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14 December 2015

Suncorp General Insurance update teleconference transcript

Start of Transcript

Operator: Thank you for standing by and welcome to the phone call for General Insurance update conference call. At this time all participants are in a listen-only mode. There will be a presentation, followed by a question and answer session, at which time, if you wish to ask a question, you will need to press star followed by the number 1 on your telephone keypad.

I must advise you that this conference is being recorded today, Monday 14 December 2015. I'd now like to hand the conference over to your first speaker today, Mr Michael Cameron. Please go ahead, Mr Cameron.

Michael Cameron: Good morning, everyone, and thanks for joining us, particularly at such short notice. Here today I've got Gary Dransfield, Anthony Day, and Steve Johnston with me.

Now, I've been CEO for around 10 weeks and I've been working with the team to get a much deeper understanding of all facets of the business, and I'm pleased to say that the Group is in really good shape.

The balance sheet continues to provide a solid base to drive the business going forward, and as you're aware, back in June we had about $570 million of capital in excess of the targets, which were fairly conservative targets. The individual businesses are prudently provisioned, and they've also got conservative assumptions in those provisions.

The major issue that we're dealing with is a combination of what I call internal and external challenges in relation to managing the claims cost in the Home portfolio. At the start of the financial year, we expected some claims inflation following last year's weather events, particularly given the shortage of builders that was occurring at that stage, and also the high level of construction volumes in the market generally.

Now, we also expected that the claims costs would return to normal levels after the first quarter, but that hasn't happened. So this, combined with an increase in parts cost in Motor, an increased frequency in CTP, and increased large commercial losses, will have a material impact on underlying ITR for the first half.

On the positive side, our long-tail claims management will result in large reserve releases in the half of between $120 million and $140 million, or that's about 3% to 3.5% of NEP.

The New Zealand business continues to perform well, and in the bank the Ignite and the Advanced Accreditation projects are on track and the credit quality remains very, very strong.

In the Life business, the outlook is for favourable lapse and claims experience, and the delivery of the $170 million worth of optimisation benefits is on track for delivery in 2018.

So my major priority is to address this operational issue in the short-term claims and ensure that the full year underlying ITR will be supported by improved claims management, pricing initiatives, and optimisation benefits.

So I'll now hand over to Gary, who will talk through a bit more detail and outline specific actions that are underway.

Gary Dransfield: Thanks, Michael. In breaking down the personal insurance business a little bit further, at the front end it remains very competitive and new business is even tougher than last year, but on the positive front, we're putting through small premium increases with no discernible impact on retention.

This is occurring across Home and Motor, so I'm confident that we'll see positive GWP growth for the half year.

Specifically on Home claims, we've seen significant deterioration, due largely to escalating large loss costs, particularly associated with fire and water damage claims. We continue to see escalation of frequency and severity of large loss costs across the portfolio. A significant program of work is underway to review our processes, and we work closely with our building panel to continue to manage costs.

We've seen this trend now for the last 12 months. The extent of the increase has become more apparent in the latest quarterly valuation. We do believe that wider industry may be seeing some of these impacts.

In response, we've implemented a number of programs of work, including enhanced builder performance management, large loss project assessment and management support, and further cash settlement controls. I'm confident that these programs of work will make a difference and improve the operational performance.

Turning to Motor claims, we've seen an increase in parts prices of around 18% over the past two years. Obviously, as we run our own repair network, we're probably at the front end of seeing these impacts. However, we are in a good position to respond based on benefits on parts acquisition through our start-up ACM parts operation and our alternative parts strategy, and our SMART Repair operation that is heading towards 50% of our repairable Motor claims in FY17.

I'll now hand over to Anthony Day to discuss the commercial insurance business.

Anthony Day: Thanks a lot, Gary. The commercial insurance business continues to operate well, with strong claims outcomes delivering prior year releases. We are seeing some pressure on the current year underlying ITR due to deterioration in current year claims and continued lower investment yields.

Commercial market pricing remains competitive, but we are seeing price reductions decrease at the top end, which for me indicates that we are approaching the bottom of the cycle. Pricing at the SME level remains stable, and overall we are growing across commercial insurance.

I'll call out Western Australia, though. It's a difficult market and we're walking away from business in worker's compensation, as the margins are just not there.

Over to claims, as I said, we continue to observe good releases from the portfolios at a run rate well in excess of our long-term expectations, 3% to 3.5% of NEP as compared to 1.5% long-term. We have, though, had some patchy claims experience over the last six months. Our portfolio managers have analysed and put in place plans to address. These include price increases in specific sectors, and also corrective claims management techniques to address the claims increases.

In summary, longer-tail business will move around, but as you have seen from our releases over the last few periods, we believe that a high level of control over claims exists. As a result of our strength in long-tail business, we have great opportunities emerging, including recently winning a contract for the South Australian CTP scheme.

Thanks a lot, and now I'll hand over to Steve.

Steve Johnston: Thanks, Anthony, and good morning, everyone. I'll briefly run through the impacts on the underlying ITR and provide a very brief commentary on dividend and capital.

First, we expect the underlying ITR to land at around 10% for the half. Now, of course this is a significant reduction from the June 30 exit of 14.6%, so it's important for me to quickly run through the contributing factors.

The first point to make is one that we talked about regularly at the full year; that being the $75 million increase in the natural hazard allowance, which we have chosen not to pass through on pricing. This has contributed to roughly 1% of the variance.

The most material contributor has been the increased frequency and cost of claims across both PI and CI. In PI, and as Gary mentioned, this has manifest itself across working claims in the form of increased claims volume, increased claim severity, and higher cost of rectification. In CI, large losses in SME have been higher than we would anticipate, and we've seen an increase in frequency in the New South Wales CTP portfolio.

Now, this means that while on a net basis prior year releases remain high and well above our long-term allowances, we have had to strengthen the current year assumptions, and we take this through the underlying ITR calculation. In total, these claims issues across PI and CI account for over 3% of the variance.

The final contributor to call out is investment income, and with lower returns and a volatile yield curve contributing between 0.5% to 1% of the decline.

Now, as Michael pointed out earlier, we are addressing these issues from a range of claims and pricing initiatives. However, as you know, the nature of general insurance accounting means that you take these increased costs directly to the bottom line while it takes some time for the increased premium to earn its way through the board.

In terms of the interim dividends, the working claims issue, combined with a generally unfavourable investment market over the half, will have an impact on our cash earnings. As you know, we determine our dividends based on the target payout ratio of 60% to 80% of cash earnings with a bias to being more conservative at the half year.

On the capital front, it's also worth pointing out that increased working claims lead to higher loss ratios. Higher loss ratios in turn create a capital strain due to the increased premium liabilities and the reduced excess technical provision of the balance sheet. Now while I expect this will have some impact on the 31 December capital positon, it will of course reverse as we get on top of these issues.

So at that point I'll hand back to the operator to moderate questions from the phone lines.

Operator: We'll now begin the question and answer session. If you wish to ask a question you'll need to press star followed by the number one on your telephone keypad, and wait for your name to be announced. If you wish to cancel your request, please press the star key followed by the number two.

Your first question comes from the line of James Coghill from UBS. Please go ahead.

James Coghill: (UBS, Analyst) Morning guys. I've just got a question on the longer term outlook for margins. Clearly there's no mention of the 12% target, and I'm sure you anticipated this question. Perhaps if you could just talk about the appropriateness of that measure, and why it hasn't been mentioned. I'm also interested to just understand, in the second half which of these issues - Steve in the 3% variance that you referred to there, which of those issues do you think could turn around, because most of them seem to be fairly well entrenched in the business.

Michael Cameron: Yes, maybe I can start. Look, the 12% underlying ITR has been our target for a long time and remains an appropriate target. The reason why I wanted to update the market today is it was obvious that we won't achieve that for the half year result. But we still believe 12% is an appropriate target to be working towards.

In relation to the second half, obviously it's very difficult at this stage to know what events will occur throughout the second half. We'll obviously be able to provide a further update at February, which you would expect. But Steve, just in relation to those couple of questions?

Steve Johnston: Yes, look, I think James; it's been quite patchy across the half in terms of the frequency of larger losses, particularly across commercial insurance. You know in insurance you will have months where you have exaggerated levels of large loss claims. We saw that particularly in November, as we're coming through November.

Similarly in personal insurance, I think November was one of our largest months on record for our large claims. Now, absent that being a systemic issue, and we at this stage don't believe it is, we will always see some volatility and some of that may unwind in the second half.

The second point to make is that we have a very comprehensive program to rectify these issues in place, stretching right through Gary's business and Anthony's business. So we would be hopeful that we can get on top of these things as we work our way through the second half. The second half clearly will also benefit from the increased earn of the price increases that we put through. So there is every reason to continue to believe that that 12% target is still relevant for the business as we go forward, but we've got some work to do to get back to it.

James Coghill: (UBS, Analyst) It's just it feels like it might actually turn into an aspirational target over the next few years, because clearly it doesn't look realistic that you'll get there for the full year financial '16. So should we be thinking about it as an aspirational target on a three-year view, or one that you'd like to be at over a fairly short period of time?

Steve Johnston: Well I think it's achievable through the cycle. As you know very well, insurance is a volatile business. This is a period where we've seen that volatility. It's been negative. We've got a comprehensive process in place and it will be a judgement to - for you to determine whether or not you think we can achieve a result. That target, as I said, remains our target. I certainly wouldn't call it an aspiration.

James Coghill: (UBS, Analyst) Okay, thank you.

Operator: Your next question comes from the line of Daniel Toohey from Morgan Stanley. Please go ahead.

Daniel Toohey: (Morgan Stanley, Analyst) Yes, thanks guys. Morning. With New South Wales CTP, it does seem you have been discounting and growing aggressively into that market. Just as recent as 19 October we discussed these issues with some of the leadership team. The point was made that they're not - that you're not seeing any of these issues. So just a question as to what's changed? Is there any issue with the quality of information that's flowing through?

Anthony Day: It's Anthony here, I'll answer that Daniel. Thanks a lot. We actually - when we've been sitting down with the regulator, the issue around small representative claims uptick has been around for a little while. We're less exposed than our competitors, and even the recent stat that we've seen from the regulators show that we have less exposure, and that's what we've been told all along.

What we saw was, in the last quarter, it pick up further than we expected, but it is very well known in the industry what is going on. There is a lot of work going on. We've got some very strong management processes in place to address it. We believe it is a short-term issue that we are dealing with, and dealing with it appropriately.

Was it a surprise the last few months? Yes, it increased more than we expected, but still when we look at the stats, we're still well under what the rest of the industry is experiencing, and which is the mix of our business. As far as the growth in New South Wales, we haven't grown dramatically in our market share in New South Wales. We're holding our own in regards to that. The mix of business, particularly with GIO, is high quality. So that's where we sit.

Daniel Toohey: (Morgan Stanley, Analyst) Okay. Just moving onto Queensland CTP, can you make any comment as to where you're seeing the claims benefit come through there in terms of your initiatives to tighten duration et cetera? Are they mostly shorter tail - within the context of the book, shorter tail claims? Or is it - the benefits are coming more broad based across the entire book?

Anthony Day: Yes, Queensland certainly continues to perform pretty well. We did see a small increase in frequency that occurred in Queensland, but nothing to the level of New South Wales. Our claims and management initiatives of managing on a short-tail basis is certainly what we've been doing for some time now. The benefits continue to play through. So there's nothing specifically different we're doing, but we're still seeing from what you've heard me talk about with releases and where we're sitting now, in a really strong position of what's going through there.

We did adjust pricing recently and we have moved our pricing up by $6 on the headline price there. That will come through in the next quarter. So I think there is some adjustment there, but there's nothing outstanding in that area.

Daniel Toohey: (Morgan Stanley, Analyst) Okay just finally on the additional claims, large lost claims, frequency, you call out, is that - to the extent that that's impacting your underlying margin, are they - I gather they're over - they're within your cap budget, are you saying? Or - I'm just trying to reconcile the underlying fall with the increased frequency of large losses you're highlighting.

Steve Johnston: Yes Daniel, Steve here. Look the large losses that I'm talking about are from the - in the working book. So they'll be large claims in largely the SME book, and you'll get - also will be lumpy from time to time. On the Home book, that being quite a significant increase in claims above $100,000, for fire and water damage typically are the two categories of claim that have increased in the past six months, but particularly in the last month.

Daniel Toohey: (Morgan Stanley, Analyst) Right. So in the context of your high cap budget, is the $75 million increase in the cap budget appropriate for this, or are you saying this is - is it beyond that, or is it - are you saying that the cap budget, you're comfortable with?

Steve Johnston: Yes, well I think the - we did increase the cap budget, as you say, by $75 million. In terms of this being a separate issue to the working claims issue that we've been talking about, in terms of natural hazard we've seen quite a significant, as anyone that's watching TV over the past couple of months will noticed, that - quite a number of smaller, thankfully, hail storms.

As we sit here today we're probably tracking inline or maybe very slightly favourable to that allowance, bearing in mind that we're now about to enter the peak season for the allowance, which is December, January and February, when the majority of the allowance is allocated. So quite a high frequency of smaller type hail events in the first part of the year, sitting against the smaller allocations of the allowance. The story obviously will be told over the next three months, as we hit the weather season.

Michael Cameron: Daniel, it would be good to clarify, those large commercial claims that we're talking about are not considered natural hazards, just in case...

Daniel Toohey: (Morgan Stanley, Analyst) Yes, okay. So I'm just trying to - because you're saying the - that from the 14.6% fall to 10%, you've got 1% headwind from the natural hazards allowance, which I think most people would have had in their numbers. But then over and above that you've got claims increases and CI and PI accounting for 3%.

Steve Johnston: That's right, yep. These are working losses that we don't exclude from the - we don't include in the cap budget in any way, shape or form. The cash rate's really underlying ITR calculations.

Gary Dransfield: So when we say fire and water, typically the fire might be electrically-sourced fire, and the water could be water leakage in the property, not necessarily weather-related fire or water, Daniel.

Daniel Toohey: (Morgan Stanley, Analyst) Okay, all right. Thank you.

Gary Dransfield: Thanks Daniel.

Operator: Your next question comes from the line of David Humphreys from JCP Investment Partners. Please go ahead.

David Humphreys: (JCP Investment Partners) Good morning gentlemen. I think it's quite remarkable that five years of hard work have evaporated in the space of four months. Michael, as a previous non-executive director, can you inform us whether the Board receives enough information around working loss assumptions?

Michael Cameron: Well, let me just talk that through. I've been on the Board for some time, as you know. Three and a half years. This is an issue that we expected coming into this financial year. We expected there would be an increase in the claims cost, associated with supply and demand.

We expected that to taper off in the second quarter, and that hasn't happened. As we've seen that emerge - as we've seen the numbers come through in the last week or two, we've decided to report that to the market because - rather than wait until February, I think it's very timely that we bring the market up to date.

So I'm not sure what point you're making, but the Board's well aware, including when I was on the Board, of these factors. This is an issue that is a combination of internal and external factors. We've put in place a process of managing it to deliver the outcome that we want.

David Humphreys: (JCP Investment Partners) I'm suggesting that there would have been evidence on 4 August when you reported to us, that the working loss assumptions that you were currently pricing the business on were at risk, given that the changes you've talked about have been building for a period of time.

Michael Cameron: Well I think that we did call out an increasing level of costs, and the need to see - monitor the repricing. I remember Patrick drawing attention to that point.

Gary Dransfield: David, it's Gary Dransfield. I think one point to make, there was a little bit of repricing about six months ago in the PI book. Then latterly, and this was planned as well, we put through some slightly larger price increases. I think the other point to note around the support of the underlying and headline ITR is - we still see significant optimisation benefits coming through the course of the next two and a half financial years.

David Humphreys: (JCP Investment Partners) Okay. The second question is a follow up to Daniel's. Given your - I think it's 3% quarter-on-quarter growth in CTP, are you happy to continue to grow at that pace?

Anthony Day: You know certainly it's the - the growth in CTP is pretty strong because of the management techniques that we've put in place. Our book is actually stronger than most. What we're seeing here is an issue that's specific - for a specific cohort of clients. That is, in relation to New South Wales and it is well known what the cause of that is and the regulator is working very hard to address that, so we're not as concerned about that [unclear] but as you've seen the book itself continues to be extremely profitable over the last few periods. So there is every reason why we are confident to continue to grow for the right risk.

David Humphreys: (JCP Investment Partners) Thank you.

Operator: Your next question comes from the line of Ross Curran from CBA, please go ahead.

Ross Curran: (CBA, Analyst) Hi gents. Just a - following up on the theme that David brought up, you've talked through this announcement, the pricing stabilised to improved, you've talked through the natural peril cost increase, we already knew about that, you've talked about lower investment deals, we already knew about that as well. The run rate of expenses also, we should have had a pretty good guide to, but [delta] really seems to be a new CEO and a new head of personal [lines] and I was just wondering to what extent is a philosophically different approach to risk versus an underlying change in the business?

Michael Cameron: Look I don't think it's a philosophical change at all. The business is in great shape. Patrick left this business with a very strong balance sheet and the business operating extremely well. This is an operational matter that's been impacted, firstly by some internal issues and also issues that are impacting the rest of the industry. All we're doing today is bringing it to your attention that having made a market commitment and I take the market commitments that we've made as an organisation, remembering I've been on the Board for some time. I take those market commitments very seriously and I've constantly reminded the team in my first 10 weeks that we are going to deliver those market commitments.

In doing so, realise that - as we've seen the numbers come through, particularly from November, that the half year result will be less than 12% and I felt obliged to bring that to the market's attention as soon as possible, which is this morning. [We could have] chose to wait or to do that in February, but it doesn't reflect any change in our strategy, any change in our philosophy, any change in the quality of the business, it's just a reflection of the volatility of the short-tail business, which is what you should expect.

Gary Dransfield: If I could just add to that Michael and it's not brand new news, but it's reasonably new news, the large volume of natural hazard claims in half two '15 and somewhat of a continuation in half one '16, we're just really now flowing through into supply chain and impact in supply chain. So some of that stuff is not a function of our interpretation of risk, it's just activity that's come about in the last six months or so.

Ross Curran: (CBA, Analyst) So, look, without wishing to be a human headline, you wouldn't describe this as an exercise in sandbagging by a new CEO?

Michael Cameron: I've explained the process and I think it’s a reflection of wanting to keep the market informed and those of who you've known me for a while know that I've got a long history of being very transparent and keeping the market fully up to date and I think it's - hopefully it's useful information for you. But as far as anything beyond that, it certainly isn't what you're suggesting.

Ross Curran: (CBA, Analyst) Sure thing.

Operator: Your next question comes from the line of Ruth Liew from Australian Financial Review, please go ahead.

Ruth Liew: (Australian Financial Review, Journalist) Michael, hi.

Michael Cameron: Hi Ruth.

Ruth Liew: (Australian Financial Review, Journalist) Hi, how are you? A couple of questions for you. What do say to shareholders who, at this close to Christmas will be severely disappointed with this downgrade? Can you tell them that this is a one-off or should they brace for potentially more downgrades to come?

Michael Cameron: No, I think the business, as I said, is in very good shape. There are a number of positives that are occurring in the business and I mentioned those. One particular item was the release of reserves that we're proposing which will be $120 million and $140 million. There are a number of positives, but this operational issue that we're working through needs to be dealt with, but we have plans in place and I'm comfortable that the actions that we're taking will pull the claims cost back to a point where we can continue with the great levels that we delivered in the past.

Ruth Liew: (Australian Financial Review, Journalist) So they shouldn't have to brace for another downgrade perhaps in six months' time? That you believe everything will be contained with your actions in this half?

Michael Cameron: Sorry Ruth, can you just ask that again?

Ruth Liew: (Australian Financial Review, Journalist) Sorry, my question is, so they don't need to brace for potentially more downgrades to come? You're comfortable with the actions that you've taken in this half, they'll be sufficient?

Michael Cameron: Well I'm very comfortable with how the business is being run. It's a strong team, strong balance sheet, strong growth prospects and today we are providing a market update with all of the knowledge that we have as we go into producing the results. But as far as weather events and the investment market, as you know very well Ruth, that's a [unclear] situation. So I can't predict what might happen with those sorts of things, that are beyond our control.

Ruth Liew: (Australian Financial Review, Journalist) Okay. The last question I have is about the 10% ITR target. Is that a more realistic expectation of things to come in the future as well, and were the previous ITR expectations too high? I know you touched a bit on this earlier, but...

Michael Cameron: Yeah. No, the target of meeting or [beating] 12% has been there and as I said, I've been a non-executive director for a number of years and presided over that target. I'm still happy with the target. I still think it's very appropriate and we will continue to work towards that target and the actions we're facing at the moment are really poised to allow us to choose that target going forward.

Ruth Liew: (Australian Financial Review, Journalist) Thank you.

Michael Cameron: [Unclear] resetting, I know we've extended that target in some periods and that's been terrific, but 12% has been the target and remains the target.

Ruth Liew: (Australian Financial Review, Journalist) Thank you.

Michael Cameron: Thanks Ruth.

Operator: Your next question comes from the line of Toby Langley from Bank of America Merrill Lynch, please go ahead.

Toby Langley: (Bank of America Merrill Lynch, Analyst) Good morning everybody. I'm just wondering if we can come back to some of the earlier points, just so we can better understand when you do anticipate some recovery here, because Michael I think you said that - some of what you're talking to today was predictable at the beginning of the period, it's - do you still have that outlook today? If so, why are you not giving guidance for the full year and perhaps trimming people's expectations there as well?

Michael Cameron: Yeah well we wouldn't normally give guidance anyway, but what we do do is provide undertakings to the market as - in the form of commitments and those commitments haven't changed. The only thing that's happened is that the underlying ITR is likely to be 10% or around 10% as opposed to achieving the 12% target for the half year and what we're saying is, we continue to work at delivering the commitments that we've made and that goes for all the commitments that we've made to the market.

Toby Langley: (Bank of America Merrill Lynch, Analyst) With regard to the adverse charges that you've taken in the six months to December, how much of that is project based rather than being specifically claims related? Is any - or is it just - you're just booking heightened claims here? In terms of tackling the short term operational challenges?

Steve Johnston: This is just a claims issue, Toby. Obviously we've got a whole program for rectification in place, but the numbers we're reporting are off the claims base or net incurred claims base.

Toby Langley: (Bank of America Merrill Lynch, Analyst) Do you envisage the pricing action that you've taken today can soften the impact of these trends if they continue? Or are you running to standstill at the moment?

Steve Johnston: Well I think we - obviously as you would expect keep our pricing under review. A lot of factors go into that decision making, but what is beyond doubt is that the input costs for our products have increased, whether that be the valuation of the Aussie dollar over time, or the supply demand equation in the trades industry. But we have to keep conscious of that, keep monitoring our retention, new business activities and make that call progressively throughout the course of the year.

Toby Langley: (Bank of America Merrill Lynch, Analyst) Okay, thank you.

Michael Cameron: Thanks Toby.

Operator: Your next question comes from the line of Brett Le Mesurier from Asia Pacific Prudential Securities, please go ahead.

Brett Le Mesurier: (Asia Pacific Prudential Securities, Analyst) Thanks. Steve you mentioned the premium liabilities were going up because the costs claims assumptions were going up, but what have you allowed for with regard to potential further increases in inflation on home insurance costs? Can you be confident that inflation won't increase there, given that you're heading into the higher storm season?

Steve Johnston: Yeah, well I think - good point Brett. I think we've taken a pretty conservative view of the loss ratios we're putting through the books and obviously the loss ratios play through both the profitability of the book which is the fact that we're reporting today and obviously through the ultimate capital position. So I think we've got a fairly conservative view of that, but obviously we'd be hopeful for a more benign summer period, which would take some pressure off the trade activity which would - to our way of thinking, reduce some of those inflationary factors. But we have fairly conservative expectations around inflation in the loss ratios that we're rolling through the book.

Brett Le Mesurier: (Asia Pacific Prudential Securities, Analyst) By conservative you mean you've allowed for worse inflation than you're actually seeing at the moment?

Steve Johnston: Correct.

Brett Le Mesurier: (Asia Pacific Prudential Securities, Analyst) Okay. Now moving on to what we could expect going forward if that claims inflation is consistent with what you have in the premium liabilities, does it follow that the underlying ITR would be also a similar level to what it is today?

Steve Johnston: I'm not quite sure the question you're asking, but...

Brett Le Mesurier: (Asia Pacific Prudential Securities, Analyst) It's really the insurance margin [implied] by the premium liabilities now?

Steve Johnston: Yeah I think that's probably the case, it would be around the same as what it is today.

Brett Le Mesurier: (Asia Pacific Prudential Securities, Analyst) Okay, great thanks.

Operator: Your next question comes from the line Kieran Chidgey from Deutsche Bank, please go ahead.

Kieran Chidgey: (Deutsche Bank, Analyst) Morning guys, just two questions if I can, so going back to the impacts you called out initially, this 3% impact across PI and CI from the abnormal large working claims, which included that, can you split - give us a rough idea how much related to those large working claims out of that 3% impact just so we can get the sense of how much within that 3% impact might be some more random experience in the period relative to anything else we're seeing in terms of high claims volumes and severity elsewhere?

Steve Johnston: I think we probably want to leave that for the result period. I think it's pretty difficult to break it into less than 3% into all of its component parts. But I think the only point that I would make is that the impacts on the frequency issues in CTP really amount to a reversal of some current year releases that we had six months ago.

So you saw as we came through the full year, the assessment we made at the time, or that was made by the actuaries at the time, was that there was a current year release and obviously that supported the ITR at the full year and there's some current year strengthening coming through in this half. So that's probably about the only bit of colour - there's obviously a number of moving parts in that 3% number.

Kieran Chidgey: (Deutsche Bank, Analyst) Okay and the response to work the margin back to 12% if that is indeed still achievable through the cycle, from a pricing perspective I'm more interested in personal lines in regards to just giving some more competitive backdrop in commercial is probably going to be sustained for some time, but in personal lines are you happy to price above the market to restore margins? I mean where's the balance sitting today between getting the margin back to that level you desire as opposed to [holding] market share?

Gary Dransfield: Kieran, it's Gary. I think we've obviously got a price for what we see is the risk in our cost base, but we also are recognising in our forecasts the benefits that we see coming through our Motor and Home claims transformations in the broader optimisation.

So we're just carefully managing that balance between cost benefit coming through and helping buttress the margin. The competitive position we've gotten at the moment we think we're in a reasonable competitive position based on our renewal rates and our strike rates on inbound new business and really just managing that balance towards a margin outcome and maintenance of market share.

Kieran Chidgey: (Deutsche Bank, Analyst) So does that mean you're comfortable that those claims programs are sufficient to get the margin back where you want it to be without having to price out of market?

Gary Dransfield: Yes, our Board view of both the transformation activities on Motor and Home as well as the nearer term actions that are being taken to arrest the Home claims cost increases particularly certainly assist to support the margin. So that would be our view that they give us plenty of support, along with the broader optimisation benefits that are still coming through the Group.

We don't see that we would need to price out of the market, but we've got a brand portfolio that's quite varied so it's not a binary call for us relative to that quite broad brand portfolio.

Kieran Chidgey: (Deutsche Bank, Analyst) Alright, okay, thanks I'll leave it there.

Operator: Once again if you wish to ask a question please press star one on your telephone keypad. Your next question comes from the line of Alvin Liu from JPMorgan. Please go ahead.

Alvin Liu: (JPMorgan, Analyst) Hi morning guys, apologies Sid can't be here, he's just overseas at the moment, but a few questions if I could. Firstly just following on from Kieran's question about personal lines pricing - would it be a fair statement to say that just holding market share is something that in your view would be fine considering the price increases you're intending to put through?

Gary Dransfield: Yes, so again I think our challenge and our opportunity is to balance the restoration and the margin back towards the overall GI 12% underlying ITR and take what we can get in terms of volume along the way. We certainly target maintaining market share and heading back towards our 12% underlying ITR target.

Alvin Liu: (JPMorgan, Analyst) Okay, sure, and just in terms of a bit of colour on the 3% impact on the ITR, I know you mentioned it was a bit hard to break up the normal large working claims, but just wondering whether it would be at all possible to maybe give a feel of how much of that 3% - maybe the majority of it is from commercial insurance or is most of that coming from CTP?

Steve Johnston: Again - Steve here - we don't typically breakdown the underlying ITR into the various PI/CI components. A point I emphasised earlier was that it's probably a little bit accentuated on the CI side because we had a current year release six months ago and we now have current year strengthening, so that probably accentuates the CI movement but we don't get into a detailed breakdown of PI/CI underlying.

Alvin Liu: (JPMorgan, Analyst) Right, yes. Alright and lastly if I could, just wondering in terms of - so clearly you're trying to move back or aiming back towards 12% target, ITR target, which you're maintaining - just in terms of - because the rise in margin seems to be you're aiming that through your claims management and pricing and some expansion initiatives. So basically what I'm asking is the rise in underlying ITR would that be a gradual process maybe over the next two or three years before we get the 12% underlying, or is this in your view more of a quicker kind of recovery?

Gary Dransfield: In terms of personal lines margins I think we've got a very clear program throughout the balance of this financial year and into the next on those claims improvements, the near term and the already flagged transformation. So we expect to see benefits coming through this financial year and next underpinning our margin.

Michael Cameron: The other thing I mentioned earlier was that February will be a good time - we will have the half year results, we'll have another couple of months of activity and we'll be able to see what's happening across the rest of the industry, how successful the initiatives are travelling. So I think February will be a really good time to provide a bit more information how we feel about the full year.

Alvin Liu: (JPMorgan, Analyst) Okay, thanks guys.

Michael Cameron: Thanks.

Operator: We have a follow up question from Daniel Toohey from Morgan Stanley. Please go ahead.

Daniel Toohey: (Morgan Stanley, Analyst) Yes, thanks guys, just two quick follow ups. Firstly, on the challenges you're seeing in the claims inflation in the supply chain. Can you comment whether that geographically is more isolated or specific to Queensland?

Gary Dransfield: Daniel, it's Gary. Yes, certainly in terms of the Home claims it's skewed towards Queensland and to a degree New South Wales because the events that occurred in particularly half two last financial year and half one this financial year have been Queensland and New South Wales events.

Daniel Toohey: (Morgan Stanley, Analyst) Okay, thanks and just on the price increase, you made the comment GWP should be positive in the first six months. Just on the NEP though, we're still seeing NEP headwinds on a full year basis, is that correct?

Steve Johnston: Steve here, Dan. Certainly the first half you have headwinds from an NEP basis because the lower premium that was written last year started to earn through the book at a lower rate, but as I think Gary mentioned earlier, we were putting price increases through the book back in May and started that process. So those increases will start to drip through the book to a greater extent in the second half and certainly into FY17, so that will help the process of remediation.

Daniel Toohey: (Morgan Stanley, Analyst) Okay, thank you.

Operator: Your next question comes from the line of Liam Walsh from News Corporation. Please go ahead.

Liam Walsh: (News Corporation, Journalist) Good morning guys. One quick question was in terms of the events that are leading to these claims cost increases, can you specifically say what ones are we talking about - Cyclone Marcia - just a couple of examples I was wondering?

Steve Johnston: Steve here, Liam. These are working claims so they're not natural hazard event-related claims per se that go through the underlying ITR calculation. So they'll be for example, fires in restaurants and cafes and the like and large losses on home repairs, so big claims on home damage from either fire or water, plumbing issues et cetera. So slightly different to the natural hazard issue. Gary?

Gary Dransfield: Although I think Liam, it is pertinent to point out the volume of claims that have come from the natural hazards are on top of commercial and domestic building activity, they've filled up supply chain. So just to rattle a few off, Brisbane hail in November '14 which you'll remember well; Cyclone Marcia in February '15; some hail in Narrabri and Chinchilla in March '15; big New South Wales low pressure storms in April '15; Anzac Day hail in Sydney, April '15; South-East Queensland, Northern New South Wales low storms again in April '15 and then in the half that we're in now, south coast New South Wales and Sydney had some relatively significant storms in August; another run through in Fernvale and Chinchilla in October; central coast hail in October in New South Wales and some hail through Sunnybank in south-east Queensland in November and a bit of Darling Downs in November as well.

Michael Cameron: When you put that together there's increased volumes of construction generally for residential for instance and you end up with very low supply, and as a result of that the builders have got an amazing level of leverage for doing fairly straightforward repairs.

So that, together with just an increase, I suspect that there are more and more do-it-yourself people working on their homes and that in itself leads to increased levels of flooding and electrical problems that occur as well. So a combination of all those things means an increase.

Liam Walsh: (News Corporation, Journalist) Okay, fair enough. Look a second question a little bit off-track - we're hearing from some industry sources that Suncorp's looking more at cross-selling a return somewhat to the allfinanz model before, is that correct?

Michael Cameron: Well I'm not a supporter of the allfinanz model but what I will be talking about in February is moving forward with a strategy - certainly am a big supporter of the one company many brands and the broader strategies that we've been going down, but we are an organisation that has a broad range of financial services products, whether they be banking, life insurance, general insurance and we've got nine million customers.

The opportunity for us of course is to increase the volume of the needs being met by our customers, so I think we're in a unique position, but I'll be talking about that in more detail in February when we do a market update.

Liam Walsh: (News Corporation, Journalist) Okay, fair enough, thank you.

Operator: Your next question comes from the line of David Rosenbloom from Henderson Global Investors. Please go ahead.

David Rosenbloom: (Henderson Global Investors, Analyst) Yes, hi, just a quick question from me as I'm watching the relative share price reactions here. Obviously there's mixed differences between the major insurers. I'm just wondering do you view these as industry issues or is this more specific to Suncorp kinds of issues?

Michael Cameron: It's difficult David to be precise about the answer, but I would be surprised if the rest of the industry wasn't experiencing some form of price inflation of claims. So we acknowledge that and we also acknowledge that in relation to managing the performance of the builders, our approach to cash settlements, those sorts of things which I would call internal issues are obviously unique to us. So it's a combination of the two and we'll probably never know the exact split, but as the results come out for other organisations over the next six months we'll get a better feel for what are industry issues and what is unique to Suncorp.

David Rosenbloom: (Henderson Global Investors, Analyst) Great, thank you.

Michael Cameron: Thanks David.

Operator: We have a follow up question from Brett Le Mesurier from Asia Pacific Prudential Securities. Please go ahead.

Brett Le Mesurier: (Asian Pacific Prudential Securities, Analyst) Thanks, a question on the bank. Are you taking questions on the bank? It's not a particularly tricky one.

The net interest margin guidance of 1.75 to 1.85, given the pricing action that banks have taken on standard variable, [unclear] over the last few months should lead to your margin tracking up through the top end of your guidance. Would that be a fair assessment?

Michael Cameron: Well we certainly think that interest margin will be around the top end of the guidance. The first quarter was very strong. The second quarter there was certainly - well it has been so far in this quarter a lot more intense competition. You're right though we did get the benefit of a 16 basis point increase that I think went through on 2 November from memory so we'll continue to push ahead, but it, as you know, continues to be a fairly competitive environment.

Brett Le Mesurier: (Asian Pacific Prudential Securities, Analyst) So you're saying the quarter that we're currently in the margin isn't actually higher than the September quarter?

Michael Cameron: Well we'll wait and see when we get the full year results - the half year results rather - but at the moment we've still got a few weeks to go. We don't have the final numbers so that's probably a number that I'll talk a bit more in detail about when we give you the actual results for the period, but I think the general comment you can take away is that the level of competition was certainly or has been a lot stronger in the second quarter than the first quarter. But we're happy with how things are going in the bank.

Brett Le Mesurier: (Asian Pacific Prudential Securities, Analyst) Okay, thank you.

Michael Cameron: Okay, thanks Brett.

Operator: Your next question comes from the line of Tony Boyd from the Australian Financial Review. Please go ahead.

Tony Boyd: (Australian Financial Review, Journalist) Oh thank you. I am just a little confused. I'm sorry, Michael, but I've read the press release a number of times, and obviously with the market reaction this has been viewed as a profit downgrade. But I think the only mention you've got of the words profit in there are about the improvements that are occurring or going to occur in the profits that you're earning. So can you just clarify for me, what is it about your earnings that are going to be different as a result of this?

Michael Cameron: Yes, Tony. Our earnings will be impacted obviously by the higher level of claims in the negative way. We have also got some positives coming through but it's difficult at this point to be precise about absolute earnings, both for the half and the full year, because as you know, the weather events and the investment markets move every single day. But what we are sure about is that the underlying ITR is going to be negatively impacted by these items that we've called out today. In addition to that there are a couple of positives which will help our overall earnings but they don't help the underlying ITR.

Tony Boyd: (Australian Financial Review, Journalist) So the consensus forecast for $0.54 a share EPS, can we regard those as being wrong given that your share price is down 8% or 9% this morning?

Michael Cameron: Well, we're talking about the half year.

Tony Boyd: (Australian Financial Review, Journalist) Yes, that's the half year, yes.

Michael Cameron: I certainly don't make any comments on consensus share prices or earnings or any of the numbers that are out in the market.

Tony Boyd: (Australian Financial Review, Journalist) Right, okay. But you know the continuous disclosure says that if your earnings are going to 10% or 15% above or below you have to make an announcement?

Michael Cameron: Absolutely and we would do that. We wouldn't hesitate to do that. Obviously we're required by law and the Board take that seriously and the senior team take that seriously. What we're doing today, Tony, is bringing to the market some information about our underlying ITR and how that impacts one of the market commitments that we've made, and the market commitment was to meet or beat the 12%. We're not going to do that for the half, so it's important to advise the market of that, but as we've said in relation to natural hazards, they're travelling about where we would expect. The only thing that I'm concerned about today is the underlying ITR impact of the increased working claims which we've detailed in a fair bit of detail for that.

Tony Boyd: (Australian Financial Review, Journalist) I'm just also intrigued about this Aussie dollar impact, because if I look at the disclosure document you published just recently on 18 November about those subordinated notes you've issued, there's nothing in there about currency as a risk factor for investors. I'm just wondering, when did the Aussie dollar become an influence over your profitability?

Steve Johnston: That's easy, Tony. The Aussie dollar impacts the cost of our parts procurement. So as the Aussie dollar has moved around, it's increased, not only for us but the whole industry, the costs of the parts that we purchase, either through our SMART Repair network or that go through the independent repair network. That's typically the issue with the dollar.

Tony Boyd: (Australian Financial Review, Journalist) Right, so [is that actually] significant costs to you that actually could impact [what] a movement in the dollar from whatever it was to wherever it is now.

Steve Johnston: Yes. Well, if you take the - I think in the whole industry, and us in particular, has seen over the past two years the cost of parts increase by about 17%, Tony, on the back of the adjustment of the Aussie dollar. Now, various insurers will see that differently through their books. Some insurers may have fixed-price contracts with their repairers; therefore they might be quarantined from it for a period of time. But certainly, we own - or are a significant JV partner with 26 repair shops around the country, so we have a very good and clear view of the cost of imported parts, US dollar denominated, and that's the sort of level of increase that we've seen across the board. So we've got about $500 million of costs from parts procurement that the dollar is leveraged to.

Tony Boyd: (Australian Financial Review, Journalist) Okay. Just finally - sorry, I didn't want to keep you too long, but the lower investment yields, where's that coming from? Because I would have thought the yield on the 15% of your portfolio in shares wouldn't have changed. Dividends aren't being cut right across the board.

Steve Johnston: Tony, what this is, is the - this is investments that we make to back our liabilities. Particularly on our long-tail books, we will hold significant reserves which we invest in a range of assets that on the technical funds they're typically in government bonds and high quality corporate paper. The yields on those at the end of November were 2.1%.

So when you've $6 [billion] to $7 billion of your portfolio earning - and we talk about 2% plus the spread of 80 basis points, which is the credit risk we take in the portfolio - when you've got a big portfolio like that earning 2.8% as opposed to what it might have been a couple of years ago at 3% and 4%, it does have a big impact on your overall profitability. We adjust a lot out of the underlying ITR, credit spreads, inflation-linked bonds movements, but the underlying yield, the profitability of that portfolio on an underlying basis goes through the underlying ITR calc.

Tony Boyd: (Australian Financial Review, Journalist) Right, okay. Thank you.

Operator: Our final question comes from the line of T S Lim from Bell Potter Securities. Please go ahead.

T S Lim: (Bell Potter Securities, Analyst) Good day, guys. That news seems to come along every December. Given today's disclosures, including the mention of competition, can you assure us the general insurance business model is not broken?

Michael Cameron: Hi, T S. Well, the model certainly isn't broken and I think strategically I'm very comfortable; structurally I'm very comfortable with where we're positioned. I think we are well-placed to continue to grow and compete. Today we're just talking about a single issue in relation to claims which we now have a program in place to rectify, and we're confident that we are able to deliver that and there's no reason why there needs to be any revision at all to our approach to general insurance. So the short answer is no, we're very comfortable with where we're at. We've got a good team and a good business and a good outlook for the future.

T S Lim: (Bell Potter Securities, Analyst) Thank you.

Michael Cameron: Thanks, T S.

Operator: There are no further questions at this time. Thank you for participating on today's call. We will now conclude. Thank you very much.

End of Transcript