



Investor Day – Transcript **Thursday, 8 December**

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

Ladies and Gentlemen good morning. Welcome to our IAG Investor Day and I really appreciate the fact that you have all been able to take time out of what I know will have been very busy diaries. Particularly at this time of the year, very grateful that you could all come along and spend a couple of hours with us this morning. Hopefully you'll all be able to stay and have a light lunch with us afterwards as well.

Before we start the formal proceedings, I'd like to acknowledge that this meeting takes place on the lands of the traditional owners the Gadigal people of the Eora Nation and I'd like to pay my respects to the elders past and present.

This is the outline of the program that we have for you today. I'm going to start by setting out our financial objectives and I'll talk to the high level strategy we're pursuing to deliver these. You are then going to hear from some of our executives who will bring some detail to the enterprise wide programs of work that they are leading, which encompasses the themes of fuelling and leading which were introduced to you in August of this year.

Julie Batch, our Chief Customer Officer will share how we're winning with customers. Mark Milliner our Chief Operating Officer will describe how we're optimising our business. Jackie Johnson, Group Executive People, Performance & Reputation will talk to how we're building agility in to IAG, and then Nick Hawkins, our Group CFO who you all know very well, will outline how we're thinking about the optimum mix in our capital platform.

After Nick we're going to break for some morning tea and then we're going to move into some experiential sessions broken down into four zones behind us here, before reconvening back here for some Q and A, a brief close and then hopefully, as I said, you can all stay and join us for a light lunch afterwards.

So let me start by picking up where I left off at our full year '16 results release in August. We remain committed to the financial objectives that we have referred to often over the years. That is: a return equal to 1.5 times our weight of average cost of capital. A dividend payout in the range of 60% to 80% of our cash earnings, and to deliver top quartile total shareholder return. But as we bring these metrics together - and in an endeavour to keep things simple - we believe we can meet these objectives for delivering a 10% compound annual growth in our earnings per share over the next 3-to-5 years.

So we know the world has got tougher, but we still see considerable opportunities and of course the key to our investment case is our core business. We have market leading positions in motor in home and the small to medium enterprise segment.

We have wonderfully strong businesses in our key geographies of Australia, New Zealand, Malaysia and Thailand. We have a diverse and wonderfully loyal customer base, numbering in excess of eight million people. We have market leading capabilities in underwriting, in pricing, in supply chain management, in partnerships, in distribution and most importantly in customer service.

We're developing an innovative and value adding approach to capital management and as you all know we have some of the leading insurance brands in our markets.

Today is really about how we're going to create additional value of the short to medium term using the fuel that we have within the company to drive leadership over the longer term.

We've identified a range of drivers that will allow us to internally fund our leadership and our growth, and we've set our sights on the opportunities that this leadership can bring us.

Using the combination of our solid existing base and our fuelling and leading drivers, we're confident we can deliver compound earnings per share (EPS) growth of 10% over the next 3-to-5 years, and today we want to show you some of how we're going to do that.

Everything we do starts with our purpose, to make your world a safer place. Our purpose captures our century-plus heritage of working to make the lives of our customers and the communities in which they operate safer. But we also have a wonderful opportunity in front of us, which is the same for us as it is for our customers, and that is to embrace and harness innovation rather than let it happen to us as passive observers.

Our goal is to present our customers with products and services that make their lives better and safer. We want to lead the change that's happening in their lives and in our industry rather than simply be reacting to it.

These are the key strategic themes that we're focused on, to lead the change our customers need and demand from us and to engineer the business to fuel our ability to deliver on these opportunities. Leading has our customers at the core and aims to make the experiences that they have with us world class, through technology, through smart ideas and through the way they interact with us. Julie will talk to this shortly.

Fuelling means tackling the necessary changes to the way we operate, simplifying processes and systems and optimising resources to ultimately be more efficient and thereby fuelling investment in our leadership.

As I've said, we've identified significant capacity to internally fund our leadership and our growth plans. You'll hear more on this throughout the day, particularly from Mark.

Our ability to achieve our leading and fuelling goals depends on our ability to become an agile organisation, embracing agile ways of working, and Jacki will talk to this in her session. And of course, we are figuring out the optimal way to fund our business through the mix in our capital platform, which Nick will address.

As we think about how we're going to deliver on our objectives, we've obviously got to be mindful of the broader landscaping in which we and our customers are operating. So I'm not going to labour on this slide as these themes will be well known to all of you. A surplus of low-cost capital, increasing levels of regulatory scrutiny, customers empowered by technology, technology that in the turn has the potential to significantly shift the risk profiles of our customers, and therefore of our business.

Against this continually shifting landscape, we need to prepare our business for any future, as uncertain as it may be.

The way we're going to do this, and continue winning with our customers, is to focus on two axes. On one axis it's all about deep customer engagement and on the other it's about relentlessly pursuing operational effectiveness.

Our leading drivers will deliver deeper customer engagement through a more intimate understanding of their needs, their wants, their desires. Supported by eco systems (or networks) of adjacent services and by partnering selectively to access unique and valuable capabilities.

Our fuelling drivers will allow us to optimise and strengthen the core, which is an incredibly powerful anchoring point for all that we have to do.

By relentlessly driving efficiency and effectiveness into every element of our value chain, we will create a modularised operating platform, capable of responding to new customer demands and emerging growth opportunities.

As an example of optimising the core, our business harmonisation team has identified a significant opportunity to rationalise our product range from around 1500 to just over 400. Of course that's going to result in more standardised processes across all of IAG. Fewer irritants for customers, and delivered at a much lower cost. In turn this leads to an opportunity to significantly simplify our technology which we're going to address progressively over the next five years.

You have all heard us talk to the opportunity we have to reduce our 32 policy and claims systems down to just two. Of course all of this combined will generate significant savings which Mark will talk to a little later.

When we think about the opportunities to deepen customer engagement, we know we start from a very privileged base. We have in excess of eight million customers, and importantly we have an incredibly high level of loyalty from those customers.

We have tremendous heritage brands. Recently we've completed some ground-breaking work around understanding needs and building empathy which gives us a deeper, more granular approach to segmentation. This means that we can be more effective in pointing the right customer value propositions at the right customers, at the right time, using the right brands. Julie will explore these themes more when she talks to you shortly.

Of course our ability to truly succeed in deepening customer engagement is a function of our expanded social licence, and we're actively building that, through a deep commitment to our purpose, through our approach to shared value, through the IAG Foundation, through the work we're leading in the Australian Business Roundtable and through two new bodies we've set up this year, our Consumer Advisory Board and our Ethics Committee.

We know that new technology is making it easier for customers to compare and buy from multiple product or service providers. The number of financial products used by the average customer is increasing. Demand is becoming more modular.

As we relentlessly drive efficiency and effectiveness into our operating platform by digitising and shortening the value chain, by leveraging automation and robotics, we will be able to respond by modularising our platform.

This will give us crystal clarity on where our unique competitive advantage lies, on what our actual cost to deliver each element of the value chain is, on which elements we may be better off partnering with a specialist service provider to deliver, and which elements represent fee-for-service growth opportunities, such as our supply chain.

With a more flexible operating platform, sitting on an optimised capital platform, we know we'll also be better-positioned to respond to any future opportunity.

In this modular world, being able to pick the right partners will be key, and the work we're doing through incubation and our venturing fund will help us better understand this world. Later this morning in one of the zones outside, you're going to get some more detail on this.

As we all know, the insurance industry is incredibly product-focused, and IAG has been no different. The move from product- to customer-centricity is not easy. It's deeply cultural, it takes time, and it takes significant change to the way you operate and, most importantly, to the mindsets that you bring.

It was with deep experience in making this journey twice before with different parts of an insurance brokerage, that led me to the current design of how we organise our capabilities, and most importantly, to the team I've selected.

We start everything with our customers. We design products, we design experiences, we design marketing programs, with our customers - using design thinking principles. We empower our frontline staff to solve customer needs or problems in real time, and we support that with world-class experiences around claims and supply chain.

Our fulfilment and enabling capabilities are leveraged across the entire company in a transparent and collaborative way. I'm incredibly proud of what this team has achieved in 12 short months, and I'm delighted that you're going to have an opportunity to hear from some of them today, starting with Julie Batch. Julie.

Julie Batch, Chief Customer Officer
Customer

Thank you, Peter, and good morning everyone. Many of you will have participated in discussions about changing customer behaviour, disruption of legacy businesses, and new technologies that are shifting value changes.

It's true that markets are being disrupted by these forces, and we're observing them across our industry and our business. However, at IAG we see computer power, digitisation and connectivity not as threats, but as opportunities, and our leading strategy is really about bringing these opportunities to life.

So what I am going to speak to you about today is the way in which IAG is facing into these changes. I'm going to describe the work that's already underway to harness the opportunities and the value that that is starting to deliver. And I'm going to explain how we're going to accelerate that focus in the future, as we build a simpler and more scalable organisation that puts customer right at the centre.

So let's turn first of all to how we're creating new opportunities for IAG, and let's start with the customer. Historically, our business, like many others, has been very successful by taking a traditional business-to-customer, or B2C, approach. And specifically that's an inside-out approach to development. We've developed products internally and then we've looked at marketing, pricing and channel strategies to deliver those products to our customers.

Our leading strategy is turning that thinking on its head. Our leading strategy is about re-orienting our organisation by bringing an outside-in approach to development with a clear focus on the whole of customer. When we talk about whole of customer, what we mean is that we are spending time to understand our customer as a whole person, and not just their attitudes to buying insurance.

We take into account their personality, their character, their attitudes and their behaviours, and how these things combine to manifest in broader needs, and then we design personalised products and services to suit them.

So at IAG we are shifting from a B2C business, or a product-centred organisation, to one that focuses on customer-centricity, by placing whole of customer needs at the forefront of our decision-making. At IAG we call that design approach customer-to-business, or C2B.

To bring this strategy to life, we're building smart teams that combine art, psychology, engineering and sciences. These teams are leveraging new methodologies and building systems and networks for an open world. We recognise at IAG that our customers and our partners also have great ideas and capabilities, and we're reconfiguring our business to harness those.

Taking an open approach positions us to operate in broader ecosystems than our own, and we believe that organisations that will be successful in the future, particularly those that are looking to supplement their products and services with new adjacencies, are those that are prepared to operate ethically in a world of inter-connected networks.

Within IAG, Customer Labs was formed to bring together some of this thinking and capability, so let me touch briefly on Customer Labs.

As mentioned Customer Labs brings together a number of functions that collaboratively shape customer experience strategy and innovation. It includes: customer and design capability, which are teams of passionate people who are guiding our organisation to customer-centricity; and data and analytics teams, that are the custodians of one of our key organisational assets, being data, which is increasing in value in a digital world.

These teams are comprised of engineers, data scientists, actuaries and analysts that help us draw and understand insights from the data. They also look after technical pricing and are developing new pricing techniques and machine-learning approaches to the way that we understand our customers' risk.

We include marketers, that are focused on the health of our brand portfolio and think all the time about how we connect with more customers through data-driven marketing approaches.

We cover innovation and venturing, with teams that spend their time looking at new ways of doing things, at new business incubation, at product development and investment. They're really explorers that are out there in the world looking for the next disruptive theme, business or technology, and I'm going to touch on that a little bit later.

Most excitingly, we've recently moved our digital teams into Customer Labs. These digital teams will help us activate and execute the customer journey. They're going to help us build customer engagement platforms, and digital experiences that bring our customer promise alive.

It's a wonderfully creative team that's building beautiful customer experiences, and that's a really exciting thing to be part of.

So let's talk a little now around how we understand customer. And really at IAG, our ability to understand our customer comes from our engagement with them, but also through our data universe.

We commenced our data journey two years ago, and today all of our organisation's current and historical data now exists in a single data lake. Mark Milliner will talk to you shortly about our relentless focus on simplification, which I know you're all looking forward to.

So to that end, I'm pleased to say that the simplification of our data landscape has largely already occurred.

Peter talked earlier about 32 policy and claim systems. That's just the start of it. When other organisational systems are added, we have more than 144 different sources of data, covering our customers, suppliers, and employees at IAG. All of these data sources are now being streamed continuously into our data lake, and we are able to see the majority of our customer actions in real time.

The work we've done on our data means we also now have a single view of customer, and we're taking steps today to connect that single view to our frontline staff, so that they can work more proactively with our customers today.

If we look at what that single view tells us, we insure 5.67 million individual Australians, and more than 1.5 million New Zealanders. We also cover over 400,000 businesses.

Due to our strong brands and our long legacy, within our data lake we also have visibility of almost every Australian and this incredible breadth of knowledge is helping us rethink our business. For example, as Peter mentioned, we've used this view of customers to build a segmentation model that focuses on customer needs and wants.

This is in contrast to more traditional segmentations that have been built around attitudes to existing insurance products, and therefore are often focused on price. We ran a lengthy and complex piece of work that connected tens of thousands of customer surveys and interactions with millions of organisational data points.

And the outcomes have given us new insights into our customers, the products that we sell them, the way we service them, the channels through which we go to market, and the marketing strategies that we deploy. And that model is also now being rolled out across our organisation.

We believe that a customer-led, data driven segmentation approach will help us connect the right customer with the right experience, the right product and the most appropriate brand. Historically, our data has also been organised around insurance policies, but we have busted apart that constrained view to build a deep knowledge of the things that our organisation interacts with. So not just customers and businesses, but also assets and the physical environment in a completely different way.

Through our market scale and historical reach, within our data lake, we also have visibility of 90 – 95% of every home ever built in Australia, and almost every car that has ever been registered. And this scale surprised even us. If you think about what this means for new partnerships, products and services that might sit alongside insurance, the opportunities are significant.

Our business is also benefitting from a more customer-led data-driven approach. We've built new fraud models that have significantly improved our fraud detection capability. We've improved our business capture through in-market analytical trials, and we're in the process of renewing all of our pricing models, adding machine learning capability and new techniques.

We are also using advanced analytical capability to better understand the natural environment. To price well, we need to understand geography, topography, meteorology, and so on. But by pulling apart policies and forming a view, not just of our customers, but also of their assets and, increasingly, the way our customers are interacting with those assets, it's helping us design new safety systems through our car-testing research centre, and building resilience into our communities through the Australian Business Roundtable - helping make our world safer.

In summary, through adopting a customer-led data driven approach, we're gaining a new perspective of the intersection of the human, the built and the natural environment. And we see our ability to innovate around this as an organisational competitive advantage.

So let me turn to innovation. Innovation has always been important at IAG, and it occurs everywhere across our business. Within Customer Labs, we have a specific focus on innovating for the future. And we're building approaches and processes within Customer Labs to help our organisation do that. We recognise that in this changing world we need to be nimble and agile, and embrace new skills and capabilities and most importantly, to approach our business with the mindset of an entrepreneur. Our innovation approach unlocks the strength and resources within IAG, connects them with external sources of talent from partners, universities and start-ups in a highly collaborative model. We source great ideas from across our business and draw on disruptive trends that are occurring in the market. We then supplement them with emerging technology and other organisational capabilities, to build an innovation pipeline that today is full of new ideas.

With an experimental approach to design, we quickly are understanding and establishing the value, or the runway for our ideas, and we're getting them into market as fast as possible. This means we can explore more ideas with less money, halt the activity that is not valuable, and rapidly scale up those that are. What's different in our approach is that we are open. We are open to ideas and capabilities from anywhere. We are open to our partners, we are open to external entrepreneurs and we are open to new opportunities. We truly believe that by confidently sharing our knowledge with new thinking we will build long term sustainable value for our organisation.

So let's take a look at what our innovation model has delivered to date. We've created more than 25 new opportunities over the short time we've been operating. They include new businesses, new products and new partnerships. These range from sponsorships and contributions to support the growing entrepreneurial community, such as Stone & Chalk, Springboard and Tech23. And new products like ShareCover, a scalable product that embraces the sharing economy, and Insurance 4 That, an insurance product that recognises the changing nature of asset ownership, both of which today are generating positive income streams and are receiving great customer feedback from our customers.

We've made investments in companies like Pocketbook, which has been profitable but also instrumental in helping us partner with other organisations to deepen our customer understanding. And finally we've made acquisitions like that in Ambiata, a data science company that we acquired in late 2014. From my perspective, Ambiata has been our most exciting and valuable acquisition to date. From when we first started talking to them in mid-2014, we thought we were acquiring 12 data scientists to help supplement our capability and bring new ideas into our organisation. In fact Ambiata, as well as comprising some fantastic individuals, has developed a product that has allowed us to connect our data with our front line systems, activating our insights and making them actionable. That's the holy grail of analytics. This product is also being used by a number of other leading Australian organisations, and is bringing a new revenue stream to our organisation.

We are lucky enough to have James Orchard, who leads customer innovation, Ron Arnold who leads customer labs ventures, and Dr Rami Mukhtar who leads Ambiata, joining us in the break-out session. And they'll run you through some more detail of what I've just talked through.

So that's a sample of our work so far, and I can tell you that the 2017 pipeline is tremendously exciting. So here's a little taste of that. Today, I'm really pleased to be able to announce a new initiative that's going to help us lead into the future. In January next year we will launch our venturing fund. The fund will be capitalised to an amount of \$75 million, it will have a global mandate, and it will invest in new businesses that will focus on customer understanding, value chain disruptors and new pathways to market. The fund's focus is obviously economic but it's mainly about bringing the outside world into our organisation. It's about connecting new thinking and capabilities to innovation pipeline, and again, Ron Arnold will run you through some of the work we've already done shortly.

So in closing, our leading strategy at IAG means thinking differently. It's about capturing momentum. It's about being open to new possibilities that will help our organisation be ready to respond to the customers of tomorrow. And I now have great pleasure to hand over to Mark Milliner who is going to talk to you about the way in which we are going to fuel IAG's future growth.

Mark Milliner, Chief Operating Officer **Optimisation**

Thank you Julie. And good morning to everybody. I'd also like to add my welcome to everybody at IAG's 2016 investor day. I started at IAG in May this year. I've been here around seven months. About four weeks after I started we had a large natural disaster, the East Coast lows that impacted many of our customers, and was also declared an event by the ICA.

During these events I always like to talk to and call some of our customers. I specifically recall talking to Gladys. Gladys lives up on the **Central** Coast of New South Wales, around the Lake Macquarie area. Talking to her, she'd obviously had a large tree fall over and damage or pretty much destroy her fence. It was probably lucky in some ways that the tree did not fall on her house. Gladys was glowing about the experience she had with IAG. She certainly talked about the empathy we gave her in that first phone call and the service she received during the claim.

Having talked to Gladys, it was clear that she had been with the company and had had a policy for some 43 years. And it was also interesting that this was her first claim. I think Gladys is like millions of our customers. And it really is demonstrated in NRMA's Net Promoter Score of +24.

So what does all this mean? It means we've got some very loyal customers. It means we've got some great brands. It certainly means that we've got the ability to deliver great customer service with empathy. It sure does demonstrate that we've got good risk selection. One claim in 43 years is great. So I'm certainly happy to have joined IAG, but there are opportunities to improve. Our teams are identifying many of these opportunities to reduce complexity. I'm loving working in this great business, helping teams turn big opportunities into reality and value for our stakeholders.

As Peter said, the optimisation program is critical to the simplification of our business. I want to talk about three things today:

Firstly, provide some clarity on the future state. What will IAG look and feel like?

Secondly, our governance and optimisation capability to deliver the changes.

Thirdly, the financial benefits, the timelines, and the key projects to deliver change.

So what will IAG look and feel like in the future? We will look like a highly efficient company with a simple operating model. A business that deploys our internal capabilities and taps best practice from a range of local and global partners. We will be a business which leverages its scale as the largest insurer in the region to deliver shareholder value and solve customer problems.

Imagine a big hail storm in Sydney in 2020. An additional 200,000 claims in the first week. With one claim system across the group which is digitally enabled, there are no wait times for our customers. That would be true leverage of scale and a simplified operating model to solve our customer's problems.

Other service industries will look at our business in envy. They will admire the quality and the customer experiences we consistently deliver. To think with Gladys – could we use satellites to detect the fallen tree? Then use artificial intelligence to ask Gladys if her fence is okay, and offer to lodge her claim, all via one claim system on her mobile device.

Our customers will feel the empathy and that wow factor. They will talk at barbecues about amazing and innovative experiences. People will look at our business and want to be employed at IAG. Our people will feel loyal, engaged, and passionate. All our people will have their insurance with one of our brands because they know how good we are, and because they made it happen.

In the future, our people will be closer to our customers and to our communities. In the future, our people will be braver in the decisions they make. In the future, our people will be faster at executing their decisions, and utilising our simpler operating model.

So I do get excited about the future – turning possibilities into reality. Over the next three years IAG will look and feel very different. We will reshape the operating model of this great business. We will build new ways of working to leverage our simplified operating model to make us a better business for all of our stakeholders.

Simplification is our primary focus. Simplification, which in turn drives cost savings and productivity improvements. Simplification will fuel the business by lowering our expenses by at least \$250 million per annum.

Our ability to do this will be underpinned by an agile workforce. A workforce where our team members feel accountable for our success. Over the next three years, our simplified operating model will reduce the cost of running this great business, while delivering better customer and employee experiences. This is what IAG will look and feel like in the future.

Now to my second point. Let's talk about the governance and the optimisation capability to deliver this change. Having been involved in three large successful transformations in the last 20 years, I've always reflected on what underpins success. The answer is good governance. Some of the governance principles we are using are acknowledgement that things need to be done differently.

Agreements on targets by the group leadership team; having baselines on costs and FTE's; giving business leaders the responsibility to deliver their ideas, and holding them to account for delivery on time, within budget, and to scope.

Having a small number of large projects, and we will communicate, communicate, communicate, so people truly understand what is our intent, where we are going, and what is our plan. On the way through we will celebrate success. The outcome of good governance will be a simplified operating model. It will mean we spend less to grow more.

We now have a new and experienced optimisation team in place. The team will support the business to deliver the changes necessary to simplify our operating model. So, we have all the ingredients we need to succeed. This includes our new optimisation team, committed business leaders, and our customer facing colleagues who are passionate about our customers.

So to recap – we've talked about what IAG will look and feel like in the future, and our governance model. So now to my third point – the benefits, the projects and the timelines.

Our controllable cost base is around \$2.5 billion. This includes claims handling costs, costs of our fee business, and our under-riding expenses. We will reduce absolute spend across IAG by at least 10% over the next three years. We will exit financial year 2019 with at least \$250 million per annum run rate improvements on our controllable expenses.

Our intention is not to expense projects below the line. Instead, we will absorb them within our reducing cost base. Hopefully that should make a few of you smile. However, with some six months reporting cycles – there may be some lumpiness around one off costs, which we would obviously call out. Relentless execution of our projects is a must.

We have agreed a small number of larger projects that will make a difference to simplifying our operating model. Some of these projects include partnering, one claims system and our procurements efficiencies. The first of these programs is effective partnering.

Effective partnering will improve and sustain IAG's profitability by lowering our labour costs, and by leveraging partner capabilities to deliver world class experiences.

Without effective partnering, IAG will operate at a significant cost disadvantage compared to our partners. The reality is, our global service partners are able to provide particular services better than we can. They have specific expertise and economies of scale that are available to them. As of today, we have finalised our selected partners and signed contracts. We have developed a partnering framework to build organisation capability. We have risk and issue assessments in hand, with appropriate mitigation plans. Our brands Coles, SGIC, and SGIO are working offshore with CCI in South Africa and Genpact in Manila. We have accounts payable and accounts receivable transferred to EXL in India, and our payroll will be processed by our partner NGA from March next year.

So let's move on to our claim systems. IAG's technology operating platforms are overly complex and expensive, something I have seen before. We have more than 30 policy and claim systems. Parts of our business are using Guidewire ClaimCentre so we will complete the rollout of ClaimCentre across Australia and New Zealand so we have one claims platform. As I said earlier, we have some big opportunities. This will provide a simplified claims business and technology architecture across all IAG brands in Australia and New Zealand. It will be done in incremental steps to minimise risk, while we transform how our people work. The focus is now on completing the implementation of claims across all brands to one system by June 2018. We will begin planning the migration of our policy systems next year.

Now to procurement. There are considerable savings to be delivered in the procurement of goods and services across IAG. We have consolidated purchasing into one new team. We are negotiating rates on many of our services. We are changing the behaviour around usage. A couple of examples: firstly, leveraging video conferencing as opposed to jumping on a plane. Secondly, allowing the capability of our people to flourish and lead as opposed to using consultants. So changing our procurement behaviours will be a big driver to the procurement saves. Over the next three years we will require less space in our buildings. Initiatives such as activity-based seating environments, work-from-home, and the reality of fewer people. This will also mean consolidation of our space demands, will lead to at least a 16% decrease in rental costs by 2019.

Next up, and not included in the \$250 million per annum of expense reductions, are further opportunities in margin improvements. Firstly, by leveraging our claims supply chain further across all of our brands, we will lower the average cost for both home and motor claims.

And secondly, by leveraging our one pricing capability across the whole business will also improve margins. Everything we do will increase our value.

So let me repeat: we will be relentless in the execution of our program of work to simplify the operating model of IAG. As I mentioned earlier, in absolute terms our costs will reduce by at least 10% - or \$250 million - per annum by 2019.

So, in summary, we are clear on what we want to do. We have great teams to deliver outcomes and we will be relentless in executing our projects. We will deliver on our vision to simplify our operating model and we will also create beautiful experiences for people like Gladys. So thank you, and let me pass to Jacki Johnson, who's going to talk to us about our agility.

Jacki Jonson, Group Executive, People, Performance & Reputation
Agility

Thank you, Mark, and a welcome to everyone also. As many of you know, I returned to Australia from New Zealand to take up my current role in February this year and what I want to talk to you about is how performance is really driven through our people, but also by earning our right to operate, which builds our reputation, something I learnt in real time in New Zealand with what we faced and what the team was able to achieve throughout the five years I was there.

IAG recognised the integral link between purpose, strategy, structure, leadership, in driving long-term sustainable performance for all our stakeholders. This is what we really mean by our shared value approach. Peter and Julie discussed the pace of change and the demands we face for all of us in all our markets and Mark outlines our approach to optimising our business. We would not be able to achieve any of this if we weren't able to adapt and stay relevant in the future, but deliver for today. We recognise culturally the importance of balancing speed and stability to ensure the success. This is the essence of our fuelling and our leading.

I want to cover four areas that really define what we mean by agility. Firstly, the way we behave, which I'll expand a little bit on our spirit and how it links to our purpose. The second point is how we have an effective, adaptive organisational design that delivers today and allows us to continue to build and adapt. And also the measurement of our culture. And finally, I will touch on our workforce planning and our strategy that enables us to have the right skills and the right capability to deliver today and for the future.

So firstly, starting to talk about how we believe agile really works. Agile is a buzzword that I'm sure you all read on a daily basis, but at IAG we have a particular meaning of what it means for how we behave, and when we talk about closer, which has been mentioned by some of my colleagues earlier, we mean how we move from being transactional to relational, and how that really delivers for us, helping move from a product-centred approach to a customer-centred approach; really enabling this in real time.

We've touched on empathy. Empathy is about hearing from others, and if we stay close to people in our communities and our customer base, and big thought-leaders, then we will be able to be more empathic but, most importantly, we'll also be able to be more innovative by taking on board the ideas of others. Peter mentioned our Customer Advisory Board and also our Ethics Committee. Both are fundamental to us hearing the sentiment of customers and communities in real time so we continue to evolve.

We also have relationships at local government levels with the likes of Sydney City Council with their Rockefeller 100 Resilient Cities work; the Australian Business Roundtable, which is our consortium; and also the United Nations Environmental Program for financial institutions. And then we have our not-for-profit partnerships, and to name just a few, with the SES and the Red Cross all helping us respond at time of disaster.

These partnerships not only allow us to be closer to you, our customers and our communities, and learn more empathy every single day, and drive innovation, but they relate to disaster prevention and also disaster recovery. Both all very important in living our purpose. Our partnering is key to us performing through being Closer to all our partners.

I want to talk also about Braver and it's not just a tag line, it's what we see is important in any organisation to move from being siloed and to less hierarchical.

I think a testament was when I accepted the role and came back to Australia and the whole of our Group Leadership Team agreed we would move out of offices, and that that takes a bit of bravery when we've all been steeped in corporate behaviours and corporate life.

But what was important was a signal to the organisation that we want to be accessible and we want to be able to contribute to how we solve very complex problems in our organisation. We want to hear what's important to our people. We want to make sure that we are showing empathy inside and out.

It also means that being brave we can't run away from the ambiguity and complexity of a changing world. We need to face into it and I think there was nothing more real than what Julie highlighted in some of the things what we have faced into our future opportunities.

The last thing I'd like to talk about in terms of behavioural parts of what we're delivering, is how we actually get faster. We need to be decisive in a changing world. We can't just wait to see what might happen. So, the prioritisation of projects being close to changing customer needs and knowing how to adapt and how to learn are really important parts of our lean methodology of what we're understanding about how to make our decisions.

Our reward and recognition frameworks are linking with the accountability for our people to be held accountable for the decisions they make and for taking action.

Now, I just want to talk about when we talk about from moving from behaviour to our organisational design. We really need to think about what a good organisational design looks like. So, we need to look at a whole system. We need to understand how we measure cultural insights real time. The reality is we can't have an annual culture measure and think we're connected to what's really the pulse of our organisation.

We need to be able to manage and be able to communicate exactly what our people need to hear for them to deliver to our customers and our communities on a daily basis. And we need to make sure that all our leaders are measured on how they're helping us build the culture of the future.

We're very excited about the dashboards that we've created that allow us to keep a real pulse on the organisation at any given time. It is a real systemic part of what we're doing.

The other piece of agility that I do want to touch on is workforce planning. When we look at the accuracy of our workforce planning, for us to achieve what both Mark and Julie have identified, we really do need to be able to understand our skills for today, and our skills for the future. If we don't build that, we won't be able to deliver on any of the pieces we've talked about. So, we call it our five Ss.

We talk about the right skills at the right place, in the right time. Then we think about the right shape of our organisation and what we're doing is we're actually incorporating the analysis and the data insights from our customer labs team to think about the internal drivers. What are the demands that our organisation is going to face today, in 2020, 2022, so that we're building those capabilities and skills?

But also, we have to consider the external factors. We have to understand socio-economically where people will be living, what will millennials want to do, where will they want to work? We need to understand the legal framework for the employment contracts that will be very different in the future than today. And importantly, what will technology do.

I will just talk a little bit about the technology piece and how it's impacting our workforce planning. Because we do understand what has made us successful to today, will not necessarily make us successful in the future. If we take the core skills that have made us successful, underwriting, claims, sales and service, all these roles are in transition as we speak, because technology is actually changing the way these roles need to evolve and how they need to deliver.

The customer need is actually resulting in a change of what these roles need to do. Therefore, what we've seen is the core capabilities of our future are really about digital technology, data, and analytics. But that's not saying the other skills are not important; it's just they will need to be complemented with a degree of skills that Julie outlined. They will be fundamental to our success and help us have a true competitive advantage.

Our corporate partnering is a discrete skill set that we feel proud of, but it will become more strategically important in the future, and how we partner and gain our success. And leadership effectiveness is a key area of our focus. How we set context, assign tasks, ensure the effectiveness of delivery, which was all the governance that Mark talked to, is critical for us optimising the performance of IAG, and will create the strength in how we're seen globally in our ability to be a thought leader.

The overwhelming conclusion from the detailed work we have done is adaptation is the most critical ability we must have for the future, and it starts with Peter and us as the leadership team, right through to all our people.

It means we have to have diversity in our workforce both in skill and experience, and all the traits that reflect our customers. We must reflect the ongoing changes of our environment. The workforce strategy is highlighting key risks for us. But if we don't keep building the skills and helping our people stay relevant through their development, then we won't be relevant for our customers.

For our people it can be a very exciting time where we're helping them evolve to stay relevant in a world that is rapidly changing. Also for all of us, in how we are less hierarchical and have career transitions to show our adaptability as well, and become the agile organisation we aspire to.

I'd like to finish on the note that that work we're doing culturally on being more agile, with clearer organisation design and workforce strategy will enable the fuelling of today's organisational performance and delivery, whilst building for our future, and enabling it so we can continue to be the leader we have been.

Thank you and I'll hand over to Nick.

Nick Hawkins, Chief Financial Officer
Capital

Thanks Jacki, and good morning to everybody. If you think about our business and others like us we've had historically a very integrated way of thinking about ourselves. Certainly, we've been intertwined in relation to our operating platform and our capital platform. That's the way insurers have really thought of themselves.

As Peter highlighted, and I'm going to talk more about today, increasingly we see ourselves as sort of separate. We see the operating platform which is what we heard from Jacki, and Julie, and Mark, and Peter, around about the great things we do in our company, but then separately we have this capital platform which is really how we fund ourselves.

Then thinking through that capital platform, what we're trying to do there is create some optionality and some flexibility with what we've got, but of course most importantly, we need to make sure it's sustainable so that our capital platform can support whatever we want to do with that operating platform.

I thought I'd start at the beginning. How do we start? Where does our thinking even start on this topic? There's kind of two big decisions we need to make as an organisation. We need to figure out how much we need - so the quantum of capital. Then secondly, we need to work out the form. What is the best way to fund that need?

Obviously, the quantum is driven a lot by our exposures, our investment portfolios, our operational risk. We've taken a view where we've ended up. It's really driven by our risk appetite.

We've taken a view that we want to run our quantum of capital at IAG at roughly a 50% buffer above whatever our minimum regulatory requirements are. That's been a constant for us for a little while.

The mix of our capital is where we've made a lot of changes. Really what we're doing there is creating more flexibility and optionality in relation to the mix of capital that funds our capital platform.

The thing about our business, you know we demutualised in 2000. At that time our capital platform (we wouldn't have used the expression), was simply equity and catastrophe reinsurance. We really just had two things that supported the capital which supported the operating platform.

Play that forward to today and we're way more sophisticated in relation to how we think about the funding of the company. We really think of it as three big buckets, the equity, so the debt and hybrids, and then reinsurance, and then within reinsurance there's a few different buckets that we now think around. What I'm going to do today is to really give a bit more colour around all of that and where we're heading.

I'll start with equity, so that first big bucket. You know we've got roughly net assets of around about \$7 billion, and the movement on that - since demutualisation but this graph is from 2008 - has really been driven by M&A. When we've bought big things, when we've bought small things, we've funded them ourselves. When we've bought big things we've typically funded any of the goodwill from equity plus a portion of the net assets, and you can see the big spike in 2013, which was when we bought the Wesfarmers Insurance businesses.

Going forward, I think there's not going to be a lot of movement here. In fact, it may even come back a little bit. Think about our strategy: we're not looking at big M&A in Australia and New Zealand, so we're not going to be issuing shares to fund acquisitions in Australia and New Zealand, we don't see that on the agenda over the next three to five years. Then with Asia, in particular the markets of Thailand and Malaysia which we've talked about before, we like the idea of expanding our businesses there and doing some M&A, but at the moment we're thinking we're going to fund all of that internally, so we're not going to be issuing stock to complete those transactions.

The equity portion of our capital platform I think is going to be relatively flat. In fact, it may even come back a little bit. It's come back this year; think about what we've done. We paid a special dividend; we announced a special dividend in February of \$0.10 per share and then in August we announced an off-market buyback, which we completed over the last couple of months where we bought back \$314 million worth of stock at an 11% discount.

We said at the time, and will say again, that actually the off-market buyback for any surplus capital is our preferred form of returning capital to shareholders over and above the dividend policy. We see it as an effective way of utilising franking credits; also we see the positive element it has on both EPS and Return On Equity (ROE). So if we have surplus capital going forward, the house view is that's the form.

To touch on dividends just briefly, our reward to shareholders for the dividend policy is relatively high, but I'll just flag again that there is going to be some inherent volatility to our dividends, our payout. We're not normalising our dividend policy for investment returns for natural perils, for other things, other unusual things that may happen to the organisation. Even though we're going to a lot of trouble to take out volatility in our business and we utilise the way we run it plus we also utilise reinsurance, actually there's always going to be an inherent retained amount of volatility that we're taking through our business, and that will flow through to the dividend payout, a little bit. We think that's a sensible approach, though. We do not think it is a sensible approach to pay dividends out of capital, so we're going to pay it out of our earnings.

What we have done though, as you're aware of, we have increased our payout ratio this calendar year up to 60% to 80%. Now, that's up from 50% to 70%. We're not in the business of changing that payout ratio often, as you're aware. We announced the 50 - 70% I think in 2008 so we stuck with that policy for a long period of time, and it is our current intention that the 60 - 80% is here to stay.

That increase in payout has really been driven by those previous comments I made around M&A, just the need for retained capital in our company is less, we don't see a big M&A agenda, particularly in Australia and New Zealand, therefore we've increased that payout policy to 60 - 80%.

Just so everyone's aware, in relation to franking credits, if I looked at the 30 June position on a pro forma basis after the final dividend we've paid and after the buy-back, we could frank up to about \$370 million of dividends on a pro forma basis. Of course, since then we've earned money and paid tax, so that number will have increased.

Debt and hybrid, we've moved a lot. We started at listing at zero on this and now we have roughly \$1.7 billion of debt and hybrids in our balance sheet. So why that amount? A lot of this is driven, and the amount of debt that we have within the balance sheet is driven, by S&P. As you're aware, we have a AA-minus rating for all of our operating entities, and therefore there's a gearing mix that is aligned to a AA-minus rating of around about 30 - 40%, which is what we're running our business at.

I'll make two comments here. One, the quality of our debt and hybrid-type instruments that we have on our balance sheet is significantly improved over the last couple of years. Our debt and hybrids are becoming more and more equity-like. A lot of that's driven by our regulators in the introduction of things like non-viability clauses in our Tier 1 debt instruments has driven a more equity-like nature of our hybrids. I'd say the quality of them in relation to the role they play in the capital platform has improved over the last couple of years.

The second thing is we've been quite active in the last little bit in refinancing. We've had both instruments that are rolling off and so we've been doing some refinancing of those in the last 12 months. We've also had some instruments that were grandfathered when APRA changed its rules four or five years ago that are coming to the end of their time and are no longer valuable to us, and so we're repaying some of those. In fact, we announced that a couple of weeks ago and we're in the process of doing that right now, as well as we're also raising some money through some capital notes, around \$350 million. So there's a bit of noise in relation to that at the moment, particularly as our policy generally has been to refinance early, as you'd expect.

So the go-forward - which is probably where you want to get to - is by 30 June 2017 we'll have roughly \$1.6 billion of debt and hybrids in our balance sheet, and all of that, all of those debt and hybrids in our balance sheet at 30 June 2017 will fully qualify as ratings and regulatory capital. So the knockout that exists at the moment on some of those, that will all be gone and we'll be getting dollar for dollar of all of our debt and hybrids by then, and we'll be at the bottom end of that 30 - 40% gearing range is what I would anticipate.

Reinsurance is where there's been a lot more activity, and we've really been developing our thinking here, a lot. I thought I'd just make some macro comments before we launch into some of these buckets. The global capital pool that we're accessing in this reinsurance capital has increased a lot. It's about \$500 billion is that we're accessing and we're very much a global player remember, so we access all the global pools. Then that's up from about \$350 million in 2008, so there's been a big increase just in the capacity of the markets over the last seven or eight years.

A lot of that has been driven by this alternate capital, which gets called alternate capital or Insurance-Linked Securities (ISL), or pension fund money but it's all similar. Really, there is traditional reinsurers, the Swisses, Munichs, and then there's 'other'. This other has gone from nothing to quite a lot in that period. Our view is that this is a structural change in the market. Yes, there will be some cyclicalities to some of this money. The argument is low interest rates, people are pouring into our industry, interest rates go up.

Yes, there may be some of that money that exits; our view is that there's a structural change and that a lot of this is going to stay. We look at the participants now and the infrastructure they're setting up; the capability they're building. They're not here for two seconds, this is a permanent change in our view in the way our industry is structured, which as the buyer, of course, is good.

Despite that, I would make a comment that we still predominantly trade with the names that you know, the major global player, who we have had 10, 20, 30, 40-year relationships with. What we are doing though is increasingly trading with this new money. Often it's collateralised, often through the ILS-type markets.

I get asked a little bit around why these deals work. If we believe that core thing I said around the capital platform is sustainability, sustainability probably means that both partners need to feel like the deal is working, it's not a one-way bet. We very much think of our reinsurers like that. But the reason these deals work with reinsurers, it's about differing risk appetites, so between us and whoever we're trading with. There's certainly differences in cost of capital and return expectations, so there's an arbitrage there that creates the opportunity for a trade.

If you think about our business, we're very much a concentrated pool of risks in Australia and New Zealand and we're backing that into some global pool, so there's the maths of that diversification benefit and that is a real thing that actually comes up when we're trying to do transactions with global players. We're backing into a global pool of risks and therefore there's a trade because of that. There are definitely differences in regulatory and tax environments around the world that create opportunities for transactions to occur that maybe otherwise wouldn't have.

So if we put that as a package, and the different reinsurers have difficult elements of what I've just described driving them, actually that's why there are trades and that's why I think both of us can say that the transaction works for us. It really is a win-win. That seems quite important: we're not in the business of having one-off transactions with people where we seem to win and they don't. It's about a win-win long-term relationship that we're very interested in.

What I'm going to do now is drop down another level, and really there's three buckets I want to talk about in relation to reinsurance. There is the typical catastrophe-type reinsurance, there is the operating capital and then there's some of these volatility covers, and some of our thinking and where we're heading on some of this. The cat cover as I said was there on demutualisation and it's just grown. This is all about the aggregation of risks, remember.

We're very unusual, Australia and New Zealand: we all live in these big cities; we're wealthy countries. We all live next door to each other and we have big market shares. Therefore, you have one event, one natural peril coming through and all of our customers get hit at the same time, therefore we have this big aggregation of risk. So we buy this big tower of \$7 billion to protect against those one-off, infrequent events that can hurt us. Now \$7 billion globally - \$7 billion is 100%; we only place that 80% now because of the quota share with Berkshire. Globally, we're big. Globally, we're a top 3, top 4 buyer in the world, so we're very relevant. We have access to all of these capital markets, predominantly because of this big catastrophe tower that we buy.

We're in the process of renewing that right now, and we'll announce that in early January, but the structure that we'll announce will be probably similar to the type of structure that we have right now. The only thing that we're doing a little bit more differently and a little bit more aggressively is trying to put more multi-year deals in place now. So we're not just doing a 2017 placement, we're trying to do a couple of years out from here.

Operating capital, that middle bucket, is where we've had a lot of change. This is where we've transacted in the form of quota shares. Now, we started this with Munich Re a few years ago across the CTP portfolio. The rationale here was that our New South Wales CTP book, or ACT and New South Wales CTP book, was roughly 10% of the premium pool but was consuming about 25% of the capital. Effectively, we had one product, one city almost, being Sydney, consuming 25% of the capital of our organisation. So this was about really removing that spike in relation to exposure by sharing that a little bit with Munich Re. We saw it as a capital play; obviously, we still run the business outright.

The next big deal that we've done was obviously the Berkshire Hathaway deal, which we completed 18 months ago, and it's got a 10-year deal so there's 8.5 years to go on that transaction. So a similar concept, although a bit more. This is a whole of account.

We saw two drivers here; we saw capital relief and we talked at the time of \$700 million of capital being freed up, but also importantly it was really removing a fair chunk of volatility out of the earnings of our group. Essentially, what we've done with that transaction is we've exchanged 20% of our insurance risk for a fee-based income of 20% of our company, effectively exchanging insurance volatility for a much more steady earnings stream from fee-based income; in reinsurance terms we call that an exchange commission.

Importantly, with these transactions, the operating capital transactions, we're running the operating platform outright still. Remembering, we're operating in the capital platform; we're doing things down here but actually we're still running this outright. It's not like Munich Re and Berkshire are involved in the day-to-day activities of our company; they're sitting behind us and following our fortunes and essentially sitting behind the management team. I think that's really important that we are still running the company outright, that the introduction of changes in the capital platform doesn't cause us to then have to change the operating platform.

Going forward, we're going to look for more opportunities in this area, but carefully. We are changing a little bit around how the capital platform works with these transactions. We're introducing things like refinancing risk; they've got some debt-like characteristics.

They have an end date, so it's got to be thinking through maturities and things like that. Also counterparty exposure, we're changing the profile a little bit. So we're not rushing this, we're carefully navigating our way through this but we really see opportunities to continue to build on our thinking here and not just with traditional players and I think there's opportunities also to transact here with the ILS markets in a form similar to what we've done.

The last part is around those volatility covers which we've had for a number of years and we've just been utilising more and more and we have two sort of things. We have the aggregate cover which is really for where we have a greater number of smaller events than we originally thought. Remember, aggregate covers aren't necessarily there for the big one-off events, they're where we have - as an example - more \$50 million events in a particular year than we originally thought. This doesn't hit the main program but some of those smaller events end up impacting earnings volatility, so we buy protection for that scenario and then we also buy some protection dollar-for-dollar above our perils allowance, \$96 million above the \$680.

Now these are pretty important in managing earnings volatility. Not so much a capital play, they're an earnings volatility play for us, but they're intertwined. It's quite a complex arrangement that we put in place. Think about what happened in the middle of November, we had storms come through from Adelaide all across the east coast of Australia and then across to New Zealand, the same storm system, and then we had an earthquake two days later and so we were quickly able to work out how all these covers intertwine and we announced to the market pretty quickly that our net position would be \$200 million and importantly, in that earnings volatility story, if we had another event this calendar year the cost of that would be about \$20 million - well, not would be about, would be \$20 million.

So you can see how these arrangements interact with each other to really make sure that we don't take those big spikes in perils. Lastly, just in relation to the risk appetite and pricing on all of this. Our experience in the market right now is companies are still wanting to trade with us and looking for these types of transactions and pricing still seems relatively favourable.

So I thought I'd just finish with some comments about regulatory capital. I mean, we've got these benchmarks which I said are roughly 50% above the minimum requirements and we've traded just slightly towards the top end of those since the last couple of years. I will say, if I think about our capital in the last six months and where we're going to be at December, will be probably towards the bottom end because if you think about the six months that we're in right now, so first half '17, we've paid a final dividend plus we've done a \$314 million buy-back. So it's about a \$600 million capital return, so we'll probably be towards the bottom end of these numbers benchmarks at 31 December, but that's a point in time comment.

Going forward I see our capital creation as quite strong and really there's a few different things that are occurring, just in what we've got already. The business is going well and our pay-out policy of 60-80% means we're retaining the 20-40% and you know what, I'm not busily spending it in other things, so that will accumulate capital. I mentioned before with Berkshire there was \$700 million of capital that was provided through that transaction. Only \$400 million of that had come through by June 2016 so we have another \$300 million that's coming through in 2017 and 2018. So that will start emerging through in our capital.

Then lastly with the earthquakes in New Zealand in September 2010 and February 2011 we had some significant losses in the New Zealand legal entity that created some tax losses, about \$450 million on our balance sheet as at June 2016. They are essentially a knock-out for capital, so it's treated like goodwill in the way we look at our capital. Now we will utilise those: obviously our New Zealand business is highly profitable so as we make money in New Zealand we'll absorb those tax losses and it's roughly \$100 million a year over the next four or five years and so that will come back into our regulatory capital as well over that time period.

So in summary we're going to continue to look to optimise our mix, carefully and slowly, but we do see opportunities for further change here over the next couple of years with potentially greater use of reinsurance capital although in these various forms that I've just talked about. The group is in a strong capital position right now and I've just mentioned the opportunities that I see just playing through. They're the things that are in our balance sheet already, so that looks pretty positive, but if we are in a surplus position to our needs with our capital, our preferred form of returning to shareholders over and above the dividend policy is going to be through an off-market buy back which we see as having favourable impact on both EPS and ROE.

I know there's a lot in that, thanks for your time today and maybe I'll hand back to Peter who will just close this part of the session. Thanks.

Peter Harmer: Thanks, Nick. Ladies and gents, we'll now break for morning tea. We'll take about 17, 18 minutes for morning tea. We'll round you up around about 20 to. Morning tea will be served at the back here. We're going to move from morning tea into a zone in a room behind us. We have four zones for you, data, product innovation, operational partnering and Venturing. Guys, on your name tag you'll have a number, that's the zone that we'd like you to start in and then we'll rotate you through those zones. Thank you.

[Morning tea break]

Peter Harmer, Managing Director and Chief Executive Officer
Trading update, summary and Q&A

Guys, welcome back, thank you. So hopefully you gained some insights of the things that we're doing to not only prepare our business for the future but to make sure that we can be really competitive today as well. Before opening up for Q&A I want to give you a quick trading update and then I want to summarise the key messages that I'd appreciate you taking away from today.

So the trading update. We're reaffirming guidance today. As we've said we expect our top line to be relatively flat for the year and our margin to fall in the range of 12.5% to 14.5%. We're seeing a continuation of the favourable conditions for short tail personal lines and the modest levels of claims inflation that we're seeing come through we're staying in front of with rate increases and I think as you will appreciate from all of the commentary in the market right now we have continuing optimism that we really have turned the corner with Australian commercial pricing.

So in summary, we're setting the business up to confidently deliver 10% compound annual growth to our earnings per share over the next three to five years. With the work we're doing with customers we believe we'll fully participate in the system growth that we expect of between 3% and 5% across Australia and New Zealand and of course we have the potential kicker of Asia, more valuable if we can dial up in Malaysia. You will see we have robust plans in place to deliver a minimum of 10% or \$250

million off our expense base as we exit FY19. The work that Nick is leading around optimising our capital mix will result in a more efficient, flexible and sustainable capital platform and it's our ability to pull these three levers that drives our confidence. So I'd now like to ask my colleagues to join me up here for some Q&A.

Questions and Answers

We have people on the phone lines and people who have joined by WebEx but we'll start with questions from the room first.

Siddharth Parameswaran: (JP Morgan, Analyst) Maybe a question if I can just ask just about the sustainability of some of the savings that you're targeting. I mean, I notice there isn't a comment particularly about margin trajectory from here but there is a comment about expense savings for the next few years. Just do you think any of that will have to be reinvested into the customer proposition to basically drive that 3% to 5% growth that you're talking about?

Peter Harmer: It's a good question, I think as you would know we've had a couple of fairly significant cost out programs in the past that have been successful in terms of taking cost out but we've been able to find ways to reinvest those savings in the business. The intention is to see as much of that \$250 million fall to the bottom line as possible. We have a pretty significant discretionary project budget currently that actually we expect to flow through over the next sort of three to five years as well, which is where we intend to fund all of those developments from but as we know things have a habit of changing. So we have tried to be a little careful in terms of how we create the expectation but I can say we do anticipate as much as possible falling to the bottom line.

Peter Harmer: Morning, Dan.

Daniel Toohey: (Morgan Stanley, Analyst) Just trying to get some clarity into your thinking about the change in the capital structures that you're thinking within the organisation and does that mean that the business model is shifting to become more a distributor and packager and does that shift in the capital structure mean you can take on more business risk within what you want to achieve and then, probably finally, do you see a greater return profile from non-traditional type products into that customer base and what sort of things could that be?

Peter Harmer: Nick, would you like to start first and then I'll...

Nick Hawkins: Yes, the capital. I mean, our words are not distributor manufacturer, we've tried to come up with these words that we think describe our business between sort of operating and capital platform but the concept of what you said then is sort of right. I mean, we try to create flexibility so we're not - we're trying to have optionality over the next three to five years as we're not exactly sure what that is all going to look like but I think my job is to make sure that whatever we want to do we've got something in place that can facilitate that. I mean, to your question around, as an example, does this mean that we can aggressively grow into areas that we might not have normally have done so, I mean probably not, because there's probably a reason we haven't aggressively grown into something, that it probably didn't make much money.

Then there's a genuine partnership, so we don't want to be thinking, gee we can set up this capital platform, attract a whole lot of cheap capital and pour into things we wouldn't have normally done. That doesn't sound like much of a partnership to me. So I think not but there might be another example where say, New Zealand we might have reached our risk appetite around exposure to say Wellington earthquake, as an example. I can see where that's a portfolio question rather than a particular issue and a particular risk, so having more flex in the capital platform I think allows us to think about those decisions slightly differently. That's really how we're thinking about it.

Peter Harmer: I think if I can just sort of round that out, clearly capital is a commodity and it's a low cost commodity, certainly at the moment. Most of the value in our business is captured closest to the customer.

So clearly that's where we'd like to have our equity holders most exposed, it's the value that we can capture through what we do with our customers through CDPs, through distribution, through brands, et cetera and so if we can use reinsurance to lower our overall capital cost and increase return for equity holders then that's something that we want to investigate.

Nick Hawkins: Daniel, did we capture the second part of the question which was around just - adjacencies, new products?

Daniel Toohey: Yes, I guess in part. I mean, Peter was sort of talking to it there a little bit but in making the world a safer place the opportunity in things like safer homes and the risk mitigation and those sort of revenue pools and the customers' sort of willingness and acceptance to sort of work with you on that?

Julie Batch: So, just to respond, when we look at our customers today we're looking at them in a really different way. So by going and conversing with our customers about what they want and really understanding their needs it's giving us a ton of opportunity to think differently about how we might construct product and I think you saw a couple of those in the other room that are actually very low from a capital utilisation perspective. They're very low consumers of capital, what we've showed you so far. We do see lots of opportunity to branch out into adjacencies and those that are linked to our core business and also to our purpose. So if you think about the construct of an ecosystem there's products that we're prototyping at the moment that are around safer roads, around better understanding motor technology and being able to combine that with new and different insurance products, is where we think our growth is going to come in the future.

James Coghill: (UBS, Analyst) Just a couple of questions, perhaps one for you Peter and then one for Mark on the optimisation strategy. So on that strategy, you hit the run rate benefit for the previous programs in financial '16 of \$180 million, so there's in theory still a benefit coming through from that in financial '17. Was that just a small free kick for Mark on the way in, or is that wrapped up in the benefit? What's happened to that?

Peter Harmer: It's a great question. The answer is, just in case Mark's under any doubt, no. This is \$250 million of fresh savings, new savings.

James Coghill: (UBS, Analyst) Okay, so over and above there's still a benefit that comes through in '17 from those?

Peter Harmer: Correct.

James Coghill: (UBS, Analyst) Mark, a question for you that's really on the fourth detailed slide that you put up on claims indemnity cost reductions. You indicated there that a lot of that work had already been completed at the beginning of financial '17, so largely complete now.

I was just interested to understand in a bit more detail, when you looked at all the supply chain initiatives for motor claims and home and contents claims, it doesn't look like there's a lot of work that you're going to be doing on that, most of your work is focused elsewhere. So I'd be interested in some of your impressions of - I'll ask it bluntly - how IAG compare to Suncorp on that front?

Mark Milliner: Yes, sure. Look, there's no doubt that we've had a good look at the supply chain and the claims ecosystem that exists at IAG. I think it's very good.

What we're really on at trying to do is increase the amount of work to the suppliers that we know are very good and will give us a much better proposition in terms of lower average claims cost overall. So, it's very much working that across all of our brands in the IAG business, and then lifting the percentage that we're getting to the suppliers that we want to send work to.

There is a significant saving in our claims costs if we do that. Look, and like I say, I think the models we've got at IAG are strong and delivering good average cost outcomes.

James Coghill: (UBS, Analyst) So it's not so much about change in processes, but just increasing utilisation of what IAG already has in place. When you look at those metrics that you put there, 60% in motor and 40% in home and contents, is that higher or lower than Suncorp, and where could it potentially go?

Mark Milliner: Look, we certainly want to push it higher. I think let's see how we go over the next couple of years as to where we get that to. I think putting targets out around that at the moment's premature.

Again, that's across the whole business. Currently we do have it higher in certain parts or certain brands of the business, but my expectation is that we are going to get that higher than those numbers that we put up on that slide.

Peter Harmer: James, if I can just maybe add a closing comment to that question. On the motor side, the opportunity's more around increased utilisation. On the home side, it probably starts with improving the processes and then increasing utilisation. So there's more upside on home than there is on motor.

Nigel Pittaway: (Citi, Analyst) Okay, it's Nigel Pittaway here from Citi. Couple of questions, might ask them separately. Just first of all, on this sort of anticipated business growth of around 3% to 5%, which you believe you can drive, obviously that's quite a bit more than the flat GWP growth you're guiding to for this year.

I guess the question is, how soon do you think you can get to that 3% to 5%, and what kind of assumptions in terms of pricing have you also got underpinning that?

Peter Harmer: Well Nigel, I think as you know we're traditionally quite conservative. In terms of that 3% to 5%, based on what we're seeing going through the short tail personal lines book, and the CTP book, for that matter, we're probably getting that now.

I guess we're just a little cautious around what we're seeing in commercial. We are certainly more optimistic now than we were at August and again at February earlier in the year. But commercial pricing, of course, is the one big area of volatility and pricing that we just can't predict.

We do feel that - if you look over a period of time, the Australian and New Zealand insurance markets do grow between 3% and 5%. So we think it's reasonable over the outlook period to assume that the markets will return to that sort of growth profile, and we should be able to participate fully - to our full market share in that growth.

Nigel Pittaway: (Citi, Analyst) Okay and then maybe just on the 10% EPS growth compound. I mean, you're saying that's over a 3-to-5-year period. To what extent is this a tail-ended delivery of savings? So you expect that to come in later years, or are you saying you believe on the whole there's no reason why you can't do 10% for each of the next 5 years?

Nick Hawkins: Maybe I'll have a go at that. I mean there's different buckets that go into that, obviously. There is the most basic one, that Pete just mentioned, around commercial pricing. So how does that play out, and the timing of that, we're not exactly sure on that, so that is a question, obviously.

What we end up - you know, the timing and the phasing of some of the optimisation program with Mark. How our capital might play out over the next couple of years. So we haven't tried to say, we're going to deliver this much by this year or not, but I think there are quite a lot of variables in the way our organisation operates.

But I think the message we're trying to give to you is that we see a pathway, a genuine pathway over the next 3 to 5 years, and it won't be exactly linear, where we can accumulate an earnings profile around about 10% per share over that period.

In a way, that's not new news, remember, because we've always had an aspirational target of being a top quartile company. So the metrics typically are, over a period of time that you need to be operating at around about a 10% type EPS growth, compounded, over that time period.

In a way, for us it's just a simpler - it's hard for us to communicate what top quartile means inside our Company. People can't relate to it. In a way, making 10% more each year is something you can grab on to.

If I look at the profile for us though, over the next 3 to 5 years - and it won't be linear - I think that's a realistic aspiration for us to be setting our business up to.

Nigel Pittaway: (Citi, Analyst) Are the optimisation savings more tail-ended? Do you expect more of them to come out in those latter years?

Peter Harmer: We said already that - say, for example Mark said for FY18 it'll be net neutral, which is really - the costs are going to be roughly the same as the benefits. We really start having a net positive in '19 and then going forward we would expect at least \$250 million coming out of the cost base.

We're trying to run this as a whole of account program as well. So we're saying that the starting position all-in at IAG is a cost base of \$2.5 billion. We'll work out a way to communicate this in the investor pack each six months. We want the all-in cost base coming down by 10% or \$250 million, which means we're absorbing any inflationary pressure as well that occurs in our business over that time.

So you're sort of – the net of all that, you can see some real opportunities for margin improvement over that time.

Nigel Pittaway: (Citi, Analyst) Thank you.

Michelle Wigglesworth: (Milton Corporation, Analyst) Hi, Michelle Wigglesworth from Milton Corporation. You've got a bit of capital tied into Asia and I was just wondering about your comments about the customer today, where you mentioned your Australian and New Zealand customers.

Are you also looking at Asian customers and trying to improve that market?

Julie Batch: Absolutely. What we were referring to today was really our ability to see customers through our current data warehouse. So we can see our Australian and a large proportion of our New Zealand customers already.

With Asia, a lot of our business is working with our partnerships and working with partners across the region. I was actually in Asia last week talking through the program of work that we're doing, and looking at how we can best engage to create value there as well.

David Humphreys: (JCP Investment Partners, Analyst) Hi, it's David Humphreys from JCP. There's an emphasis today on changing culture, and I guess if I reflect on your personal lines franchise it's in very good shape. As you said, it's got the highest Net Promoter Score – probably the most profitable in Australia. It's got the highest retention.

Changing the way you do business often will result in a change in culture and the way staff feel about the way they go about their work. How should we think about the potential for top line risk given the changes that the organisation is obviously going to go through?

Jacki Johnson: It's a great question, and an insightful one because it's what I was calling out about protecting the short term, and leading longer term. It's a key challenge for all of us to make sure, one, communication is key, but also, helping people see the upside of what an agile culture really brings for people, and things like transparency and engagement and being able to be part of the discussion and just things like career planning.

We're paying a lot of attention to that so that we're making sure we're keeping people engaged along the way. I highlighted the culture dashboard. So not waiting for the big bang cultural assessment at the end of the year. So that you know how people have felt all year, and that we're monitoring all lead indicators to help us know how people might be experiencing the change and what we can do to keep engagement, and for us to actively listen and be empathic internally as well, as we go through the change.

I certainly think that identifying the behaviours we expect is really critical to the customer. When we look at any media today about how people are feeling disenfranchised with key brands globally, I think we have to be very mindful that customers expect different behaviours than what generally brands have performed.

I am very proud of all our brands, but I think we need to constantly help people evolve. It's the real measurement, and also being able to keep people engaged and connect it to the customer.

Brett Le Mesurier: (Velocity Trade, Analyst) Thanks, it's Brett Le Mesurier from Velocity Trade. Question on your core systems rationalisation. As you take the systems down from 32 to two, presumably that's going to give you greater data and more information.

Presumably you're talking to – or you're doing this in conjunction with your partners such as Ambiaata so that they can get a better understanding of the data that comes out of it and the whole process is going to be much more efficient from the viewpoint of marketing and understanding clients and therefore being able to get better profit and value outcomes.

Julie Batch: It's a good question, really good question. I think what the system simplification will do will make things easier. So it'll make it easier for our employees and our customers to connect with our organisation. In terms of access to data, I sort of mentioned earlier that we've actually been on our data journey quite quietly over the last two years.

We've assembled already all of the organisation's data in one place. So the technology simplification will make it easier, but our data is already there. That's why we're able to work with Ambiaata today to start to really draw insights from that data that are creating value and allowing us to build products like the ones we've explained.

Brett Le Mesurier: (Velocity Trade, Analyst) The new systems will be able to link any small business people with their personal accounts? So you'll be able to see one view of that customer, rather than the current which is two separate views?

Julie Batch: We have one view of the customer today. We can see individuals who have both personal and commercial holdings. What we're doing right now is making that single view robust so that we can share that out across our organisation, and make sure that experiences are personalised.

So that's the work that we're doing. Any new system would need to encompass that single view.

Peter Harmer: Brett, what might be behind your question is that, yes, all of our systems will be fully API enabled. Which means that we'll be able to provide access, where we choose to, to our data to any other service provider.

So that – the example you used of a small business being able to see their account online. Yes, absolutely.

Siddharth Parameswaran: (JP Morgan, Analyst) It's Siddharth Parameswaran again from JP Morgan. One for Nick – Nick, you mentioned that you may look at expanding the use of quota shares if something came up that basically met your hurdles.

Could you comment just on pricing of quota shares currently given that, I think the first deal that was done, it seemed like there's basically no loss in insurance profit for ceding away 20% of your business. Are the possible deals out there still at that level of price?

Nick Hawkins: Yeah, and the key here is obviously to make sure we're creating a sustainable capital platform going forward. That we're not being too tactical with what we can do right now with the current position of the capital market. As in, there's probably surplus still in our industry. So the answer to that is a maybe.

In a way, I'm thinking that if we do more – structure them slightly differently anyway. I think there is some value in having not just different timing of refinancing of these quota shares, but also even slightly different structures. So we might not just be thinking, whatever we've done with Berkshire let's replicate that three or four times.

The economics we would obviously be very focused on, but I think that even having these arrangements in slightly different forms might be a good idea for us, rather than being one form and being held hostage to that.

So that's what we're trying to think through at the moment. What could be those other forms of these arrangements that we could trade in, but back to where you started. Is there appetite in the market right now for IAG, and not just IAG, other people like us to enter into more transactions that I think economically, prima facie, would make sense for us? I think the answer is yes. We're trying to think of the medium-term implications rather than just the now here.

Siddharth Parameswaran: (JP Morgan, Analyst) Just a question for Mark. Mark, given that you've been through one series of cost-outs before in your previous life, do you have any learnings in terms of potential risks that actually are there as well, particularly around claims processes, and other things which may fall down if you start off-shoring, and outsourcing certain key aspects of your operation?

Mark Milliner: Yeah, Morning Sid. You know, the reality is we will be very careful in terms of having really good metrics around what we're doing in any process. I think we will only change things if we are very confident about making improvements, I think both from an employee perspective, but also a customer's perspective. Being very mindful that we continue to add value overall as well. So I think it's measurement. It's the being very clear about the overall intent and getting people on board with what we're doing around that. Again, there's good opportunities with what we've got in the overall business to drive the savings. It's not just about claims, as I said. It's across the whole business. So as the model starts to evolve, I'm sure it will look very different, as I said. So we will certainly be very conscious. It's a very important lever - claims, obviously, in the overall margin. We certainly want to make sure the great claims cost and experience stays as it is for our customers.

Toby Langley: (Merrill Lynch, Analyst) Hi, it's Toby Langley from Merrill Lynch. Couple of questions. You've got a commentary around claims inflation, saying that rate increases in personal lines are countering. Are they keeping up with, or are they following that claims inflation trend?

Peter Harmer: The answer is they're either keeping up with or slightly in front. Claims inflation, in short tail personal lines is low single digit, and as you said, pricing's staying in front of that.

Toby Langley: Great, and a question for Nick. Your guidance is for no material movement in investment markets, and admittedly, there's not going to be anything this year. But there have been material movements in investment markets in recent weeks. So if you had to suggest what your yield might be if it was re-priced to spot. Would it be above what you're currently delivering? Are the moves we've seen accretive to investment returns?

Nick Hawkins: I think in the medium term, it feels like they probably will be. Obviously, there'll be some mark-to-market on that, but yeah, it feels like there is potential for slightly higher yields in FY18 and FY19. It feels a bit more positive.

Toby Langley: Does that feed into your earnings thinking, then?

Nick Hawkins: Probably not. One assumes if interest rates start rising a little bit, therefore that may impact pricing and the timing of all that. There's a lot of complexity there. I think we should also get some materiality here. It doesn't feel like we're about to go to 6% or 7% or 8% interest rates in the world. So maybe half a point, maybe in FY18 and FY19. So I don't think it's that material to our story is the way I'm thinking at the moment.

Toby Langley: One more question about the reinsurance, the broader refinancing with regards quota share. When do we start worrying about refinancing risk with regard to Berkshire?

Nick Hawkins: You can see what we just did with CTP. So we were a five-year deal. We just finished year three, and we've just extended it for six. So we're onto this topic. So I can't imagine getting anywhere near year 10 on the Berkshire deal. I would imagine we'd be doing whatever we want to do in year seven or eight would be my thinking now. We're only into year one and a half at the moment, and it feels a little premature to start that discussion. But that's how I'm thinking about it, and then of course it's not just those transactions. If we have more of them, we never want to be held captive to the investment market at a particular time.

I mean, we're very careful with our debt and hybrids. We always refinance early. We always try and spread out the maturities. I'm thinking the same philosophy, but on much longer time frames in relation to these quota shares. So I'm just trying to work that out at the moment. But, by the way, just from Berkshire's point of view, they - contractually, we've agreed a 10-year deal. They think that's a deal in perpetuity. We just agreed an arrangement. So if I asked them tomorrow could we extend it for another 10 years, they would just say, sure. That's how that's structured. But the world changes, so we don't want to overplay that comment. Actually, we want to make sure that we're ensuring the longevity of our capital to run the company.

Peter Harmer: I'm just conscious of time. We might actually take some questions from the phone lines.

David Spotswood: (Shaw and Partners, Senior Analyst) Yeah, it's David Spotswood here. I might have missed out on your answer before. Can you just talk about the relationship between the gross cost savings and the net cost savings? You've got a slide there saying it'll be \$100 million in 2019. Shall we assume that's going to \$250 million in 2020, or are there amounts being reinvested in the business? The second question, 10% EPS growth for 2020 implies 16% ITR margin and an ROE of about 17%. Is that implicit in what you've got in your numbers, thanks?

Nick Hawkins: David, it's Nick. So yeah, in answer to the first one, yeah. We would expect by the end of FY19 our run rate's down at least \$250 million, so yeah, we would expect the cost base of our company in FY20, as an example, to be at worst, \$2.25 billion, and maybe even below that. So that's the plan, to your question, on the run rate. In relation to EPS, I don't have those numbers just off the top of my head, but they sound roughly right. Yeah, we need to - if we're going to grow at 3% to 5%, which is what we've said we might grow at - the overall group might grow slightly more than that because we might have some additional Asian growth. But that might be another 100 basis points. So let's call 3% to 5% Australia and New Zealand 4% to 5% group, maybe. Yes, we need margin expansion and capital management in various forms in order to get to the metrics that we're talking about. So clearly, our insurance margin and ROE will need to be lifting from our current position.

Peter Harmer: I can see we have one question on the webcast, which we'll take, and then Daniel, we'll come back to you, if that's okay. We'll probably close out with you. So this is a question from Michael Roddan at *The Australian*. How many staff are expected to be let go as part of the overall cost reduction, and when are these redundancies meant to take place? Mark?

Mark Milliner: Yeah, look, the overall program of work is certainly aimed at making our business much more efficient, and as we've said, reducing the cost to do business whilst we grow. There's going to be many things that we do across that program of work, and look, the reality will be that we will have less people, as I said, in the business. I don't think we know any specific numbers yet in that sense.

There'll be programs of work that it will come from - automation, robotics, better systems that we've got in terms of transaction systems - that will all make it an easier, and more efficient organisation. So there's no absolute numbers today, at the moment. But overall, there will be less people at IAG in the future.

Peter Harmer: Thank you. Daniel.

Daniel Toohey: (Morgan Stanley, Analyst) Hello, thank you. Yeah, just a question on how would you rate or rank the digitisation of your platform from both a customer perspective, and from an operational perspective, and where are you on that journey?

Peter Harmer: Great question, Julie I'll get you to answer that.

Julie Batch: Sure, so the digitisation, again, we really have commenced that with our data. So bringing all our data together has been a huge step forward in being able to deliver personalised digital experiences. We are in the process now of working through the customer engagement systems, and what they look like and how we digitally enable them. We're consolidating and simplifying those progressively. In terms of building a digital organisation from an operational point of view, that's where we see our next real opportunity. Working with Mark through the optimisation approach, that's where we're going to focus over the next period of time. So that's system simplification, the ability for our employees to work easily across all of the interfaces that they deal with is the next step for us.

Daniel Toohey: (Morgan Stanley, Analyst) So at the conclusion of this project, you'll effectively be a digital operating platform with the customer interfaces and everything else.

Julie Batch: That is absolutely our intent, and we're going to bring that to life as quickly as possible.

Daniel Toohey: (Morgan Stanley, Analyst) Right, thanks.

Peter Harmer: If there are no more questions in the room, I might bring the morning to a close before we adjourn to lunch. So look, firstly, thank you all for joining us here today. It's fabulous that you've been able to take time out of your busy diaries to spend a few hours with us. Hopefully you've had some really good insight into how we're going to win with customers, how we're going to improve the efficiency of our operating model, and how we're going to look at how we optimise our capital platform as well. We see a really bright future for IAG. We're incredibly excited about the programs of work that we've got underway, and hopefully we've been able to imbue some of that into you as well today. Again, thanks for coming, and lunch is going to be served at the back.

End of Transcript