

# Australia Pacific business review

Australia Pacific recorded a strong combined operating ratio of 91.4%. Gross written premium increased 17% underpinned by an average renewal premium rate increase of 8.3%, new business growth and improved retention.

Sue Houghton • Chief Executive Officer • Australia Pacific

Gross written  
premium (US\$M)

5,215

↑ 17% from 2020

Net earned  
premium (US\$M)

4,265

↑ 8% from 2020

Combined  
operating ratio

91.4%

2020 92.8%

Underwriting  
result<sup>1</sup> (US\$M)

370

↑ 110 from 2020

Insurance  
profit margin

10.4%

2020 6.9%

## 2021 overview

Australia Pacific reported a material profit uplift in 2021, underpinned by strong premium growth and improved underwriting profitability.

Brilliant Basics initiatives supported targeted premium growth, with the continued modernisation of partner propositions enabling the establishment of new distribution partnerships and the strengthening of existing relationships. This, in turn, drove improved customer retention and a strong uplift in new business volumes, particularly in commercial lines.

Claims initiatives, including digitisation and automation, continued to enhance customer and distribution partner experience, also contributing to improved retention and new business growth.

Despite COVID-19, the economy remained resilient and the housing market buoyant. Together with the addition of a major bank broker relationship, this supported strong premium growth in LMI.

Natural peril activity remained elevated, although not quite to the extent experienced in 2020. Nevertheless, catastrophe costs were once again above planned allowances with La Nina conditions contributing to a heightened frequency of flood and storm activity. Cyclone Seroja, the Victorian Earthquake and bushfires in Western Australia were also notable events in 2021.

## Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2021	EX-CTP/ COVID 2021	EX-COVID 2020	2019	2018
Gross written premium	US\$M	5,215	5,215	4,079	3,920	4,104
Gross earned premium	US\$M	4,730	4,731	3,985	3,885	4,103
Net earned premium	US\$M	3,900	4,265	3,626	3,568	3,758
Net incurred claims	US\$M	2,217	2,640	2,316	2,223	2,310
Net commission	US\$M	581	600	534	526	561
Expenses	US\$M	601	601	555	519	542
Underwriting result	US\$M	501	424	221	300	345
Net claims ratio	%	58.3	63.2	62.8	60.7	61.0
Net commission ratio	%	14.9	14.1	14.7	14.8	14.9
Expense ratio	%	15.4	14.1	15.3	14.5	14.4
Combined operating ratio	%	88.6	91.4	92.8	90.0	90.3
Statutory combined operating ratio	%	87.2	90.1	93.9	91.6	90.8
Insurance profit margin	%	13.4	10.4	6.9	13.6	13.3

<sup>1</sup> Excludes impact of changes in risk-free rates used to discount net outstanding claims.

## Operating and financial performance

### Underwriting performance

Australia Pacific reported a combined operating ratio of 91.4% compared with 92.8% in 2020. A further reduction in the ex-cat claims ratio coupled with efficiency gains more than offset adverse prior accident year claims development.

The current accident year combined operating ratio improved to 88.8% from 93.3% in the prior year.

LMI's combined operating ratio improved to 35.4% from 62.3% in 2020. Better than expected economic conditions, including low unemployment and strong house price appreciation, contributed to lower arrears and claims severity. The statutory result also included \$26 million of favourable COVID-19 related prior accident year development.

While the initial COVID-19 related business interruption test case ruling was favourable, the final cost will remain uncertain pending the outcome of the Federal Court appeal, clarity around the application of the ruling and any further avenues of appeal. Regardless of the eventual outcome, QBE remains comfortable with its net provision (inclusive of the related and substantial risk margin).



**Premium income**

Gross written premium increased 17% to \$5,215 million reflecting healthy premium rate increases across the majority of our portfolios coupled with improved retention and strong new business growth.

Excluding the structural moderation in CTP premium, underlying gross written premium growth was even stronger at 20%.

Renewal premium rate increases averaged 8.3%, up from 5.4% in 2020. Premium rate increases were particularly strong in strata, householders, liability, commercial property and engineering.

Premium rate momentum increased during the second half in response to ongoing catastrophe experience and the associated implications for reinsurance costs.

Premium retention improved to 87% from 86% in 2020 while new business increased 32% relative to the prior year.

Premium growth was broad-based with strong growth achieved in workers' compensation, LMI, commercial packages, farm, engineering, New Zealand, householders and private motor. This was moderated slightly by a modest reduction in CTP, personal accident and the Pacific, the latter due to subdued economic conditions.

LMI gross written premium increased by \$104 million, helped by expansion of a major bank relationship and increased market lending volumes driven by historically low interest rates and government stimulus. Despite the top line growth, LMI's net earned premium increased by only \$21 million due to the long-term earning pattern of the business and an increase in quota share reinsurance to 50% from 30% in 2020.

Net earned premium increased 8%, below top line growth and reflecting increased reinsurance costs, the LMI impact noted above and the delay in premium earning after an acceleration in written premium growth.

**Claims expense**

The net claims ratio increased to 63.2% from 62.8% in 2020, due to adverse prior accident year claims development which more than offset an improved ex-cat claims ratio and lower (albeit still elevated) catastrophe costs.

The ex-cat claims ratio improved to 54.2% from 56.6% in 2020, reflecting the benefit of premium rate increases in excess of inflation coupled with continued refinements to risk selection and claims management initiatives. These were partly offset by increased non-cat weather claims impacting householders and further premium rate reductions in CTP.

Catastrophe claims remained elevated at \$242 million or 5.7% of net earned premium, albeit down from 6.7% in 2020, which included the extreme and widespread bushfires on Australia's east coast.

Although down from the prior year, catastrophe claims exceeded Australia Pacific's increased catastrophe allowance primarily due to an increased frequency of storm and flood claims, consistent with the La Nina weather pattern.

Prior accident year claims development was \$111 million adverse or 2.6% of net earned premium compared with a favourable impact of 0.5% in 2020. This reflected significant strengthening in commercial liability as well as workers' compensation and New Zealand, partly offset by releases in CTP, LMI and credit & surety.

Our claims teams continue to adapt to mitigate the impact of inflationary pressures from border restrictions and supply chain disruption. Inflationary pressures in a number of short-tail classes were largely offset by some lock-down related frequency benefits in motor and CTP.

**Commission and expenses**

The combined commission and expense ratio improved to 28.2% from 30.0% in the prior year.

The net commission ratio reduced to 14.1% from 14.7% in 2020, reflecting business mix changes and additional commission income associated with increased LMI quota share reinsurance.

The expense ratio improved to 14.1% from 15.3% in the prior year, primarily due to positive operating leverage associated with premium growth coupled with disciplined cost containment.

**Average renewal premium rate increase**

**8.3%**

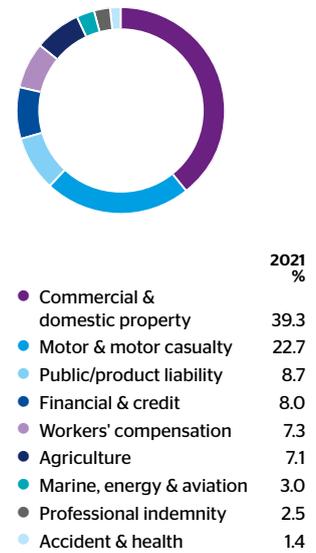
⬆️ 2.9% from 2020



**Gross written premium by segment**



**Gross written premium by class of business**



**Combined commission and expense ratio**

**28.2%**

⬇️ 1.8% from 2020

