XIV GENERAL INSURANCE SEMINAR

A Walk Through the GI Landscape – Past, Present and Future

Colin Brigstock & Andrew Cohen

Today's Walking Trails

- Thinning of the forest
- Tall, medium and small trees
- Tall trees – growing pains or growing gains?
- A ROCky road?
- The future – a road to riches?

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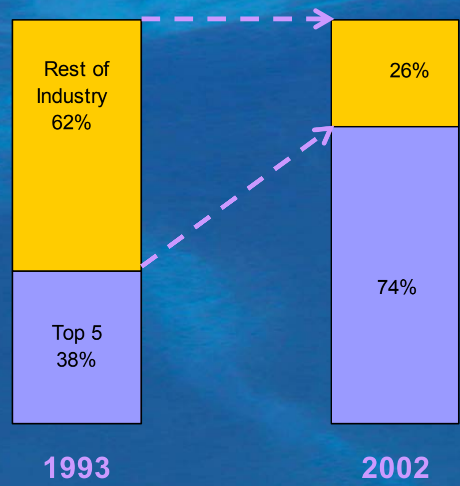
Recent Acquisitions

10 Years of Consolidation



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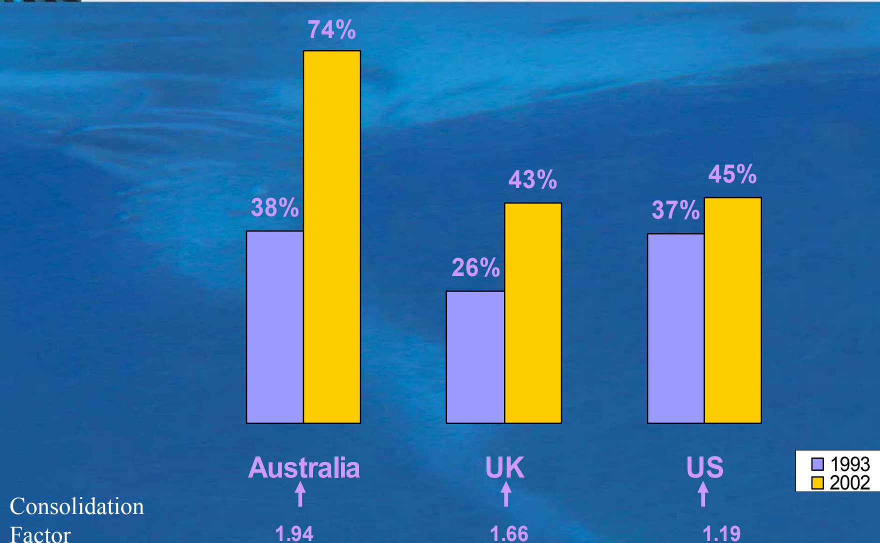
Top 5: Australia vs US and UK



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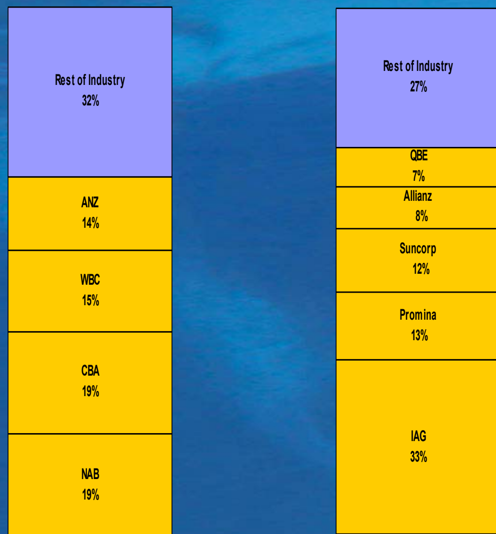
Australia: GI vs Banking



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Changes in Ownership Structure

1993	Ownership	2002	Ownership
NRMA	Mutual	IAG	Public company
GIO	Recently privatised	Promina	Public company
SARIAL	UK owned (listed)	Suncorp	Public company
NCU	UK owned (listed)	Allianz	German owned (listed)
FAI	Public company	QBE	Public company

- Different financial motivations?

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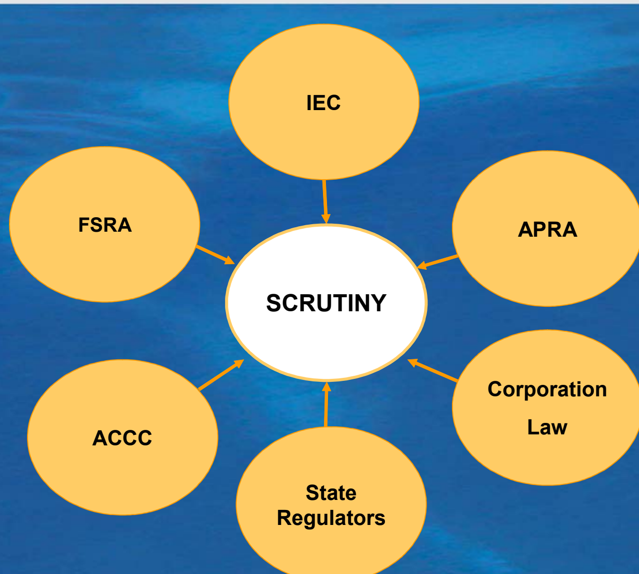
Distribution Channels

	Distribution Channels
IAG	Multiple channels
Promina	Multiple channels
Suncorp	Mainly direct (allfinanz)
Allianz	Multiple channels
QBE	Mainly broker

- **More complex organisations?**

Increased Scrutiny



Thinning the Forest: Summary

- Dominance of Top 5
  - Market power?
- Ownership
  - Better financial discipline?
- Portfolio of brands
  - More complexity?
- Regulatory environment
  - Protection against mavericks?
  - Increased barriers to entry?

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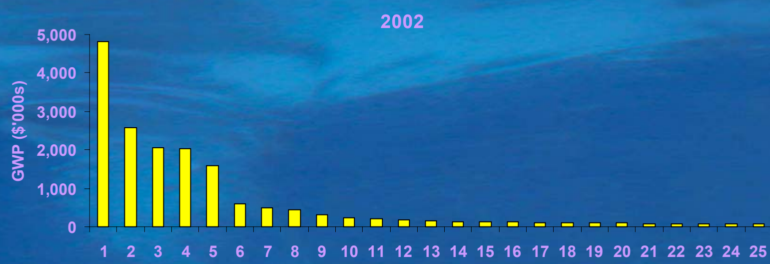
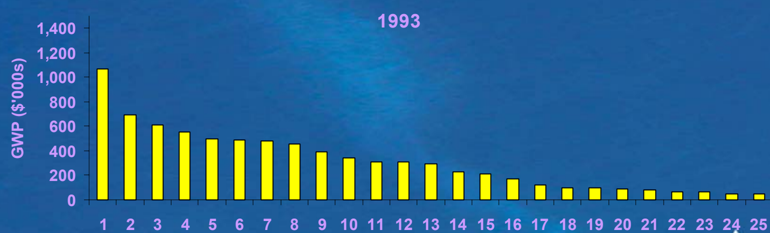
GWP of Top 25: 1993 and 2002





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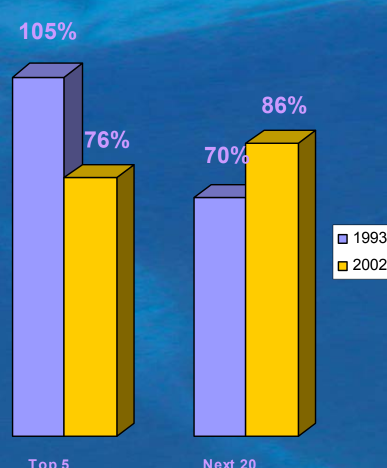
Solvency Ratio (NAV/Premiums)



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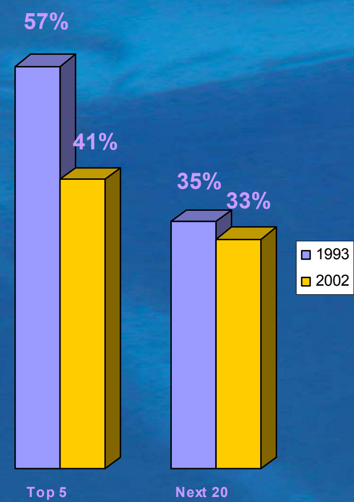
Solvency Ratio (NAV/OS Liabs)



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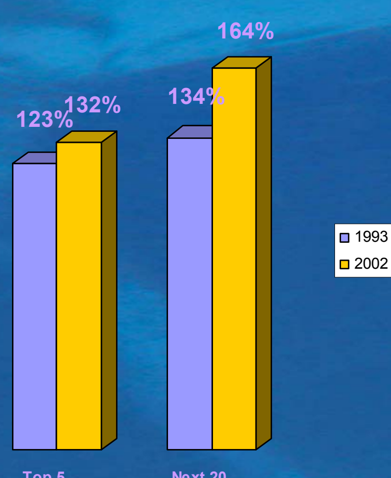
Reserve Ratio (OS Liabs/Net Premiums)



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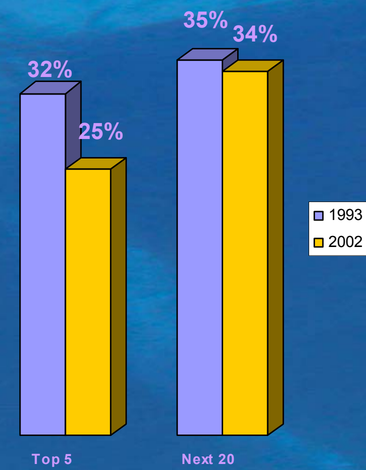
Expense Ratios



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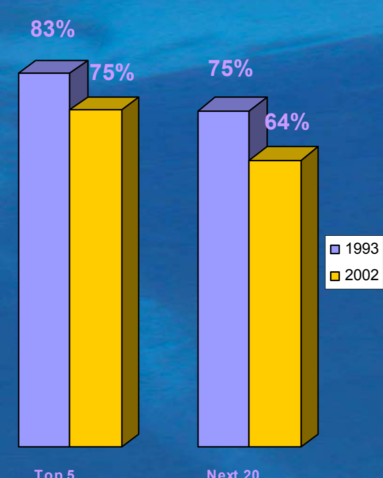
Loss Ratios



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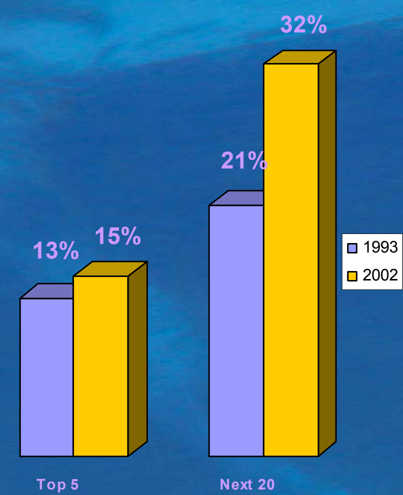
Reinsurance Ratio



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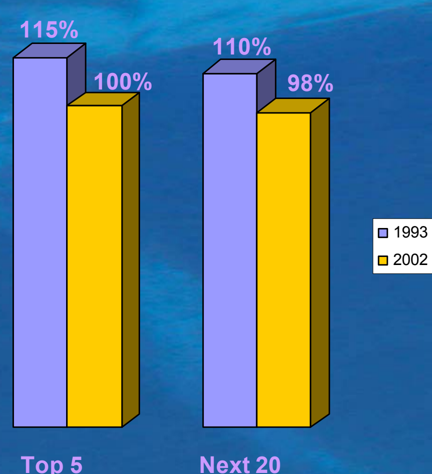
Combined Operating Ratios



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Top 5 vs Next 20: Summary

- More obvious size differential between Top 5 and Next 20 by 2002
  - Big companies got bigger
  - Many medium-sized companies disappeared
- As a result, benefits of scale have emerged
  - Capital efficiencies?
  - Expenses
  - Reinsurance costs
- But CORs similar

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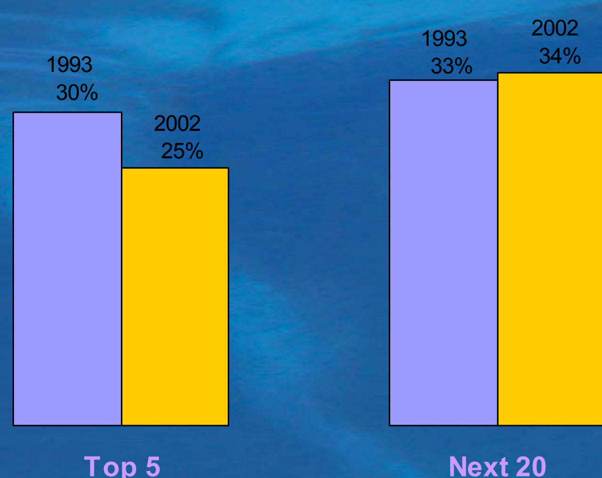
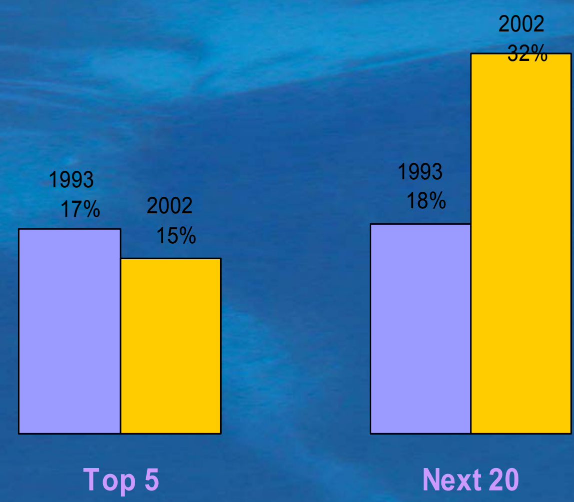
Benefits of M&A activity

- Considered the Top 5 companies now and their “component” companies in 1993
- Comparison with Next 20
- Has increased size resulted in:
  - Improved expense ratios?
  - Less reinsurance expenditure?
  - Better premium growth rates?

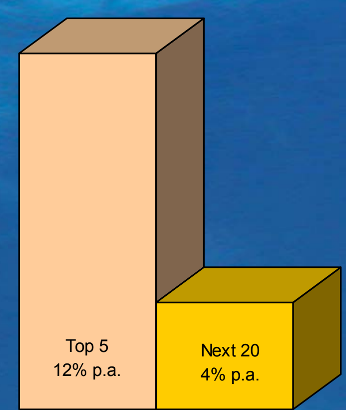
Expense Ratio



Reinsurance Ratio



Real Premium Growth Rates



M&A Activity Shows Clear Benefits…

- Economies of scale are evident in all 3 measures considered
  - Expense ratio
  - Reinsurance ratio
  - Real premium growth

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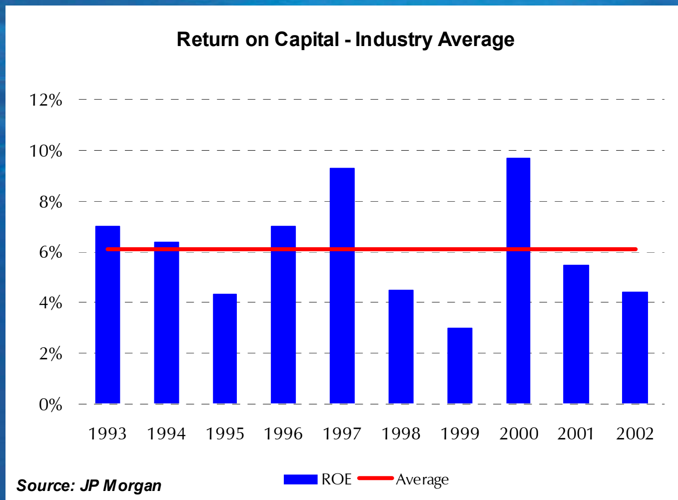
ROC Over the Last 10 Years



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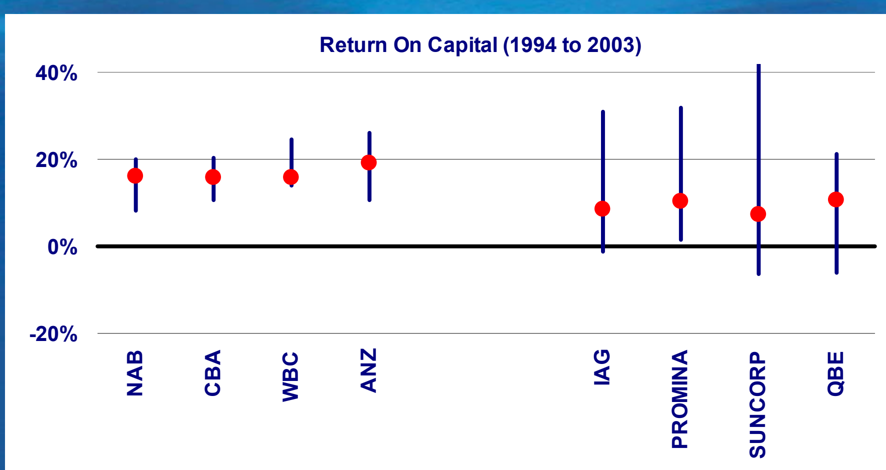
ROC – Insurance vs Banking Industry



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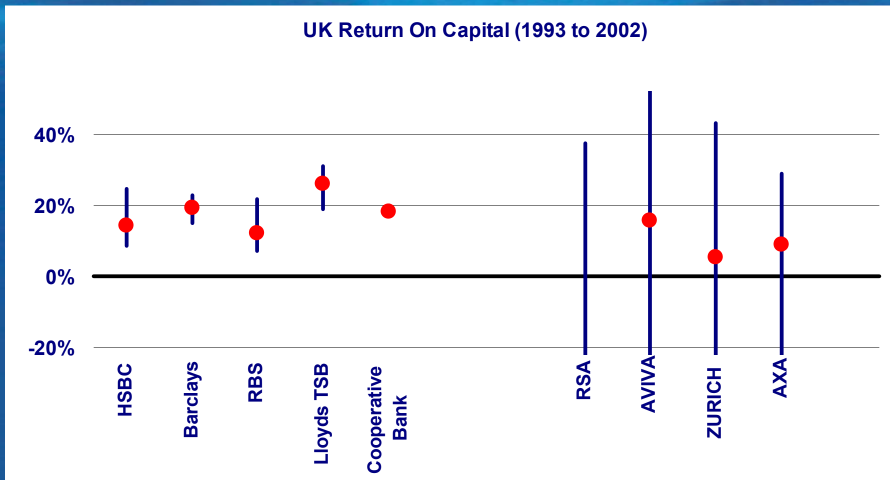
ROC – UK Insurance vs Banking Industry



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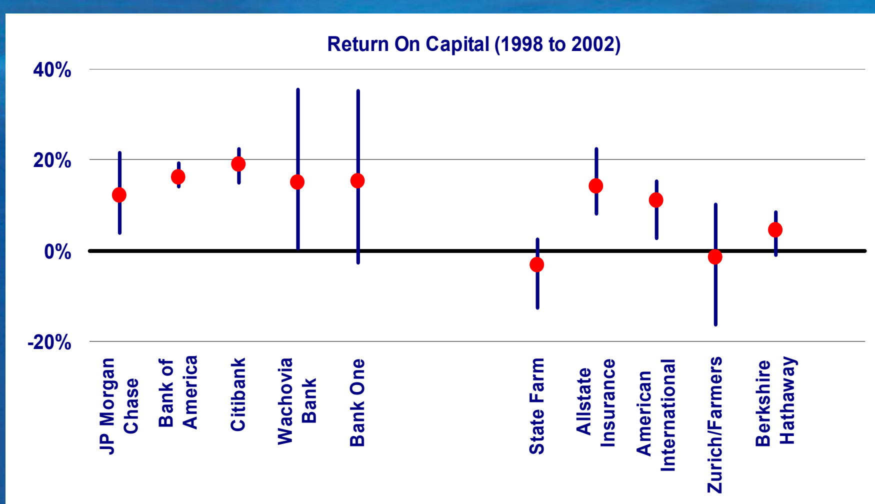
ROC – US Insurance vs Banking Industry



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Share market View of Major Institutions

	Projected 2004 ROE	Current Share Price	Price to Book Value Ratio	Price Earnings Ratio
IAG	17%	4.49	2.5	14.3
PMN	19%	3.30	2.4	12.7
QBE	19%	10.22	2.1	11.4
SUN	15%	12.65	2.0	13.3
Average	17%		2.2	13.0
NAB	19%	29.84	2.0	10.5
ANZ	21%	16.95	2.3	11.1
CBA	13%	27.54	1.8	13.5
WBC	21%	15.45	2.4	11.5
Average	19%		2.1	11.7

[1] As at 6 November 2003. From www.ninemsn.com.au website

[2] Calculated using median of analysts' forecasts for 2004

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Reduction in ROC by 5%...

Threat	Quantification
Loss ratio deterioration	3.5% increase
Cat losses	2 losses over $350M
Superimposed	3% (unexpected)
Investment performance	1.5% reduction

- **Enjoying 20% ROCs now…**
- **But 15% target average easily eroded**

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Industry Restructure

Market power	+
Better financial discipline	+
More complex organisation	-
Regulation	+/-

- On balance, positive for the future

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Benefits of Scale

Expenses	+
Increased market share	+
Capital efficiency (net assets, R/I)	+

- **Clearly positive for the future**

The Future – A Road to Riches?

- **Is industry well-placed to produce much better returns than in the past?**
- **In theory, yes**
- **In practice, ???**

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The Future – A Road to Riches?

- Will insurers emulate the long term ROC performance of the banks?

- Probably not

The Future – A Road to Riches?

- Without acquisitions, will top 5 increase their market share?
  - Definitely

- Will there be more consolidation?
  - Among Top 5 Maybe
  - Among others Definitely
  - By Top 5 of others Definitely