

# Emerging Markets business review

“Emerging Markets delivered a solid result in 2016, recording a stable combined operating ratio and double-digit gross written premium growth. We remain focused on winning and retaining business where we see the highest potential for further profitable growth.”

**David Fried**

Chief Executive Officer • Emerging Markets

Gross written premium US\$ million	Net earned premium US\$ million	Underwriting result US\$ million	Insurance profit US\$ million
<b>1,632</b>	<b>1,328</b>	<b>6</b>	<b>73</b>
↓ 6% from 1 2015	↓ 8% from 2 2015	↓ \$5M from 2015	↑ \$2M from 2015
		Combined operating ratio <b>99.5%</b> (2015 99.2%)	Insurance profit margin <b>5.5%</b> (2015 4.9%)

## 2016 overview

In 2016, Emerging Markets posted solid underlying growth and a strong combined operating ratio through the continued implementation of the profitable growth strategy.

On a constant currency basis, gross written premium and net earned premium grew by 10% and 8% respectively, largely due to an enhanced focus on driving profitable growth in four key areas of business: specialty, commercial, SME and personal lines with strategic partners.

The division also recorded a stable combined operating ratio of 99.5% despite several large individual risk and catastrophe claims during the year. The underwriting results were protected by an improved reinsurance structure implemented in 2016.

This solid overall performance can be attributed to close management of portfolios, strategic remediation and tight expense control. In December 2016, following a business review to address Latin American underwriting margins, the QBE Group entered into an agreement to sell<sup>3</sup> its small and currently unprofitable Chilean operations to the current management team of QBE Chile Seguros Generales S.A.. Additionally, the Group finalised the buyout of the remaining 45% of paid-up shares of the joint venture operation in Indonesia previously held by PT Pool Advista Indonesia Tbk and purchased an additional 23% stake in our Indian joint venture, Raheja QBE.

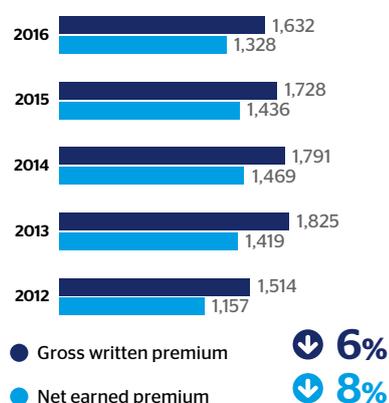
To sustain long-term growth ambitions, Emerging Markets continues to pursue improvements in productivity, efficiency and consistency through implementation of a single operating model across the division. A new operating structure has been introduced in Hong Kong to ensure QBE is well positioned to meet the evolving business needs in this market.

1 Up 10% on a constant currency basis.

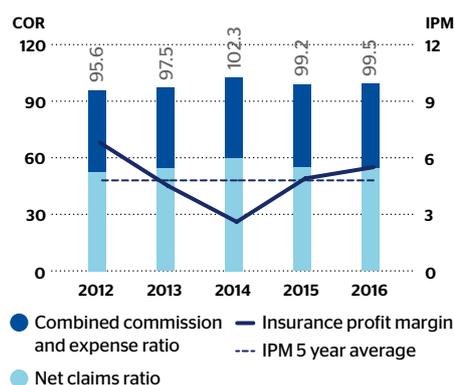
2 Up 8% on a constant currency basis.

3 Subject to regulatory approval.

### Gross written premium and net earned premium (US\$M)



### Combined operating ratio (COR) and insurance profit margin (IPM) (%)



The establishment of a Centre of Excellence in Miami has delivered a more robust governance structure, strengthened relationships with major trading partners (MTPs) and enhanced underwriting expertise and control in Latin America. For example, profitable growth achieved by working more closely with MTPs in Colombia increased by more than 70% on the prior year.

The long-term outlook for Emerging Markets remains positive and will continue to drive premium growth for QBE.

## Operating and financial performance

### Underwriting performance

In 2016, reported gross written and net earned premium decreased by 6% and 8% respectively. On a constant currency basis, however, gross written and net earned premium increased by 10% and 8% respectively.

Even with material impacts from Cyclone Winston in Fiji in March, a 7.8-magnitude earthquake in Ecuador and massive flooding in Chile in April, Emerging Markets recorded a combined operating ratio of 99.5% and an underwriting profit of \$6 million. The total estimated gross cost of catastrophes during 2016 stands at \$140 million, almost double the total gross cost incurred in 2015. However, the division's underwriting results were protected by the improved reinsurance structure implemented in 2016.

The stable underwriting result is also attributable to more frequent and robust technical portfolio reviews, increased utilisation of data analytics and continued remediation activities. Together these initiatives underpinned an improved attritional claims ratio. Remediation activities included the further closure of unprofitable points of sale in the SOAT portfolio in Colombia with the agreement to sell the Chilean business expected to benefit margins in 2017. A new operating structure in Thailand centralising operations in Bangkok will result in a better business model to meet the evolving needs of the local market.

### Underwriting result

		FOR THE YEAR ENDED 31 DECEMBER				
		2016	2015 <sup>1</sup>	2014 <sup>1</sup>	2013 <sup>1</sup>	2012 <sup>1</sup>
Gross written premium	US\$M	<b>1,632</b>	1,728	1,791	1,825	1,514
Gross earned premium	US\$M	<b>1,588</b>	1,687	1,706	1,703	1,423
Net earned premium	US\$M	<b>1,328</b>	1,436	1,469	1,419	1,157
Net incurred claims	US\$M	<b>721</b>	788	878	769	606
Net commission	US\$M	<b>312</b>	336	354	346	289
Expenses	US\$M	<b>289</b>	301	271	269	211
Underwriting result	US\$M	<b>6</b>	11	(34)	35	52
Net claims ratio	%	<b>54.3</b>	54.8	59.8	54.2	52.4
Net commission ratio	%	<b>23.5</b>	23.4	24.1	24.4	25.0
Expense ratio	%	<b>21.8</b>	21.0	18.4	18.9	18.2
Combined operating ratio	%	<b>99.5</b>	99.2	102.3	97.5	95.6
Adjusted combined operating ratio <sup>2</sup>	%	<b>99.5</b>	99.2	102.3	—	—
Insurance profit margin	%	<b>5.5</b>	4.9	2.6	4.5	6.8

<sup>1</sup> Excludes Argentine workers' compensation business sold in 2015.

<sup>2</sup> Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims. Management-basis results were not reported in 2013 and prior.

## Premium income

Through continued implementation of the profitable growth strategy, Emerging Markets recorded double-digit premium growth on a constant currency basis.

In Asia Pacific, gross written premium reached \$765 million with the stronger US dollar limiting headline growth to only 1%. On a constant currency basis, however, gross written and net earned premium increased by 3% and 4% respectively, with Papua New Guinea, Vietnam, Fiji, and Solomon Islands all achieving double-digit gross written premium growth. In 2016, QBE entered into a 10-year exclusive distribution agreement with Manulife in Hong Kong, further strengthening our access to the retail segment beyond the existing bancassurance network.

In Hong Kong, QBE ranked first in market share in both engineering (9%) and workers' compensation (17%) and second in mortgage insurance (19%). QBE ranked second in market share in marine hull & liability (23%) and third in cargo (9%) in Singapore, second in marine (8%) in Malaysia and marine hull (10%) in Indonesia. QBE also retained its leading market positions in Hong Kong, Singapore and the Pacific Islands.

In Latin America, the stronger US dollar drove an 11% decline in gross written premium to \$867 million. On a constant currency basis, however, gross written and net earned premium grew strongly by 16% and 11% respectively. Solid underlying growth in gross written premium was mainly driven by Argentina (36%), Brazil (21%) and Mexico (18%). A continued and deliberate shift in the business mix towards writing more commercial, specialty and SME risks also contributed to overall growth.

In Argentina, QBE ranked first in cargo insurance (19%). In Ecuador, where QBE is the third largest private general insurer with a 12% market share, QBE ranked second in both motor (16%) and property insurance (14%). We also maintained our leading position in the Brazilian travel sector with a 36% market share through partnerships with local travel assistance operators.

Collaboration between divisions continues to deliver benefits for Latin America. For example, we have had new business success with a combined hull and machinery/protection and indemnity product that drew on British Marine's expertise. Based on strengthened relationships with MTPs, several significant accounts were also added during the year, including the Museum of Latin American Art in Buenos Aires and an alliance with one of the main construction companies in Colombia.

## Claims expense

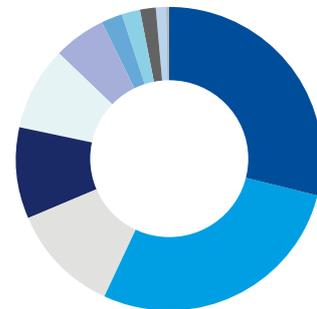
Cyclone Winston in Fiji resulted in some 90 claims totalling approximately \$30 million for the QBE Group, with a \$12 million net impact to Asia Pacific.

April's earthquake in Ecuador resulted in around 12,000 claims totalling approximately \$80 million, which translated into a \$13 million net impact to Latin America. Also in April, flooding in the business district of Chile's capital of Santiago resulted in a further \$6 million net claim impact.

Despite these events, the net claims ratio improved from 54.8% to 54.3%, mainly reflecting a remediation-led improvement in the attritional claims ratio in Latin America.

Following the Ecuadorean earthquake, QBE used drone technology to expedite the handling of claims, enabling us to settle 90% of large claims within 90 days of the event. Rapid settlement of claims in Ecuador, as well as in Fiji, positively reinforced QBE's brand.

**Gross earned premium  
by class of business 2016**



	2016 %	2015 %
● Motor & motor casualty	28.9	33.9
● Commercial & domestic property	28.2	26.5
● Marine energy & aviation	11.6	11.1
● Workers' compensation	9.8	8.7
● Accident & health	8.8	7.4
● Public/product liability	5.5	5.8
● Professional indemnity	2.4	2.2
● Life	1.9	0.2
● Financial & credit	1.6	1.3
● Agriculture	1.2	1.4
● Other	0.1	1.6

### Commission and expenses

The net commission ratio remained stable year-on-year as we continue to work closely with our key partners to strengthen relationships and to provide customer-centric solutions.

The net underwriting expense ratio was higher at 21.8%, compared with 21.0% in 2015, due to ongoing investment to support the long-term profitable growth strategy. We continue to make the necessary investment in technology to bring digital solutions to our partners and customers and also in data analytics to improve underwriting and business intelligence. We remain vigilant in closely monitoring all expenses across the division as we manage for growth.

### Summary

In line with the ongoing implementation of the Emerging Markets profitable growth strategy, the division delivered another solid result in 2016.

In Asia Pacific, profitability remains encouraging amid challenging market conditions reflecting the strength of our franchise. In Latin America, we continue to closely monitor portfolio performance and will remediate where necessary to improve underwriting performance.

In sustaining a solid growth trajectory, we will focus exclusively on winning and retaining high quality business in both Asia Pacific and Latin America. Having regard to the Group's core strengths and capabilities, we will remain focused on the four areas where we see the highest potential for profitable growth: commercial, specialty, SME and personal lines with strategic partners. In 2016, these core areas of business grew by more than 20%.

Across these four core areas and especially in segments such as marine and construction, we continue to be positively impacted by international trade flows and by rising infrastructure investment in both regions. Specific to personal lines, we are building additional strategic partnerships in both bancassurance and affinity to enable us to access target customers without needing to create our own retail distribution network.

The implementation of a single operating model across Emerging Markets is also enhancing productivity, efficiency and consistency. We continue to strengthen our underwriting capabilities through the regional centres of excellence and locally through the QBE Underwriting Academy program. A number of senior management appointments and changes have also been made to ensure the right team is in place to deliver on our profitable growth promise.

Evidencing our efforts, in 2016 we won of a number of awards. In Indonesia, we were presented with the Best Financial Performance General Insurance Company 2016 award by the Indonesian business magazine *Warta Ekonomi*. In Singapore, QBE was named the Best General Insurance Company 2016 by *World Finance* magazine. In the CFO Innovation Awards, QBE was voted the Best Trade Credit Insurance provider in Asia. QBE was also shortlisted as one of the top three insurers in the 'General Insurance Company of the Year' category in the Asia Insurance Industry Awards.

I would like to take this opportunity to thank my colleagues in Asia Pacific and Latin America for their ongoing commitment and for delivering another solid result for our shareholders.