

Equator Re business review

“Equator Re remains critical to the management of the Group’s risk appetite and capital through its role in optimising divisional retentions and managing the Group’s innovative global ceded reinsurance program.”

Jim Fiore

Group Chief Reinsurance Officer President • Equator Re

Gross written premium US\$ million	Net earned premium US\$ million	Underwriting result US\$ million	Insurance profit US\$ million
1,007	367	40	103
⬆ 57% from 2014	⬆ 30% from 2014	⬆ \$65M from 2014	⬆ \$42M from 2014
		Combined operating ratio 89.0% (2014 79.9%)	Insurance profit margin 28.1% (2014 27.7%)

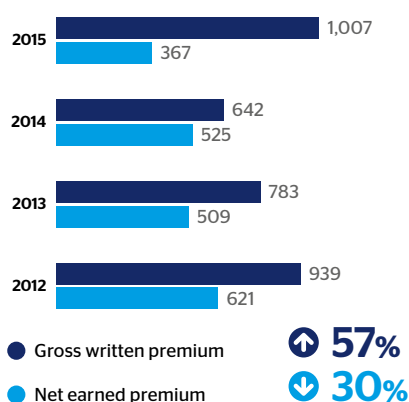
2015 overview

2015 was a year of transition for Equator, with the transfer of a significant number of roles to the Group Shared Services Centre (GSSC) in Manila and the build-out of our Bermuda based management team.

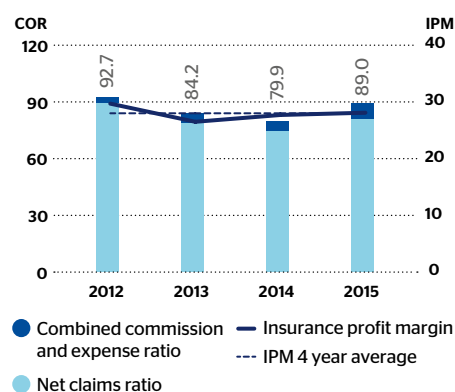
While existing divisional reinsurance programs were broadly maintained, Equator Re now provides increased limits on the treaty reinsurances which are offered to divisions on a bespoke basis and purchases the Group per risk and catastrophe programs for its own account. Equator Re also benefits from participation in the Group’s aggregate reinsurance program as well as a significant Equator Re specific quota share.

A relatively benign catastrophe and large risk claims environment contributed to further softening in premium rates across most lines of business during 2015; however, rates were maintained or increased for loss affected programs. The increased gross premium associated with higher divisional limits has, however, been partially offset by reductions in underlying divisional exposures and premium rate movements.

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



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



Operating and financial performance

Underwriting performance

The 89.0% combined operating ratio for the year reflected a weaker underwriting performance compared with the 79.9% combined operating ratio reported in 2014.

The result was adversely impacted by prior accident year claims development and a largely foreign exchange driven reduction in assumed recoveries under prior year Group aggregate risk reinsurance protections. While we were impacted by natural catastrophe and large individual risk claims from various divisions during the year, these were within business plan expectations.

Relatively benign current accident year claims activity meant that Equator Re did not recover under its specific excess of loss reinsurance programs; however, the result did benefit from recoveries under the new and significantly enhanced Group large individual risk and catastrophe aggregate cover as well as Equator Re's quota share reinsurance.

Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2015	2014	2013
Gross written premium	US\$M	1,007	642	783
Gross earned premium	US\$M	994	764	802
Net earned premium	US\$M	367	525	509
Net claims expense	US\$M	297	389	400
Net commission	US\$M	17	18	21
Expenses	US\$M	13	13	8
Underwriting result	US\$M	40	105	80
Net claims ratio	%	80.9	74.2	78.6
Net commission ratio	%	4.6	3.3	4.1
Expense ratio	%	3.5	2.4	1.5
Combined operating ratio	%	89.0	79.9	84.2
Insurance profit margin	%	28.1	27.7	26.5

Premium income

While gross written premium increased by 57% to \$1,007 million compared with \$642 million for the previous year, net earned premium decreased by 30% to \$367 million compared with \$525 million.

Gross written premium growth reflects the strategic restructuring of the portfolio with Equator Re providing higher limits on the bespoke property and casualty treaty reinsurances to the divisions. Absent this impact, top line was pressured by reductions in underlying divisional exposures and premium rate reductions.

The strategic restructuring of the portfolio, the related decision to purchase the Group per risk and catastrophe reinsurance programs against Equator Re's own account, and an increase in quota share reinsurance combined to drive an overall reduction in net earned premium.

Claims expense

The net claims ratio deteriorated to 80.9% compared with 74.2% in the previous year.

On a central estimate basis, the current accident year net claims ratio was 49.8%, a significant improvement from 67.2% in the prior year, largely reflecting benign catastrophe experience and a reduction in large individual risk claims year on year. Catastrophe claims included Cyclone Pam which struck the South Pacific island of Vanuatu in March and a number of weather-related events which caused flooding in the United Kingdom during December.

The net claims ratio was impacted by \$120 million of adverse prior accident year claims development compared with \$28 million of development in 2014. This primarily reflected adverse development from weather-related losses in Brisbane during December 2014, and a reduction in assumed recoveries under the Group aggregate risk reinsurance program, largely as a result of foreign exchange movements.

The result benefited from a \$3 million impact from higher risk-free rates used to discount net outstanding claims liabilities. This compares with a \$26 million adverse impact in the previous year.

Commission and expenses

The commission ratio deteriorated to 4.6% from 3.3% in 2014, principally due to changes in business mix and profit commissions.

The expense ratio deteriorated to 3.5% from 2.4% in the previous year, principally reflecting the continuing investment in our operating model, build-out of capabilities in Bermuda and the impact of the reduction in net earned premiums. In absolute terms, expenses were in line with the prior year.

Summary

Equator Re produced a satisfactory result for 2015 with an 89.0% combined ratio.

We successfully completed the restructuring of the portfolio, with Equator Re now providing increased limits on the property and casualty per risk and catastrophe treaty reinsurances offered to divisions on a bespoke basis. Consistent with this, Equator Re now purchases the Group per risk and catastrophe programs for its own account.

During the year Equator Re also successfully negotiated the commutation of some low level excess of loss casualty programs. This transaction reduces Equator Re's exposure to further adverse prior accident year development and removes a large number of open claims from our balance sheet, thus improving the efficiency of our claims administration function.

Throughout the year, Equator Re worked closely with Group head office and QBE's divisions to develop innovative solutions to new business opportunities. While not all such efforts have come to fruition, Equator Re continues to provide the capacity and flexibility to help the divisions 'make it happen' for their customers.