

14 December 2015

Suncorp General Insurance update

Suncorp today reported that the increased cost of settling claims following last year's record run of natural hazard events, combined with the lower Australian dollar, would impact the General Insurance margin for the half year to 31 December 2015.

Suncorp Group Chief Executive Officer (CEO) Michael Cameron said the Group had implemented a range of claims and pricing initiatives to take account of the increased volume and cost of claims.

"While the industry remains very competitive, costs have been increasing as a result of the lower Australian dollar and the impact of the \$4 billion of weather events during 2015. These increased costs will have a significant impact on the underlying margin in our Personal Insurance business," he said.

Personal Insurance CEO Gary Dransfield said a comprehensive program of work is underway to further improve claims processes.

"We are also working closely with our building panel and other suppliers to better manage costs," he said.

In addition to the impact of working claims cost inflation in Personal Insurance, the underlying Insurance Trading Ratio (ITR) has also been impacted by:

- the \$75 million increase in the natural hazards allowance which the Group had previously announced;
- higher than anticipated large loss experience in Commercial Insurance;
- increased claims frequency in Compulsory Third Party (CTP) insurance in NSW; and
- lower investment yields.

As a result, the underlying ITR is expected to be around 10% for the half year to 31 December 2015. The underlying ITR for the full year would be supported by increased claims management and pricing initiatives, as well as the Group's Optimisation program which is on track to deliver \$170 million of benefits in the 2018 financial year.

Commenting on the outlook for premium revenue, Mr Cameron said the Group was continuing to see the stabilisation of the Australian General Insurance pricing environment and increasing premiums had, to date, not had any material impact on retention rates.

As a result, the Group expects to report positive Gross Written Premium (GWP) growth for the six months to 31 December 2015. This compares to flat GWP growth and premium reductions across most portfolios during the 2015 financial year.

Mr Cameron said the Group's reported profits would continue to benefit from releases from long-tail portfolios, which remain well above long-run expectations.

The continued absence of superimposed inflation and improvements in long-tail claims management are expected to result in prior year net reserve releases of between \$120 million and \$140 million or approximately 3% to 3.5% of Net Earned Premium for the six months to 31 December 2015.

Mr Cameron said he had spent the first 10 weeks as CEO working with the team to gain a deeper understanding of all facets of the business, and meeting with employees, regulators, investors and others.

"The Group is in good shape other than the short-term operational challenges in General Insurance that we are highlighting today," he said.

"I'm confident we can address these challenges and continue to drive changes that improve outcomes for our customers, shareholders and other key stakeholders."

Suncorp's detailed financial results for the six months to 31 December 2015 will be released on Thursday 11 February 2016. The Group's interim dividend, based on the target payout ratio of 60% to 80% of cash earnings, will be announced on 11 February with an ex-dividend date of 18 February 2016 and a payment date of 1 April 2016.

Ends

TELECONFERENCE DETAILS:

Suncorp Group CEO Michael Cameron, Group CFO Steve Johnston, CEO Commercial Insurance Anthony Day and CEO Personal Insurance Gary Dransfield will hold a teleconference today at 9:30am Sydney time.

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