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Start of Q&A session

Operator: The first phone question comes from Kieren Chidgey from Jarden.

Kieren Chidgey, Jarden: Morning guys, a couple of questions if I could? Maybe just starting around inflation. We're obviously seeing pressures across the broader economy. Just wondering if you can talk to the trends you're seeing across the consumer, commercial and New Zealand businesses?

Steve Johnston, Group CEO: Sure, Kieren, I'll kick off and I'll get Jeremy to jump in and maybe Paul as well. Look, we are obviously keeping a very close eye on inflation. Always have and always will. For an insurance business, it's very critical that you manage inflation across both short tail and long tail.

Long tale, we've got the ILBs. Over $2 billion of ILBs that are there to offset the impact of inflation across those long tail portfolios. On the short tail side, I mean, clearly there is evidence of some pressure in the building supply industry and you can talk to the construction data.

The ABS data is pointing to inflation in building repair and Home around 6% to 7% and maybe higher in some cases but I'm incredibly pleased to report that across our portfolio with the weight of the best in class claims program being brought to bear, we actually saw negative inflation in the Home portfolio.

Obviously average written premiums have been elevated as we've repriced for those natural hazard events but that just shows that there's this huge opportunity that's sitting there in claims for us when we manage that program and mange that best in class initiative through to its ultimate conclusion.

On the Motor side, I think underlying inflation running somewhere around 4% to 6%. Again, the nature of our Motor business with the fixed price contracts that we've got on a lot of our driveable repairs and the work we're doing around parts is meant that inflation for Motor is running at low single digits. So it's a very good outcome.

Across Commercial, I think the trends there are pretty much in line with what I talk about in the short tail portfolio and the Home and Motor portfolios. Somewhere in the 4% to 6% range. Again, we've got good rate going through that book to offset it.

So inflation has to be front of mind. It is front of mind. We continue to monitor it very closely. We've got good early forward warning indicators to help us manage it, but we think we've got a good handle on it and got it very much under control at the moment. Paul, do you want to jump in and add anything?

Paul Smeaton, COO Insurance: Steve, I think you've pretty well covered it. I think the main point that's coming through is whilst we are seeing inflation in Home and you hear a lot about timber, steel and plaster, yes, we are seeing that high singular inflationary pressures.

But all the work practices that we've implemented in Home, so the panel, the implementing In4mo to allocate work to our high performing builders using ICBM to manage costs and benchmark those costs, has more than offset those inflationary pressures.

On the Motor side, yes, we are seeing inflation in labour and windscreens through technology. Also everyone would have seen second-hand car prices going up, which increases our average total loss cost.

But we've sort of mitigated that through our repairer panel and we've also mitigated that through a really good parts strategy where we've got a very high allocation of non-OEM parts when we can. Also, we've negotiated discounts on our OEM parts as well.

So all-in-all under the best in class claims, we're pretty happy with how we've negated inflation. So yes, very comfortable at this stage but monitoring closely, to your point.

Kieren Chidgey, Jarden: Maybe a second question around the underling GI margin outlook then for Jeremy? I think when you gave the building blocks around that at your investor day earlier last year, there wasn't much of a reliance on high bond yields feeding into that 10% to 12% range but obviously we've seen quite an uptick there in the three year bond since then.

Does that give you greater confidence of landing further up in that range or is sort of the way you view it, that's just being compensating for some of these additional pressures like wage inflation coming through?

Jeremy Robson, Group CFO: Thanks, Kieren. I mean, the key building blocks for us are the strategic initiatives. There's the best in class claims. We've still got run rate benefits. Still more to do there and in the expense saves plus the benefit of growth through in a leveraged margin sense as well. They're the key building blocks.

It is true to say that between putting that expectation together and today that we do have an expectation that yield curve will be higher but equally, I would say that we will continue to reflect on our hazard allowance and reinsurance costs and inflation in the book.

So I don't think that's going to change our outlook, that higher underlying yield. We'll still aim to - for the 10% to 12% range but we'd like to see ourselves at the higher end of it rather than the lower end of it.

Kieren Chidgey, Jarden: Okay, thanks and maybe just one last question, Jeremy. You mentioned that you've purchased some additional aggregate cover. I think $75 million for second half. What's the one-off cost for that and does that flow through in the second half of the financial year or has it been booked in first half?

Jeremy Robson, Group CFO: Yes, so we've booked a very small amount in the first half. We've just amortised in over the period we've taken out for. So it's a very immaterial amount in the first half. It will come through in the second half.

We're obviously not going to talk about dollars but the closest I could say is it's slightly better than the rate online for the existing AXL cover, as you'd probably expect, because it attaches slightly higher up in the chain. So slightly better than the rate online for the existing cover.

Kieren Chidgey, Jarden: Okay, thank you.

Operator: Thank you. Your next question comes from Andrew Buncombe from Macquarie. Please go ahead.

Andrew Buncombe, Macquarie: Hi everyone, thanks for taking my questions. I might just continue where Kieren left off with another question about that reinsurance top-up. Do you think that is more of a reflection of the La Nina weather patterns, or is that a good starting point for the cover you want to purchase next year? Thanks.

Steve Johnston, Group CEO: Andrew, I'll kick off, Jeremy can jump in. I think it was pretty much - buying that cover was pretty much a reflection of seeing the actuals; natural hazard costs coming through in October and the proximity that we had to triggering that aggregate cover. I mean, it was a discretionary purchase; it was one we pondered over for a period of time and ultimately took a view that based on the conservative settings that we have for our business going forward, it was the right thing to do.

It doesn't inherently dictate or roll forward from there that that's a strategy that we're going to take into the next renewal. We'll look at how we land at the end of this year and work our way through the pre-placement to see what pricing and capacity is available in the market and as we always do, we'll look to pre-bind as much of the program as we can.

As you know, we don't construct the allowance specifically to take a linear pattern into account. We didn't do that last year and we certainly haven't done it in this financial year, so we would expect in a La Nina year to have an exceedance of the allowance and again, we'll go about that the same way next year.

Jeremy Robson, Group CFO: Yes, I agree, Steve. The re-insurance program we have in place we think optimises for our strategy, which just to remind is about optimising return on equity. But we also need to have a lens on P&L volatility and the program we have in place, we think that does that. We've obviously got to go through the renewal process and look at pricing capacity, but we think the program we have in place does optimise for that, probably more appropriately in a non-La Nina weather pattern year.

I wouldn't necessarily at this stage see why we would be changing our preferred program for next year relative to what we've got this year, excluding that top-up.

Steve Johnston, Group CEO: Andrew, just to add one little point to - for the discussion of natural hazards, I think one of the points that I did make in the presentation is that the best-in-class claims program, while a lot of it's focused around the working book, it also has a big material impact on natural hazards.

That digital lodgement that we're seeing now, the high levels of digital lodgement, the variable workforce that Paul's put in place which allows us to ramp up and ramp down through the weather season, the fact that we're bringing trained people into our contact centre environment for that first notice of loss.

We're getting assessors to repair quicker, we're getting repairs done quicker in an absolute sense, which we know drives down the cost of claims. That big piece of work around best- in-class claims also having a material impact on I think lower natural hazard costs going forward, as well, which will ultimately be recognised by re-insurers, as well.

Andrew Buncombe, Macquarie: That makes sense, thanks for the colour. Just my other questions are on the Bank and in particular, the NIMs. Are you able to give us a bit of an idea of the exit rate, or maybe where the NIMs were tracking at the start of February, just so we can understand what that curvature of that line looks like? Thanks.

Jeremy Robson, Group CFO: Yes, Andrew, thanks for the question. It's fair to say I think that the - that those building blocks that we put out there for NIM around competitive environment and fixed rates and high liquid assets, yield curve, et cetera, that they have played through and continue to play through the half and they're continuing to play through. So, the exit rate will be lower than the average for the first half but we're not at this stage commenting on what that number is, but it's certainly lower than the average for the half.

Andrew Buncombe, Macquarie: Got it, and then the final one again on the Bank was in relation to the 50% cost to income ratio. I know that it was addressed a number of times in the slide deck and also at the investor day last year, but with all of the just general inflationary pressure that you're seeing at the moment, are you still comfortable that that's an achievable number or is it aspirational? Thanks.

Steve Johnston, Group CEO: I might kick off and then I'll ask Clive to jump in, as well. We do believe it's achievable; it continues to be a target. It's fair to say it's the - probably the more challenging target of the suite of targets that we've got out there at the moment. Obviously, we don't have the same control over - the scale that we have in our insurance business is far greater than it is in the Bank.

But having said that, the building blocks of how we get from the reported cost income ratio today to around 50 are the same, which is about a third contribution from revenue and two thirds from cost. That means fundamentally that we've got to continue to bring down the Bank's direct costs but also the allocated costs that the Bank takes from the Group and we have to continue to grow our revenues.

Yes, NIMs are down but so - but balance sheet growth is up and we still believe there's this huge opportunity for us around consistently delivering that home lending portfolio turnover time, settlement times and leveraging our position with the brokers and leveraging our position in Queensland, particularly, given we expect Queensland to see strong levels of net interstate migration post-COVID and right through to the Olympics. Clive, do you want to put additional colour around that?

Clive van Horen, CEO Banking & Wealth: Yes, sure, thanks Steve and thanks, Andrew. Just affirming what Steve said, it is still our target to hit that 50%. Clearly, when things like margins get squeezed the way they have, that's something that's a little less easy to control and that's why we've said we are more likely to reach that level in the second half of FY23.

The second half of this financial year, we don't expect a material change from where we are today but the changes that we're making around our cost base, the asset growth, all of those will flow through quite materially in FY23. A lot of these changes we're making are very much within our control, so we have been optimising our physical branch footprint. We continue to do that.

We are closing a number of branches now, as well as customer behaviour shifts to digital. So, all of those factors will play out in the underlying cost income ratio.

Andrew Buncombe, Macquarie: Excellent. That's it from me, thank you.

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

Siddharth Parameswaran, JP Morgan: Good morning, gentleman. A couple of questions if I can. Firstly, just Jeremy a question on the COVID impacts this period and the impacts expected going forward. I was just hoping you could give us some clarity on what made up that 1.9% boost in the underlying margin from COVID. Could you give us some idea what it was by - between Motor, Home and CTP and also just how do you actually calculate that number?

Jeremy Robson, Group CFO: Yes, thanks Sid. The first thing I would say is that - to the first part of the question around outlook, it's obviously very hard to pick outlook and we certainly look forward to the day when we don't have to do a COVID adjustment in the underlying ITR walk. We think it's the right thing to do because at some point, that frequency component is going to go away and so we want to be transparent around that.

In terms of the 190 basis points, there are - the key driver to it is Motor frequency, lower Motor frequency here in Australia, particularly obviously Sydney and Melbourne and in Auckland, as well. Auckland had some lockdowns in the half, so improved Motor frequency.

I've said the Australian component of that, not a dissimilar amount of frequency benefit relative to previous halves. But what we have seen this half then is some offsets to that in terms of some expectation of some - we've seen some cost increases and some expectation of some cost increases from a claims perspective.

We've seen higher second-hand car prices impacting through, we've seen some of the development pattern of Motor claims has slowed down through COVID. We've seen some impacts on Home through, again, the inability to get into people's homes and make the assessments on time, extending claims assessment, which then extends the cost. We've provided some support to some of our repair network, through to things like costs.

Annual leave, for example, the back-end of last year during the lockdown, it's been very difficult to get people to take annual leave and so that's been a higher cost than we would ordinarily expect.

So, there's been a range of - quite a range of offsets to that Motor frequency that we've called out. We feel pretty confident that they are absolutely related to COVID and we're not putting things in there that aren't.

In terms of a mix, most of the benefit sits in Motor, in the Motor portfolio. There is probably a net cost - a modest, very modest - a net cost that sits in the Home portfolio from that claims pattern I spoke about. There's a little bit in commercial and I'm pretty sure that CTP doesn't have a lot in there.

The other element of COVID-related impact that's not in the 190 basis points, not in the underlying ITR, of course, is the prior year reserve release on the business interruption provision, so that's a COVID-related provision. With the successful judgment on the Vanilla Lounge case, we released $25 million of that provision, as well. That's not in the 190 basis points.

Siddharth Parameswaran, JP Morgan: Okay, thanks for that colour. Just on a go-forward basis, if I could just ask what you are expecting in terms of - and maybe you can just give us some idea of what's happening with the frequency at the moment, particularly on Motor, because that sounds like that's the main delta.

Also, if I could just touch on CTP, as well. I would have thought there should have been some benefits over the last while but you were saying that there's been no impacts. I'm just wondering are there some conservatisms built into what you're doing and are you just holding everything back in case there is a flood of claims?

Jeremy Robson, Group CFO: Maybe just on the CTP one. It's possible - it's a little bit harder to pick in CTP in terms of those current year/prior years claims impacts. What we've done consistently has not included anything on CTP in that COVID adjustment. That's a like for like adjustment - like for like approach in each of the halves where we're making that COVID adjustment. But it is possible that there is some COVID frequency benefit that sits in that CTP number, so that is correct.

In terms of outlook, very hard to predict, obviously but what we're expecting is frequency to get back to where it was pre-COVID. We're expecting to see increased usage, in terms of people driving more, in terms of less public transport, et cetera but we're also expecting to see less usage offsetting that in terms of people working from home more.

On balance, we're expecting about a reversion to pre-COVID levels. January, for example, we're seeing still some reduced Motor frequency, but January is a pretty hard month to extrapolate because of the volatility you get around leave periods, anyway.

We are expecting it to revert back to pre-COVID levels. We're probably not quite there yet. Although having said that, it's different across jurisdictions. We've seen pretty high frequency levels in Queensland, more non-metro Queensland. We've seen lower frequency in Victoria than in New South Wales, so it is a little bit of a geographic mix of outcomes, as well.

Siddharth Parameswaran, JP Morgan: Yes, and sorry, just to be clear about this, the average claim size inflation, if you're expecting - you touched on parts of inflation but it sounds like - from what you're saying, it seems like you're not too worried about it, that you have it under control. So, just your expectations around average claim size?

Jeremy Robson, Group CFO: We would expect that the average claim size would probably continue on a trend of what we've seen in the first half. We'll still see that underlying inflation coming through the portfolio, but we'd still expect the best-in-class claims initiatives, the run-rate of those, the new initiatives we've got to provide ongoing cover to offset some of that inflation.

In Home, I'm not sure that we'll continue to see that negative inflation, but we'd expect maybe that to moderate a bit, but still modest levels relative to where some of the headline inflation is given those best in class claims initiatives that we've got.

The other thing in Home that we are seeing is lower frequency, so we're seeing that across all categories. We haven't necessarily pulled that out as a COVID item, but maybe some of that is COVID-related, but we would have thought at one stage, the theft-related claims from people being at home more often might be a COVID-related impact. But we probably think that lower frequency in Home is to continue because that working from home, people being in their houses more is likely to continue anyway.

Siddharth Parameswaran, JP Morgan: Yeah, thank you. No, thanks so much for that colour. I know we've spent a lot on COVID, so just one last question which is just on your interests in M&A. I was just wondering perhaps, Steve if you could just comment on how your thoughts are around potential acquisitions and whether - there's obviously been a lot of articles in the press around potential acquisitions in the GI space. Just your thoughts on where Suncorp's views sit on this?

Steve Johnston, Group CEO: That’s a good try, Sid. I'm just not going to comment on all the speculation that flows around. That's all I'd ever end up doing if I was providing a running commentary on it. I mean we've articulated a plan, we've articulated a strategy, we're getting on with the job is probably the best way to describe it and speculation will always be around. I just don't have a running commentary on it.

Siddharth Parameswaran, JP Morgan: Sure, okay, thanks.

Operator: Thank you. Your next question comes from Matt Dunger from Bank of America. Please go ahead.

Matt Dunger, Bank of America: Thank you for taking my questions, gentlemen. It's just firstly, if I could please ask on the New Zealand claims ratio, what's driving the large commercial claims? Do you expect that to normalise and can this be fixed with pricing?

Steve Johnston, Group CEO: Look, I'll hand to Jimmy in the second. I mean it is the vagaries of insurance. Sometimes, you have large losses, sometimes you have benign periods and what we saw in the particular period was a significant uplift in large losses. We think it is an aberration in a sense. It happens from time to time in insurance and probably doesn't necessarily require a pricing response at the minute. We'll watch it pretty closely, but it is a particular element of the first half that we expect to normalise. But over to you, Jim?

Jimmy Higgins, CEO New Zealand: Yeah look, thanks, Matt. We've looked at those a bunch of larger commercial claims of clients who have been with us anywhere between 10 to 30 years in one case. It's just one of those things where you do get hit over a period for large losses in commercial, but it's not something that we are particularly concerned about. They are reviewed each year in terms of ensuring that the right price has been set and the right risk is there, but we're pretty confident that - and certainly, what we're seeing is that as Steve said a bit of an aberration in the book. But it's a good book of risks that we've got.

Jeremy Robson, Group CFO: On the New Zealand claims ratio, a question Matt that there is also probably on the claims ratio itself, also some probably Motor frequency volatility in there. So we've tried in New Zealand to pull out the COVID because those are all ex-COVID adjusted obviously. So we've tried to pull out the COVID impact, but there's a level of imprecision around that. So we think there's probably a degree of volatility in Motor around the half-on-half, year-on-year claims ratios in New Zealand as well.

But I'll just reiterate that the underlying ITRs, ROEs on New Zealand are at phenomenal levels. Having seen the underlying ITR go backwards this half, we don't expect that to continue. We don't necessarily expect all of that reduction to come back, but we would expect most of it or much of it to come back in the next half.

Matt Dunger, Bank of America: Excellent, thank you very much. If I could just ask a follow-up question on the Bank net interest margin, are you able to talk to the outlook a little bit given the nine basis point drag you've called out on pricing with the Bank near moving back towards the target? Should we expect some moderation in NIM compression? Can you wind back some of that sharp pricing that you've put out there?

Steve Johnston, Group CEO: I'll hand over to Clive, but I'd just reiterate - not that it's a firm target, it's a directional view of how we see net interest margin, 185 to 195 now - we've been at 207 and 209 and that again is an aberration in a sense given some of the tailwinds on the funding side of the book that we're never going to be sustainable. So you know, as we report here, we are above the top of our range, we expect to be back in our range pretty soon and that range still remains a relevant reference point for the way we're thinking about the management of the Bank and the book. Clive, do you want to add?

Clive van Horen, Banking & Wealth CEO: Yeah, sure, thanks, Steve. Yeah, absolutely, those margin pressures as you've seen widely across the industry are pretty significant and as Steve says, the trend in our NIM is certainly back to within that range and that's happening fairly quickly.

Clearly, we and other banks and we're not a price maker, we're a price taker, but we've been moving pretty quickly on both the lending and the deposit side of the balance sheet to respond to the higher swap rates.

Fixed rates for example are up 60 to 100 basis points across the key terms in our case and in competitors. We've seen a very big swing back to more normal levels I would call them around the mix of fixed rates versus variable, back to around 20% of new flows are now in fixed which is around the long-term average.

So a lot of measures are being taken to respond to a very different pricing outlook. We'll expect that to continue, not just with us, but with the whole industry and that will then obviously flow through to what the overall NIMs are.

Matt Dunger, Bank of America: Thank you, very much.

Operator: Thank you. Your next question comes from Nigel Pittaway from Citi. Please go ahead.

Nigel Pittaway, Citi: Morning, guys. So just first of all a question on the reinsurance expense. Obviously, given all the chatter about increased reinsurance pricing et cetera, it's just a bit surprising that your reinsurance expense was down very slightly in Australia and up only very slightly in New Zealand.

Is there a reason why that pricing isn't flowing through? Were there additional covers last year that haven't been bought or just what's going on with the reinsurance expense line?

Jeremy Robson, Group CFO: Thanks Nigel. You are right in the sense that our reinsurance cost was reasonably flat FY22 on FY21 despite some of the earlier narrative and rhetoric in the market around that FY22 renewal. So yes, the renewal was relatively flat. It's not to say each of the covers was flat of course, there's a reasonable mix across the full program of property covers and casualty covers and main cat and drop downs and AXLs and so on, so in aggregate, relatively flat.

We have seen of course as well some reduction in exposures. We have seen reduced exposures in the portfolio exits in both Consumer and Commercial and unit growth in Home whilst positive hasn't changed the dial too much on the overall level of exposure. It's probably a, in terms of reinsurance pricing, a very modest increase in reinsurance pricing being offset by some reduced exposure.

Nigel Pittaway, Citi: Okay, thank you for that. Then just a question on the Commercial portfolio. Obviously, you are saying the Commercial loss ratio remains flat despite obviously price increases, so can you just maybe make some comments on where you think rate adequacy is in that portfolio as we currently stand?

Steve Johnston, Group CEO: I might ask Lisa to step in there and answer that question. Lisa.

Lisa Harrison, Insurance Product & Portfolio CEO: Yes, thanks Nigel. Look, in terms of the Commercial portfolio, just a bit of a reminder how our portfolio looks, we're about 25% in the packages class, about 15% in the longtail and the rest in that shorttail. Certainly, what we can see in the market, there's still reasonable rate going through in the Property more so at the top end as well as in the longer tail classes as well.

So, for us, as Jeremy and Steve outlined, we are very focused in making sure that we have got great pricing underwriting fundamentals in place with some new systems that will roll out in 2022 as well as better integration, especially with that packages class, which is highly competitive into those broker platforms.

Jeremy Robson, Group CFO: Nigel, I'll just add that I did point out in the discussion that there was quite an elevated number of, like in New Zealand actually, property fires particularly through the packages portfolio. I know it's insurance, you can't adjust for those, but if we hadn't had that volatility, we would have seen some claims ratio reduction in margin improvement in commercial.

Nigel Pittaway, Citi: Okay and then just while we're still on Commercial, I mean obviously you did flag those small but nonetheless top ups in the bodily injury classes, they seem to be in the run off Workers Comp portfolio and professional indemnity for the most part. I mean everyone gets worried when you see that, that's the first of several, is there anything you can say to put that in a bit of context as to where you think you are with that strengthening.

Steve Johnston, Group CEO: Yeah, I mean I'll get to Jeremy in a minute, but on the excess of loss portfolio in the Workers Compensation space obviously we are out of that product now. One of the things that obviously occurs when you do exit a product is you bring forward some claims that have not yet been reported and I think that's largely the catalyst for the strengthening that we saw. We are pretty confident that that's a one off and that won't be a feature again. We continue to work with all of the customers there to make sure that we have brought to the table any claims that may be sitting out there.

In terms of bodily injury, we have had a couple of incremental strengthening's over time. I think this is an industry dynamic. It's got an element of COVID sitting over the top of it. We have got good management sitting around it. I wouldn't expect any strengthening to be, I wouldn't rule it out going forward, but I wouldn't expect it to be overly material equally. We remain pretty confident with it, but it is under close watch as you would expect. Jeremy.

Jeremy Robson, Group CFO: Yes, not much to add to that Steve other than with the bodily injury one it is the fourth strengthening we have seen over the last couple of years and as you can imagine with this valuation, we have gone through with a reasonably fine-tooth comb with quite a degree of diligence. As Steve said, not out of bounds that the numbers change, but the number we have now got is the result of a pretty thorough and diligent process.

The other one was on Profin and Profin has really been more into that volatility category. We are not seeing anything particularly sinister in that strengthening this half.

Nigel Pittaway, Citi: Okay and maybe just finally, just on the business interruption and where that currently stands. I mean obviously we are all waiting with bated breath for the result, but I mean what's the current thinking on whether or not that might go to the high court for a further appeal? Is that likely? Do you think that's likely at the current time?

Steve Johnston, Group CEO: Look, it's very difficult to predict Nigel. I guess I wouldn't want to get in or presuppose what the judgement might be from the Federal Court appeal. That will come in in its own time. There is an appeal mechanism through to the high court that relies on adequate prospects being able to be determined.

My expectation is you would have to assume that that is going to happen, but again, much of it will depend upon the nature of the findings of the appeal, so I guess we just wait that and reiterate that we are very adequately reserved, continue to be adequately reserved for the outcome, whatever that may be.

Nigel Pittaway, Citi: Okay, great, thank you very much.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Doron Kur from Credit Suisse. Please go ahead.

Doron Kur, Credit Suisse: Hi, thanks for taking my questions. Just the first one on the reinsurance margin. You mentioned at the last result that you expected most of the margin improvement in FY22 to be in the second half. Given the very strong improvements we've seen in the first half, what are your current expectations around that comment from the last result?

Jeremy Robson, Group CFO: Yes, Doron, we would still expect to see improvement in the second half. So what we've seen in the first half is not a bring-forward of the progression in the second half. We still expect to see a similar level of expansion to what we previously thought in the second half.

You're right though to call out that we had at the last result been talking about an underlying ITR consistent with last half of 7.4% and we've ended up at 8%, obviously. What's changed there is across a whole range of things have gone better than we had expected.

A key one to point out, I think, really is in our Motor pricing area where previously with COVID lockdowns, we hadn't been able to necessarily put through the price increases we needed in the portfolio. This time through, the cycle feels a little better for that pricing.

So been a range of things that have helped to deliver that outcome, but we still expect to see expansion in the second half.

Steve Johnston, Group CEO: Just to sort of pull all the bits and pieces of the Insurance business together and give you a sense of the momentum that we've got and our level of comfort around what we're doing, if you start at the front of the business and you look at unit count, we've obviously got positive unit count now across Home and Motor. Stronger in Motor, obviously, than Home and we continue to rebuild that unit count number in Home.

We've got high average written premium coming through the book, both in Motor and in Home. Home getting close to high single digits. As we reported before, all the work we're doing in best in class claims is driving negative inflation in Home and low single digit inflation in Motor.

Then if you take it all the way through to the balance sheet, which is always the way you think about an insurance business and you look at this period of time and go back through the records and understand how many years, there've been very few over time that we've been able to generate a positive contribution to capital from a general insurance business because 31 December, that unearned premium book is obviously impacted by the proximity to the natural hazard allowance waiting for November, December, January and February.

That's a headwind to capital of between $50 million and $60 million. Not only have we offset that headwind but we've actually grown the capital balance in the insurance business. The only way you really do that is to be significantly improving your loss ratios.

So I think if you sort of track it from the front to the back, there's much more we can do. There's plenty more things we need to do and can do but that's the sort of story that gives us some comfort that we're on the right track.

Doron Kur, Credit Suisse: Thanks, that's great colour and also, on the Home side, it looks like you're able to keep pushing rates given the natural perils. Previously you were thinking - the messaging was that that might moderate going forward. So has that changed now given the last half?

Steve Johnston, Group CEO: I'll get Lisa to jump in but I mean, I'd make the point that this is the second La Nina weather cycle. We've had 50,000 claims in the first half for 19 separate events and it follows those bushfires. So no one likes pushing rate through home insurance but it is an incredibly valuable product.

I think what we're seeing from our customers, particularly the way that we're focussing on that purpose and getting out and getting people back into their homes is that the value of the product has never been greater in terms of their thinking.

I mean, if you're struggling with COVID and you've got issues around COVID et cetera, the last thing you need is to be materially disrupted by an elongated process and cost around repairing your home after a weather event.

So while the costs are going up and we've got to be very conscious of affordability, the value of the product, I don't think has ever been better understood by customers more broadly. That's an industry perspective but it's also very much what we see. Lisa, do you want to add to that?

Lisa Harrison, Insurance Product & Portfolio CEO: Yes, thanks, Steve. As you've outlined, we have had a big half in terms of natural hazard events, so we have seen that. We've accounted for that with our natural hazard allowance and we're putting pricing through as appropriately.

Then the other point I would add is from a Suncorp perspective, we have now deployed a pricing engine for our Home mass brands as well. So that gives us a greater level of confidence in terms of applying rate where we know it needs to be applied based on the risk. So equally, I think we're well positioned to manage that and manage the balance well.

Doron Kur, Credit Suisse: Thank you and maybe just a last one on the investment portfolio. Recognise that yields have gone up. Could you give us any colour on what the run rate is there and expectations for the next half?

Jeremy Robson, Group CFO: Look, I think it's true that the underlying ITR will improve in the second half from yield but it's pretty modest in the scheme of things, Doran. We expect it to add something as we get into FY23 in particular but the improvement in the second half is pretty modest.

Whilst we're expecting yields to increase, what goes through the underlying ITR is the PV adjustment on claims and then the unearned premium yield component but the bigger one is credit spreads.

Credit spreads thus far have remained relatively flat and long may that last. So I think credit spreads is also one to watch and at this stage, we think the outlook for those is still relatively benign.

Steve Johnston, Group CEO: I'll just add to that in terms of picking up some of your commentary in the presentation, Jeremy. We have got a very conservatively set investment portfolio and that's not pre-supposing there's anything particularly in front of us that we're seeing that concerns us greatly.

We're overweight cash, we're certainly underweight growth assets more broadly across both the shareholders, and obviously no growth assets in the tech reserves and we have got that linker, ILB portfolio, that's been there -

I think we're - I'm not sure but I think we're the only insurer domestically that has got an ILB portfolio sitting within the assets of the balance sheet.

We did that seven or eight years ago because we knew that inflation was one of the biggest risks an insurance company could steer into and it's still the case. So while we have moderated that somewhat, the sensitivity to inflation through those ILBs remains in place. So it's a conservatively set portfolio, which we think is appropriate as we come into this calendar year.

Jeremy Robson, Group CFO: Steve, I'll just add to the back of that as well that we are still targeting a 60 to 80 basis point underlying yield on our tech reserves but with credit spreads where they are, that's pretty tough.

With 70%-odd of our effective exposure in tech reserves to credit, with credit spreads where they are, that's probably unlikely. So to get back to the 60 to 80 basis point underlying yield on tech reserves, we do need to see credit spreads widen a little bit.

Doron Kur, Credit Suisse: Great, thank you very much.

Operator: Your next question comes from Andre Stadnik from MS. Please, go ahead.

Andrew Stadnik, Morgan Stanley: Good morning. Can I ask a first question around the GWP growth? It again looked quite strong and so do you think you've taken some market share? Do you think some of your changes around the branding of the marketing of the portfolio brands, do you think that has helped here?

Steve Johnston, Group CEO: Again, I'll get Lisa to jump in. So the first thing that we did as a team when we came together was, we understood that we're a multi-brand manager and I've always believed that the key to the success of Suncorp is to have those brands operating as effectively and as powerfully as they can.

If you're a multi-brand manager and you haven't got your portfolio positioned against the right customer segmentation or if you're under-investing in those brands or if your marketing is ineffective, it's a lead weight in a multi-brand sense.

So we spent a lot of time pretty manually upfront. We put virtual brand teams together until we were very comfortable that we had the customer segmentation right, that we had the right investment sitting behind the brands and that we got our marketing working better.

So I think now that the multi-brand strategy and the way position the brands, while we've still got some work to do, is operating far better than it was and can be a positive differentiator to our written premium performance. But Lisa, you might want to comment on how each of the brands are placed and where we are relative to market share growth?

Lisa Harrison, Insurance Product & Portfolio CEO: Yes, I think when we set out the strategy a little while ago, our first goal was to stop unit loss, then start growing units, then move into growing market share. As was seen, we've been on that trajectory with some good GWP growth flowing through, especially in this half.

So as Steve said, the building blocks we've put down reinvigorate the brands, invest in the brands. We've started and invested a lot in brands like AAMI and we're seeing really strong returns across all the portfolios from that investment in AAMI, both in terms of Home and Motor. Motor in particular.

As well as our niche brands. Investing in those and again, we're seeing some really good growth coming from Shannons, especially in Motor and Terri Scheer for our Home Portfolio.

Still a little bit of work for us to do on our GIO and Apia brands. The team's very focussed on delivering that so I still think there's gas in the tank in terms of what we can do, in terms of reinvigorating that brand and we've got some good building blocks in place now.

Andrew Stadnik, Morgan Stanley: Thank you. If I can just a second question? Can you talk a little bit about climate action and catastrophe costs. Can you talk a little bit about what specifically can the government do to help you? For example, the north Queensland cyclone pool, what specific financial benefits can it provide?

What further government actions, with packages, initiatives you want to see? Like what could that translate into in terms of financial benefits for Suncorp?

Steve Johnston, Group CEO: I sort of don't think of it through the financial benefits for Suncorp particularly, I think about it through the prism of Australian citizens. People. Consumers. Our customers as the fundamental prism here.

It's a blight on our country that we spend - and every dollar that's spent in the domain of resilience and mitigation, we spent $0.97 cleaning up and $0.03 preparing for and mitigating the impacts of disaster.

So we've got that balance completely wrong. We have for many years. We've been talking about it for a number of years. I'd recognise we probably had limited success but we are incrementally finding people are starting to listen to that story.

So what can they do? Firstly, you can start to invest in public infrastructure and things like levies. We've seen them work. We saw it in Roma where we actually stopped writing insurance until they put a levy around that community.

Since they put the levy around the community, it hasn't flooded since and insurance premiums have come down by more than half. So we know those sorts of initiatives work and that's just one of many initiatives that can be done in the mitigation of public infrastructure domain.

In terms of personal support and protection, well firstly, subsidies. I mean, you can get a subsidy to put a solar panel on your roof but you can't get a subsidy in north Queensland to batten your roof down so that you can handle a category four or five cyclone.

So it seems to me there's some benefits that we can apply through the taxation system. Whether we do that geographically or broader based to provide incentives for people who do invest in making their private homes more resilient.

I've talked about planning and development laws. We fundamentally as a country put people in the face of these disasters through our inadequate planning and development laws.

Then taxes. It's ridiculous that 45% of a premium in New South Wales and 29% of a premium in Queensland is in GST and stamp duty and levies. I mean, that is the most punitive form of taxation where you're effectively levying a tax on an insurance product when we're trying to encourage people to take insurance because that keeps them in the private market, not pushes them out into the tax payer bill.

So there's four things I recognise and support the Labor Party in the Federal campaign who've actually put in place - or identified some initiatives. I expect there'll be more coming through the course of the campaign. There's some embedded in the Government's budget as well which we acknowledge and recognise and some going on at the State level.

Simple things. They'll make a huge difference. They will potentially benefit insurance companies. Yes, I acknowledge that, but fundamentally they'll improve the outcomes for Australians and New Zealanders and our customers and consumers more broadly.

Andrew Stadnik, Morgan Stanley: Thank you.

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

Steve Johnston: Looks like we've lost Sid.

Operator: There are no further questions at this time, I'll now hand back to Mr Johnston for closing remarks.

Steve Johnston, Group CEO: Well, thank you very much everyone and again, just to reiterate, we're very comfortable with the results we're presenting today. We've got a lot more work to do and I look forward to keeping you updated at the full year, if not earlier.

Again, just wishing everyone an opportunity to stay safe and for you and your families to keep working through these challenging times. Thank you, very much.

Operator: That does conclude our conference for today. Thank you for participating, you may now disconnect.

End of Transcript