

# Delivering on our promises

2015 presented a tough market for the insurance industry as a number of disruptive influences continued to shape what we do and how we succeed. I am pleased to report that QBE's strategic plans remain well on track as we move from a period of refocus and stabilisation to one of controlled growth. I am increasingly confident we are set up for future success.

## The market

I think I can say without doubt that this is the toughest marketplace I can remember. Increasing globalisation has seen new capital entering the insurance market seeking a profitable home and consequently dragging down prices. At the same time, investment returns remain well below historic levels. To remain profitable insurers have no option but to focus their efforts on high quality underwriting, efficiency and cost reduction.

The past few years have seen the evolution of the "digitalisation" of insurance and 2015 really brought this home. Technologies which were until recently new and untried are now finding real purpose. The ability to analyse unstructured data and develop insights is having a profound impact on risk selection, pricing and claims management. Customers now have access to new data, offering them the ability to make more informed decisions including choice of retention and risk management strategies.

With limited growth in the mature markets, insurance companies seeking growth have to find strategies to win business from competitors – through unique propositions, data insights or deep customer understanding. Emerging markets are still growing, albeit more slowly than before and with inherent risks.

Increasingly, commentators are questioning whether the underwriting cycle of hard and soft markets is a thing of the past. While I am sure there will be some recovery, many of the underlying changes we are seeing are structural rather than cyclical and will have a permanent impact on how the insurance market operates.

From my perspective, QBE is well-placed to succeed in the new world:

- Our business is widely diversified along geographic and product lines enabling us to sustain performance as markets rise and fall, focusing our efforts on the most attractive segments.

- QBE has an enviable position in many of the developed markets – we are seen by clients and brokers as undoubted leaders in many commercial and specialty markets, with the experience and expertise to lead in this space.
- We have a sizeable footprint in the emerging markets of Asia Pacific and Latin America and, importantly, our many years' experience in these markets allow us to manage the risks inherent in a high growth environment.
- QBE operates shared services centres in low cost environments with our Group Shared Services Centre (GSSC) in the Philippines carrying out processing and administrative services on behalf of all of our divisions around the globe.
- We have innovative and comprehensive reinsurance arrangements to protect our balance sheet and profit and loss which are underpinned by a unique global program coordinated by our own captive reinsurer, Equator Re.

## 2015 performance

Against that challenging backdrop, QBE has delivered on 2015 promises. Last year we set some key objectives and I am pleased to say we have made real progress on all of them, while at the same time making significant investments for the future.

Despite challenges in a number of our markets, our business overall has largely achieved target. Particularly pleasing is the turnaround achieved in our North American Operations, where we have rationalised and refocused to return this important business to an underwriting profit.

We have begun to grow our business in those areas we consider core; in particular, specialty in North America, our UK regional business and emerging markets.

We continue our journey towards operational excellence, having implemented a stronger, more integrated global operating model and increasing our usage of the GSSC.



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**Marty Becker** Chairman • QBE Insurance Group

Our capital base has been strengthened and we are seeing positive prior accident year claims development in the aggregate.

Importantly, we continue to invest in building our own talent through our Leadership Academy and Executive Leadership Programs, as well as attracting fresh talent to transform and grow our business.

### Looking to the future

QBE is entering a new phase of its evolution.

The last two years have been about remediating underperforming business, consolidating to achieve synergies and strengthening our operating model as a base for future growth. The next period is focused on delivering a series of strategic initiatives to build on the strong base we have established.

With markets remaining challenging, we will look to balance short term returns against investment for the future and will focus on three key areas:

- Achieving thoughtfully-managed **organic growth** in our core business focus areas.
- Continuing our journey towards **operational excellence**.
- Building our **talent pool** and ensuring remuneration is closely linked to performance, day-to-day as well as transformation and change.

### Resetting our vision

As we enter an exciting new era, it is only right that we reconsider our vision. You will read more about this in the CEO's report but I want to touch briefly on one aspect

here which I think is important for all our stakeholders.

As a precursor to defining our vision, we stepped back and considered our **purpose** – why we exist as an organisation. We asked our customers, our investors and our people why they want to deal with QBE and a common theme from these conversations was one of belief; of trust in QBE to deliver and to help them achieve their own aims and objectives. So we considered that theme in developing our purpose: *“We give people the confidence to achieve their ambitions.”*

Based upon my interactions with QBE's management team and with our underwriting and operations people, I believe we are delivering on our purpose in relation to our people, providing them with challenging and rewarding careers. For our customers, the depth of QBE's underwriting expertise, risk management capability and the responsiveness of our claims teams provides confidence that QBE will be there to support them should the unexpected happen.

Providing our shareholders with the confidence to achieve their ambitions is also central to our purpose. We need to give investors confidence that we will continue to grow our net profit after tax, increase our dividend payments and book value per share and, ultimately, increase our share price year on year.

### QBE Group Board changes

In closing, I want to highlight that John Graf retired from the Board at the end of December 2015. I would like to thank John for his contribution over the last four years.

**W. Marston Becker**  
**Chairman**