International business review

Despite heightened catastrophe activity, International recorded a strong combined operating ratio of 90.6%. Focus remained on leveraging the favourable pricing backdrop to drive selective growth and strengthen our market position whilst further optimising returns.

Jason Harris • Chief Executive Officer • International

Gross written premium (US$M)

6,958

15% from 2020

Net earned premium (US$M)

5,545

11% from 2020

Combined operating ratio

90.6%

2020 91.3%

Underwriting result[1] (US$M)

522

103 from 2020

Insurance profit margin

12.9%

2020 5.5%

2021 overview

International delivered an excellent result in 2021, and enters the new year with strong fundamentals and significant momentum as a result of strong premium rates and growth in targeted lines.

Continued favourable pricing conditions coupled with a relentless focus on underwriting discipline contributed to another strong combined operating ratio despite significantly elevated catastrophe claims during the year.

Premium rate increases continued across all markets during 2021. Double digit rate increases prevailed across regional UK and London Market business while pricing momentum in European insurance increased as the year progressed. Although there are signs of a deceleration in certain areas of the portfolio, this is typically limited to classes that have benefitted from very material cumulative increases over recent years.

We are seeing increasing opportunities to grow in European insurance and targeted areas within casualty and specialty reinsurance. Maintaining underwriting discipline and utilising portfolio optimisation techniques remain key and we have curtailed plans for growth in lines where further rate increases are warranted with short-tail reinsurance lines being a pertinent example.

Operating and financial performance

Underwriting performance

International reported a combined operating ratio of 90.6% compared with 91.3% in 2020. The improved underwriting performance reflects favourable prior accident year claims development (relative to adverse development in 2020) which more than offset heightened catastrophe experience.

The improvement in underwriting profitability was broad based with International Markets, the UK, Continental Europe and Asia all recording an improved underwriting margin, while QBE Re was impacted by heightened catastrophe experience and adverse prior accident year claims development.

Excluding Asia, the combined operating ratio of our insurance business improved to 86.5% from 88.6% in 2020, while QBE Re's combined ratio increased to 98.7% from 96.4% in the prior year due to heightened catastrophe activity in both North America and Europe.

Profitability in our Asian business improved, delivering a combined operating ratio of 96.7% compared with 100.8% in 2020.

Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2021	EX-COVID 2021	EX-COVID 2020	2019	2018
Gross written premium	US$M	**6,962**	**6,958**	5,856	5,200	5,137
Gross earned premium	US$M	**6,480**	**6,476**	5,542	5,010	5,153
Net earned premium	US$M	**5,539**	**5,545**	4,812	4,339	4,463
Net incurred claims	US$M	**3,118**	**3,134**	3,106	2,918	2,811
Net commission	US$M	**978**	**980**	877	752	840
Expenses	US$M	**724**	**726**	655	652	657
Underwriting result	US$M	**719**	**704**	174	17	155
Net claims ratio	%	**59.6**	**59.8**	59.4	64.5	63.2
Net commission ratio	%	**17.6**	**17.7**	18.3	17.3	18.8
Expense ratio	%	**13.1**	**13.1**	13.6	15.0	14.7
Combined operating ratio	%	**90.3**	**90.6**	91.3	96.8	96.7
Statutory combined operating ratio	%	**87.0**	**87.3**	96.4	99.6	96.6
Insurance profit margin	%	**13.2**	**12.9**	5.5	7.9	N/A

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

Premium income

Gross written premium increased 15% to $6,958 million, reflecting the strong premium rate environment coupled with improved retention and strong new business growth which accelerated over the second half of the year.

Premium retention improved to 86% from 83% in 2020, while new business increased 10% relative to the prior year.

International achieved an average renewal premium rate increase of 10.2% compared with 12.8% in the prior year, including increases of 13.4% in International Markets and 10.5% in the UK. Although renewal rates are showing some signs of moderating, particularly in the London Market, rate increases remain well above inflation and portfolios that require further correction, such as financial lines and international liability, continue to attract strong rate increases.

Continental Europe is benefitting from rate acceleration, with an average renewal rate increase of 11.4% compared with 7.8% in 2020. Growth was achieved across targeted areas including property, financial lines and liability portfolios.

Premium pricing remains more subdued across reinsurance markets, with rate increases averaging 7.3%, broadly consistent with 2020. Growth was achieved in casualty and specialty lines across our London, New York, Bermuda and Dubai platforms, though we continue to maintain discipline in property classes where returns remain less compelling despite recent rate increases.

Asia has been challenged by the economic effects of COVID-19. Government restrictions impacted our travel insurance business and we have significantly reduced our trade credit exposure.

Strong growth in gross written premium is translating to momentum in net earned premium which increased 11% during the year. Growth in net earned premium is despite absorbing increased reinsurance costs including government reinsurance of trade credit insurance.

Claims expense

The net claims ratio increased to 59.8% from 59.4% in 2020.

The ex-cat claims ratio increased slightly to 53.1% from 52.8%, with the benefit of premium rate increases in excess of claims inflation more than offset by stronger IBNR assumptions in respect of long-tail classes.

Net catastrophe costs increased to $359 million or 6.5% of net earned premium compared with 4.3% in the prior year, and impacted both the primary and reinsurance businesses.

The heightened catastrophe experience reflected a number of large events, including Texas Winter Storm Uri in the first half, and Storm Bernd and Hurricane Ida in the second half of the year.

The result included positive prior accident year claims development of $66 million or 1.2% of net earned premium compared with 1.7% of adverse development in the prior year. This was primarily due to better than expected development in QBE Re casualty, property, UK motor, European liability and Asia, which more than offset further strengthening in financial lines and QBE Re North America.

The result included a risk margin charge of 0.4% of net earned premium compared with 0.6% in the prior year.

Claims settlement costs reduced to 1.8% of net earned premium from 2.0% in 2020.

Commission and expenses

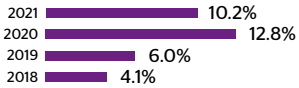
The net commission ratio reduced to 17.7% from 18.3% in 2020. This was largely due to the combined effect of profit commission revenue from reinsurers in International Markets and additional reinsurance on trade credit associated with government support initiatives.

The expense ratio improved to 13.1% from 13.6% in the prior year, due to ongoing positive operating leverage alongside disciplined expense management, which saw the increase in constant currency underwriting expense contained to 4% relative to premium growth of 15%.

Average renewal premium rate increase

10.2%

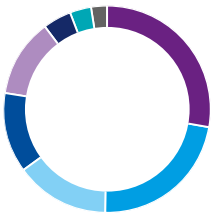
2.6% from 2020



Gross written premium by segment

	2021 %
International Markets	32.9
UK	24.1
QBE Re	22.5
Continental Europe	14.1
Asia	6.4

Gross written premium by class of business



	2021 %
Commercial & domestic property	27.9
Public/product liability	22.6
Marine, energy & aviation	14.6
Professional indemnity	12.6
Motor & motor casualty	12.2
Workers' compensation	4.5
Accident & health	3.3
Financial & credit and other	2.3

Combined commission and expense ratio

30.8%

1.1% from 2020