News Release

24 January 2020

IAG outlines 1H20 results, customer refunds provision, recent hailstorm impact and updated FY20 guidance

IAG today provided an update to its FY20 reported margin guidance, based on expected results for the six months ended 31 December 2019 and on a revised view of full year net natural peril claim costs in the wake of the recent hailstorm event. IAG now expects its FY20 reported insurance margin will be in the range of 14.5-16.5%, compared to previous guidance of 16-18%.

IAG has also indicated its 1H20 results will contain a post-tax provision of approximately $80 million for a customer refund program. This item will be recorded in the net corporate expense line and does not impact the reported insurance margin for 1H20 or equivalent guidance for FY20.

1H20 results

IAG will be releasing its detailed 1H20 results on 12 February 2020. Ahead of that, IAG advises that, subject to finalisation of audit review and Board approval, it expects its 1H20 results to contain the following features:

- Gross written premium (GWP) growth of around 1.4% (1H19: 4.1%), consistent with the 'low single digit' GWP growth guidance provided for the full year;
- An underlying insurance margin[1] of 16.9% (1H19: 16.2%);
- A reported insurance margin of 13.5% (1H19: 13.7%), after inclusion of:
    - Net natural peril claim costs of $419 million;
    - Lower than anticipated net reserve releases of $5 million; and
    - A modestly favourable credit spread effect;
- A loss from fee-based business of $2 million (1H19: profit of $5 million); and
- A post-tax provision of approximately $80 million for customer refunds.

IAG's Managing Director and CEO Peter Harmer said: "We are pleased with our underlying business performance, which continues to track in line with our expectations, both at the GWP and underlying margin levels, and in terms of the net benefits being realised from our optimisation program.

"We have, however, revised our reported insurance margin guidance for the full year, to reflect the recent heavy natural peril activity and a reduced expectation for prior period reserve releases following the lower than anticipated first half net reserve release outcome," Mr Harmer said.

Customer refunds

IAG's 1H20 results will contain a net post-tax provision of approximately $80 million for customer refunds, interest attributable to those refunds and the cost of administering the associated remediation program.

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[1] IAG defines its underlying insurance margin as the reported insurance margin adjusted for:
– Net natural peril claim costs less related allowance for the period;
– Reserve releases of 1% of NEP; and
– Credit spread movements.

This relates to a specific multi-year pricing issue identified by IAG where discounts were not always applied in full to premiums for all customers who may have been eligible. IAG reported this issue to the Australian Securities & Investments Commission (ASIC) in September 2019.

Since then, IAG has addressed the underlying cause of this issue and is now focused on identifying affected customers and providing refunds.

"We're disappointed that some of our customers have not received the full premium discount they should have. We will put this right as quickly as possible. We have a team in place which is working hard to identify individual customers who have been affected and to arrange refunds.

"This issue was identified as part of a proactive review of our pricing systems and processes which is ongoing," Mr Harmer said.

The provision will be recognised in the net corporate expense line in IAG's 1H20 reported earnings, as presented in the Investor Report, and it will be excluded from cash earnings for dividend calculation purposes.

Hailstorm event

The hailstorms which have impacted parts of Melbourne, Canberra and Sydney over the course of 19 and 20 January 2020 will be treated as one event under IAG's reinsurance arrangements.

Based on projected claim volumes and the severity of related damage, it is anticipated this event will result in a pre-tax cost to IAG of $169 million (post-quota share) in line with the maximum first event retention (MER) under IAG's calendar 2020 catastrophe reinsurance protection. It is not expected that this event is large enough to require the purchase of any reinsurance reinstatement as part of the calendar 2020 program.

Following this event, IAG's MER is $135 million (post-quota share), in line with the second event retention indicated in the company's calendar 2020 catastrophe reinsurance renewal announcement on 3 January 2020.

By 5pm on 23 January 2020, IAG had received over 28,000 claims resulting from the hailstorm event, with this figure expected to increase over the coming days. The majority of claims relate to residential property and motor damage.

IAG Australia Division CEO Mark Milliner said: "We are doing all we can to help our impacted customers get back on their feet as swiftly as possible.

"We are scaling-up our support for customers in the affected areas and have increased our call centre capacity to help those affected lodge claims easily. This follows on from increasing staff levels to respond to the devastating bushfire season.

"We have also allocated additional staff to the claims and repair management teams and our online claim lodgement facility is helping with the rapid assessment of claims.

"We have set up seven specialist repair centres across Melbourne, Canberra and Sydney to help assess and repair hail-damaged vehicles," Mr Milliner said.

Customers are encouraged to make contact as soon as they can if they need to lodge a claim, access emergency accommodation or request technical property assistance with a verified building specialist.

FY20 guidance

After consideration of the preliminary 1H20 results and the recent hailstorm event, IAG has revised its FY20 guidance, to:

- Reaffirm its 'low single digit' GWP growth expectation; and
- Reduce its reported insurance margin guidance to a range of 14.5-16.5%, from the previously advised 16-18%.

The 150 basis point reduction in FY20 reported insurance margin guidance is due to the combination of:

- An approximately 50 basis point effect from reduction in prior period reserve release expectations to around 0.5% of net earned premium (NEP), compared to previous guidance of around 1% of NEP; and
- An approximately 100 basis point effect from an increased net natural peril claim cost assumption of $715 million, compared to previous guidance of $641 million which was in line with IAG's FY20 perils allowance.

The modest level of indicated net prior period reserve releases in 1H20 is the result of stronger claim development across long tail classes than has been observed in recent years, together with the emergence of some large claims in these classes in excess of expectations. This has resulted in reserve strengthening in several Australian long tail classes, including professional risks, workers' compensation and CTP in South Australia and the ACT. Lower NSW CTP reserve releases have been in line with expectations. Reserve releases in 2H20 are anticipated to represent up to 1% of NEP in that half.

In light of the recent hailstorm event, IAG has reviewed its assumption for net natural peril claim costs for FY20 and increased it by $74 million to $715 million. While inherent uncertainty attaches to such assumptions, the revised FY20 net perils estimate incorporates:

- The relatively high year-to-date net natural peril claims incidence experienced so far in FY20;
- An estimate for further sub-$100 million (pre-quota share) events over the concluding months of FY20, based on the average experience over the equivalent period in the five preceding financial years, adjusted for business growth and inflation factors; and
- Allowance for IAG's FY20-based stop-loss catastrophe reinsurance cover which provides $101 million of protection above $675 million, post-quota share.

The revised FY20 net natural perils cost estimate assumes no further major events ($100 million or greater in size, pre-quota share) occur before 30 June 2020.

Year-to-date net natural peril claim costs, as at 23 January 2020, are estimated to amount to $608 million, comprising:

- $419 million for the six-month period to 31 December 2019, with the slight increase against the indication of $400 million provided on 3 January 2020 reflecting higher than expected attritional experience in the month of December;
- A $169 million net cost from the mid-January hailstorm event, as outlined above; and
- Approximately $20 million of attritional loss experience in the period from 1 January to 23 January 2020, including minimal net bushfire-related costs.

It would require $208 million of net natural peril claim costs over the period 24 January to 30 June 2020 to exceed the revised full year assumption, prior to allowance for the FY20 stop-loss protection.

Although a modest loss from fee-based business was incurred in 1H20, IAG continues to expect an FY20 loss from fee-based business of up to $50 million, as it accelerates its spend on investments in the areas of data, artificial intelligence and innovation, and the associated businesses it is developing.

In October 2019, IAG announced an agreed sale of its 26% interest in SBI General Insurance Company in India and indicated a profit after tax of at least $300 million and a regulatory capital benefit of over $400 million. It remains IAG's expectation that this transaction will complete in 2H20 and will be recognised in that period's financial results.

This release has been authorised by the IAG Board.

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 $12 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 (New Zealand). IAG also has interests in general insurance joint ventures in Malaysia and India. For more information, please visit www.iag.com.au.

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