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22 July 2020

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

Dear Sir/Madam

QBE UPDATE ON COVID-19 IMPACT AND 1H20 RESULT

Please find attached an announcement for release to the market.

This release has been authorised by the QBE Board of Directors.

Yours faithfully,

Carolyn Scobie
Company Secretary

Attachment

MARKET RELEASE

22 July 2020

QBE UPDATE ON COVID-19 IMPACT AND 1H20 RESULT[1,2]

Ahead of QBE's interim result release scheduled for 13 August, QBE today provides an update on the expected 1H20 financial result, including the current and prospective impact of the COVID-19 pandemic.

Premium pricing continues to harden. Renewal rate increases averaged ~8.7%[3] during the half compared with 4.7%[3,4] in 1H19. Premium rate momentum in North America and International accelerated through the half (2Q20 increases were 10.4% and 14.2% respectively), contributing to an average 2Q20 Group-wide renewal rate increase of ~10.1%[3] following an increase of 7.3%[3] in 1Q20.

On a constant currency basis and adjusting for asset sales completed in 2019, gross written premium grew by around 10% during the half.

The Group now expects to report a 1H20 combined operating ratio of around 104%[5] which reflects COVID-19 impacts of around $335M, adverse catastrophe experience of around $60M and adverse prior accident year claims development of around $120M. While QBE has separately identified obvious COVID-19 revenue and expense impacts, there will be other less significant impacts, both positive and negative, that are not readily identifiable or quantifiable.

Excluding COVID-19 impacts, the 1H20 combined operating ratio is expected to be around 98%[5].

The 1H20 COVID-19 underwriting impact of around $335M includes ~$150M of net incurred claims, ~$115M[6] of additional risk margin related to the uncertainty of COVID-19, ~$50M of premium concessions and reinsurance reinstatement costs and ~$20M of expenses including motor vehicle premium refunds. The pandemic has, or is expected to, adversely impact multiple lines of business including property (business interruption), reinsurance, workers' compensation, casualty (including D&O), accident & health (A&H), trade credit, lenders' mortgage insurance (LMI) and landlords' insurance, while the benefit of reduced personal motor claims frequency was returned to customers through premium refunds.

While the landscape remains highly uncertain, at this stage QBE currently estimates total COVID-19 related costs to be around $600M pre-tax. This includes ~$265M of potential further net claims that could emerge over the next 12-18 months, primarily in trade credit and LMI, but also in casualty (including D&O), A&H, landlords' insurance and other classes.

1 All figures in US$ unless otherwise stated

2 1H20 numbers are preliminary and subject to external audit review

3 Excludes premium rate changes relating to Australian compulsory third party motor (CTP)

4 Continuing operations basis

5 Excludes the impact of changes in risk-free rates used to discount net outstanding claims

6 Excludes risk margin increase of around $30M to offset the impact of the reduction in risk-free rates on the net central estimate of outstanding claims

QBE

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Excluding COVID-19, the current accident year combined ratio is expected to be around 95%[1] compared with 96%[1,2] in 1H19. A further material improvement in the attritional claims ratio coupled with a pleasing reduction in large individual risk claims offset an increase in catastrophe claims to around $310M from $180M[3] in 1H19. This exceeded our ~$250M allowance and reflected devastating and widespread bushfires in Australia coupled with significant Australian east coast hail and storm activity. Catastrophe costs were broadly in line with plan across the rest of the Group.

Excluding COVID-19 and net catastrophe claims, the current accident year combined operating ratio is expected to have improved by around 3%[4], largely reflecting a further ~2%[5] improvement in the attritional claims ratio, with a strong contribution from all divisions.

The result is expected to include adverse net prior accident year claims development of around $120M, primarily reflecting strengthening in North America. Around half of the development pertains to closed North American portfolios (E&S lines and multi-line inwards reinsurance) while the remainder reflects a further impact from heightened social inflation and industry-wide loss creep with respect to Hurricane Irma.

Including the significant risk margin charge taken during the half, the probability of adequacy of the Group’s total net outstanding claims provision is expected to be just above 91% as at 30 June 2020, up from 90.0% at 31 December 2019.

Lower risk-free rates used to discount net outstanding claims are expected to impact the underwriting result by around $335M.

The Group expects to report a 1H20 net statutory loss after tax of around $750M, primarily reflecting the aforementioned impact of COVID-19, catastrophe experience and prior accident year claims development combined with a net investment loss of around $125M as a result of extreme investment market volatility.

QBE’s capital position remains strong when measured against both regulatory and rating agency capital requirements. The Group’s APRA PCA multiple is expected to be near the top end of the Group’s 1.6-1.8x target range at around 1.78x, inclusive of a material allowance for prospective COVID-19 claims within premium liabilities.

Following the successful consent solicitation to amend the terms of the $400M 2017 perpetual capital notes, QBE’s pro forma gearing at 30 June 2020 is expected to be around 30% or the mid-point of the Group’s internal 25-35% debt to equity target range. Group head office liquidity at 30 June 2020 is expected to be around $1.5BN, affording the Group considerable further flexibility with respect to capital structure.

QBE Group CEO, Pat Regan, said: “Despite the impact of COVID-19, I am encouraged by the strong underlying trends evident in the result. Notwithstanding significant uncertainty surrounding the enduring impact of the COVID-19 pandemic, our greatly strengthened capital base positions us well to capitalise on accelerating pricing momentum and emerging organic growth opportunities.”

“The safety and wellbeing of customers and our people remains a key priority and this is especially so during these unprecedented times. We are supporting customers through various initiatives including premium refunds, premium deferrals, extending credit and counselling services to vulnerable customers and accelerating claims payments.”

1 Excludes the impact of changes in risk-free rates used to discount net outstanding claims
2 Excludes one-off impact of the Ogden decision in the UK
3 Continuing operations basis
4 Prior period current accident year combined operating ratio excludes one-off impact of the Ogden decision in the UK
5 Excludes Crop and LMI

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1H20 RESULTS PRESENTATION

QBE Group CEO, Pat Regan and Group CFO, Inder Singh, will present details of the 1H20 result via webcast and teleconference on 13 August 2020 from 9.30am to 10.30am AEST.

Webcast:
The results briefing will be available for viewing as a live webcast. To access the webcast, please follow the link on our home page www.qbe.com. Testing of the webcast facility is available via this link.

Conference call:
Participants will need to register to access the conference call. Registration can be undertaken here. Once registered, participants will be sent log in details.

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