



IAG finalises catastrophe reinsurance for calendar 2020 and provides perils update

IAG has finalised its catastrophe reinsurance program for the 2020 calendar year, increasing its gross reinsurance protection to up to \$10 billion (2019: \$9 billion). This has been placed to the extent of 67.5% to reflect IAG's cumulative whole-of-account quota share arrangements.

"Our reinsurance program is an integral part of our capital platform," IAG's Chief Financial Officer, Mr Nick Hawkins said. "While the structure of the 2020 program is similar to prior years, we continue to expand our catastrophe reinsurance cover in a cost-effective manner, while providing additional protection above our modelled exposure.

"We have also increased the multi-year arrangements we have with some of our largest reinsurance counterparties. Combined with our existing quota share arrangements, this means around 70% of our gross main catastrophe program for calendar 2020 is protected by multi-year coverage, providing greater certainty of future reinsurance cover," Mr Hawkins said.

IAG experienced relatively stable reinsurance rates during the renewal process, with the overall expense outcome in line with the associated assumption in its FY20 reported margin guidance. The overall credit quality of the 2020 program is strong, with over 92% placed with entities rated A+ or higher.

The main features of IAG's integrated catastrophe reinsurance program for calendar 2020, before consideration of quota share impacts, are:

- A main catastrophe cover for losses up to \$10 billion, including one prepaid reinstatement;
- IAG retaining the first \$250 million (2019: \$250 million) of each loss;
- Three prepaid reinstatements secured for the lower layer (\$250 million excess of \$250 million) of the main program (2019: three);
- A second event drop-down cover reducing the cost of such an event to \$200 million; and
- An aggregate sideways cover which provides protection of \$425 million excess of \$450 million. Qualifying events are capped at a maximum contribution of \$225 million excess of \$25 million per event.

IAG continues to have a cumulative whole-of-account quota share position of 32.5% which comprises:

- A ten-year 20% agreement with Berkshire Hathaway, which commenced 1 July 2015; and
- Combined 12.5% agreements with Munich Re, Swiss Re and Hannover Re which came into force from 1 January 2018, with an average duration from that date of around five years.

After allowance for the cumulative quota share arrangements, the combination of all catastrophe covers at 1 January 2020 results in IAG having the following maximum event retentions (MERs):

- First event of \$169 million for Australia (NZ\$169 million for New Zealand);
- Second event of \$135 million (NZ\$135 million); and
- Third event of \$17 million (NZ\$17 million).

In addition to its calendar-based catastrophe cover, IAG has a reinsurance cover for retained natural perils which runs in line with the financial year (stop-loss cover) and provides post-quota share protection of \$101 million in excess of \$675 million for the 12 months to 30 June 2020. This attaches approximately \$34 million above IAG's FY20 natural perils allowance of \$641 million.

Perils update

IAG provides the following update on net natural peril claim costs for the financial year-to-date (FY20), inclusive of bushfire events.

Australia has experienced a sequence of bushfire events since September 2019 across a number of states, exacerbated by prolonged drought and extreme weather conditions. These events are ongoing, with a further deterioration in conditions anticipated over the coming weekend.

As at the close of 2 January 2020, IAG had received over 2,800 bushfire-related claims since the beginning of September 2019, with in excess of 1,500 of these lodged since the start of December 2019. The majority of these claims relate to residential properties.

IAG Australia Division CEO Mark Milliner said: "Our priority is to help customers affected by these terrible events as soon as possible, while minimising the personal risk to those facing these ongoing catastrophes.

"Our claims teams are identifying and calling those customers potentially impacted when appropriate, while our dedicated major event claims teams are contacting customers as soon as claims are lodged.

"Our assessors and claims teams are on standby to support customers when it is safe to enter impacted areas, and our partner builders have the capacity to enter those regions when practicable.

"We encourage our customers to make contact at the earliest opportunity if they need to lodge a claim, access emergency accommodation or request other assistance," said Mr Milliner.

While too early to provide a precise outcome, based on initial estimates IAG anticipates its net natural peril claim costs for the six months ending 31 December 2019 (1H20) will approximate \$400 million post-quota share, compared to a corresponding perils allowance of \$320 million (FY20: \$641 million).

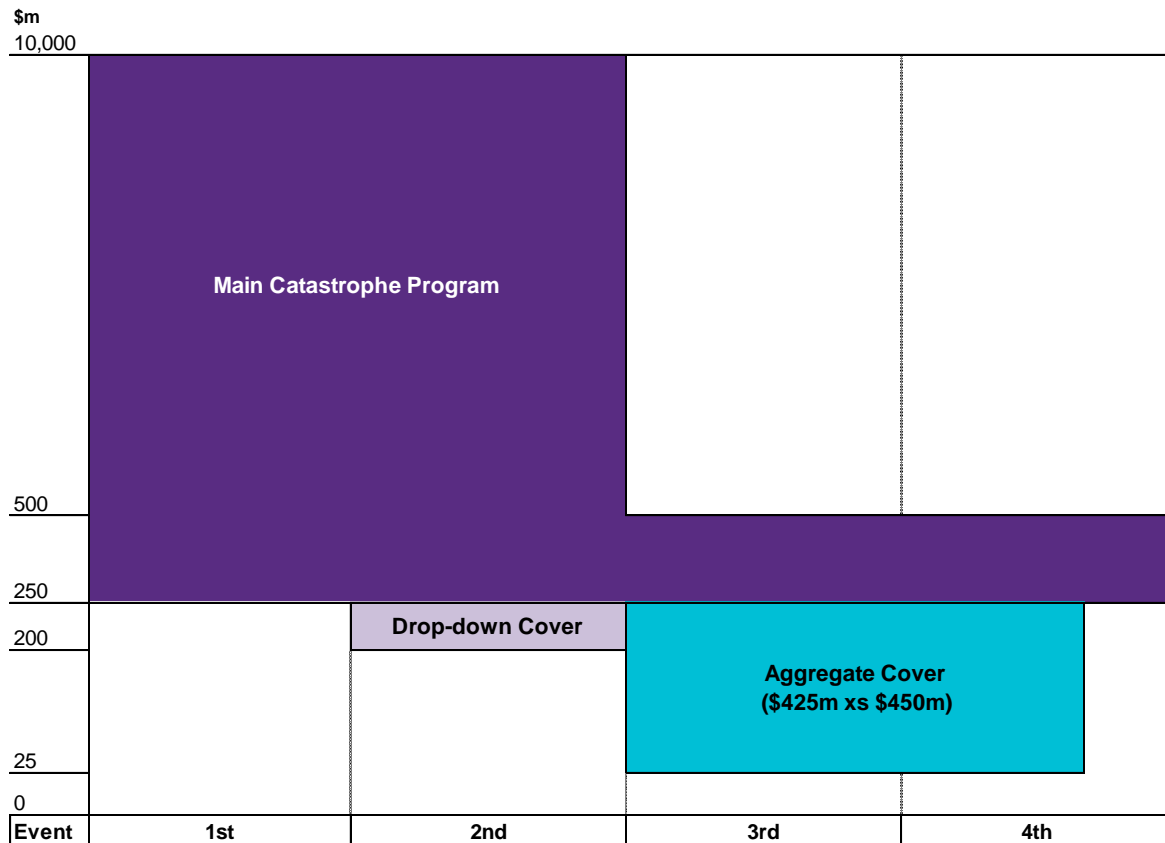
The 1H20 perils estimate includes three ongoing bushfire events which have been capped by reinsurance recoveries under the aggregate cover, following full erosion of the associated deductible. Overall bushfire events are anticipated to contribute over \$160 million of net claim costs in 1H20, post-quota share.

In addition to the bushfires, the period included significant hailstorm events on the Sunshine Coast in Queensland and at Timaru in the southern Canterbury region of New Zealand, both of which occurred in November 2019.

Under the definitions applied to bushfires, the current events which commenced in December 2019 and are extending into January 2020 will be covered by IAG's calendar 2019 aggregate reinsurance protection. The duration of that protection will depend on individual event inception dates and subsequent weather patterns.

IAG will report its 1H20 results on 12 February 2020.

IAG catastrophe reinsurance cover – 2020 program (gross)



IAG catastrophe reinsurance program				
Calendar year	2020		2019	
Cover	Gross	Net of quota share (67.5%)	Gross	Net of quota share (67.5%)
Main cover	\$9.75bn xs \$250m	\$6.58bn xs \$169m	\$8.75bn xs \$250m	\$5.91bn xs \$169m
Aggregate cover	\$425m xs \$450m	\$287m xs \$304m	\$475m xs \$375m	\$321m xs \$253m
Aggregate cover qualifying events	\$225m xs \$25m	\$152m xs \$17m	\$225m xs \$25m	\$152m xs \$17m
Retentions	Gross	Net of quota share (67.5%)	Gross	Net of quota share (67.5%)
First event	\$250m	\$169m	\$250m	\$169m
Second event	\$200m	\$135m	\$175m	\$118m
Third event	\$25m	\$17m	\$25m	\$17m

This release has been authorised by IAG's Disclosure Committee.

About IAG

IAG is the parent company of a general insurance group (the Group) with controlled operations in Australia and New Zealand. The Group's businesses underwrite over \$12 billion of premium per annum, selling insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann Insurance and WFI (Australia); and NZI, State, AMI and Lumley (New Zealand). IAG also has interests in general insurance joint ventures in Malaysia and India. For more information, please visit www.iag.com.au.

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