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Start of Q&A session

Kieren Chidgey, UBS, Analyst: Thanks Steve. Kieren Chidgey, UBS. Just coming back to this target of improved unit growth into FY20, can you just give us a little bit more feel for what you're talking about there? You've pointed out you had -1.6 or -1.7 volume reduction in Home and Motor this year. I'd be keen to understand how that trended into second half, and whether or not you're talking about flat units, positive units, or just reduced volume loss into FY20?

Steve Johnston, Acting CEO: Yes, I think we might step through that question in a bit of detail Kieren, and I might get Gary, after I make some introductory comments up to fill in some of the blanks.

We talked consistently, and I think it's important to put in context that there have been unit losses in Suncorp over the past five or six years. Again, I don't know that that necessarily always should be jumped to a conclusion that that's a bad thing in an insurance business, particularly on the Home side. Following the floods in Queensland we took a deliberate effort to improve the risk quality of our book, particularly in Queensland. So, in an insurance company there's always some element of risk-based pricing that does improve the performance of the total book, but particularly on the Home side.

The other point to make this year is that system levels of growth have been lower. So, new car sales are down materially, high single digits, and dwelling approvals again have been at a very low rate. The volume of new business that's available in the market has been significantly reduced. All of the insurance businesses in Australia I think have being very much locking down their retention book. We've seen retention levels hold up very strongly in this environment. We certainly have seen a lower level of new business opportunity coming through.

I think one of the other things that we did through the course of the year, which was a deliberate element of our strategy, was to introduce a master brand strategy concept. We introduced the Suncorp brand into new South Wales and Victoria, and variously across the country, which was consistent with our strategy. That did take some marketing resource off the direct insurance brand in those geographies, and I think over the course of the latter part of the year we've repositioned that.

When I talk about the priorities of the business going forward, reinvigorating that multi-brand strategy is absolutely core to what we think is one of the very key parts of future success. We've got a fantastic group of brands in this organisation, and I've talked about that a couple of times. We need to support them and leverage them better.

We took an investment into the market in the second half to reinvest back into marketing capability. It is a very difficult market in the second half of the year to get marketing and advertising time in. There are a number of - well a federal election and a couple of state elections on the way through made our ability to navigate into that market a bit harder, but we did get into the market towards the latter part of the year.

I'll break it into the two components. Certainly, Motor performance towards the back-end of the second half was on an improved trajectory. It wasn't where we wanted it to be, or where we forecast it to be at the half year, but certainly there we're seeing improvements. Home has been a bit harder to move ahead. Obviously, there's an elevated level of claims inflation in Home that we're dealing with. It's a more difficult book to get that momentum moving in, but we're pretty confident - or very confident in fact, towards the latter part of the year that we've got all the tools that we need in place to do that.

So, to look across the whole year, the investment that we made towards the latter part of the last calendar year has started to take effect. I think the things that we've done in the last six to eight weeks will have an impact as well, and we're already seeing that through particularly on the Motor side. I think the actions that we've identified today, particularly around the brands, will further improve the situation in to the next year.

In terms of forecasting, look, I'm not going to put an absolute commitment out there about where we get back relative to market share or flat unit count. I'd be very comfortable to see that momentum improve in units. I don't think it's as much about pricing, Kieren, as it is about some of the other things further up the chain around marketing, alignment of the marketing program etc, but there may well be an element of pricing that sits in our solution. Gary, do you want to come up and step up through any…

Gary Dransfield, CEO Insurance (Australia): Sure. Look, the only probably additional bits of colour I'd add to that, when you say break it down in Home, and as Steve said, Home has been a bit more challenging to try to turn around in Half 2, than Motor. We've taken some deliberate decisions, and Steve referred to risk selection in the book. There's been an impact of about 1% on GWP across the year, and about 0.5% on units, as we've priced really to diminish our exposure to the broker channel, for Home personal lines.

When you break it down, there are some elements of demand reduction that are in many cases economically driven, but some deliberate decisions in there. Then the other dynamics you see between average written premium, particularly say in Motor, where Shannons gross - Shannons is accretive two units, relative to the book as a whole. It's dilutive to average written premium, accretive to margin, because it's a lower-risk book. So, within that broad portfolio brands across Motor and Home, we have got a lot of moving parts, some quite deliberate decisions taken, some that we're grappling with in terms of market dynamics. But as Steve said, Kieren, the focus for the year ahead is to really work that portfolio of brands at a state market product brand level, to drive better growth.

Steve Johnston, Acting CEO: Nigel, then Dan.

Nigel Pittaway, Citigroup: Thanks Steve, Nigel Pittaway here from Citi. Just maybe following up on that question first of all. If you look forward to FY20, do you think your pricing across the personal lines classes is going to be materially lower than the average price rises you were putting through in FY19?

Steve Johnston, Acting CEO: No, I don't. As I said in answering the last question, Nigel, I don't think this is as big an issue from a pricing perspective. Now, that's not to say we won't be adjusting our pricing through the course of the year, and you would expect us to always do that. I still think in aggregate we go into the year with an expectation of putting increases of 3% to 5% through both portfolios. I don't think anything's changed there, but we'll be more tactical about how we deploy that. We will use different processes around our digital programs we all. One of the things we are prioritising is using and leveraging that digital investment to try and grow digital sales in insurance, and we'll do a lot more of that in the coming year.

I don't see any reason why we shouldn't be focused on and achieving those levels of pricing increases in both of those portfolios, because fundamentally we do have inflation in both of them. I think inflation in Motor is somewhere between 3% to 5%, probably at the lower end for us, but the higher end of that range for our competitors, because of the continued benefit we get out of SMART and the work that we're doing through BIP. On the Home book I'd say it's slightly more elevated than that. In aggregate across the course of the year inflation in Home probably running a little bit ahead of 5%, to in the 5% to 7% range. Obviously, there's a base level of inflation in Home insurance.

The delta on top of that for us has been two-fold. One is the continuation of the elevated levels of non-hazard water claims. That's a very complex problem. It's industry-wide. We've put in place a number of activities to get on top of that, including triaging the claims through into specific cells into our call centres, and then through panels of builders et cetera. We have had a big event in Townsville that we've been managing through at the same time.

So non-hazard water is a challenge in home. On top of that, we’ve had an elevated level through summer of fire, total loss fire claims - Jeremy talked about that in the presentation. So, the bottom line is I think we need to continue to target those levels of price increases through the portfolio, although, we will be tactical. We’ll be tactical by brand, and by geography, to work through how best we can get the outcome for the total portfolio.

Nigel Pittaway, Citigroup: Just maybe delving slightly more into that home claims and fire, I think at the half year you weren’t sure whether or not that was a one-off or an ongoing trend. I presume from what you’re saying now, you’re more convinced that you’ve got a more permanent trend here that you need to address. Is that...

Steve Johnston, Acting CEO: On non-hazard water, certainly. There's an element of fundamental basis of the portfolio that drives that. The number of bathrooms in homes today is significantly greater than it was 10 years ago, and the way homes are built now with integrated flooring between kitchens and loungerooms, and dining rooms, mean that when you have a problem in the kitchen, it typically means you've got to replace all the flooring across the footprint of the home.

So, there's an element of that that will be entrenched. There is a real delta that a good insurance can bring to bringing that cost down relative to the industry, and that's typically where mould has become an issue. So, if you can get in quickly, you can get the claim assessed, and you can get it dried out, then you take mould off the table as an issue. What we find is that we get into a debate around mould, and where the genesis of the mould has come from the claim that we're dealing with, or one that might have happened five or 10 years down the track. It becomes significantly more complex, and the average claims cost goes up.

So, there's an element I think of that that will become entrenched. It will be dealt with through pricing, or terms and conditions, and I think various insurers are looking at solutions to that through either pricing or maybe put caps on non-hazard water-related claims, as an example. That will manifest itself over the course of the next 12 months, so I think that that issue is more entrenched. On the fire, I think - Gary, you might like to comment on fire. It's a bit harder to understand whether we're seeing a trend there, or whether it's continued volatility in terms of the large losses.

Gary Dransfield, CEO Insurance (Australia): Yes, fire is a bit more challenging to unpack, Nigel, but a couple of the themes that we do see, and you can imagine we talk in a very transparent way to other players in the industry, and to fire brigades about what people think is going on with this elevated fire frequency.

One of the things that we do know is there are cheaper internationally sourced solar systems on a lot more roofs these days, and they run a greater risk of causing a home fire. We're seeing air conditioners triggering home fires. We're very watchful for whether this rumoured impact of cheap caballing and cable systems that are sourced internationally is a factor, but it's not apparent. So, we would say at the moment the electrical issues coming out of air conditioners, coming out of rooftop solar systems that are triggering it.

Nigel Pittaway, Citigroup: Okay, and then maybe just finally changing tact onto the customer remediation charge is $60 million. Are you expecting to have to make ongoing provisioning, or ongoing allowance for customer remediation charges going forward, or is this a one-off hit?

Steve Johnston, Acting CEO: Yes, I think that the way that we've tried to disclose it is as best we can, and we can only deal with what we know. There's obviously the two referrals that we have from the Royal Commission, the emergence of a class action lawsuit, which we will defend. Elements of remediation that have occurred is like all financial services business, we've reviewed our business from top to bottom, and we've identified areas where we think we could do better. Some of that may well manifest itself in remediation, but the nub of it is, is that this is a pool of money that probably largely goes to legal costs and administrative expenses. An example of that is that in terms of dealing with the Royal Commission referrals, we are going back through 10 to 15 years of data within this organisation and working through that to work through our submissions to APRA on that matter. So, it's very labour intensive, and it's very, very cost intensive, both internally and externally.

So what we've tried to do in terms of the way that we've talked about it is to - and we talk about putting it below the line, it's in our total P&L, it's below the profit after tax from business lines - it's identified that we don't think it's ongoing, that we think will be one-off, and that we think is very much related to either the Royal Commission and its findings, or the elevated nature of the Royal Commission's examination of our business. I think that's probably the best way. But look, I'd be reluctant to say I'm going to be 100% precise about it. We've done our best to identify what it might look like, and we need to see where those enquiries land.

Jeremy Robson, Acting CFO: Steve, I'll just add that what we haven't called out in the presentation is the fact that we've got a higher, what we call BAU regulatory compliance spenders. It's in the BAU base, and we're not calling that out as one-off. So that's certainly elevated over the last couple of years, particularly the last 12 months, and we expect that to continue. So, there is within the cost base that we're calling out, the $2.7 billion, an element of continuing increased BAU.

Steve Johnston, Acting CFO: Compliance cost risk, resources, licence fees to regulators. There's a laundry list of things that go into the BAU cost base that we've been dealing with as a result of - again, I don't want to sound defensive about it because we are embracing this change. Ultimately, we've got to create a mindset in the organisation that all of the things we're doing here will add to a better outcome for customers, which in turn will be a better outcome for shareholders. So, I know we tend to sort of portray a little bit defensively, but we are embracing it, and we're doing it in absolute the right spirit.

Nigel Pittaway, Citigroup: Thank you.

Steve Johnston, Acting CEO: Dan?

Dan Toohey, Morgan Stanley: G'day, Dan Toohey, from Morgan Stanley. Firstly, there's a couple of points around the guidance, the point on 1.5% reserve releases, or greater than, if you look at the last couple of years, they've been 3.8%. The pricing's moving around, but the inflation wage has grown to expectations. I know yields have come off a lot, but what are you thinking in terms of FY20, should it be marginally higher than the 1.5%?

Steve Johnston, Acting CEO: Let's look around and see if the appointed actuary is in the room? I don't think he is. I think the easiest way to think about the release number is the inverse of the inflation impact on the assets side of the balance sheet. In so much as if we're reserving 6.5% for inflation, whether it be superimposed or whether it be underlying average weekly earnings, and those numbers are running below 1%. Then by definition we're going to get a big release out of that portfolio relative to the 1.5%. So, to the extent that I - I mean it's not an overly heroic statement to say it's going to be ahead of 1.5%. I think if inflation is at these levels, assuming we don't get superimposed inflation in any of the schemes. There's no evidence of that in any of the schemes that we're operating in or any particular issues in any of the schemes. I think there's an expectation for it to be a lot higher than the 1.5%. Whether it's as high as it is this year remains to be seen. But somewhere between 1.5% and the numbers we're reporting this year I think is a fair base case to move into the year.

Jeremy Robson, Acting CFO: As Steve said, there's the relationship with the balance sheet as well so, we've got the investment link bonds which you need to remember is sitting on the other side of that inflationary curve.

Dan Toohey, Morgan Stanley: The 10% ROE you sort of - I think your guidance clearly saying it's not achievable near-term. We've had two prior CEOs sort of hanging out the 10% target as an aspiration to work towards. Do you see that as something that's still in the frame for where the business can be set to achieve?

Steve Johnston, Acting CEO: Yeah, oh, I come from a starting proposition that, and I was supportive of that decision. So, you talk about two CEOs, I was right beside both of them. I firmly believe that the way we structured this business and the priorities that we outlined today and the actions that we're taking, the alignment and accountability focus that we're driving through the business should allow us to achieve whether it's 10% or greater than our cost of capital. I mean we wouldn't be a management team that anyone would be too supportive of if we were prepared to say that we're going to run this business over the longer-term below our cost capital. Now whether our cost of capital today is 10%, as it might have been three years' ago, I would say with the yield environment sitting where it is it's probably lower. We've done a bit of work in recent times to suggest that our cost of capital, cost of equity across the group, is closer to the 9% than 10%. So, my gut tells me that we've got to be ahead of our cost of capital, and that we should aspire to get a return of 10%.

I've often talked to the market about the framework that I see the business operating in, and it's consistent with the diagram that was up on the board before. I think we should be able to deliver returns on a, ITR returns in insurance of 12%. I think the activity that we took to consolidate the insurance market in 2007/2008 drives to that sort of outcome. We've got to do all the things I talked about today, I think a 12% should be achievable. I think at a cost to income ratio of 50% in the bank should be achievable. Again, you would expect us to be targeting that sort of level. I think we should be able to spend $175 million to $225 million on projects in this group. Now obviously that's higher at the moment because regulatory costs are elevated. But over time they will come down and we'll be able to take that element of it and drive it back into growth to keep the business moving forward. I think our cost base should land somewhere between $2.6 billion and $2.7 billion. I think we should target growing the business between 3% to 5%.

I think if we do that it's not a difficult framework to work through. We should be able to deliver returns above our cost of capital and 10%. But I accept the fact in the short-term, and I don't think anyone in this room would argue, that with regulatory costs high, the reinsurance costs that we have absorbed to take that issue off the table, higher allowance, that's going to be difficult to achieve in FY20. But from my perspective I think we should be striving for that over the medium-term.

Dan Toohey, Morgan Stanley: Just finally on GWP growth. Historically you've put out a target I think north of 3%, perhaps something of that magnitude. In light of the comments on personal loans, which we have discussed, can you talk about the investment portfolio? Is commercial, the momentum there is that continuing or is it softening? You've talked about New Zealand moderating. There doesn't seem to be really any target around top-line growth.

Steve Johnston, Acting CEO: Yeah, well, look again I come back to that framework I just introduced before. I don't know that we're precise about a target for - we're not precise about a target for FY20. Because I think what we've found over time, particularly in commercial insurance, is where we've taken big portfolios of business out because that's the right thing to do from a risk perspective or a margin perspective. That's tended to decrease the aggregate written premium growth. You've had big regulatory changes to schemes in New South Wales. Again, that's depressed total premium growth, but created a far better scheme. A far more certain scheme and a better scheme for customers and for shareholders over the longer-term. But again, if you take all that noise out of play and you get back to what the underlying growth should be, in the framework I talked about before, based on the actions we're taking I think 3% to 5% growth of this business is where we should be on a group basis.

Dan Toohey, Morgan Stanley: Thanks.

Steve Johnston, Acting CEO: Jan?

Jan Van der Schalk, Ausbil Investment Management: Jan van der Schalk, Ausbil Investment Management. A couple of questions, first one on commercial. Yes, you've called out higher margins, but where is the commercial margin in comparison to the rest of the GI margin? How much higher do you need to see it go before it gets to levels where you are getting the kind of risk adjustment return on equity that you need?

Steve Johnston, Acting CEO: I think the, and I called it out at the start of the presentation, I think the work that the team have done on I call it remediation, portfolio returns or margins in commercial insurance two-and-a-half years ago were low single digits. For love nor money we couldn't get the market to move with us. So, we conceded quite a deal of business, particularly at the top end of the commercial market. It was starting to impact on the mid-market. So, the price increases we're putting through SME today are probably 3% to 5% in SME. Mid-market can be anything to high single digits, and on loss affect mid-market and top end well north of 15% in some loss affected classes of business. So, I think we in that environment it's very easy to take your eye off the ball there under pressure about total premium growth. The team have absolutely been dedicated to making sure that we focus on margin. If we're sitting here today I'd say margins are probably where they need to be. I think we probably need another 12 months to 18 months of the sort of increases that we've been putting through the book, which are similar to the ones I just outlined before, to consolidate that margin.

Then it's a competitive market, so we have to be disciplined about holding those margins at those levels. Because it is cyclical and sometimes it wants for a little bit of discipline when margins get to that level. So, I think we're where we need to be. I think another 12 months to 18 months of these sorts of increases will consolidate it. Then I think the portfolio profitability will be acceptable from our view going forward. Again, it's not only been the work that we've done to do that, it's been the brokers that have worked with us to help. We had to explain and understand their business models and they've had to explain - we've had to understand their business models in reverse, to make sure that we work together to get these outcomes. So, I think we're getting close to where we need to be, but we need to consolidate it.

Jan van der Schalk, Ausbil Investment Management: But the focus will be on margin rather than on the top line?

Steve Johnston, Acting CEO: Absolutely.

Jan van der Schalk, Ausbil Investment Management: The second question, which has been the big [downturn] result which is New Zealand. Can you kind of talk a little bit about where the rate increases are coming from? Is it from a dearth of capacity in Wellington in commercial? Or have you seen some motor inflation as well in New Zealand? Then a second question is, Jeremy, you talked about seeing the long - seeing the claims reverting to a long-term average. Can you just kind of explain to us what you mean by that?

Steve Johnston, Acting CEO: I'm going to ask the man of the moment to come up and talk to New Zealand first and then I'll hand over to Jeremy. So, Paul if you'd like to quickly talk through the New Zealand premium.

Paul Smeaton, CEO New Zealand: So just in terms of New Zealand, we took a three-tiered strategy approach. So, on the personal lines we looked to put policy increases up between 5% and 8%. But then you get the more of a commercial side where price increases went through at circa 15%. Then you get to the corporate where we incurred quite a few losses as a result of Kaikoura - 30%-plus. So basically, that's played out, those price increases have flowed through. If you look at our aggregate exposure into Wellington it actually reduced by 2.6% across this over the last 12 months. So, what you're seeing is we're taking capacity from the corporate side of the book and applying it to the personal lines and growing there. But overall our aggregate exposure in Wellington is good.

Jeremy Robson, Acting CFO: On the working claims, I mean it's more of a view from a ratio perspective in terms of wherever the working claims ratio has got to in New Zealand we feel that they've got to a level where they probably need to revert back to a more sustainable longer-term level so it's probably more a comment from looking at it from a sustainable ratio basis.

Jan van der Schalk, Ausbil Investment Management: But if I think about that sustainability, what are we talking about? The ratio rises by 10% or 2%? I mean give me a sense of where the shift is?

Jeremy Robson, Acting CFO: Well, it'd be in the low single digit percentage points. Thank you.

Matt Dunger, Bank of America Merrill Lynch: Thanks Steve, Bank of America. Just on the capital generation. You've growth the excess capital position with lower unit growth and also only 1% lending growth in the bank. Can you maintain the dividend payout ratio at those 80% levels at the top of the range if we see an increase in volumes like you're expecting?

Steve Johnston, Acting CEO: Look, I'm very confident Matt that we can do that. I mean one of the things that we've I think had some acclaim over in the last four years or five years has been our ability to manage the balance sheet. We've built that excess position, held that excess bugger, through a period of time to make sure that we do have flexibility. So, flexibility comes in two paths. One is this, we were to get into any sort of level of stress then we can move capital around the group and support any of the businesses that need capital injections. We don't see anything on the horizon that requires us to do that. But equally having a good excess position with a significant amount of that flexible and fungible allows us to deploy capital and take advantage of opportunities that might be in the market at any particular point in time.

Because the last thing you need is if there's an environment there that's conducive to growing and growing with good margin and growing within your risk appetite. The last thing in the world you want to do is be balance sheet constrained. So, with a buffer of high 4 hundreds, which is probably too high, and the growth profile that we're forecasting and managing through our three-year business plan. I think there's every likelihood that we'll be able to maintain capital payout ratios of into the high ends of our payout ratio range and accommodate the growth that we're forecasting over the next three years.

Matt Dunger, Bank of America Merrill Lynch: So, are you happy to let some of that buffer reduce, and to what sort of level?

Steve Johnston, Acting CEO: Look, I mean I don't want to create another set of targets. All I'd say is $480 is a pretty solid buffer for a business like ours. It hasn't certainly in my tenure been below $300. I'm not sure that I'd like to see it too far below $300 million. So, you can work out somewhere in that area is where we'd probably try to land it over the normal course of business.

Jeremy Robson, Acting CFO: That will naturally come down as we put the next 25 points on unquestionably strong through the bank, for example, yeah.

Matt Dunger, Bank of America Merrill Lynch: Yeah, thanks. On the bank, on that 12.5% to 15% return on CET1 target, is that still appropriate given what's happened to margins, non-interest income and costs?

Steve Johnston, Acting CEO: It's going to be challenging again, like a number of the metrics that we've called out today in the short-term to medium-term to get to those levels of return. But again, I come back to the framework I talked about before that and the bank framework is reasonably simple as well.

I think the way you should think about our bank in a low-risk way is that we should grow at or around system. We should target the net interest margin, the 170-basis point to 180 basis point range as we've typically reported at 80:20, 80% focused on Mum and Dad mortgages, 10 basis points to 20 basis points of impairment. Although I think the construct of our book today sort of biases us to or through the cycle view closer to the 10 basis points, as opposed to the 20 basis points, and a cost to income ratio of 50%.

Now all you need to do in that bank is manage against those metrics consistently and you'll get 12% to 15% return on common equity tier 1 capital and you're doing that because you're leveraging the strength of this Group. The Bank sits in this Group with an A-plus rating. We've just come out of the five-year domestic term market with a funding deal which is the best we've ever been able to achieve in the company's history, even right back through the pre-GFC days.

So the macro environment for banking is tough, tougher for regional banks, but the things we're talking about today and the focus that we're going to put on the digital program in the Bank and all of the things that go to running the Bank better in a BAU sense, I think will get us to a point where we should be aspiring to 12% to 15% returns on common equity tier 1 but delivering all those other things I talked about as a build up to get there.

Matt Dunger, Bank of America Merrill Lynch: Thank you.

Steve Johnston, Acting CEO: David, is that fair enough? Do you want to - I better let you come up and fill any of that in, if you like?

David Carter, CEO Banking & Wealth: The only observation that I'd make on that is as we increase the levels of CET1, that the top end of that target becomes harder because it will be a more capitalised bank for essentially the same amount of revenue. But certainly at 12.5%, 13%, that's a fair return and that's what we're targeting through the cycle. Just to build out the commentary on the bad and doubtful debts range, at the moment par, given the balance sheet, is about 7.5 to 8 basis points of BDD, just as we look forward. The economic environment is better than par. So again, that's kind of where we're sitting.

But one, interest rates are very low, the outlook for the economy is a bit negative on balance, so were we to see a reasonable recession, which is probably not our base case, the housing book will have a different profile and that’s how we see it, 10 to 20. So, we're still comfortable to be talking about 10 to 20, we still think that's - we would always operate at the very low end of that in a normal environment, but the immediate outlook is for better than that 10 to 20 range.

Steve Johnston, Acting CEO: Okay.

David Ellis, Morningstar: David Ellis from Morningstar, thanks Steve and David on those points on the Bank and my question really expands on those or I want to go in a bit more detail. Steve, I heard what you said of course about where the Bank should be going and what it should be achieving, but looking at the stats, net interest margins are declining and you pointed out that there's going to be further pressure on margins in the coming years, cost to income ratio is increasing, ROE is decreasing, the lending growth for last year was less than 1%, so how is the Bank going to, from a detailed perspective, how are you going to deliver above system credit growth and get those other key ratios going the way you want them to go?

Steve Johnston, Acting CEO: Thanks David and look, it is a good question and I have to keep taking you back to what I've talked about today in terms of the priorities we set the business and what we're focused on in the

Bank. We should be winning Queensland, it's our home market, we've got a fantastic brand, we've got a big distribution network in Queensland on the direct side. Our market share there is between 7% and 8% and some of the major banks, the smaller major banks are sitting at between 12% and 16%. There's a great opportunity for us in Queensland through direct distribution.

On the broker and intermediated servicing part of the book, we've had volume growth, it's been a bit cyclical. I mean for a book of our nature, that's the case. We've got to get better at servicing that broker and intermediated distribution channel, so we could be more consistent in our turnaround times, reduce our turnaround times and be more definitive with those intermediaries that work with us around how we're going to service the proposition there.

The Bank has spent a lot of money or we have spent a lot of money in supporting the Bank through digitising the core system infrastructure but also a lot of the work that we've done in the digital program over the past two years has put the Bank in a position now where it can leverage those investments and go to market as a digital bank and we have to reimagine the Bank as a digital bank and we have to continue to be focused on the Group program to take the expense out. At the moment the Bank gets allocated too much expense for a business of its size and we have to move into the process improvement piece, get operational excellence working, take costs out and drive that through into a lower cost base for the Bank.

So I can understand the scepticism given the direction, but I just have to keep taking people back to the actions that we're taking, the priorities that we're setting, which I think with the focus that we're going to deliver, we'll put the Bank on a different trajectory than the one we've reported in the past 12 to 24 months.

Jeremy Robson, Acting CFO: The other opportunity with the Bank, Steve, is on the funding side of things where we've seen very strong at-call deposit growth, which has been quite a purposeful attempt to reduce the term deposit funding; we've seen the benefits of that through margin and that remains an opportunity for us going forwards as well.

Steve Johnston, Acting CEO: So, we might go to the phones. Sorry, Andrew.

Andrew Buncombe, Macquarie Securities: Andrew Buncombe, Macquarie Securities, two questions on claims if I can please, firstly on motor and the continuation of that trend, does that change the way that you think about Capital SMART? I know that you've historically looked at it as a standalone investment, but actually as part of the Group, does it not add a continual benefit?

Steve Johnston, Acting CEO: Thanks Andrew, it is a very good question and we have flagged that we are doing a strategic review on the SMART business. I'd start by saying and I think everyone in this room would recognise and certainly it's been something we've been very vocal about, is that SMART has provided a competitive advantage for us in motor vehicle repair. The challenge we've got with SMART and why we are undertaking a strategic review is it is constrained to Suncorp vehicles.

One of the big dynamics in motor insurance is a reduction in frequency and so our ability to expand the SMART network and continue to make it efficient is reduced in an environment where we're getting less vehicles going into the network. That's a good thing for the Group, it's a good thing for claims cost, but it's not a great thing for SMART because it can't continue to grow and get as efficient as it needs to be complete with a market in smash repair that's consolidating around it.

So, when I think about it, commercially, I think about the fact that we've had a fantastic competitive advantage that will shrink over time. So the purpose of the strategic review is to have a look and see whether or not there is a means via which we can create through the establishment of a multi-year motor repair agreement and lock in the competitive advantage we see at today in terms of service, customer service and price, average repair price and find someone who wants to pay value for business and pays consideration to make their network more efficient and drive value through and grow that business.

So, I think the logic of it is sensible to do a strategic review. We haven't made a decision yet, but the dynamics around that market are changing and we've got to sit back and have a look at that asset in the context of that changing environment.

Andrew Buncombe, Macquarie Securities: Then the other question was on home claims trends, specifically non-hazard water claims trends. This isn't a new issue, it's a global issue, it's not unique to you. I remember at a Suncorp investor day a couple of years ago we went around, one of the stalls was one of the devices that either sent signals back to say turn off the tap or it would do it itself. How does Suncorp think about rolling out those devices now to help their customers or is that still incumbent upon customers to change their risk profile themselves?

Steve Johnston, Acting CEO: Andrew I might get Gary to talk to that, I think. All of those initiatives are relevant for how we get on top of this issue.

Gary Dransfield, CEO Insurance (Australia): Yes, that technology you talk about, Andrew, in terms of pressure recognition and using a signal to an app for somebody to do something about the shutting off their water pressure is great. You've got to get behind the meter in a home, it's not inexpensive. Perhaps more of the challenge we see in the costs we're varying now is around flexible hoses, so rather than a water pressure challenge in the home, the impact of DIY-fitted and/or poor quality flexible hose.

So, for us we have a really strong focus on not only that dimension of property claims, commercial claims, given some of the other big topics around the community at the moment on driving for national standards, improved standards. It's conceivable we may need to do some things around underwriting in a home book to try to recognise that elevated risk that may not be easily dealt with just by the pressure meters and they will be hard to get an in-store base of. So, we may need to send some signals to some home owners that they might need to do some things.

Andrew Buncombe, Macquarie Securities: Sure, thank you.

Steve Johnston, Acting CEO: I'll come back to you at the end, Brett, I'll save the best for last. Okay, to the phones.

Operator: Thank you, your first phone question comes from Ashley Dalziell with Goldman Sachs, please go ahead.

Ashley Dalziell, Goldman Sachs: Morning Steve, I just had a question with regard to your slide 26 where you are effectively forecasting a $155 million reg in compliance budget for 2020. Does the $60 million of remediation costs that we saw this year effectively come back up above the line into the business units to hit that $155 million in 2020 and how much might we see within the insurance businesses which may impact margins?

Then just a follow on to that, where you have the step down into 2021 from $155 million to $100 million, I think and in regard to Dan's question, you said that you may reinvest those savings in the business. Just to be clear, I mean is that a $55 million incremental benefit into 2021 that drops out of the P&L or should we be thinking of that as something which may fund other initiatives?

Steve Johnston, Acting CEO: I think the best way to think about it, I'll answer the second question first and then go to Jeremy, I think the best way to think about it while we're keen to put the $175 million to $225 million project envelope in that slide is to say that I think that's the longer term view of what we need to be investing in this business, so not all of that step down would be automatically reinvested, some of it may. But I think going forward from 2021 forward, that project pool will sit somewhere between $175 million and $225 million.

Jeremy Robson, Acting CFO: Ashley with the $60 million and the $155 million and the $95 million, the $60 million this year is below the business unit line, so none of that $60 million is reflected in the line of business profit numbers. What is reflected in those numbers this year is the $95 million that you see on the chart, the regulatory project cost. That $95 million in the lines of business increases to $155 million next year which is part of the headwinds that we're calling out for both bank and insurance. So, when you look at the line of business for FY20, the reg project cost within those line of business P&Ls will increase from $95 million to $155 million in aggregate.

Ashley Dalziell, Goldman Sachs: Yes and so that $60 million going back above the line, would that be roughly 70/30 GI and Bank?

Jeremy Robson, Acting CFO: Well the $60 million is provided for in FY19, so it's a cost in FY19, we don't see that again in FY20.

Ashley Dalziell, Goldman Sachs: No, but you're effectively saying the reg and compliance budget for the business is $155 million, 20 steps up from $95 million and so that step up is at a roughly 70/30 split between GI and Bank?

Jeremy Robson, Acting CFO: Well 70/30 is probably a reasonable guide, but I might confirm that later on.

Ashley Dalziell, Goldman Sachs: Okay. Then just a question on the Bank, look with regards to the market share or the above system growth targets, I mean does that pertain to mortgages in the current environment and why is it the right time for you to be growing above system in mortgages and then just within the margin guidance for the Bank, just be interested in what you've assumed for any potential additional cash rate reductions from here and also funding costs with regard to the cash bill spread.

Steven Johnston, Acting CEO: All right, well I might answer the first one, then David, if you want to talk to the second one. Yes, I think an aspiration of growing at or above system in this environment is applicable for our Bank, given that we have just over 2% market share in aggregate across the country. So, I think there's an opportunity for us and I talked about Queensland, there's an opportunity for us to grow in Queensland in a jurisdiction that we understand very well, we can assess the risk very well and we can grow well and truly within our risk appetite there and we can selectively grow in other parts of Australia. So, I don't see us wanting to entrench ourselves sub-system for an extended period of time we have to keep the balance sheet moving and one of the ways of getting that cost to income ratio down over time is to get some revenue growth back. But I always put the caveat there, if it doesn't make sense for us to grow, if the margin isn't there or if the returns aren't there, we won't do it for the sake of just getting balance sheet growth. The preconditions around profitability, margin, returns on capital, portfolio configuration, risk, are all fundamental to that statement. Our aspiration is to grow at system or above, but if the preconditions to deliver that aren't there, then we will step out of the market and we'll do it and be open with you about why we do it. David?

David Carter, CEO Banking & Wealth: Yes, so I might just pick up the tail of that around mortgage growth. On the broker side, obviously there's a lot of choice for brokers, 28, 30 lenders. At any point in time, it depends a little bit on what the requirements look like. There are some banks who are not doing a lot of work on verifying expenses or statements. We thought we got a fairly clear instruction from the regulator on doing that.

So clearly if there are differences in the process that people experience, we're going to see less demand, or more demand, depending on that issue, so we're not lowering our standards particularly; we're going to be as efficient as we can within that, but that's a harder one to predict. What we have seen in the last 12 months is the volume of the applications in the market decline materially and it's mostly in the refinance market. Typically, in the past that's been a fairly big source of business for us where we have grown strongly.

If I look at margins, then on the funding side, look it's hard to know where cash rates will end. It's certainly better to see the 90-day bank bill swap rate come in much closer to cash, in fact it's pretty much at cash at the moment. We've got really three components to our funding, we've got variable rate transaction accounts, we have a relatively lower exposure to transaction accounts we already pay no interest, so that is somewhat helpful. The term deposit book takes 4.5 to five months to reprice through, so that is still repricing through from the first cut, let alone the second one. Then the wholesale markets, look we've always talked to you about this diversification of the funding options that we have, so we're in all of the funding markets. We did a five-year deal a couple of weeks ago at 70 points over the swap, which is far more attractive than raising term deposits. That is the lowest that margin has been in for many, many years, whereas other markets are elevated, RMBS, at the moment is a tough market to get away at a good price.

So, managing those options, we've got plenty of capacity within all of them to take them as we need them. Margin will be tight and we're just going to manage each of those levers according to it and as Steve says, if it doesn't make sense to grow the mortgage book, we won't grow it. We do have flexibility in the commercial book. The ag book last year didn't really grow with drought, we'd like to see more rain clearly in parts of the country, but the outlook for us with ag, subject to rain, is positive in terms of growth. The margin characteristics of that business are a bit different to mortgages.

Steve Johnston, Acting CEO: Thanks Dave.

Ashley Dalziell, Goldman Sachs: That's great, thanks guys.

Operator: Thank you. Your next question comes from Siddharth Parameswaran from JP Morgan. Please go ahead.

Siddharth Parameswaran, JP Morgan: Hi Steve, couple of questions if I can. Firstly, just on the volume trends in general insurance, can you give us an idea geographically where some of the pressures have been on the motor and home book? Is it more Queensland? Is it Victoria?

Steve Johnston, Acting CEO: Look I'm not sure we could isolate any particular geography. Gary, you might want to come up and just quickly - I don't think there's any particular geography that's been more challenging than another.

Gary Dransfield. CEO Insurance (Australia): It's probably more able to be isolated by brands than by geography, although as Steve did mention earlier, we always take a long hard look at Queensland and the degree of concentration risk we've got there. I mentioned in home the reduction in intermediated personal lines that was quite deliberate, particularly in home. That will have a skew to higher premium markets, so it will have a skew to Queensland, given that that's where those higher average premiums come from.

Look we would have liked to have seen more traction in AAMI and APIA as brands; that's been pretty much an East Coast story, none of the states any more so than each other, for those brands. Then our aspiration, particularly in markets like South Australia and Western Australia is to take advantage of a brand like AAMI that does have reasonable prominence and really take it to market quit vigorously, particularly in South Australia where we've got the opportunity with the CTP competition beginning.

Siddharth Parameswaran, JP Morgan: Okay. Just a follow-up question for me, just on underlying margins and general insurance into FY20, you flagged quite a few pressures in your presentation, I think you flagged yields, which perhaps that could be worth about 1% into next year as a headwind, you flagged that inflation in the home was running around 6%, you flagged that you've actually been getting rate increases which are below 3%, so maybe another 0.5% pressure there; the NHAP allowance, that's a headwind of over 1%, reinsurance costs I'm not sure and then you're flagging more investments into marketing.

It seems like there are quite a few pressures, I mean can you just firstly fill out some of those missing gaps, reinsurance I suppose, how much of a headwind is that? The numbers I just flagged there are headwinds of about 2.5% or a bit more than that into next year. Am I thinking about this the right way? Are there any offsets which help the underlying margins in FY20?

Steve Johnston, Acting CEO: I think you've captured in aggregate the key drivers. I don't know that I necessarily agree with the quantum that you've talked about in each of those categories. Certainly, it stands to reason that if yields fall, our ability to reprice to them is always at a delay and at a lag because the majority of the longer-tailed performances is related to scheme filings, so we're always trying to catch up with experience on the investment performance of the book, so yields are an issue. Where we can reprice, we will, but they will be a detriment to margin to some extent. I'm not sure that I totally agree with the number that you talked about there, but they will be there. There's certainly the step down in margin that relates to the re-insurance cost, the stop loss, $45 million stop loss that we bought last year.

In a model sense, in a budgeting sense, there's obviously an impact on the natural hazard allowance but again I talk to - that's a model view. Experience will be what it will be and to the extent that we don't use up that additional $100 million of allowance that we've put in then does apply back through to margin but on a model view, it does have an impact. We are I think probably putting price increases higher than 3% through - we are putting prices higher than 3% through Home, probably closer to 5% and maybe in some instances above 5%. So, it's not as a material impact on margin as you talk about and I think we are getting better margin - we are getting better margin out of our Motor book.

Then there's all of the benefits that will come through as we continue to roll BIP through which will be positive to margin and as we continue to drive cost efficiency through the business through the program that I've talked about today. I think Jeremy they're the key things, is there anything else that…

Jeremy Robson, Acting CFO: No, on the cost piece we've called out the question before on the regulatory project cost of $155 million. That will obviously flow through into underlying ITR as well but to some extent offset by the BIP program.

Steve Johnston, Acting CEO: So, the factors you talked through are legitimate, that's why I think it's unrealistic to expect that we can deliver underlying ITR 12% in FY20 but I still think it's an objective for the business to achieve over the medium term.

Siddharth Parameswaran, JP Morgan: A final question from me, just on the bank - where are we at in terms of systems and just move to the Oracle system? Is that still on hold? Is that a requirement to get to that 50% cost to income ratio target?

Steve Johnston, Acting CEO: No, not in an absolute sense. No material update on the deposit and transaction module deployment onto Oracle. I think we are taking a very risk sensitive decision-making process there. We'd like to see that deployed by a bank of scale before we would go to deploy it. I don't think there's any benefit in us being the first mover on deploying a deposit and transaction module onto a core banking system. That's not within our risk appetite to do that. So, to some extent we are a bit of a hostage to someone else doing it, but I think that's a better way for us to consider it.

When that will be, hard to tell but in and of itself, I think it's sort of $10 million/$11 million of additional cost that we're carrying for running the Hogan system alongside the Oracle system. In the short term that in and of itself is not the explanation for why the cost to income ratio is above 50%. It would be great to have it out - great to operating off one system but I don't think we could claim that's the reason why our cost to income ratio is elevated to where it is today.

Siddharth Parameswaran, JP Morgan: Thank you.

Steve Johnston, Acting CEO: Okay, why don't we just come back into the room in Sydney to catch any final questions that may be here. Jan?

Jan van der Schalk, Ausbil Investment Management: I apologise to everyone for asking one more question. Your engagement score is worse year-on-year. Your turnover is around about 14% and absenteeism is running at somewhere near 7.5%. I guess there's two pieces to my question, the first one is where are we in the CEO transition or the CEO recruitment process and what is the timing on that? The second one is, what is your vision for running a happier house because obviously none of that happens without a workforce that's happy.

Steve Johnston, Acting CEO: Look, I'm not going to get into a commentary as you would understand on the timing of CEO transition et cetera, they're matters for the Board and for the Chairman to deal with and the mandate I have which is one that the Board is very happy to give to me, was to work with my colleagues here to drive the business forward. So, what you've seen today are a set of actions and a set of priorities that are consistent with what the Board has appropriately asked me to do and which I'm very, very happy to do and that process will work its way through.

You're absolutely right, we won't be successful if we can't have engaged and motivated employees in this organisation and one of the things I think that we as a team in SLT and me individually, you know we've worked in the company for a long time and we've seen the organisation when it's been highly motivated to be successful. When it's been focused on what it needs to do and we only need to go to Townsville and Gary and I were up there the other day to hand the keys back to a couple of customers who had a metre and a half of water through their homes and you know we were - you know we're back in there with the keys and giving them their life back, re-building their life.

All of this comes back for our organisation for our organisation back to purpose. I think as a financial services entity, and I remember talking to you about it at one point where you asked me well why does Suncorp exist? I sort of struggle with that question because I'm used to dealing with ITRs and cost to income ratios and expense ratios but answering the question why Suncorp existed was a pretty tough one to answer and at that point the methodology was to deliver value for shareholders which was - and I knew when I said it was - you know it was what we needed to do but was not what we existed for.

As an organisation we exist to meet the needs of our customers, service them where they need to be, do it efficiently as we can and the more efficient we can do it, we can do it to the benefit of society in general. So, I think our people always respond best when they're grounded in what the organisation stands for and I guess that's what we're trying to do as a team. You know we've seen an improvement in our engagement survey. We had a you know - I wouldn't say a horrible one but I don't think we were terribly out of whack with financial services companies generally.

We had a poll survey a bit later on and we saw an improvement and as a team what we want to do is put the sun back in Suncorp that's what these people here, that's what we talk about. So that's the way we think about it, that's the way we're driving the business and all the other processes that swirl around will be what they'll be and we'll just keep pushing through that.

Okay, I think we're up against time. Thank you everyone. Thank you, Jeremy. Thank you to everyone who's participated and look forward to catching up with a lot of you over the next couple of weeks. Thanks.

Jeremy Robson, Acting CFO: Thank you.

End of Transcript