

SUNCORP





SUNCORP METWAY LTD

**Group Executive, GI
John Trowbridge**

Australian General Insurance Forum

Sydney

Wednesday, October 16, 2002

Briefing Outline



- **Part One: New era or a false dawn in general insurance?**
- Part Two: Suncorp/GIO's competitive position

Factors impacting industry



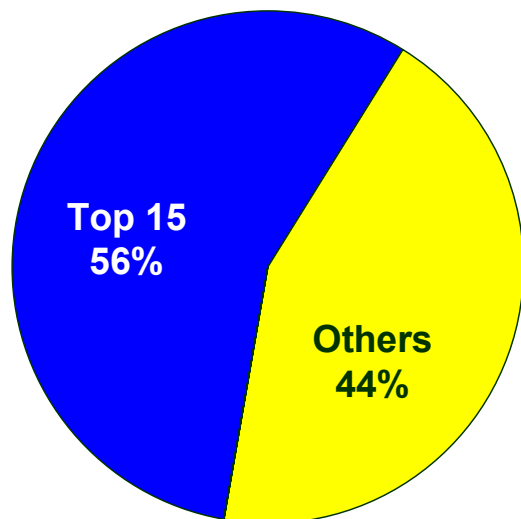
- **Industry consolidation**
- **NRMA demutualisation**
- **New APRA requirements**
- **The HIH Saga**
- **Declining investment returns**
- **Rising prices**
- **Legislative changes**

Industry Consolidation

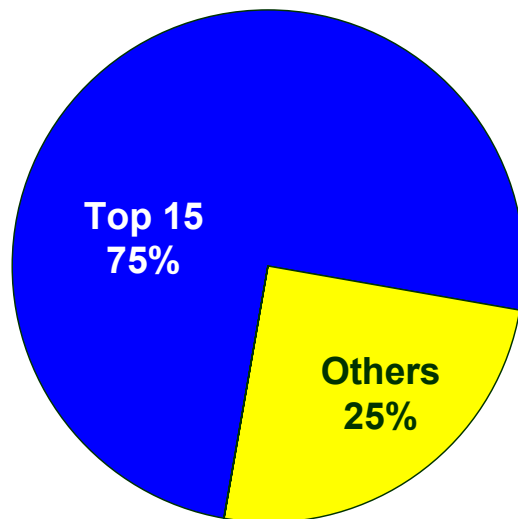


Premium share (GWP): Top 15 private sector direct underwriters

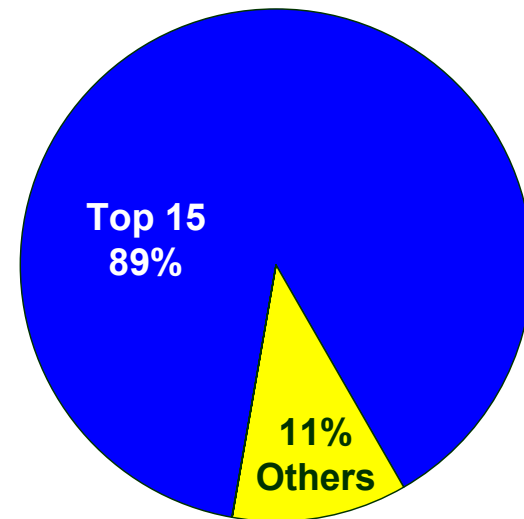
1979



1987



2001



Industry
Total GWP \$1.7b

\$4.6b

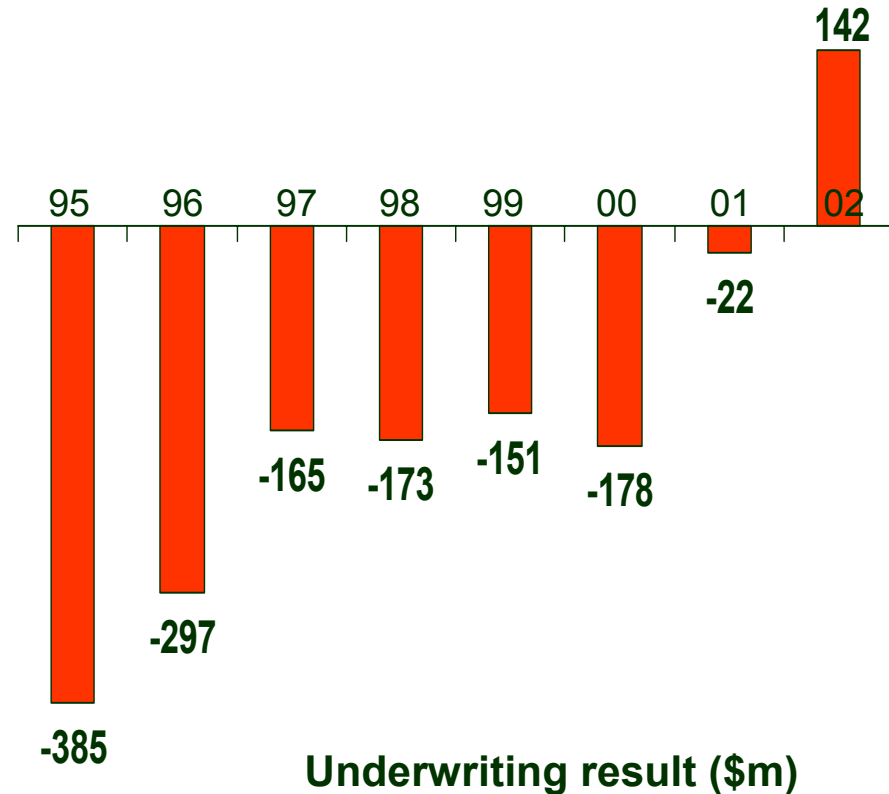
\$15.2b

Source: APRA, Deloitte Trowbridge



NRMA demutualisation

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



New APRA Requirements



The new requirements are very substantial -

- **risk based capital**
- **prudential margins**
- **solvency measures**
- **corporate governance**
- **risk management**

Risk of failure now extremely low?

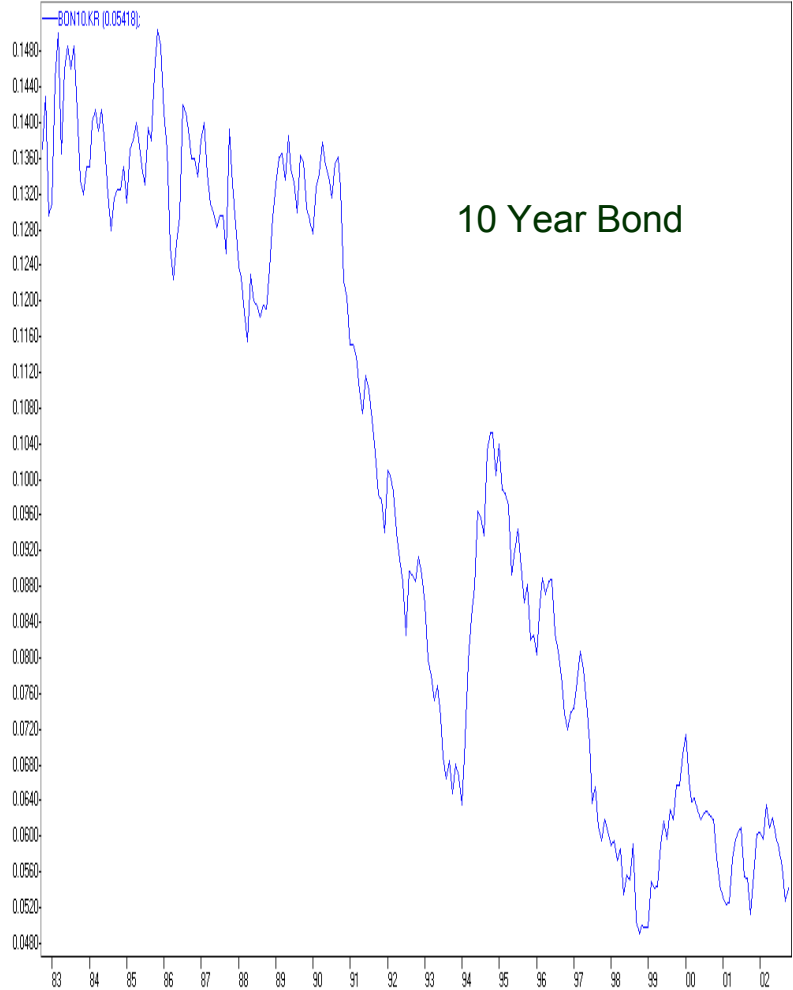
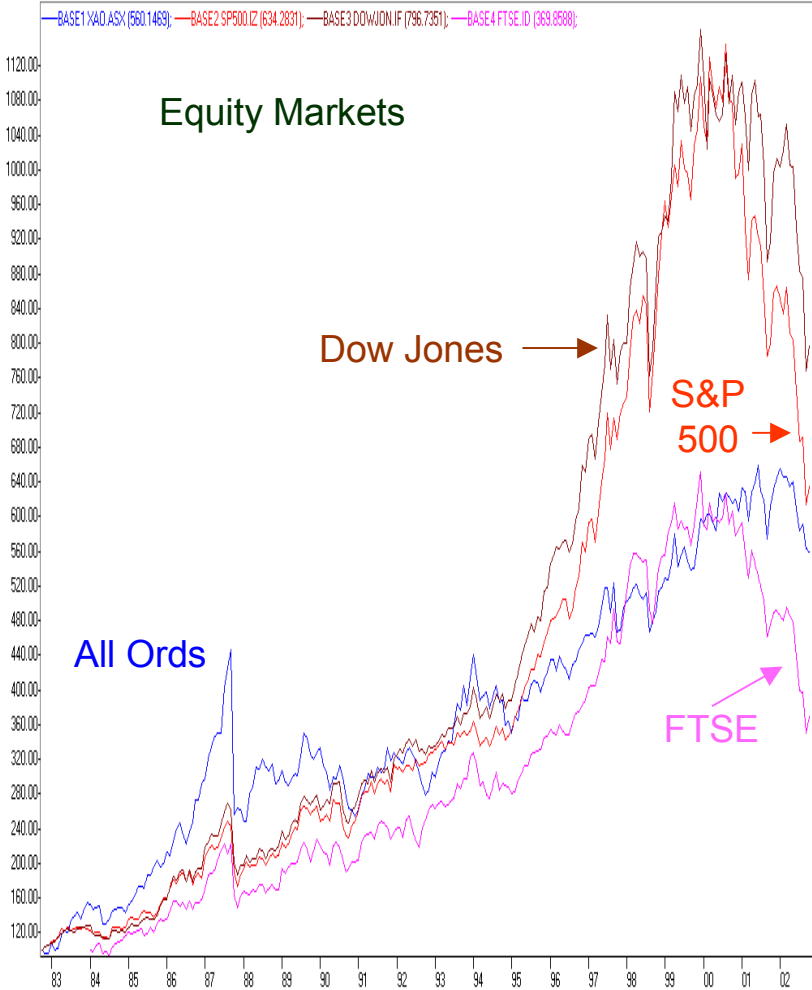
The HIH Saga



The HIH experience has already been influential -

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

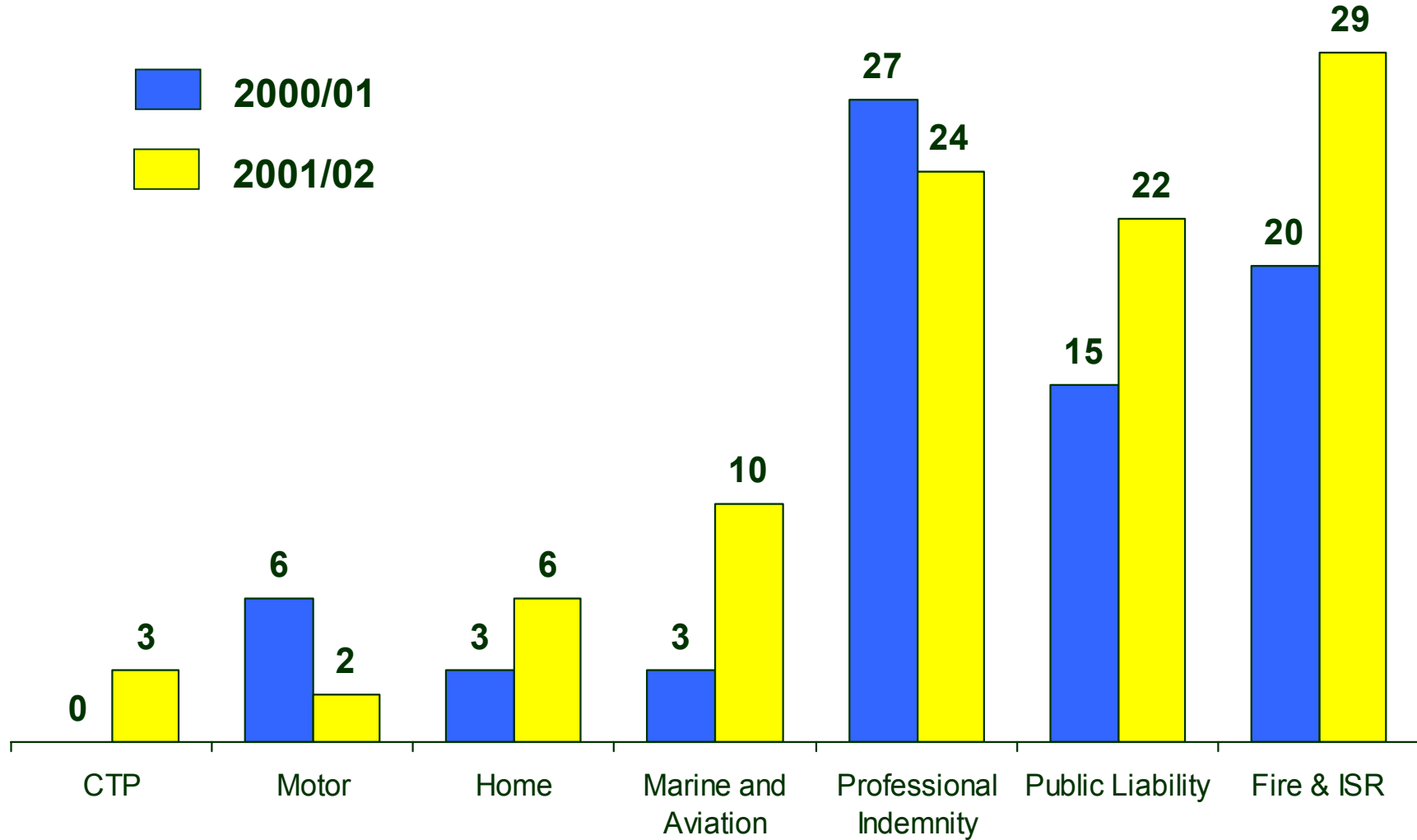
Investment returns decline



Price Increases



(%)



Source: ACCC. Second Insurance Industry Pricing Review, Sept 2002



Legislative changes

- **CTP in NSW and Qld**
- **Workcover reforms in most states**
- **Public Liability across Australia**
- **Negligence laws under review**



New Era or False Dawn?

The Industry is characterised by -

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

Briefing Outline



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- **Part Two: Suncorp/GIO's competitive position**

SUN experience - 1996 merger



Insurance
& Investment

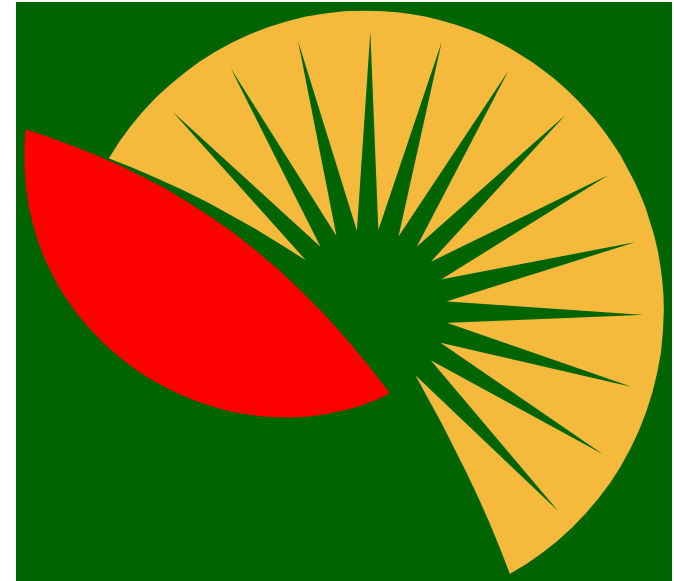
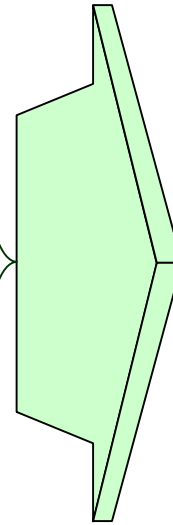


**Metway
Bank**

Retail
Banking



Commercial
Banking



SUNCORP METWAY

\$19 billion assets

GIO - the next phase



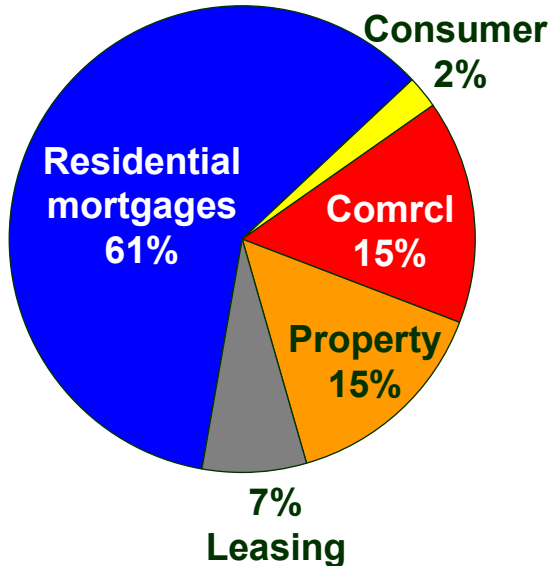
- GIO acquired Sept 01 for \$A 1.4 b
- Combined premium \$A2b, #2 in Australia
- Nationwide expansion
- Adds 1.5 million customers

Created diverse business mix

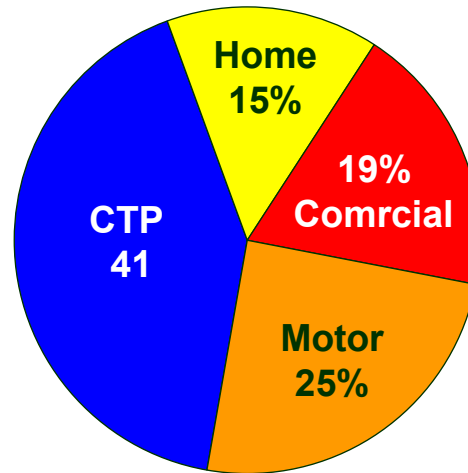


Dec 2001, Excl GIO

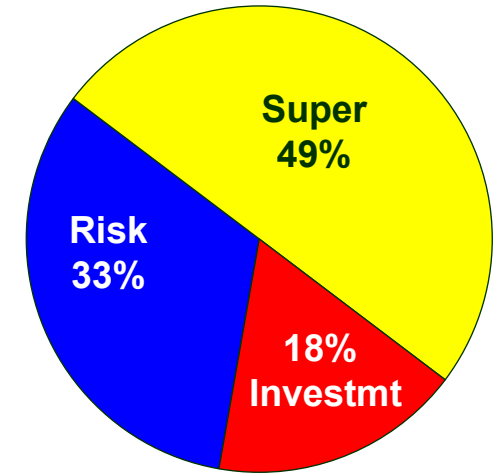
**Banking
Assets
\$A21b**



**Gen Insurance
Premium Mix
\$A1.95b**



**Wealth Management
Sales *
\$A317m**

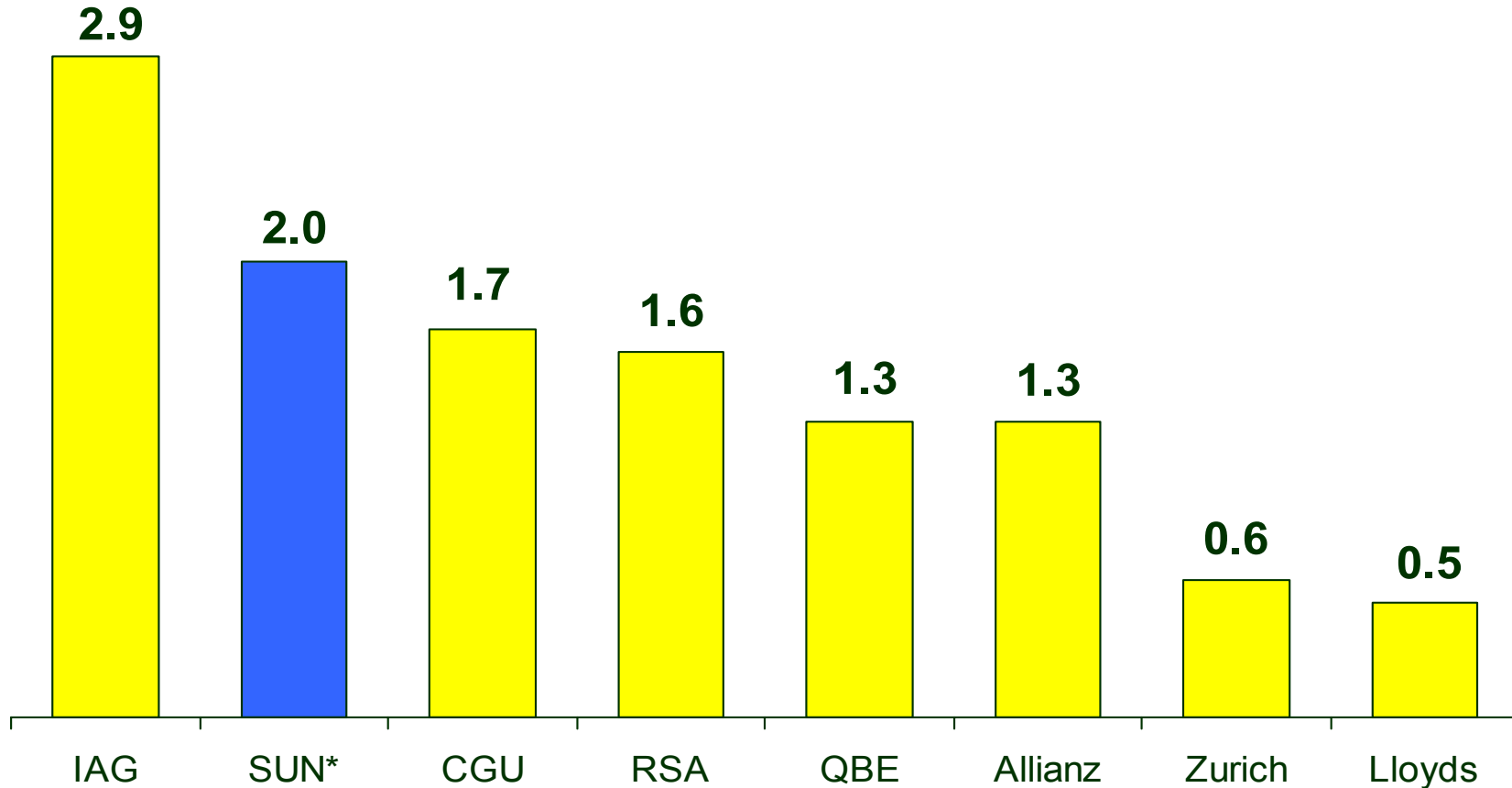


* Risk sales figures are adjusted for comparison purposes. The actual sales are grossed up by a factor of 25 times as an estimate of single premium FUM product sales that would yield a similar profit outcome

Scale advantage in GI



Net Premium (\$Billions)



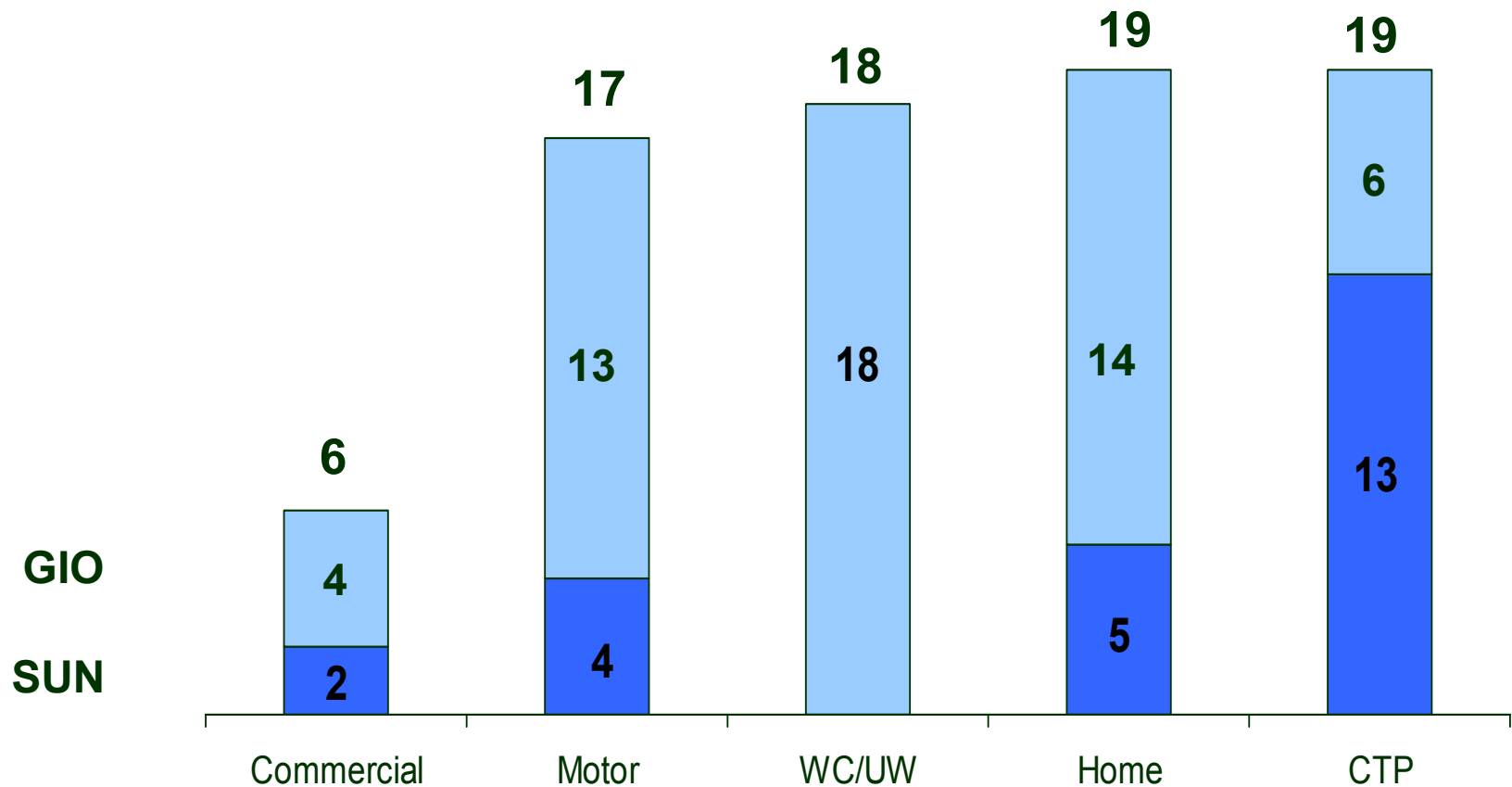
* Excludes motoring club joint venture premium

Source: Deloitte Trowbridge, August 2002

Major market shares



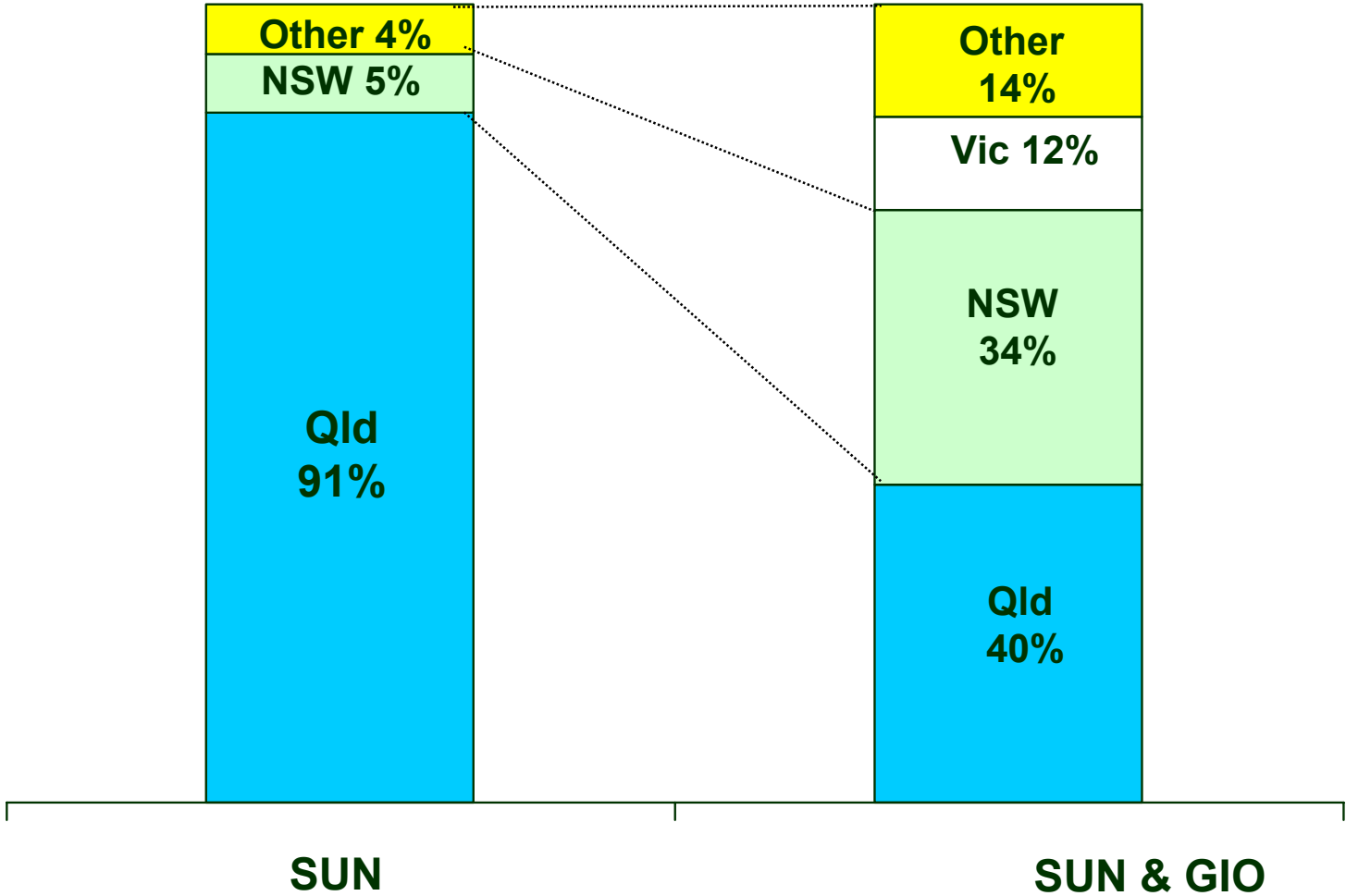
Combined SUN/GIO national market shares %



Source: Roy Morgan, APRA, AMP/GIO

Figures exclude JVs

Geographic Diversification

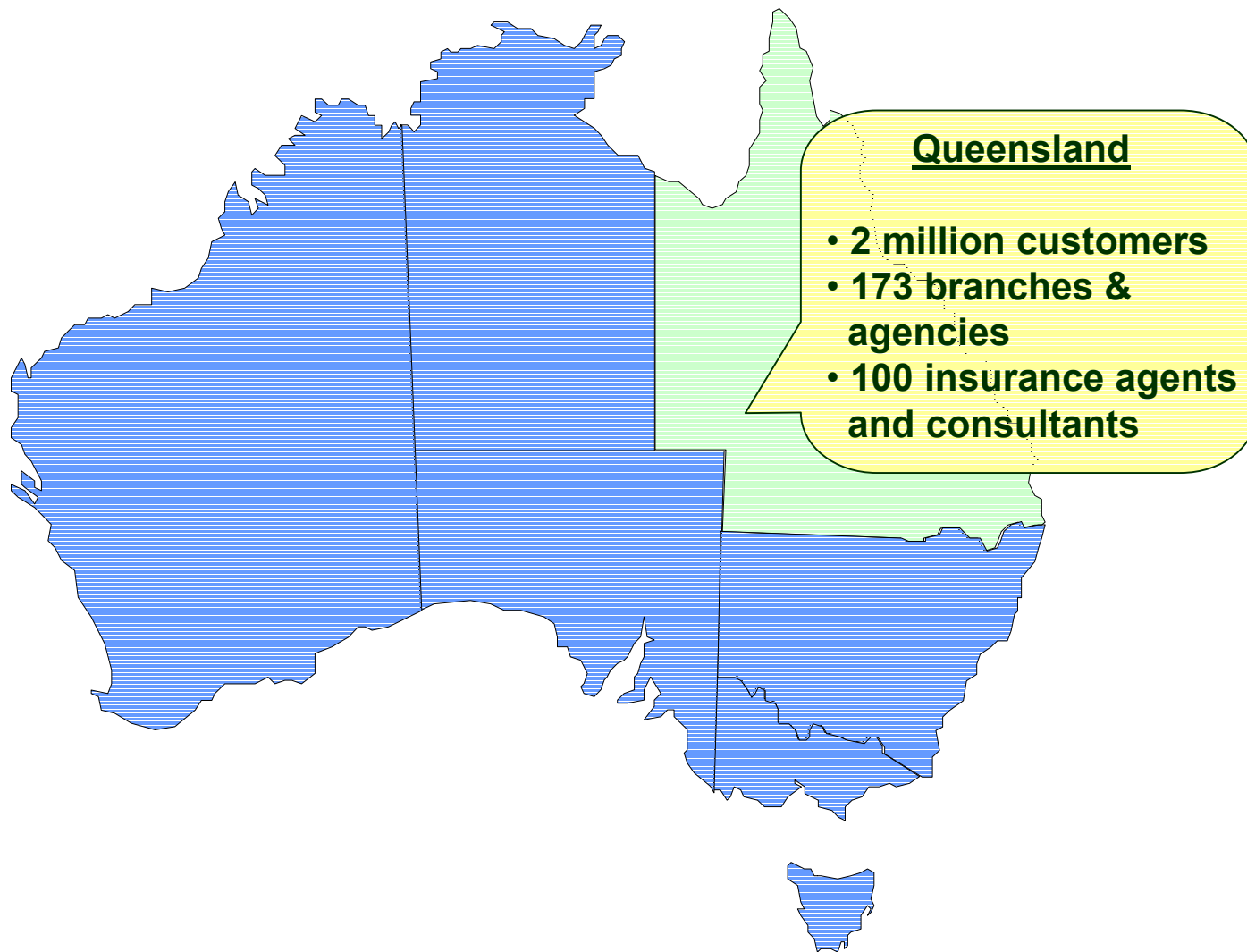


Net Premium Revenue, annual, excl JVs

Creating National Network



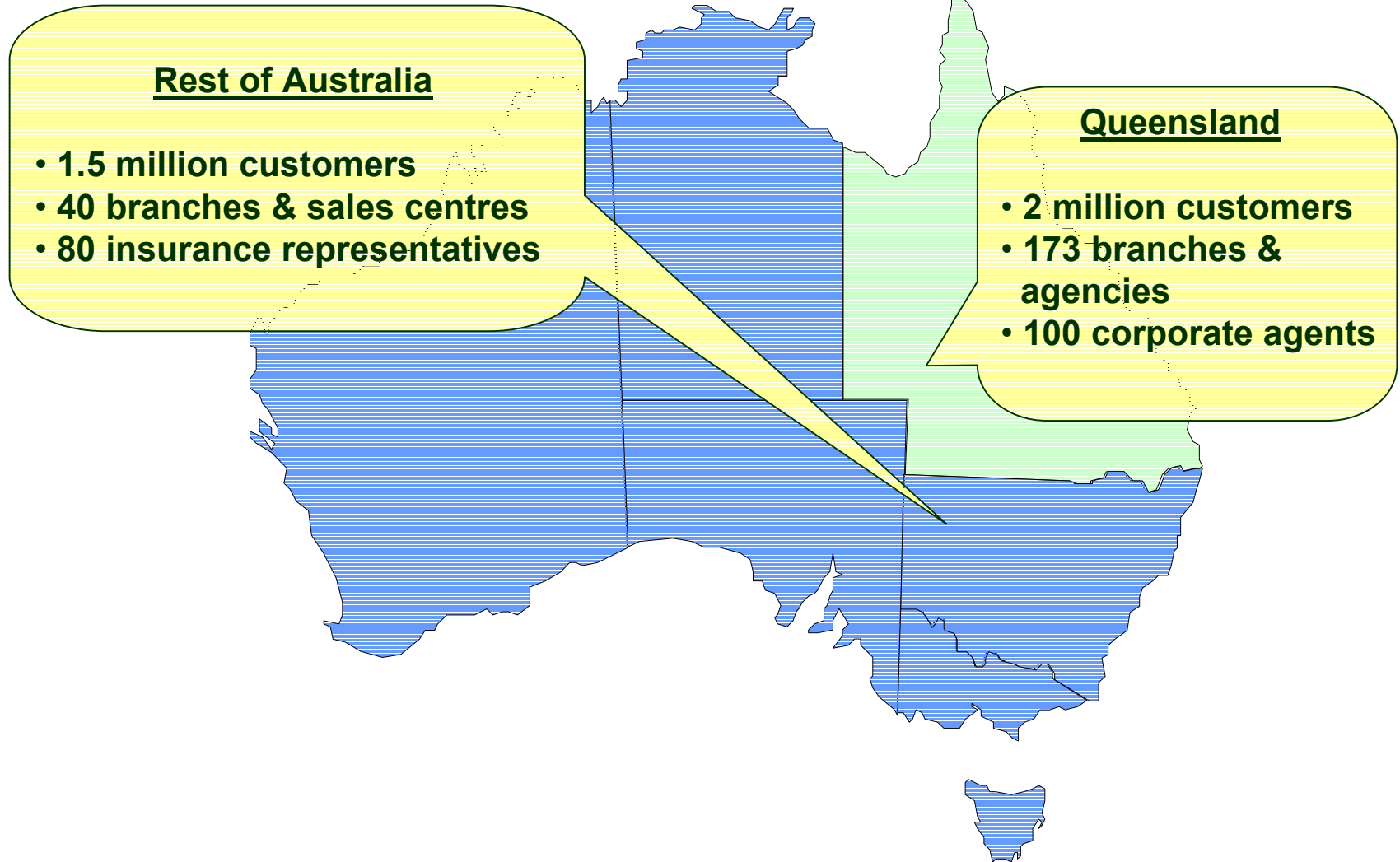
After Acquisition: National footprint



Creating National Network



After Acquisition: National footprint





Integration progress

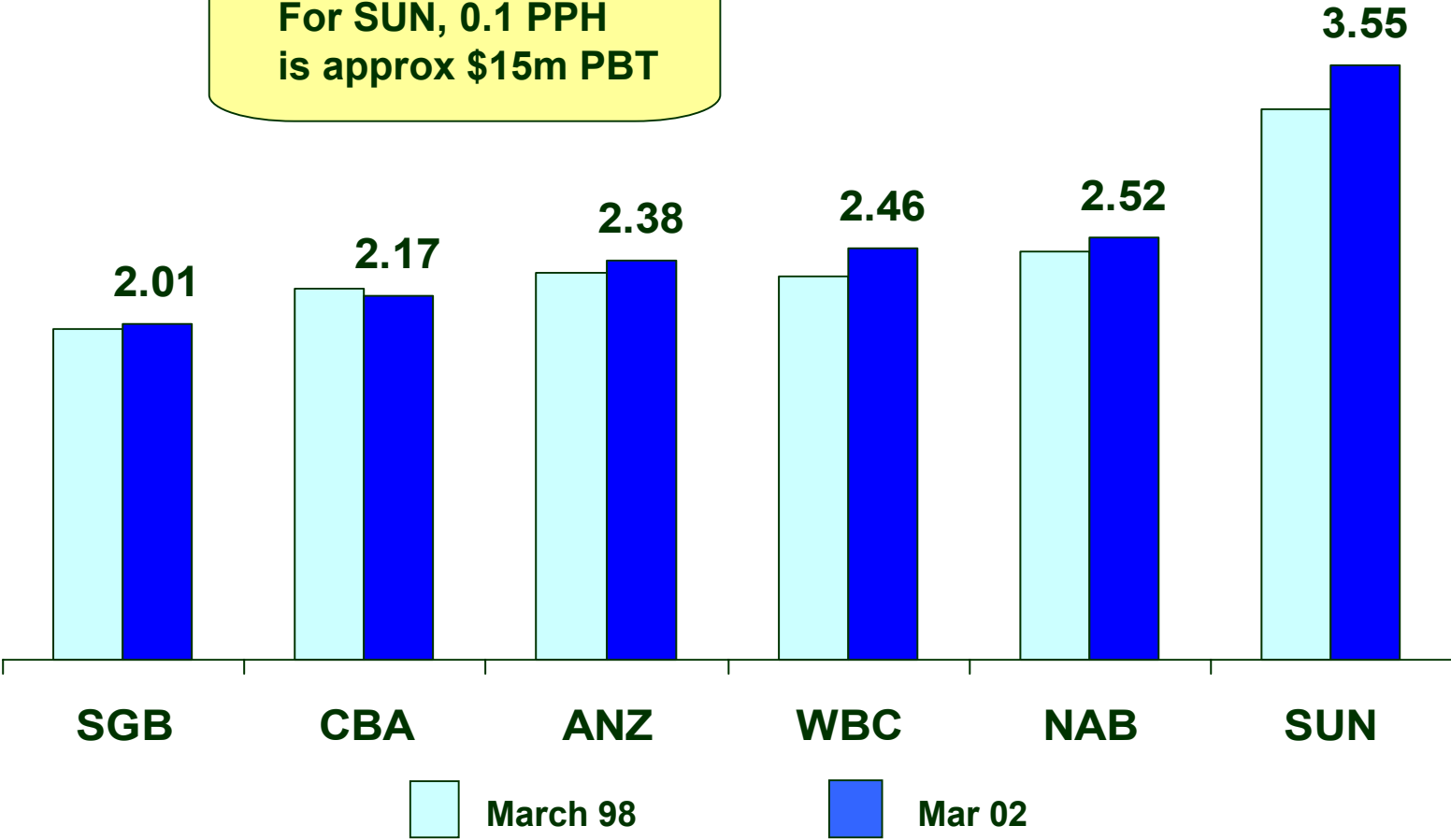
- **Information Technology support brought in-house, saving nearly \$30 million per year**
- **Call centre consolidation is well progressed with 100% of sales and 70% of claims calls now handled centrally.**
- **Centralisation of back office operations from 41 to 6 sites progressing well.**
- **Branding strategy finalised. GIO to be insurance brand outside Qld. Suncorp inside Qld**



Products per MFI customer

(Excluding GIO Customers)

For SUN, 0.1 PPH is approx \$15m PBT



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

Summary and Outlook



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