International business review[1]

A relentless focus on disciplined underwriting and technical pricing led to a significant improvement in International's performance. The business fully leveraged the improved trading environment to record a materially improved combined operating ratio of 91.3%[2,3].

Jason Harris • Chief Executive Officer • International

Gross written premium (US$M)

5,856[3]

12% from 2019[4]

Net earned premium (US$M)

4,812[3]

10% from 2019[4]

Underwriting result[2] (US$M)

419[3]

280 from 2019[5]

Combined operating ratio[2]

91.3%[3]

2019 96.8%[5]

Insurance profit margin

5.5%[3]

2019 7.9%[5]

2020 overview

Market conditions improved across all lines as premium rates gravitated towards technically adequate levels. Pricing momentum accelerated across the year and has continued into the important January 2021 renewal period.

Following relatively benign experience in 2019, catastrophe claims increased significantly in 2020, with our international energy and reinsurance businesses particularly impacted by the record Atlantic hurricane season.

Following a surprising ruling in the FCA's business interruption test case that departed from previously well-established case law, the Group established significant claims provisions and remains committed to supporting customers and settling valid claims as soon as possible.

Unless otherwise stated, the commentary following refers to the result excluding the impacts of COVID-19.

Operating and financial performance

Underwriting performance

International reported a combined operating ratio of 91.3%[2] compared with 96.8%[2,5] in 2019.

Significant premium rate increases and an improved attritional claims ratio were partly offset by adverse prior accident year claims development and increased catastrophe claims.

The current accident year combined operating ratio was 89.6%, a significant improvement compared with 95.4%[5] in the prior year.

The combined operating ratio of the European insurance business improved to 88.6%[2] from 95.5%[2,5] in 2019, while QBE Re's combined operating ratio improved 1.0% to 96.4%[2].

Asia recorded a combined operating ratio of 100.8%[2] compared with 101.5%[2] in 2019. An improved attritional claims ratio was partly offset by the impact of lower premium on the expense ratio and a modest amount of prior accident year claims development.

Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2020	2020 EX-COVID	2019[5]	2018[6]	2017[5]
Gross written premium	US$M	**5,845**	**5,856**	5,200	5,137	4,940
Gross earned premium	US$M	**5,531**	**5,542**	5,010	5,153	4,933
Net earned premium	US$M	**4,766**	**4,812**	4,339	4,463	4,213
Net incurred claims	US$M	**3,229**	**3,106**	2,918	2,811	2,826
Net commission	US$M	**874**	**877**	752	840	801
Expenses	US$M	**648**	**655**	652	657	674
Underwriting result	US$M	**15**	**174**	17	155	(88)
Net claims ratio	%	**67.8**	**64.5**	67.3	63.1	67.1
Net commission ratio	%	**18.3**	**18.3**	17.3	18.8	19.0
Expense ratio	%	**13.6**	**13.6**	15.0	14.7	16.0
Combined operating ratio	%	**99.7**	**96.4**	99.6	96.6	102.1
Adjusted combined operating ratio[2]	%	**94.5**	**91.3**	96.8	96.7	103.5
Insurance profit margin	%	**2.2**	**5.5**	7.9	N/A	N/A

1 The 2019 and prior results of International have been restated to reflect the transfer of North America's inward reinsurance business to QBE Re, part of International.
2 Excludes impact of changes in risk-free rates used to discount net outstanding claims.
3 Excludes impact of COVID-19.
4 Constant currency basis and excludes impact of 2019 disposals.
5 Excludes one-off impact of the Ogden decision in the UK.
6 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.

Premium income

Gross written premium increased 12%[1] to $5,856 million, primarily reflecting the strengthening premium rate environment across the London Market and European insurance businesses.

International achieved an average renewal premium rate increase of 12.8% compared with 6.0% in the prior year. This included a 19.2% increase in International Markets and 14.4% in the UK regional business, up from 9.8% and 7.1% respectively in 2019, with especially strong increases in classes affected by inflation such as financial lines and international liability, as well as catastrophe exposed lines.

Significant premium growth has allowed the business to reduce our exposure to portfolios such as financial lines where further price correction is warranted.

In reinsurance markets where the premium rating environment remains subdued, notably motor and Europe, the priority remains margin protection. Conversely, in major hubs where pricing is supportive of margin expansion such as New York, London and Bermuda, we have grown our portfolio.

While we continue to build out our Asian capabilities, growth in the region was subdued as we maintain our commitment to sustainable underwriting. The rating environment in the region is improving, though it has not yet corrected to the extent of other markets. Renewal premium rate increases averaged 7.0% compared with 3.5% in the prior year.

Claims expense

The net claims ratio improved to 59.4%[2] from 64.5%[2,3] in 2019. Improvements in the attritional and large individual risk claims ratios were partly offset by adverse prior accident year claims development and an increase in catastrophe claims, albeit from especially benign experience in 2019.

The attritional claims ratio improved 4.0% to 40.2%, reflecting targeted underwriting actions and the strong rate environment.

Large individual risk claims improved to $527 million or 10.9% of net earned premium from 13.9% in 2019, reflecting improved market conditions, our focus on underwriting discipline and ongoing portfolio de-risking.

Net catastrophe costs increased to $206 million or 4.3% of net earned premium compared with 3.1% in the prior year, reflecting a record Atlantic hurricane season and the Iowa derecho.

The result included adverse prior accident year claims development of $80 million or 1.7% of net earned premium compared with $54[3] million or 1.3%[3] of adverse development in 2019. This included adverse development on transferred North America reinsurance treaties, 2019 typhoon reinsurance claims and the strengthening of provisions for European financial lines in recognition of higher than anticipated claims inflation.

Commission and expenses

The net commission ratio increased to 18.3% from 17.3% in 2019, reflecting strong premium rate driven growth in high commission paying London Market Specialty business.

The expense ratio improved to 13.6% from 15.0% in 2019, reflecting operating leverage coupled with disciplined cost management which limited the increase in underwriting expenses to $3 million.

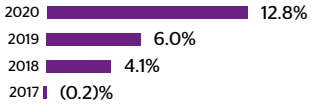
COVID-19 impact

The 2020 ex-COVID-19 result in the table on the preceding page excludes impacts directly attributable to the COVID-19 pandemic. These impacts include: a $46 million reduction in net earned premium, reflecting premium rebates to commercial motor customers, additional reinsurance reinstatement premiums and Hong Kong travel; and $123 million of additional claims net of the benefit of reduced claims frequency in some classes of business during lockdown periods across Europe.

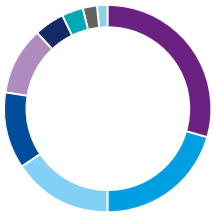
Average renewal premium rate increase

12.8%

6.8% from 2019



Gross written premium by class of business (US$M)



	2020 %
Commercial & domestic property	29.7
Public/product liability	20.3
Marine, energy & aviation	15.8
Motor & motor casualty	11.7
Professional indemnity	10.8
Workers' compensation	4.7
Accident & health	3.3
Financial & credit	2.1
Other	1.6

Combined commission and expense ratio

31.9%

0.4% from 2019

1 Constant currency basis and excludes impact of 2019 disposals.
2 Excludes impact of changes in risk-free rates used to discount net outstanding claims.
3 Excludes one-off impact of the Ogden decision in the UK.
4 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.