information in this presentation provides an overview of the strategy and operations of QBE Insurance Group Limited.

This presentation should be read in conjunction with all information which QBE has lodged with the Australian Securities Exchange (“ASX”). Copies of those lodgements 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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