



## **Investor Day – Transcript** **Wednesday, 11 April 2018**

### **Peter Harmer, Managing Director and Chief Executive Officer** **Introduction & Strategy overview**

Well good morning everybody, and welcome.

To start, I want to do two things.

One is I'd like to acknowledge my leadership team, the Australian-based members of which are all here with us today and you'll have a chance to talk to them later. Not everyone has a speaking role today, but I can assure you everyone has worked incredibly hard to build the story that we really are delighted to share with you today.

And then the second thing I'd like to do, and very importantly of course, is to acknowledge that this meeting takes place on the lands of the traditional custodians being the Gadigal people of the Eora Nation and I'd like to pay my respects to their elders past and present.

It's been nearly 18 months since we last talked to you at an investor day and we have been working hard and achieving plenty during this time. I am delighted to bring you this update here.

I can put your minds at rest early this morning: we have no new major announcements. Nothing to distract us from the very important work of getting our business as fit as it can possibly be for an uncertain, but nonetheless an incredibly exciting, future.

This update this morning is about providing you with a better understanding of the initiatives and activities we're working on right across IAG that we believe will build and deliver stronger returns and earnings growth well into the future, but will also allow us to achieve our purpose to make your world a safer place, and to start this morning I wanted to spend a few minutes talking a little bit about our purpose.

The passionate, committed and caring service for our customers and their communities is deeply embedded in IAG's DNA. The strength of our brand and the loyalty of our customers are testament to this commitment which is the very essence of what makes IAG a great company. And in recent times, we've distilled this essence into our purpose – we make your world a safer place – and although the expression of our purpose is relatively recent, it resonates because it speaks to what we've always done and it is a clear expression of why we exist.

But this morning, I'm going to provide an overview of our financial targets and strategies before identifying the 11 core capabilities we continue to invest in, which will help us both optimise our business and position us to create some future growth options. I also want to describe the business model that will enable this.

I'm then going to hand over to Julie who will talk in more detail about our customer capabilities and how we're using these to develop new products, services and new customers.

Mark will provide an update on our simplification work before addressing some of the changes and benefits that have followed the creation of our Australian division. He will also describe how he's bringing to life our strategy within Australia as well as comment on the operating environment.

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Unfortunately, Craig Olsen is unwell and unable to join us today, but we are pleased to welcome Alistair Smith the CFO of our New Zealand business who many of you have met on visits there previously. Alistair will provide a similar update on our New Zealand operations, which now account for in excess of 20% of the group.

After these sessions we'll break for some morning tea before we move into four zones next door for a deeper dive into some specific areas of interest.

In Zone 1, David Harrington will share our view of the future of motor insurance and a look at the impact of autonomous vehicles on mobility and the related insurance environment.

In Zone 2, Ben Bessell will provide an update on the opportunities that we see in the future development of the SME commercial insurance market.

In Zone 3, Brent Smart, our Chief Marketing Officer, will talk about how we're driving brand and customer alignment.

And in Zone 4, Mark Leplastrier, who heads our Natural Perils team within reinsurance will explain how we're pricing for climate risk.

Climate risk, as you know, has always been an incredibly important area for us and our work includes our efforts to highlight the need for mitigation of risk through our involvement with organisations including the Australian Business Roundtable for Disaster Resilience & Safer Communities. It also involves us having a voice at the global table through our seat on the council at the United Nations' Environment Programme.

For those of you in the room, you will have been given a number which identifies the first zone that you will visit and then you will rotate around each of these presentations. For those watching via the webcast, there'll be a live feed of these presentations so you won't miss anything.

We'll then regroup here for a capital session with Nick and after a quick summary from me I'll then invite all the main speakers to join me back on stage so we can take any questions that we have.

We are planning to close the formal sessions at around about 12:45pm. I do hope as many of you as possible will be able to continue our conversations over lunch in the foyer area outside where, as I said, my Group Leadership Team will be in attendance.

Let's first look at our value proposition, which is broadly unchanged. The only revision since we spoke to you at our last investor day in December 2006 is the removal of Asia as an ingredient for our investment case and we talked about this at our AGM late last year and it simply reflects the reduced prospect of further investment in our chosen markets in that region, which has in turn caused us to conduct a strategic review of our options in Asia. And we expect this to be complete by the end of calendar year.

It is also important to recognise that Asia was only ever a small ingredient in our targeted 10% compound Earnings Per Share (EPS) growth and we see no reason to alter this target. But in the short-to-medium term, the drivers of our EPS will be firstly participating fully in the system growth of our core markets of Australia and New Zealand, which is typically in the order of 3-5% per annum. Secondly, the improved efficiencies from a simplification program that Mark is overseeing, and then thirdly, some contribution from capital management to which Nick's revision of our capital mix is a significant contributor.

Of course, we recognise that the simplification benefits will have largely run their course by FY20 / FY21, although we will continue to seek further efficiencies across our business. But this does mean that to maintain the 10% EPS growth we need to identify new growth opportunities beyond the system growth of Australia and New Zealand – but growth opportunities that are logical and complementary extensions to our existing business. One of the objectives of today is to demonstrate that we are well advanced in identifying where those opportunities lie and that we're investing in the appropriate capabilities to ensure that they are realised.

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But looking at our overall strategy, this is the graphic that I introduced to you at our half-year results in February, which depicts the key elements of our strategy. At its heart is our purpose, to make your world a safer place, surrounded by the three strategic priorities that will enable us to deliver on that purpose.

It also identifies the 11 core capabilities that are essential to today and tomorrow's success for our organisation. Our commitment to purpose touches every area of our business – it spans our product design principles, our use of human design in re-imagining customer journeys, our claims and our assessing processes. It covers our shared partnerships and work with local communities; the promotion of our Ethics Committee and our work with our Consumer Advisory Board; the Safer Journeys app and the warning system that I'm sure you've already heard much about; and it includes the work of our Research Centre in vehicle and road traffic safety. I could go on and on and on.

Our strategy ensures that we are a successful, sustainable company able to deliver on this purpose. The initiatives that enable us to deliver on these objectives are grouped under three broad strategic priorities, which I'm sure you will have become familiar with: customer, simplification, agility.

Under each strategic priority we've identified the key organisational priorities in which we need to excel to deliver on our 3-5 year plan as well as to create options to thrive in an unpredictable future. It will allow us to succeed today and into the future and I want to take you through these capabilities and their objectives this morning.

Our Customer priority is to deliver world-leading customer experiences and to achieve this we're pursuing a program of work that is transforming IAG from a product-led organisation to one that is orientated around the customer and informed by a deeper data-driven understanding of customers and their behaviours. To drive this transformation, we're investing in five key capabilities – customer experience, data, analytics and artificial intelligence, digital and innovation. And Julie's going to explore these in more detail shortly and she'll also provide an update on the progress that we're making towards realising these.

The Simplification priority is about developing a simplified modular and lower cost operating model and the organisational capabilities that are helping us achieve our simplification priority are technology transformation, operational partnering and supply chain improvements. The first two of these are significant contributors to our targeted \$250 million in cost reduction and Mark will talk to all of these in more detail shortly.

As our Customer and Simplification capabilities will be covered in more detail when Julie and Mark speak, I thought I'd take a few minutes this morning to talk about those that fall under Agility.

Our Agility priority captures our work to become an agile organisation distinguished by innovation, speed and importantly our execution skills and to build organisational agility we're focused on the capabilities of Leading@IAG, the workforce of the future and alignment to purpose.

We've established Leading@IAG as our management and leadership framework. It links our organisational design with strategy and purpose and frames what we expect of our people to achieve our goals, both financial and non-financial. It also actually empowers our people with the authority and the accountability to make decisions quickly and we've used this process to develop the structure, the roles, the accountabilities for the new Australian division, which has reduced an enormous amount of duplication and the number of senior roles in leadership by about 40%.

So, Leading@IAG involves frequent prioritisation and important discussions and embeds agile ways of working. The regular feedback from our people via bi-monthly dashboards enables us to measure decision-making, connectedness and agility and allows us to shape our decision making at IAG to produce the best possible outcomes. It allows us to move faster with greater certainty.

Building a workforce of the future helps us by ensuring that we have the right skills in the right place at the right time to be an agile organisation, and to build this workforce we're teaching people the skills and mindsets that are growing in demand both inside and outside of IAG.

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We're partnering with educational institutions to understand future learning pathways and to develop stronger talent pipelines and we've been trialling activity-based working before we move our Sydney city offices to Darling Park at the end of this year.

Alignment to purpose is the third capability under Agility and it captures our intention to be recognised as a purpose-led organisation that shapes its internal and its external environment and to achieve this it's essential that everyone in the organisation is on board and knows what they have to do to contribute and there are many examples of what we're doing to achieve this, some of which are on this slide.

But as well as sharing the 11 capabilities that are shaping our core insurance business out to 2020, I also want to talk today about what we're building towards in the future.

We all know that we operate in an environment of continuous change. The insurance industry itself is at a pivotal juncture as it grapples with the impact of new technology, new distribution models, changing customer behaviour and, of course, a more exacting regulatory regime.

To thrive in this environment, we need to evolve our financial focus on risk, underwriting, capital adaptation and products all operating in a tightly-integrated value chain.

Increasingly we're recognising that value is shifting from the provision of highly commoditised insurance products to delivering customer experiences that are personalised, intelligent, simple, real-time, trusted and completely connected.

Our strategy sets us up to capture the opportunities this future presents by re-imagining the IAG business model as three uncoupled platforms – Customer, Product & Services and Capital. Nick will touch on our Capital Platform later this morning, so I want to use my remaining time to share how we're thinking about the Customer and the Product & Service Platforms.

I think we all know the insurance industry's understanding of customers has tended to lag other industries. New competitors from adjacent sectors with higher customer engagement and insights are very well-positioned to capture share in low engagement verticals like insurance.

But think about it...between our businesses in Australia and New Zealand, we have over 8.5 million customers. We have a record of almost every motor vehicle ever registered in these markets and we have a profile of nearly every domestic residence. We have more data on more customers than virtually any other organisation in Australia and New Zealand.

So, we have all this information about our customers, but we realised three years ago or so this wasn't translating into real insights, much less innovation. We'd only ever understood customers based on how they'd historically bought insurance from us and it was this realisation that led to the development of our customer segmentation model which Julie will talk about in more detail shortly.

We also knew that customers valued experiences over just products and services – and of course, we've all heard of the experience economy. We had already made the decision that we wanted to transition from a product-focused company to a customer-centric one, but to do so we needed to figure out what are the experiences that we can create for our customers from our position of strength as the region's leading insurer, experiences that they'll place a high value on.

The segmentation work gave us a really good understanding of the products and the services our customers would feel comfortable letting us create for them and from a customer's perspective the most compelling ones belong in the domains of mobility, shelter, work and then health and wealth. But we're focusing on the first three as they're closest to what we do today.

Rather than just thinking about selling traditional personal motor insurance, we're trying to figure out how we can support different customer segments to access a range of safety, environment and economical mobility choices into the future, and David Harrington will be exploring some of these ideas in our break-out session this morning.

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And then rather than just sell home insurance, we're thinking through, for example, how sensor technology can help transform our customer's experience with their home and how we can leverage partnerships and digital innovation to deliver more integrated, safer home insurance for our customers and their families.

And with Work, we're focused on the needs of small businesses, combining the ability of sensors to reduce risk, digital tools to simplify the design and process and relationships with the like of Prosper and Xero to integrate insurance into broader offerings. Ben's going to provide you with a greater insight into the opportunities we see in the SME market, very shortly.

But you can see from this diagram that the Customer Platform offers products and services from our own insurance manufacturing platform, the stuff we do every day. The core of our business. But increasingly, it will draw on products and services from other partners that we want to integrate with ours to create these experiences.

We do this today, however, the game-changer comes when this integration produces value greater than the sum of the parts as the network of partners integrates their products, their services, their data into our Customer Platform. These connected relationships as we know are commonly called ecosystems, so we want to orchestrate some of these ecosystems, but we also recognise there'll be value in providing products and services provided by ecosystems orchestrated by others, and that's why we're decoupling our Customer Platform from our Product & Services Platform.

So, imagine our Product & Services Platform supplies our 8.5 million direct customers through our Customer Platform. The Customer Platform may sit our products and services with those from other providers, for example NRMA roadside assist. The list could go on.

In addition, our Products & Services Platform will build products and services to be distributed through non-owned channels such as insurance brokers, financial institutions and other customer platforms orchestrated by companies such as Amazon, Airbnb, Uber and so on - and some of you will know that we've already formed partnerships with some of these companies. This is at the heart of what we call a "dual transformation".

By simplifying our existing core business and getting it as fit as it can possibly be, we're laying the necessary foundations to unpack what has traditionally been a tightly integrated business model into three quite separate but closely related platforms, and these platforms rely on the development of deep organisational capabilities that I've outlined already. By decoupling these platforms, we create enormous organisational agility, recognise rapid growth opportunities and get closer to our customers, which in turn helps us get greater clarity on how we can deliver on our purpose. I'm going to hand over to Julie who will describe our customer capabilities. Julie.

**Julie Batch, Chief Customer Officer**  
**Customer**

Thank you, Peter, and good morning, everyone.

Today we're living in the experience economy. You'll all have heard the term. In fact, one of your organisations might have helped coin it. Commodity today is becoming a maligned word. It used to refer to something that was valuable, a priceless commodity. Unfortunately, today a commodity is often associated with something that is needed, but not necessarily cared about.

When we look across organisations that are growing, they are doing so not by pushing commoditised products to customers but by working with customers to create meaningful experiences that are valued. We talked to you at our last strategy session about co-creating with our customers, designing from the customer in, consumer to business or C2B, we called it. Over the last two years, that's very much been what we've focused on.



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Today, I'm going to update you on our progress, and you'll hear Mark, Alistair and the team leading our break-out sessions explain to you how we bring this alive by creating and delivering customer experiences that are personalised, intelligent, simple, real-time, trusted and completely connected.

So, first things first. If we want to understand what's most important to our customers, the experiences that they value the most, we need to understand them in a way that quite frankly an insurance lens does not permit us to do. We need to nurture and develop new capabilities that will help us understand, create and deliver to our customers.

Within Customer Labs, we're focusing on developing five key capabilities for and with our organisation. They are: customer experience, data, analytics or artificial intelligence, digital and innovation. These capabilities are the ones that we believe are fundamental to building leading customer experiences into the future. So, let me walk you through them in a little bit more detail.

We define customer experience as our ability to create experiences for our customers through insights and marketing, that transform our engagement with them and help grow our customer base.

We recognise data as a core asset today, the one that increasingly in a digital world helps us understand our customers in ways that we might not have before. The value potential from our data asset is vast.

Our focus on analytics and artificial intelligence is about bringing cognitive capability into our technology and this is really the foundation of creating those personalised experiences that we're talking about for our customers. We need to take these experiences and then connect them to our customers in real-time. We need to get the insight to the customer immediately and we're going to do that through digital, which will strengthen this engagement, the relationship, and in turn our profitability.

And last but not least, innovation, which we define as our ability to think differently, to rapidly iterate, to launch and scale new products, services and businesses that create enhanced and new revenue streams for our organisation.

Today, it wouldn't be unusual to see these capabilities on many organisations' wish lists or development lists. What is different at IAG is that we started this capability-build three years ago now, and we did that by housing these capabilities together in one unit called Customer Labs, allowing these teams to integrate, to collaborate, to adapt and deliver new products and services in an agile way, working together with our businesses.

One of the first pieces of work that Customer Labs has focused on, which combines the power of these capabilities, has been the creation of our customer segmentation model, which Peter referenced a few moments ago. The segmentation model is our mechanism for understanding what customers value. Now that it's complete, we see our customer segmentation as the key to unlocking growth for IAG's insurance portfolio and, more broadly, for creating new sources of revenue across our customer base for the future.

Let me walk you through it. Some time ago, as we've said, we realised that our understanding of customers was limited to how they historically bought insurance from us. We knew that to be relevant in the future we needed a richer, deeper understanding. By pulling our data together that had previously been stored in disparate locations, we found that our customers were often holding products, sometimes the same products, across many of our brands. We wanted to understand what was driving this behaviour and we found that it all came down to our then segment model, which was heavily anchored in price.

Price-driven segmentation meant that we were not segmenting a person into one place, treating them as one individual with different buying needs. We were putting them into many segments and we were leaving our customers feeling confused with our propositions.

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We did some research and this research showed that clear propositions – a market presence and brands that resonate – improve trust and increasingly trusted brands are able to extend their relationships with customers beyond their core proposition, and that's where we see – and saw through this work – our opportunity.

Our goal is to build a segment model that will help us better understand what's important to these 8.5 million direct relationships that we're so proud of, help us expand our insights, deepen the connection and appreciate what customers valued, and in our view, with that information and that knowledge we could meaningfully improve their lives.

We started this work by looking at the elements of value in a person's life, as summarised by Maslow's Hierarchy of Needs, a fascinating piece of research for any of you who want to do some work afterwards. From functional needs at the bottom, through emotional in the middle to life-changing needs right at the top of the pyramid. In exploring this model, as I've said, we showed that organisations that can deliver experiences that connect to customers higher up the pyramid are of the most value. In fact, emotionally connected customers have been shown to be twice as valuable as highly-satisfied ones, because it's the emotional connection that drives loyalty and in turn, advocacy.

The truth, sadly, is that insurance resides typically at the bottom of the pyramid. It's a base need, the need for safety, and this base need is often what we reinforce through advertising and pricing. Many of you will have looked at advertising. We often market on disaster. There's a terrible thing that has just happened and we reinforce that messaging, and then we make a price call to you to say: "Remember this terrible thing? If you call now we'll give you 10% off." And that's what the insurance industry across the world is reinforcing through the way that it goes to market.

We really see there's an opportunity to challenge this, to show how safety is far more than a base need and how we bring it alive through our purpose. We want to redefine our business by truly connecting to the needs and emotions of our customers. In the context of both insurance, but also life needs in general, what they need today and what they're going to want in the future, and this is how we're going to inform our marketing, our products, our price points, our experiences in a way that connects to their hearts and minds.

So, to talk you through the work we did, we started with thousands of surveys of Australians, customers and non-customers of IAG. We conducted hundreds of face-to-face interviews, really asking people what their hopes and their dreams were. We then took this data, this qualitative data, and we matched it with banking and spending records that we have access to through IAG Firemark Ventures Fund, through an investment that we made early on in Pocketbook, a digital application that helps Australians manage their budgeting by evaluating their financial data.

We augmented this with insights from The Tribe, a data co-operative that we set up two years ago, and only then did we overlay our 8.5 million customer records. So, we went to a qualitative view, we quantified it through spending data, we then actioned it through the behavioural information that we had in our data stores. Only once we'd done that, once we'd got a really good understanding of what people were saying was important to them and how they acted, did we overlay demographics. We showed through this work that, actually positively, age, race and gender do not define you. If you think about it, millennials – that we like to spend a lot of time talking about – they get older too.

From this work, we were able to determine, as I've said, what people really had in their hearts, what their dreams were, what they aspired to. Our view is that we want to design our marketing to reach those people, to talk to them about what's possible. That's how we need to reach them through our campaigns and our information.

We understood what was on their minds, so how they actually spent their money. What's important to them today? Because you need to market to someone's dreams, but you need to sell products and services that are valuable to them at that point in time. And we were also able then to look at how that manifested in the way they bought insurance, so that we can offer them products from our portfolios today while we build new opportunities for the future.

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We found our customers were grouped into 14 distinct segments, and we can see what's important to each one. Because there's a lot of data points here, we've plotted – for the sake of ease this morning – these into four quadrants.

If you think about these quadrants you look from left to right. From left, these are people that are more about self. They're focused on progression, they're focused on getting ahead, and that's what they're about. That's what's important to them.

On the right-hand side are people that are looking for relationship and belonging. Family relationships, friends and relationships – they're important to them. They're not necessarily motivated by the same things.

From bottom to top, we found people that were restless, that were seeking more, whether it was money or recognition, or power or status or knowledge. Whatever those things might be – we found people that were looking for those kinds of things. Then we found people at the top who were more content.

So, these are customers that really feel like they've achieved their goals. They're still looking for more. Everyone is always looking for more, but they're actually content with where they are. The same things don't matter to them. And these insights, as I've said, help us do a few things. They help us work out how we market our existing products to each customer, which products are most important to each customer and the best way to reach and engage them, and which products and services we need to focus on developing for the future to help our customers achieve their goals and dreams.

So, let me show you segment number six. These are the Go Getters. They're really busy. They want a career, they want to be successful, they want to be noticed. They don't love what they do. It's not their core passion, but they're doing it to get ahead. They buy luxury goods all the time and they spoil themselves and they will borrow money to buy more, to look better. They're social everything. They're social people, but they also engage through social channels. They will not walk into a branch. They'll be on Twitter, Facebook, LinkedIn, every single social channel, and they're on them all the time. They're living their lives and they're having fun; they're having a good time. These are fun people to be with. But they have different dreams. They want families and careers, so they're working today but they're working for something bigger. They do want relationships in the future and they do aspire to have things like home ownership.

One customer in this segment, through an interview, to bring it alive, said "I live a really busy life where my career is important. My friends think I'm a ladder climber, but I just like the thrill and satisfaction of setting goals and achieving them. I'm really proud of what I've done and I love it when my family, friends or workmates praise me for a job well done."

Now we've all got a little bit of that in us. Some of us have more than others. These customers, interestingly of all the segments, are one of the most distinct age-based segments. They are likely to be under 34. That doesn't quite make them a millennial, but they are likely to be under 34. There are still 60 and 70-year-old and 80-year-old people in this segment, however. They're most likely to be mid-to-high income earners, which is quite interesting given the age demographics of this segment. They're most likely to be renters. Some might be still at home with mum and dad, but many of them are living in shared accommodation with other people.

They spend most of their money, so their big spend, is on rent and shopping – interestingly with the materiality we talked about earlier. But they spend their discretionary spend, so the small spend, the thing that's their choice that goes to their aspirations, on entertainment, fitness, health and eating out. As I said, they overwhelmingly buy online and they're often the sole decision-maker. They make their decisions on their own.



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So, if we want to sell to them insurance, we have to design experiences for mobile. They don't use tablets, they use mobile. If we want to reach them, we need campaigns designed around social. If we want to cross-sell to them, we're most likely to be successful with car, travel, contents or small businesses, and health. We need to market to them in a way that appeals to their love of life and their love of luxury.

This segment represents \$1.8 billion of gross written premium in the market. IAG is currently underrepresented in this segment, by a significant way in fact. These people are most likely to be buying insurance from somebody else, but they're also profitable, so therein for us lies a growth opportunity.

This work has been incredibly interesting for better understanding our business lines as well. We've shown through this work – and it seems quite obvious in hindsight – that it doesn't matter whether you are buying a car or insuring a small business, you're actually the same person making that decision.

Ben Bessell is adopting this work in his re-imagining of SME that you're going to hear about in the break-out session. There's some really interesting work happening there that draws from this model.

In terms of practical implementation, the results have been key to developing our brand strategy and Brent, our CMO, is also going to walk you through that. Perhaps some of you have seen already in our most recent marketing campaigns our messaging and our resonance starting to shift and change. If you think about NRMA, we're talking about belonging and if you think about some of the work at CGU, we're talking about self-starters and the businesses they're building.

Essentially our marketing is lining up to our segment needs. Our innovation pipeline is also really heavily anchored in this work, and new products and partnerships are being built every day that are directly linked to the need that our customers through this work have identified.

To date we've also run this model in Thailand and now in New Zealand and, again, with demographics, it really shows that it doesn't matter where you live, there are distinct groups of people who think, feel, dream and act in the same way. The model is relevant across all of our territories, it gives us the ability to simplify, build once and extend across the whole organisation.

In a few moments you are going to hear from Mark and Alistair, who are adopting this model today in their businesses while we work together between Customer Labs, Australia, New Zealand and Asia to build new products, services and experiences for tomorrow.

I've spoken to you about our capability of customer experience and what we're doing, in particular, around segmentation. So, now let me talk to you about the other customer organisational capabilities, the ones that we think are fundamental to our customer-led future, being data, artificial intelligence, digital and innovation, and I want to update you on the progress since we last spoke.

Data provides us with this invaluable lens into our customer's worlds and the things that matter to them. We're in the privileged position of having access to a wealth of data that our customers have entrusted to us for the purpose of making your world a safer place. That trust is not something that we take lightly.

Our data, which we affectionately view as IAG's nervous system, tells us about our customers as well as the assets that they insure and the environment within which our customers and their assets interact. This intersection of customers, assets and the environment is really what insurance is about and in the break-out session, Mark Leplastrier will showcase some of the work we're doing about the natural environment and how these capabilities and this knowledge combines for us to take a position and get a better understanding of climate change and climate risk.

With data, we're now well-advanced on building a scalable cloud-based data capability that's an asset to power our decision making. Through this data asset we're improving efficiency across our business by creating self-service reporting, we're creating new data products that are starting to power some of our initiatives and we're building and deploying a system that we're now re-platforming on cloud that is scalable and most importantly, cost effective.

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In creating our data asset we've leveraged open technologies to design the platform to help us manage the costs into the future and it's been highly recognised and was recently awarded a Red Hat innovation award. This open-source innovation award is an award that's only ever been given once in Australia before to a very large bank for its digital transformation.

Our analytics teams are focused on embedding cognitive capability across our organisation. We are building chatbots to assist our webchat team which Mark is going to talk to you about. We've developed a computer visioning system that leverages millions of images to triage repairs and help us better estimate our reserving and automate our reserving approaches, and most importantly we've revolutionised our pricing tools through an initiative that is delivering significant organisational and economic values to date.

This modernisation approach uses real-time pricing models across our core portfolios of NRMA and RACV and to date is responsible for 12,000 new policies and approximately \$20 million of profit improvement before tax, year-to-date.

Turning to digital, capability is also lifting across our organisation in our digital channels. It is our interface to existing customers and an avenue for reaching new ones.

Our major focus today is on redesigning the experience our customers are having on our digital channels. We've mapped these customer experiences and broken up the interactions into distinct segments and components. 'Journeys' is a word that you'll typically hear. We've looked at customer satisfaction across these segments and potential value creation for each of those components. We've prioritised them and we've commenced a redesign of our digital experience.

Over the next two years, we will be completely reimagining the digital experience across our entire organisation. Our first component, motor claims tracking, is about to ship after a 12-week sprint and, while I don't want any of you to have a claim, if you do, give me some feedback and let me know what you think. What's most exciting to me about this digital transformation and you'll hear from Mark, Alistair and Ben about this as well, is that this is a trans-Tasman initiative.

For the first time, our Australian and our New Zealand businesses supported by Customer Labs are co-ordinated to deliver this change simultaneously, allowing us to move faster and deliver more for our customers. This connected, collaborative approach goes to the heart of our agile business model that Peter spoke so passionately about in his opening.

And finally, innovation. Innovation gives us the ability to think differently and deliver quickly. When we talk about innovation, it's about training new organisational models that allow us to rapidly develop, test and prototype new products and services both within and outside our organisation.

Last time I spoke to you I showed you our pipeline. Since then, and since we spoke, we've launched another 20 product partnerships and experiences in the innovation space. These include a new rental bond product with a start-up named Snug, a new insurance for pet insurance called Buddycover that we're currently prototyping and testing in the market – something that was overly called out for in our segment model.

We're looking at participation in autonomous vehicle trials through the iMove CRC, and you'll hear lots about that from David Harrington shortly. And we currently have eight products testing in market – two scaling through our core businesses and another ready to send out of our organisation.

Our incubators – and many of you have visited them – are pretty exciting places to be!

Firemark Ventures, that I announced to you when we last met in December 2016, was capitalised to an amount of \$75 million. So far, as part of our venturing efforts, we've assessed over 100 strategic investment opportunities.

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Almost \$10 million has been invested in five companies, with one successful exit. Each of our venture companies are now co-building products in our incubators and across our businesses, so that's UpGuard, Hyper Anna, Airtasker and Life360. This is helping us create value for the start-ups and, therefore, return on our investment, but also for our business by creating a new product service or revenue opportunity, or equally as important, a learning for our organisation. Again, this is an example of leveraging all the capabilities that our organisation is developing.

So, in summary, I hope you can see that by combining these capabilities with the power of our business, Customer Labs is helping Mark and Alistair drive the optimisation of our core portfolio, but we're also privileged in Customer Labs to be a central part of IAG's customer-led future.

I'm now going to hand over to Mark who's going to take you through simplification and the Australian business.

**Mark Milliner, CEO Australia**  
**Simplification / Australia**

Thank you, Julie. And good morning to everybody. I'd like to add my welcome to IAG's 2018 investor day.

Last time I spoke at the IAG investor day, I was pretty new to the IAG business. Two years on, I'm part of a terrific business with great people, Australia's leading insurance brands, awesome customer service, and a profitable insurance portfolio at its core.

When I came back from the Christmas break I was talking to a close colleague of mine called Zoran. He told me how he had moved his insurance from an insurer he felt lucky with, to NRMA. Zoran saw the new NRMA Christmas ad which really touched a chord with so many Australians, so he rang up the call centre to get a quote for his home insurance. To his surprise, his details were still on the system even though eight years had passed since he'd had a policy with us. He said that made him feel good: "It was like NRMA knew me. I felt like they were welcoming me back". And he switched.

We intend to have plenty more Zorans switch back. Twenty years ago, NRMA had over 50% market share in New South Wales in both home and motor insurance. Our market share is now around 30%. As we continue to focus on profitable growth, we know there are lots more Zorans out there who used to be insured with our core brands. I believe we are in an excellent position to gradually win back these customers in future years.

Today I want to talk about three things: firstly, I will bring you up to speed with our group simplification program; secondly, I will provide an update on how we see the Australian insurance market; and thirdly I will set out how IAG Australia is delivering on the IAG strategic priorities of Customer, Simplification and Agility.

I am really excited about how far we've come, so what have we delivered since 2016? In short, the answer is a lot.

In 2016 we said our focus was to simplify the business and the outcome would be a cost reduction of at least \$250 million. We said we were setting out to build a highly efficient company with a simple operating model. We said we wanted to turn big opportunities into reality and deliver shareholder value. In 16 months, we have turned many of these into reality.

The numbers are very encouraging but there is still a lot more to do. At the half year we had reached a \$100 million run rate move in our controllable costs; we are on track to simplify our business and achieve at least \$250 million reduction in the controllable costs when we exit FY19, moving our cost base from \$2.5 billion down to \$2.25 billion. Let me be clear – this is not about cost out to chase a competitor's expense ratio. When you simplify, costs drop. This is all about us simplifying our business to improve customer experience.

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Now let me provide a few examples of simplification.

Our performance in the technology function was not where it needed to be. We have worked hard to put in place a strong leadership team, lift our performance and develop a group technology plan for the next five years. We are now executing this plan well. At the core of this plan is simplifying our insurance transaction systems to one policy system and one claims system.

We are on our way to reducing the complexity of the 32 different policy and claims systems that existed. I am very proud of what the team has done in such a short space of time. We have made great progress in simplifying our claims technology and moving over to the Guidewire strategic platform. Today, all of our home and motor claims in Australia are lodged on the Guidewire platform which allows us to service our customers better, especially in events. There is a lot of progress on implementing Guidewire in New Zealand as well, and Alistair will give you an update on how this has gone.

We have established successful partner operations in the Philippines and India. Offshore partners are integrated into IAG's business flows and our teams. This allows us to support and deliver great customer experience. Many simpler tasks are now managed offshore for both Australia and New Zealand, for example, payroll, recoveries and settlements, accounts payable, accounts receivable, motor claims lodgement, policy processing, webchat and CTP payments - and the list goes on.

This makes us more agile, it shifts our cost base to more variable cost, it leverages the global capacity and capability of our partners, it improves and sustains IAG's margins.

To close off on partnering, our partners have become great at supporting the Australian and New Zealand businesses. Today, our partners are part of our business.

We also have great momentum on other initiatives like property consolidation. In 2016 we said we would decrease our rental costs by 16%. We said we would do this by 2019; we have already achieved this target.

Simplifying IAG has been driven by a great team of people which I love working with. IAG has capable and passionate leaders who are delivering. Our great team will continue to create opportunities for all stakeholders as the future unfolds.

Let's turn to the Australian insurance market. At a macro perspective the Australian economy continues to grow. The conditions in the Australian insurance market are good. We are seeing continued system growth and we are keeping pace with the market across personal and commercial insurance. We are seeing rates harden.

In personal lines, home products are seeing increases of around 3% and for motor products around 5%. In commercial classes we are seeing rate increases of at least 5%. As always, we continue to work closely with our broker network to manage the impact of rate hardening for our customers. Our rate changes are in line with the market and importantly retention has held up.

There have been some industry-wide challenges on claims inflation. This is something I always watch closely and I believe we are getting on top of this issue. In short, we are well-placed to benefit from good momentum on rates, our efforts to address claims inflation and a lower cost base.

Turning now to the Australian insurance business, where I will talk about our achievements to date and the fantastic future ahead.

The Australian division has momentum but there is still more to do. We are relentlessly executing on IAG's strategic priorities of Customer, Simplification and Agility. We are continuing to deliver fantastic customer experiences with that wow factor. After three years of margin decreases our margins have started to turn up in the first half of this year and that trend is likely to continue for the second. These improvements are predominantly in our Consumer portfolio.

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As you would expect improvements in our Business margins are naturally taking a little longer to show up. We have started to grow our profitable brands of RACV and NRMA.

We said we would simplify IAG's operating model and we have done just that. In July 2017, we established the single Australia Division, following the Leading@IAG principles Peter mentioned earlier. This has reduced complexity and improved decision making, allowing us to focus on customer experience and profitable growth.

In line with the IAG spirit, we have moved fast and we implemented the new operating model and structure in five months. We have improved the accountability of our leaders, reduced layers between management and the front-line and retained key talent. We have redesigned our system of work including simplifying and strengthening our governance, with stronger focus on risk at the first line and second line. As a consequence, we removed 40% of management roles in Australia with no impact on customer experience.

All these changes are transforming Australia into a simpler more agile business with the customer at the centre. A business I am very, very proud to lead as CEO.

A simpler operating model means that we can make quicker decisions. A good example is product harmonisation. Previously, we spent six months trying to agree a way forward. With a single Australian division, it took just six hours to reach agreement. Imagine the savings in time and the boost in productivity when this is replicated across all parts of the business.

We are also seeing benefits of our claims platform simplification on customer experience and claims cost. There was a significant hail event in Victoria late last year. It happened just after one of our brands went live on the Guidewire claims system. This meant we could automate processes, and manage work in real time. Previously this was done overnight through a batch process.

We could get up-to-date information on how the event was progressing, we could communicate with our customers more effectively and respond at that moment of truth when emotions are running high.

The benefits of our partnering program are also flowing through to the Australian business. March has been a busy month with bushfires and cyclones all around Australia. We have been able to leverage our Manila office to meet the higher demand for claims lodgement.

I regularly visit our operations in Manila and India. It is like going into an IAG office: the logo is everywhere, the staff are aligned to our purpose and values, people are really living the spirit of closer, braver, faster, just like they do in Australia.

Recently I observed one lady in the Manila call centre chatting to three customers at once using webchat – serving each of them very well. Our customers like this channel, in fact we have seen almost twice the demand we expected and it is continuing to grow quickly. We were able to meet this demand with the same number of consultants we had onshore and we have doubled the customer service scores that we targeted for our Manila team.

This is a clear example of improving efficiency at a lower cost. So not only are we leveraging the capability of our partners, we have also improved customer experience significantly. Plus, we lowered the need for customers to contact our onshore call centres therefore improving our ability to deliver great customer service. A win for everybody. As I said earlier, our partners are part of our business.

Turning to property consolidation, two years ago we occupied four buildings in the Sydney CBD. In June this year, we will occupy one, our new head office at Darling Park. The original plan was to take 19 floors in this building; when we move in June we will occupy 15 floors. I'm really excited about moving to the new office which will be set-up for activity-based work; this will give us more flexibility in how we collaborate. It is a much better working environment and will cement our agile working practices - put simply, it will be a great place to work.



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We are also seeing a real shift in the alignment of our people. The simplicity of our operating model and the clarity of our planning is improving engagement.

At the end of March, I received an email from Jerry, one of our leaders in the Australian division. He told me how much he is enjoying the new structure. It allows him to be closer to his team, he's able to focus on things that make a difference to our customers and appreciates that IAG is a good place to work and has a solid foundation for the future.

I mentioned earlier there have been some challenges in claims inflation in the industry. In Australia, we are tackling this by pressing the metal, improving reporting of our supply chain performance and optimising the allocation to repairers in our preferred networks.

To support this, we also made changes to our product disclosure statements. Firstly, we are giving customers options around the choice of repairer; where customers want to choose their own repairer, the premium will increase. No longer will we cross-subsidise. Secondly, we are providing hire cars to our not-at-fault customers, something that insurance customers want. This change is already having an impact on credit hire operators.

Our future is profitable growth from the core. I started my talk about Zoran and I think Zorans are a big part of our future. Just like Zoran, I am guessing that many of you in this room or on the webcast have been NRMA or RACV customers at some stage. So, give us a call, or jump on our website or download our app. You'll get the same great customer service we have always been known for.

Zoran is 35 and used to be a motor customer. Now he has insured his unit and car with us. This is an example of how our brands connect with all generations of customers. We know we have the skills and knowledge to understand the Australian market and price appropriately. We are changing with our customers and servicing them in different ways to meet their needs. I already talked about webchat and the great customer response that we have had to this service. We are improving our digital channels and being smarter at using technology. We are doing this through the eyes and hearts of our customers by improving their customer journeys, as Julie talked about.

We are using data better together with our motoring club partners to bundle our products in line with how our customers buy. These improvements, along with improved marketing, will drive growth across our business. Remember the NRMA Christmas ad and the return to help in March? Help is who we are. The ads are truly setting us apart from our competitors and resonating with all Australians.

A great proof point on growth is RACV in Victoria; we have seen growth of almost 10% in the first half of this financial year. This includes customer growth in both home and motor products. We will continue to work closely with RACV and NRMA motoring clubs to support our growth aspirations.

And further, we see opportunities in terms of how work practices are changing. Young generations are embracing the gig economy and are having a portfolio of careers, often working independently as a small business. This means more opportunities for our small business segment, especially in the direct micro SME segment. Ben will talk more about this in the breakout session. In CGU we have a fantastic brand to meet this opportunity.

Our new marketing campaigns are working. With our latest CGU ads we ran in February, we had over a million views on YouTube in the first few weeks, indicating we are reaching a new generation of customers in a new way and that CGU is resonating as a direct brand.

Yes, there are disruptive changes in the markets we compete in, especially in motor insurance. In the break-out sessions, you'll hear from David about driverless cars and mobility. All these disruptive changes are exciting and offer fantastic opportunities for us as an agile, simple, insurance business that is focused on the customer.

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So, we are positioning the Australian business well to navigate current conditions and we are ready for the future. There is a lot that will change, however customers' need for insurance will remain. People protect what matters. What matters might change, but there will always be something to protect. Insurance will remain relevant and important in the markets we operate in.

So, to conclude. We have a clear plan with a can-do attitude. We are relentlessly executing on the IAG strategy and seeing value created for our shareholders, for our people, for our customers, and for the communities that they live in.

We are delivering on simplification and are on track to deliver a \$2.25 billion cost base. We are confident our agile, simplified business coupled with Australia's leading insurance brands will achieve our 3-5% growth targets.

With more customers like Zoran, we will ensure this fantastic business keeps on growing and helping to make your world a safer place.

So, with that I would like to hand over to Alistair to talk about the great shape that the New Zealand business is in and the opportunities they have for the future.

### **Alistair Smith, CFO New Zealand** **New Zealand**

Thank you, Mark.

You have just heard from Mark on the Customer, Simplification and Agility activities the Australian division has under way, and we too are on a similar path. What's more, there are significant benefits to be had through an even stronger alignment between Mark's Australian division and the New Zealand business.

Where it makes sense, we leverage each other's strengths and work with a trans-Tasman approach to key programs of work such as simplifying our claims technology, optimising our supply chain, and rolling out our operational partnering strategy. And it means that we can both execute at pace.

Today, I want to share three things with you. Firstly, I'll provide an update on how we see the New Zealand insurance market and the challenges and opportunities facing us. Secondly, I'll highlight our leadership in the industry and with Government, with the mention of some of the earthquake-related issues. And thirdly, aligned with what Peter laid out for you this morning, I'll touch on the progress we are making with each of IAG's key strategic priorities, customer, simplification and agility, plus how we are protecting and enhancing the leadership position we hold in the New Zealand market.

But first let's do a brief recap on what makes up the New Zealand business. We are the largest general insurance company in New Zealand, with a 44% share of the market and we contribute around 20% of IAG's gross written premium and margin.

Our business is roughly split 60% consumer and 40% business, and as a business we are predominantly short-tail, with our commercial lines mainly across mid-size organisations and SMEs. I'll tell you more about what we're doing in this SME space a bit later.

Our real strength is our iconic brands and, just as Mark with NRMA and CGU, we have household brands, AMI and State, and the leading broker brand, NZI. Some of our brands date back to 1859 so it's a long and trusted history. And for our customers this translates into things that they value, like consistency and stability. In addition, we have long-standing partnerships to underwrite insurance for three of the four largest banks, ASB, BNZ and Westpac. In fact, through this combination of our own brands, our broker partners and banks, we underwrite more than 60% of the New Zealand personal lines market.

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We have a national footprint throughout New Zealand with an extensive branch network, allowing us to leverage the valuable community connections and have a strong local presence, and how we deliver to our customers is intentionally multi-channelled.

If they want to engage with us, it needs to be easy. In fact, last year we achieved a first in New Zealand through selling an insurance policy to a customer solely via the social media platform interaction with us. We are listening to our customers and adapting and responding to how they want to engage with us.

As a business we continue to operate in a stable market and the New Zealand economy remains solid. Current growth expectations see GDP growth averaging around 3.3% over the next two years. Trading conditions in the New Zealand insurance market overall are good. Rates continue to harden and we are seeing an end to the soft cycle in commercial lines in some regions after the Kaikoura earthquake at the end of 2016, although this is still inconsistent, especially in regions north of Wellington. However, we can continue to improve our commercial lines' margin.

And similar to Australia, we are seeing claims inflation pressures, particularly in motor, but these things are being met through a combination of pricing and operational initiatives and we have maintained a strong underlying performance.

In New Zealand, our macro trends include low interest rates, increasing tourist numbers and growing population off the back of migration.

And this population growth presents both opportunity and challenges for us. It particularly affects our two largest portfolios, property and motor, which make up around 80% of our business.

More net migration means you need more houses and more people means more cars on the roads. As you might have heard, Auckland has a severe shorting shortage with around 100,000 new homes needed in the next decade. That leads to predictable ripple effects of a construction boom, builder shortages and pressure on building costs and insurance house repairs. And then added to that, with more cars on the road –especially in the towns and cities – you initially get more crashes, and those high spec and tech cars are now more expensive to repair.

So yes, there are challenges in the market. However, they are ones that we have seen coming, we have planned for them and we are ably responding to them with a range of measures and initiatives. Measures like reviewing our underwriting responses, our policy wordings, and our coverages, applying rate increases and excess charges, like the examples in the Wellington region, where we're pricing accurately for seismic risk.

And we have introduced an innovative supply chain solution. Taking learnings from the Australian division, we have introduced our own exclusive repair shop network partnering with trusted repairers to fix cars faster, reduce our cost of repairs by around 20% and, even better, our customers are loving it: they recently gave us an 80% advocacy rating for this service.

We are also harnessing the opportunities of having more cars on the road - and by more, I mean around 1,000 more per week in New Zealand - with the introduction of tailored customer offerings, like our AMI Young Driver policy. Again, it's a real success story, providing growth at a much greater rate than system growth.

On the property front, we have responded to the increase in methamphetamine contamination in homes with a tailored landlord's solution covering risk management advice, revised pricing and policy limits to offer protection.

And finally, that housing crisis I mentioned earlier means an influx of new houses to be built, which translates to more growth for us. As a result of these actions I have just mentioned, and a whole bunch of others, we remain confident of maintaining our strong margins, at the same time retaining and growing our business. I think we're in good shape.

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I'd now like to speak to the industry leadership role that we continue to play in New Zealand, and with the New Zealand government. This is important for us, as we have always respected and seen value in a strong and constructive relationship with the government, opposition and the wider public service.

As the largest insurer we are sought out as a key point of contact for industry matters which means we can influence and help educate on the changing trends and the way we and the New Zealand Insurance Council need to respond.

Some of the areas that we have engaged in recently with the government include active dialogue on the proposed insurance contract reforms, changes to the fire and emergency levy, and on climate change.

Interestingly, we are the only insurer sitting on the government's climate change working group. Actually, one of the areas the government has been most keen to get our input on is our learnings on effective claims resolution post-earthquake.

After the Kaikoura earthquake, we led out an industry MoU with the earthquake commission or EQC which allowed insurers to act as EQC's agent. For customers, that meant they had a similar assessment with their insurer delivering them a simple process, less stress and faster settlements.

On the Kaikoura earthquake claims, we have made great progress with over 97% of claims now closed.

You also may have heard recently that the government has announced changes to the EQC Act including lifting the cover from NZ\$100,000 to NZ\$150,000, removing contents cover and increasing the notification limit from three months to two years.

So, what does this mean for us? We do not expect a material effect on IAG premiums overall, with increased premiums on contents offsetting more EQC levies being ceded on home. The government has indicated an intended introduction date of these changes of 1 July 2019.

Looking to the future, as with Mark's Australian division, it is all about profitable growth and our core markets and by using our joint scale we'll deliver at pace via our three strategic priorities.

For our customers, that supply chain example of exclusive repair shops that I mentioned earlier has proven to be a great success, and we are keen to expand and grow the footprint of these throughout New Zealand.

Again, with the customer in mind, we are looking at our digital offerings, leveraging off the work that Julie's team have been doing on customer segmentation, so we too can better identify and meet our customers' needs.

An example of this is the digital offering we have underway within our SME market, which in New Zealand represents over 98% of all businesses. Similar to what Ben will take you through later this morning, we are rolling out an attractive digital solution targeting the micro SME end of this market. These micro SMEs are typically small business owners who will bundle their business and personal insurance needs together with us.

And as Peter and Julie alluded to earlier, the amount of data we have access to is huge so our digital team, in partnership with Julie's team, are building out our data lake and analytical capabilities so we can leverage this data for greater customer insights and customer experiences.

Also alongside Julie's team, we are starting to map our key customer journeys to further improve the great experience we give to customers day in, and day out.

Our progress on our Simplification agenda is well advanced. We are progressing on our technology strategy, with half of our business already on the claims platform provided by Guidewire and with all of our claims to be transitioned by 2019.

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We are also well-progressed with harmonisation of our products. For example, we are taking the more than 700 products that currently exist in our business and rationalising that in half. That is not about making all products the same, but where they have common features and benefits we can align them in terms of processes and interpretation. It makes good business sense and it will be easier for our customers and for our employees.

I can think of an example where the private motor vehicle product is 172 different policy wordings for the intended cover. Harmonisation here means replacing that with one core policy wording, then tailoring the policy benefits to a specific brand. It's all about making it simple, simple for our customers and equally simple for our people, who are selling our policies and managing our claims.

So, that's Simplification, now let us turn to Agility.

We are well-advanced on our operational partnering program with a significant number of our people located and working for us with our offshore partners in Manila and Pune.

Onshore, our flexible working is providing a real engagement driver with our people. We have a working-from-home pilot underway. It is early days, but so far we have 100 contact centre people working from home and, based on the positive results, we will certainly continue with this.

As Mark mentioned, we too have been rationalising the number of properties we have. For example, in Auckland where we have decreased from nine main sites to four. We too have also put activity-based working in place, which gives us greater utilisation of our sites. And what is more, our people tell us they love this style of working environment and it is a win-win.

So, wrapping up. We are fully aligned and we are well-set up to realise great value with our ongoing strong focus on Customer, Simplification and Agility, leveraging our trans-Tasman scale to provide even better customer experiences.

Our market leading position is one we enjoy but we don't take for granted. We are confident we are taking advantage of opportunities as they arise and creating the future we want.

The New Zealand business is delivering strong underlying results and we are well positioned to deliver profitable growth going forward.

## **Nick Hawkins, CFO**

### **Capital**

Welcome back everybody, and welcome to the final presentation for the day. Particular thanks to the team out there in the zones, to Brent and to David and to Ben and to Mark, for giving you guys a bit more colour on what we're up to at IAG and also some of the issues we're facing into at an industry level as well.

What I'm going to do today is talk a bit more about what we're doing with the Group's capital platform and on three topics in particular: how we're changing it and why we've done that; step through in a bit more detail what we've done with our quota shares and how and why we've introduced them; and then lastly touch on our overall level of capital and our intentions around capital going forward.

But before I launch into all that, I'll give a little bit of context on how this fits into the bigger IAG story. If you think about us over the last five years, really what we've been doing is simplifying and de-risking our business and taking out volatility in an economically rational way.

At an operational level, Mark and Alistair have talked about changes in the Australian and New Zealand businesses today, where we've tried to simplify the way we operate at IAG, making it easier for our customers to interact with us and making it an easier place to work at, and actually the outcome of that is a less volatile P&L.



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At a portfolio level, in our commercial businesses, we got out of the big end of town which is the most volatile element of our sector. Within Asia, we'll be likely to shrink that and simplify our footprint, and take out some of the volatility that exists within those portfolios.

At a balance sheet level, we have some legacy books – we have asbestos and we have some residual earthquake risk that sits in our balance sheet and we have put in place some very significant reinsurance transactions to remove any risk of future surprises that exist in our balance sheet.

We see all of those transactions as being about reducing the volatility of the earnings profile of our company.

And in a way, those principles are similar to how we think about the Group's Capital Platform – which is what I want to talk about today.

The overall aim of our Capital Platform is to put in place a funding structure that's sustainable, that's flexible and that's characterised by diversified counter-party providers of capital.

I thought I'd start at the beginning with what is our Capital Platform – the elements that make it up, and the changes that we've made.

We started our life as a listed vehicle in 2000 with just two parts of this Capital Platform. I'm sure we didn't use the word capital platform, but we had two parts: equity and catastrophe (or cat) reinsurance.

We then worked out that we probably should introduce a debt instrument into that structure, and decided that the best way to do that was look for debt and hybrid capital instruments that qualified as ratings and regulatory capital. We introduced these into our capital structure in early 2000. To do that, we took on debt, we issued some Tier 1 and 2 hybrid securities, and we shrunk equity through buybacks where we returned money to shareholders. By the mid-2000s we got to the structure which, conceptually, we have in place today.

In a way, what we're doing today is a continuation of that story, where we're adding something else into that platform in the form of quota shares. An outcome of that is likely to be shrinking some equity and debt capital.

In our view, this is just a journey of ensuring that we have the right funding structure to meet both our current and our future business needs.

Of those three buckets, reinsurance capital is the one I want to spend time on. The sum of those three buckets is \$13 billion of capital. We don't often talk about the fact we need \$13 billion of capital to run IAG, but we really do.

Within the reinsurance bucket there's three parts: catastrophe, P&L volatility and quota share.

I'll start with the cat cover. We have this gigantic catastrophe tower that we buy on an annual basis because we have these highly concentrated businesses in Australia and New Zealand, where everybody lives in large capital cities – predominantly.

We have big market shares in those capital cities. We're wealthy countries so we have expensive stuff; and the last bit is, unfortunately, what Mark has been telling you about in his zone: those capital cities are subject to perils risk.

So, the sum of that means that we have a lot of customers living next door to each other with expensive stuff. If there's an infrequent but occasional event, we have this concentration of risk, so therefore we buy these big cat towers. What's unusual is our main competitor in Australia is similar. Globally we're both in the top 20 on reinsurance cat buying. We are number two in the world because of this unusual nature of how our market structure works and how we live in Australia and New Zealand, all next door to each other. So that's a big element of our capital structure.

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We then buy reinsurance for a little bit of capital relief around our P&L volatility. Not only do we worry about those one-off infrequent events that can get a lot of our customers at the same time, we also worry about preserving the P&L and the dividend essentially, and we buy protection to manage that. That's really around a number of smaller events where the sum of those smaller events ends up being a lot more than our allowances. The two big covers we have in place for that are the aggregate cover and the perils stop-loss.

The last thing is quota shares, which is really where I want to spend a bit more time. We've introduced these in the last four or five years, and we really see these as an important part of the structure going forward.

Something new: I'm going to the whiteboard, which is quite good fun - those of you who want to play around it with later are welcome to come up!

What I said is we had equity and reinsurance to fund our company. We've got net tangible assets (call that the equity) of about \$3.5 billion; we run debt of about \$1.5 billion, and we run reinsurance – the main cat tower – of \$8 billion.

Before we did any quota shares, that's roughly how we funded our company and the sum of that is \$13 billion. We need \$13 billion of capital to open the doors of IAG. We don't really talk about it like that but that's how the capital structure of the company works.

About four years ago we looked at all of this – particularly at CTP and said: "Gee, that's unusual, isn't it? CTP in NSW, a Sydney-centric product about 10% of the premium or even a little bit less and about 25% of the capital – one product, one city".

We decided from our concentrated portfolio that we seemed a bit overweight one product that was consuming a disproportionate amount of capital so we put in place the CTP quota share. This was the first time we'd done something like this and we got about \$300 million of capital relief in that transaction we did with Munich Re.

What that did is essentially reduce our capital load on this one product by around about \$300 million, so the theory would be that the combined debt and equity has shrunk a little bit, by around about \$300 million, as we've moved some of that reliance on debt and equity from the CTP portfolio. There was no impact on the cat because this was a bodily injury product.

We then got used to that product within the funding structure, and we've done four transactions now which, as you know, sit across all of our business. We now have a 32.5% quota share arrangement that sits across our entire business, getting capital relief across our entire capital platform. It impacts all elements. That's the 32.5% arrangements that we have with Berkshire Hathaway, Munich Re, Swiss Re and Hannover Re.

We talk about the capital relief as, roughly, being \$1 billion but really it's a bit more than that. There are no new numbers here: the \$700 million from the Berkshire deal and the additional \$400 million we announced in December with the newer deals, but we also got \$2.5-2.6 billion of relief on the main cat tower as well, because we're no longer buying \$8 billion we're buying 67.5% of \$8 billion.

We've actually changed the structure of how we fund our company a lot by doing this.

The whole-of-account (which makes sense by its name) sits across everything. We actually get capital relief all the way across the capital structure and in fact we're shrinking all of these other capital sources as we're putting in place more of these quota share arrangements.

What I thought I'd also do as part of this session is respond to three questions we often get around this funding structure, which are: why are you doing it?; what is the refinance risk that we're taking on at IAG? (because these all have contractual terms or maturity dates); and are you going to do anymore?

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Firstly, on the why are we doing this?, the outcome for us is that we are essentially reducing the Group's volatility, which is consistent with the story we have talked about, where for an element of our business, we're essentially swapping insurance risk into a fee-based business.

Without having a material impact on the overall earnings profile of the company, we are taking out volatility and replacing some insurance risk with a fee structure.

I'll come back to how that works, but there are a couple of other benefits we're getting out of it. Remember there is a lot of science to how we figure out that we need to buy \$8 billion of cat cover and that's what Mark and the perils team figure out for us. But even though we say theoretically we're getting \$2.6 billion of capital relief because we're no longer buying cat risk under our quota share, there is no catastrophe cover limit on the element that is subject to quota share. It's uncapped. In a way, for 32.5% of our business, we have passed uncapped large exposure to our reinsurance partners.

We have put in place a profit share mechanism where we get to share in a fair chunk of the upside, and I'll come back to that.

Simply putting this in place meant that when our team went to the market on 1 January, we were only placing 67.5% of the \$8 billion. Just simply buying less into a market is a good thing and there's some real pricing tension that we were able to participate in because of that.

And lastly, obviously, we get this capital relief and therefore free-up, or are freeing-up, equity and debt capital to do something with, and I'll come back to that.

Our overall financial aim has been to put all of this in place at roughly neutral earnings per share impact. But the prize for us and our shareholders is that we have a lower volatile earnings profile without materially impacting the earnings per share of the company.

Now on refinancing risk, the second point we get asked a bit about. Yes, these contracts have maturity dates. But to really understand our refinancing risk, you need to start at the beginning of where we have come from. I said in theory we need \$13 billion to run the business, and \$8 billion of that \$13 billion (say) was catastrophe reinsurance. Most of that was renewed annually (we did have a couple of multi-year deals but they may be for two or maximum three years). We had a load of refinancing risk in the existing structure of IAG before we even contemplated quota shares.

In my opinion, we have reduced our refinancing risk because, yes, we do have a chunk of it still renewable every year and a process we go through around that, but it is a well-established industry funding model. It's not like IAG is different here; that's how the world buys catastrophe reinsurance. What we have done, though, is actually in a way push a lot of that out over a five-to-ten year period.

We now have 32.5% over a longer period. These all have end dates still, so we're not saying that that risk is not still there in some form. What our view would be is that we have a lot more lead time if we need to do something.

Our intention would be to roll these arrangements. We have an example here with the Munich Re arrangements on CTP, where we renewed, rolled and extended one or two years before the maturity date. We didn't get close to the end of that contract before we renewed. It would be our intention to operate the whole of account in a similar form. We've probably reduced refinancing risk, not taken more on with this structure.

And then the last thing we get asked around is: are you going to do more of this? And we respond to that the other way around. What we're doing is we're asking our reinsurance partners to sit behind us, the management team and our business, and to put up insurance capital for us to utilise for a long-dated period, of five to ten years. That's quite a big ask really, when we run the company still.

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What I think makes sense in that arrangement, and really to ensure the alignment of interests to ensure that we're always on the same page here, is that we would always have at least 50% of the business on risk ourself. So rather than sort of saying are you going to do more, I flip that around the other way and say we're always going to have at least 50% because we want to always make sure that everything we do, the decisions we're making as a management team, then our reinsurance partners know that we always have more exposure than any of them. That really is helpful for that alignment of interest.

We're at 32.5% today and we're not working on anything at the moment. My only comment on this is that when we went through this process last year, we know there was plenty of appetite from our reinsurance partners to participate in this and to put capital into transactions like the ones we've put in place. There's no shortage of interested parties here is the point.

The other side of this story, is the P & L story. I thought I'd just explain how the P & L is working under those quota share arrangements. At a gross level we're passing over 32.5% of every premium we collect to our reinsurance partners from 1 January. Then they are reimbursing us for 32.5% of all claims as they fall and all expenses of our business as they fall, all in. And then essentially then the next bit is how do we share the profit pool on that business?

The way we share in that is on this diagram. We have a large element which is just a fixed commission, a set and forget percentage of the premium that we are feeding to our four partners for the duration of those contracts, with no reference to underlying profitability. From our point is no volatility, the volatility in that number is simply the amount of premium we write, there's no reference to the underlying profitability of that business. That's a set and forget without capacity to renegotiate that percentage during the course of the arrangements.

The reinsurer then hangs on to an element what we call the reinsurer margin, that's essentially to cover the cost of the capital that our reinsurer is putting up for the insurance risk that they're taking on. Remember, our reinsurers are taking on all of the insurance risks on 32.5% of our business. The day-to-day activities as well as the cat are in fact going into that. They have to generate a return to cover their earnings requirement on the capital that they're putting up, and then after that has been met, then there's a profit sharing arrangement between us and our partners.

We have four different arrangement, four different contract, all slightly different and what happens is that we end up participating in around 90 to 95% of the earnings upside of IAG. We're leveraged into our success which sort of makes sense. As long as reinsurers are getting paid, we're getting rewarded for covering their cost and the additional earnings. The current level of profitability is in that profit share zone so we're already in that part of the business in relation to the performance.

Overall the sum of all that, the fixed commission and our profit share, is adding about a 500 basis point increase in the insurance margin of IAG and that's all in from 1 January 2018 with the additional quota shares we put in place.

The last topic I wanted to cover on quota shares is: how does this work for both of us? Why is it that this is a win-win situation for both the shareholders of IAG and the shareholders of our reinsurers and why does this make sense for both of us?

A few points I'd make. Firstly, remember some of the challenges we have in our business model that I talked about before, highly concentrated capital cities, pretty much all of our customers live next door to each other, perils risk, homogenous pools of motor, bodily injury, very concentrated, remember our reinsurers have the opposite. They have diverse global business models, that probably have peak exposures in Florida, in Europe to windstorms, also to other storms, to Japanese earthquake, and what they see at IAG is a neat package of insurance risk which is diversified away from what they have as their peak zones and is uncorrelated so some of the other risk they're taking on. Logic tells you that things we worry about being us highly concentrated are things that actually make that parcel of risk to someone else highly attractive, so you can sort of see the difference lens into the same situation creates a different outcome and because of that, you have a deal. So because of that we have a structure under these quota shares that genuinely works both for us and our reinsurers.

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I think some other comments are worthwhile making as well. The mere fact that Australia and New Zealand has a profit pool in our industry that is favourable, I think in itself makes it easy to do these deals. It's all fine to have a sharing of economics but if the market doesn't make any money there's no sharing. It's easier because there is a profit pool that we can then share.

Secondly, the fact that we and others in the market have this catastrophe reinsurance exposure, remembering we spend five or six cents of every dollar of premium we collect on cat cover. Under the quota share the reinsurer is taking on the cat risk, they're taking on all that cat risk but not the premiums we used to pay under the traditional reinsurance. That's also helpful.

And lastly, some of the reinsurers have a different appetite around investment and in particular Berkshire. They probably have a different risk appetite than IAG around how they invest that money, therefore they have a different return profile and that probably goes to the economics as well.

The key here though, and the point we are really trying to make is that this is really important to us, we see this as a sustainable form of capital for IAG, and therefore it needs to work for both of us.

I thought I'd just finish with just where we're actually at with capital in the company. And I'll guide you to common equity tier one as the APRA ratio that I think is the best way of looking at the amount of capital we have in our company and how we are going.

Remember the regulator says you need at least 0.6 times common equity tier one, and our target to run our business in the funding mix that we want is to be at 0.9 to 1.1 times. That's our targeted level of capital. If I looked at where we are at 31 December in the results we've just released, we are slightly above that. Even after adjusting for the interim dividend we also announced in February, you can see we're towards the top end of our targeted capital tier one ratio, at 1.07.

Obviously our starting position is good. Looking forward, look at the earnings profile of the company less the dividend under the 60 to 80% dividend payout policy, that retained portion is probably \$200 or \$300 million a year and you're hearing from Alistair and Mark that, yes we have some growth in the company, but a lot of that is price which doesn't consume capital, so one assumes some of that is just going to be added to the capital position of our company.

We also have \$400 million of tax losses that sit on our balance sheet in our New Zealand business and remember that tax losses are treated like goodwill - it's a knockout for capital. As we just heard from Alistair, the New Zealand businesses is going pretty well, and we're consuming those tax losses and they will come back to the group's capital.

We have some further benefit from the quota shares. From the ones we announced in December, there's about \$300 million still coming our way, and we still have about \$50 million from the Berkshire Hathaway transaction of 2½ years ago still coming back to the group's capital. And we could also have some inflow from any divestments of our Asian businesses.

As you can see, the sum of all that is we really have had a fundamental shift in the capital mix of our company with the increased use of reinsurance capital, and particularly quota share capital, and we should be seeing that as a permanent change in our capital platform.

I think it's pretty clear we're in a strong capital position, and as I stepped you through, the outlook's pretty positive around that. We have targets for a reason, and it is not our intention to hang on to capital in excess of our targeted capital ratios over the medium term. We have those targets and we will rebalance our business back to those and so it is likely that we are going to be returning capital to shareholders.

We see the possible form of that in three ways, two of which we've used in the last couple of years: a special dividend, we could utilise a capital reduction or a buyback. Of these an off-market buyback, as you are aware, is our preferred option, where we get to utilise franking credits as well as create that favourable EPS outcome.



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In relation to our considerations on what we're going to do here, we're looking at the quantum that we're talking about, but I'd also highlight our franking account position and the fact that our franking account surplus has reduced over the last couple of years driven by the capital actions we have taken, as well as the earnings profile of New Zealand which is increasingly material in the Group's earnings and obviously we don't get franking credits on the New Zealand earnings.

We are expecting to outline some firmer capital management plans in the second half of this calendar year.

With all of that, I now hand you back to Peter who is going to close.

**Peter Harmer, Managing Director and Chief Executive Officer**  
**Closing remarks**

Before I quickly summarise the day, let me talk to our guidance for the current year. Today we are simply reiterating the guidance we gave you in February and that is low single digit GWP growth, and our reported insurance margin at 15.5 to 17.5%. We are tracking to plan and we remain confident of an improvement in underlying performance against last year.

Before we do invite your questions, I'd like to leave you with the following message. We are confident of achieving our 10% compound EPS growth target over the next three years or so, particularly as we realise the benefits of our simplification program. But longer term we do believe the means of maintaining this momentum exists through identifying and realising the future growth opportunities we have talked about today and that they will be delivered by our three strategic priorities of Customer, Simplification and Agility - brought to life by our eleven core capabilities, and captured by our distinct three platform business models.

**Questions and Answers**

**Peter Harmer:** I'm now going to ask Julie, Mark and Alistair to join Nick and I on stage and we will take your questions. We do have people on the phone and joining us by webcast as well. It makes sense to start here in the room and I will say that we do have the zone presenters back at their stations over the lunch break so some of the questions you might have about zones might be best directed to those presenters over the lunch break. While we're giving the room a chance to warm up are there any calls coming in? No calls. Always a sign of a job well done isn't it?

**Siddharth Parameswaran (JPMorgan):** Maybe a couple of questions. A question on volume. Some of the themes you talked about were about having a return to growth, could you give us some idea of when you expect to see a movement back to market share-type growth or maybe even better?

**Peter Harmer:** I'll hand to both Mark and Alistair to talk to the specifics in Australia and New Zealand because I think even at the half we were getting some volume growth but my macro comment would be we are very mindful of the preferential industry structure that we enjoy here in Australia. Whilst we want to ensure we have competitive products out there for our customers, we don't want to start a price war that takes the entire industry to the bottom. We are very careful with how we actually exercise our market leadership position, Mark, can we start with Australia?

**Mark Milliner:** I think in terms of growth, as we indicated, what we really working on is our core brands and you have heard Brent talk about the strengths of NRMA and CGU and really trying to grow that slowly. We're not after massive growth as Peter said, we just want to continue to increase the number of customers we have at a slow rate. As I said, with RACV in Victoria we are starting to get customer number growth in that state and along with the price increases, we saw just under 10% growth in that brand in the first half, so again it really comes back to us in the RACV and NRMA brands working closely with the motoring groups, leveraging their data and our data together well and picking up customers who used to be insured with us. You know, it's all about the value of the product, and we just see great value in our brands and the products we deliver.

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**Alistair Smith:** And in New Zealand, we grew I think 9.5% last half of which about 20% of that was volume growth. We have certainly been growing in our consumer brands and I talked a little bit in my presentation around some of those propositions we have, like the AML young drivers which far exceeded system growth. And we have numerous other examples. We are seeing some good growth coming off those consumer brands and as I alluded to before, we see the volume coming and the systems growth going forward being pretty effective as well.

**Peter Harmer:** Maybe in closing our response, Julie talked to our pricing modernisation tools have driven some 12,000 new customers, Ben called out the rapid growth we're getting in the digital direct channel. What that growth is allowing us to do is to more aggressively remediate some of the portfolios that have generally underperformed for some time. We have been exiting some of those customer relationships and some of those portfolios over the last two years or so.

**Siddharth Parameswaran (JPMorgan):** Second question from me just on the use of the capital. You did mention Nick the possibility of using some of the capital for M&A, is that a possibility bearing in mind that at least according to the press there's at least one bank looking at its options in its general insurance division?

**Nick Hawkins:** I think the likelihood – I'll just make a macro comment – the likelihood of us doing big M&A, probably Australia and New Zealand I see as unlikely. On that particular example, I think we know as much as what was in the newspaper on that topic. I think realistically it's unlikely we'll be consuming a lot of equity capital through some sort of large M&A in Australia and New Zealand. We should never say it's off the table and we may look to smaller add on bolt on type opportunities to add to our business but sort of big chunky M&A, I see that is very limited in the foreseeable future.

**Ross Curran (Deutsche Bank):** It's Ross Curran here from Deutsche Bank. Just again talking about the growth options, Mark you talked about natural market share in NSW historically was close to 50%. And Julie you talked about under 35s and go getters as being attractive proof, and we heard in the breakout suggestions about CGU resonating with that demographic. Can we expect that to be expanded more into consumer and how much spend do you think it would be to reposition CGU in consumers' minds? Obviously, this is not a short-term strategy, this is going to take years to get CGU recognised as a personalised brand but can you just talk us through that journey?

**Julie Batch:** When we talk about the CGU brand it already has a fairly strong presence in the personal line space. We definitely see that as a progressive brand particularly in the way you saw some of the marketing initiatives that Brent has been talking about. As I highlighted, really, customers that are buying, whether they're buying personal lines or small business, they're the same people, so we need to be able to provide services to them at the point at which they interact with us so we can get the best traction and the best resonance. We definitely see CGU as a brand that will play more strongly in the personal line space in a more integrated way across all the products and Brent assures we can do that in a very cost-effective way.

**Peter Harmer:** I think just to two quick additional comments if I can Ross and Brent in his zone referenced the fact that it's only the last 12 months or so that we've been able to pull all the markets together into the one place, we're creating quite a degree of synergy benefit out of that and that can be reinvested in the brand. More-over this particular segment that you reference - this is really true across all customer segments but particularly for - a lot of below the line advertising so the use of social tools coming at a very low cost and gives us extraordinary reach. There are a couple of examples- of 9 million YouTube views on the CGU ad earlier this year. I think our whole concept of marketing cost has to really change with the times.

**Nigel Pittaway (Citi):** It's Nigel from Citi. On the \$250 million of cost saves, I notice that the split you're using between the various categories of underwriting / fee based hasn't changed, still 160-70-20, can we still rely on that because I understand the fee based income savings in particular were not necessarily coming through now with the change in participation in the managed scheme there? Are we still able to rely on that break down of the 250?

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**Nick Hawkins:** What we did was we showed - the I think point of the slide was we're not changing our position. I hear your point that potentially some of the mix of our spend has changed a little bit with some of the things that have happened with workers comp as an example and we were talking about this before, over the next 12 months we'll just reconcile that split of the \$2.5 billion where we currently spend it. It has changed a bit between claims handling and admin. The key story is have we really taken out \$250 million of costs out of the running of IAG and we're going to be able to demonstrate to you over the next 12 to 18 months that you can see where that's come in all in we're down. I acknowledge your point, yes that split probably has changed a bit in the last six months and probably the last 12 to 15 months. The other change will be between that claims handling and admin. We purposely showed you the same slide to make sure that nobody feels like this is a moving target. This is a fixed target and we'll deliver it in the time periods we've said.

**Nigel Pittaway (Citi):** Just on the second question, perhaps a broader question, are you broadly happy with the structure of your repair network in comparison to the company that has all those lucky customers, referred to earlier, it does seem as if they may have got a slight advantage there, what do you feel about that?

**Peter Harmer:** Perhaps Mark, seeing that slight advantage you might have had something to do with it originally you might want to comment on the question?

**Mark Milliner:** I think the current structure with what we have in the market we are certainly working hard to get more of our cars to the right repairers to leverage improvements and try and control that inflationary impact that we've been seeing going on in the market and we are getting some traction in terms of us controlling that inflationary impact on repair costs for motor. I think there's always options for us in the future to look at what we can do differently in terms of the structure of the industry but clearly the structure of the smash repair industry is changing, and we need to be part of that in terms of what that might look like. We haven't got any specific plans at the moment but we'll always be conscious of what we could do differently going forward and if that can give us an advantage from where we are today in our business, then we'll certainly look at doing that. I think the other side of this is that clearly other technologies coming into this industry like Julie talked about, with Snappy and what we're starting to be able to do there in terms of understanding the car and how it's been damaged from photos etc. There's lots of options for us in the future as I said, I think we're much more agile as an Australian business now and I'm pretty confident whichever way we jump we'll be able to leverage that to our advantage and shareholders' advantages going forward.

**Peter Harmer:** Nigel, if I can just add one comment to Mark's summary. That is obviously Mark and the team, as is Alastair and the team in New Zealand is very focussed around what we can do to repair costs through the network, not just in motor, but also in home and property as well, but a really big driver for us is around the customer experience and I think the work we've done, early work we've done here in Australia around our hub and spoke model being able to create a service that helps the customer deal with mobility needs throughout the process is raising customer feedback scores and that at the moment is a really important focus for us.

**James Coghill (UBS):** James Coghill, UBS, just two questions for me, I think I'll direct them to Mark for the first one at least. Just going back to one of your slides, Mark. The comments you made on business was that those improvements were taking longer to show up, so I assume they have shown up by now and perhaps you can just take us through why they've been taking a bit longer. You've been putting rate increases through there for almost two years now.

**Mark Milliner:** What we've seen in the commercial market or business portfolio has been obviously we've had the impact of claims inflation that's also been going through that portfolio. I think what we've also seen and we saw it first half and to some degree second half - sorry, second half of last year, first half of last year is we've had the average size of some of our large losses go up. Not the frequency so much, but just the average size of large losses and I think up until now those things have been absorbing any price increases that have gone through. So, it's just taking longer. As we look through the portfolios, we are certainly pushing hard as Peter said to remediate what's happening. But also conscious of what's going on from a customer's perspective in terms of if we push too hard on price, there is the reality that

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we might get some switching going on that we don't really want to have and we expect to obviously service these customers for the long-term. So we are working closely with the brokers to make sure that's reasonable. I think also in terms of the commercial market it's just trying to build the shift that's going on in pricing so it's sustainable for the long-term. I think we've got to see a longer term shift in pricing so again we're not trying to make it all happen in a 12-month period, James. But look, it's more complicated, it's trickier than some of the consumer lines and so it's just taking a bit more time and we're doing it in a structured, planned way.

**James Coghill (UBS):** Second question is also around business. Peter, perhaps you can just take us through how you get that balance right between moving towards this 50% direct target and not upsetting some well-established broker groups and very vocal CEOs of those broker groups?

**Peter Harmer:** James, we started this dialogue with the brokers back in 2011 at the annual conference of one of those particular firms that you reference. We've been trying since then to actually engage the broking community in the need to actually build a very different business model to deal with this emerging class of customer. Ben talked, I think, quite eloquently about the changing demographic and how that's actually leveraging some of those things like the rise of social tools of crowd sourcing advice, that sort of thing. The micro SME is not profitable for brokers to serve. Yes the SME is and yes there's contagion risk. We've been very clear about where our purpose is and very open in terms of how we've invited brokers to come in and work with us. Some have and some would prefer to pursue their own paths. There will be some channel conflict. There's no doubt, we understand that. We're managing it very carefully. As you will appreciate there's always a lot of bluff and bluster in the market and at the end of the day cool heads do prevail. In the case where we have major cluster groups obviously there's a relationship with the centre, but it's what's really important is the relationship with the place where the business is done and we're doing a great job in letting our service speak volumes for the proposition that is CGU in this space.

**Mark Milliner:** I think James if you think about it through the eyes of this customer in terms of what we're seeing, there are segments of the Australian market that will find it very difficult to be serviced by the brokers face-to-face and they want to interact after-hours, on-line and be serviced really well through a direct proposition from a large well-branded CGU insurer. So there is an opportunity, but as Peter said, there will definitely be some channel conflict in the middle as we work out where that fits.

**Peter Harmer:** Interestingly, the small business ad that was referenced in the presentation actually drove a lot of traffic into brokers' offices as well. We were getting positive feedback around our brokers that it was helpful for their business, as well, so a good outcome.

**David Humphreys (JCP Investment Partners):** It's David Humphreys from JCP. I have three questions if I may. First one's for Mark. 18 months ago I asked whether the changes you were planning to make to IAG around people, processes, technology et cetera would significantly change the value proposition for customers. You mentioned today that retention has held up. We heard in the break-out session your NPS is 10% ahead of your nearest competitor. I note that CGU won broker of the year in NIBA Survey in 2017. That's all positive. Can you give us an idea as to how it's trended over the last 12 months or so. They're dot points. How sustainable is what you're doing?

**Mark Milliner:** I think it's very sustainable. Our NPS scores, they move around every couple of months when we measure them, but certainly I think we've stayed ahead of our competitors and have been positive. I think again when you think about it, that really comes through or these scores come through in that ability for us to service customers either at the point of purchase or at their claim and as I've said, we really are absolutely focussed on that part of the business. We've maintained it and have been able to continue to deliver great customer experience for customers. We continue to change some of the technology around it. As we've said whether it be through digital channels or core technology systems. Again, all these things continue to improve that experience. So yes, on the NPS we continue to stay ahead on the big brands of our competitors and it's not trending massively up, but it's certainly staying ahead. I think in terms of the broker space as you mentioned around CGU, I think we've won it for the last three or four years, so that trend is continuing with that. Again, I think our experience with the



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brokers has remained positive and really good. I think again it comes back to this ability for us to service them in terms of how they want to be serviced.

So again, we're positive that that momentum continues. So again, I think the other really important point here is that we're starting to see some customer growth. I think we said at the half, we had overall in our consumer products about a 1% growth in customers. RACV as I said, has customer growth in both motor and home in Victoria. I think the momentum's fantastic. I wouldn't underestimate the story I've said about the staff with the email I got from Gerry. I think people in the business with the clarity of purpose that we've got are clear about their accountability, can spend more time with their people understanding what to change and shift and improve service for the customer and are really positive about IAG as a great business to work in. So it's a whole concept of happy staff really does come through from a customer perspective. So I think the trend is positive and we're in a really good position, David.

**David Humphreys (JCP Investment Partners):** Second question is for Alistair. Alistair, there's a remarkable turnaround in profitability in New Zealand in the December half across the sector. Everyone says you've been acting rationally. I think your largest competitor is trying to reduce aggregates in certain territories. You talk about the growth you expect from that and how sustainable you see the operating environment from a medium term perspective?

**Alistair Smith:** Yes, I can. We've certainly been responding. I'll talk on behalf of IAG, to what we're seeing out in the claims experiences, claims inflation and the like and we've been putting through a lot of policy changes, excess changes and rate changes to combat that and I think we've got ahead of that curve now, which has been really pleasing. So that's naturally flowed through in those books. The commercial lines though, I think we've been in a soft cycle, no doubt the same as in Australia for a little while now, and as a reference tool it probably hasn't been as consistent in terms of coming out of that yet. Certainly in those areas we're more prone to those type of perils. Kaikoura is a classic example that we are seeing good hardening going on, but that's not consistent throughout the country. We do think we'll just focus on what we do, pricing for risk appropriately and servicing our customers and our relationships going forward.

**Peter Harmer:** If I can just add something to that. We've always been very disciplined about our aggregate exposures in places like New Zealand and let's call it specifically Wellington. As you know from the Kaikoura quake we were under-weight the market loss versus our market share, which I think reinforces that point. We're certainly not increasing our aggregate exposure in Wellington. In fact, because of what's happening in the marketplace it actually gives us more opportunity to be more discerning about the risks that we take on and the Kaikoura quake, it was the waterfront that gave rise to the very large market losses and it was our view of the inferior quality of the build on the soil conditions on that waterfront that led us to be well under-weight market loss.

**David Humphreys (JCP Investment Partners):** Thanks, the third question I had was for Nick on capital. On the quota share arrangements you have, if per se one of the participants decided they didn't want to renew, is there commitment or an option for one of the other parties to take that up?

**Nick Hawkins:** No, there's no contractual sort of underwrite, to use the right word for that, that someone would step into someone else's place. There are actually four different deals. I know we announced the arrangements in December as one arrangement. Contractually it's just three deals we signed on the same day that are all slightly different and Berkshire is separate again. There's no contractual arrangement where someone else steps into someone else's arrangement I think is the question. Do I feel confident that if ever anybody ever wanted to exit - and I can't see that happening - but if that is the case, am I confident we could either replace that with a different partner and put more capacity to that partner or potentially introduce a new partner, I'm very confident on that. I see very limited risk around counterparties wanting to participate on those programs.

**David Humphreys (JCP Investment Partners):** Second question on capital then from a return perspective. How should we think about gearing?



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**Nick Hawkins:** In terms of S&P, that ends up being our main driver of our rating. Also the amount of debt that is 'AA-', we've issued some tier two debt. That's not taking on more debt into the capital structure of IAG, it's about us getting ahead of a refinancing we have in 2019. We have about \$900 million, roughly half of our debt up for refinancing in 2019 and so really we've just got ahead of that refinancing by doing something earlier. I think the way we should look at it we're going to roughly operate the company in that 30-40%. We would be shrinking the dollar of debt over time as we're shrinking equity in the way we talked about it as we're taking on more quota shares.

**Andrew Buncombe (Macquarie):** Andrew Buncombe, Macquarie Securities. Just one quick question around the technology and the systems. When we sat at the Investor Day 18 months or so ago, we sort of spoke about taking the claim systems from mid-teens down to 1 and by all reports that's tracking to plan which is great, but at the same time you mentioned that it seemed like consolidation of the policy systems was almost phase two. As we sit here 18 months on, how are we thinking about consolidation of the policy systems? Has it started? When's the target to finish it?

**Mark Milliner:** Yeah, look I think certainly the plan was always to do claims first as you said and I think that was the right decision for us to make. We have been doing some planning around policy and I think some of the things that Alistair talked about around rationalising the number of products we've got is all in preparation to simplify from a technology perspective our policy system. We're certainly not announcing anything on that at the moment. But we're certainly doing a lot of work to get ready to do that in the future. It does make sense for us to simplify that at one core policy system across Australia and New Zealand. We kind of have worked through a plan at the moment and I think that's probably after 12 months on from now probably would start some time around that. But we're certainly doing a considerable amount of work to get ready for it, because the more you can simplify the current business to fit into that model, the much easier and less risk we'll incur when we actually start doing the technology.

**Andrew Buncombe (Macquarie):** Great. I suppose the follow-up question is probably to Peter and Nick, the simplification programs aren't cheap. Should we be assuming that they still fall into the 225 above the line, or is there another bit of cost coming?

**Nick Hawkins:** That's how we're running our company, even to the question we had around CGU and additional marketing stream, this is all-in. We're trying to use - this is only a proxy - we're trying to use money and spend as a proxy for capacity and naturally sometimes if you're unconstrained and don't spend that money as well as we should - therefore we're going to use that way of constraining almost our investment decisions and really identifying where that best spend should be going and that's got to be all within that same bucket.

**Peter Harmer:** I might just follow up on a comment there, Andrew. We said in December of '16 that the program of work to deliver the efficiencies that we measured by way of the 250 million the actual program would have to be much bigger than that because you have to absorb inflation in the baseline and create capacity to invest in things we know we've got to invest in and things we don't know about yet, but might come and that's been a very clear commitment from us right at the outset and we are not changing that view at all. I am just conscious of time. I don't think we have any questions - sorry, we have one more.

**Andrew Adams (Credit Suisse):** Just a quick one, clarity on the quota share. You spoke to the Exchange Commission and the Profit Commission giving your 500 bps of benefit. How should I think about that in an expanding margin environment. I want to confirm you're not thinking of 500 as a fixed number?

**Nick Hawkins:** That's a good point. One assumes if we have the return profile moving from here to here then that profit share element will be commensurately increasing and so the potential mathematical outcome is what you said.

**Andrew Adams (Credit Suisse):** So in the 500 you've just allowed for the current inflation not what you're thinking in two or three years' time?

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**Nick Hawkins:** If we had a particular year where we had an outstanding performance of the business potentially that profit share of the element would contribute to an element larger than the 500 basis points.

**Peter Harmer, Managing Director and Chief Executive Officer**

**Final remarks**

Firstly, thank you very much for spending a few hours with us this morning and then into the early part of the afternoon. It's a really big commitment on your part. It has been just fantastic for us to share the progress we've made in the last 18 months since we last talked to you in December of 2016.

When we did talk to you in December 2016, and we laid out a number of things including some detail around our simplification program of work and the financial targets that we expected to deliver, I think there was a degree of scepticism around our ability to deliver 10% compound growth in our EPS.

What I hope you've taken away from today at the very least is a degree of confidence, maybe sharing some of our confidence that it's a realistic target and we're well on track to deliver it.

But just as importantly, I think the key message I'd like you to take away, is we know we've got more work to do to continue that 10% target growth going beyond 2021 and we're on track to leverage the assets, resources and capabilities we're building in the organisation to participate in a really meaningful way in an industry that's going to be incredibly viable – and it's going to look very different to the one we've known historically.

Again, thanks for your time. We do have lunch outside. The zone presenters will be at their stations, and I'm sure they'd appreciate an opportunity to talk about their wonderful work. But again, thanks for joining us this morning.

**End of Transcript**