
CHAIRMAN'S ADDRESS



ADDRESS BY MR BRIAN SCHWARTZ AM CHAIRMAN, INSURANCE AUSTRALIA GROUP

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I am very pleased to address you this morning, to reflect on the strength and achievements of our company, and the steps we have taken to set ourselves up for long-term success.

This year, Insurance Australia Group Limited reported an insurance profit of \$1.1 billion, leading to a reported insurance margin of 10.7%. We achieved this sound result in the face of a significant increase of nearly \$500 million in net natural peril claim costs, lower net reserve releases, and a more competitive commercial market environment.

The Group's underlying insurance margin, the real measure of our business performance, remained strong at 13.1%.

Our CEO, Mike Wilkins, will talk about the results in more detail shortly, but I want to particularly commend our businesses for their performance, and the way they continue to meet the evolving needs of our customers.

In considering our future focus, I want to highlight what I see as our specific strengths and opportunities.

First, as you will have seen from recent media reports, we have the right leadership – now and for the future.

You will be aware that Mike recently advised us that he wanted to retire from IAG. Mike has led our company for more than seven years, and he has been an inspirational CEO. I will talk more about him later on.

The Board has always had a strong focus on succession planning, and a commitment to developing internal candidates as potential CEO successors. Fortunately, Mike ensured we had a rich choice of candidates, so we were delighted to appoint Peter Harmer, Chief Executive of IAG Labs, as Mike's successor.

During the year we made significant progress in integrating the former Wesfarmers business, cementing our leading positions in our core markets of Australia and New Zealand. We also built on our Asian footprint with the purchase of a small general insurance company in Indonesia. Mike will talk more about these initiatives shortly.

Our market-leading scale facilitates our taking a leading role in our industry and in our community, as we use our extensive experience and awareness of risk to tackle important issues such as insurance affordability, and the need for increased funding of risk mitigation strategies to help address the growing frequency and severity of natural peril events.

At the same time as we integrated the former Wesfarmers business and reshaped our Australian operations, management has unified all our people in all our businesses behind a common Purpose – we help make your world a safer place – and a clear Vision – to create Asia Pacific's most loved, most inventive and most successful insurer.

We also defined how our people work together, what we stand for and what makes us unique. This is the Spirit of IAG, and it can be captured essentially in three words:

Closer, Braver, Faster.

- Closer is the way we create real connections with everyone;
- Braver is the way we shape the future; and
- Faster is the way we make things happen.

Having a single Purpose and Vision has enabled us to embrace a clear strategy that puts customers at the centre of everything we do. All our businesses are working together to deliver great customer experiences by leveraging our market leadership to create value for our customers, people, partners, shareholders and the wider community.

This year, we took steps to further secure our business for the future.

In June, we undertook the innovative step of entering into a strategic relationship with Berkshire Hathaway which included a quota share arrangement that will deliver a more stable income stream for 20 percent of our business.

Berkshire Hathaway is one of the world's leading investors and we were delighted to welcome them as a strategic partner, and shareholder. We believe all shareholders will benefit from the strength this relationship imparts to the Group. I was especially pleased to hear Warren Buffett say this was his first investment in an Australian company and it was worth waiting for the best.

Every day, we hear about the impact of digital technology and the opportunities digital disruption creates in our lives. This year, we further embedded digital innovation into every aspect of our businesses' operations, with the launch of IAG Labs.

IAG has long held a competitive advantage around the outstanding service we deliver. The opportunity now is to meet the needs of the digitally-empowered customer, and deliver our services instantly, flexibly and across multiple channels, while driving disruption in the marketplace. IAG Labs will help us achieve this.

The year also saw us continue our process of Board renewal. With our Board, we have assembled a talented group of people who have the right mix of skills and experience to continue to guide the company in the future.

Some of our Directors are new to you, and you will hear from each of them shortly before you have the opportunity to vote on their election.

Others have been instrumental over many years in developing the company that we are today.

In this category, I would like to record my thanks to Yasmin Allen, one of our longest-serving directors, who retired from the Board at the end of September. Yasmin was a great director and made a significant contribution to the company.

I also record our thanks to Peter Bush, who retired in January this year, after four years of excellent service to the Group.

In my report in this year's annual review, I reflected on change, and the fact that IAG's ability to deal successfully with change has been instrumental in our achievements.

I want to advise you of one further change today, from a more personal perspective, and that is that it's my intention to step down from my role as Chairman and Director during this current financial year.

It has been a pleasure and a privilege to chair this great company for the last five years, and to contribute as a Director for the last 11. I am supremely confident that I am leaving IAG in good shape!

I will now ask Mike to talk in more detail about the results the business is achieving, after which I will formally introduce you to our new CEO, Peter Harmer, and invite him to talk to you.

Peter Harmer introduction

It is my great pleasure to introduce you to IAG's next Managing Director and CEO, Peter Harmer.

Peter has a track record in creating successful businesses and transforming cultures, and he has a great passion for leadership, developing people and delivering services to our customers.

He has over 36 years' experience in insurance, the last five of these with IAG.

As the CEO of CGU, Peter led a turnaround in the business' culture and performance, and in his more recent role as CEO of IAG Labs, he has laid the foundation for our digital future.

The Board believes Peter is the right person to lead IAG through the next phase of our growth and development.

Ladies and gentlemen, please welcome Peter Harmer.

Closing comments

Before we finish, I mentioned earlier Mike's decision to retire from IAG. As this is the last time many shareholders will have a chance to acknowledge Mike, I want to take the opportunity to express our thanks for all he has done for us, and celebrate what he has achieved.

Mike leaves IAG in a far stronger position than when he joined us – which is exactly what you hope to achieve as CEO. When he was appointed CEO in May, 2008, the organisation faced a number of issues, including those that were associated with our investment in the UK.

Mike strengthened the fundamentals of the overall business, and refocused our strategy to pursue profitable growth in our home markets of Australia and New Zealand, and explore new opportunities in Asia. With Mike at the helm, gross written premium grew from \$7.8 billion in 2009, to \$11.4 billion last year.

He regained the confidence of the investment community, and his reputation and successes enabled us to complete a number of transactions that transformed our company. These included the AMI and Wesfarmers Insurance acquisitions and, more recently, the strategic partnership with Berkshire Hathaway.

Mike has set a standard of excellence for the organisation and created a 'can do' attitude across the entire IAG. In particular I want to acknowledge his commitment to creating an inclusive culture that encourages and welcomes diversity.

On behalf of the Board, the entire organisation, and you – our shareholders – I thank you, Mike, for the passion, loyalty and service you have given to IAG, and the enormous contribution you have made.

We have all benefited greatly from Mike's leadership and I think it is truly fitting that he concludes this phase of his career as the 2015 Insurance Leader of the Year, as awarded by the Australian and New Zealand Institute of Insurance and Finance.

Mike – we wish you good health, happiness and continued success in the next stage of your career. We look forward to following your future achievements.