North America business review[1]

North America's result was severely impacted by COVID-19, a record Atlantic hurricane season and prior accident year claims development, most notably in run-off portfolios and to address systemic risks. Despite this, an encouraging underlying performance and the strong premium rate environment bode well for 2021.

Todd Jones • Chief Executive Officer • North America

Gross written premium (US$M)

4,775[2]

13% from 2019[3]

Net earned premium (US$M)

3,351[2]

5% from 2019[3]

Combined operating ratio[4]

112.7%[2]

2019 105.6%

Underwriting result[4] (US$M)

(425)[2]

216 from 2019

Insurance (loss) profit margin

(14.6)%[2]

2019 (3.7)%

2020 overview

Market conditions continued to improve in 2020, as the industry strives to achieve premium rate adequacy despite the challenges of COVID-19.

Pricing accelerated across most lines resulting in an average renewal rate increase of 10.2% compared with 5.7% in 2019, underpinned by 20% in professional and financial lines, 18% in aviation, 17% in property programs and 11% in A&H. Brilliant Basics continues to underpin a disciplined approach to selecting and pricing risk.

2020 included meaningful catastrophe claims as a result of the most active Atlantic hurricane season on record. Weather also impacted the Crop business, notably the California wildfires and related smoke taint to Napa Valley vineyards, as well as the Iowa derecho. Following heightened Crop hail claims in recent years, we purchased additional quota share reinsurance which minimised exposure to hail events.

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

Operating and financial performance

Underwriting performance

North America reported a combined operating ratio of 112.7%[4], up from 105.6%[4] in 2019.

The underwriting result was heavily impacted by prior accident year claims development which increased the combined operating ratio by 9.0% compared with 1.9% in the prior year.

The current accident year combined operating ratio was unchanged at 103.7%. An improved Crop result and a further reduction in the attritional claims ratio were offset by increased large individual risk and catastrophe claims, primarily due to record hurricane activity.

Crop recorded a combined operating ratio of 98%. Although well above the historical average due to the Iowa derecho and the impact of wildfires in the Napa Valley, it was a material improvement from 107.5% in the prior year which was impacted by a very high level of prevented planting claims.

Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2020	2020 EX-COVID	2019	2018	2017[5]
Gross written premium	US$M	**4,744**	**4,775**	4,361	4,450	4,287
Gross earned premium	US$M	**4,520**	**4,551**	4,375	4,348	4,347
Net earned premium	US$M	**3,320**	**3,351**	3,692	3,557	3,581
Net incurred claims	US$M	**2,974**	**2,917**	2,929	2,397	2,838
Net commission	US$M	**480**	**486**	536	535	559
Expenses	US$M	**482**	**469**	488	528	529
Underwriting result	US$M	**(616)**	**(521)**	(261)	97	(345)
Net claims ratio	%	**89.6**	**87.0**	79.3	67.4	79.2
Net commission ratio	%	**14.5**	**14.5**	14.5	15.1	15.6
Expense ratio	%	**14.5**	**14.0**	13.2	14.8	14.8
Combined operating ratio	%	**118.6**	**115.5**	107.0	97.3	109.6
Adjusted combined operating ratio[3]	%	**115.7**	**112.7**	105.6	98.1	109.9
Insurance (loss) profit margin	%	**(17.6)**	**(14.6)**	(3.7)	N/A	N/A

1 The 2019 and prior results of North America have been restated to reflect the transfer of North America's inward reinsurance business to QBE Re, part of International.
2 Excludes impact of COVID-19.
3 Excludes impact of 2019 disposals.
4 Excludes impact of changes in risk-free rates used to discount net outstanding claims.
5 Excludes transactions to reinsure liabilities.

Premium income

Strong premium growth was achieved through improved retention and new business in lines where we have market leading positions including Crop, A&H and property programs.

Gross written premium increased 9% to $4,775 million. Adjusting for the sale of the retail personal lines business in 2019, underlying growth was 13% reflecting premium rate increases, focused new business initiatives and improved retention, especially in retail commercial.

Specialty & Commercial grew 11% due to new business and premium rate-driven growth, principally in A&H and middle market commercial lines, as well as strong rate increases in aviation and professional lines. Growth in these areas more than offset the targeted run-off of E&S.

Crop gross written premium increased 14% due to growth in policy count, which more than offset lower commodity prices and reduced volatility factors.

Alternative Markets' gross written premium increased 13%. Premium growth in programs, particularly from rate and improved retention in property and specialty, was partly offset by premium contraction in the affiliated home insurance portfolio due to reduced new business levels.

Net earned premium fell 9% to $3,351 million from $3,692 million in 2019, primarily due to the sale of the retail personal lines business and the purchase of additional catastrophe and crop hail reinsurance. Adjusting for these items, underlying net earned premium growth was around 4%.

Claims expense

The attritional claims ratio (excluding Crop) improved by 2.4% to 46.3% from 48.7% in the prior year.

The net cost of large individual risk claims increased to 8.3% of net earned premium from 6.0% in 2019, largely due to increased severity in general aviation coupled with a strengthening of current accident year claims ratios on short-tail lines, notably in commercial property.

The net cost of catastrophe claims increased to 7.1% of net earned premium from 2.7% in 2019, primarily due to the record number of Atlantic hurricanes.

The result included adverse prior accident year claims development of $305 million or 9.0% of net earned premium compared with $71 million or 1.9% in 2019.

Prior accident year claims development included $71 million pertaining to the E&S run-off portfolio, $60 million in aviation, primarily driven by a single large claim, and $33 million on Hurricane Irma, consistent with industry experience.

The result also included a second half reserve strengthening of around $100 million. This strengthening was largely to address a combination of systemic risk factors, notably social inflation and the potential for higher severity loss trends in casualty lines, including general liability, umbrella and professional lines, rather than in response to specific underlying development observed during 2020.

Commission and expenses

The net commission ratio was unchanged at 14.5%. Growth in the relatively high commission paying program business was offset by additional commission income following increased Crop hail quota share reinsurance.

Although cost reduction initiatives drove a 4% reduction in underwriting expenses, the expense ratio increased to 14.0% from 13.2% in 2019, reflecting the reduction in net earned premium due to de-risking (reinsurance) initiatives and the sale of retail personal lines.

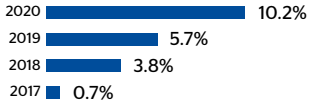
COVID-19 impact

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: an estimated $31 million wage audit related workers' compensation premium refund, partly offset by reduced exposure and lower commissions; $57 million of claims, primarily impacting workers' compensation, aviation and trade credit; and a $13 million expense impact, primarily reflecting anticipated bad debts.

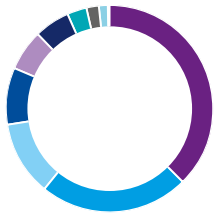
Average renewal premium rate increase

10.2%

4.5% from 2019



Gross written premium by class of business



	2020 %
Agriculture	37.7
Commercial & domestic property	23.3
Professional indemnity	11.5
Accident & health	9.1
Workers' compensation	6.2
Public/product liability	5.8
Marine, energy & aviation	2.8
Motor & motor casualty	2.2
Financial & credit	1.3
Other	0.1

Combined commission and expense ratio

28.5%

0.8% from 2019