

# Results for the six months ended 30 June 2015

Friday, 24 July 2015

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# Overview

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## Overview – strong results in a competitive market

- Profit before income tax of \$154.5m (2014: \$132.9m)
- Gross premiums written increased 2% to \$1,099.7m (2014: \$1,077.7m)
- Combined ratio 86% (2014: 90%)
- Rate change on renewal business -2% (2014: -1%)
- Prior year reserve releases of \$74.5m (2014: \$72.9m)
- Investment return of \$43.5m (2014: \$46.8m)
- Annualised return on equity of 20% (2014: 17%)
- Interim dividend up 6% to 3.3p

## Business update

- Growth in US premium and operations
  - Opened LA office
  - Growth in our accident & health business
  - Focus on small business lines
- Continued rate pressure on short tail lines of business
- The favourable claims environment continues
- Entered into a strategic partnership with Korean Re
- Continue to invest in attracting and retaining good people and launching new innovative products
- Our US admitted accident & health business wrote GWP of US\$14m

# Financials

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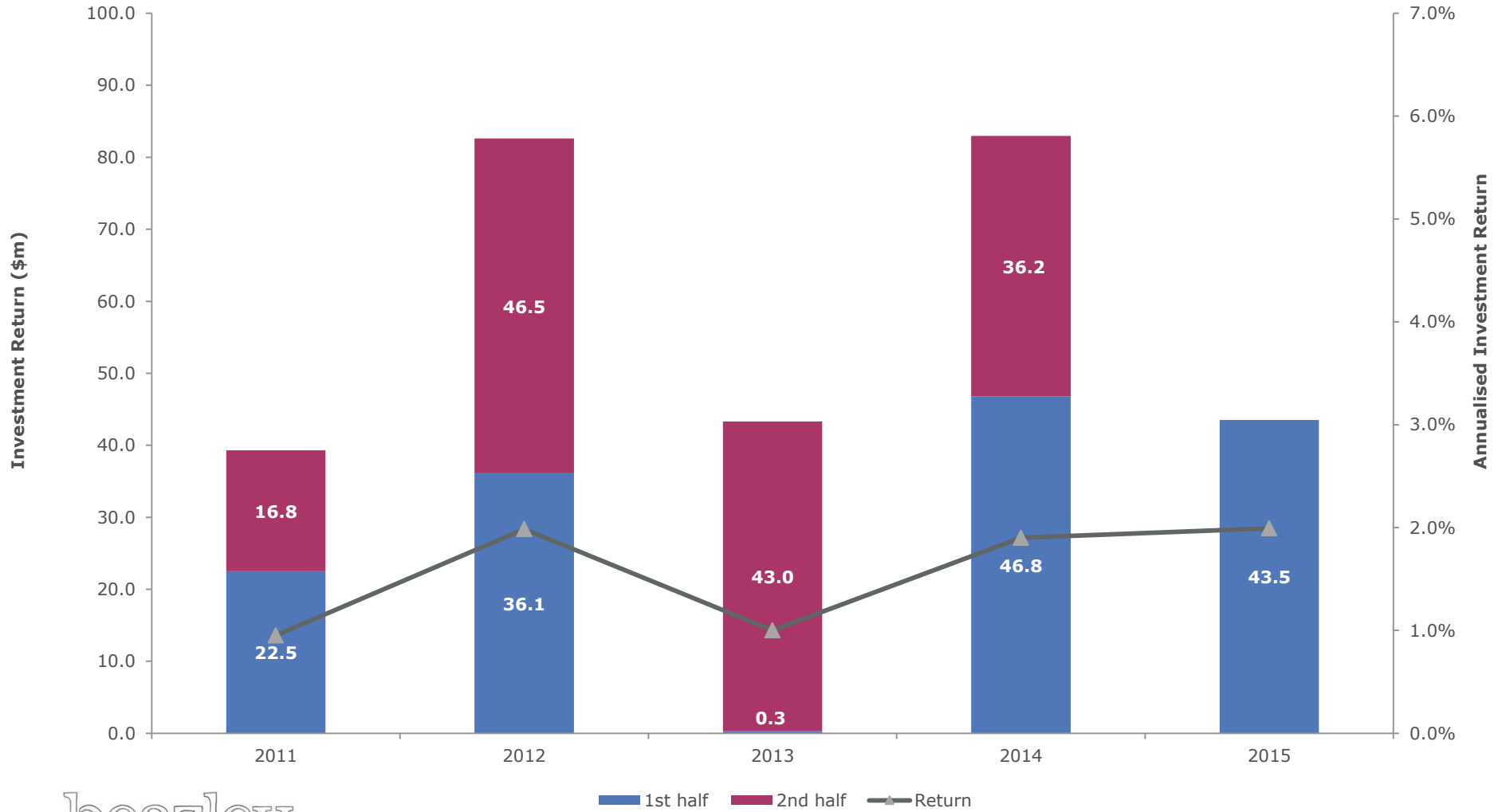
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## Six months financial performance

|                                       | <b>6 months ended<br/>30 June 2015</b> | <b>6 months ended<br/>30 June 2014</b> | % increase/<br>decrease |
|---------------------------------------|--|--|-------------------------|
| Gross premiums written (\$m)          | <b>1,099.7</b>                         | <b>1,077.7</b>                         | 2%                      |
| Net premiums written (\$m)            | <b>879.2</b>                           | <b>889.2</b>                           | (1%)                    |
| Net earned premiums (\$m)             | <b>857.7</b>                           | <b>804.5</b>                           | 7%                      |
| Profit before income tax (\$m)        | <b>154.5</b>                           | <b>132.9</b>                           | 16%                     |
| Earnings per share (pence)            | <b>17.2</b>                            | <b>13.5</b>                            |                         |
| Dividend per share (pence)            | <b>3.3</b>                             | <b>3.1</b>                             |                         |
| Net assets per share (pence)          | <b>167.8</b>                           | <b>146.0</b>                           |                         |
| Net tangible assets per share (pence) | <b>156.6</b>                           | <b>135.4</b>                           |                         |



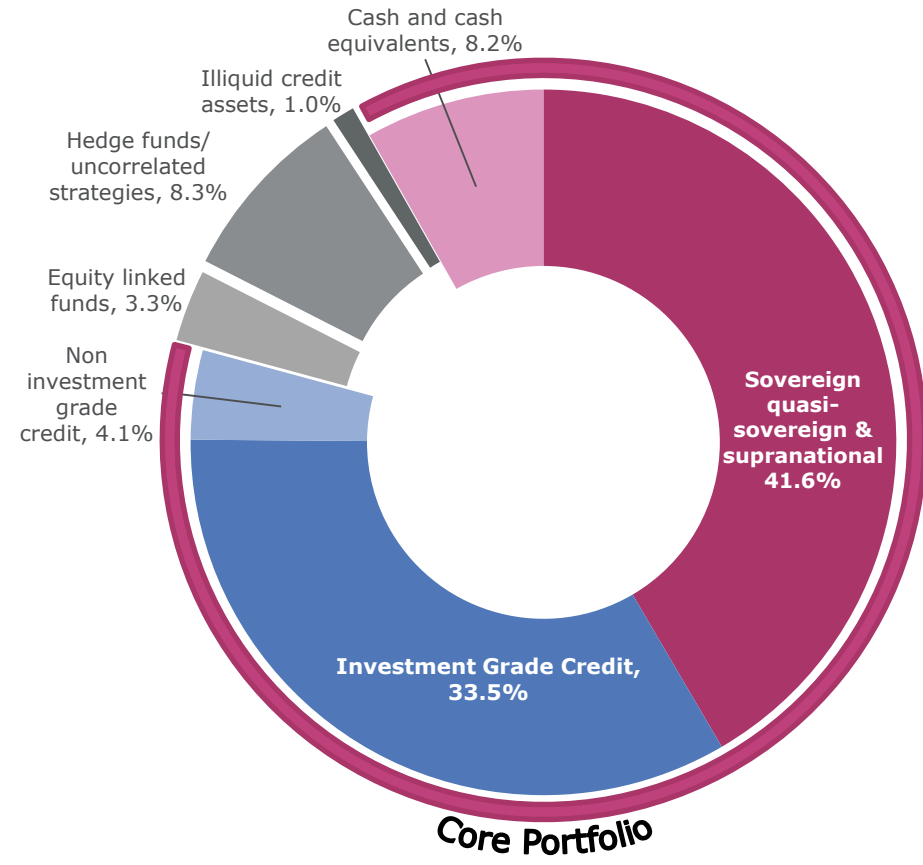
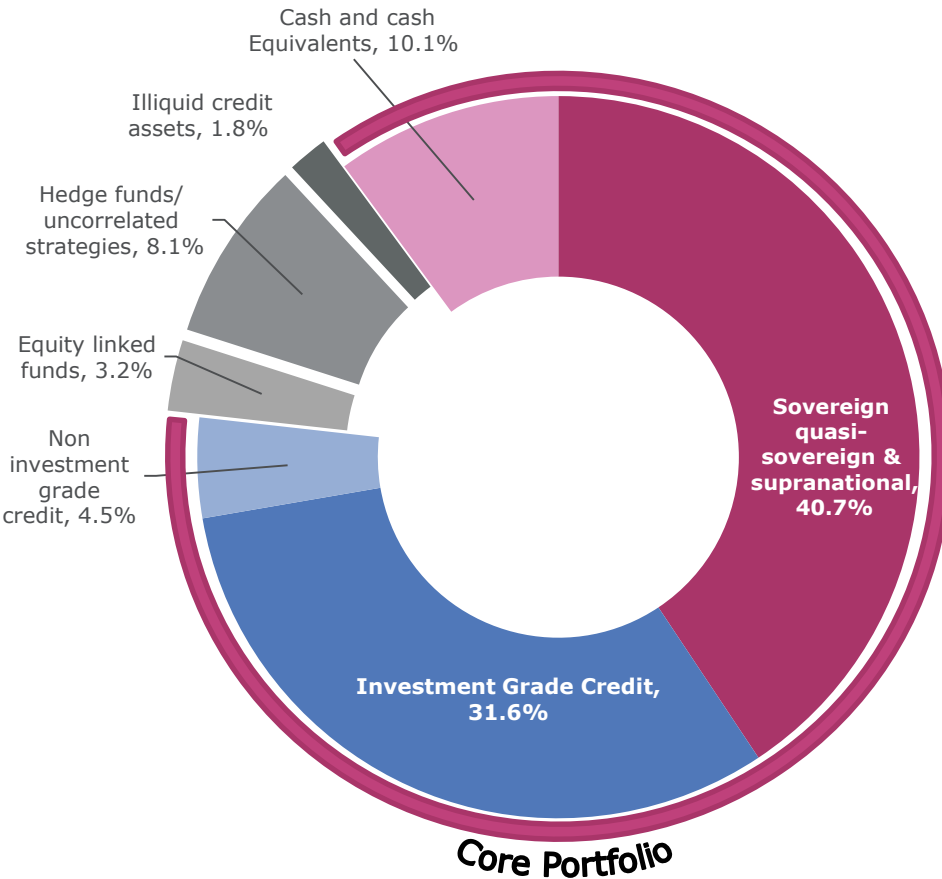
# Good return in low rate environment



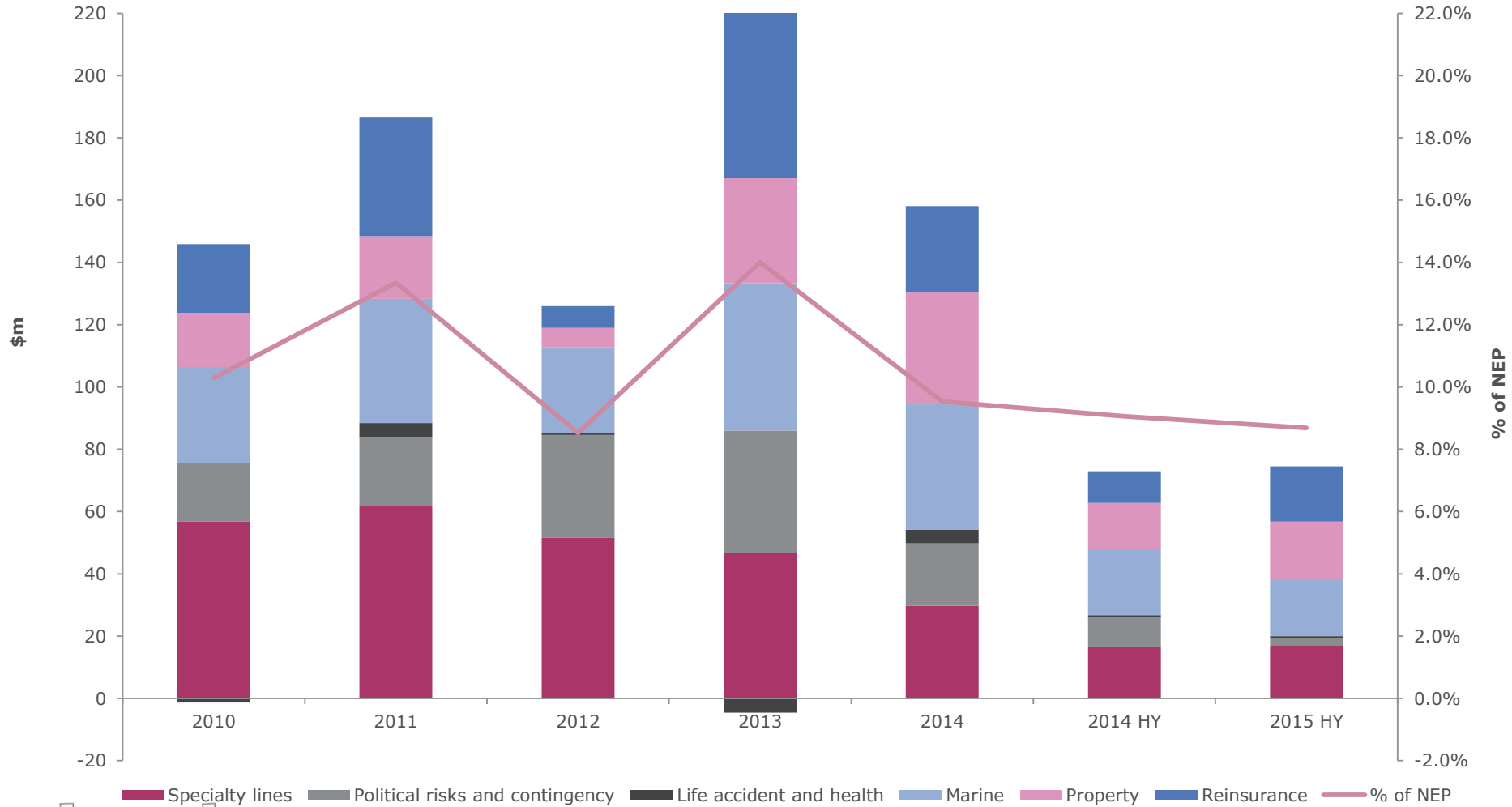
# No material changes to the portfolio

**June 15**

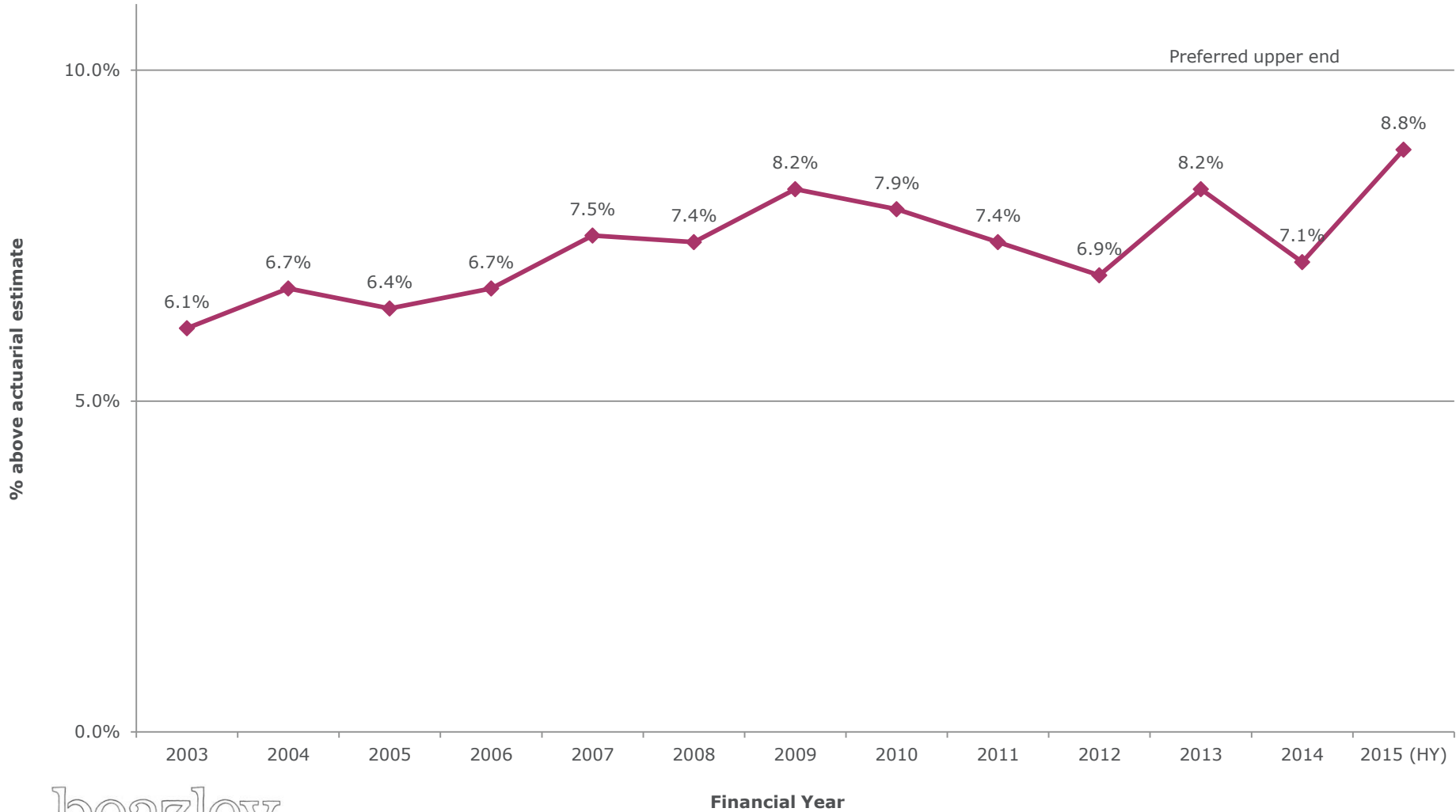
**Dec 14**



# Stable prior year reserve releases



# Whole account reserve strength within our target range



## Updated capital position remains strong

- Group capital requirement:

|  | <b>Period ended<br/>30 June 2015<br/>\$m</b> | <b>Year ended<br/>31 December 2014<br/>\$m</b> |
|--|--|--|
| Lloyd's economic capital requirement (ECR) | <b>1,370.3</b>                               | <b>1,319.1</b>                                 |
| Capital for US insurance company           | <b>107.7</b>                                 | <b>107.7</b>                                   |
|  | <b>1,478.0</b>                               | <b>1,426.8</b>                                 |

- Our funding is made up of our own equity (on a Solvency II basis) plus \$257.1m of debt and an undrawn banking facility of \$225.0m
- At 30 June 2015 we have surplus capital of 31% of ECR, including Solvency II adjustments
- We will be paying a first interim dividend of 3.3p

*In Focus* – TMB

Technology and Data Breach Solutions

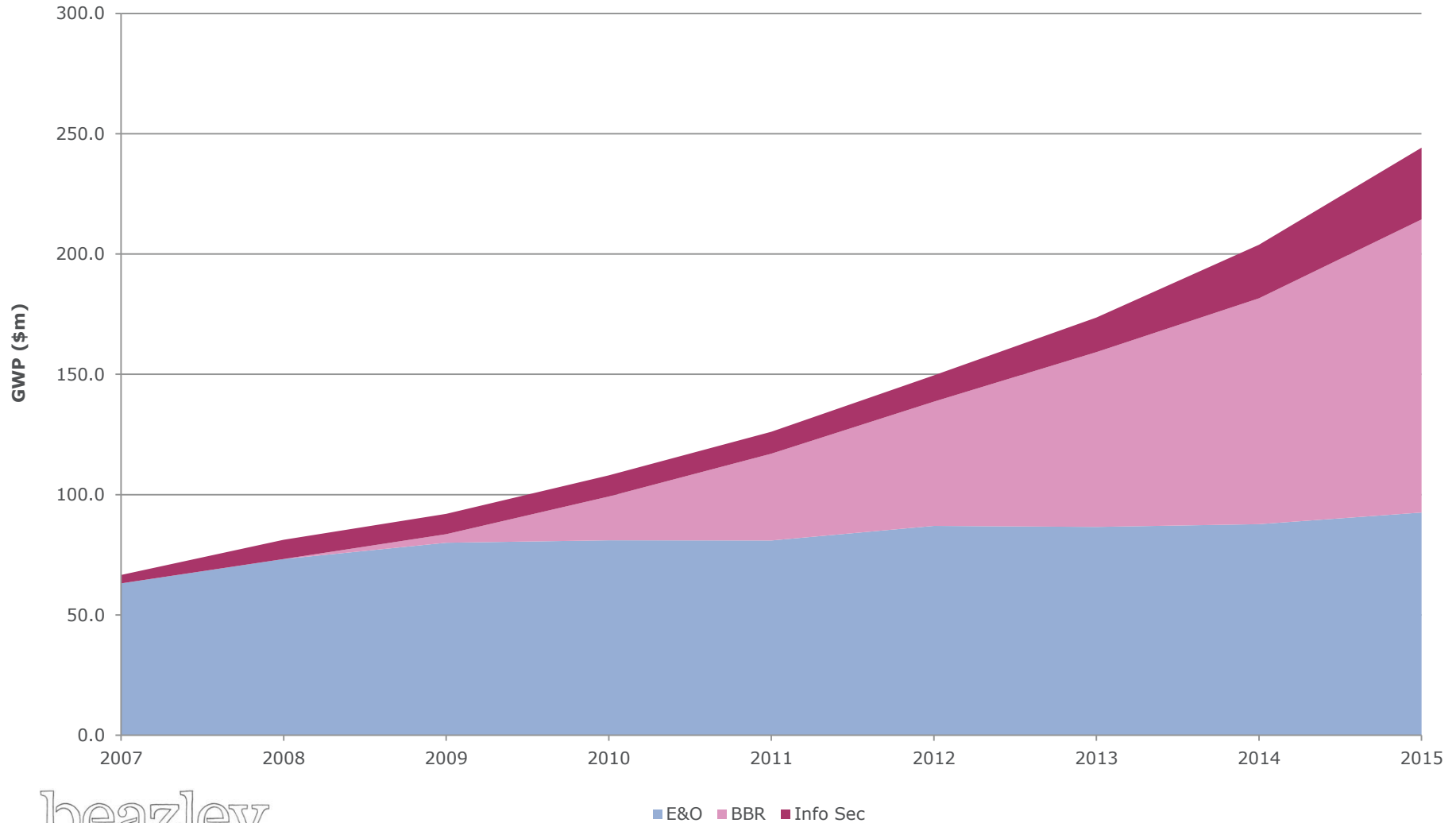
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## TMB focus group – technology, media and business services

- Middle market and large accounts (insurance for organisations over \$35m in revenue)
- Main products:
  - Technology E&O – on the Beazley Media Tech form since 2000
    - Errors and omissions insurance for technology companies and service providers
    - Segments include software and hardware companies, outsourcers, consultants, media companies, online services and similar organisations
  - Beazley Breach Response
    - An integrated insurance and breach response services offering for organisations that collect personal information from customers
    - Focus on middle-market
  - Information Security Insurance
    - Indemnity based privacy and data breach coverage sold mostly to larger organisations

# TMB growth 2007 to 2015





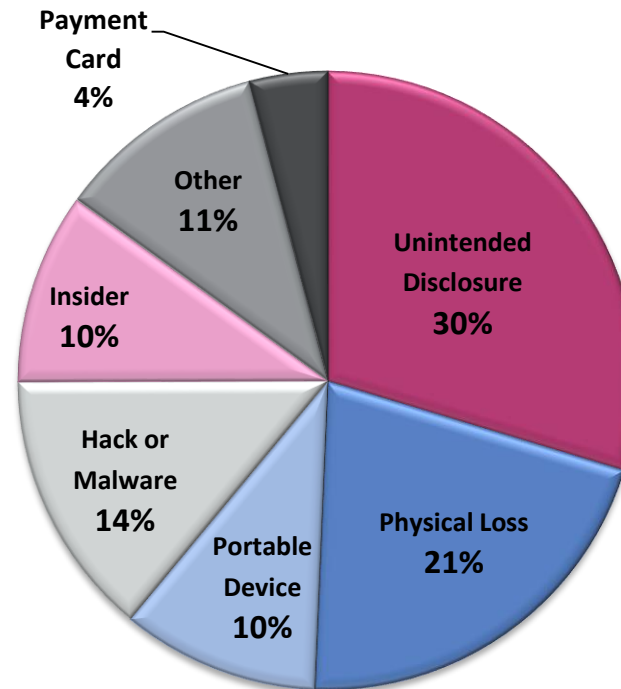
# TMB underwriting and BBR Services team



## Focus on BBR and BBR Services

- Launched in 2009 over 9,000 policies currently in force
- Healthcare largest segment followed by retail and hospitality, higher education and financial institutions (mainly credit unions)
- BBR Services team has handled over 2,500 breaches
- Breach activity arises from multiple causes as illustrated below:

Breach causes  
BBR Services - 2014



# How Beazley Breach Response works



- BBR Services, a business dedicated to breach response, co-ordinates the services clients require through a network of specialist external vendors
- BBR Services also provides clients with extensive advice on risk management and breach preparedness



## Controlling risk

- Diversified portfolio across industry segments
- Large majority of risks in middle market and small account segments
- BBR Services and claims team track breach trends and threats
- Short tail nature of claims allows for rapid portfolio adjustment
- Reliance on technical experts for underwriting advice and to assess potential points of aggregated exposure
- Modelling of aggregation scenarios
- Reinsurance protection

## BBR differentiators

- Focus on services proposition to provide added value to customers and control breach costs and reputational damage
- Early mover in the segment and have stayed ahead of the curve
- Increasing investment in pre-breach services for clients
- BBR brand differentiates Beazley from competitors

## Opportunities for further growth

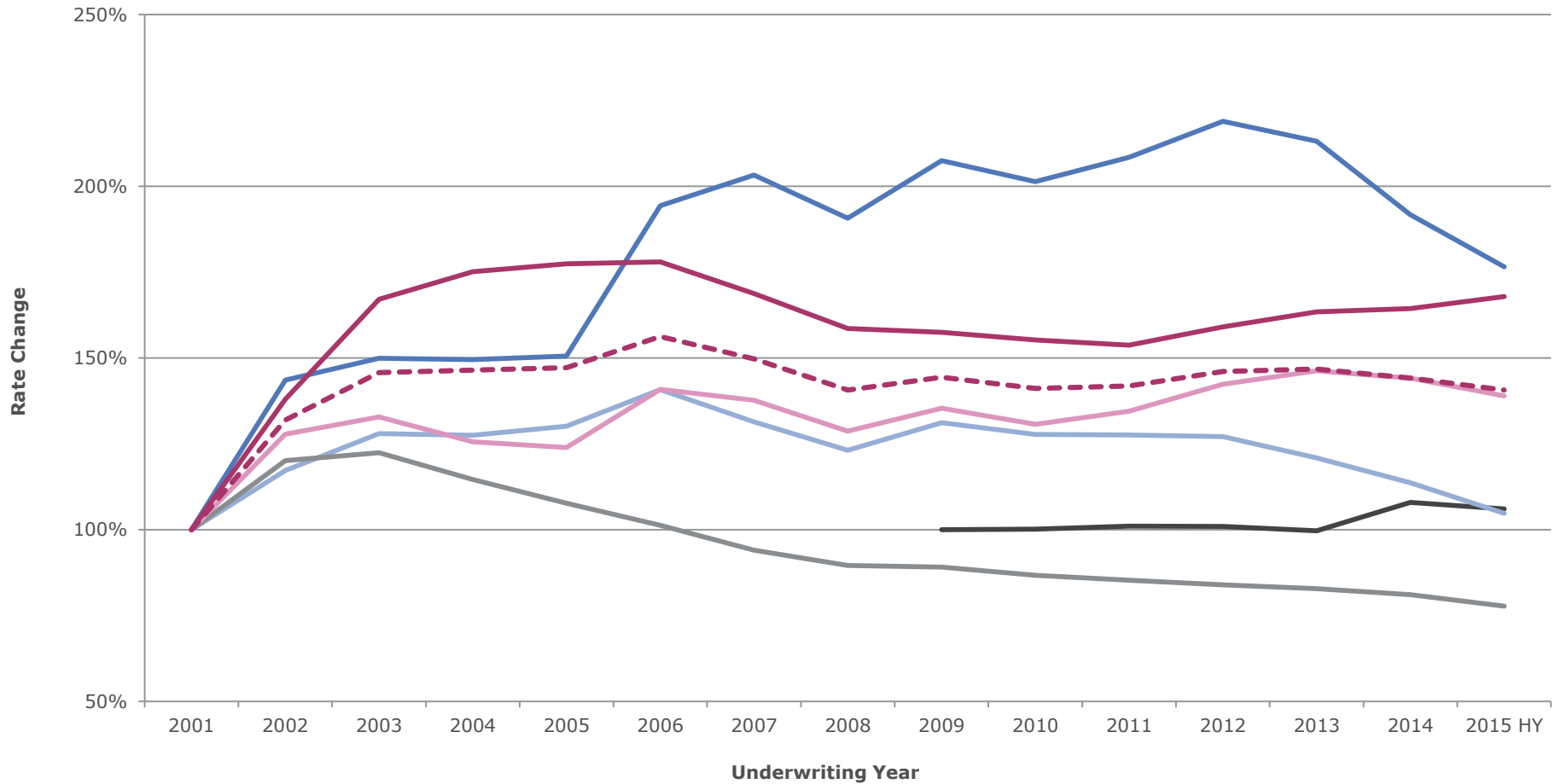
- Continuing opportunity for market penetration in US, especially middle market and small accounts
- Anticipated growth of the international market
- Aggregated opportunities
- Embedded insurance
- Further enhancement and differentiation of services offering
- Automation of small account underwriting and distribution
- Continued investment in building BBR brand

# The Outlook

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# Cumulative rate change since 2001



# Outlook

- Competitive pressures are building:
  - Returns should be expected to reduce
  - Rate pressure, particularly on short tail catastrophe exposed lines
  - We see more attractive opportunities in small business lines
  - Continue to grow our locally underwritten US business
  - M&A creates an opportunity to attract talent
- We are expecting to achieve moderate growth in 2015
- Continuing focus on profitable organic growth into 2016 and disciplined underwriting across a diverse portfolio



Any questions?

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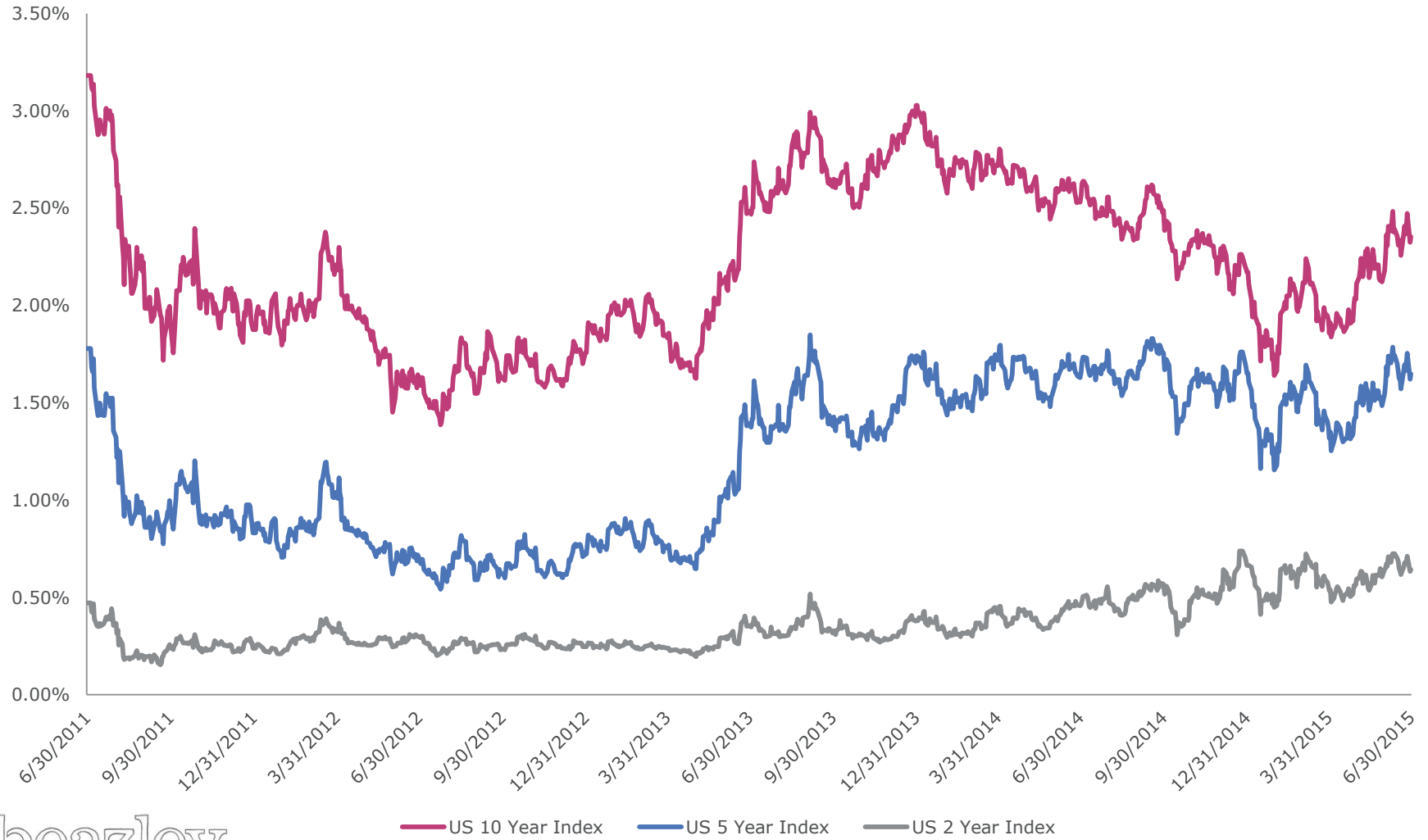


# Appendix

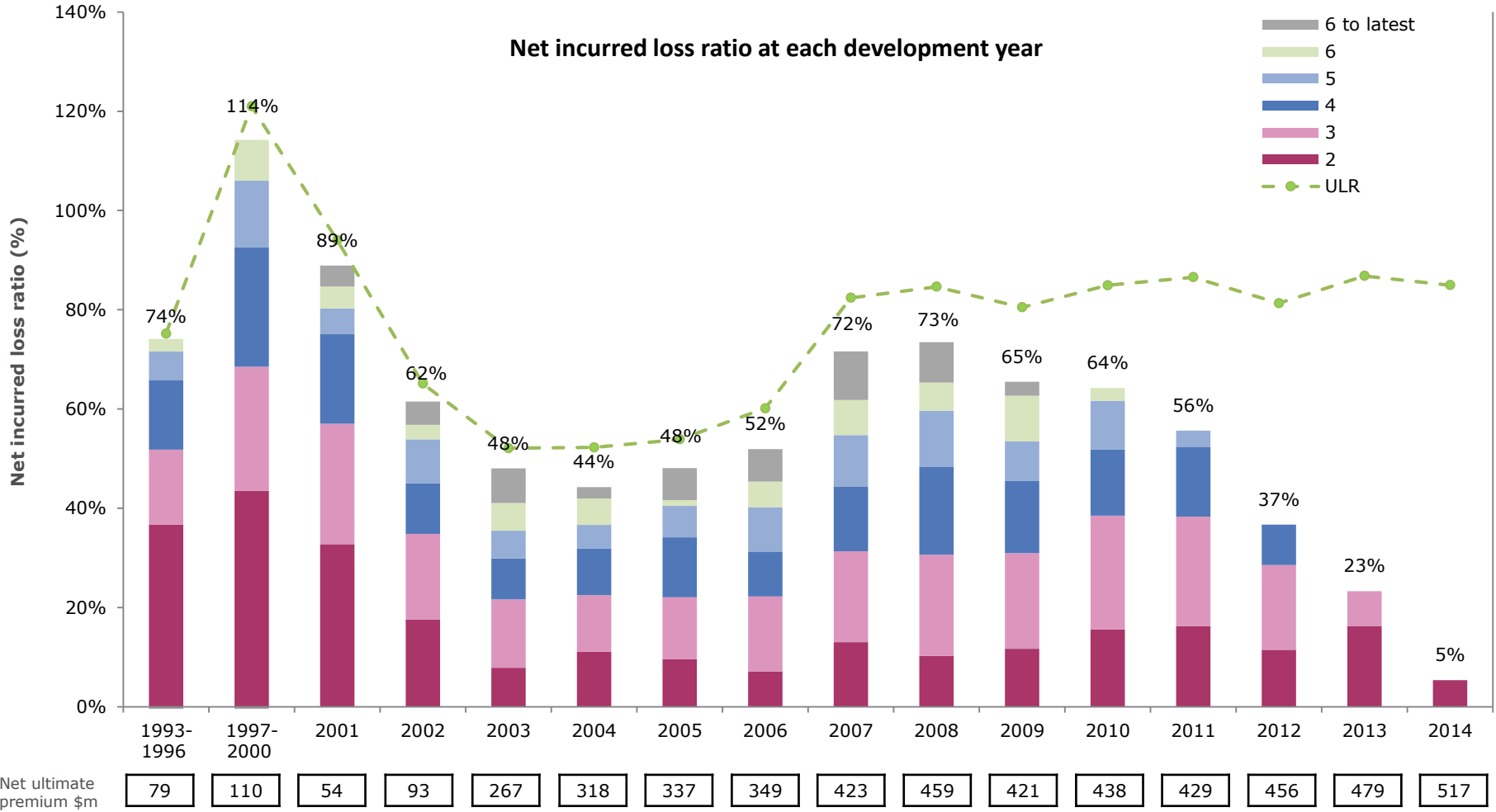
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# US interest rates



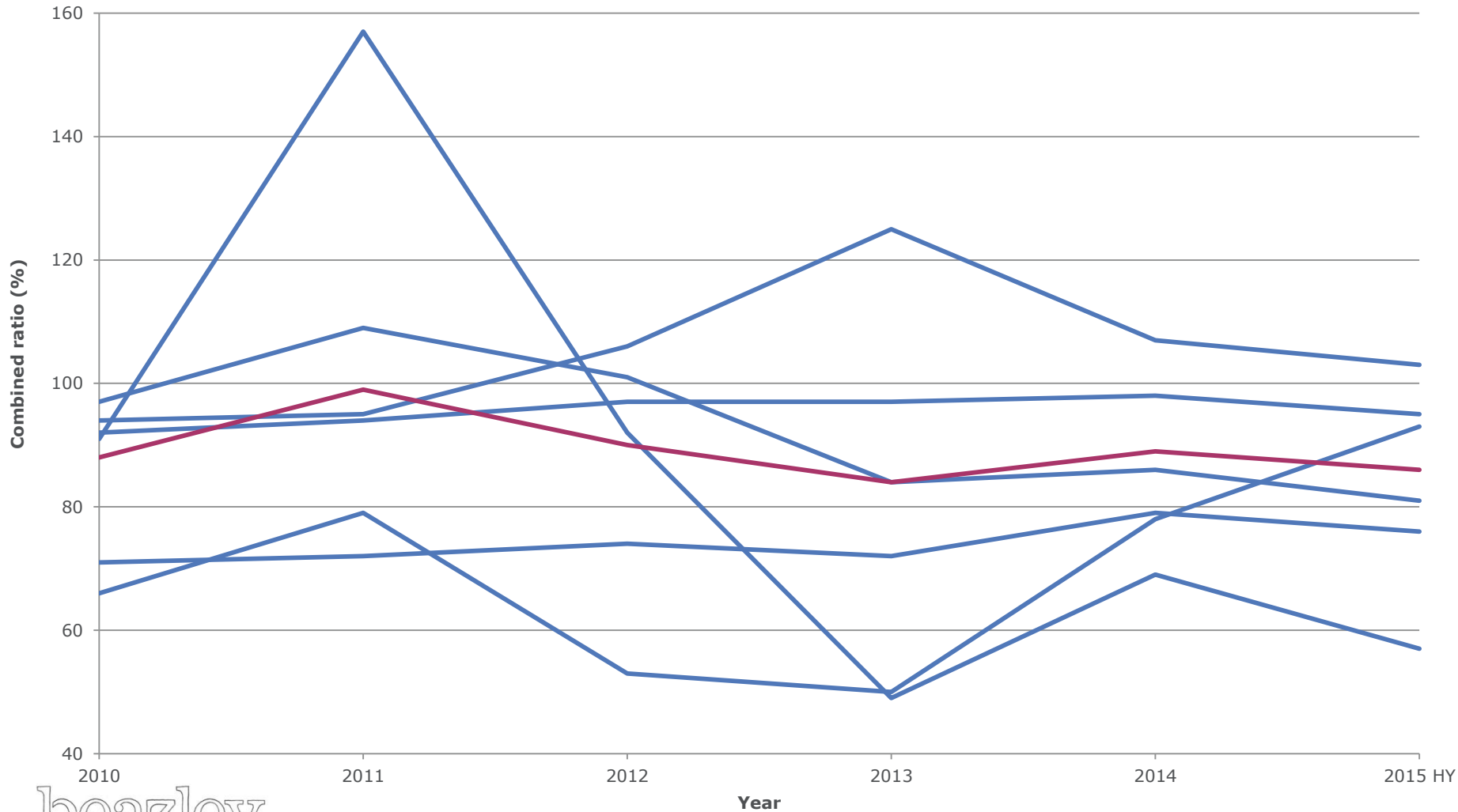
# Specialty lines incurred claims remain in line with expectations



Net ultimate premium \$m



# Diversified portfolio achieves consistent combined ratio through market cycles



## Life, accident & health

### 6 months ended 30 June

|                              | 2015        | 2014        |  |
|------------------------------|-------------|-------------|--|
| Gross premiums written (\$m) | <b>79.7</b> | <b>81.5</b> | <ul style="list-style-type: none"> <li>• Growth in US admitted business to \$13.8m (2014: \$1.2m)</li> </ul> |
| Net premiums written (\$m)   | <b>67.1</b> | <b>62.9</b> |  |
| Net earned premiums (\$m)    | <b>56.3</b> | <b>42.9</b> | <ul style="list-style-type: none"> <li>• Improving combined ratio drops to 103% (2014: 108%)</li> </ul>      |
| Claims ratio                 | <b>60%</b>  | <b>62%</b>  |  |
| Rate change on renewals      | <b>(2%)</b> | <b>12%</b>  |  |
| Percentage of business led   | <b>75%</b>  | <b>77%</b>  |  |

# Marine

## 6 months ended 30 June

|                              | 2015  | 2014  |   |
|------------------------------|-------|-------|---|
| Gross premiums written (\$m) | 162.1 | 196.7 | • Combined ratio of 76%<br>(2014: 76%)                      |
| Net premiums written (\$m)   | 131.4 | 163.1 |   |
| Net earned premiums (\$m)    | 144.2 | 143.9 | • Prior year reserve releases<br>of \$18.0m (2014: \$21.3m) |
| Claims ratio                 | 38%   | 36%   |   |
| Rate change on renewals      | (8%)  | (5%)  |   |
| Percentage of business led   | 48%   | 42%   |   |

## Political risks and contingency

### 6 months ended 30 June

|                              | 2015 | 2014 |   |
|------------------------------|------|------|---|
| Gross premiums written (\$m) | 67.9 | 60.4 | • Growth in gross premiums written of 12% |
| Net premiums written (\$m)   | 55.4 | 47.7 |   |
| Net earned premiums (\$m)    | 50.7 | 42.8 | • Growth in net earned premiums of 18%    |
| Claims ratio                 | 46%  | 35%  |   |
| Rate change on renewals      | (4%) | (3%) |   |
| Percentage of business led   | 76%  | 74%  |   |



# Property

## 6 months ended 30 June

|                              | <b>2015</b>  | <b>2014</b>  |   |
|------------------------------|--------------|--------------|---|
| Gross premiums written (\$m) | <b>188.6</b> | <b>190.7</b> | <ul style="list-style-type: none"> <li>• Prior year releases of \$18.8m (2014: \$14.8m)</li> </ul>                    |
| Net premiums written (\$m)   | <b>151.2</b> | <b>151.8</b> |   |
| Net earned premiums (\$m)    | <b>147.0</b> | <b>145.9</b> | <ul style="list-style-type: none"> <li>• Combined ratio of 81% (2014: 88%)</li> </ul>                                 |
| Claims ratio                 | <b>38%</b>   | <b>47%</b>   | <ul style="list-style-type: none"> <li>• Contribution to group operating profit of \$33.8m (2014: \$26.7m)</li> </ul> |
| Rate change on renewals      | <b>(4%)</b>  | -            |   |
| Percentage of business led   | <b>73%</b>   | <b>69%</b>   |   |

# Reinsurance

## 6 months ended 30 June

|                              | <b>2015</b>  | <b>2014</b>  |   |
|------------------------------|--------------|--------------|---|
| Gross premiums written (\$m) | <b>159.5</b> | <b>163.1</b> | <ul style="list-style-type: none"> <li>• Significant downward pressure on rates</li> </ul>                            |
| Net premiums written (\$m)   | <b>109.3</b> | <b>124.8</b> |   |
| Net earned premiums (\$m)    | <b>70.4</b>  | <b>80.1</b>  | <ul style="list-style-type: none"> <li>• Prior year reserve releases of \$17.7m (2014: \$10.1m)</li> </ul>            |
| Claims ratio                 | <b>25%</b>   | <b>45%</b>   | <ul style="list-style-type: none"> <li>• Contribution to group operating profit of \$35.1m (2014: \$26.6m)</li> </ul> |
| Rate change on renewals      | <b>(8%)</b>  | <b>(10%)</b> |   |
| Percentage of business led   | <b>46%</b>   | <b>43%</b>   |   |

## Specialty lines

### 6 months ended 30 June

|                              | 2015  | 2014  |  |
|------------------------------|-------|-------|--|
| Gross premiums written (\$m) | 441.9 | 385.3 | <ul style="list-style-type: none"> <li>15% growth in gross premiums written</li> </ul>                   |
| Net premiums written (\$m)   | 364.8 | 338.9 |  |
| Net earned premiums (\$m)    | 389.1 | 348.9 | <ul style="list-style-type: none"> <li>2% rate increase on renewal business</li> </ul>                   |
| Claims ratio                 | 60%   | 61%   | <ul style="list-style-type: none"> <li>Prior year reserve releases of \$16.9m (2014: \$16.6m)</li> </ul> |
| Rate change on renewals      | 2%    | 1%    |  |
| Percentage of business led   | 97%   | 95%   |  |