Chairman’s address to 2018 AGM

Ms Elizabeth Bryan AM
Chairman, Insurance Australia Group Limited

I would like to start by talking to you about some of the key events that have shaped the year for IAG, and how we have responded to these events.

At the top of my list is the sharply-increased focus on financial services businesses such as ours, from our customers, from the broader community, from politicians and regulators and from the media, driven, to a considerable extent, by the operation and outcomes of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

Our response to this external scrutiny has been to hold up a mirror to ourselves.

We are reassessing the extent to which we understand community expectations.

We are challenging ourselves to better meet our customers’ needs now and in the future.

We are re-looking at ways we can ensure our people have satisfying careers and opportunities in a changing and challenging workplace.

And we are continuing to use our extensive knowledge and experience of risk to improve communities, and society more broadly.

In addressing these challenges, we continue to test our responses against our purpose: to make your world a safer place.

Responding to the Royal Commission

I want to talk in a little more detail about the Royal Commission.

My comments will have to be general, as we are yet to see the Commission’s final report, and any recommendations that might be made about the general insurance industry.

From the moment the Royal Commission was announced, we adopted an approach that would maximise our learnings from the process.

We see the commission as an opportunity to further deepen our understanding of our customers and our communities, so we can continue to improve the value of the products and services we provide, shape our future as a business, and strengthen trust in our sector.

While the Royal Commission has some time to run, it is already clear that many of the issues highlighted so far are the result of a failure to consider the best outcomes for customers.

In our own back yard this certainly was the case with the add-on insurance sold by Swann through car yards.

This was the significant issue we identified to the Royal Commission – and is what we were questioned about during the general insurance public hearings in September.

Two years ago, we came to the decision that these products did not deliver the value they should have for many customers.

We sold our Swann Insurance motor vehicle distribution rights in August 2016 and stopped selling add-on insurance through motorcycle dealers in October 2017.

But, in hindsight we **could** have **acted earlier.**

Meeting community expectations and needs

Today, we use a variety of mechanisms as we seek to address the need identified by the Commission to more closely monitor how well our products meet the needs of customers.

One of these mechanisms is the valuable external perspective we receive from our Consumer Advisory Board. This Board brings us first-hand insights about concerns they and their clients have in the insurance market.

Another mechanism is our Ethics Committee, which challenges us on how we think about social issues and the trade-offs we have to make as a commercial organisation.

Many of these learnings are taken into a formal set of Product Design Principles that we have developed and are implementing.

These Design Principles will become part of the process we use to help us evaluate whether new and existing products will meet customer needs and offer them fair value.

We have established a Customer Conduct Council to oversee our customer equity policy and provide leadership, insight, advice and guidance on the quality of our customers' experience.

Responding to the Royal Commission has involved a huge amount of self-examination of our processes, products and performance across a range of customer outcome measures.

It has provided us with the catalyst to examine every aspect of our business.

We are determined to bring all these learnings to bear on our ongoing products and processes to ensure we deliver good customer outcomes.

Our customer focus continues to deliver sound results

These review mechanisms have given us confidence that our people can continue to provide outstanding service to our customers.

And I am pleased to be able to tell shareholders that this service has gone hand-in-hand with the strong financial performance of the business this year:

- gross written premium was $11.6 billion,
- net profit after tax was $923 million,
- cash earnings were $1 billion.
- and cash return on equity was slightly above our target of 15%.

Importantly, we were able to share these returns with you, our shareholders, via the fully franked final dividend of 20 cents per share which was paid on 27 September.

The dividend takes the full year payment to 34 cents per share, a payout ratio of almost 78%, which is at the upper end of our dividend payout policy.

We are investing in our people, our customers and our communities

Generating strong financial returns means we can:

- continue to invest in developing our people,
- continue to create the products and experiences that attract and retain our customers,
- and continue to support our communities and our shareholders.

Peter will talk more about our customers in his presentation, so I will focus on our **people** and the **community** now.

It is important for a large company like ours to invest in our people's development.

We want them to succeed in the rapidly-evolving workplace we have today – and for the foreseeable future.

At IAG, we have a system of work that sets clear expectations about the skills and behaviours we expect from our people, at every level of our organisation. We call this Leading@IAG.

It helps our leaders link our purpose and strategy to the way they design their processes and roles, and how they identify talent and manage people's performance.

We have another program focused on making sure our people have the skills and capabilities we need for the longer term. We call this Future ME.

Future ME recognises that our people's skills and capabilities will need to change so we can continue to provide exceptional customer experiences.

It helps us identify the likely changes and incorporates practical steps to help people prepare.

For example, while technology, automation and global partnering will affect some roles, they will also create new opportunities.

And we know that adaptability, cognitive intelligence, data, digital and customer experience and design are some of the critical skills our workforce will need.

Let me now move on to our community focus.

We hold a huge amount of information and knowledge about risk, resilience and natural perils.

We also recognise we have a responsibility to use this information to realise our purpose in the broader community.

At a local level, our long-term relationships with the Australian Red Cross and the State Emergency Services embody our focus on making the world a safer place by building safer and more resilient communities.

This year, we worked with the Australian Red Cross to co-create and launch a Get Prepared app. The app guides people through simple steps to prepare their own emergency plans on their smartphones.

I'm delighted that representatives of both organisations are joining us in the foyer after the meeting again this year.

They are ready to talk to you about how to prepare for bushfires and storm season, and how to develop your emergency plans.

At a national level, we remain committed to the Australian Business Roundtable for Disaster Resilience & Safer Communities which we founded in 2012, and to a similar organisation called Resilient New Zealand which was established in 2015.

This year, we had the satisfaction of seeing Australian governments at both Federal and State levels hear and act on our calls for increased funding for disaster mitigation.

This July we had an opportunity to make a global contribution, through our membership of the United Nations Environment Programme – Finance Initiative.

We were honoured to help bring the organisation to Australia for the first time to start laying the groundwork for creating Australian and New Zealand roadmaps to finance a resilient and sustainable economy.

We are very proud to be involved at the start of this important journey, to make our countries' financial systems more resilient to environmental and social stress, less affected by the impact of climate change, and aligned to global goals such as the United Nation's Sustainable Development Goals.

Climate action

Several shareholders have asked about our response to the issue of climate change ahead of the meeting, so I am pleased to report on the progress we have made this year.

We know people are looking for companies to be active on this subject. They are looking for evidence of internal and external targets, and actions.

We're in the business of risk, and climate risk is one of the risks we need to manage, so you are right to expect us to be a leader in this space.

In July, we publicly launched our Climate Action Plan. Today we are providing more details about what we are doing so you can assess our actions.

We are assigning direct accountability for climate change objectives to our senior executives.

Our Climate Action Plan Scorecard sets targets and deadlines around five key areas that include current and future actions to help mitigate climate risk.

Peter will talk to the action plan in more detail shortly, and I encourage you to visit the display in the foyer to learn more about our scenario planning, the targets we have set ourselves and how we will achieve these.

In addition, we have committed to assess and disclose risks and opportunities aligned with the recommendations of the Task Force on Climate-related Financial Disclosures.

This additional disclosure will be part of our 2019 financial year reporting.

Across the company,

- from understanding our customers,
- to providing them with products and services,
- from our capital structure,
- our people,
- managing risk,
- and embracing technology

we see the results of the skilled and capable leadership team that our CEO Peter Harmer has assembled and nurtured.

I take this opportunity to recognise their contribution.

Executive remuneration: aligning executives with shareholders, customers and employees

Now, with that acknowledgement, let me turn to the more complex issue of remuneration.

There will be an opportunity to ask questions about executive remuneration shortly, when we move to consider the remuneration report.

And I realise that the topic of executive remuneration may elicit stronger responses than usual this year against the background of the Royal Commission.

I want to set the scene for that discussion now, with some general comments about the current debate, and our approach to remuneration.

Our board is well-aware of shifting community expectations regarding executive remuneration.

We recognise there is an increasing appetite for change, and we are happy to participate in discussions about changes and adopt improvements to our remuneration system where we identify an opportunity to do so.

In response to a strategic review of remuneration we undertook in 2017 and APRA's review of remuneration practices at large financial institutions completed in early 2018, we have embarked on a detailed program of work, refreshing both the design and governance of our remuneration policy and practices.

For example,

- we applied a more rigorous process for considering risk when assessing performance. The short-term incentive for the senior executives was updated to ensure there is 10% attributed to risk in the Group score card as well as a new additional overlay which looks at the risk maturity of each executive's area of responsibility;
- we formalised the role the Chair of the Risk Committee and the Chief Risk Officer have in informing the board's assessment of risk management performance;
- and we reduced the variable component of the Chief Risk Officer's remuneration to further support the independence of his role.

IAG has a well-established committee of the Board which is responsible for driving the fulfilment of the Board's obligations to have both well designed remuneration arrangements and to ensure the governance of them is enforced.

The Board recognises we are on a journey to ensure our remuneration arrangements are both effective and acceptable to all our stakeholders.

We also recognise that we will need to steer a steady but responsive course through widespread debate and concern at all levels of our community on the practices that have grown up around corporate remuneration.

This will be a testing time for both directors and executives.

IAG's strong performance during the year ended 30 June 2018 resulted in a Group Balanced Scorecard outcome that was 74% of the maximum achievable. The average short-term incentive payment for executives was 71% of the maximum achievable, and payments to individual executives ranged from 50 – 84% of the maximum achievable.

We also seek to align the interests of non-executive directors and executives with shareholders by requiring them to hold a significant number of IAG shares after a set period, and all met this requirement.

After listening to our investors, we are planning additional changes for the year ending 30 June 2019:

- the deferred proportion of any executive short-term incentive awards made from September 2019 will increase from one third to one half;
- the performance period for the cash return on equity hurdle for long-term incentives will be extended from three to four years;
- we will complete our review of IAG's sales-based employee incentive plans. Our aim is to either discontinue these or evolve them to ensure they support positive customer outcomes and IAG's purpose;
- and we will review the level of our cash return on equity target for long term incentives.

Board renewal

At the end of this meeting we will say farewell to one of our longest-serving directors, Philip Twyman, who leaves us after 10 years.

I am sure you will join me in thanking Philip for his dedication to IAG, and for his commitment and his guidance. We will miss you Philip.

While we farewell Philip, we welcome two new directors, Sheila McGregor and Michelle Tredenick, who are attending their first IAG AGM.

You will have the opportunity to hear from Sheila and Michelle shortly when we move to the resolutions covering their election.

I have been very grateful this year for the support of my fellow directors.

I thank them all for their ongoing contribution at a time when the responsibilities and workloads of all boards are rising considerably.

I hope you share the pride we feel as we watch our company meet the demands of the present and prepare for the future.

Our success will enable us to continue to thrive while we support all of those who depend on us.

I now invite Peter to provide some more detail about the company's strategy, operations and achievements.

About IAG

IAG is the parent company of a general insurance group (the Group) with controlled operations in Australia and New Zealand. The Group's businesses underwrite over $11 billion of premium per annum, selling insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann Insurance and WFI (Australia); and NZI, State, AMI and Lumley Insurance (New Zealand). IAG also has interests in general insurance joint ventures in Malaysia and India. For further information, please visit www.iag.com.au.

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