To view the presentation please click here.

Start of Q&A session

Kieren Chidgey, UBS, Analyst: Thanks, Steve. Kieren Chidgey, UBS. Just starting on the home and motor growth and margin outcomes, it seems like you might have restated some of the GWP growth or bases around those two portfolios. So just wondering if there was still volume growth under the prior disclosure basis around volume?

Related to that, you're saying you're targeting at least flat full year volumes in those portfolios and you're now in a position to balance price with volume better than I guess what you were in the first half. So, you know, are you suggesting as we go through second half, that you will pull back a bit on the volume and try and push prices a bit more actively than what you did in first half?

Steve Johnston, Group CEO: Yeah, look, let's deal with this question comprehensively so I'll start and then I might hand to Gary to supplement. We haven't restated anything is the first point to make. I think one of the emerging or the key factors that came out of the full year result was the focus on and the question marks around our ability to get market share momentum back into the business after almost a decade of declining market share.

Going into that discussion, I think we, as a team, fundamentally believed that it had more to do with the focus of our consumer book, the alignment of our brands, the effectiveness of our marketing and potentially some under investment in some of our brands.

So, we put virtual teams in place to facilitate better focus on our four key brands. We've made some incremental investments in marketing, I'll acknowledge that. Particularly into Apia. We've created end alignment right across the business irrespective of organisation structure to focus on it.

What you see in the results today - and we haven’t adjusted pricing. Now, the best place to see that is in the margin. I know that in the underlying ITR waterfall, there's been a small margin decline. But that's more around a little bit of movement in Commercial and CTP as opposed to in consumer which has been broadly flat over the period.

Now, in the context of how we've done that, I'll just make a couple of points. Our renewal book was significantly lower coming into this year from those market share declines over the past 12 to 18 months that we saw. So, we've had to pedal very hard to get new business in to get that aggregate unit position improvement.

The macro headwinds that we've pushed into are also significant. So new car sales, for example, have been down by 7% to 8%. Refinancing of home loans, credit growth has been significantly lower so the opportunity to aggregate your business growth across home has been lower than it has been in years past.

So, I think in the context of the headwinds that we pushed into, the aggregate outcome that we've achieved has been pretty good. We've demonstrated, I think, that we can reinstate growth in the portfolio. Now, from our position in terms of our strategy, we're not out there to grow significantly ahead of system in terms of home and motor.

I think now that we've got momentum back into the franchise, we can go back to that balance that we always have around maintaining - balancing out price and volume to get the best profile across our book. We recognise that there's a margin improvement that we need to push back into those home and motor portfolios.

So, I think from our perspective, the focus in the second half and going into FY21 will be to manage price and volume, to get aggregate improvement in margin and to land our book at around flat from a unit perspective.

If we can do better than that, that's great. But we don’t seek to grow ahead of system or multiples ahead of system. We recognise there's the margin story that needs to be rectified and needs to be addressed as we come through the next 12 to 18 months.

Gary, I might ask you just to supplement some of that.

Gary Dransfield, CEO Insurance (Australia): Thanks, Steve. So Kieren, I guess one of the other things to add is we don't operate in a competitive void. So where we had our pricing set coming out of the last financial year and into this one, and particularly on motor, as we've said in the past, we tend to see claims inflation a little bit earlier because of the model that we have and we've had with S.M.A.R.T.

We see the parts cost changes quicker. We see the labour cost changes quicker through that. We typically are ahead of the market in setting our prices for market in particular, but also to a degree with homes.

So, I think some of what Steve is talking about is a little bit of the market starting to catch up with where we had to get to. That's a factor in the depressed unit outcomes that you saw in the prior financial year, as well as the change that we're now seeing in execution capability with the virtual brand teams.

But I just think in timing terms, we had the prices set where they needed to be, particularly with motor to drive the margin expansion we needed to see and the markets catching up to where we are.

So, to the extent that gives us the opportunity to balance where we set price and market relative to competitors, we'll do that and we'll take the opportunity to get the margins set where they need to be and in particular, with home.

Steve Johnston, Group CEO: I think the other quick point to make, Kieren, in terms of the context of the numbers that are there is that we've, as flagged six months ago, we've been seeking to reprice our intermediated personal lines book. That has seen obviously in that market, growth fall away as we've repriced that book.

So, if you were to take that out of the home performance, the unit count improvement is around 1.7% and the written premium improvement is around 3.3%. The only other factor to make is that in home, across probably the last two months, we've embargoed out substantial parts of our book.

So, we haven't been in a position to take new business or to adjust premium throughout that period of time given the bushfire embargoes that have been in place. So, I think in aggregate, it's a very strong performance and again, as Gary mentioned, we've got flexibility now to start to really focus on the margin outcomes in that book.

Jeremy Robson, Group CFO: Steve, the other thing I'd add with home is that, as I flagged, we've seen some elevation in claims that flows through the margin on water and large fire, as also flagged as opportunity for us to improve those outcomes which also plays into margin as well.

Steve Johnston, Group CEO: Sorry, Kieren, you had another?

Kieren Chidgey, UBS, Analyst: Yeah, just a second question, rolling that discussion into the Group underlying ITR margin. If we're looking at fairly flattish outcomes there and I think Jeremy, you're flagging less of the reduction in some of those regulatory costs into next year than what you previously might have thought. Can you talk about this bridge back to an 12% underlying ITR? Or are you moving away from that medium-term target?

Steve Johnston, Group CEO: I think conceptually, and again, the issue of our targets and guidance, I mean we will consider all of that again alongside the capital position of the Group and the context of the planning round and I think it's appropriate to do that.

I still believe fundamentally at the highest level as a business, we should be targeting returns on capital above our cost of capital. When you aggregate that up through each of the businesses, that it dictates underlying ITRs of around 12% or maybe we could do that a little bit below that over time. But also, across the income ratio in the bank of around 50%.

Also, a Group cost base of around $2.7 billion. Now whichever way you cut the business, that's the aggregation that you need to - you know, some might be better than others. We will see over time, I'm confident, some relief from these regulatory costs as they come back to more BAU levels.

That's probably going to be not as steep a fall in '21 as we hoped but it will start to fall. I think from there, we'll return to more BA year levels. We are maintaining high level persistence operational uptime. So, we're mediating and repairing and providing maintenance on all our systems at a higher rate.

But again, on the flipside of all of that, we've got great opportunities now to reduce the cost base of the business even further. Focusing on all of the things BAU that we need to do. So again, I think the aspiration of the business still has to be in those metrics that we talked about.

Some of that will be helped by some of the pricing initiatives we need to take. Some of it will be helped if yields start to improve. Yields have been a big drag on that portfolio and some relief there would be appreciated as well.

So again, I think this is still a medium-term objective for the Group. I recognise that there's not going to be an FY20 and probably not an FY21 issue. But we'll have an opportunity later in the year to really run through that in detail with the market and get a sense of the timing and how we're going to remediate margin over the next few years.

Kieren Chidgey, UBS, Analyst: Thanks.

Matt Dunger, Bank of America, Analyst: Thanks, Steve. Matt Dunger from Bank of America. If I could just start on the capital position, you talked about the potential for further investment given this strong excess capital position you've got. How are you also considering that in the terms of the reinsurance renewal coming up? Will you look to renew reinsurance on similar terms? Or is there excess capital set aside for potentially taking more on your own book?

Steve Johnston, Group CEO: I'm going to be a little bit cautious about how I answer this given the high volume of reinsurers' partners that are sitting in the room. So, I don't necessarily want to flag anything particularly at this point in time. Other than to make the high-level observation that we have got capital. We've got a very strong balance sheet and we can deploy capital if we need to.

I think our general proposition is that with the weather outcomes that we've seen in the past 12 months, the insurance covers that we bought this year I think will serve the business very well. We recognise the process that we need to work through with our reinsurance partners around that renewal.

But certainly, going into the renewal with a very strong balance sheet I think is a better position for us to be in. So we can trade some of these things off over time. But I think, in aggregate, we'll be looking to make sure that we've got as much reduced P&L volatility as we can coming into FY21, given what we've seen in the weather this year.

Matt Dunger, Bank of America, Analyst: Thanks. If I can just turn to the bank, you talked about looking to improve the growth there. What sort of volume growth are you looking for in the bank longer term?

Steve Johnston, Group CEO: I think our aspiration on the bank really can be summed up by the three metrics that we talk to. Again, we haven't necessarily restated them - or the four metrics. We've restated one around our impairment through the cycle view. But my experience in the organisation over 14 years has told me that the most profitable position for our bank to run is at 1 to 1.5 times system. That's always been the nice, profitable part of the market that we should aspire to.

Now, I recognise that we're not there today. I'm going to be a little bit cautious about giving timelines around how quickly we can get back to that level. Simply because, as you know, we have 70% of our disbursements being originated through the broker channel. We've got work to do. We've got work to do to improve the processing times, to create the consistency, and to support the relationship we have with a smaller number of brokers. That is a relationship activity as much as anything else.

So, we need to embed the changes that we've made. We need to make sure that they're scalable, that our turnaround times can be maintained as we start to improve volume going through the book. We need to make sure that we win back the support of the broker community.

So, I know we're doing the right thing, but it's hard to predict how quickly we can get back to system and above system. But again the 1.3 times system, 1.5 times system, net interest margin within the range, we've got some headroom in that target range now, a cost income ratio around 50 and that impairment charge through the cycle five to 15, that's the way the bank is set up. We're out of the range in a few of those metrics, but that's where we aspire to be over the longer term.

Matt Dunger, Bank of America, Analyst: Thanks. Just if I can ask a final question. Given the lower returns environment, the aspiration to start growing the bank a little bit more strongly, is a payout ratio at the top end of the range a medium-term target, or should you be looking more towards the middle of that range?

Steve Johnston, Group CEO: The range is there to provide flexibility. Now, again, if I look at the investment profile, [as well as] Jeremy to top this up a bit if he chooses to, but I think over time a payout ratio of 60% to 80% makes sense. Because if we're getting our growth through its usual profile, which is through insurance and then bank in that order, then we certainly can aspire to payout 80% of our earnings.

I guess the one thing that we keep a close eye on is the franking credit balance. Our franking credit balance, obviously, has moved in a little bit over time. So obviously we'll keep a very close eye on that. But given what I can see in the investment profile of the business, given what I can see in the strength of the balance sheet, given the profile of growth that we see emerging through insurance, commercial insurance, CTP and then the bank, and the capital consumptive nature of each of those businesses from low to high, I think we can still continue to maintain that flexibility.

Typically, we'd pay out 70% at the half year, [unclear] it up to 80% at the full year. Given how strong the balance sheet is today and our outlook for the business, we were able to pay a little bit higher than that at the first half. But I still think that payout ratio is appropriate.

Jeremy Robson, Group CFO: Yes, I'll just add that the other thing that goes to supporting the 80% as still being appropriate is we're probably in a slower credit growth environment to when we first said it. Obviously, with a 1 to 1.5 times system range, that is good from that perspective. The other thing is having got rid of life, which was probably our most capital consumptive business, also gives us some more comfort around that range.

Steve Johnston, Group CEO: Okay, we might go to the phones now.

Operator: Thank you. The first phone question comes from Nigel Pittaway from Citigroup, please go ahead.

Nigel Pittaway, Citigroup, Analyst: Hi, guys. Just, first of all, coming back to this motor and home outlook. I mean six months ago you did say you were confident of 3% to 5% price increases on the motor and home book. Obviously, if we look at the AWP - and I appreciate there could be a bit of mix in that - but it's 2.6% and 1.4%. So, I mean can you comment about your ability to reprice moving forward, and whether you think there's any impediment to repricing for the sort of issues you've obviously had and held back prior to targeting unit growth?

Steve Johnston, Group CEO: Yes, again I'll give some high-level commentary. I might ask Gary if he wants to supplement it. I think if you look at the trade-off or the typical composition of written premium in this half, a combination of unit count and average written premium is probably not reflective of a go-forward position.

There's obviously a whole range of reasons why, when we talk about the percentage increases that we're putting through the portfolio, that doesn't necessarily translate percent for percent into average written premiums. We've had to bias a lot of our growth this year to new business, which is a reflection of the lower renewal book that was coming through from 12 months ago.

There's always a mix issue, a brand issue. So, some of our brands obviously have a higher average written premium relative to some of the smaller brands. So, the composition of the growth is important. Obviously in an environment where premiums are increasing, you often see customers taking higher excesses, which reduces the aggregate written premium growth but also, at the same time, improves your claims costs. So, there's a lot of factors working through that, in terms of how you translate written premiums through average written premium and unit count.

In terms of going forward, I think we're confident that we can make the necessary adjustments in those portfolios. Just in the sense of inflation that we see coming through the book, which is a key metric that you look at in terms of pricing. Inflation in motor is running I think for us around 3%, 3.5%, for the industry we think somewhere between 4% and 5%.

In home inflation is higher than 5%. The key variables there are the higher volumes. Not so much the average repair cost of water claims, but the higher volume or frequency of water claims across the book and some volatility in fire losses is driving the inflationary numbers in home slightly above 5%.

So, you can see that there is inflation embedded in both home and motor. So that has to be reflected. Again, the strong unit count performance we've had gives us a really good base to move forward and start to really focus on margin improvement. Gary, did you want to add anything?

Gary Dransfield, CEO Insurance (Australia): I think, Nigel, your question was around confidence as well going forward. Certainly, when we're putting out renewal notices throughout the course of this year and quoting new business prices, they are inclusive of the kind of price movements that we did talk about and guide to the last half.

As Steve said, and as you acknowledged, AWP and average price increases are not necessarily a good proxy for each other. That's perhaps been I think decoupled even more in the last half with some of the movements.

But I'm confident, given where you'd expect to see the competitors claims inflation pressures, that have all experienced the same natural hazard events as we have, that will all experience, perhaps to a greater degree because of their supply chain diminish scale relative to us, probably increased pressure that we will see, that they will be in a space that they'll have to move pricing. So it gives me some confidence that we can keep putting out the renewal notices that we do and the new business quotes that we do with those sorts of ranges we've talked about on pricing.

Steve Johnston, Group CEO: Nigel, anything more?

Nigel Pittaway, Citigroup, Analyst: Yes, you mentioned obviously bushfire embargos as being a headwind against unit growth. I mean how material do you think that was? Can you give us a flavour for how much you think that may have compressed your unit growth towards the latter part of the first half?

Steve Johnston, Group CEO: Look, I haven't necessarily done the mathematics right back through because it's a bit hard to do that given the nature of the way the sales activity occurs. But I think we had around 140 postcodes, Gary, across the country embargoed at particular points through December and somewhat into January.

Generally, in terms of in aggregate across the way insurance works, you find that given the national coverage of this horrific event, what it does is embed in our customers, and the community more generally, the value of the insurance product. We see that during the course of the events.

While they're problematic in terms of the financial costs and they're incredibly problematic in terms of the impact on property and lives and the emotional wellbeing of the community, they do go to the core of why insurance, as a product, is valuable and why people have seen the value in the product. That, I think, will continue as we work our way through the claims management process. So, I think that embeds it.

I couldn't precisely tell you what impact it has on unit count, but it will have had an impact on unit count, across the home book particularly.

Nigel Pittaway, Citigroup, Analyst: Okay. Maybe just finally, picking up on one of your comments you made earlier on reduced P&L volatility with the reinsurance renewal. I mean obviously this year you were able to take out volatility, and there's been a lot of events and you've not exceeded in any way your hazards allowance. I mean how much of a priority are you going to make volatility over everything else, in terms of paying out for reinsurance cover moving forward?

Steve Johnston, Group CEO: Again, I'm going to be very cautious, Nigel, because we're on the phone, but I've got a lot of reinsurers sitting in the room here. So, I think I'll just pause on that one. Other than to say reducing - I mean our investors have told us very clearly, over an extended period of time, that the less volatile we can make our P&L in this environment the better. We took that on board 12 months ago. I think we dealt with it as comprehensively as we could. It remains a priority for us.

How we deal with it. We've had a good long look at the options that sit there for us. There's a range of options that we can in terms of the traditional and the emerging reinsurance markets, how we might do that. But we're about

to embark on our renewals, so I'll just be a little bit cautious there about being too precise about how we're going to go and approach it.

Nigel Pittaway, Citigroup, Analyst: Okay, thank you.

Operator: Thank you. Once again, for the phones parties to register a question, please press star one on your phone. The next question comes from Andrei Stadnik from Morgan Stanley, please go ahead.

Andrei Stadnik, Morgan Stanley, Analyst: Yes, good morning. I'd like to ask a couple of questions. The first one on the insurance side. Just thinking about the water leakage claim frequency increasing, and this seems to have coincided with dry weather driving some cracks in buildings, and just some greater public awareness of building construction standards in Australia, what can Suncorp do to prevent some of these claims emerging, and also to reduce some of the claims handling costs?

Steve Johnston, Group CEO: Yes, look I think there's a range of factors that we have identified as contributing to this issue, and I've talked about them. We've talked about them extensively in the market over time.

We are now using AI to interrogate the claims lodgement processes and understand the causal factors for Home clients' issues, particularly when they relate to water. As you know, we triage our incoming claims that are water-related, non-hazard water-related, and have done, I think, a really good job now in terms of making sure that we've got as efficient approach as we can to deal with those claims discreetly from the larger working book. I think that's helping keep the average claims cost down.

In terms of frequency, the AI that we use and apply to it really does come back to the nature of house today relative to those of 10 years ago, the open-plan nature of them. That's probably the eighth largest causal factor in terms of a home claim. The second or third largest causal factor for a home claim is the prevalence of timber right across the property. The interaction between timber flooring and water damage is - obviously significantly increases the cost of the claim. The piping issues, and the prevalence of failure of piping now, 10 to 15 years into the emergence of flexible pricing, that's another causal factor.

So, I think we're moving from an environment where we're focused on - these are industry issues, so we've got to make sure that we can get our claims management process so that we can keep our average claims costs flat, and we've done that. Now we may well move into underwriting type areas, so getting a better understanding on the origination of the policy and the writing of the premium, what's the nature of the house. How open-plan it might be, what the flooring might look like, what the piping quality might be, et cetera et cetera. Now, we can do that either through the origination process, or we can use AI and other means to do that.

Then over time, I think using technology more generally to put it in the hands of the customer the opportunity to be more diagnostic around the nature of water in their home and educating customers to a larger extent.

There's a range of things that are going through us. Again, I make the point, average claims, claims cost flattened out, which means our processes are working, with frequency increasing, which is an absolute frequency, but also the mix in our book is now more biased and aggregate to higher-cost water claims.

Andrei Stadnik, Morgan Stanley, Analyst: Thanks, so much for the detail. Look, my second question, I just want to ask about the bank. The margin was very strong, up two basis points half-on-half, particularly these rare rate cuts that we've seen. I just want to check two parts on this. Firstly, how much benefit did you see in this 1H20 from pulling back on mortgage growth and paying low incentives to mortgage brokers? Then secondly, thinking about the next 12 months and lower [unclear] portfolio returns that are being locked in across many of your peers, what kind of headwinds you would be expecting, just from the [unclear] portfolio coming down on the back of the RBA rate cut?

Steve Johnston, Group CEO: I'm going to ask Bruce to come up and to address on those questions. Other than to make the - I do recognise that - well I think, the margin improvement is a very big highlight in the result, in the context of what you will be seeing I think, from most of the banks that are reporting. I don't resolve from the fact that we're not growing the asset side of the balance sheet has been helpful to that, but and I also don't resolve from the fact that in a low-rate environment there's been an opportunity for people to refinance or move out of term

deposits into lower-cost transaction accounts, given the differential isn't anywhere near as great as it might be in a higher interest rate environment. They're two things that have supported that.

We have done a great job on the liability side, and Bruce has been fundamental for that, to improve the quality of our liability mix, and particularly the emergence of digital. So, Bruce, I might get you to talk through that, and what you see as the headwinds going into the second half and FY21.

Bruce Rush, Acting CEO Banking & Wealth: Thanks, Steve. Look, I think from a margin perspective we've seen a change in the mix on the liability side. Probably the key point is if you unpack the customer deposit portfolio about - just under two-thirds of that portfolio is now at-call. That's up from just over half in the prior comparable period.

Of course, our at-call portfolio is at a lower marginal cost, so the growth that we've seen come through has certainly given us some benefit. That growth has been driven by a very targeted digital campaign, supported as well by the work that Lisa's team have done on the marketing side. I think it's a combination of a really strong digital capability, good marketing, has driven an uplift in our at-call deposits.

The final point, just on the liability side of course, our Treasury team has executed very well our wholesale funding plan, which has given us an uplift. If the lending growth had been a bit quicker, our - that uplift in margin probably would have been more nuanced. Okay?

Andrei Stadnik, Morgan Stanley, Analyst: Thank you.

Operator: Thank you. The next question comes from Ashley Dalziell from Goldman Sachs. Please go ahead.

Ashely Dalziell, Goldman Sachs, Analyst: Thanks, and good morning guys. I was hoping you might be able to give us a bit more colour on the trajectory on the reg and compliance cost budget in 2021, and I guess the reduced confidence of the drop away there.

Look, has there been any additional projects to emerge through the half that weren't factored into the outlook back at the last results, or is the reduced confidence just a function of some overruns on existing projects, maybe some legislative delays et cetera?

Steve Johnston, Group CEO: Last year I made a comment in more detail, but one of the factors that we have been - while we are trying to move ahead with as much of the regulatory program as we can, absent the passage of the legislation or the amendment of the legislation, some of it was very immature in its development six to 12 months ago. So, I think it is prudent for us in some areas of the regulatory programs for us to await regulatory guidance to avoid inefficiency in terms of how we may well execute the program over time. That has been a factor.

There has been some new projects that have emerged as inevitably would be the case, on the way through which will probably reduce I think the gradient of the fall-off in the cost from FY20 to - it will still fall off and I think it will pass to a trajectory back to a more BAU level, higher than it might have been pre the Royal Commission but certainly a more sustainable BAU level. Jeremy, you might like to talk to the detail.

Jeremy Robson, Group CFO: Yes. I think the issue for us as been, as Steve said, as we started the outlook for this year, a lot of that regulation wasn't particularly clear and in fact, we're still just getting new - obviously, the regulation landing now. An omnibus came out a couple of weeks ago that will provide some clarity. I think a large point has been we're trying to make an estimate without a particularly precise view around what the regulation was going to be as opposed to - there have been a couple of things that have changed, but as opposed to that particular change.

The point I would make is that our outlook for reg cost this year, as I said, on the project slate is $155 million. We had called out that would go down to $100 million in FY21 and then down beyond that. At this stage, we're still getting regulatory changes coming through. We don't expect it to drop off from the $155 million to $100 million, be somewhere between the two, but we still expect it to drop off beyond '21, so it's a one-year temporal difference in terms of that extension of what we expected the reduction to be.

Ashely Dalziell, Goldman Sachs, Analyst: Okay. Thanks for the detail. Just my final question on the strategic review of wealth. Just wondering if you can elaborate on that at all, maybe to the extent that how long you think the review might take, some of the potential options that you're looking at there?

Steve Johnston, Group CEO: Yes. I think, Ash, it's unsurprising that as you look through the investor pack that we would be post the Royal Commission subjecting that business to a broader strategic review. There's a number of factors we need to take into account, but the absolutely fundamental overriding principle of any review has to be to operate, make sure we continue to operate in the best interests of the policyholders. That's the fundamental objective of the review. I guess we're challenging ourselves as to whether or not that can be most efficiently achieved in our ownership of the business or in the ownership of someone else. Again, given the nature of the emergence of profit in that business, it is less of a shareholder issue and more of a policyholder issue.

In terms of the pace, we're moving at pace, obviously. We've got a trustee board that we interact with and talk to about all of these things and we'll seek to - we are expediting it and we'll seek to conclude it as quickly as we can.

Ashely Dalziell, Goldman Sachs, Analyst: Thank you.

Operator: Thank you. The next question comes from Siddharth Parameswaran from JPMorgan. Please go ahead.

Siddharth Parameswaran, JPMorgan, Analyst: Good morning, gentlemen. A couple of questions, if I can, firstly just on volumes. Some of the recovery that we've seen in motor and home, I just wanted to get an idea where that's coming from. I noticed through the presentation you mention that you've had very strong growth in digital. I was hoping you could just comment on which brand is doing well, has there been a change in your marketing strategy around digital and also just if there's any change in terms of just the trends by state?

Steve Johnston, Group CEO: Well, I'll get Gary to come up and he can go into some more fulsome detail. We have made - and you would have seen, if you lived in Queensland particularly - some obviously changes to our marketing strategies and tactical execution on our advertising campaign. Our first slide had Johnathan Thurston there; he's been very effective for us in driving increased consideration across the portfolio. The guy that was standing next to him on the front wasn't Gary, it was one of our claims managers, but Gary, you might like to give a bit more detail.

Gary Dransfield, CEO Insurance (Australia): He was wearing the team summer beard, though. Sid, I guess if I split motor and home and then get into brands and states. Generically across them though, before splitting, as Steve said, one of the changes in marketing was clearly a move away from investing in the Suncorp brand up and down the full eastern seaboard for the communication are broadly a marketplace strategy and the refocus of that investment into Queensland. So, we've seen that pay obvious dividends in terms of growth in motor and home in the Suncorp brand in Queensland.

AAMI nationally for home insurance, and I think it might have been picked up in a footnote to one of the slides has grown substantially relative to prior growth rates, particularly through digital and I think that was the footnote, the significant growth in AAMI home digitally. That's a consequence of work that has been done by the digital team to improve the customer experience through the funnel, the digital funnel. Home is a bit harder to buy digitally than motor; there are more questions involved and a bit more complexity with home than motor and I think the team has done a great job in digital to make it easier. I think home now for AAMI digital is starting to approach the levels that AAMI motor digital has been at.

Steve referenced the decline in Vero broker, and that's probably more pronounced in home than motor because in the broker it does tend to be more home dominated than motor. That partly plays through those premium dynamics, so when you say dropping 5000 or 10,000 Vero broker home units, it might average $1000 to $1500 but be losing money and we're pricing very deliberately to restore margin on those. They're replaced by say a Terri Scheer and Terri Scheer as a brand has performed really well in the investor market. That's a $300, $400 average premium.

So, motor units, strong performance from Suncorp obviously in Queensland. We've seen a continuing strong performance from Shannons in both motor and home, and that's national for Shannons. AAMI is doing well in WA

for motor and home, and that's great because we haven't invested heavily to drive that. I think it's just seen to be a differentiated brand in that market. GIO, starting to pick up pace predominantly in New South Wales on motor and home but we'd still like to see it do more. AAMI home, as I said, nationally; Terri Scheer picking up units, and that offset to Vero broker.

Siddharth Parameswaran, JPMorgan, Analyst: Okay, thank you for that. That's quite comprehensive. I just had a question on margins as well, on the general insurance side. The claims handling expense, in your calculation of the underlying margin you flagged that those had increased quite materially, I think were for that point 6% to your margins. I'm just wondering, will that unwind once the bushfires and all these events actually wash through, or should we take that as a permanent rebase?

Jeremy Robson, Group CFO: So, Sid, two components to that in the margin, and they're sort of about 50-50. The first component is that natural hazard-related item which theoretically could - we'll see some unwind on that in the second half, so that's right. Then the other half is just an increase in regulatory and other expenses that get allocated into [unclear], which wouldn't necessarily reverse in the second half. I think half of it would go into that space but the other half is more into the cost base.

Siddharth Parameswaran, JPMorgan, Analyst: Okay. Then just on Commercial margins, we've seen - you mentioned some pressures there. Could you just comment on what we are seeing there and whether the rate increases that you're getting are enough to offset what you think is happening with underlying inflation?

Steve Johnston, Group CEO: Yes. I'll answer and Jeremy can pick it up in terms of the waterfall. Look, I think firstly my reflection is that the leadership that we're provided in terms of pricing in Commercial lines as we've sought to restore margins from low single-digit to within our target profitability range has been very successful in terms of that. So, there has been I think some small underlying margin deterioration in this half, which is a lot to do with the way that we allocate the natural hazard, increased natural hazard cost and the increased reinsurance expense.

What it does say is that we need to continue to focus on that pricing to consolidate margins within that target profitability range and we're very confident that we can do that. We've seen that continue to come through all of our renewal pricing through 31 December continuing through into January, albeit that there's a small book of premium that renews in January and February, but the momentum is still there. In talking to our key broker partners over the past six months, (a) there's a recognition of our leadership and (b) there's a recognition that others are behind us. So, we think there's still more room to push into that space to entrench profitability where it needs to be from a target margin perspective. Jeremy.

Jeremy Robson, Group CFO: The other key piece in there was in the second half of last year we saw current year improvement in some of the claims outcomes in Commercial. So, what we've seen is we've seen over a period of time now an underlying strengthening, very strong strengthening in that - if that's a word - in the Commercial underlying margins, but when you look at the - as we've compared the underlying ITR, the first half of this year compared to second half last year, there's just some of that normal volatility in current year numbers playing through in the second half. But if you look through the trajectory and where the underlying margin is on Commercial, we're pretty comfortable where we've got that to; we need to hold it there.

Steve Johnston, Group CEO: Thanks, Sid.

Siddharth Parameswaran, JPMorgan, Analyst: Thank you.

Steve Johnston, Group CEO: Anything else on the phone? Otherwise we'll come back to the room.

Operator: Thank you. The next phone question comes from Chris Cahill from Quest Asset Partners. Please go ahead.

Chris Cahill, Quest Asset Partners, Analyst: Steve, two quick ones. Are you able to estimate the percentage of homes lost on the east coast that are actually uninsured? Secondly, at the beginning of your address you alluded to a prevention strategy. Is that getting any hearing in Canberra or are they now distracted by the inevitable enquiries post the fires?

Steve Johnston, Group CEO: On the first one, Chris, I don't have any sense of it. Soon after the tragic fires, of the first set of fires before Christmas that went through a place called Balmoral Village, we went for a visit out there just soon after the event and as we were driving along, we were a little bit late - a little bit early for a meeting with one of our customers who'd obviously lost their home, and so I saw a gentleman down picking amongst the rubble of his home and asked him whether or not he had insurance, commiserated with him on what he was finding. He said no, I don't, and I said you know what was the - why wasn't that the case that you took out insurance.

He said well, two things. One is obviously we're balancing our home budget, but it was less of that and more of the fact that I thought that my home was resilient enough to be able to handle it. In other words, I'd built the best home I could with the best structure I could, with the best windows I could, but I didn't realise the extent or the nature of how the three fire fronts could engulf my property so quickly and I also didn't recognise the fact that at a time like that my absolute overarching priority was to get my family out and not be there to protect my home.

So, I suspect there'll be quite a number of cases that fall into that category. I suspect there will be a level of non-insurance in many of these areas, and I certainly think there will be underinsurance and people who have bought properties, calibrated their sums insured based on what they thought to be the cost of rebuild, but that cost of rebuild when they actually go through the process of dealing with the local authority around the new ratings for the property, the amount of money that will be in that process will be significantly below what the cost of the rebuild will be. Again, just the education piece that flows out of these events is to say that make sure your sums insured are updated, make sure you've got the best cover and Gary often says, no two home insurance policies are the same. Look at the debris removal issue, in our - in some insured, we load up the debris removal issue to 10%. So we accommodate that without deteriorating the sum insured. Others don’t do that.

So, I think there will be - I can’t tell you how much but I’m certain there will be non-insurance and I’m absolutely certain there will be under insurance emerging from these events.

In terms of Canberra, look, I mean we’ve just got to keep pushing this argument. We’ve just got to keep using whatever opportunity we can to argue the case that we have an opportunity here to improve the resilience of our communities and to improve the quality of our private infrastructure.

The irony is, you can get a subsidy to put a solar panel on your roof but you can’t get a subsidy to batten that roof down to make it protected against a category four or five cyclone. So, there’s a group of people that in good faith have built homes and in good faith are living in areas where we put them in harm’s way. Planning laws have put them in harm’s way.

It is absolutely the time now to focus on a program to improve that and it’s nation building. It's stimulatory. So, I think they’re the sorts of things we’re arguing. Whether people are listening or not, I think if one thing comes out of a horrible situation, it is that we can get this dialogue around resilience and mitigation on the public policy agenda ahead of the budget and so that we can get some traction.

Chris Cahill, Quest Asset Partners, Analyst: Thanks Steve.

Steve Johnston, Group CEO: Okay, so we’re going to go into the room because Mr Le Mesurier is looking at me with a desire to ask a question.

Brett Le Mesurier, Shaw and Partners, Analyst: Thanks Steve, Brett Le Mesurier from Shaw and Partners. Two questions, firstly following through on what you were saying before, is Suncorp looking at changing its underwriting approach on home insurance and requiring, or thinking about requiring for example greater asset protection zones around property?

Secondly, totally unrelated to that, on Commercial, what was the average rate increase in Commercial and what was the range between classes? Which ones had the highest increases and which had the lowest?

Steve Johnston, Group CEO: Sure, well I’ll answer the second one. I might get Gary to wander up and deal with the first one. In terms of Commercial, very much by class of business. So, in the SME book, the increases that are going through there are in the - reasonably similar to the personal loans book, given the nature of the SME package portfolio, sort of 3% to 5%.

Mid-market pricing increases have typically been in the mid to high single digits, depending on whether it's loss-affected or not. So, some of the loss-affected mid-market type renewals are pushing into the low double-digit category. The small book we've got in the residual top end property market, we've got a very small exposure there but the increases there can be above that again.

So depending on how you look at the blend of all of that, if you were to look at the reported actuals in terms of premium growth in Commercial and then adjust it for the portfolio exits and portfolios that we've taken out of the book and true it up like for like, the growth in the portfolio has been 7.5% or thereabouts. That's, I think, a pretty good outcome given where we've needed to get that margin to. Gary, on the first one?

Gary Dransfield, CEO Insurance (Australia): Yes, on the first question, Brett. Today we send the price signal or the risk signal through pricing. So, our rating is very granular and at an address level for proximity to bushland and even to large trees which as you know, is a bushfire risk as well as a windstorm and rainstorm risk to a home.

So, the question for us is, do we move from sending the signal through pricing to - through risk selection and whether we're prepared to actually take on the risk proximate to bushland.

I think that's something that the industry is going to have to progress with some pace through the process of the enquiries that will occur for both New South Wales and Victoria as well as federally but we haven't yet grappled with whether we're prepared to, in effect, redline proximity to bushland risk. Today we're sending that signal through what are some reasonably stiff prices in highly bushfire-prone areas.

Steve Johnston, Group CEO: Gary, by the way, is the president of the ICA so he not only talks on behalf of our company, he talks on behalf of the industry in a lot of things that he's doing. Okay, any other questions in the room? We'll go back to the phone. I think there's a couple more questions there.

Operator: Thank you. The next phone question comes from Hamish Carlisle from Merlon Capital. Please go ahead.

Steve Johnston: Hi Hamish.

Hamish Carlisle, Merlon Capital Partners, Analyst: Hi guys. I just wondered if you could clarify where you're at in terms of potential remediation cost within the Australian Wealth business in light of the showing] at the Royal Commission? Particularly whether you've made any provisions, how far through the process you are in terms of looking at that and then related, could you comment on the extent of indemnities that you've provided to Tower with regard to the businesses you've sold? I suppose related to those two, whether these aspects are playing into your commentary around delaying any capital management until post the planning process.

Steve Johnston, Group CEO: Okay, I'll start the last one, no and the first one. So no. Look, nothing - I'm just looking for some flexibility in terms of the capital piece. I think it's appropriate to consider the capital alongside the three-year plan. It's nothing else to be read into that. I'm generally comfortable with the business and the way it's performing. There is no secret or hidden reason for that.

On the first one, Hamish, at the fully year we provided for our best estimate of what the costs of the customer remediation activities broadly defined but inclusive of the Royal Commission work. That was a number of $60 million that we provided for at the full year last year.

We're very comfortable that what we're seeing is emerging in - is consistent with that provision and we're continuing to work through that program of work. In terms of the indemnities for the sale of the Life business, Jeremy? Did you?

Jeremy Robson, Group CFO: Yes, I mean obviously we've - there are indemnities involved in that. We've got a – A note in the accounts around it and we've again made some improvement assessment as to what we think those may end up costing us but yes, we've done that, it's certainly not something that's driving any of you around what might impact on capital going forwards.

Steve Johnston, Group CEO: Anything else, Hamish?

Hamish Carlisle, Merlon Capital Partners, Analyst: Can you comment on how significant those indemnities are? Are they hundreds? Hundreds of millions and where does it stop?

Jeremy Robson, Group CFO: Well there's a range of them and obviously some of those are commercially sensitive between ourselves and Tower but as I said, we feel pretty comfortable around the provisioning we've got on those as part of the sale proceeds so we feel, put the surplus cover to one side, we feel comfortable around where those indemnities are.

Steve Johnston, Group CEO: There's nothing unusual there, Hamish, in terms of the range of the indemnities, what we're seeking to cover, the normal indemnities you would provide to a counter party in the context of a transaction of that nature. Both in terms of the extent of the indemnities and the value attached to them that are not unusual.

Jeremy Robson, Group CFO: The term too. They've got limited terms on them that over the next period will come to an end anyway so they're all term based.

Hamish Carlisle, Merlon Capital Partners, Analyst: Okay, thanks guys.

Steve Johnston, Group CEO: Another question on the phones before we conclude?

Operator: Thank you, the last phone question comes from TS Lim from Bell Potter Securities. Please go ahead.

TS Lim, Bell Potter Securities, Analyst: Oh, hi guys. Banking gee it's tough for you. The cash profit is the lowest in the last 11 halves so is there any point in pulling onto the bank?

Steve Johnston, Group CEO: Oh TS, I'm missing not having you in the audience to ask that question and I do acknowledge your long-term interest in this topic and your analysis. Look, I - nothing has changed in our thinking around the bank. It is core and strategically important.

We recognise the headwinds; we recognise that it's tough for regional banks particularly. We recognise tough for banks generally and both the low interest rate environment and post with the range of regulatory costs that are coming through.

I think we're different from - I believe we're different from our regional bank competitors insomuch as we benefit from the strength of the Group. Our bank benefits from the strength of the Group.

We've got an A plus rating that's defined by that and some of you will have seen S&P's recent announcements that our bank has been put on positive outlook at A plus rating, underscoring how strong the bank is and how strong the bank is sitting inside the Group.

I don't walk away from the fact that things are tough. I don't walk away from the fact that we have had some missteps in terms of some of the things we've done. Particularly on the broker side but I know we've got a program of work in place to address it.

It will take some time, but I know we've got a program in work that will get momentum back into the balance sheet. So, I think on that score, I think all we can do is deal with what's in front of us and do it as efficiently and effectively as we can.

I think over time, I think we still - all regional banks, as you know very well, still play on this uneven playing field. That the capital charge that applies to a vanilla mortgage in Australia for us is different to what it is for a major bank. So over time, that has to be addressed and I'm confident it will be addressed and that will require change in terms of a whole range of things that I think over time will be a tail wind for us but is a bit down the track.

I'm very confident in the bank. We've got a new CEO coming into the bank. She brings a huge amount of energy. You've seen what we've done on digital. She will help the team build on that and I think - I'm hopeful that we will report better outcomes and come off the bottom of that analysis that you've done through to the full year and beyond.

TS Lim, Bell Potter Securities, Analyst: Okay, thank you. Thank you.

Steve Johnston, Group CEO: Okay, I think we're done so thank you very much for coming along and as we said, we'll have further discussions with many of you over the course of the day and the weeks ahead. Thank you for coming along and have a good day.

End of Transcript