News Release

3 February 2023

Auckland flooding and financial update

IAG today provided an update on the Auckland flooding and its estimated financial impact on IAG's FY23 guidance, together with the preliminary financial results for the half-year ended 31 December 2022.

Auckland flooding update

IAG is continuing to support customers affected by the severe storms and flooding in Auckland and the North Island which commenced Friday 27 January 2023. More than 15,000 claims have been lodged across IAG's AMI, State, NZI and partner brands as at Friday 3 February.

IAG's Group Managing Director and CEO Nick Hawkins said: "Our focus is on supporting customers impacted by this devastating event, with temporary accommodation and other emergency arrangements, as we look to assess claims as quickly as possible.

"We have a large team, led by our New Zealand CEO Amanda Whiting, on the ground to provide immediate support and in the longer term, to help our customers and their communities recover."

As previously advised, based on a combination of IAG's catastrophe and whole-of account quota share arrangements, the Maximum Event Retention at 1 January 2023 was $236 million. A preliminary assessment of expected claims for the Auckland event indicates that the natural perils cost impact, net of reinsurance, will be at the $236 million retention level.

IAG has a strong reinsurance program in place for any further catastrophe events during 2023, including the second event drop-down cover and an aggregate cover which will reduce the Maximum Event Retention for a second event during the 2023 financial year to $192 million. As previously indicated, an additional premium will be payable on a pro-rata basis for a second drop-down cover, given the gross costs for the Auckland event are expected to exceed $350 million.

1H23 results - GWP growth

IAG is in the process of finalising preparation of its financial results for the half-year ended 31 December 2022 which will be reported on 13 February 2023.

Subject to management, audit and board review, IAG expects to report 1H23 GWP growth of 7.5%. On an underlying basis, adjusting for the impact of portfolio exits and currency fluctuations, GWP growth was 9.8%.

Mr Hawkins said: "Our strong top-line growth over the half reflects significant premium increases and new customer growth. Premium rates continue to increase in response to claims inflation and in anticipation of additional reinsurance and natural perils costs. Our retention rates have remained at very high levels, reflecting the value of insurance to our customers and the trust they place in our products and brands."

The successful roll-out of NRMA Insurance into Western Australia and South Australia contributed to the more than 100,000 new customers during the past six-months. This contributed to unit growth of around 2.3% in the direct personal lines business in Australia.

1H23 results - Natural perils and claims inflation

Natural perils costs for 1H23 are expected to be $524 million, which is $70 million above the allowance for the period. Perils experience in Australia was relatively benign during January and, excluding the Auckland event, the actual experience to 31 January 2023 is expected to be broadly in line with the allowance.

To reflect the Auckland event, IAG's FY23 forecast for natural perils has been increased by $236 million to $1,145 million. This takes into account the adjustments to IAG's reinsurance program announced on 10 January 2023, the benign Australian summer perils environment to date and a weakening La Niña weather pattern.

During 1H23, inflationary impacts continued to increase, particularly in motor claims. Combined with natural perils costs and prior period reserve strengthening, the loss ratio increased to 70.8% (1H22: 68.8%).

Mr Hawkins said: "There are early signs that the impact of supply chain inflation on our claims costs has stabilised and our forward-looking indicators provide us with confidence in the outlook. Heading into the second half of the year, we will also benefit from the earnings impact of the strong top-line growth which will significantly improve our margins."

1H23 results - Insurance Profit and Net Profit After Tax

IAG expects a 1H23 reported insurance margin of 8.5% (1H22: 7.1%). Adjusting for natural perils impacts, $48 million in prior period reserve strengthening primarily due to inflation on short-tail personal claims, and a $29 million benefit from narrowing credit spreads, the 1H23 underlying margin is expected to be 10.7% (1H22: 15.1%).

Mr Hawkins said: "The underlying result for the half has been heavily impacted by the immediate recognition of inflation on claims costs and the timing of the earning pattern of strong premium increases. We anticipate the reversal of this in the second half of the year with a subsequent strong improvement in the underlying margin."

1H23 Net Profit After Tax attributable to shareholders is expected to be $468 million (1H22: $173 million). This includes the benefit of the post-tax $252 million reduction in the Business Interruption provision.

Strong capital position

IAG had a strong capital position at 31 December 2022 with the CET1 ratio expected to be 1.11, above the top of the target range of 0.9 to 1.1. The capital position includes the impact of the increase in Insurance Concentration Risk Charge to $365 million (30 June 2022: $211 million) as a result of the revised reinsurance arrangements from 1 January 2023.

FY23 guidance and outlook

IAG expects FY23 GWP growth to be around 10%, an increase from the previous guidance of 'mid to high-single digit'. This reflects further increases in premiums in response to inflation, natural perils experience, and additional reinsurance costs.

The combination of the increase in the expectation for natural perils, the additional reinsurance drop-down reinstatement premium, the anticipated inflationary impact on claims following the Auckland event and the overall macro environment results in the FY23 reported insurance margin being revised to around 10% from the previous range of 14% to 16%.

IAG expects an improvement in the 2H23 reported and underlying margins, compared to 1H23, based on:

- Increased net earned premium reflecting the benefit of higher premiums;
- Benefits from claims initiatives and moderating underlying inflation across the supply chain; and
- Expected increased underlying investment yields; partially offset by
- The higher natural perils assumption, the reinsurance reinstatement premium and higher commission expenses.

IAG retains its goal to achieve a 15% to 17% insurance margin and has a clear strategy which will support delivery of this over the medium term.

Mr Hawkins said, "The Auckland event, combined with the escalation in supply chain inflation has delayed our ability to fully demonstrate our strategic and operational progress in FY23. The strong premium growth we're delivering, along with the strength of our business and brands, provides us with confidence in the outlook and the ability to deliver our targeted 15% to 17% margin over the medium term. IAG's unique attributes, its trusted brands, strong growth and capital position, mean we are well positioned to respond to the challenging environment and meet the needs of all our stakeholders."

IAG will report its detailed 1H23 financial results on 13 February 2023.

This release has been authorised by the Board Sub-Committee.

Teleconference

IAG's Managing Director and CEO, Nick Hawkins and CFO, Michelle McPherson, will host a teleconference to discuss the financial update starting at 9.30am on Friday, 3 February 2023.

AUST: 1800 809 971 or 1800 558 698
NZ: 0800 453 055

Conference ID: **10028622**

About IAG

IAG is the parent company of a general insurance group with operations in Australia and New Zealand. IAG's main businesses underwrite over $13 billion of insurance premium per annum under many leading brands, including: NRMA Insurance, RACV (under a distribution agreement with RACV), CGU, SGIO, SGIC and WFI (Australia); and NZI, State, AMI and Lumley (New Zealand).
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