News Release

15 December 2023

Standard & Poor’s upgrades IAG’s credit ratings

Credit rating agency Standard & Poor’s (S&P) today announced it has raised its long-term financial strength and issuer credit ratings to 'AA' from 'AA-‘ on IAG’s core entities. It has also raised the long-term issuer credit rating on IAG to 'A+' from 'A'. The outlook on the ratings is stable.

IAG Managing Director and CEO Nick Hawkins said: “S&P's decision to upgrade IAG’s credit ratings follows an application of their revised risk-based capital criteria and acknowledges a range of factors, including IAG's strong capital buffers and enhanced reinsurance cover. This positive outcome reflects IAG’s prudent approach to capital, balance sheet management and diverse reinsurance structures.”

IAG today completed the $350 million on-market share buyback, announced in October 2022. The key capital metric, the Common Equity Tier 1 ratio, will be maintained within the targeted benchmark range of 0.9 to 1.1 times, with any surplus providing flexibility for further capital management initiatives.

This release has been authorised by IAG’s Managing Director and CEO.

About IAG

IAG is the parent company of a general insurance group with operations in Australia and New Zealand. IAG’s main businesses underwrite over $14 billion of insurance premium per annum under many leading brands, including: NRMA Insurance, RACV (under a distribution agreement with RACV), CGU, SGIO, SGIC and WFI (Australia); and NZI, State, AMI, and Lumley (New Zealand).
For further information, please visit www.iag.com.au.

Media

Amanda Wallace
Mobile. +61 (0)422 379 964
Email. amanda.wallace@iag.com.au

Investor Relations

Mark Ley
Mobile. +61 (0)411 139 134
Email. mark.ley@iag.com.au

Insurance Australia Group Limited

ABN 60 090 739 923
Level 13, Tower Two, 201 Sussex Street Sydney
NSW 2000 Australia
Telephone. +61 (0)2 9292 9222

S&P Global
Ratings

RatingsDirect®

Research Update:

Insurance Australia Group Entities Upgraded On Stronger Capital Buffers Following Revised Criteria; Outlook Stable

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PRIMARY CREDIT ANALYST

Craig A Bennett
Melbourne
+ 61 3 9631 2197
craig.bennett
@spglobal.com

SECONDARY CONTACT

Michael J Vine
Melbourne
+ 61 3 9631 2013
Michael.Vine
@spglobal.com

Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- We raised our long-term financial strength and issuer credit ratings on the core entities of Australia-based insurer Insurance Australia Group Ltd. (IAG) to 'AA' from 'AA-', following the revised criteria. At the same time, we raised the long-term issuer credit rating on IAG to 'A+' from 'A'.
- Application of the revised risk-based capital criteria materially strengthened the capital adequacy and our financial strength assessment of IAG.
- The stable outlook on IAG reflects our view that the insurer and its core operating entities will generate solid underwriting earnings and retain their strong financial profiles.

Rating Action

On Dec. 15, 2023, S&P Global Ratings raised its long-term financial strength and issuer credit ratings on the core entities of IAG to 'AA' from 'AA-'. At the same time, we raised the long-term issuer credit rating on IAG to 'A+' from 'A'. The outlook on the ratings is stable.

Impact Of Revised Capital Model Criteria

- The improvement in capital adequacy primarily reflects an increase in total adjusted capital (TAC) owing to the removal of haircuts to liability adjustments (namely equity-like reserves) and not deducting non-life deferred acquisition costs. A bigger capital base also supports a higher hybrid capital allowance.
- We also captured the benefits of risk diversification more explicitly in our analysis, which supports capital adequacy.

- A recalibration of our capital charges to higher confidence levels somewhat offsets these improvements. Charges for the risks of reserve deficiency and natural catastrophe, in particular, are higher.

Credit Highlights

Overview

Key strengths	Key risks
Leading market positions across core markets of Australia and New Zealand, with a well-entrenched franchise.	Gross exposure to natural perils.
Extremely strong capital buffer and capital resources capable of absorbing sizable losses.	High focus on auto lines.

Steady underwriting earnings.

Outlook

The stable outlook on the ratings reflects our view that IAG will be able to retain its robust competitive position in its home markets and appropriately manage associated risks. The quality of its reinsurance program gives the insurer some flexibility to withstand material events, and retain the 'AA' ratings.

Downside scenario

Downside pressure to the ratings could arise from any material shock to IAG's business reputation or capital adequacy. A substantial change in the cost or availability of reinsurance cover could also pressure the ratings.

Upside scenario

We consider an upgrade unlikely. This reflects IAG's lack of greater geographic or broader business diversity usually associated with higher-rated peers.

Rationale

We placed the ratings on IAG on under criteria observation to reflect the potential impact of the capital criteria on our financial risk profile assessment. The new criteria resulted in a stronger TAC base, principally due to less deductions. The impact of higher risk-based capital requirements, due to strengthened confidence intervals, and scaled natural catastrophe risk charges drops due to higher diversification credits.

The group's capital adequacy, as measured by the S&P Global Ratings capital model, is materially redundant at the extreme stress level (99.99% confidence level). This strengthened the financial risk profile of IAG and supported the higher credit ratings.

IAG will likely maintain its leading position in property and casualty insurance lines across Australia and New Zealand. The insurer's scale advantage stems from its market shares of about 20% in Australia and 40% in New Zealand, by gross written premiums. This broad customer reach through well-entrenched brands helps the insurer capture and retain business.

We believe IAG's trusted franchise and extensive data history, especially in direct personal lines, provide it with a key underwriting advantage. The insurer's strong and steady underwriting results reflect this.

IAG's high reinsurance usage that is approaching 40% can moderate our view of the insurer's ability to maintain independence and its underwriting risk appetite. Alleviating these risks are a range of controls to manage potential risks, and the appropriate dispersion and quality of reinsurers. The reinsurance strategy is justified, given it counterbalances the accumulation of property risks, and lowers solvency and earnings volatility.

IAG's underwriting earnings could strengthen with sound risk selection and appropriate pricing. The insurer has responded well to industry headwinds, as seen from a rebound in its earnings in fiscal 2023 (year-end June 30). Earnings benefited from strong top-line growth, driven by rate rises and continued productivity gains. A progressive unwinding of unrealized investment market valuations and higher carry yields also supplemented group earnings.

Additional catastrophe charges in New Zealand weakened the country's property and casualty contributions. Even then, return on revenue was strong at 19.6%, up from 17.0% the prior year.

We expect affordability constraints to moderate premium growth further, particularly in personal lines. A slowing economy and weaker economic conditions could also affect business customers and the performance of the group's Intermediated division.

Technology investments will continue to support risk management and underwriting capabilities. In our view, IAG's investments in advanced technologies, data aggregation and utilization, and innovation will help the insurer maintain its competitive offerings. These initiatives are particularly important, given key headwinds surrounding the cost of natural peril claims, frequency of claims, and severity of claims through cost of repair or replacement.

Reinsurance costs have risen for the industry following material global catastrophe claims in 2022. Liability reserves remain a watchpoint, particularly legacy silicosis exposure that required reserve strengthening following higher claims severity in fiscal 2023.

IAG strengthened reserves by A$37 million in fiscal 2023 across direct and intermediated lines, with some releases for the long-tail Compulsory Third Party scheme.

IAG's robust capital adequacy and enhanced reinsurance cover will contribute to its financial strength and earnings stability. We expect the insurer's capital adequacy to remain a key strength, with redundancy above the extreme stress level under our capital model.

IAG's capital adequacy remains slightly above the top end of its target on a regulatory basis. The insurer had a prescribed capital amount multiple of 1.92x as of June 30, 2023, versus its target range of 1.6x-1.8x.

IAG's renewal of reinsurance protection for 2023 (which includes excess of loss cover of up to A$10 billion placed to 67.5% to reflect cover from quota share arrangements), along with aggregate covers, protects the group from inherent property concentration risks and lessen earnings volatility. We view the insurer's risk management as very strong, complemented by a well-structured and comprehensive reinsurance program.

Ratings Score Snapshot

Insurance Australia Group Ltd. Related Entities

	To	From
Financial strength rating	AA	AA-
Anchor	aa	aa-
Business risk	Very Strong	Very Strong
IICRA	Low	Low
Competitive position	Very Strong	Very Strong
Financial risk	Excellent	Very Strong
Capital and earnings	Excellent	Very Strong
Risk exposure	Moderately Low	Moderately Low
Funding structure	Neutral	Neutral
Modifiers	0	0
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0
Support	0	0
Group support	0	0
Government support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

Environmental, Social, And Governance

We assess IAG's exposure to environmental factors as broadly in line with the industry, given its exposure to natural catastrophe risks in Australia and New Zealand. The group's inherent protections, stemming from steady underwriting earnings, solid capital buffers, and quality reinsurance protections moderate the impact of outsized events. The group leads in engaging with the community and government on mitigating the impact of climate change, such as flood prevention and building codes.

We see IAG at the forefront in balancing equitable customer outcomes on coverage and affordability under increasing community and regulatory expectations and scrutiny.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Upgraded

	To	From
Insurance Australia Group Ltd.		
Issuer Credit Rating	A+/Stable/--	A/Stable/--
IAG New Zealand Ltd.		
Insurance Australia Ltd.		
IAG Re Singapore Pte. Ltd.		
Issuer Credit Rating		
Local Currency	AA/Stable/--	AA-/Stable/--
IAG New Zealand Ltd.		
Insurance Australia Ltd.		
IAG Re Singapore Pte. Ltd.		
IAG Re Labuan (L) Bhd.		
Financial Strength Rating		
Local Currency	AA/Stable/--	AA-/Stable/--
Insurance Australia Group Ltd.		
Subordinated	BBB+	BBB
Junior Subordinated	BBB+	BBB