SUNCORP

ASX announcement

1 May 2019

Macquarie Conference presentation on Suncorp New Zealand

CEO Suncorp New Zealand, Paul Smeaton, is giving the attached presentation at the Macquarie Australia Investor Conference today.

For further information on the Suncorp Group please visit the website at www.suncorpgroup.com.au.

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Suncorp New Zealand

MACQUARIE CONFERENCE
1 MAY 2019

SUNCORP GROUP LIMITED
ABN 66 145 290 124

Good afternoon everyone and thank you for the opportunity to speak to you today.

Over the next 15-20 minutes I wanted to cover off 4 things about Suncorp New Zealand:

- who we are
- our recent performance
- the regulatory environment we face in New Zealand, and
- an update on our Strategy and Outlook.

Obviously, I am happy to take any questions at the end of the presentation.

Highlights

1. **Diversified** General Insurance and Life business with **prominent market positions** and **delivering strong returns**
2. **Established program** to address regulatory change
3. **Positive outlook** with **strong reinsurance protection** and clear strategies to **leverage key relationships** and **grow** our business

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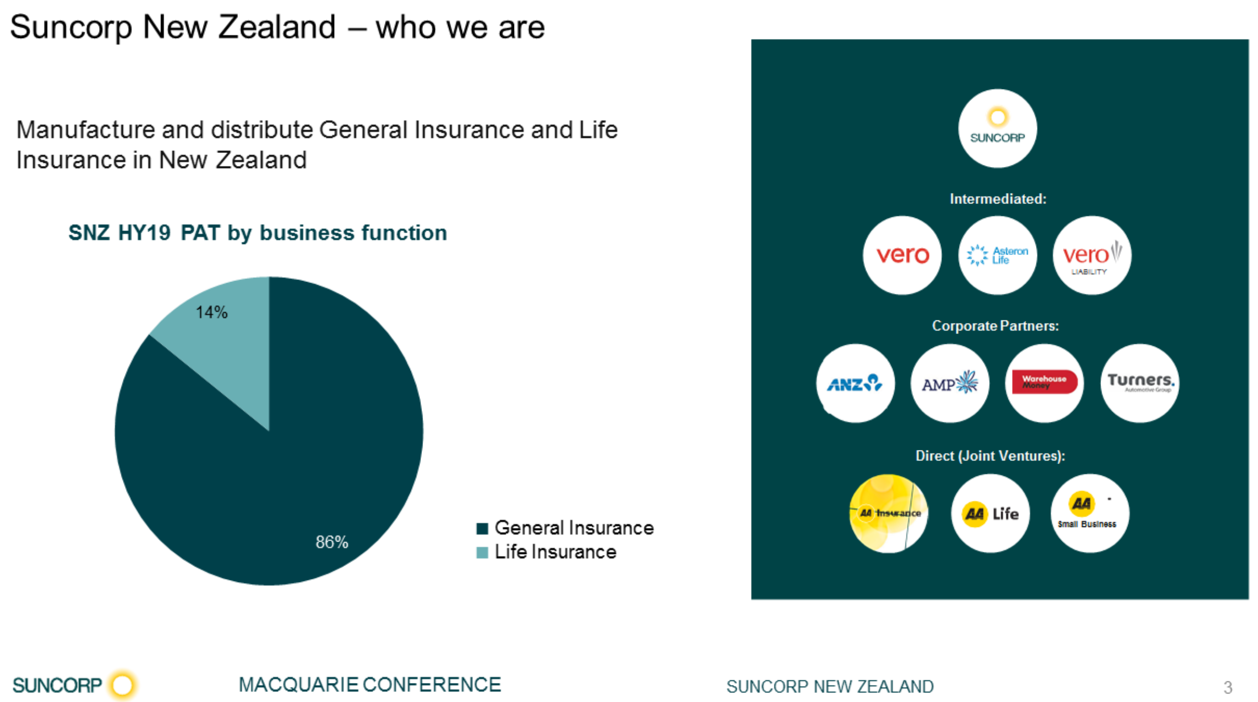
As a result of this presentation, the takeaway points that I hope you will gather are:

- We have a diversified General Insurance and Life business, with prominent market positions and delivering strong returns
- We have a well-established program to address regulatory change, and
- We hold a positive outlook with strong reinsurance protection and clear strategies to leverage key relationships and grow our business.



Suncorp New Zealand manufactures both general insurance and life products in New Zealand. We are the only insurer in New Zealand that does this.

We distribute our products through Intermediaries or Brokers, Corporate Partners and Direct.

On an Intermediary basis, we distribute our General Insurance products using the Vero and Vero Liability brands and for Life products we use Asteron.

On a Corporate Partner basis, we distribute our GI products through;

- AMP
- ANZ (largest bank in New Zealand)
- Turners (largest used car dealer network in NZ) and
- Warehouse (largest non-food retailer in NZ)

On a Direct basis we sell our products through;

- AA Insurance
- AA Life
- AA Small Business (our joint ventures with the New Zealand Automobile Association)

We employ around 1,000 people. We are located in 12 offices with our primary locations in Auckland, Wellington and Christchurch.

In terms of management, I report directly to Michael Cameron and I'm part of the Senior Leadership Team for the Suncorp Group.

I have end to end accountability for the Performance of the New Zealand business. I have an established leadership team with a similar structure to that of the Australian leadership team in that I have EGMs accountable for:

- Pricing and Underwriting

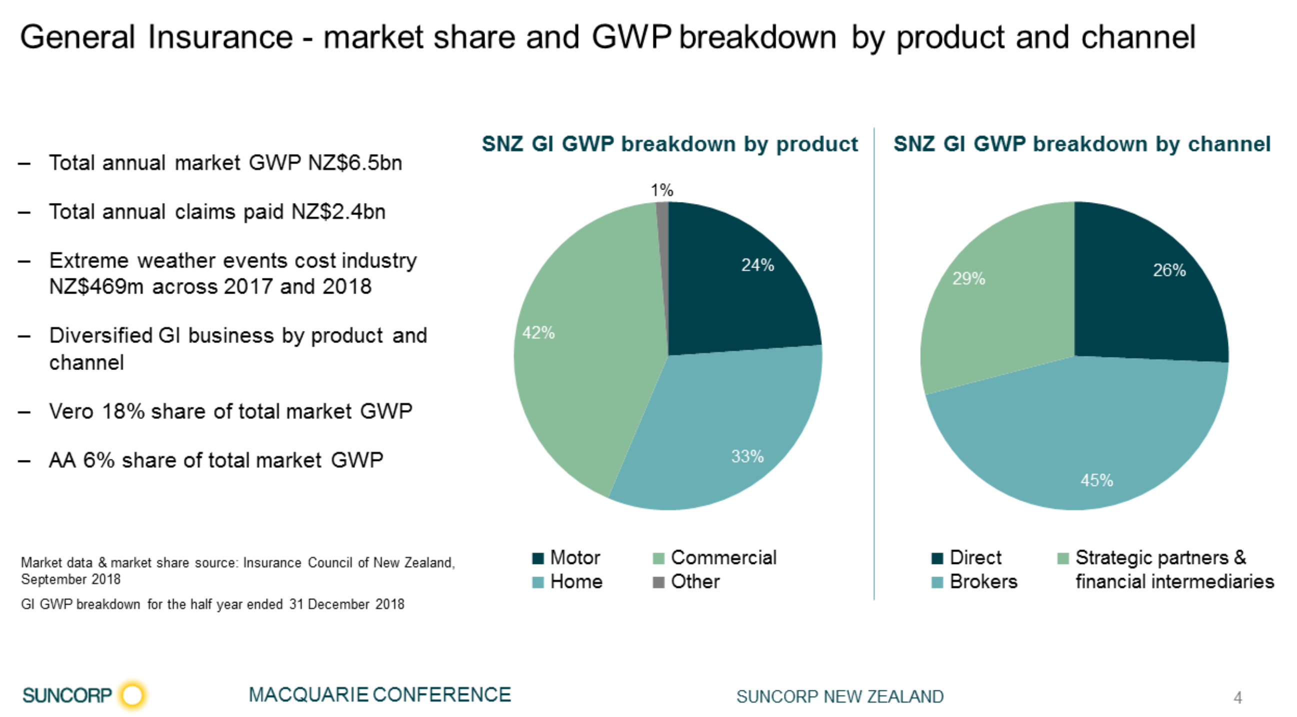
- Customer Marketplace
- Intermediated Distribution
- Claims

and the enabling functions:

- CFO
- Actuarial
- Risk
- People
- Technology

In terms of Governance, Suncorp NZ has its own Board structure which oversees the performance of all the New Zealand entities.

We are regulated by the Reserve Bank of New Zealand (RBNZ) for prudential supervision and the Financial Markets Authority (FMA) from a market conduct perspective.



Let’s now look at the markets we operate in and I’ll start with the general insurance market.

According to the Insurance Council of New Zealand (ICNZ) stats, the industry generates NZ$6.5bn in premium each year.

If we look at recent history, 2017 and 2018 were the two most expensive years for severe weather events since 1969. From a numbers perspective the industry paid out NZ$469m.

These two years were off the back of the November 2016 Kaikoura earthquake which cost insurers approximately NZ$2.1bn in claims.

These events, plus heightened claims inflation in home and motor, provides the context for the hardening pricing cycle that the New Zealand general insurance industry is experiencing.

System growth for FY18 was 9.5%.

Given that industry backdrop, Suncorp New Zealand’s general insurance GWP was NZ$1.54bn for the last financial year (FY18), giving us a 24% market share and making us the second largest general insurer in New Zealand behind IAG.

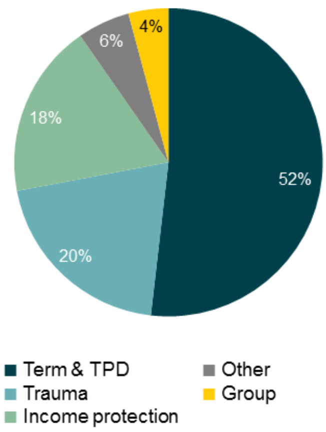
Our NZ$1.54bn of GWP is diversified across home, motor and commercial, as you can see on the slide.

You can also see the diversification of our distribution channels as well, noting the majority of our business is sourced via Intermediaries.

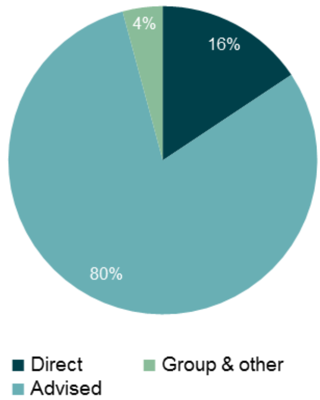
Life Insurance - market share and premium breakdown by product and channel

- Total market in-force premium NZ$2.5bn
- Total market new business of NZ$225m
- NZ$1.4bn in claims paid out in 2018
- Market share of in-force premium of 11%
- NZ life insurance market is experiencing period of consolidation

SNZ Life premium breakdown by product



SNZ Life premium breakdown by channel



Market data source: Financial Services Council, December 2018

Market share source: Melville Jessup Weaver, September 2018, excludes Group policies

Premium breakdown for the half year ended 31 December 2018

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Turning now to the life insurance market in New Zealand.

According to the Financial Services Council, total industry in-force premium was $2.5bn as at December 2018.

Claims paid out was approximately $1.4bn.

Total new business across the market was $225m.

The life insurance market is going through a period of consolidation and has seen a number of mergers (AIA with Sovereign, Cigna with One Path).

With that industry backdrop in mind, SNZ's Life risk in-force premium was NZ$257m for the last financial year (FY18), giving us a market share of approximately 11%.

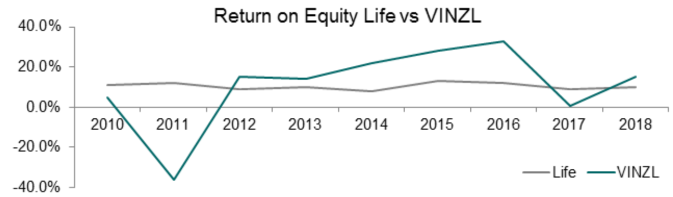
Similar to our GI business, our Life premium is made up of a diversified product portfolio, across term and TPD, trauma and income protection.

However, our distribution of Life products is heavily intermediated, with 80% of business going through our adviser channel.

Our Performance - SNZ HY19 financial results

- NZ NPAT $NZ120m, up 79.1% on pcp, driven by strong top-line growth and favourable natural hazards and working claims experience
- GWP up 8.2% driven by price increases across all portfolios supported by unit growth
- Net incurred claims down 2.3% on pcp, driven by favourable natural hazard experience and improved working claims

	HY19 (NZ$m)	HY18 (NZ$m)	Change (%)
Gross written premium	831	768	8.2
Net earned premium	693	616	12.5
Net incurred claims	(340)	(348)	(2.3)
Operating expenses	(217)	(199)	9.0
Investment income - insurance funds	7	7	-
Insurance trading result	143	76	88.2
General Insurance profit after tax	**103**	**50**	**106.0**
Life Insurance profit after tax	**17**	**17**	**-**
New Zealand profit after tax	**120**	**67**	**79.1**



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Turning to our latest financial performance for the half year ended 31 December 2018.

New Zealand profit after tax was NZ$120m, an increase of 79.1% on pcp.

Strong top-line growth combined with favourable natural hazards and working claims experience in the GI business, contributed to the strong result.

As at 31 December 2018, the general insurance business delivered a half year result with a profit after tax of $103m, up 106% on the pcp.

GWP grew by 8.2% to $831m, driven by premium increases across all portfolios and supported by unit growth across the direct business and intermediated channels.

Net incurred claims were $340m, down 2.3% on the pcp, driven by favourable natural hazard experience and improved working claims.

Operating expenses increased by 9%, driven by increases in total commissions paid as a function of strong premium growth.

Turning now to the performance of the Life business.

As at 31 December 2018, the New Zealand life insurance business delivered a half year result with a profit after tax of $17m, in line with the pcp.

In-force premium grew by 4% to $262m.

Planned margins were $17m, up 6.3% on the pcp driven by in-force growth.

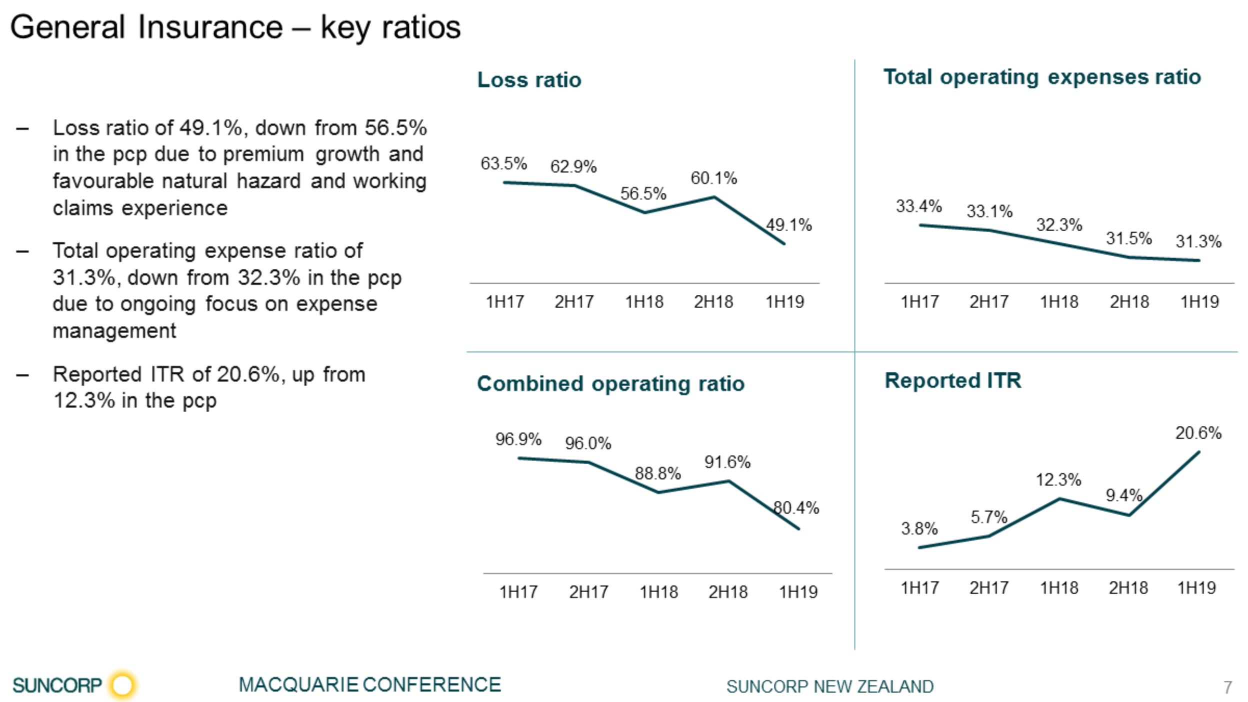
Claims experience reflected general volatility of claims.

Underlying profit increased 14.3% driven by continued growth of in-force premium and underlying investment performance.

What I would like to bring to your attention now is the ROE of each of the GI and Life businesses, and the clear diversification benefit of having a steady Life ROE, with the volatility of a GI business due to natural hazard events.

The Canterbury earthquake of 2010/11 and Kaikoura can clearly be seen in the ROE graph.

To give you a sense of the quality of the result, I'd now like to talk you through the key general insurance ratios that reflect the strong underlying performance of the business.



As you can see from the slide, all ratios are moving in the right direction.

Our loss ratio, expenses ratio and therefore our combined operating ratio are all down as a result of premium growth, favourable natural hazard and working claims experience and tight expense management.

A reported ITR of 20.6%, up from 12.3% in the pcp, highlights the quality of the result.

Regulatory Environment

- Significant amount of reform around conduct regulation, insurance contract law, financial advice, privacy law and the Fire and Emergency New Zealand funding regime
- FMA and RBNZ Life Insurer Conduct and Culture review findings released in January 2019
  - Each life insurer required to develop action plan to address feedback by 30 June 2019
  - Non-life insurers required to conduct similar review and develop action plan by 31 October 2019

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I'd now like to update you on the current regulatory environment in New Zealand.

I think it is fair to say, like Australia, we are experiencing a significant amount of regulatory reform including conduct regulation, insurance contract law, regulation of financial advice, privacy law and the Fire and Emergency New Zealand funding regime.

In the interest of time, I will focus on Conduct and Culture, given the backdrop of the recent Australian Royal Commission.

Between June and November 2018, the FMA and RBNZ undertook a conduct and culture review of 16 life insurers.

The review for us involved submitting documentation on our governance processes and procedures and was followed up by a series of interviews ranging from Board members to front line staff.

Their findings on the Life Industry were publicly released on 29 January 2019 with individual feedback letters received in February 2019.

They tabled 22 recommendations with areas for improvement including;

- Board ownership and accountability for conduct culture
- Oversight of Financial Advisors
- Product design
- Training
- Complaints process
- Staff incentives and Advisors remuneration (high upfront fees)

Whilst the regulators did find weaknesses, they did not find widespread cases of misconduct. However, there were several instances of poor conduct.

There were also a small number of cases of potential misconduct, that are now subject to investigations.

In response, by 30 June 2019, each life insurer will need to develop an action plan to address the FMA/RBNZ feedback and report on progress to address the issues. As a result, we have established a specific program of work, led by our Chief Risk Officer in New Zealand.

In addition, in March 2019 the RBNZ and FMA informed all non-life insurers that they should conduct a similar review of conduct risk and present the outcome of that review and mitigating actions to their respective Boards by 31 October 2019.

The government also intends to fast-track consumer protection measures in the financial sector with a public consultation paper scheduled to be released by May 2019.

Strategy

- Enabling a **customer-orientated culture** within our teams
- **Removing pain points** and facilitating easier **customer interactions**
- Creating more **value for customers**
- **Digitising connectivity** creating more value for our **corporate partners and intermediaries**
- Implementing recommendations of the **FMA and RBNZ Conduct and Culture Review**

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The strategy for Suncorp NZ is very much aligned with the Suncorp Group, including the priority to Elevate the Customer. Our main focus has been, and will continue to be:

Enabling a customer-oriented culture within our teams.

Making it easier for our customers to deal with us and removing pain points e.g. paper-based communications.

Creating more value for our customers. Recently we have launched AA Small Business Insurance and plan to launch AA Finance, which is a personal loan offering that we will be providing through the AA Direct channel.

We also will be creating more value for our corporate partners and intermediaries by digitising the connectivity. A focus for 2020 will be digitising the connectivity between Turners and ANZ.

Clearly implementing the recommendations of the FMA and RBNZ Conduct and Culture Review will be a focus for 2020.

Outlook

- Disciplined **portfolio management**
- **Hardening cycle** expected to **moderate**
- Return to **mid single digit GWP growth levels**
- Continue to **actively monitor our exposures** in high risk areas
- Remain comfortable with **our current reinsurance arrangements**
- **Life underlying profit** expected to be **maintained**, with **in-force premium growth at system**
- Continued momentum of the **Business Improvement Program**
- Committed to being an **insurer for all New Zealanders**

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Finally, to our outlook. If I reflect on the past 18 months, in response to significant natural hazard events and working claims inflation, we implemented some significant initiatives.

Firstly, we dialled back our corporate exposures in high risk areas by a minimum of 15%.

We also implemented price increases, excess changes and disciplined underwriting to bring portfolios back to profitability. Price increases for example range from low double digits to 30% plus increases on average in the Corporate portfolio.

These increases were supported by repricing activity across the market as part of the hardening cycle.

Today we are comfortable with the profitability of our portfolios and if we observe the ICNZ statistics on the market, combined operating ratios and loss ratios are in very good shape.

In terms of outlook, our view is that the hardening cycle will moderate. You could argue in some parts of the market, it has already started.

Our view therefore is GWP growth will return to mid-single digit levels as industry participants transition from rate driven growth to unit growth.

What is probably more of a focus is the growing emphasis by the industry on risk address-based pricing, specifically in high risk, natural hazard areas e.g. Wellington.

Unlike some participants who are either withdrawing or ceasing to grow in some of these areas, we remain committed to being an insurer for all New Zealanders (not just Auckland).

To allay any concerns with this strategy, we continue to actively monitor our exposure in these high-risk areas.

We are very comfortable with the headroom that we have with our current reinsurance arrangements.

In addition, we expect this headroom to increase as further risk transfers from private insurers to the government as the Earthquake Commission (EQC) cap moves from $100k to $150k effective 1 July 2019.

Having said that, if our market share in any of these high-risk areas gets to an uncomfortable or unstainable level, we will revisit our underwriting and/or pricing approaches.

At this point, we don’t expect the impending EQC changes at a customer premium level will have a material impact on our total GWP.

For the Life business, underlying profit levels are expected to be maintained with no significant movements in experience anticipated.

An ongoing focus on sustainable commissions, strong intermediary relationships and retention is expected to support continued in-force premium growth at system levels.

Suncorp New Zealand is also undertaking an independent Business Improvement Program. This program is a self-funded program i.e. benefits generated are reinvested to further implement subsequent initiatives to drive operational excellence.

These business improvement initiatives combined with disciplined portfolio management gives us confidence in the outlook for the business.

In conclusion, as a result of this presentation, hopefully you have a better understanding of our business in New Zealand and that you have taken away:

- we are a diversified GI and Life Business in NZ with prominent market positions and delivering strong returns
- we are well positioned to address the impending Conduct and Culture regulatory changes, and
- that we hold a positive outlook with strong reinsurance protection and clear strategies to leverage key relationships and grow our business.

Now Michael & I will take your questions on either Suncorp New Zealand or the broader group.

Questions

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