

# Emerging Markets business review

“Emerging Markets maintained steady, solid growth in 2015. With a strengthened leadership team and management structure in place, our expansion in Asia Pacific and Latin America is being driven by increased cross-regional synergies and implementation of our profitable growth strategy.”

**David Fried**

Chief Executive Officer • Emerging Markets

Gross written premium US\$ million	Net earned premium US\$ million	Underwriting result US\$ million	Insurance profit (loss) US\$ million
<b>1,728<sup>1</sup></b>	<b>1,436<sup>1</sup></b>	<b>11</b>	<b>71</b>
⬇️ 4% from <sup>2</sup> 2014	⬇️ 2% from <sup>3</sup> 2014	⬆️ \$45M from 2014	⬆️ \$33M from 2014
		Combined operating ratio <b>99.2%</b> (2014 102.3%)	Insurance profit (loss) margin <b>4.9%</b> (2014 2.6%)

## 2015 overview

Emerging Markets continued to build on its solid foundation during the year.

A single operating model was established with the creation of a combined Emerging Markets board and management structure.

The Latin America profitable growth strategy was approved by the QBE Group Board in February 2015. A divisional head office was established in Miami and remediation actions were taken to further improve performance in the region. This included the sale of the Argentine workers' compensation business and a reduction in exposure to the Colombian SOAT business.

Inter-regional synergies were developed with the leadership team now providing oversight of underwriting, distribution and claims from our regional offices in Hong Kong, Singapore and Miami. To improve efficiency and consistency, and to further enhance the scalability of Emerging Markets' operations, some administrative, claims, human resource and finance services were relocated to the QBE Group's Shared Services Centre (GSSC) in the Philippines.

In 2015, the division posted steady, solid underlying growth in both gross written and net earned premium as well as an improved combined operating ratio.

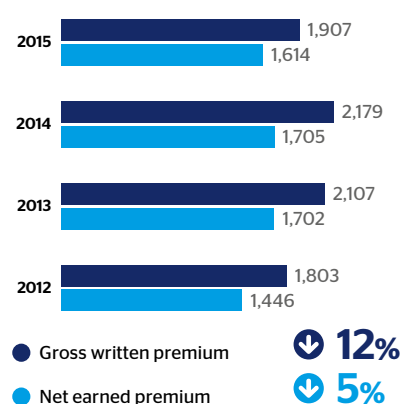
Note: All figures in the above table and the performance figures in the commentary following exclude the Argentine workers' compensation business.

<sup>1</sup> Excludes Argentine workers' compensation.

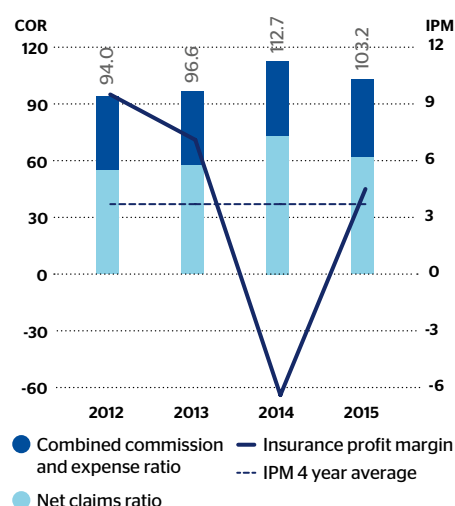
<sup>2</sup> Up 9% on a constant currency basis.

<sup>3</sup> Up 10% on a constant currency basis.

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



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



## Operating and financial performance

### Underwriting performance

Through the implementation of a profitable growth strategy in both Asia Pacific and Latin America, Emerging Markets increased gross written and net earned premium in 2015 by 9% and 10% respectively on a constant currency basis.

The underwriting result improved significantly, producing a \$11 million profit in 2015 compared with a loss of \$34 million in the previous year. This turnaround was despite the significant impact of Cyclone Pam in Vanuatu and severe flooding in Chile.

Insurance profit also increased from \$38 million to \$71 million, while the combined operating ratio improved to 99.2% in 2015 from 102.3% in 2014. On a regional basis, Asia Pacific reported a combined operating ratio of 93.2% while Latin America was 103.6%.

To improve the quality of the Colombian SOAT portfolio, a total of 1,320 unprofitable points of sale were closed in 2015 while still maintaining national coverage for our customers. A new SOAT governance structure was also implemented to monitor the portfolio's profitability. The sale of the workers' compensation business in Argentina to the specialist workers' compensation insurer, La Caja, completed in August. This exit allows for increased focus on the development of corporate, specialty and small-medium enterprise (SME) products and services in Latin America.

### Underwriting result

#### Emerging Markets result – including Argentine workers' compensation

FOR THE YEAR ENDED 31 DECEMBER		2015	2014	2013
Gross written premium	US\$M	1,907	2,179	2,107
Gross earned premium	US\$M	1,865	1,942	1,984
Net earned premium	US\$M	1,614	1,705	1,702
Net claims expense	US\$M	992	1,245	976
Net commission	US\$M	345	368	364
Expenses	US\$M	328	309	304
Underwriting result	US\$M	(51)	(217)	58
Net claims ratio	%	61.5%	73.0%	57.3%
Net commission ratio	%	21.4%	21.6%	21.4%
Expense ratio	%	20.3%	18.1%	17.9%
Combined operating ratio	%	103.2%	112.7%	96.6%

#### Emerging Markets result – excluding Argentine workers' compensation

FOR THE YEAR ENDED 31 DECEMBER		2015	2014	2013
Gross written premium	US\$M	1,728	1,791	1,825
Gross earned premium	US\$M	1,687	1,706	1,703
Net earned premium	US\$M	1,436	1,469	1,419
Net claims expense	US\$M	788	878	769
Net commission	US\$M	336	354	346
Expenses	US\$M	301	271	269
Underwriting result	US\$M	11	(34)	35
Net claims ratio	%	54.8%	59.8%	54.2%
Net commission ratio	%	23.4%	24.1%	24.4%
Expense ratio	%	21.0%	18.4%	18.9%
Combined operating ratio	%	99.2%	102.3%	97.5%
Insurance profit margin	%	4.9%	2.6%	4.5%

## Premium income

Reflecting a stronger US dollar, Emerging Markets' gross written and net earned premium decreased 4% and 2% respectively in 2015. On a constant currency basis, however, gross written and net earned premium increased by 9% and 10% respectively. Consistent with a targeted gradual business mix shift, strong growth was achieved in commercial property (11%) and marine (14%).

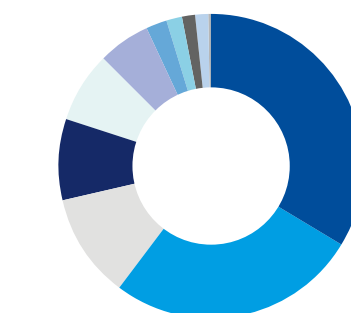
On a regional basis, the stronger US dollar translated into a 3% decrease in gross written premium to \$759 million in Asia Pacific. On a constant currency basis, however, gross written premium increased 3% with growth driven by Indonesia, Macau, Malaysia, the Philippines and Vietnam which all achieved double-digit top-line growth. The substantial expansion of business in these markets was partially offset by Hong Kong and Singapore where demand for commercial insurance, especially marine and construction, was impacted by mainland China's economic slowdown which resulted in a slackening of trade flows across Asia Pacific. At the same time, rates continued to soften with premium rate reductions averaging 3.4% across the region. In the Pacific, new market entrants in Fiji and Solomon Islands also intensified rate pressures.

Implementation of the profitable growth strategy has led to further expansion in targeted market segments in Asia Pacific. QBE ranked second in market share in marine hull & liability (25%) in Singapore, second in marine (13%) in Malaysia and second in marine hull (15%) in Indonesia. QBE ranked second in liability (12%) in Malaysia and third in both professional indemnity (14%) in Singapore and public liability (9%) in Thailand. In engineering, QBE ranked first (19%) in Malaysia and third (11%) in Hong Kong. QBE retained leading market positions in both Hong Kong (ranked 1st) and Singapore (ranked 6th) and also remains the leading general insurer in the Pacific markets of Fiji, Papua New Guinea, Solomon Islands and Vanuatu.

In Latin America, the stronger US dollar also contributed to the decline in gross written and net earned premium. On a constant currency basis, gross written and net earned premium grew strongly by 13% and 12% respectively.

Implementation of the new profitable growth strategy has seen a gradual shift in the business mix of the Latin American operations, writing more commercial, specialty and SME risks. In Argentina, QBE ranked first (16%) in cargo insurance, while in Ecuador QBE ranked first (8%) in property insurance and is the second (10%) largest private general insurer. Once again Latin America recorded growth through QBE's excellent affinity capabilities. Following changes to regulations for travel insurance distribution, QBE Brasil Seguros became the country's largest travel insurer (50%) by proactively engaging travel assistance operators.

**Gross earned premium  
by class of business 2015**



	2015 <sup>1</sup> %	2014 %
Motor & motor casualty	33.8	31.2
Commercial & domestic property	26.5	24.2
Marine energy & aviation	11.1	8.5
Workers' compensation	8.7	19.2
Accident & health	7.4	5.7
Public/product liability	5.8	4.7
Professional indemnity	2.2	1.9
Other	1.6	0.3
Agriculture	1.4	0.9
Financial & credit	1.3	1.3
Life	0.2	2.1

1 The 2015 gross earned premium % split has been adjusted to exclude the Argentine workers' compensation business.

A key to the longer term success of Emerging Markets is the further leveraging of resources and skills between Asia Pacific, Latin America and other QBE divisions. For example, QBE Qnect – an innovative online insurance portal designed to meet the rising demand from intermediaries to quote, bind and provide documentation at the point of sale – was originally introduced in Hong Kong and Singapore in 2014. With similar demand noted in other countries within Emerging Markets, the platform will be extended to Latin American markets such as Argentina this year, further supporting our growth in the corporate and SME segments in the region.

Additionally, the Miami team is working with North American Operations to explore opportunities involving companies that have operations in both North America and Latin America. Moreover, European Operations will establish resources in Miami to bring together their technical expertise in International Markets and our local relationships and distribution capabilities in Latin America.

### **Claims expense**

During the period, Emerging Markets was impacted by two major catastrophes: Cyclone Pam in Vanuatu and the floods in Chile.

Despite the cost of these events, the net claims ratio decreased to 54.8% in 2015 from 59.8% in 2014, reflecting remediation work in both Asia Pacific and Latin America.

### **Commission and expenses**

The net commission ratio decreased to 23.4% in 2015 from 24.1% in 2014, mainly due to changes in portfolio mix. Lower commissions due to reduced exposure to the extended warranty business in Argentina and SOAT in Colombia were partially offset by increased commissions in Singapore and Indonesia, driven by market competition and a business mix shift towards engineering, fire and marine.

Emerging Markets' underwriting expense ratio increased to 21.0% from 18.4% the previous year. The increase was mainly due to investments in people, strengthening of the governance and management framework, technology-related costs, resources required to support the profitable growth strategy and inflationary pressures (most notably in Argentina). Expenses were also impacted by non-recurring costs associated with the disposal of the Argentine workers' compensation business.

### **Summary**

The ongoing and successful implementation of our profitable growth strategy in both Asia Pacific and Latin America is critical to sustaining profitable growth over the longer term.

To drive business growth, we will continue to enhance productivity, efficiency and consistency across Emerging Markets. We will also continue to strengthen the underwriting capabilities and focus on winning and retaining profitable and high quality business. Building on our customer-centric approach, we will continue to utilise technologies and work with our intermediaries and customers to mitigate potential risk exposures. We will also ensure the right people are in the right positions to drive business growth as we endeavour to deliver the best customer experience for the lowest possible cost.

My thanks go to our business partners for their continued support and to our dedicated staff for their hard work. We look forward to achieving our business targets together in 2016 and beyond.