



17 October 2014

The Manager  
Market Announcements Office  
ASX Limited  
Level 4  
Exchange Centre  
20 Bridge Street,  
SYDNEY NSW 2000

Dear Sir/Madam,

**QBE North American Operations Investor and Analyst Day presentation – 17 October 2014**

Please find attached a copy of a presentation from QBE North American Operations to be delivered today in New York.

Yours faithfully

A handwritten signature in blue ink, appearing to read "Peter Smiles", written in a cursive style.

Peter Smiles  
**Deputy Company Secretary**

Encl.

# **QBE Insurance Group Ltd Investor Day Presentation**

**QBE NA Operations Business Review**

October 2014



# North America Business Review - Agenda



North America  
Operations

## QBE NA Divisional Overview

Dave Duclos– Chief Executive Officer

## QBE NA Financials

Richard Dziadzio – Chief Financial Office

9.30 – 11.00

## Standard Lines

Alan Driscoll – Head of Standard Lines

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## Coffee Break

11.00 – 11.15

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## Mortgage and Lender Services

Bob James – Chief Operations Officer

## Crop

Richard Dziadzio – Chief Financial Officer

## Specialty

Jeff Grange – Head of Specialty Lines

11.15 – 1.00

## Risk

John Langione – Chief risk Officer

## Claims

Dave Duclos– Chief Executive Officer

## Q&A

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## Lunch

1.00 – 2.00



# QBE NA Operations

## NA Divisional Overview

Dave Duclos – October 2014

# QBE North American Operations



*“There have been significant changes to our management structure with a number of quality external appointments who are now implementing changes to the business portfolios, structure, people and processes.”*

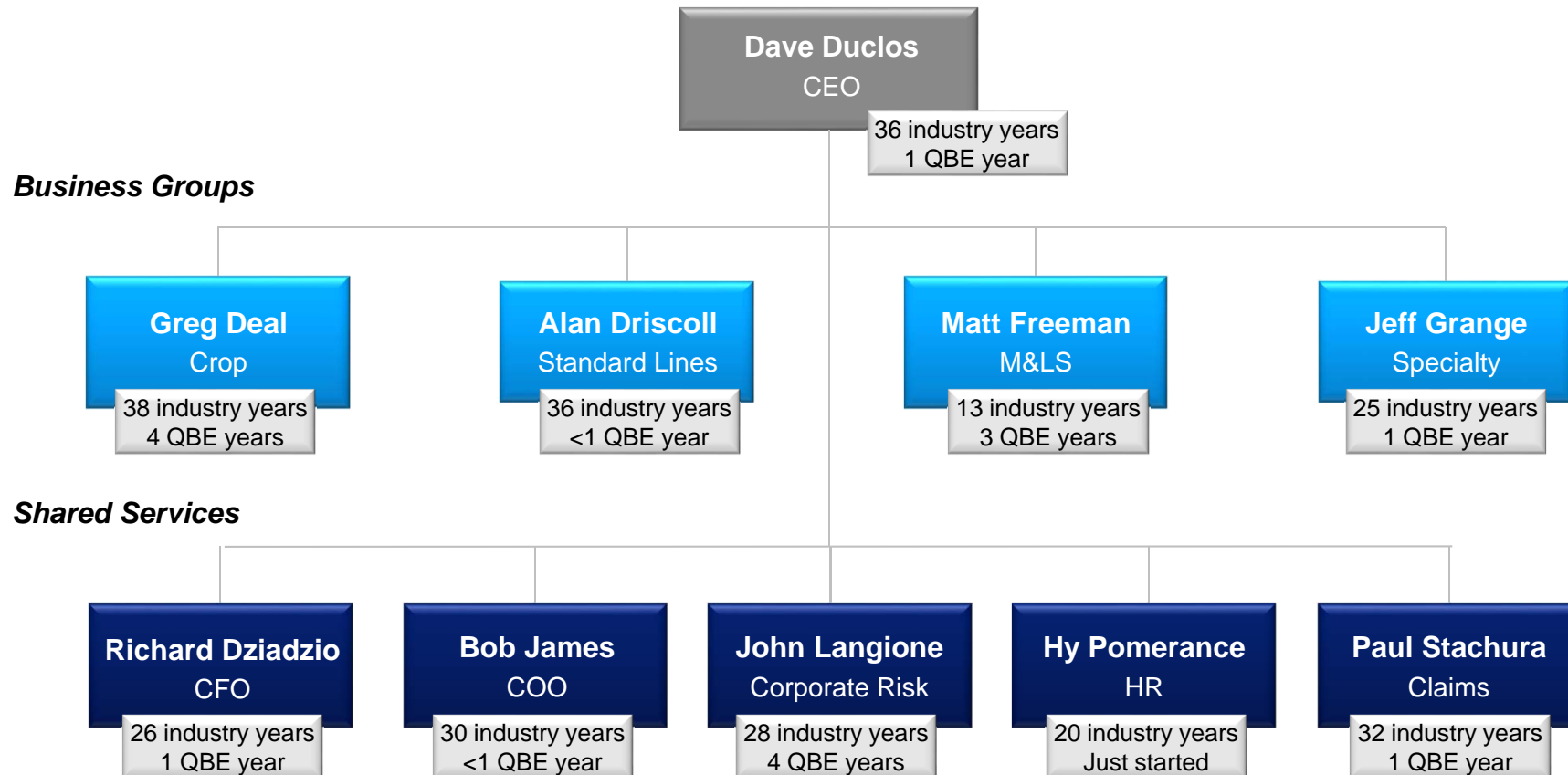
*Good progress has been made in implementing the change needed to protect and enhance our valuable US franchise, with the primary goal of achieving our financial targets.”*

# QBE NA Divisional Overview

## NA Executive Management Board



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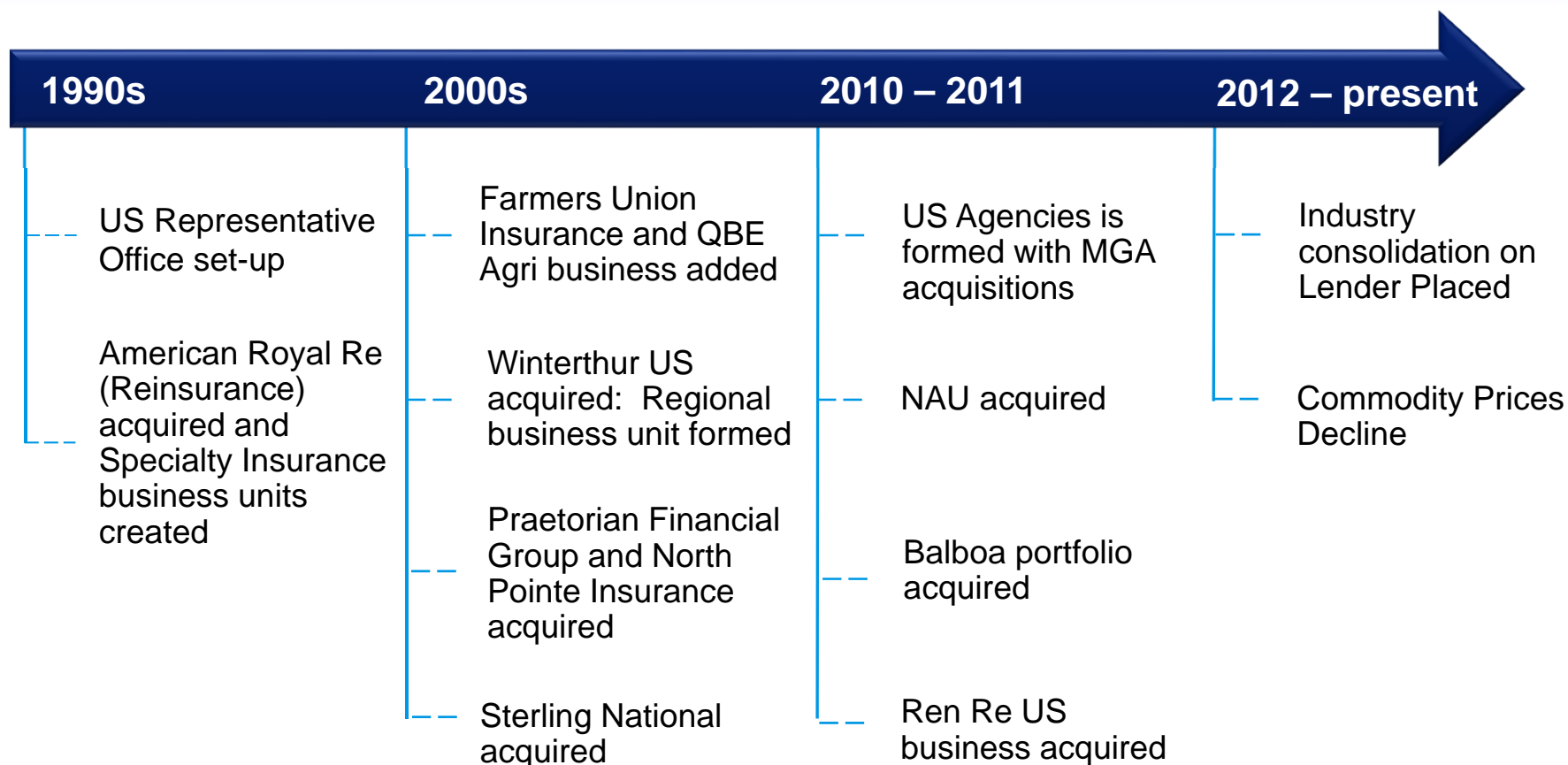


# QBE Divisional Overview

## NA Historical Overview



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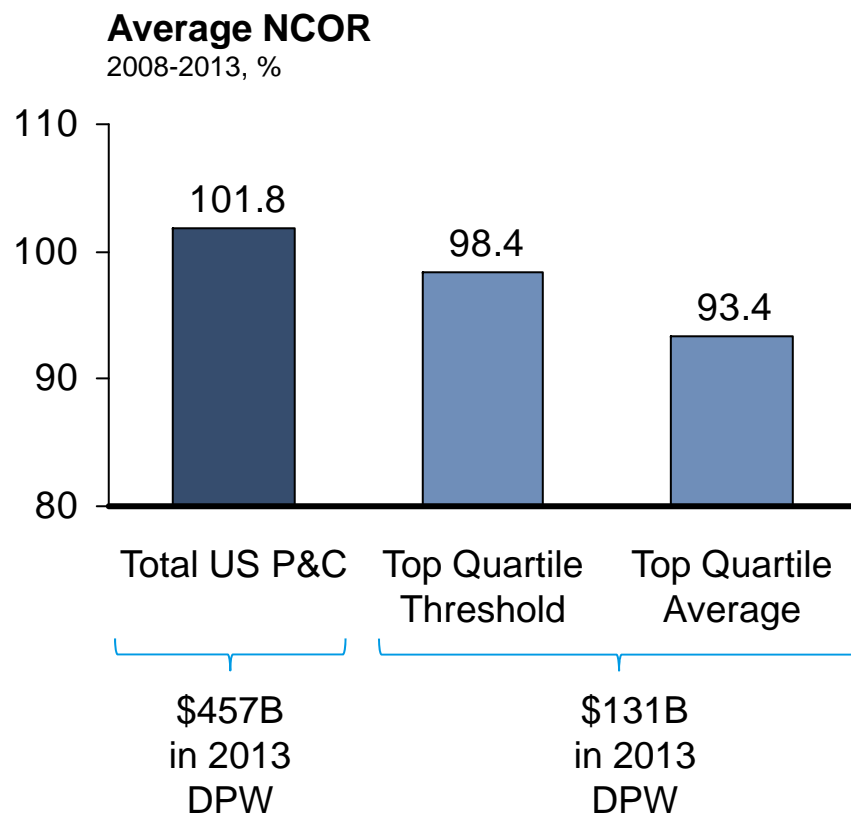


# QBE Divisional Overview

## Average Industry NCOR



Aspiring to mid 90s NCOR means performing at the Top of the US P&C industry



- Average US P&C performance is far from QBE NA's aspirations
- Therefore we will carefully select the LOBs that we write, and aim to build a portfolio that can deliver target NCOR



# QBE Divisional Overview

## US P&C Industry Business Line Performance



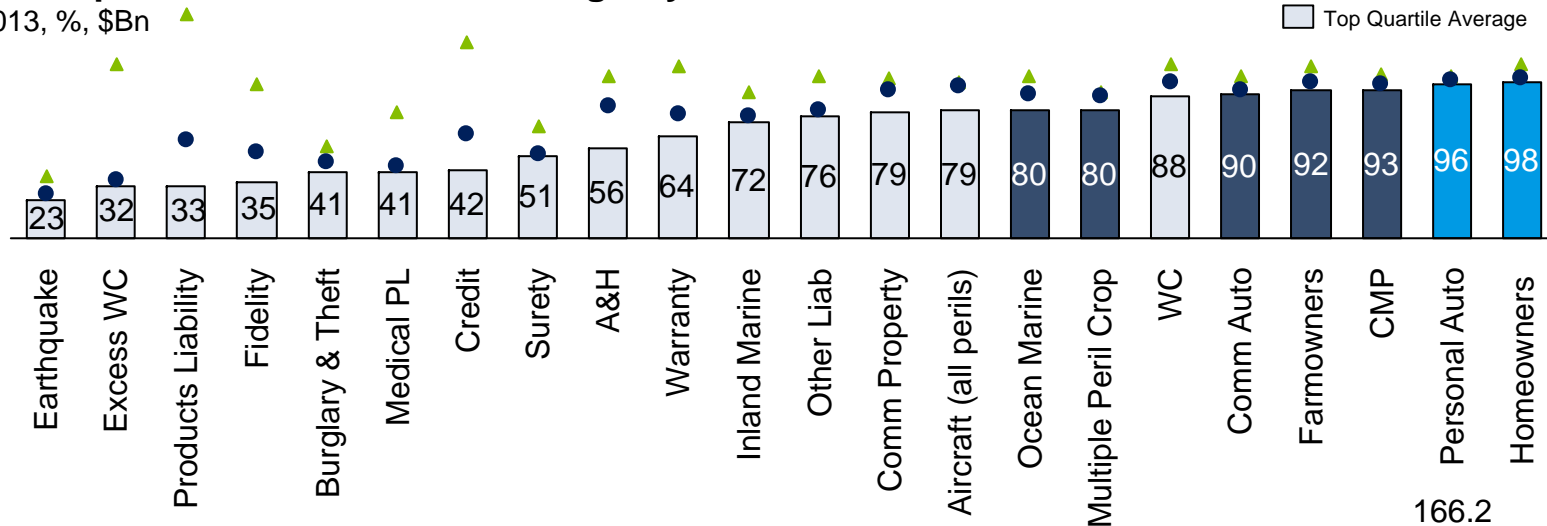
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Only way to achieve NCOR in the mid 90s is to grow specific specialist lines

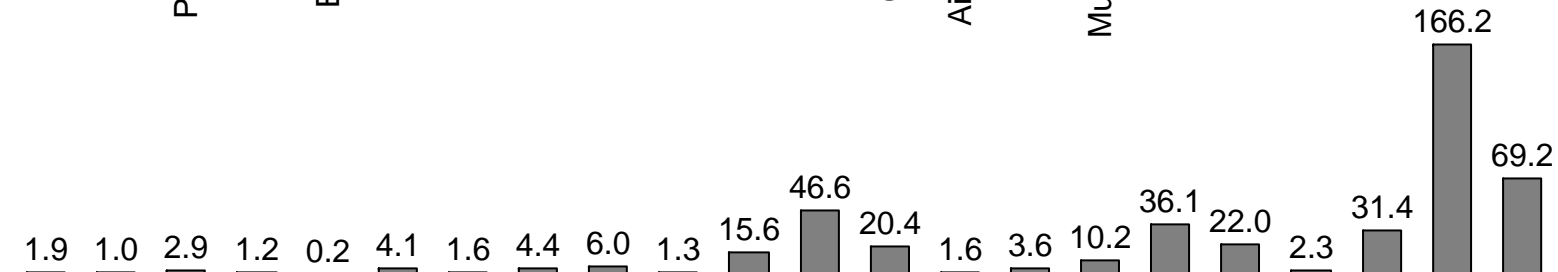
### NCOR – Top Quartile and Market Average By Line

2008-2013, %, \$Bn

▲ Market Average  
● Top Quartile Threshold  
□ Top Quartile Average



2013  
Premium  
Volume  
(Billions)



Specialty Lines  
(\$103Bn)



General Commercial  
Lines (\$101Bn)



General Personal  
Lines (\$215Bn)



Source: AM Best.

# QBE Divisional Overview

## Market Size

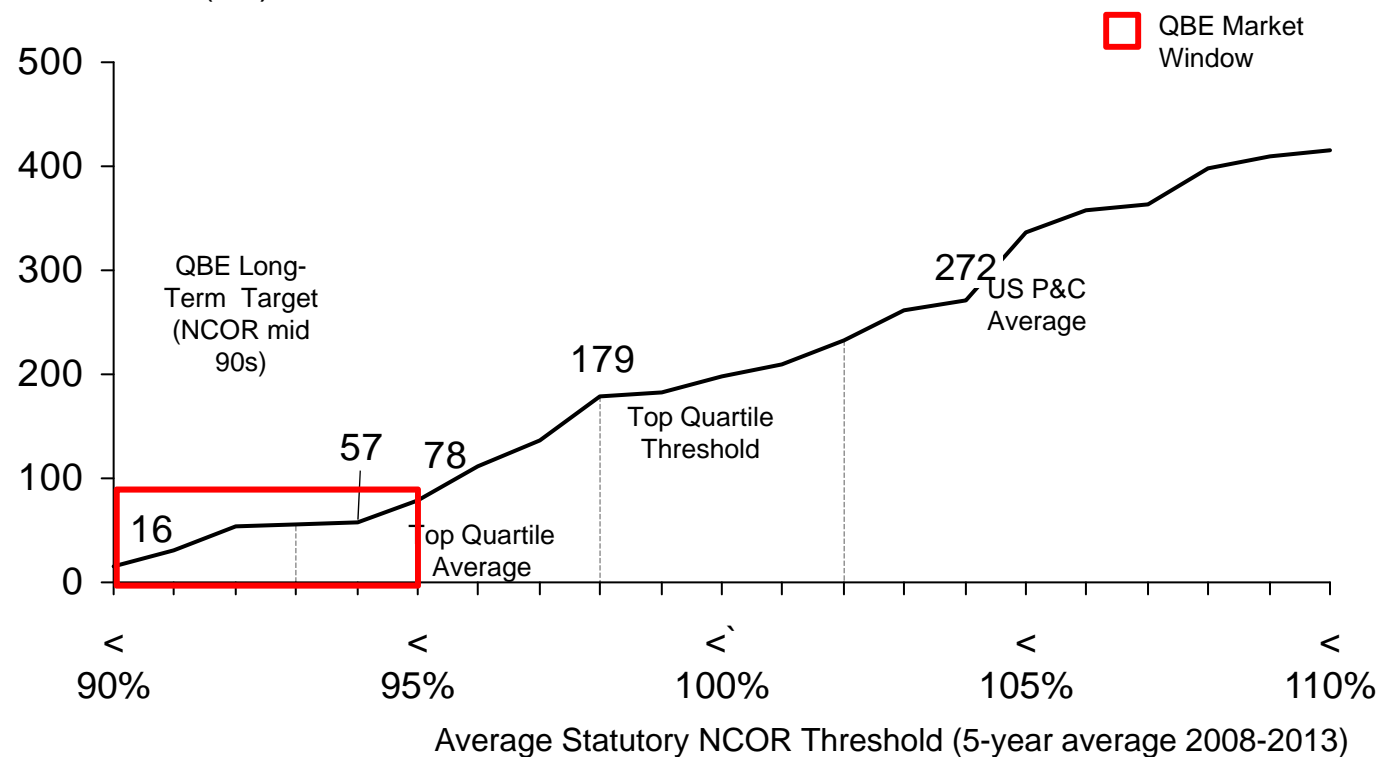


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**Building a portfolio that delivers NCOR in the mid 90s, means targeting a market that is probably \$80-100B in total size**

### Size of the US P&C Market by NCOR Band

2013 GWP (\$B)



This chart reads as follows:

- Size of US P&C market returning 90% NCOR or better is \$16B
- Size of US P&C market returning 95% NCOR or better is \$78B, etc



# QBE Divisional Overview

## Industry Versus QBE

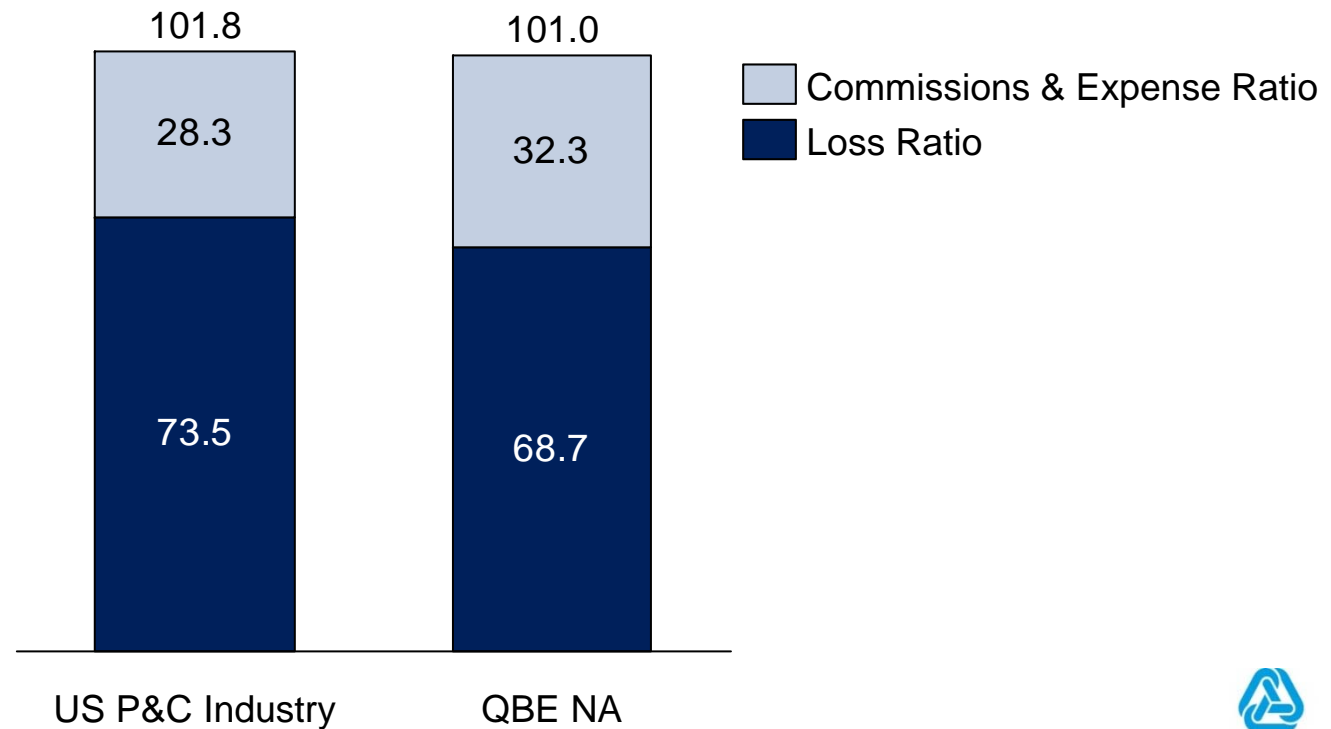


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**QBE has historically outperformed the industry on the loss ratio; however, expense and commission ratio has been higher than that of the industry**

### 2008 – 2013 Average NCOR

Industry versus QBE, %



# QBE Divisional Overview

## NA High-level “Strategy on a Page”



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### AMBITION

*Become a relevant specialty-focused carrier in NA, with market recognized underwriting ability, risk selection, and capacity*

### WHERE TO WIN

GROW / MAINTAIN					IMPROVE	Divest
Specialty	Program	Crop	Consumer	Risk Mgmt.	Middle Market	US Agencies

### HOW TO WIN (Pillars/ Principles)

#### Portfolio Management

- We will smartly deploy capital to improve and expand our business
- We will make expert assessments of risk and volatility
- We will make informed decisions based on data and analytics
- We will actively manage our businesses to deliver quality and balanced earnings

#### Customer Focus

- We will anchor our decisions with an informed view of customer needs
- We will consistently deliver our products and services in a highly efficient and effective manner
- We will provide easy access to our products and services

#### Organizational Effectiveness

- We will build competitive advantages and proficiencies based on our technical expertise
- We will create the infrastructure that enables us to share and leverage knowledge and resources across the division
- We will manage our people and processes to deliver measurable results that improve our profitability
- We will continually look for ways to improve both the cost and quality of what we do

#### Talent & Leadership

- We will build an organizational culture of shared accountability and high performance
- We will provide an environment that supports and develops talent
- We will collectively foster an environment of open and robust communication to ensure all staff stay informed and engaged

# QBE NA Transformation



## 1. QBE NA Transformation will enable achievement of NA Strategy

- QBE NA's ambition is to become a successful specialty-focused carrier in North America
- To achieve this transformation, NA has launched several key initiatives

## 2. Transformation initiatives are aligned to our defined NA Strategic Pillars

- Initiatives will allow to improve our effectiveness, efficiency, and impact along the four key pillars of our strategy: Portfolio Management, Customer Focus, Organizational Effectiveness, and Talent & Leadership

## 3. Definition of requirements is key to be successful

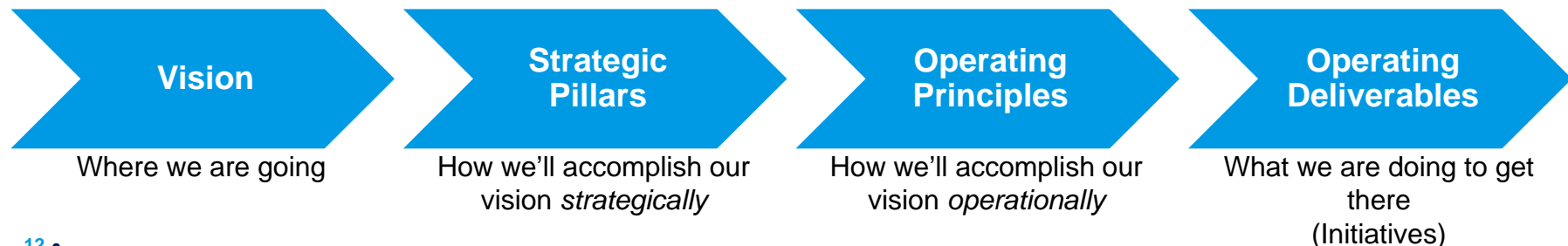
- Success requires NA to prioritize and sequence activities effectively
- Capabilities and organizational alignment must be improved to enable and deliver across initiatives

## 4. We need to leverage existing capabilities and map and measure processes and progress

- Transformation is challenging and complex and demands rigorous management
- Leverage success – the Quantum tool set to create a Business Transformation Office

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There are four pillars to our strategy:



# QBE NA Transformation

Profitable Growth, Organization Optimization and Business Enablement



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	Initiative	Description
Profitable Growth	1 Middle Market	▪ Implement underwriting actions aligned to stabilize / grow premium
	2 M&LS	▪ Implement actions to improve M&LS profitability
	3 Program	▪ Improve Program business profitability by increased oversight and discipline of key process and strong data / analytics capabilities
	4 Build Specialty	▪ Build and expand Specialty business through organic growth (recruiting underwriting teams)
Organizational Optimization	5 Project Leap	<ul style="list-style-type: none"> <li>▪ Align staff and processes to current / future needs</li> <li>▪ Maximize variable cost structure / evaluate sourcing on non core competencies</li> <li>▪ Execute the path to an effective geographic footprint</li> <li>▪ Define core processes / Eliminate waste</li> </ul>
	6 Real Estate Footprint	<ul style="list-style-type: none"> <li>▪ Align real estate with business needs and objectives</li> <li>▪ Consolidate locations and maximize presence in top underwriting centers or core operating hubs</li> </ul>
	7 Continued Offshoring	<ul style="list-style-type: none"> <li>▪ Drive completion of final waves of Quantum</li> <li>▪ Leverage GSSC in future design model and for additional support</li> </ul>
Business Enablement	8 Enhance Actuarial	▪ Enhance capabilities. Predictive model function and ability to drive analysis / findings to appropriate business leaders for fact-based decision making
	9 IT Enhancements	<ul style="list-style-type: none"> <li>▪ Pursue variable IT cost options</li> <li>▪ Decommissioning strategy</li> <li>▪ Enable business capabilities to support growth; Optimize and fix areas</li> </ul>
	10 Data / Analytics	<ul style="list-style-type: none"> <li>▪ Develop Data/Analytics capability and strategy</li> <li>▪ Launch effort to address critical Program data needs</li> </ul>

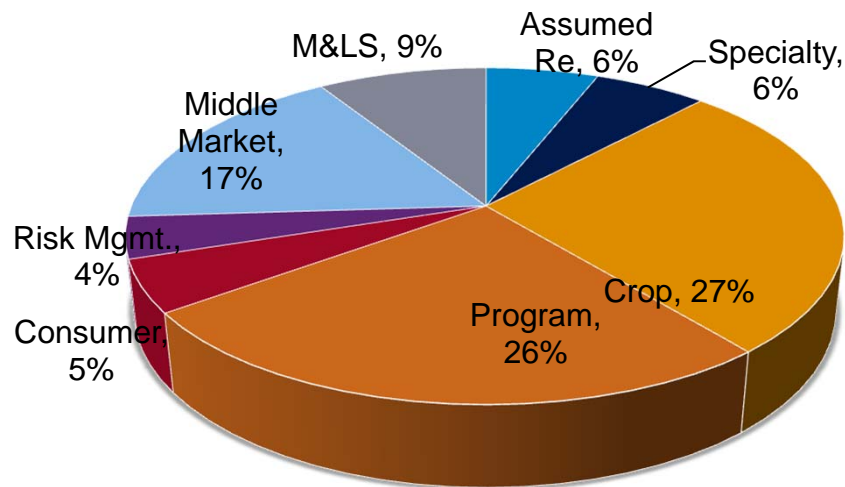
# QBE NA Transformation

## Profitable Growth – Portfolio Transformation

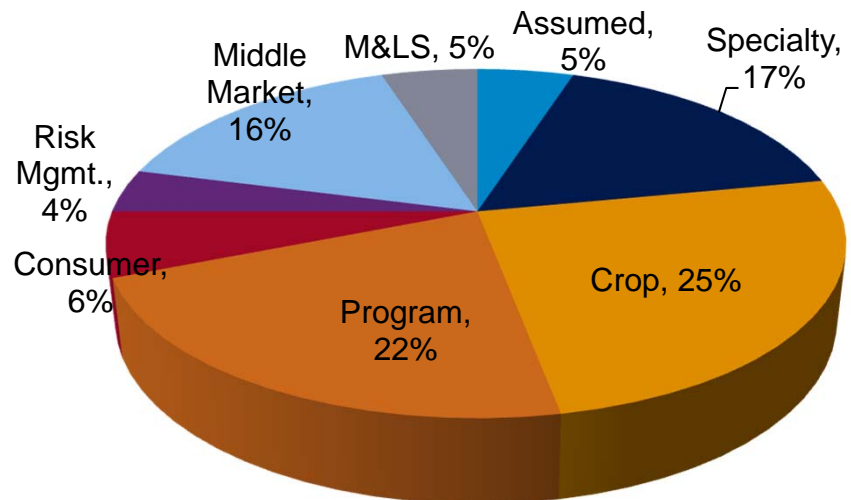


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**GWP 2014**



**GWP 2017**



- “Specialty” portfolios to become a material part of QBE NA’s book
- Most of effort focusing on “organic” growth (addition of new lines)
- Sale of US Agencies (CAU, Deep South, SIU) – retained underwriting (~2% of total - included in Program for 2014 GWP)

# QBE NA Transformation

## Profitable Growth - US Agencies Divestiture



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<b>Year Founded:</b>	■ 1989	■ 1967	■ 1999
<b>Year Acquired by QBE:</b>	■ 2008	■ 2008	■ 2008
<b>Headquarters:</b>	■ Newtown, PA	■ Irving, TX	■ Glendale, CA
<b>CEO / President:</b>	■ Lori Long	■ Tracy Bowden	■ Guillermo Gonzalez
<b>Specialty Focus:</b>	■ Community Associations	■ Transportation	■ Earthquake / DIC
<b>2014E Premium:</b>	■ \$204 million	■ \$95 million	■ \$55 million
<b>2014E EBITDA <sup>(a)</sup>:</b>	■ \$17 million	■ \$5 million	■ \$4 million
<b>Geographic Focus:</b>	■ Northeast and Western U.S.	■ Louisiana and Texas	■ California and Pacific Northwest
<b>Primary Policy Type:</b>	■ Admitted	■ Admitted	■ Non-Admitted

(a) Excludes holding company expenses.



# QBE NA Transformation

## Organizational Optimization – Design Principles



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**Our organizational design principles will guide the decisions we make around structure, processes, sourcing opportunities and geographic footprint.**

<b>Portfolio Management</b>	<ul style="list-style-type: none"><li>▪ Build cost structures that maximize variable expenses</li><li>▪ Make conscious decisions around if and when to compartmentalize a business from integration efforts</li></ul>
<b>Customer Focus</b>	<ul style="list-style-type: none"><li>▪ Invest in areas that serve the needs of our customer</li><li>▪ Stop services that are not aligned to customer requirements</li></ul>
<b>Organizational Effectiveness</b>	<ul style="list-style-type: none"><li>▪ Combine like functions</li><li>▪ Flatten our organization</li><li>▪ Build up around insurance core processes</li><li>▪ Aggressively use shared services (including the GSSC)</li><li>▪ Outsource when we can get it better and cheaper externally</li><li>▪ Consolidate our geographic footprint</li></ul>
<b>Culture, Talent &amp; Leadership</b>	<ul style="list-style-type: none"><li>▪ Empower staff to make decisions and take risks</li><li>▪ Track performance and increase manager accountability</li><li>▪ Have clear roles, responsibilities and performance metrics</li></ul>

# QBE NA Transformation

## Quantum – Basis for a Successful Transformation



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Quantum has led to the all encompassing transformation we are now driving. Its operational milestones have been met by aggressively managing cost / right sizing.

### Program

- Through reductions, outsourcing and GSSC migrations, NA has reduced headcount by approximately over 2,500 to date
- NA has approximately 212 associates at the GSSC performing HR, Claims, Finance, and Operations functions
- 64 Stage Gates and 14 Go-Live Events. 3 Go-live Events planned for the remainder of 2014

### Workstream

- **Finance:** Five Finance Waves (132 GSSC associates) live as of August 2014
- **IT:** Completed Implementation of Application Development and Maintenance (ADM) to Accenture in 2014 (633 Applications)
- **Claims:** Completed migration to Sedgwick in 2013 and Collateral Protection Insurance (CPI) to the GSSC in July 2014
- **QBENA Ops:** US Hub launched in March 2014. Re-launched Middle Markets migration to the GSSC
- **Human Resources:** YOUR1HR, Recruitment, Benefits, Data Management and Learning & Development Administration live as of June 2014. Compensation and HR Advisory targeted for November 2014
- **MLS Operations:** Successfully executed FTE normalization plan. Transitioned CPI QC process in May 2014 and executing Wave 2 (Additional Wells Fargo Dealer Services processes)
- **Procurement:** On track for procurement savings targets

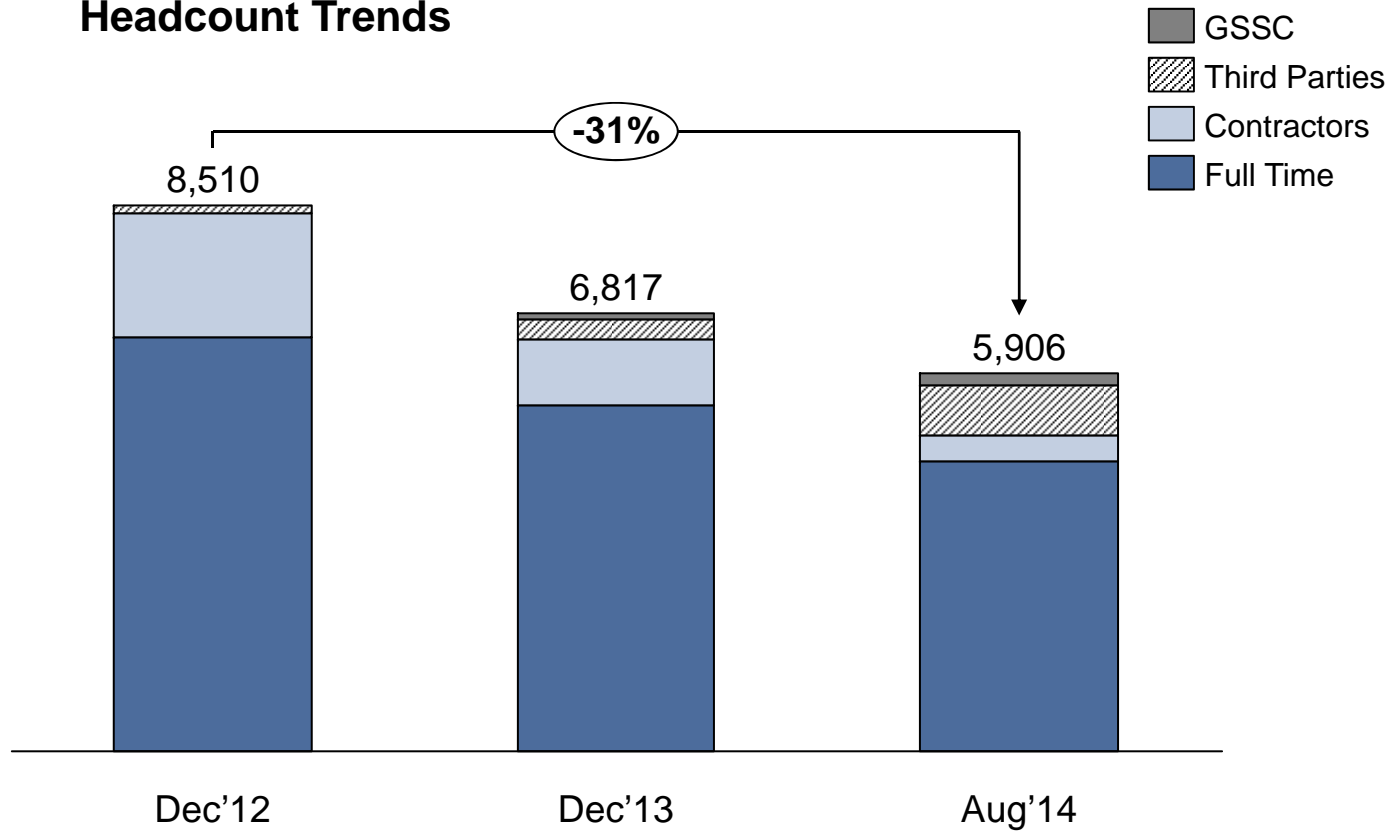
# QBE NA Transformation

## Impact on Staff To Date



Increased offshoring and outsourcing has resulted in greater flexibility and variability of cost

Headcount Trends



# QBE NA Transformation

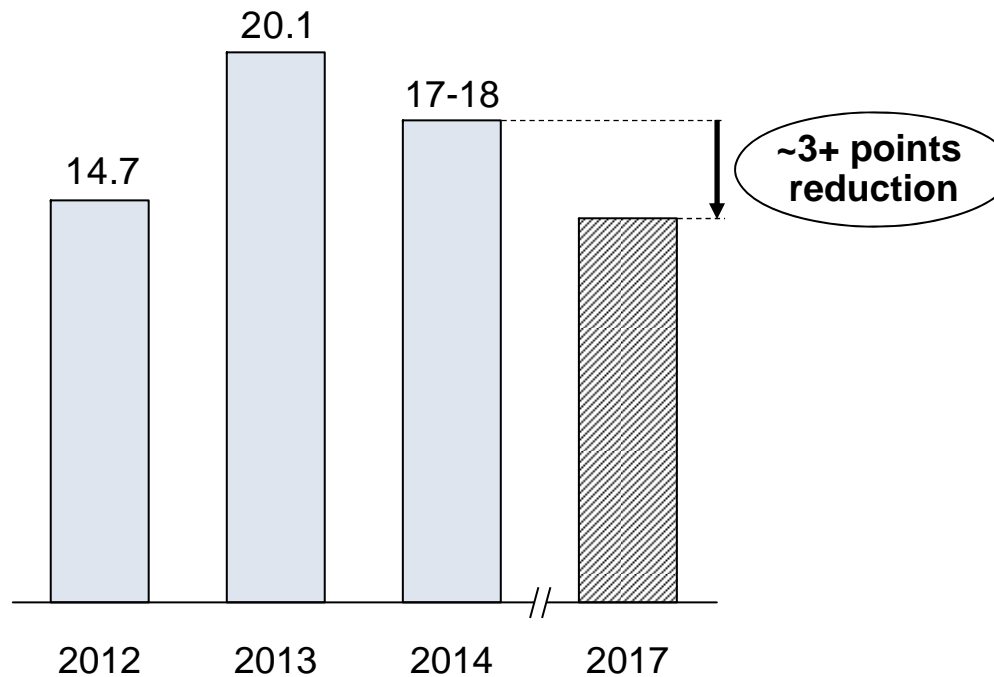
## Expense Ratio Improvement



A key outcome of the QBE NA Transformation will be to achieve a Top Quartile Expense Ratio

### Net UW Expense Ratio

%



Driven by organizational re-design levers described:

- Delayering
- Right-sizing
- Footprint
- Offshoring
- Outsourcing



**QBE NA is undertaking a considerable transformation program to deliver Top Quartile performances and is on track to achieve strong results in the years to come.**

- Results stabilization occurring....underlying trends in several key areas improving
- Continue to attract top talent in underwriting and key functional areas
- Becoming a more relevant specialty underwriter in the eyes of our agent/brokers and clients
- Our strategy and accompanying Transformation Roadmap guide the changes in structure, process and performance

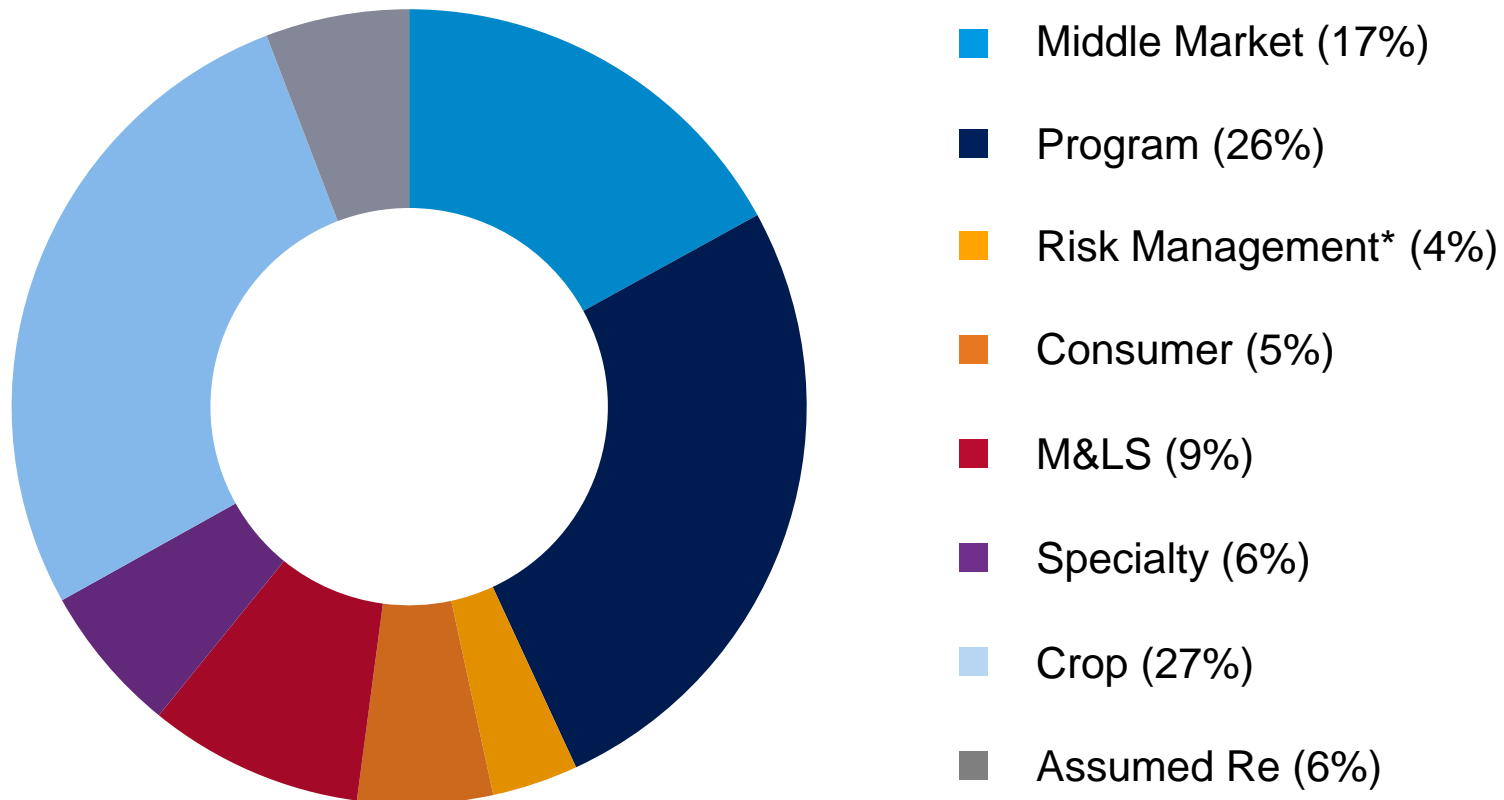
# QBE NA Operations Financial Update

Richard Dziadzio – October 2014

# QBE NA 2014 Overview



## QBE NA GWP - \$5.3 Billion



\* Formerly known as Major Brokers

# QBE NA Historical Financials



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		Year ended 31 December				
		FY11	FY12	FY13	1H13	1H14
GWP	US\$M	7,451	6,565	5,951	2,750	2,472
NEP	US\$M	6,025	5,625	5,030	2,115	1,917
Loss Ratio (ex PYD.)	%	64.1	66.2	67.1	58.1	57.5
Prior Year Development	%	1.6	5.6	8.5	3.0	2.6
Commission Ratio	%	15.3	15.7	15.8	18.7	18.6
Expense Ratio	%	11.2	14.7	20.1	19.5	19.7
<b>NCOR</b>	<b>%</b>	<b>92.2</b>	<b>102.2</b>	<b>111.5</b>	<b>99.3</b>	<b>98.4</b>
Insurance profit	US\$M	572	(57)	(535)	37	56
Insurance margin	%	9.5	(1.0)	(10.6)	1.8	2.9
<b>RBC Ratio</b>	<b>%</b>	<b>383</b>	<b>476</b>	<b>390</b>		

## 1H 2013 vs 1H 2014

### Positives

- Solid rate increases achieved, albeit tapering
- Middle market GWP stabilized and retention improved
- Benign CAT to date
- QBE NA capital position remains strong

### Challenges

- Further contraction on LPI
- Slight prior year development (Crop)

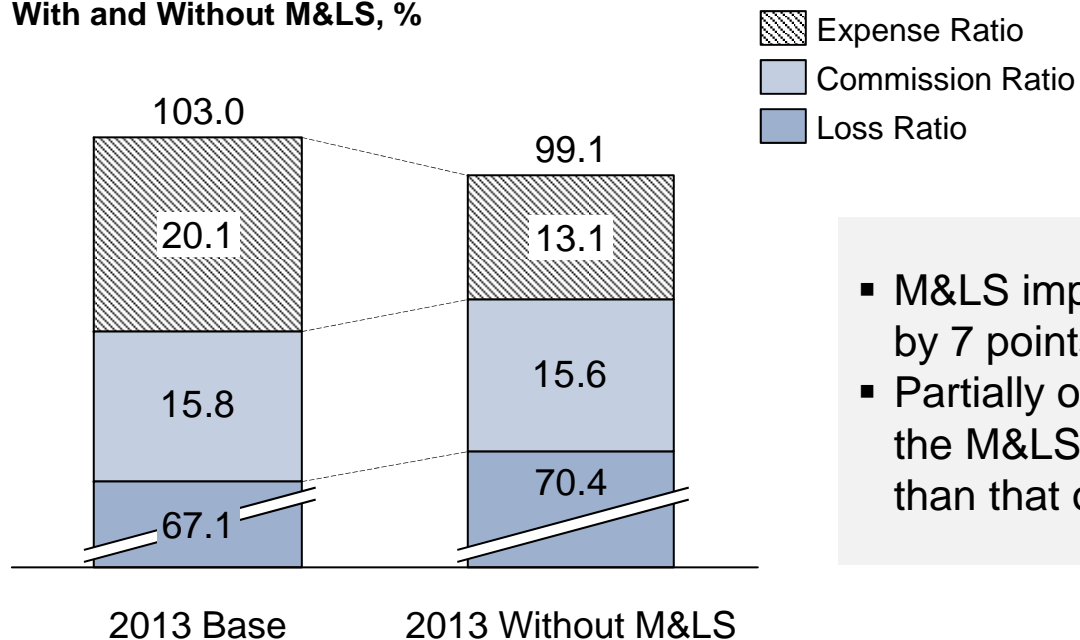


# 2013 Impact of M&LS on QBENA Portfolio



**QBENA NCOR negatively impacted by M&LS in 2013 and 1H14**

## 2013 QBENA NCOR With and Without M&LS, %



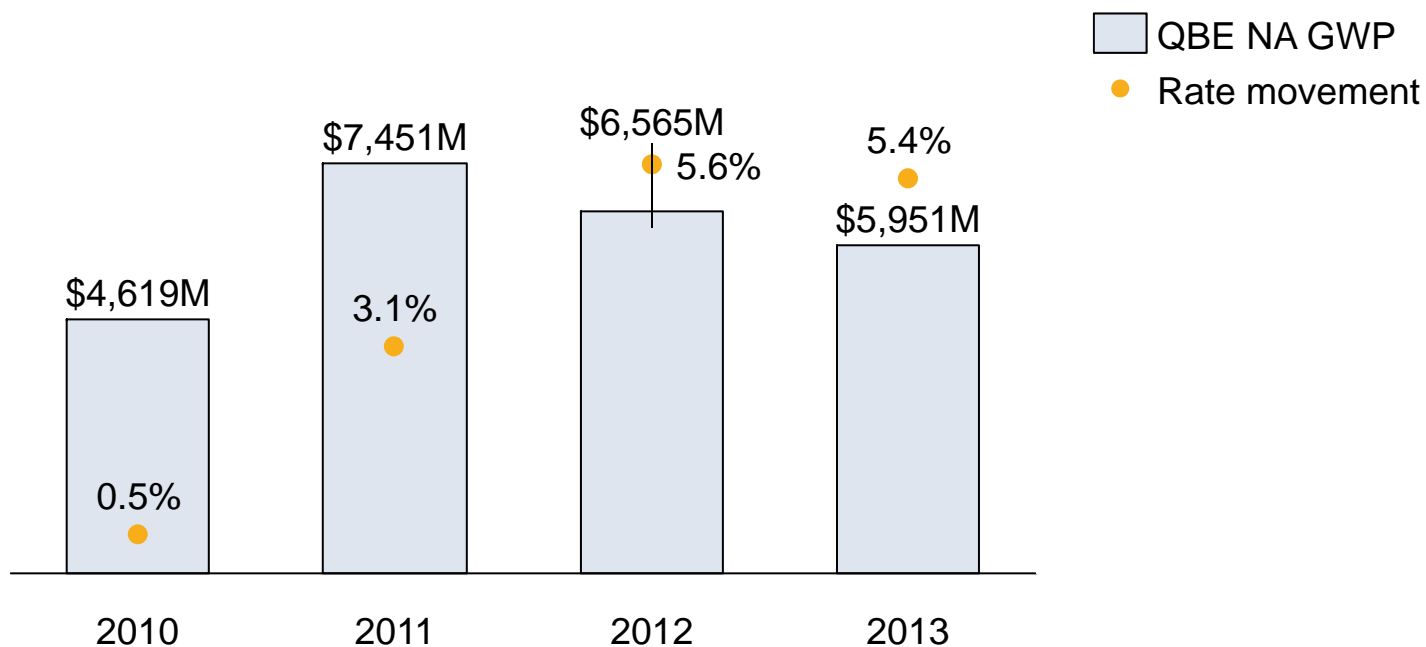
- M&LS impacts the expense ratio by 7 points
- Partially offset by the fact that the M&LS loss ratio is lower than that of QBENA

<b>GWP</b>	<b>\$5,951M</b>	<b>\$5,218M</b>
<b>NEP</b>	<b>\$5,030M</b>	<b>\$4,233M</b>

# Historical Overview of GWP and Rate Movement



## QBE NA GWP and Rate Movement



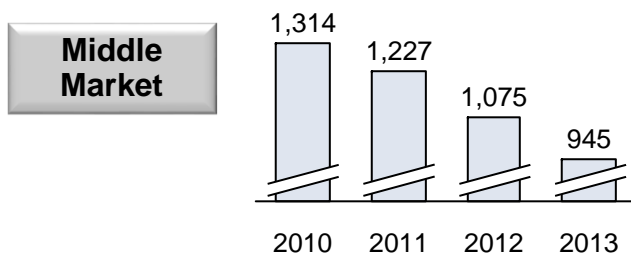
Note: Rate Movement excludes Crop

# Historical Overview By Business

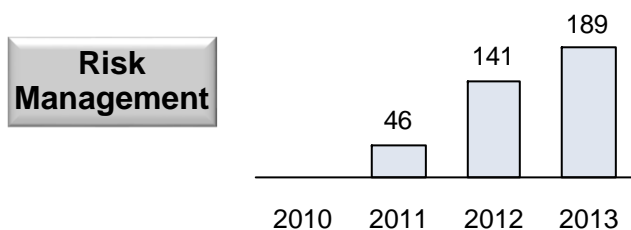
## GWP and Rate Movement



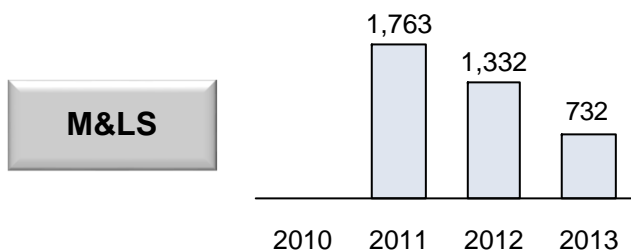
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Rate Movement (%)	2010	2011	2012	2013
	0.2%	2.4%	6.4%	6.2%



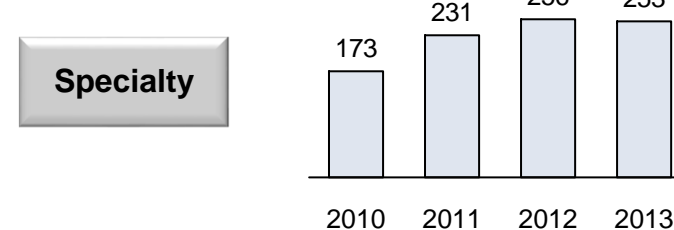
Rate Movement (%)	2010	2011	2012	2013
	na	na	na	3.1%



Rate Movement (%)	2010	2011	2012	2013
	na	-0.8%	-1.3%	-3.8%



Rate Movement (%)	2010	2011	2012	2013
	0.0%	1.3%	6.4%	5.1%



Rate Movement (%)	2010	2011	2012	2013
	11.5%	13.4%	11.8%	10.4%



Rate Movement (%)	2010	2011	2012	2013
	na	3.9%	3.9%	4.7%

# Market Conditions Overview



## Current 2014 conditions

- Personal lines rates up ~3%
- Commercial lines rates up by ~2% for liability, but down for property
- Specialty lines varied but trending down to no better than flat
- Workers' compensation rates up ~2%

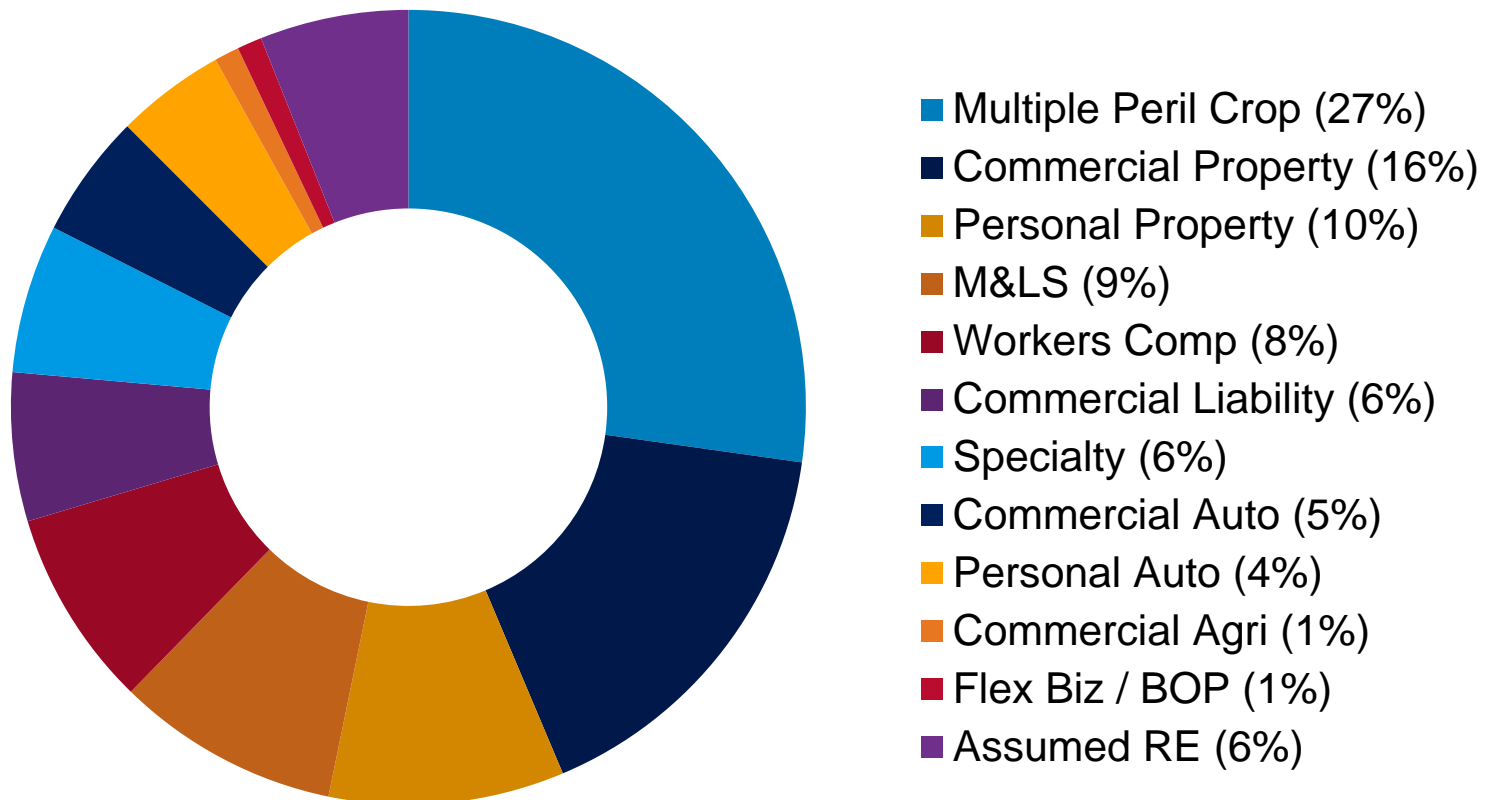
## Forecast 2015 conditions

- Personal lines expected to continue to increase in the ~2-5% range
- Commercial lines rates pressure expected to continue
- Specialty lines expected to remain flat to down ~5% with additional competition in the market place
- Workers' compensation rates expected moderate to increases of ~1.5%

# QBE NA Product Mix Overview



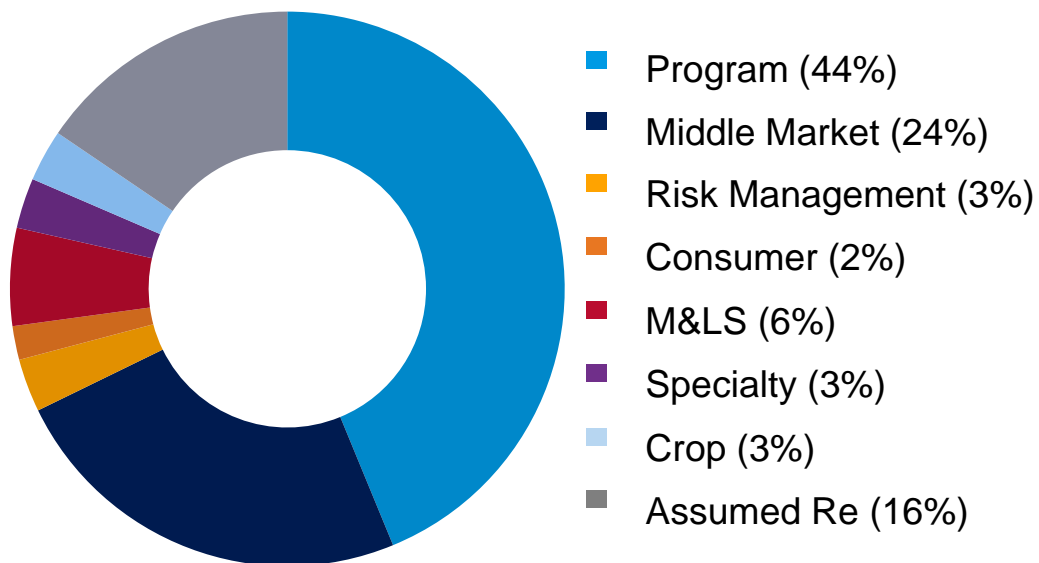
**QBE NA GWP - \$5.3 Billion**



# QBE NA Half Year Reserves Overview



## Half Year Net Reserves Balance By Business



## Half Year Comments

- \$51M of adverse prior year development in the first half:
  - \$32M pertaining to late Crop claim notifications which impacted the entire industry
  - Assumed Re and Program experienced minor adverse prior year development
- New actuarial team in 2014; new Chief Actuary hired in May – Leigh Oates

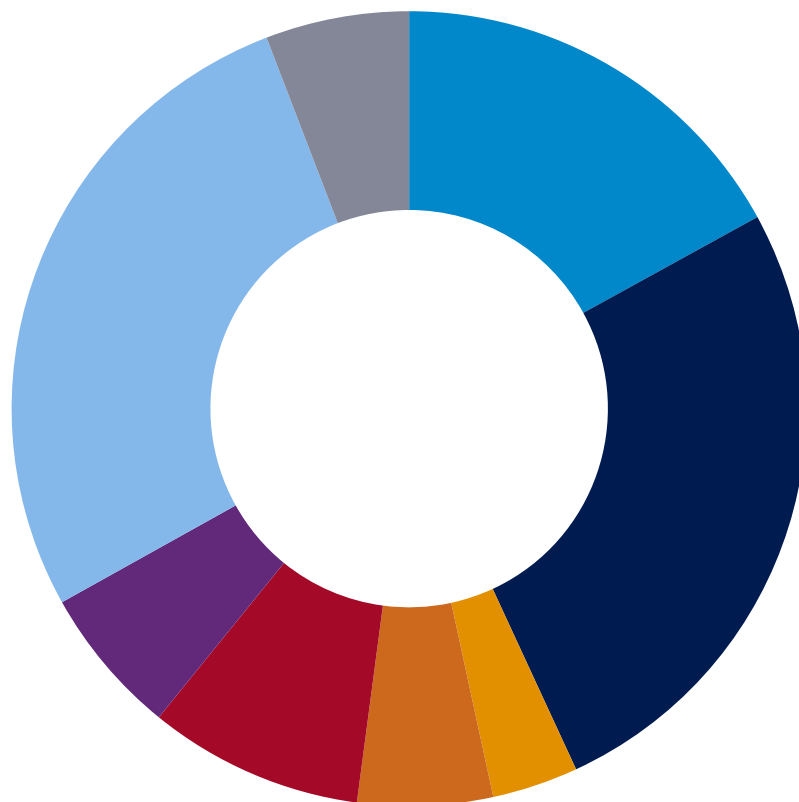
# QBE NA Operations Standard Lines









Alan Driscoll – October 2014

# QBE NA 2014 Overview



**QBE NA GWP - \$5.3 Billion**



-  **Middle Market (17%)**
-  **Program (26%)**
-  **Risk Management\* (4%)**
-  **Consumer (5%)**
-  **M&LS (9%)**
-  **Specialty (6%)**
-  **Crop (27%)**
-  **Assumed Re (6%)**

\* Formerly known as Major Brokers

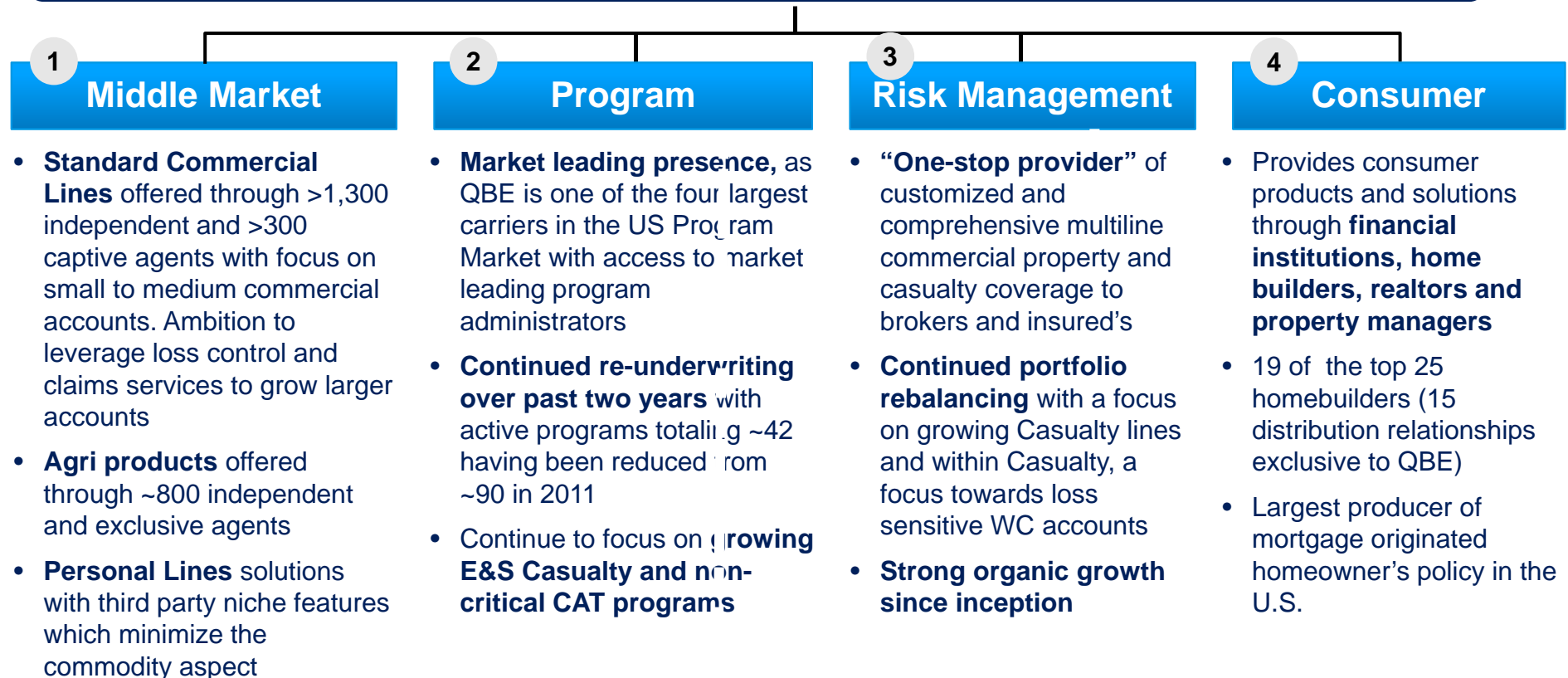


# Standard Lines: Current Profile



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Business groups organized around Product, Distribution Channel and Customer with a focus on technical leadership and superior underwriting proficiency



# 1 Middle Market Business Overview



**Ambition: To be a top performing middle market organization working with select partners and offering products for small, medium and large commercial accounts, personal lines products, and agricultural products**

## Commercial Lines

- Deliver top performing middle market products and services to our small, medium and large commercial accounts
- Grow in underpenetrated states (south and east) while avoiding weather prone areas
- Improve ease of doing business with agency portal enhancements and quote proposal tools

## Personal Lines

- Deliver industry leading underwriting returns through niche & traditional products
- Grow where we can meet our profit goals without extraordinary expense or undue regulation
- Partner provide niche endorsement coverage and limit our exposure to segments that are highly price sensitive, lack upselling opportunities or require greater maintenance expense

## Agri Lines

- Be a highly profitable and growing Agricultural insurance provider commanding respect of the market based on sophistication of product and underwriting expertise
- Increase geographic diversity by expanding in western states, south and east
- Merge product and platform, avoid weather prone areas (Midwest and coast)

## Goals / Priorities

- Stabilize premium retention through a more market driven approach. Achieve rate movements that are aligned with market realities
- Encourage new business production by leveraging existing strong agent relationships and partner with distribution channel. Fix negative impact of agent terminations
- Focus on expense reduction measures and effective platform (target expense ratios that are aligned with top quartile performance)
- Develop and retain a strong management team

# 1 Middle Market

## Long Term Value of Middle Market Business



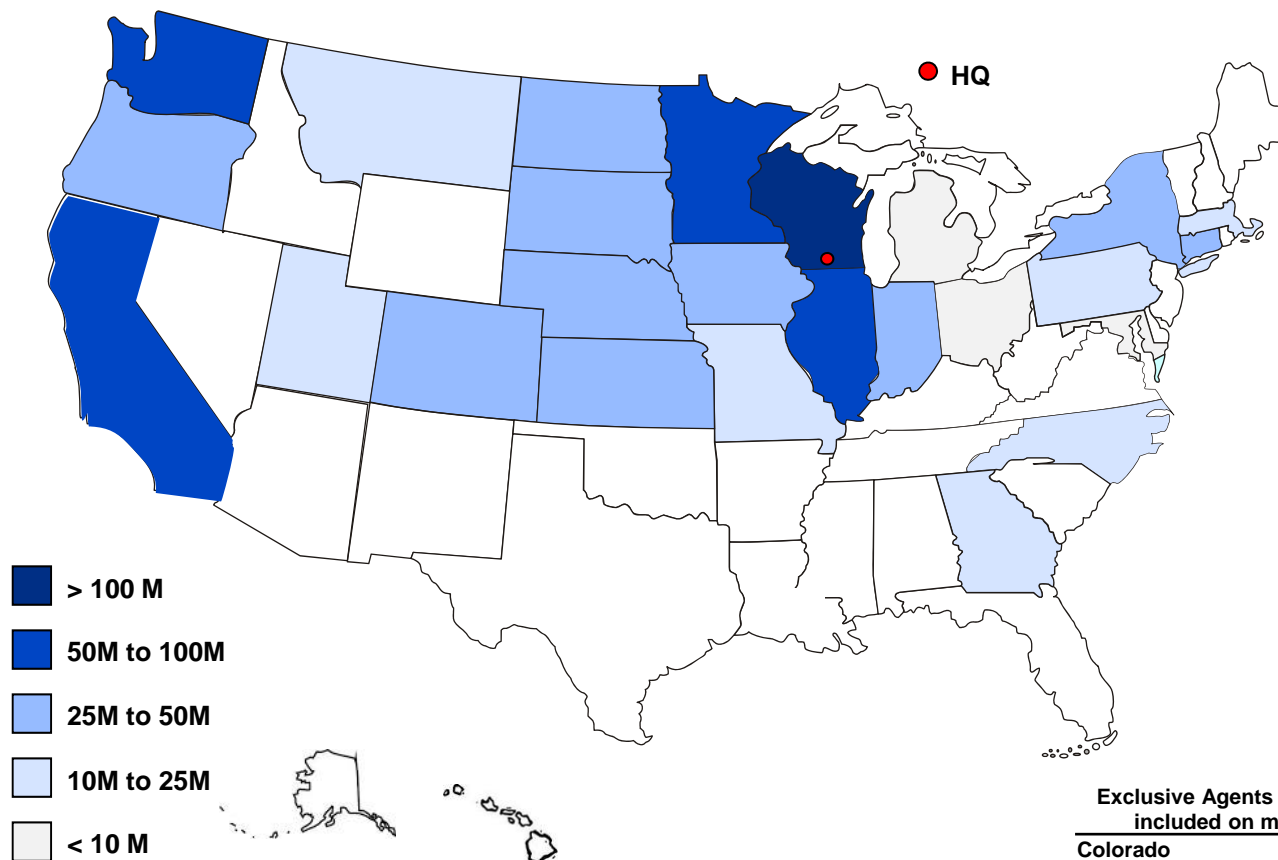
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- With a renewed management team, we believe in our ability to leverage pre-existing strong relationships with our independent agents
- Confidence in ability to further leverage national footprint with local distribution
- Strong underwriting results through disciplined risk selection
- Leading presence in Agricultural sector with unique exclusive distribution
- Focus will be on Expenses – significant opportunities exist to find synergies and reduce Middle Market infrastructure cost and footprint

# 1 Middle Market Premium (All Products) and Agent Count By State



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(\$000) Data as of 12/2013

Alaska agency is actually premium generated from agency offices in WA

## Exclusive Agents Count included on map

Colorado	54
Kansas	37
Minnesota	40
Montana	48
Nebraska	33
North Dakota	84
South Dakota	40
Utah	1
Wyoming	17

## Focus Areas

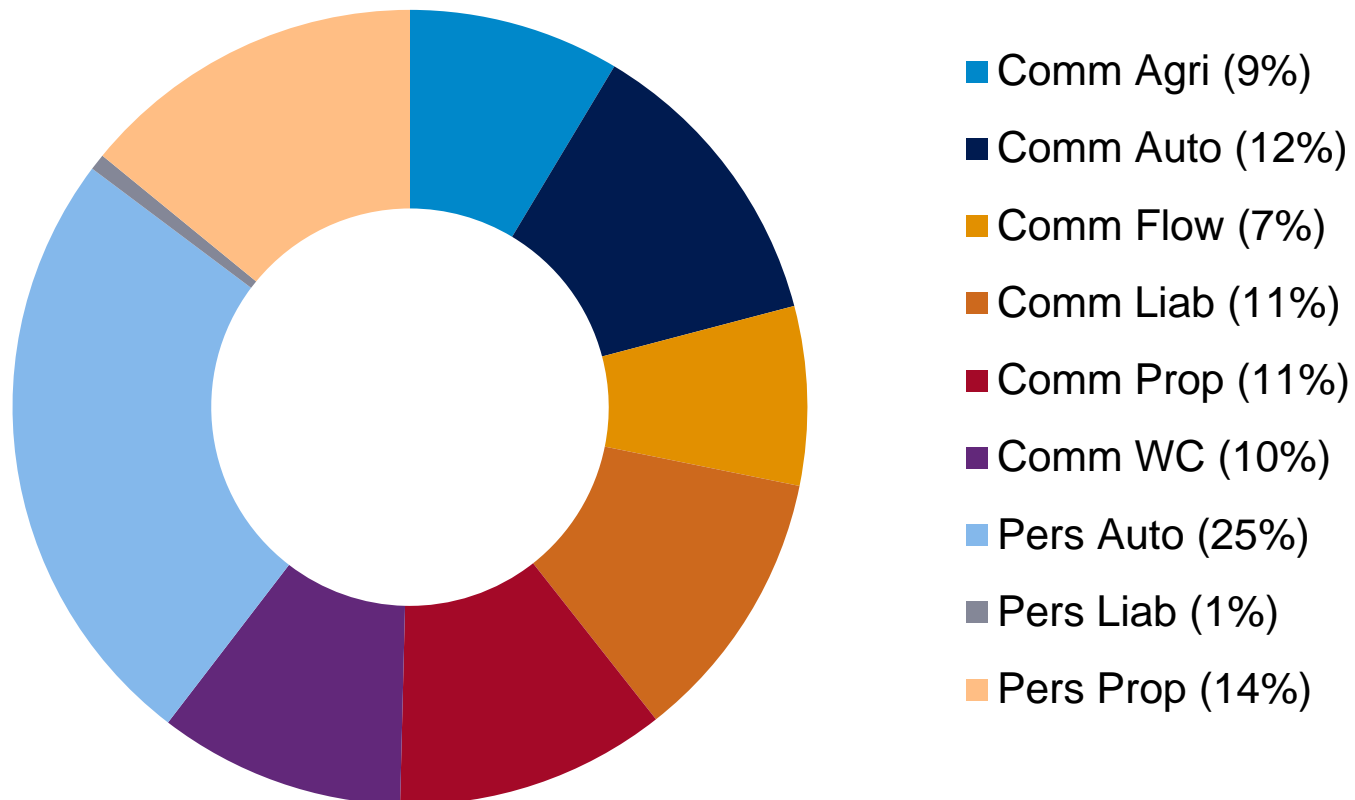
- Consolidate underwriting and servicing for small and large commercial
- Maximize profitable growth by effective agency and portfolio management
- Grow new business toward historical levels
- Further build and enhance the technical underwriting environment



# 1 Middle Market Product Mix Overview



## 2014 Product Mix



## 2 Program Business Overview

**Our ambition is to be the predominant underwriter of Program Business in the US**

### Property

- Protect current profitable CAT programs and grow non-critical CAT Property
- Grow in non-Coastal, non-CAT regions and protect non-Critical CAT programs
- Fix or divest programs depending on their ongoing and historical results

### Casualty

- Grow casualty portfolio to represent 50% of our overall book to reduce weather-driven volatility
- Expand E&S Casualty and protect our casualty renewal book
- Grow in target classes with key MGA's. Maintain a strong new business pipeline

### Workers' Comp

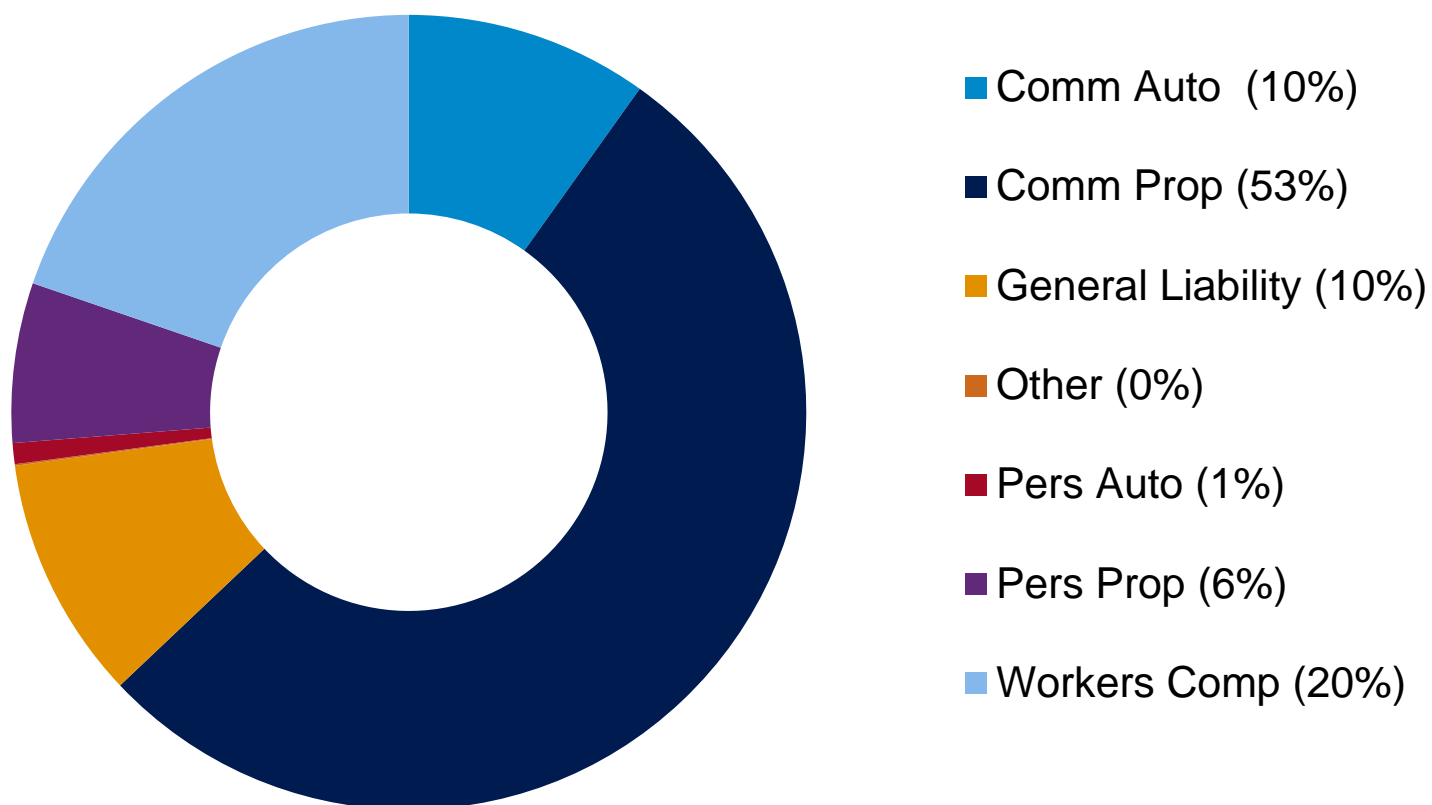
- Carefully grow our book with existing and new programs
- Be selective with programs and MGA's for this long tail and volatile line
- Improve underwriting capabilities and increase focus on operational metrics to mitigate volatility

### Goals / Priorities

- Execute on data acquisition initiatives in order to improve program analytics and oversight
- Continue aggressive management of underperforming programs and run-off portfolio
- Focus on retention and development of key staff

## 2 Program Product Mix Overview

2014 Product Mix



### 3 Risk Management Business Overview



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Along with our diverse mix of products, QBE's Risk Management team offers experience, knowledge and skill. Coverage is customized to each client to manage risks effectively

#### Property

- **Coverage:** All risks, including machinery breakdown, earthquake, flood and windstorm
- **Capacity:** Up to \$200M scaled to risk hazard, natural catastrophe exposures and attachment point
- **Target occupancies:** Real estate, manufacturing, service industries, financial institutions and professional services, and medical and educational

#### Primary Casualty

- **Primary coverages:** Workers' compensation (statutory), Auto Liability (limits up to \$2M), General Liability (limits up to \$5M and Product Liability (limits up to \$2M)
- **Program structures:** Deductible and retrospectively rated plans
- **Flexibility in claims handling:** Ability to bundle or unbundle with a TPA

#### Excess Casualty

- Flexible attachment points and program structures
- **Coverage:** Occurrence, Claims-made or Occurrence-reported coverage following the terms of most major U.S. and international insurers' lead umbrella forms
- **Capacity:** Up to \$25M

#### Strategic Client Management

- **Primary point of contact for "All Things QBE:"** Domestic or global in nature for our broker and client partner
- Each SCM oversees a smooth transition to QBE, as well as ensuring all insurance and service needs are achieved



### 3 Risk Management Strategy and Mix Overview



#### Business Strategy

##### Where to Play

- Focus on national accounts segment of commercial lines
- Property: Target real estate, financial institutions, manufacturing and service industries
- Casualty: Target niche industries with limited market supply

##### How to Win

- Target business as opposed to reacting to opportunities
- Develop targeted products and sales approach
- Expansion of production with Aon, Marsh, Willis, Lockton, Gallagher and national partners, beyond NY / East Coast
- Productivity gains through technology

#### 2014 Product Mix



- Property (43%)
- Casualty (25%)
- Workers Comp (32%)

## 4 Consumer and Affiliated Agencies

### Business Overview and Distribution



**Provides voluntary insurance products distributed primarily through financial institutions, homebuilders and other key partners**

#### Value Added Services

- Proprietary technology facilitates homebuilder client retention
- Combined home and auto insurance on a national platform for financial institutions

#### Insurance Products

- Homeowners insurance
- Personal auto insurance
- Renters insurance

#### Direct Distribution

- Consumer has longstanding relationships with 19 of the top 25 U.S. homebuilders (of which 15 are preferred distribution relationships)
- Distribution of renters insurance through the top 4 multiple dwelling unit management companies in the U.S., representing over 17 million apartment units

#### Indirect Distribution

- Mortgage origination and bank agency distribution with two of the largest U.S. financial institutions (~50% of new U.S. mortgage origination market)

## 4 Consumer and Affiliated Agencies Market Share Overview



### Where to Play:

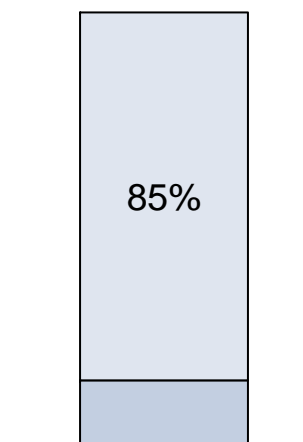
- Personal lines coverage where we have an advantaged access to business leads via a “timed sale”
- Grow Home Builders, Financial Institutions, Apartment Mgmt. Aggregators, Realtors, and Mortgage Companies
- Offer a national product solution
- Product distribution choice: Direct (Westwood) or Agency

### How to Win:

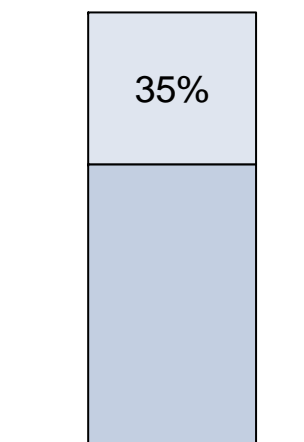
- Proprietary technology linking QBE / Westwood
- Three scalable call centers for policy sales and service
- Bundle multiple coverages (Home, Auto, Umbrella)

**Key Objective is to protect market share:  
85% top 25 builders; 35% top 5 financial institutions**

**Top 25 Builders**



**Top 5 Financial Institutions**



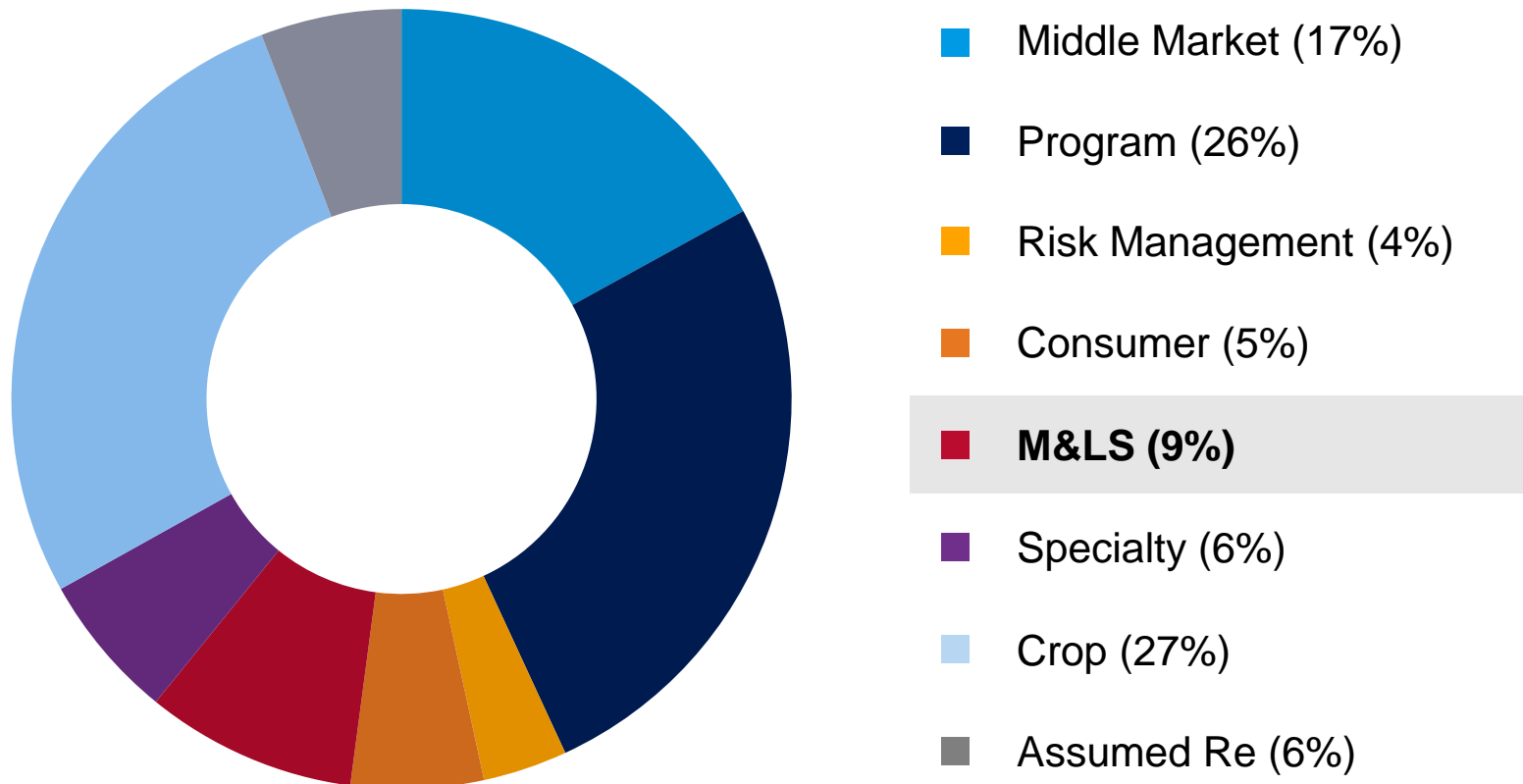
# QBE NA Operations Mortgage & Lender Services

Bob James – October 2014

# QBE NA 2014 Overview



## QBE NA GWP - \$5.3 Billion



# Mortgage & Lender Services

## Business Overview



### Business Overview

- Provides home and auto insurance tracking
- Value added services:
  - Insurance tracking solutions
  - Insurance recovery services
- Insurance products include:
  - Lender placed hazard, flood, wind and REO
  - Collateral protection insurance
  - GAP
- Mortgage servicers are required by mortgage investor requirements to ensure borrowers have proper insurance to protect the investors' collateral

# Mortgage & Lender Services

## Lender Placed Hazard Insurance - Process



North America  
Operations

### 1 Home Purchase



- Most individuals borrow money to purchase a home
- Loan documents require insurance coverage on the property at all times
- Proof of insurance coverage required at loan closing

### 2 Lenders can:

1. Retain Loan on Balance Sheet
2. Sell to Secondary Market

### 3 How do investors protect their interest?

How do investors know which loans do or do not have insurance?

- ### 6 If there is a lapse in a borrowers homeowners insurance coverage, QBE will place a lender-placed insurance coverage

Payment of lender-placed insurance is advanced by the financial institution (minimal credit risk to QBE)

- ### 5 QBE has a sophisticated loan tracking engine and process to determine if the mortgages have insurance or not



- ### 4 U.S. mortgage servicers are **required** to obtain insurance over the mortgages they service on behalf of their investors. In addition, mortgage servicers will retain insurance for safety/soundness purposes for mortgages they "hold-for-investment".

# Mortgage & Lender Services

## Historical Look Back



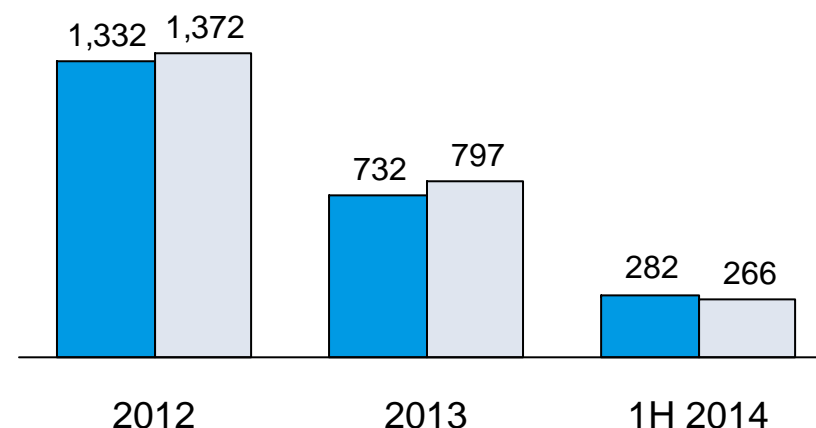
North America  
Operations

- Throughout 2013, M&LS management was focused on securing two major accounts (Nationstar and Chase) to restore premium volume, both of which were unsuccessful
- Increasing regulatory pressure throughout the financial services and mortgage market has strained internal resources for all mortgage servicers limiting their ability and desire to change LPI providers
- Macroeconomic conditions in the US housing market continue to develop unfavorably for LPI business
- Management is currently focused on:
  - Assessing strategic options
  - BAC negotiations
  - Expanded distribution channels (major brokers and MGAs)
  - Expense management

### GWP and NEP

\$M

 GWP  
 NEP



**Given industry consolidation and premium declines, gross written premium has been slightly lower than net earned premium, with the exception of first half of 2014**



# Mortgage & Lender Services Opportunities



## Opportunities for growth

- QBE continues to pursue a strategy of the highest compliance and ethical standards to maintain existing clients and attract servicers away from the competition
- RFP activity could increase due to the regulatory environment requiring servicers to receive bids on their program

## Emphasis on Optimization

- Ongoing efforts to right size the organization and facility footprint to match the reductions made to accommodate a shrinking portfolio base
- Increase scale and maximize efficiency through migrating clients to a single system – QLINK
- Support QBE's Quantum initiative of expanding the offshore model

## Non-core Areas

- Divestiture of the Real Estate Tax division to LERETA (ending September 2014)
- Ongoing review of the long-term strategies of each line of business

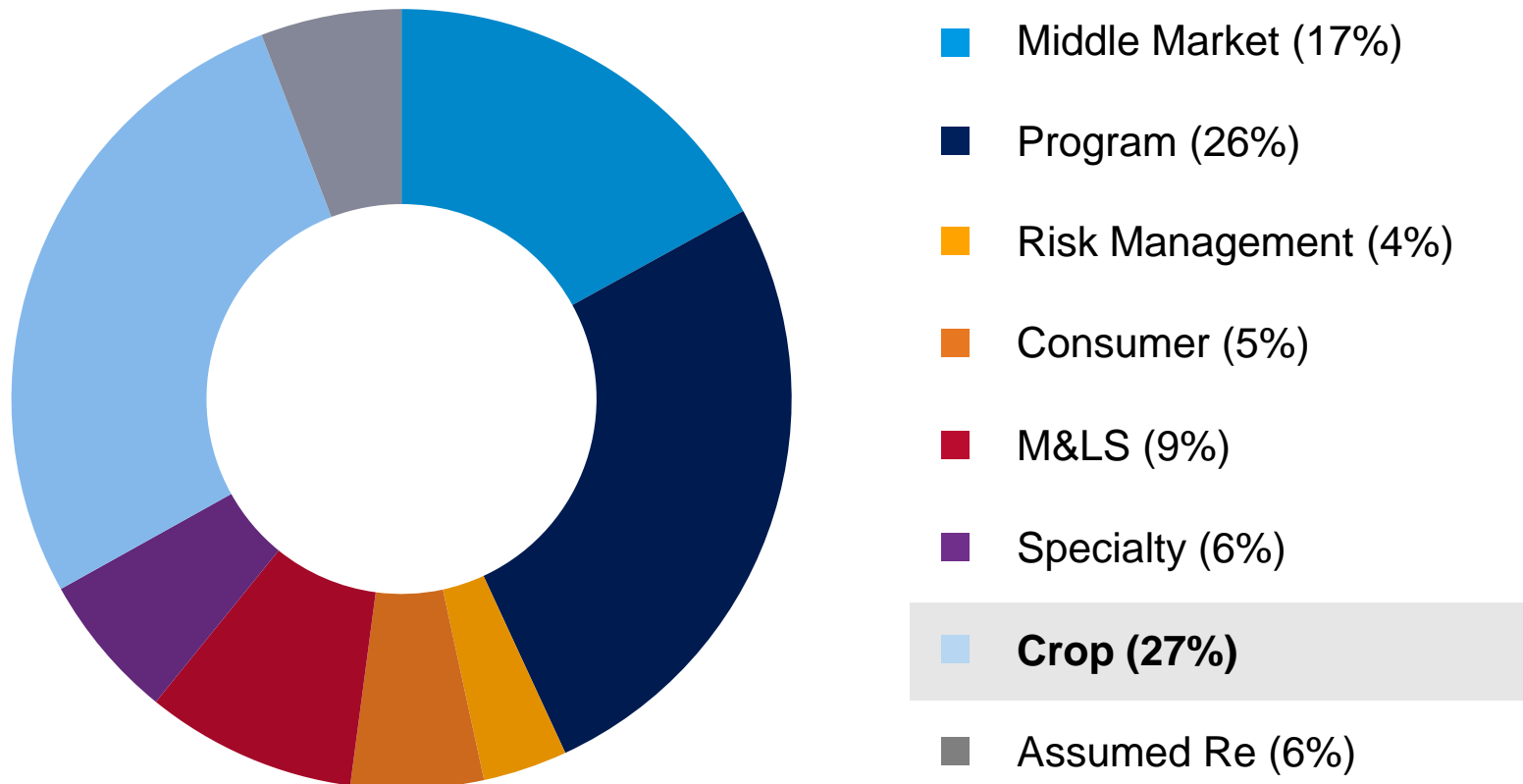
# QBE NA Operations Crop

Richard Dziadzio – October 2014

# QBE NA 2014 Overview



## QBE NA GWP - \$5.3 Billion



# Crop

## Overview MPCl model



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Operations

- MPCl is a unique, heavily regulated, government subsidized insurance program run by US Federal Crop Insurance Corp (FCIC)
- Rates are set by government actuaries, carriers may not decline or adjust pricing for individual site risk
- A portion of Admin and Operating (A&O) expenses are reimbursed by the government
- Carriers may cede Q/S to one of 3 special government reinsurance programs, or utilize commercial reinsurance
- Premiums are remitted directly to FCIC, and claims are paid by FCIC – carriers only administer claims
- Underwriting settlement occurs between the FCIC and the insurer following the end of the calendar year, resulting in lag
- Overall MPCl (Multi Peril Crop Insurer) program structure and subsidy levels subject to government review/alteration

# Crop

## QBE Overview



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Operations

- QBE is the third largest underwriter and manager of multi peril crop insurance (MPCI) in the U.S. with an approximate 13% share
- The two largest are Rain and Hail (owned by ACE) and RCIS (owned by Wells Fargo)
- There are 17 Approved Insurance Providers (AIPs), ranging from \$2.4B in GWP to \$34M in GWP
- The top three AIPs account for ~55% of all crop business. It is a small industry dominated by the larger crop insurers; the smaller insurers can't compete on the same level
- Barriers to entry for MPCI business are AIP and the long term float before reimbursements from the Federal Government, as well people and technology
- Possible new competition in the form of new SRA (Standard Reinsurance Agreements) applicants with compensation plans designed to circumvent the limit on agent commissions

# Crop

## Overview of Key Products



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Operations

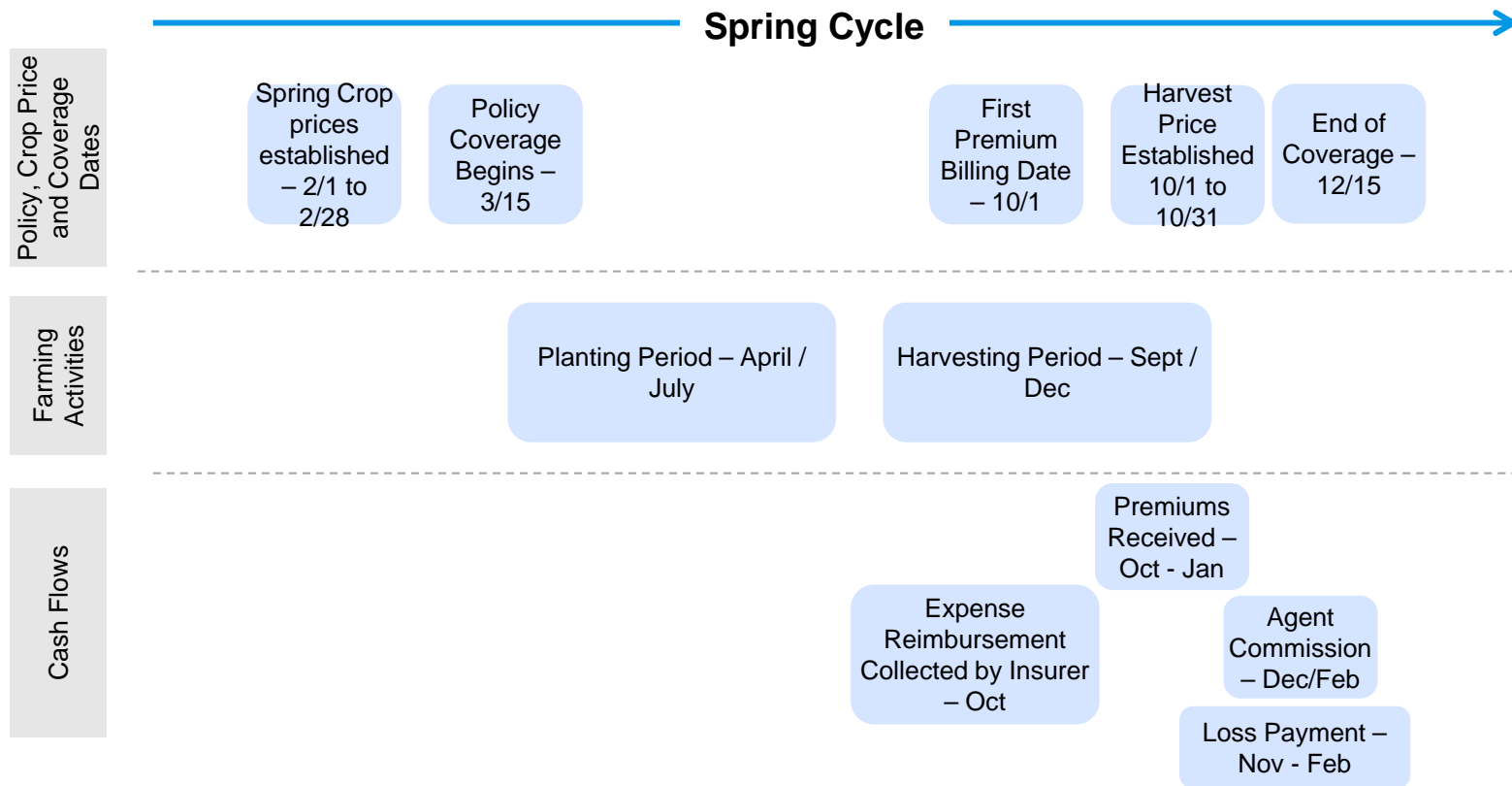
Crop Policies	Description	
<b>1 Yield Base Products</b>	<p>Protect against yield losses due to natural causes Paid if harvest is less than yield insured after a deductible</p> <ul style="list-style-type: none"> <li>▪ Catastrophe – Pays 55% of a crop established price on crop losses in excess of 50%</li> <li>▪ Non-catastrophe, yield based products</li> </ul>	
<b>2 Revenue Products</b>	<p>Insures against lost revenue. Paid if harvest value is less than insured amount after a deductible.</p> <ul style="list-style-type: none"> <li>▪ <b>Crop Revenue Coverage</b> – provides revenue protection based on price and yield expectations. Pays for losses below the guarantee at <i><b>the higher of an early season price or the harvest price</b></i></li> <li>▪ <b>Revenue Assurance</b> – dollar denominated coverage by which producers select a dollar amount of target revenue from a range defined by 65% - 85% of expected revenue</li> <li>▪ Income Protection</li> <li>▪ Group Risk Income Protection</li> <li>▪ Adjusted Gross Revenue</li> </ul>	<p>Most popular</p>

# Crop

## How Commodity Prices affect underwriting profit



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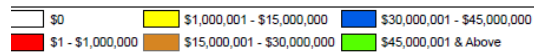
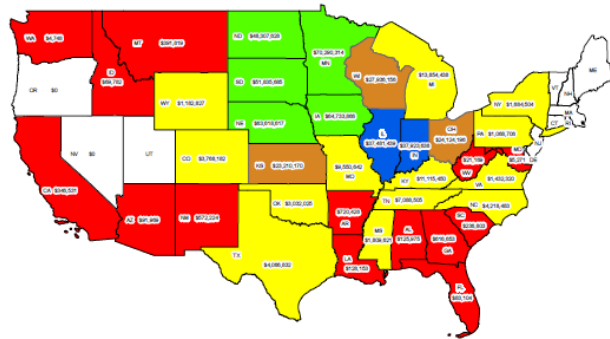


# Crop Premium Corn, Wheat, Soybean

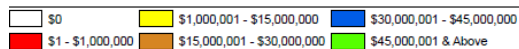
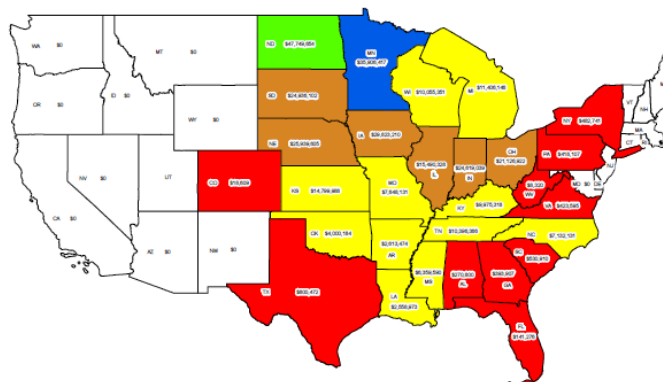


North America  
Operations

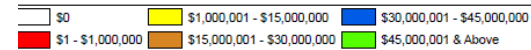
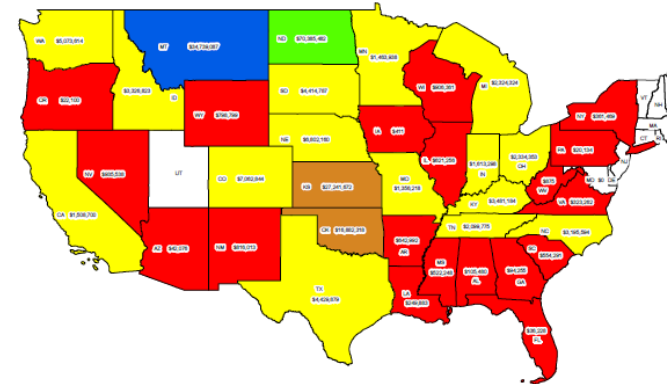
2014 Corn Premium



2014 Soybean Premium



2014 Wheat Premium



Crop Premium Mix  
%

Corn	44.0%	39.0%
Soybean	23.0%	23.0%
Wheat	17.0%	16.0%
All Other	16.0%	22.0%
	2013	2014





# Crop

## Strategy and Business Objectives



North America  
Operations

### Business Strategy

#### **Where to Play**

- Geography: Entire US, with specific focus on underserved states and the mid-west
- Products: All MPCl crop coverages, Hail, and limited Named Peril insurance coverages
- Channel: Independent agents

#### **How to Win**

- Invest in leading edge technology and superior service
- Further refine the sales process
- Competitive commissions and Hail/Named Peril products
- Participate in industry consolidation

### Business Objectives

- Organic Growth. Maintain and grow MPCl crop count by 3% net
- Provide competitive Hail and other Named Peril coverages
- Deliver superior service to agents and farmers
- Diversification

# Crop Futures



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Operations

## Corn Futures



## Soybean Futures



## Wheat Futures



With key commodity prices down from the reference prices (set in Feb to price policies), higher expected yields may not offset price declines – underwriting losses are likely in certain states, after taking coverage levels into account

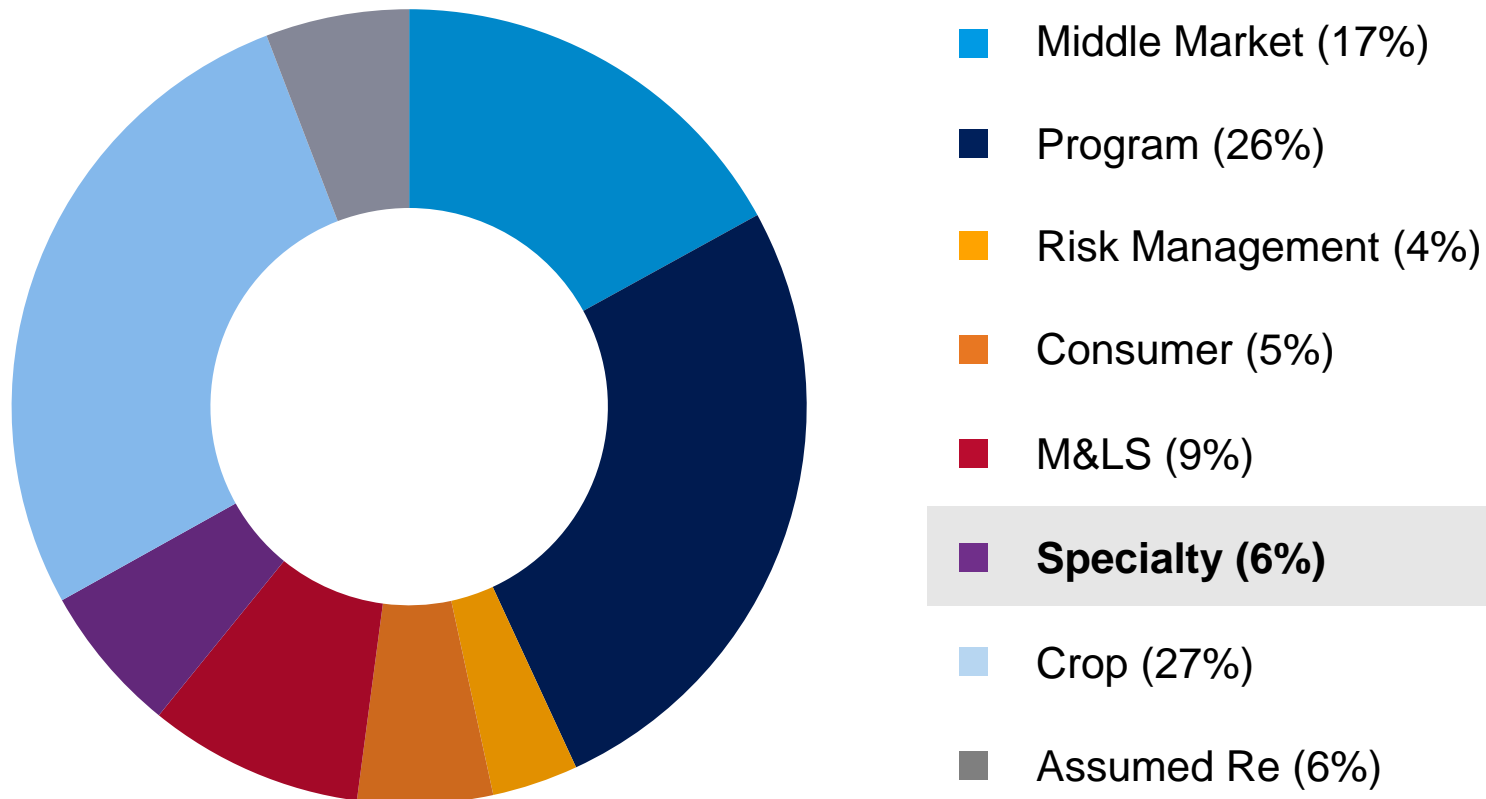
# QBE NA Operations Specialty

Jeff Grange – October 2014

# QBE NA 2014 Overview



## QBE NA GWP - \$5.3 Billion



# Specialty

## Specialized Insurance for Unique Risks



Replace potential liabilities with a sense of security with QBE—a company whose experience and expertise allow us to say yes to highly unique insurance needs



# 1 Management & Professional Liability

## Business Overview



### Primary Public / Private company D&O launched

#### Ambition

- Establish a recognized market presence in US management liability & professional lines market
- “One stop shopping” full underwriting service for Public, Private, Financial Institutions, Commercial E&O and HC customer types

#### Where to Play

- Build full-service underwriting platform across four major segments diversified across multiple customer types and balanced between small to medium size enterprises risks up to large-complex risks

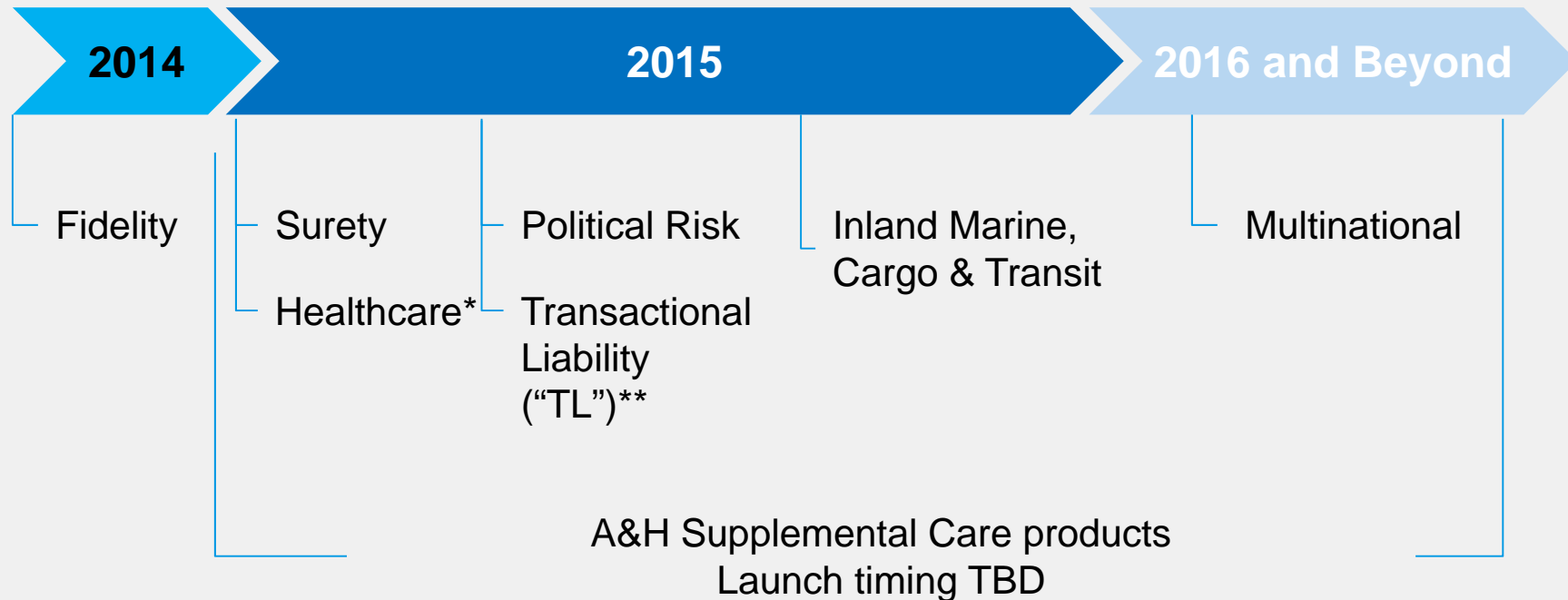
#### How To Win

- Build IT platform that supports Specialty build-out (on-line quote, bind & issue internet portal)
- Build Distribution platform that leverages QBE relationships across Specialty and QBE P&C and fosters cross-selling/up-selling

# Specialty Product Launch Timeline



CONFIRMED DESIRED NEW LINES



OTHER

Other Specialty lines to be launched potentially include Environmental, Technology, Life Sciences, Media & Entertainment

\* Includes Primary & excess casualty (GL & EXUMB), Medical Malpractice (Medical Professional Liability), Managed Care Errors & Omissions, Clinical Trials, HC Management Liability, Allied Health – MPL/E&O

\*\* Includes Representations & Warranties, and Tax Liability

# Specialty Lines Industry Performance

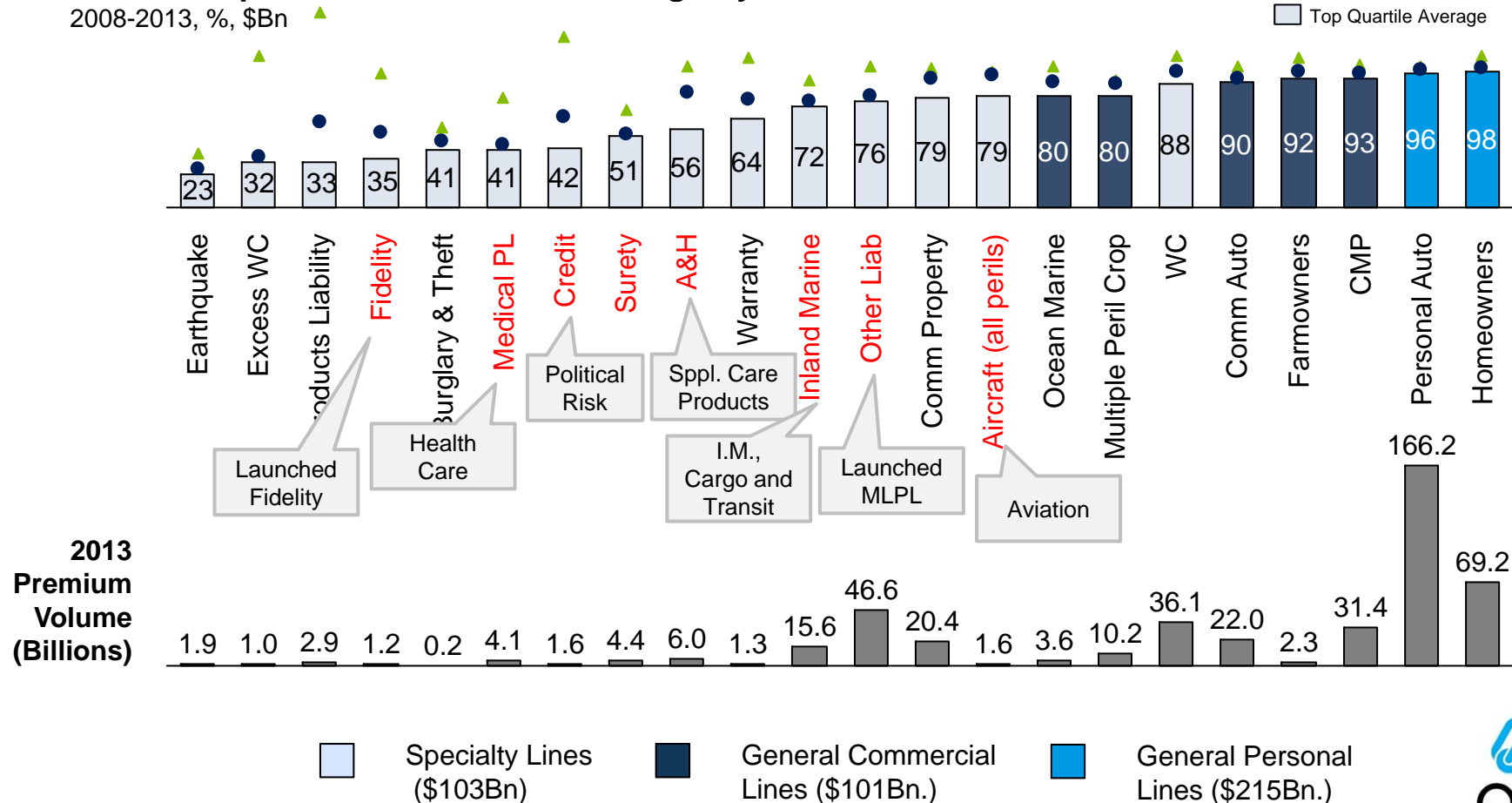


Portfolio re-balance to Specialty lines is underway

## NCOR – Top Quartile and Market Average By Line

2008-2013, %, \$Bn

- ▲ Market Average
- Top Quartile Threshold
- Top Quartile Average





# QBE NA Operations Risk Update

John Langione – October 2014

# Supporting the Business and Growth Strategy



North America  
Operations

## Risk Strategic Focus 2014

- ✓ Business plan stress testing (divisional and bottom up), aligned with NA top risks

- ✓ Completed ORSA pilot with NAIC and Capital Management Plan

- ✓ Oversight of discontinued program book and strategic solutions

- ✓ Embedded OneERM with comprehensive RCA reporting
- ✓ Alignment of risk staff with each business unit to ensure strong partnership
- ✓ NA leadership in global initiatives including risk training and KPI management



- ✓ Participated in creation and evolution of Underwriting Committee

- ✓ Risk engagement in various initiatives

- ✓ Risk monitoring of Quantum progress

- ✓ Implemented risk governance framework and Group policies

- ✓ ECM infrastructure management in support of global initiative

- ✓ Alignment with management in development of KPIs for all aspects of operations

**QBE**

# Risk Management Maturity



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Operations

## Current State

- Focus on embedding risk management in business
  - One ERM components cascaded across NA
  - Ensure businesses make effective risk based decisions

- Broader participation in governance functions
  - New governance structures enhance the presentation of risk in the decision process

- Capability gaps
  - Broader knowledge and capabilities of risk management staff to address increased specialty product focus (eg, insurance risk for A&H, Aviation, Professional Lines)

## Actions

- Alignment of risk management team with each shared service and business unit
  - KPI's identified and monitored for all functions
  - Quarterly updates to risk assessments align with sensitivity analysis and stress scenarios
- Executive and management committee structure includes active participation and inputs from Risk Management
  - REM committee to receive risk culture survey and other risk metrics prior to year end management compensation assessments
- Org Re-design transformation initiatives to require substantial engagement with management to ensure critical workstream risks are effectively managed
- Broadened product mix, notably in Specialty lines, require broadened knowledge of risks and exposures
  - Risk appetite refinement to include greater definition by individual product within each line of business
  - Underwriting committee engagement to address areas requiring greater clarity or refinement
  - Risk Management to host roundtable discussion on specific underwriting exposures, as may be appropriate (eg. Cyber risk)

# Run Off Discontinued Programs Unit



## Highlights

- Discontinued Programs Unit fully dedicated to management of runoff programs
  - Underwriting audits, non-renewal strategies, and dispute management
- New leader of unit with substantial industry experience in runoff management
- Full claim analysis complete on all runoff claims. Positive settlement results and trends evident (SWAT analysis)
- TPA consolidation allowed for more effective oversight and management
- Shared service support from fully / partially dedicated individuals in Actuarial, Claims, Finance, Legal
  - Enhancement to actuarial organization makes support more effective
- Reserves increased in 2012 and 2013, now stable
- Transacted on form of protection in early 2014 which provides top side cover

# QBE NA Operations Claims

Dave Duclos – October 2014

# Program Claim Handling Progress



North America  
Operations

## January 2013

- 49 TPA's handling our claims
- 40% of the pending claims were handled by QBE/Sedgwick staff
- 36% of the total Case reserves were handled by QBE/Sedgwick
- 13 Claim handling entities handling our WC claims
- 22,000 Discontinued Program claims pending

## January 2015

- 15 TPA's handling our claims
- 71% of the pending claims are handled by QBE/Sedgwick staff
- 74% of the reserves are handled by QBE/Sedgwick staff
- 1 Claim handling entity handling our WC claims
- 10,500 Discontinued Program claims pending

# Claims & Loss Control Highlights



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Operations

<b>Global Shared Services and Outsourcing (Quantum)</b>	<ul style="list-style-type: none"> <li>Transitions to Sedgwick and our Global Shared Services Center allowed us to achieve ~\$70M expense reduction by 2016</li> </ul>
<b>TPA Consolidation</b>	<ul style="list-style-type: none"> <li>Claim handling of 15 MGAs (22 Programs) to be moved to QBE NA claim handling model</li> </ul>
<b>EPIM</b>	<ul style="list-style-type: none"> <li>Cross-functional effort to acquire, warehouse, report, and analyze policy and claims data for Program</li> </ul>
<b>Legal Panel</b>	<ul style="list-style-type: none"> <li>Consolidated from 550 to 90 law firms</li> </ul>
<b>TPA Swat</b>	<ul style="list-style-type: none"> <li>2,774 claims reviewed by QBE Staff and contractors</li> <li>1,585 claims Settled and 767 being negotiated as of August</li> </ul>
<b>Legal Bill Review</b>	<ul style="list-style-type: none"> <li>Processed \$52.7M in legal bills resulting in a savings of 9.8%, \$5.2M</li> </ul>
<b>Desktop Adjustment</b>	<ul style="list-style-type: none"> <li>Successful implementation of desktop adjusting on property losses &lt;5 significantly reduced IA spend without impact to severity (~1M)</li> </ul>

# Claims Metrics Dashboard and Performance



North America  
Operations

Line 1	47.0%	n/a	69.0%	n/a	n/a	22.0%	🟢
Line 2	\$7,377	n/a	\$6,942	n/a	n/a	6.0%	🔴
Line 3	17.7	n/a	16.2	n/a	n/a	-3%	🟢
Line 4	\$47.5M	\$47.7M	\$57.2M	0.0%	🟢	-17%	🟢
Line 5	15%	n/a	15%	n/a	n/a	0 pts	🟢

Claims System (Percentage of Claims)	Year to Date Losses	Year to Date ALAE	Year to Date Total	Year to Date Losses	Year to Date ALAE	Year to Date Total	Year to Date Total
Line 1	47.0%	n/a	69.0%	n/a	n/a	22.0%	🟢
Line 2	\$7,377	n/a	\$6,942	n/a	n/a	6.0%	🔴
Line 3	17.7	n/a	16.2	n/a	n/a	-3%	🟢
Line 4	\$47.5M	\$47.7M	\$57.2M	0.0%	🟢	-17%	🟢
Line 5	15%	n/a	15%	n/a	n/a	0 pts	🟢

Accounting Year/Month	Age Group	New Count	Avg of Age (days)	Avg Net Paid Loss	Avg Net Paid ALAE	Avg Incurred ALAE	Avg Incurred Loss and ALAE
YTD 09/13	<= 30 days	109,600	9	\$1,570	\$197	\$214	\$2,176
	31 - 60 days	40,846	45	\$2,613	\$325	\$366	\$3,755
	61 - 90 days	17,957	73	\$3,827	\$329	\$412	\$5,930
	91 - 120 days	10,340	104	\$4,795	\$372	\$512	\$8,321
	121 - 180 days	11,762	147	\$6,063	\$427	\$703	\$10,281
	181 - 365 days	10,071	228	\$7,821	\$645	\$1,173	\$16,321
	1 - 2 years	726	450	\$10,983	\$910	\$987	\$12,684
	3 - 4 years	8	1,298	\$0	\$586	\$4,772	\$9,097
	2 - 3 years	38	834	\$6,617	\$3,202	\$4,249	\$18,477
	4 - 5 years	6	1,547	\$2,420	\$6	\$6	\$2,414
	5+ years	20	2,622	\$1,099	\$8,242	\$10,701	\$13,801
YTD 09/13 Total		201,374	48	\$2,758	\$284	\$359	\$4,369
YTD 09/14	<= 30 days	97,491	10	\$1,832	\$175	\$210	\$2,455
	31 - 60 days	27,757	44	\$3,629	\$326	\$410	\$5,005
	61 - 90 days	15,599	74	\$4,196	\$282	\$439	\$6,567
	91 - 120 days	8,694	104	\$5,102	\$303	\$580	\$7,869
	121 - 180 days	10,461	147	\$6,906	\$495	\$894	\$11,709
	181 - 365 days	9,266	223	\$7,129	\$771	\$1,482	\$15,239
	1 - 2 years	58	480	\$6,118	\$4,977	\$5,102	\$38,193
	3 - 4 years	10	1,246	\$629,010	\$61,449	\$81,317	\$941,681
	2 - 3 years	16	960	\$58,873	\$7,556	\$10,648	\$95,826
	4 - 5 years	5	1,611	\$373,438	\$42,114	\$51,904	\$565,675
	5+ years	8	3,234	\$522,557	\$92,610	\$107,627	\$820,527
YTD 09/14 Total		169,365	48	\$3,195	\$280	\$410	\$4,932

Metrics-based  
management allows to  
create an effective  
and efficient claims  
organization



# QBE NA Operations Closing Remarks / Questions

Dave Duclos – October 2014

# Important disclaimer



North America  
Operations

The information in this presentation provides an overview of the results for the half year ended 30 June 2014.

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). Prior to making a decision in relation to QBE's securities, investors must undertake their own due diligence as to the merits and risks associated with that decision, which includes obtaining independent financial, legal and tax advice on their personal circumstances.

This presentation contains certain "forward-looking statements". The words "anticipate", "believe", "expect", "project", "forecast", "estimate", "likely", "intend", "should", "could", "may", "target", "plan" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings, financial position, performance, and our pro forma capital plan are also forward-looking statements.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of QBE, that may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements. You are cautioned not to place undue reliance on forward-looking statements. Such forward-looking statements only speak as of the date of this presentation and QBE assumes no obligation to, and expressly disclaims any such obligation to, update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events or changes to future results over time or otherwise, except as required by law.

Possible events or factors that could cause our results or performance to differ materially from those expressed in our forward-looking statements include the following: large individual risk and catastrophe claims exceeding the allowance in our business plans; an overall reduction in premium rates; a significant fall in equity markets and interest rates; a material movement in budgeted foreign exchange rates; a material change to key inflation and economic growth forecasts; inadequate recoveries from our reinsurance panel; substantial changes in applicable regulations; [as well as risks and uncertainties relating to litigation, general economic conditions, markets, products, competition, intellectual property, services and prices, key employees, future capital needs, dependence on third parties, and other factors, including those described on pages 48 and 49 of this presentation.

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