



# 2018 Annual General Meeting

26 October 2018

## CEO presentation to 2018 AGM

Mr Peter Harmer

Managing Director and CEO, Insurance Australia Group Limited

### Slide 1: title slide

Thank you, Elizabeth

Good morning ladies and gentlemen.

It is also my pleasure to welcome you, and thank you for attending this year's annual general meeting.

### Slide 2

## 2018 financial summary

Solid performance which met our guidance

 1.8%	 10.8%	 280bps	 170bps
<b>\$11,647m</b>	<b>\$1,407m</b>	<b>18.3%</b>	<b>14.1%</b>
Gross written premium	Insurance profit	Reported margin	Underlying margin
 0.6%	 4.5%	 3.0%	
<b>\$923m</b>	<b>\$1,034m</b>	<b>34cps</b>	
Net profit after tax	Cash earnings	Ordinary dividend	

For the 2018 financial year, we were pleased to report a very solid set of numbers in what is an era of unprecedented focus on consumer expectations.

This outcome is testament to our continuing work to better understand our customers and meet their needs, and it speaks to the strength of our brands and, more importantly, the passion and the commitment of our people.

Reported gross written premium growth was relatively modest but, after allowing for some one-off influences, was 4% higher on a like-for-like basis, and met our expectations.

We slightly exceeded our reported margin guidance, thanks to favourable net natural peril claim costs and reserve releases that were higher than anticipated.

Importantly, our simplification program is progressing to plan, and we expect to see tangible benefits in the year now underway.

We also announced some important transactions during the year, most notably the 12.5% combined quota share reinsurance program which kicked off from 1 January, and the agreed sale of our operations in Thailand, Indonesia and Vietnam which will see a net profit of over \$200m booked in the 2019 financial year.

I can confirm that the sale of the Thai operations was completed at the end of August. This represents the bulk of the assets in the sale agreement.

At this stage, we are retaining our interests in Malaysia and India and are continuing to assess our position, but we do not envisage further material investment in the region.

Our other major announcement was the significant capital management initiative which is before this meeting today, and which I will discuss in more detail shortly.

### Slide 3

## Strategy

Optimise our core insurance business while creating future growth options

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Turning now to our strategy.

This slide sets out our three strategic priorities – around customer, simplification and agility.

I shared these with you this time last year, and we remain very focused on them.

It also shows the eleven organisational capabilities we are building that we regard as necessary to deliver on our priorities.

I'd like to expand on these priorities a little bit more...

# Customer

Delivering world-leading customer experiences



## 2018 activities

- **Applied customer segmentation model** to inform brand strategy, marketing and customer journey design
- **Digitised key customer journeys** including redesigning the motor claims process
- **Consolidated IAG's data asset** using open source technologies
- **Deployed world-class pricing capability** using machine learning and real-time pricing models, across core personal line portfolios

Within the Customer priority, we have built on the segmentation work of last year and further deepened our understanding of our customers, and how best to meet their needs.

You will have seen this better understanding reflected in new marketing campaigns, for NRMA and CGU in particular.

Customer Labs has started to analyse the correlation between advocacy and customer behaviour, and this will be an ongoing area of activity in 2019 because we know that having happy customers who advocate for you drives business success on so many levels.

All of this work will assist us in understanding where we should prioritise our investments to improve our customers' experience.

We have made good progress in simplifying and consolidating our data platform, and we were proud to receive the global Red Hat 2018 Innovation Award for the approach taken by Customer Labs to compose our data asset through open source technologies.

## Simplification

**Simplified, modular and lower-cost operating platform**



### 2018 activities

- **Embedded** single Australia Division operating structure
- **Completed** Australian personal motor and home lines claims component of systems consolidation
- **Continued** transition of targeted activities to operational partners
- **Embedded** operational partnering excellence framework

Under Simplification, the move to a single platform for all motor and home claims in Australia is complete, and the balance of claims, covering New Zealand and long tail classes – such as Compulsory Third Party insurance – will move to this platform by next August.

We've now decommissioned 27 technology applications, and the first major claims system will be decommissioned in the next few months.

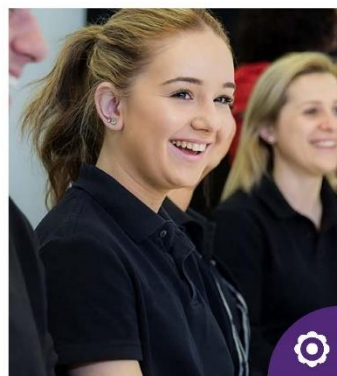
We are into the third phase of moving selected activities to our operational partners offshore, and this process will be largely complete this year with continued activity planned well into the 2019 calendar year.

We expect to see increasing benefit from the whole simplification program in the current financial year.

## Slide 6

## Agility

**Being distinguished by innovation, speed and execution skills**



### 2018 activities

- **Deployed Leading@IAG program** linking purpose and strategy to individual accountability and performance
- **Increased employee advocacy score** by 18 points
- **Launched Future ME program**, empowering employees to build their knowledge and preparedness to participate in the workforce of the future
- **Continued investments** through Firemark Labs and partnerships to launch products and solutions that deliver on IAG's purpose

Under the Agility priority, as Elizabeth mentioned, we have further deployed our Leading@IAG program which links our purpose and strategy to individual accountability and performance.

Encouragingly, we've seen an 18-point improvement in our employee advocacy score, placing us on track to meet the target of +20 we have set for 2020.

Our Firemark Labs in both Singapore and Sydney have been active in creating new products and services, while our Firemark Ventures fund has completed a number of investments during the year.

Perhaps one of the most exciting is our investment in Airtasker, the Sydney-based Australian company which provides an online and mobile marketplace where users can outsource everyday tasks.

We see great potential here for collaboration to reduce risk and improve customer safety.

## Slide 7

# Our people

Using our purpose to create meaning and alignment



### Diversity targets

By 2020:

- **40%** women in senior management roles in Australia (currently 34.6%)
- **50%** women in senior management roles in New Zealand (currently 37.8%)



### Safer workplaces

- Reduction in lost-time injury frequency rate by: **12%** in Australia



### Organisational culture

Building trust:

- Bi-monthly **culture dashboard**
- **Leading@IAG**



### Reconciliation

- Aboriginal and Torres Strait employees to be **1.5%** of workforce; currently 0.96%
- **Support for indigenous suppliers** exceeds targets
- **New Reconciliation Action Plan** to be launched in 2019

We are focused on creating a workplace where our people:

- are aligned to our purpose; and
- have the skills to respond quickly to the evolving needs of our customers, and the changing nature of work.

Using our purpose to guide our decisions helps us create a culture where our customers can trust that we will deliver on our promise to them.

We are also concentrating on improving gender, age and ethnic diversity in our organisation, so we more closely reflect our customers.

We have set targets for key areas, including the percentage of senior management roles held by women, and the percentage of employees who are Indigenous.

When it comes to workplace safety, we prioritise people's physical and mental health because we recognise that mental health is an important issue for many of our people, and for those in the community.



We believe in treating people with mental health conditions no differently to people with other pre-existing health conditions.

We are working with experts including Beyond Blue to ensure we have empathetic and flexible practices in place.

For example, we have already made changes to our travel insurance policies to ensure mental health illnesses are now treated like any other pre-existing medical condition.

We have also changed the structure of our workers' compensation teams to ensure we have experts on hand to assess and manage mental illness claims.

## Slide 8

# Safer communities

Framework to support safer, stronger, more confident communities



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### Key recent actions

Fifth report from **Australian Business Roundtable for Disaster Resilience & Safer Communities**

- 'Building resilience to natural disaster in our states and territories'

Co-organisation of **United Nations Environment Programme Finance Initiative (UNEP FI)** conference

- 'Financing a Resilient and Sustainable Economy'

Launch of **Climate Action Plan**

Commitment to implementing **Task Force on Climate-related Financial Disclosures (TCFD)** recommendations

In addition to the wonderful work our frontline people do to help our customers and deliver on our purpose, I'm also proud of the work we do to create Safer Communities.

Our Safer Communities team is responsible for supporting the development of safer, stronger and more confident communities, in ways that also contribute to the success of our business.

There were a number of major milestones during the year and Elizabeth has mentioned some of these.

I want to highlight the Australian Business Roundtable, which we founded, and which delivered its fifth report last December.

Through the Roundtable, over many years, we have highlighted how communities are vulnerable to weather events and the need for investment in mitigation infrastructure.

We are very pleased to see that both Federal and State Governments have now picked this up and are beginning to act.

We are even more pleased that we have been invited to contribute to the Federal Government National Resilience Taskforce's work to create a nation-wide approach to disaster risk reduction.

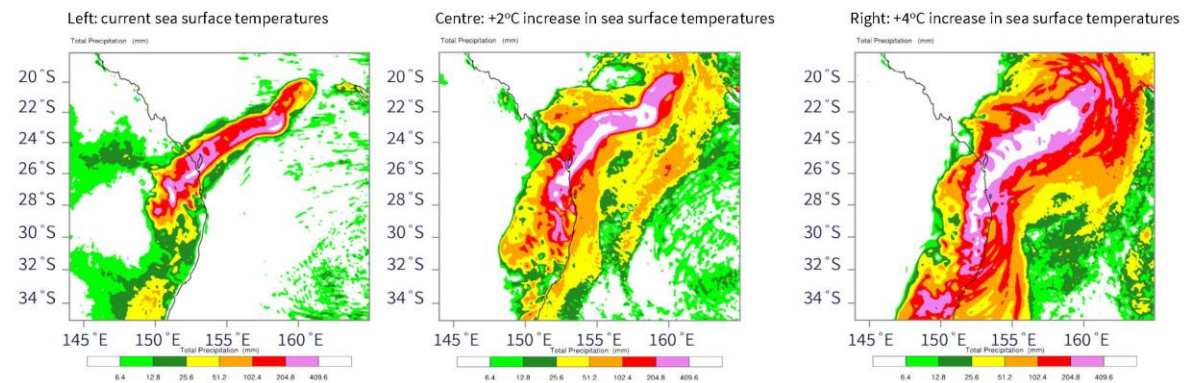
All these actions reflect our purpose, which drives our overall strategy.

## Slide 9

# Cyclone modelling project

IAG – National Center for Atmospheric Research

South East Queensland rainfall produced as it moves from the ocean over land



White rainfall areas have over 410mm of rainfall for the event

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I know that climate change is an important subject for our shareholders, and therefore for everyone here today – and we share your concerns.

We are feeling the effects of climate change already: we see it in our own industry's data, which tells us an inescapable truth.

In recent years we have seen an increase in the frequency of severe weather events that are affecting greater and greater numbers of people.

And of course we know, climate change impacts will increase even further.

For example, our modelling shows that in a warmer world, we can expect cyclones to travel further south, generating even greater devastation through strong winds and torrential rainfall.

In this scenario, there are a further 3.5 million people who could be exposed to significant loss of property, and to personal danger.



## Climate Action Plan

Our roadmap for re-creating insurance in a changing world

### Changing how we do things



As an insurer, we see not only the financial impact on communities, but also the social impact. And we believe we have an obligation to do something about this.

Taking action on climate change and its impacts makes sense for our communities and our business.

We have a long and proud history of action on climate – we’ve made important contributions to climate change discussions and supported action for over a decade.

We have set ourselves an ambition to be a regional leader in tackling this hugely important socio-economic challenge.

Our ambition is central to our purpose: to make your world a safer place.

Underpinning our efforts is the primary objective identified in the Paris Agreement to limit global climate change to well-below two degrees of global warming above pre-industrial levels. We have already had about one degree of warming ...

We are partnering with the United Nations, the Rockefeller Foundation 100 Resilient Cities, Queensland and New South Wales State Emergency Services, the Australian Red Cross, the Australian Business Roundtable and Resilient New Zealand, along with others.

And we are working with experts to reduce risk. A good example is our collaboration with the James Cook Cyclone Testing Station in Townsville, which has enabled the station to demonstrate the clear need for updates to our national building codes and standards to reduce loss.

Over many years, we have also taken practical steps to minimise our own environmental impact.

We’ve been carbon neutral since 2012 and have reduced our carbon emissions by almost 25% since 2015. Our energy efficient offices in Melbourne and Sydney, and a focus on minimising travel, will help to reduce our emissions further still.



The steps we are taking in our business, and in our communities, are set out in our Climate Action Plan.

The Plan provides a framework we can use to explain what we are doing, and clearly report progress against our commitments.

It lists our objectives, names the Group Leadership Team members responsible for achieving these and identifies key milestones for the next three financial years.

I think we have set ourselves a challenging mix of ambitious and realistic targets and I look forward to providing updates on our progress when we announce our interim and full year results.

## Slide 11

# Capital management initiative

## Subject to shareholder approval

### 25 cents per share (\$592m), comprising:

- 19.5 cents capital return
  - Reduced tax cost base
- 5.5 cents special dividend
  - Fully franked
  - DRP available



### Share Consolidation

- Approximately 2.4% reduction in shares on issue
- Based on five-day VWAP to 10 August
- Preserves consistency of EPS calculation



### Timetable

- 26 October:**  
Approval sought at AGM
- 30 October:**  
Ex-capital return / special dividend date
- 1 November:**  
Record date
- 2 November:**  
DRP record date
- 20 November:**  
Payment of capital return / special dividend

On 15 August we announced the capital management initiative that is the subject of resolutions 7 and 8 at this morning's meeting.

The combination of the quota share arrangements releasing capital, and the sale of the Asia businesses, means that we now have a considerable amount of surplus capital.

And we think the best place for surplus capital is back with you, our investors.

Given that we have no material operational demands for capital, we have announced a \$592 million capital management initiative that will amount to 25 cents per ordinary share.

This will result in a share consolidation which is expected to reduce IAG's ordinary shares on issue by approximately 2.4% and preserve consistency of earnings per share calculation.



Importantly, after the consolidation, each shareholder's proportionate interest in IAG will be unchanged.

I also want to note here that one result of the capital management measures we have undertaken in recent years – including the special dividend component of the initiative we are voting on today – is that we may not be in a position to fully frank dividends from the second half of calendar 2019 onwards.

From then, franking is expected to be in the range of 70 – 100%.


## FY19 outlook

### Further underlying improvement

 <b>FY19 guidance measures</b>	 <b>Underlying assumptions</b>
<p>GWP growth: <b>2-4%</b></p> <p>Reported insurance margin: <b>16.0-18.0%</b></p>	<div><div>1/ Net losses from natural perils of \$608m, in line with allowance</div><div>2/ Reserve releases of around 2%</div><div>3/ No material movement in foreign exchange rates or investment markets</div></div>

<p><b>GWP growth guidance of 2-4%</b></p> <ul style="list-style-type: none"><li>• Further rate increases anticipated across short tail personal and commercial classes</li><li>• Modest expected volume effect - personal lines growth (notably motor) offset by slight decline in commercial (further remediation activity)</li><li>• Residual NSW CTP reform effects (~\$80m reduction)</li></ul>	<p><b>Reported insurance margin guidance of 16.0-18.0%</b></p> <ul style="list-style-type: none"><li>• Improved underlying performance, including pre-tax benefit of ~\$100m from optimisation program activities</li><li>• Full 12.5% quota share impact of ~250bps (vs. ~125bps in FY18)</li><li>• Lower reserve release expectation of 'around 2%' assumes continuation of benign inflationary environment</li></ul>
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I'd like to look briefly at our outlook for the 2019 financial year.

We are confident of another year of improvement in the underlying performance of our business, with 2-4% premium growth and guidance of a 16-18% reported insurance margin.

In summary, we are making good progress in our efforts to transform IAG into a company able to anticipate, respond to, and satisfy the needs of all those who rely on us – our customers, our people, the communities we help, and the shareholders who support us.

And at the heart of the company we are creating is our purpose: **to make your world a safer place.**

I'll now hand back to Elizabeth.

Thank you.

## About IAG

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

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