SUNCORP METWAY LTD

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Australian General Insurance Forum

Sydney
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Briefing Outline

• Part One: New era or a false dawn in general insurance?

• Part Two: Suncorp/GIO’s competitive position
Factors impacting industry

- Industry consolidation
- NRMA demutualisation
- New APRA requirements
- The HIH Saga
- Declining investment returns
- Rising prices
- Legislative changes
## Industry Consolidation

### Premium share (GWP): Top 15 private sector direct underwriters

<table>
<thead>
<tr>
<th>Year</th>
<th>Top 15</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>56%</td>
<td>44%</td>
</tr>
<tr>
<td>1987</td>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>2001</td>
<td>89%</td>
<td>11%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Industry Total GWP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>$1.7b</td>
</tr>
<tr>
<td>1987</td>
<td>$4.6b</td>
</tr>
<tr>
<td>2001</td>
<td>$15.2b</td>
</tr>
</tbody>
</table>

Source: APRA, Deloitte Trowbridge
NRMA demutualisation

- NRMA as a mutual was not driven to maximise returns to members
- Traditionally reported underwriting losses, relied on surplus capital and investment returns
- Demutualisation imposed new disciplines. Commenced risk-based pricing to drive ROE
- Producing underwriting profits

<table>
<thead>
<tr>
<th>Year</th>
<th>Underwriting Result ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>95</td>
<td>-385</td>
</tr>
<tr>
<td>96</td>
<td>-297</td>
</tr>
<tr>
<td>97</td>
<td>-165</td>
</tr>
<tr>
<td>98</td>
<td>-173</td>
</tr>
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<td>99</td>
<td>-151</td>
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<tr>
<td>00</td>
<td>-178</td>
</tr>
<tr>
<td>01</td>
<td>-22</td>
</tr>
<tr>
<td>02</td>
<td>142</td>
</tr>
</tbody>
</table>
New APRA Requirements

The new requirements are very substantial -

• risk based capital
• prudential margins
• solvency measures
• corporate governance
• risk management

Risk of failure now extremely low?
The HIH Saga

The HIH experience has already been influential -

• Management is now more accountable, due to -
  • the new APRA requirements
  • public exposure of the inner workings of HIH, FAI
• Community awareness of insurance is heightened -
  • economic function of insurance
  • security of insurance protection
  • availability of insurance - PL, PI
Investment returns decline

Equity Markets
- Dow Jones
- S&P 500
- All Ords
- FTSE

10 Year Bond
Price Increases

(%)
Legislative changes

• CTP in NSW and Qld
• Workcover reforms in most states
• Public Liability across Australia
• Negligence laws under review
New Era or False Dawn?

The Industry is characterised by -

• pricing cycle
• importance of distribution
• difficulty of differentiation
• importance of reinsurance
• difficulty of management of long tail claims
• consolidation
• aversion of governments to accepting private sector risk
Briefing Outline

• Part One: New era or a false dawn in general insurance?

• Part Two: Suncorp/GIO’s competitive position
SUN experience - 1996 merger

$19 billion assets
GIO - the next phase

- GIO acquired Sept 01 for $A 1.4 b
- Combined premium $A2b, #2 in Australia
- Nationwide expansion
- Adds 1.5 million customers
Created diverse business mix

Dec 2001, Excl GIO

Banking
Assets
$A21b

Residential mortgages 61%
Comrci 15%
Property 15%
7% Leasing

Gen Insurance
Premium Mix
$A1.95b

Home 15%
19% Comrcial
Motor 25%
CTP 41

Wealth Management
Sales *
$A317m

Super 49%
Risk 33%
18% Investmt

* Risk sales figures are adjusted for comparison purposes. The actual sales are grossed up by a factor of 25 times as an estimate of single premium FUM product sales that would yield a similar profit outcome.
Scale advantage in GI

Net Premium ($Billions)

IAG: 2.9
SUN*: 2.0
CGU: 1.7
RSA: 1.6
QBE: 1.3
Allianz: 1.3
Zurich: 0.6
Lloyds: 0.5

* Excludes motoring club joint venture premium

Source: Deloitte Trowbridge, August 2002
Major market shares

Combined SUN/GIO national market shares %

Source: Roy Morgan, APRA, AMP/GIO

Figures exclude JVs
Geographic Diversification

Net Premium Revenue, annual, excl JVs

Qld
- 91%
- 40%

NSW
- 5%
- 34%

Vic
- 12%

Other
- 4%
- 14%

SUN

SUN & GIO
Creating National Network

After Acquisition: National footprint

Queensland
- 2 million customers
- 173 branches & agencies
- 100 insurance agents and consultants
Creating National Network

After Acquisition: National footprint

Rest of Australia
- 1.5 million customers
- 40 branches & sales centres
- 80 insurance representatives

Queensland
- 2 million customers
- 173 branches & agencies
- 100 corporate agents
Integration progress

• Information Technology support brought in-house, saving nearly $30 million per year

• Call centre consolidation is well progressed with 100% of sales and 70% of claims calls now handled centrally.

• Centralisation of back office operations from 41 to 6 sites progressing well.

• Branding strategy finalised. GIO to be insurance brand outside Qld. Suncorp inside Qld
Products per MFI customer
(Excluding GIO Customers)

For SUN, 0.1 PPH is approx $15m PBT

* Customers who nominate SML as main financial institution. 12 month moving average
Summary and Outlook

• Yes it is a new era, but the cycle will continue
• As profitability improves, capacity will increase, then excess profits will be eroded
• Potential for irrational pricing reduced through industry consolidation, strengthened regulatory requirements
• Outlook for Suncorp remains very positive.
• GIO will deliver significant benefits
• Integration remains on track
• Insurance Trading Result expected to be in the region of 9 - 12% over the longer term
• Significant opportunities through Allfinanz