

A stronger and simpler QBE



The actions we have taken this year to simplify the Group, upgrade core capabilities in pricing, underwriting and claims management and implement a rigorous performance management framework have delivered meaningful improvement in the underlying quality of our business and our financial performance in 2018.

The positive momentum we have built throughout 2018, combined with our 2019 strategic agenda, positions us well to deliver value for our shareholders in 2019 and beyond. Set out hereafter is our progress against the seven key priorities we set ourselves at the start of 2018.

Simplify QBE

During 2018, we successfully exited the countries and portfolios where we lacked scale or were not able to deliver an acceptable return to shareholders. This included the sale of operations in nine countries covering our entire Latin American Operations, Thailand, Indonesia and the Philippines. We also exited loss-making portfolios including North American personal lines, Hong Kong construction workers' compensation and Australian & New Zealand travel insurance.

Our disposal program generated total sale proceeds of around \$550 million and a premium to book value of around \$100 million. Businesses exited generated underwriting losses in 2017 of around \$200 million.



Portfolio simplification has allowed us to streamline our operating structure, reducing the number of divisions to three: Australia Pacific, International and North America. From 1 January 2019, Asia sits within International, alongside our European Operations, while the Pacific and India have joined Australian & New Zealand Operations to form Australia Pacific. The restructure will allow our businesses in Asia, the Pacific and India to generate efficiencies by leveraging the scale and resources of our major divisions.

Brilliant Basics

The Brilliant Basics program is at the core of our strategy. We are upgrading QBE's capabilities in the basics of pricing, risk selection and claims management to deliver a consistent level of excellence in every country in which we do business and in every portfolio.

The implementation of a new set of Group-wide Underwriting Standards and Claims Standards during the year was a key milestone in creating a framework for consistent excellence across the Group. We also took steps to upgrade our pricing capabilities including making greater use of third-party data. The team delivering the Brilliant Basics program was also strengthened with the appointment of a Global Head of Pricing, the establishment of Chief Underwriting Offices in each of the divisions and the appointment of Jason Brown as the Group Chief Underwriting Officer. We now have a full team in place to accelerate the Brilliant Basics program in 2019.

Delivering on the plan

We delivered a combined operating ratio of 95.7%^{1,2} for 2018, ahead of the midpoint of our target range. Pleasingly, the result included a 2.9%³ reduction in the attritional claims ratio with all divisions showing positive momentum underpinned by our rigorous approach to performance management through our cell review process. Cell reviews have proven to be an effective method to drive accountability throughout the organisation and enable us to quickly respond to changes in the market as they occur.

Together with other members of the GEC, I completed over 500 cell reviews in 2018. This performance management focus is quickly becoming part of the culture at QBE and the cell reviews will continue with the same frequency and intensity in 2019.

Further reposition North America

Despite above average catastrophe incidence, North American Operations recorded a much improved result in 2018 with a combined operating ratio of 97.9%¹ including a significantly improved attritional claims ratio.

In 2018, we exited the retail personal lines segment in North America which will enable us to take significant costs out of the business. Cost reduction will be an important driver of further margin expansion in this business over the next few years. We have also changed our operating model in North America, combining our Specialty and Commercial businesses to better align with customer needs and to deliver industry specialist capabilities.

Remediate Asia

Throughout the year, excellent progress was made in re-underwriting our Asian business, with Asia Pacific Operations returning to an underwriting profit in the second half of the year with a combined operating ratio of 99.5%^{1,2}. This turnaround was achieved in a highly competitive market and our Asian operations are now well positioned to return to selective growth in 2019 as part of the International division.

Talent and culture

We are focused on creating a diverse, inclusive and high-performance workplace, and this year our efforts were recognised with QBE's inclusion in the top 200 companies in the Equileap 2018 Gender Equality Global Report & Ranking and on the Bloomberg Gender-Equality Index. We have set ourselves the goal of having 35% of senior management roles filled by women by 2020. In 2018, we achieved a 2% increase to 32%. This is the second year in a row where we have achieved a 2% increase and reflects our ongoing focus on recruitment, selection, promotion and development.

In September I was pleased to launch the QBE DNA, which interlinks seven cultural elements that are fundamental to who we are and how we need to operate in the future to succeed. This new set of cultural elements places a greater emphasis on being customer-centred, technically excellent, diverse, fast-paced, courageous and accountable and working together as a team.

Build for the future

In November, we launched a new customer commitment program (EQUITY), to bring our customer-centred DNA to life. Our aim is to consistently deliver a high-quality customer experience and outcome that will differentiate QBE.

Providing cutting edge solutions to our customers' current and emerging needs is essential to this work and we have continued to invest in solutions through our venture capital arm, QBE Ventures. We made three investments in 2018 including in HyperScience, a machine learning company focused on building artificial intelligence (AI) solutions for automating office work; Jupiter, an emerging leader in predicting and managing climate risk; and Zeguro a platform that helps SME customers manage cyber security risks.

These are in addition to our existing investments in Cytora, an AI company powering a new way for commercial insurers to target, select and price risk and RiskGenius, a machine learning company helping carriers, brokers and regulators to analyse policy and endorsement language and assist with product development.

In closing, I am pleased with the progress we have made against our strategic objectives for 2018, which is reflected in our improved financial performance for the year. With our simplified structure, the implementation of Brilliant Basics and our relentless focus on performance across the business, I am confident we can build upon this result to deliver value for our shareholders into 2019 and beyond.

Pat Regan
Group Chief Executive Officer

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

2 Excludes transactions to reinsure Hong Kong construction workers' compensation liabilities.

3 Excludes Crop and LMI.

2019 outlook

RESULTS FOCUSED

2019 targets

Combined operating ratio¹

94.5%
to
96.5%

Investment return¹

3.0%
to
3.5%

We have a clear set of priorities in place for 2019 that will build upon the progress we made in 2018, while also positioning QBE for the long term.

We will remain focused on our plan, underpinned by our rigorous performance management framework that will translate into further improvement in our attritional claims ratio. In addition, we will reduce our cost base by \$130 million (net) over three years, reducing complexity, optimising end-to-end processes and increasing automation.

In 2018, we laid the foundations for Brilliant Basics and it has led to greater focus and improved consistency across the Group. However, there is more we need to do to develop truly world class capabilities in pricing, risk selection and claims management. Our newly formed Group Chief Underwriting Office will be tasked with further advancing the Brilliant Basics agenda.

In 2019, we will also remain focused on attracting and developing high quality talent and building QBE for the future by investing in, and leveraging, data, analytics and technology.

Our 2019 priorities, described opposite, include a greater focus on customer outcomes and delivering against our customer commitment program (EQUITY). We will also continue to invest in our risk management capabilities, recognising our obligations to meet the expectations of our shareholders, regulators and the communities in which we operate. The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry in Australia recently made a number of recommendations for policy makers, regulators and the industry to consider, to ensure the Australian financial services sector meets community standards and expectations. QBE takes these recommendations seriously and we will work closely with governments, regulators and the industry in their implementation while ensuring the best interests of our customers and partners continue to be met.

Sustainability will also be a key priority for QBE and we will continue to implement the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). We have taken several important steps towards their implementation through 2018 including joining a pilot project run by the United Nations Environment Programme – Finance Initiative, with 17 other global insurers. Our first climate change action plan is on [pages 36 to 41](#) of this Annual Report. We have also announced our ambition to grow our impact investing to \$1 billion by 2021 and were delighted to report that QBE became carbon neutral in 2018, in partnership with the Qantas Future Planet Program.

¹ Assumes risk-free rates as at 31 December 2018.