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# Financial results



Half year ended 31 December 2021  
11 February 2022



**Nick Hawkins**  
Managing Director and  
Chief Executive Officer

**Michelle McPherson**  
Chief Financial Officer



# Overview



**Nick Hawkins**

Managing Director and  
Chief Executive Officer

# 1H22 results overview



**GWP**  
**\$6.6bn**

Strong premium growth, particularly in commercial lines



**Underlying margin**  
**15.1%**

Underlying margin expansion compared to FY21



**Reported margin**  
**7.1%**

Reported margins impacted by perils and reserve strengthening



**Cash earnings**  
**\$176m**

No unusual items adjusting cash earnings, maintain business interruption provision



**CET1 ratio**  
**1.02x**

Remains within target range, post 6cps dividend payment

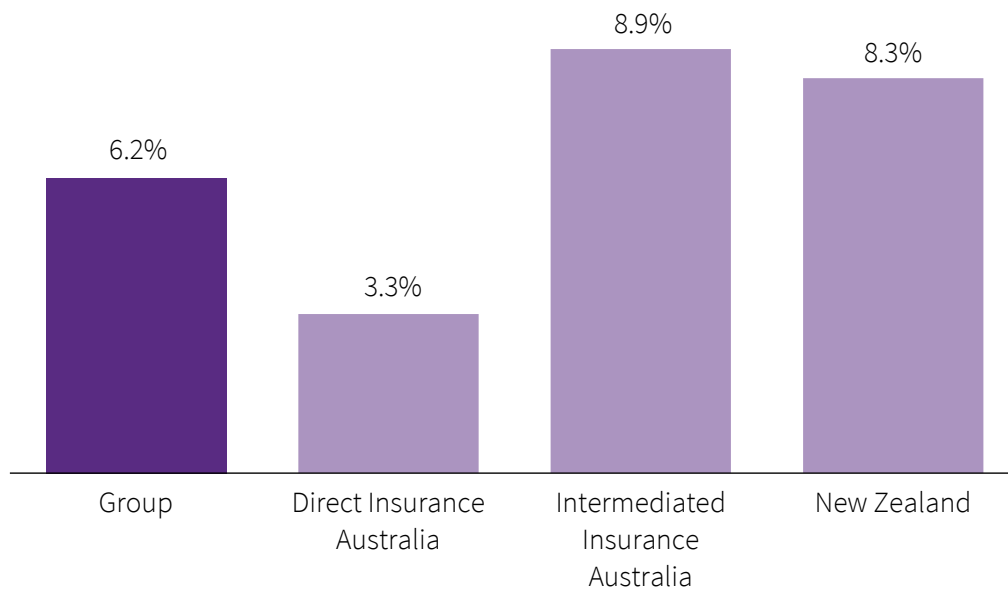


**FY22 guidance**  
**GWP upgraded**

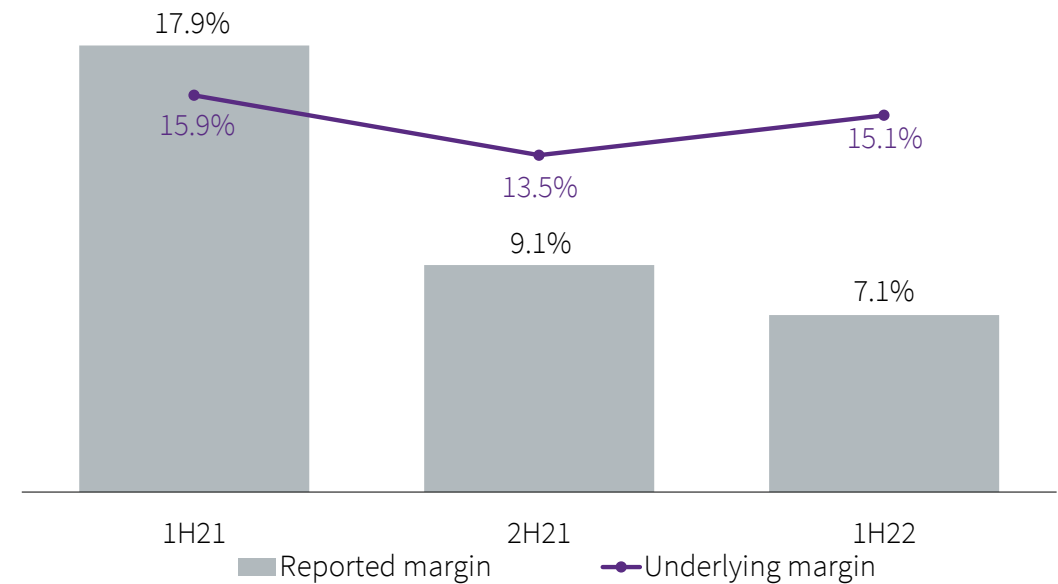
GWP guidance upgraded to mid single-digit, reported margin maintained

# 1H22 highlights robust GWP trends and stable underlying margin performance

GWP growth



Insurance margin

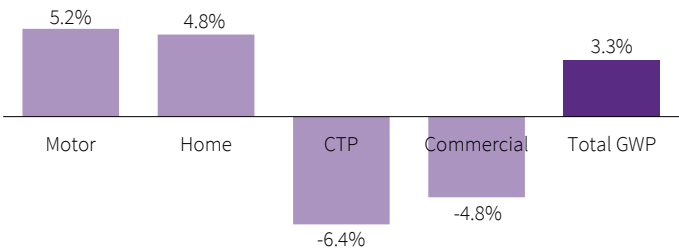


# Divisional highlights

## Direct Insurance Australia (DIA)

- >1% GWP volume growth in personal short tail
- Pricing for short tail inflation
- Strong underlying margins maintained
- NSW CTP reserve strengthening

### GWP growth

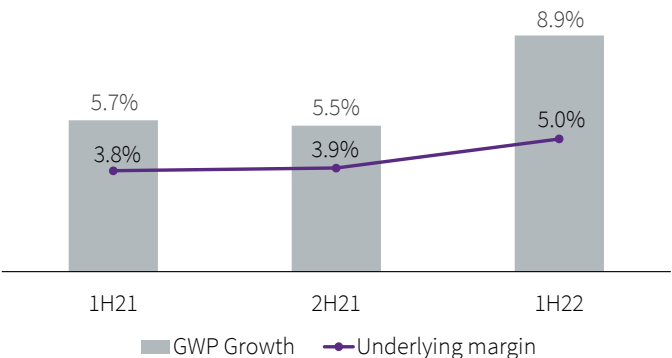


Note: SME Direct Partner business is recorded in IIA from 1H22, which resulted in a ~\$5m reduction to Commercial GWP. Commercial GWP was slightly ahead of 1H21, normalising for this transfer.

## Intermediated Insurance Australia (IIA)

- ~9% premium rate increases
- Rate-driven underlying margin improvement
- Reserve strengthening confined to liability

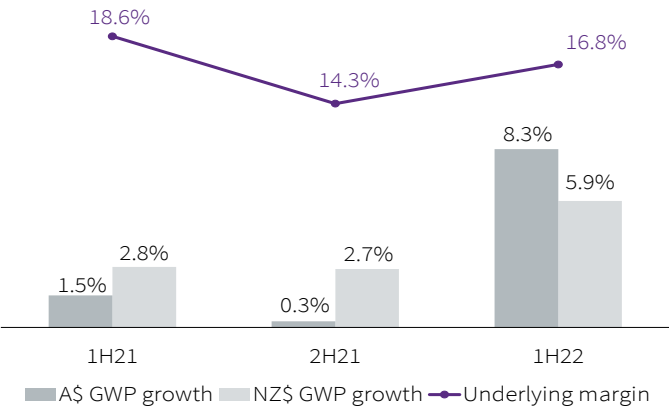
### GWP growth / underlying margin



## New Zealand

- Notable GWP momentum
- Large claims increase after benign 1H21
- Underlying margins higher than FY21 overall

### GWP growth / underlying margin



# Recap: strategic focus

## Purpose

We make your world a safer place

## Strategy

Create a stronger, more resilient IAG

### Focus

### Approach





### Outcomes

 <p>Grow with our customers</p>	<p>Deliver unparalleled personalised service when our customers need us the most</p>	<p>More customers, more products and greater scale</p>
 <p>Build better businesses</p>	<p>Focus on underwriting expertise, active portfolio management and pricing excellence</p>	<p>Stable earnings over time</p>
 <p>Create value through digital</p>	<p>Create connected experiences that seamlessly assist and reward our customers as they unlock the value of our network</p>	<p>Better customer experiences at a lower cost</p>
 <p>Manage our risks</p>	<p>Actively manage capital and risk in our business so we can continue to manage the risks in our customers' lives</p>	<p>Disciplined execution, enhanced accountability and appropriate returns</p>

## People

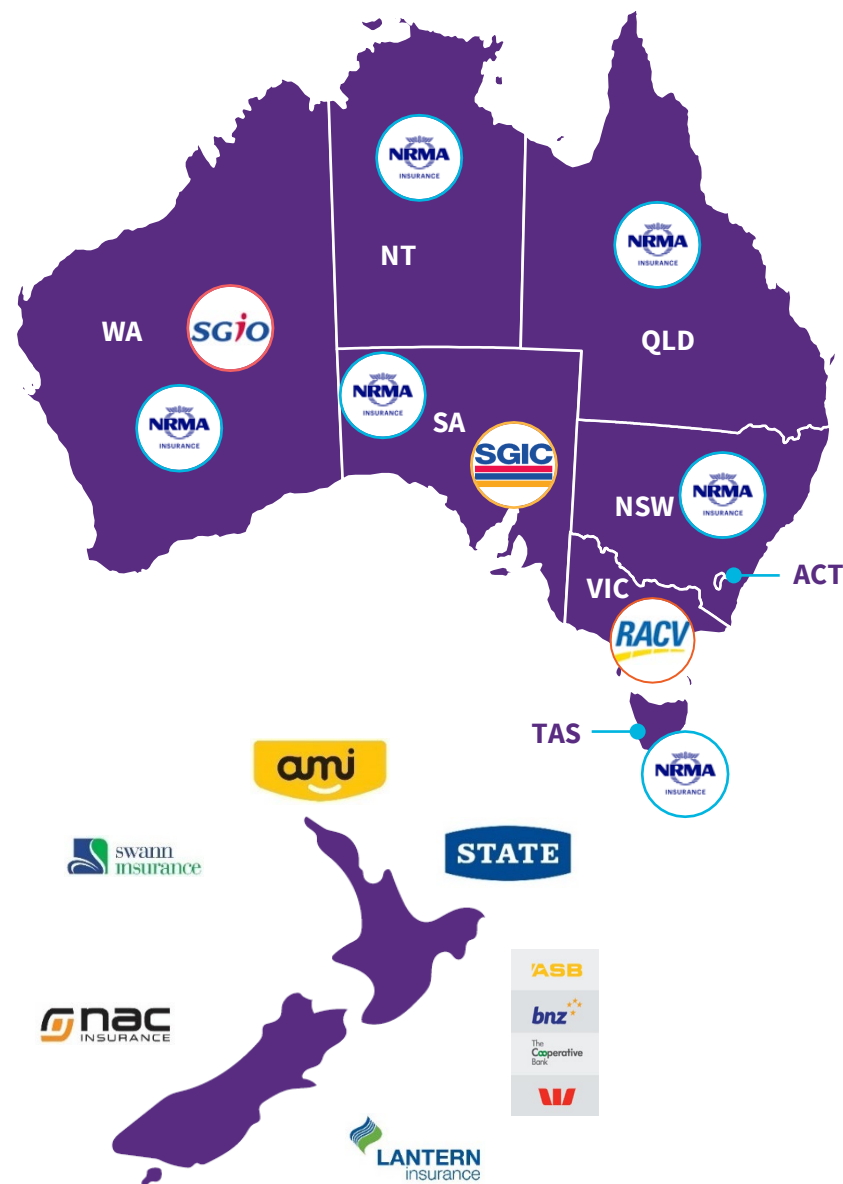
Our people are the difference: bringing our purpose to life and delivering our strategy

# Delivering our strategy **execution phase well advanced**

	1H22 Progress	2H22 Focus
 <p>Grow with our customers</p>	<ul style="list-style-type: none"> <li>NRMA Insurance named Australia's 5<sup>th</sup> strongest brand and highest ranked in financial services by Brand Finance</li> <li>NRMA Insurance now serving 35k customers in WA and SA</li> <li>Launched ROLLiN', now serving 7k digital only customers</li> </ul>	<ul style="list-style-type: none"> <li>Launch Customer Loyalty Program through NRMA app</li> <li>DIA personal lines targeted propositions and roll out of our refreshed Customer Value Proposition</li> <li>Actively target under represented areas using our sophisticated pricing capability and marketing strength</li> </ul>
 <p>Build better businesses</p>	<ul style="list-style-type: none"> <li>Strong underwriting disciplines improving rate strength in IIA</li> <li>Exited IAL Personal Lines, strengthening focus on core business</li> <li>Leveraged Carbar for efficiency in total loss vehicle replacement</li> <li>Digital online capability increasing Direct SME volumes by &gt;6%</li> </ul>	<ul style="list-style-type: none"> <li>Uplift Agri system and underwriting capability, leveraging investment in Digital Agriculture Services</li> <li>Increase focus on underwriting &amp; governance in IIA</li> <li>Continue expansion of Motorserve (AU) and Repairhub (AU/NZ)</li> </ul>
 <p>Create value through digital</p>	<ul style="list-style-type: none"> <li>Enterprise Platform live in WA, SA &amp; NT supporting all new customers across home, motor and niche</li> <li>Digital broker platform uplift; commercial motor on Steadfast's trading platform and NZI-Aon Digital Broker Portal live</li> <li>Launched Claims Auto-Verify in NZ, with AI used to resolve claims</li> </ul>	<ul style="list-style-type: none"> <li>Continued investment in our Enterprise Platform, improving customer experience, unlocking efficiencies and reducing costs</li> <li>Enhance digital solutions and product offerings for SME</li> <li>Accelerated claims transformation focussed on digital, automation and AI</li> </ul>
 <p>Manage our risks</p>	<ul style="list-style-type: none"> <li>Strong Employee Engagement at 78%</li> <li>Launched new Climate &amp; Disaster Resilience Action Plan, adapting to a changing climate and transition to a low emissions future</li> <li>Launched Insurance Academy and created an IIA Underwriting Office, strengthening focus on underwriting &amp; governance</li> </ul>	<ul style="list-style-type: none"> <li>Continued Risk Maturity uplift, including embedment of rQ</li> <li>Renegotiate quota shares and refinance subordinated debt</li> <li>Delivery of IAG Academy and career development programs</li> <li>Prepare for NZ EQC Cap increase from 1 Oct 2022</li> </ul>

Sample of Initiatives

IAG's five year  
 ambition **one  
 million new  
 customers &  
 \$400m of  
 value<sup>1</sup>**



	Customer target
Grow across Australia	400K
Capture the attention of the younger generation	250K
Direct SME (Australia)	100K
New Zealand (Consumer)	250K



# Enterprise Platform

powering  
efficient, secure,  
informed  
experiences

Consistent products and services to customers wherever they are – from wherever our people are

Single, core insurance platform underpins our digital ambitions to enable >80% of interactions across digital channels

Support for all three business units through four distinct layers:

- 1 A **customer experience platform** providing choice and personalisation for direct customers and seamlessly integrating with partner and broker trading platforms, in line with our ambition of enabling 80% of our interactions through digital
- 2 **Common core policy and pricing platforms**, removing friction, automating controls and driving trans-Tasman scale efficiency
- 3 **Consolidated claims management capabilities** enabling supply-chain efficiency in delivery of IAG's customer promise – already well developed
- 4 **People, process and technology assets** built to drive data, insight and scale efficiency into all operational activity

# Financials



**Michelle McPherson**

Chief Financial Officer

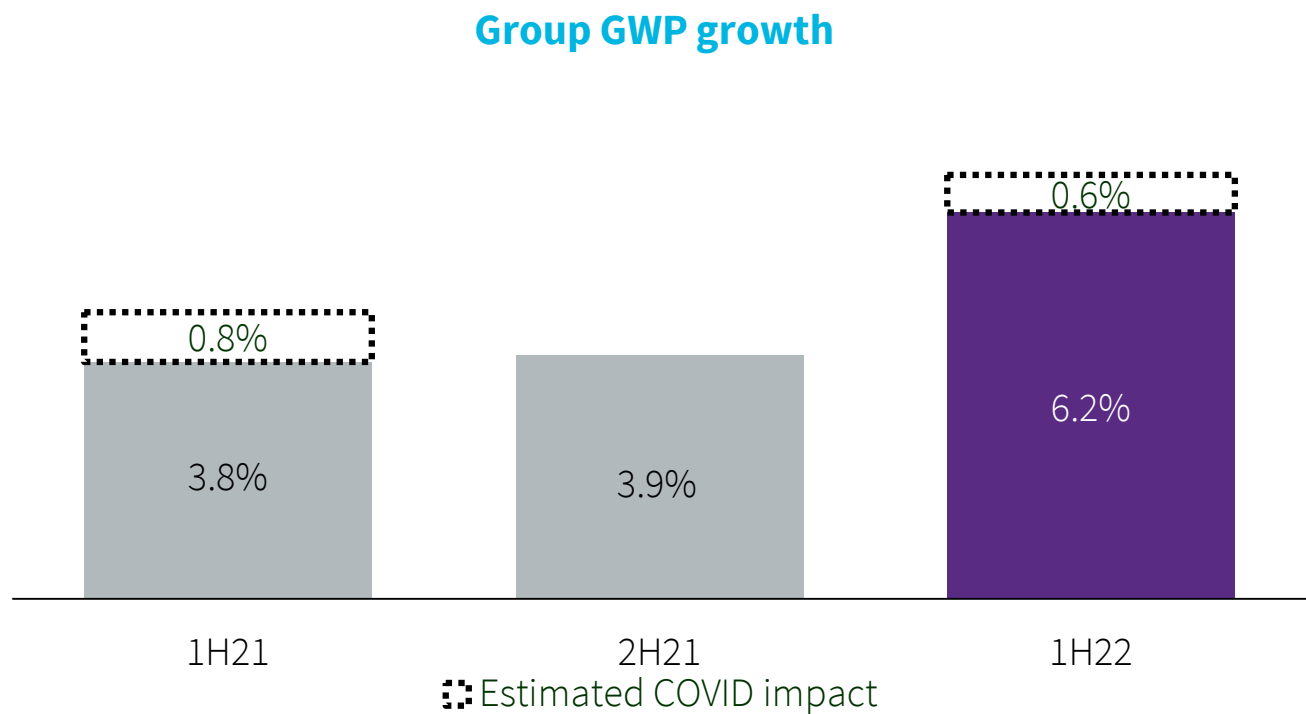
# Financial summary

	1H21	1H22	Change	
GWP (\$m)	6,188	6,570	6.2%	▲
NEP (\$m)	3,723	3,963	6.4%	▲
Insurance profit <sup>1</sup> (\$m)	667	282	57.7%	▼
Underlying insurance margin <sup>2</sup> (%)	15.9	15.1	80bps	▼
Reported insurance margin (%)	17.9	7.1	1080bps	▼
Net (loss)/profit after tax (\$m)	(460)	173	nm	▲
Cash earnings (\$m)	462	176	61.9%	▼
Diluted cash EPS (cps)	17.88	6.77	62.1%	▼
Dividend (cps)	7.0	6.0	14.3%	▼
Cash ROE (%)	15.5	5.7	980bps	▼
CET1 multiple	1.19	1.02	17pts	▼

<sup>1</sup>The 1H22 reported insurance profit in this document is presented on a management reported (non-IFRS) basis which is not directly comparable to the equivalent statutory (IFRS) figure in IAG's 1H22 Financial Report (Appendix 4D). A reconciliation between the two is provided on page 6 of the 1H22 Investor Report and on page 3 of the Financial Report to comply with the Australian Securities and Investments Commission's Regulatory Guide 230. IAG's 1H22 net profit after tax is the same in this document and in the Financial Report.

<sup>2</sup>IAG defines its underlying insurance margin as the reported insurance margin adjusted for net natural peril claim costs less the related allowance; reserve releases or strengthening and credit spread movements.

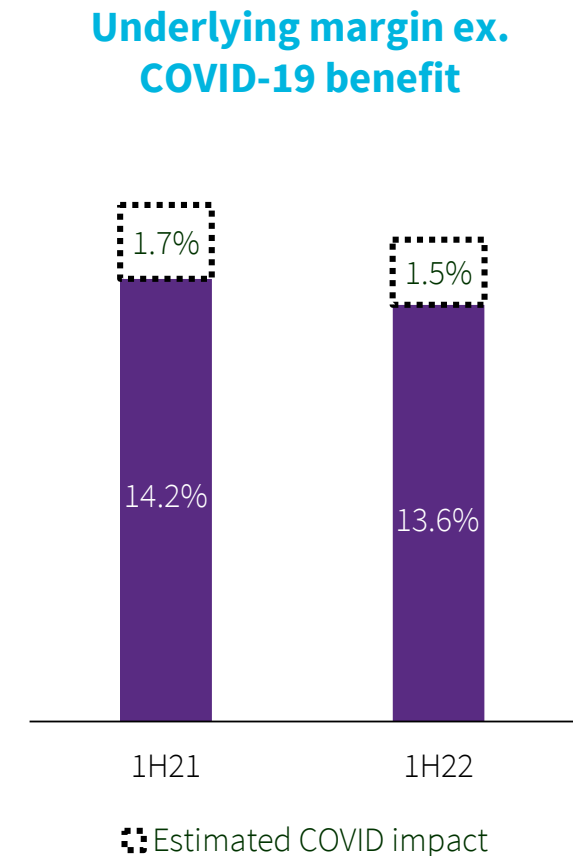
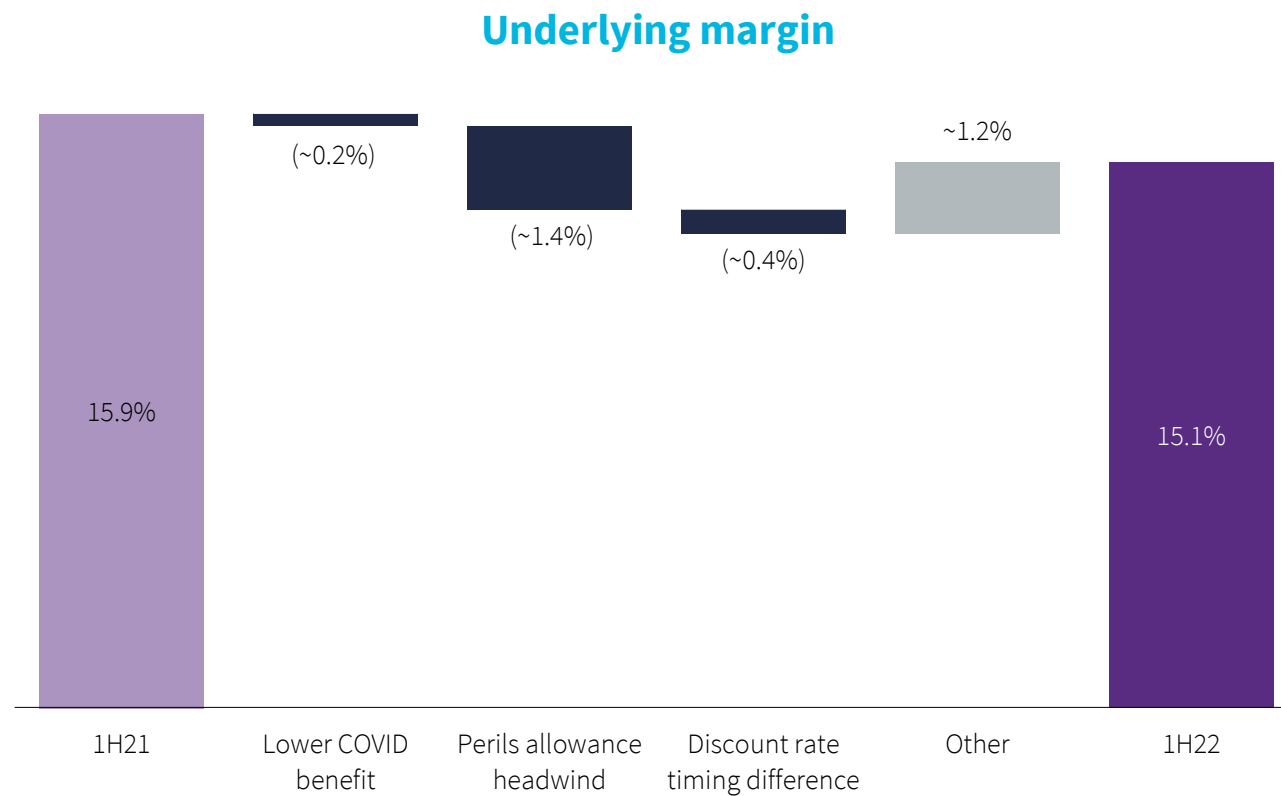
# Favourable market environment rate increases underpinning GWP momentum



- Strong rate rises to counter inflation, perils allowance & underperforming lines
- DIA rate increases: >4% in Motor & Home, 9% in IIA
- >1% volume growth across direct short tail personal lines in Australia



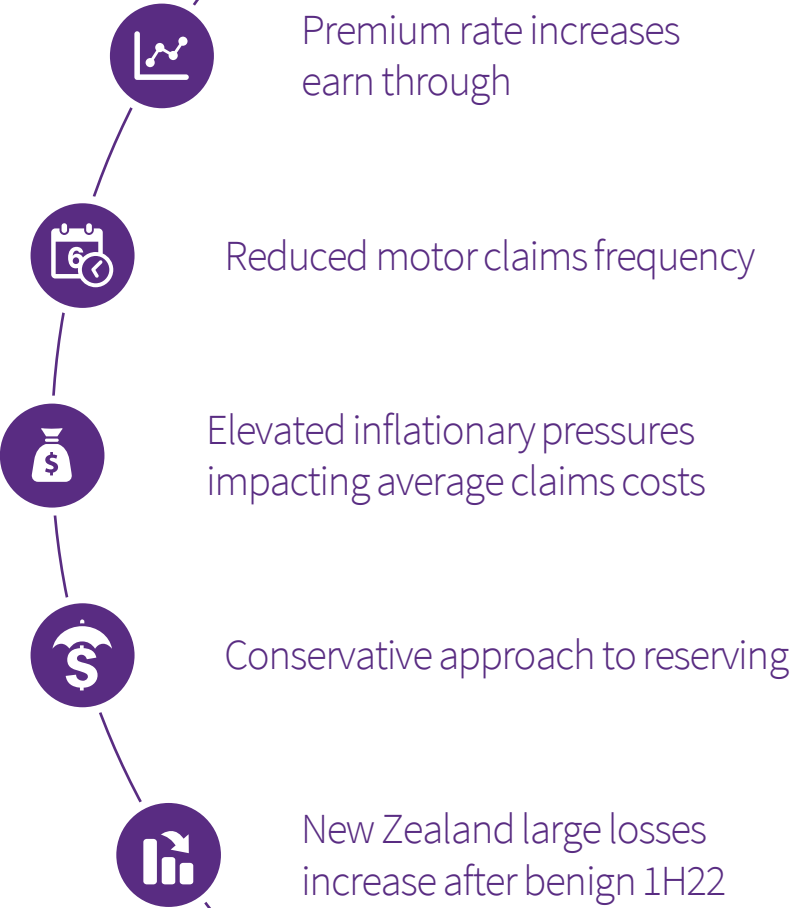
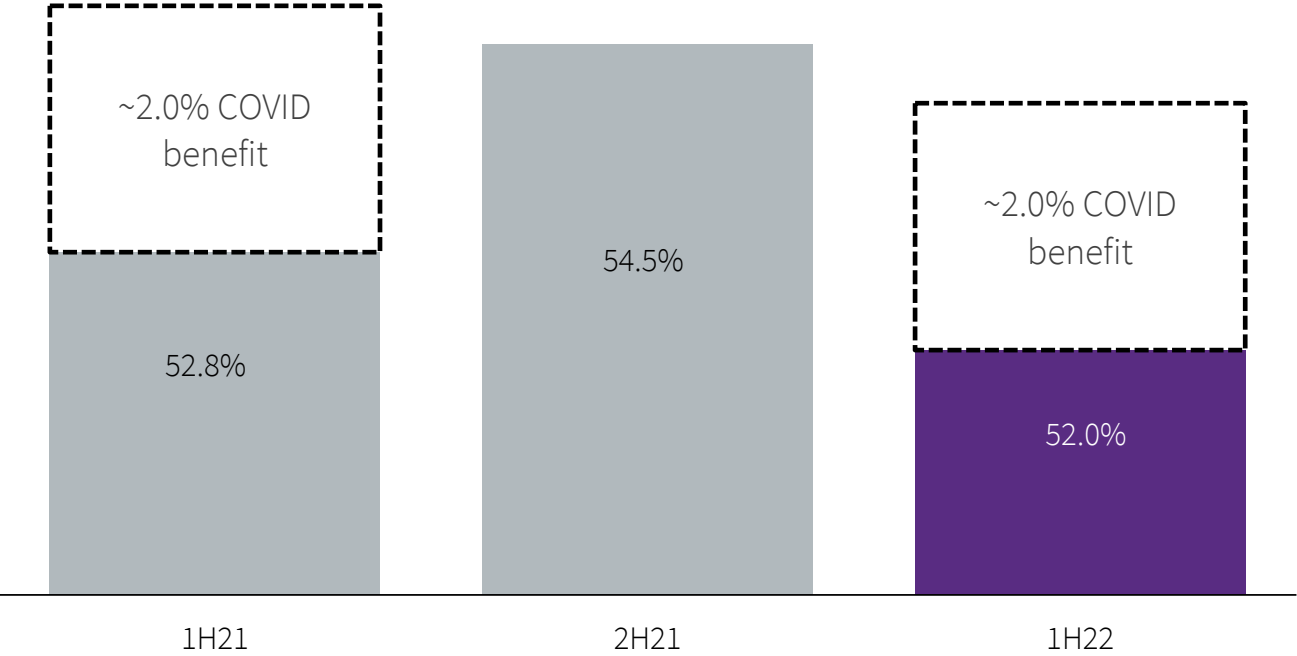
# Stable underlying trend as rate increases earn through to margins



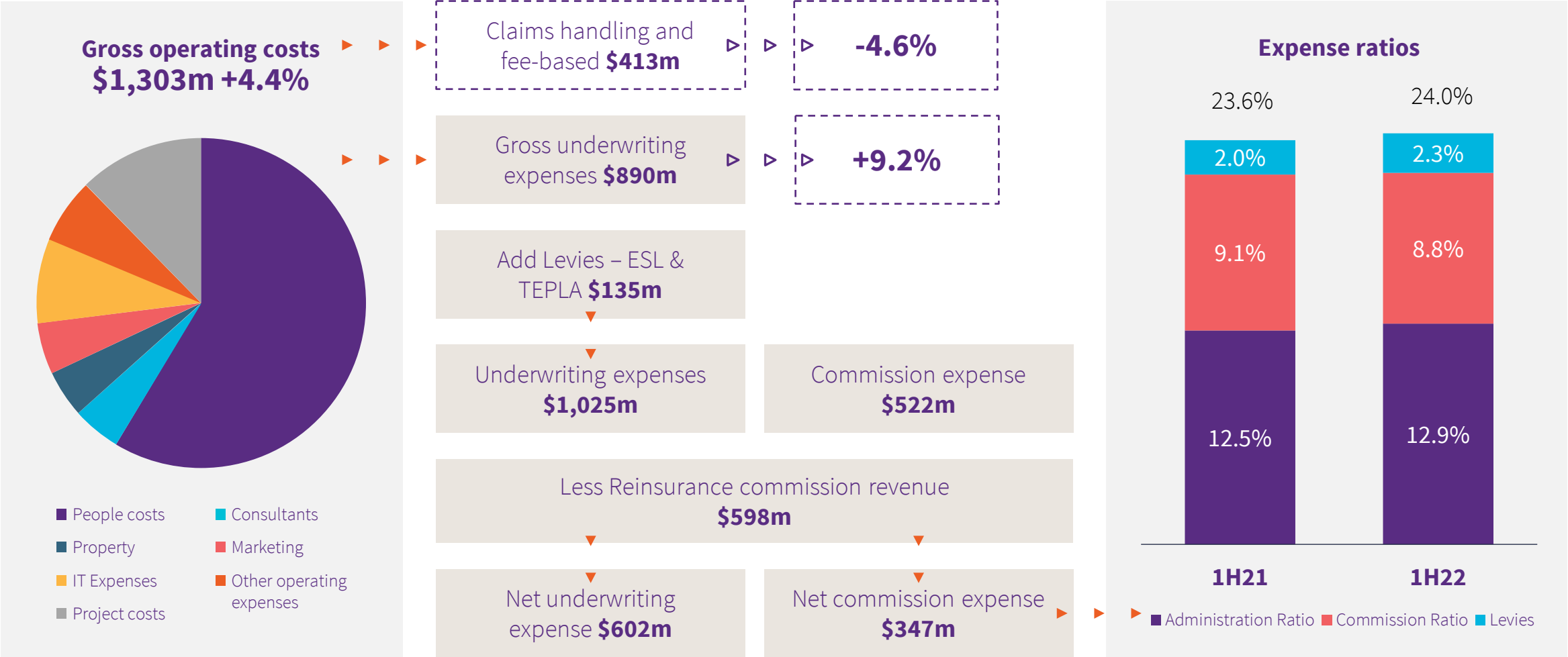
# Positive underlying claims trend

managing inflationary pressures

Group adjusted underlying claims ratio



# Operating cost increases reflect investment in future transformation

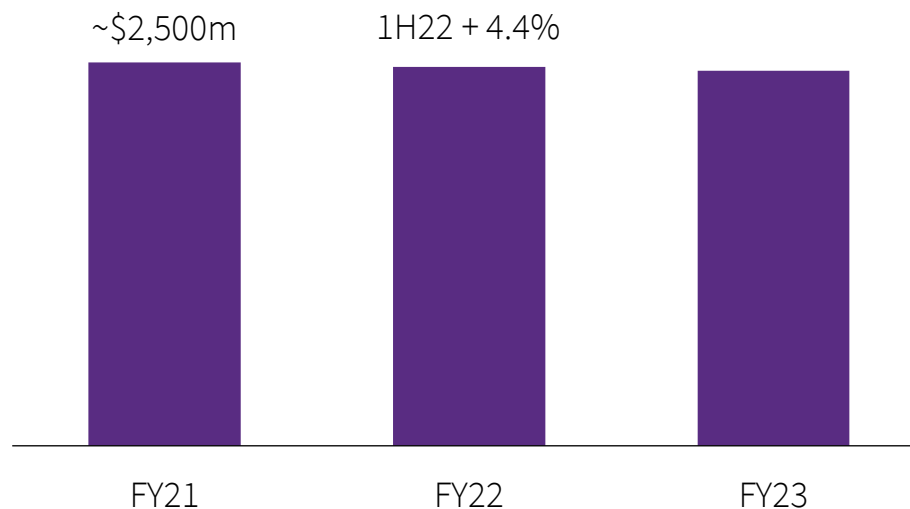


# Managing expense trade-offs **to constrain operating cost growth**

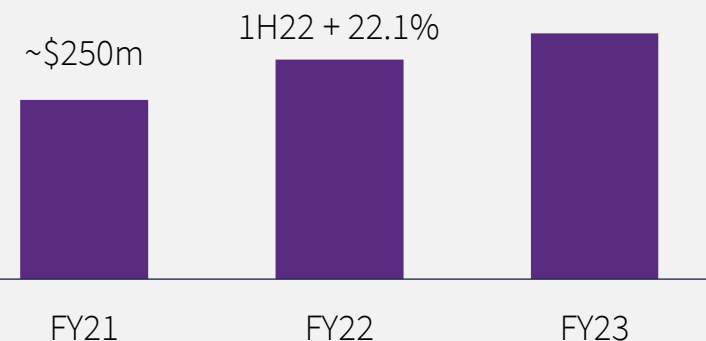
Increased technology spend, compliance and governance costs

Reduction in fee based expenses owing to cessation of Vic workers' comp

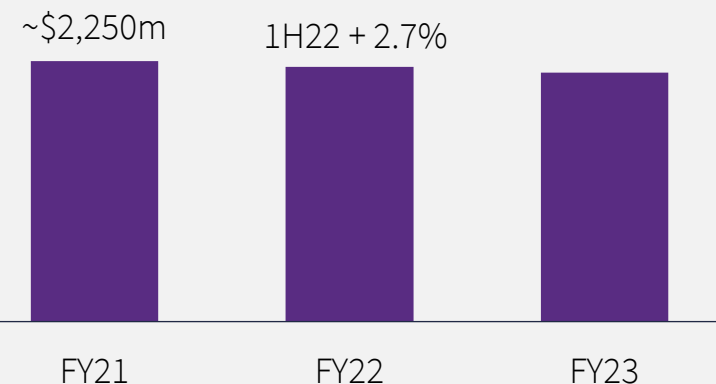
## Gross operating costs



## Costs to transform



## Costs to maintain





# Full year perils estimate maintained **with solid 2H22 reinsurance protection**

**\$350m**

aggregate cover protection in FY22 (gross basis)

**\$1,045m**

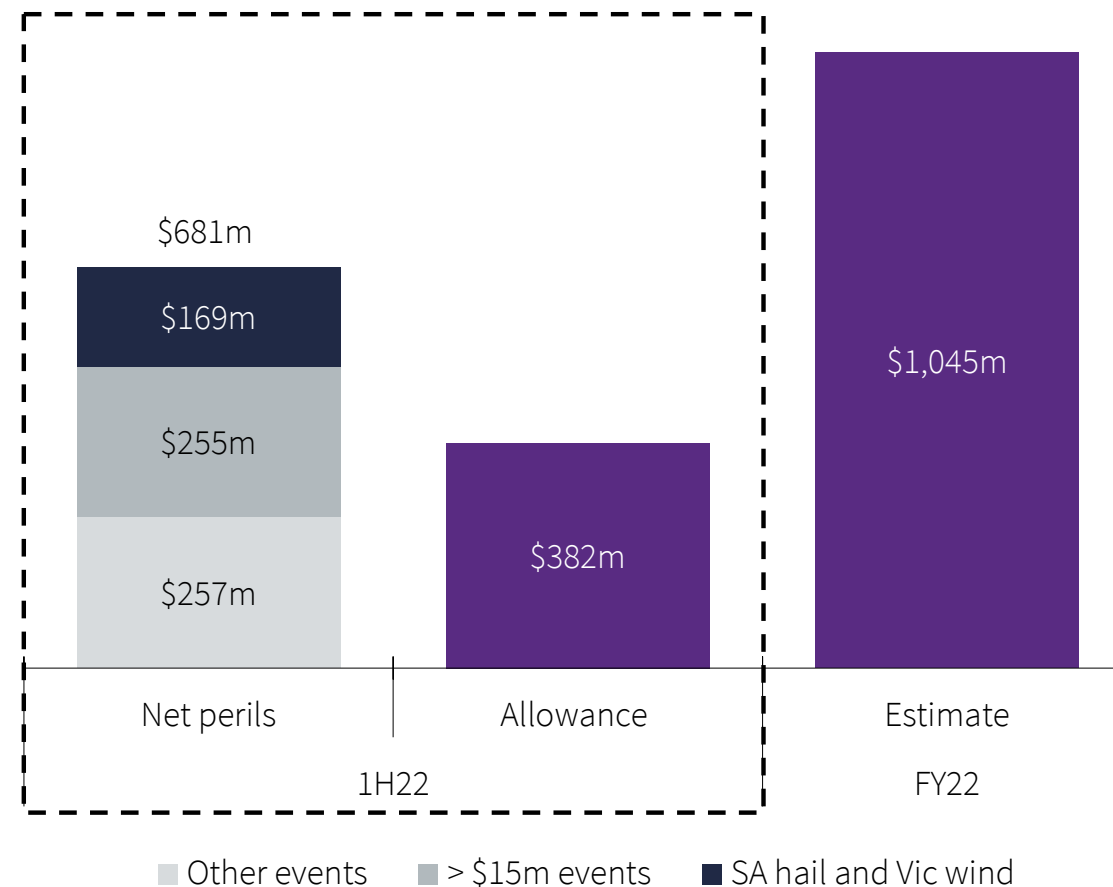
estimate implies 2H22 perils costs slightly below related allowance

MER of

**\$95m**

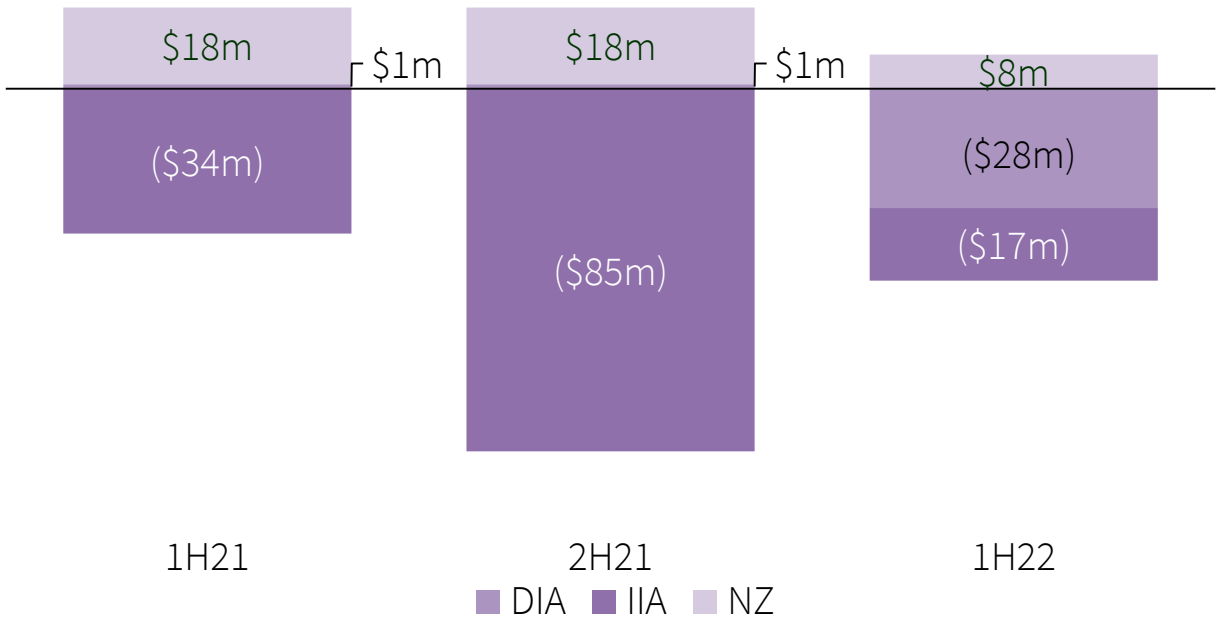
at 1 Jan 2022

## Natural perils vs. allowance



# Reserving and additional matters

## Prior period reserve movements



## Additional matters

No significant change to business interruption provision

**\$1,222m**

**\$485m**

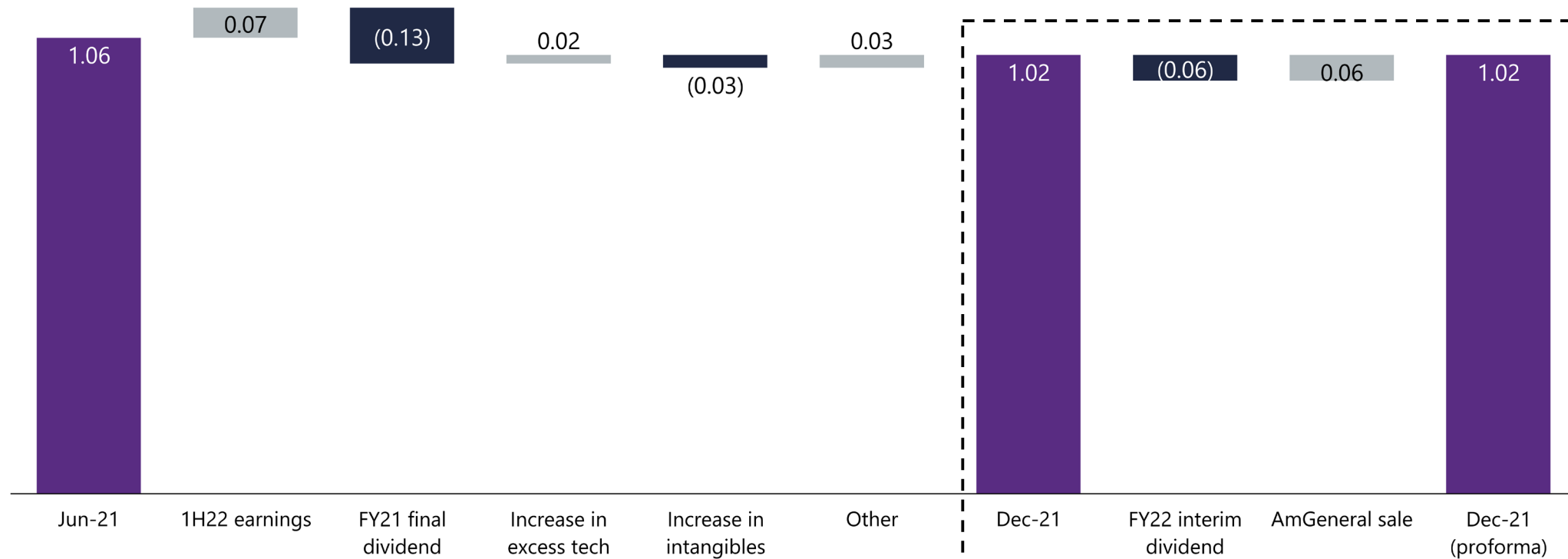
Maintain no net exposure to trade credit insurance

No further charges associated with customer refunds provision

**\$322m**

# Strong capital position **above mid-point of targeted range**

## Movement in CET1 ratio



# Guidance & Value Proposition



**Nick Hawkins**

Managing Director and Chief  
Executive Officer



# Upgraded GWP growth guidance **reported margin on track**

## Features of FY22 guidance

### GWP

‘Mid single-digit growth’<sup>1</sup> for the full year (previously ‘low single-digit’)

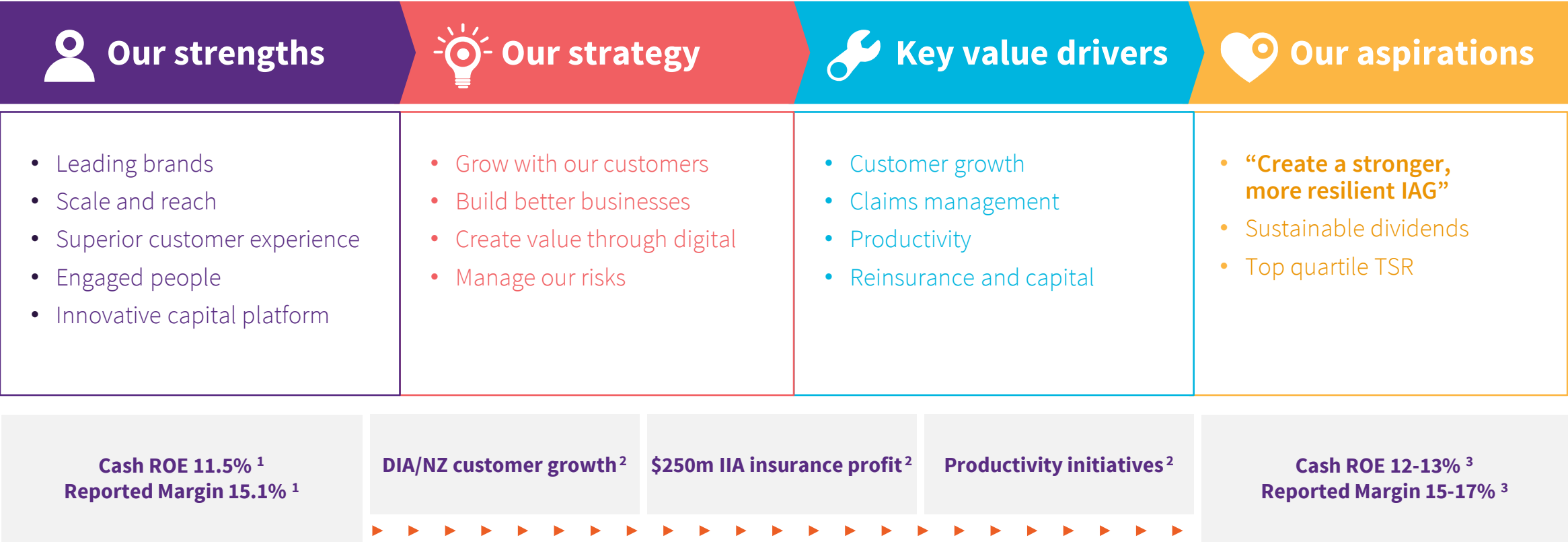
### Reported margin

	Margin impact	
Initial FY22 reported margin guidance		13.5-15.5%
\$55-\$65m net positive COVID-19 impact (~150bps 1H22 impact, no assumed 2H22 impact)	~75bps	
Estimated natural perils costs of \$1,045m (Increased by \$280m on 2 November 2021)	(~350bps)	
1H22 reserve strengthening - \$37m (~100bps 1H22 impact, no assumed 2H22 impact)	(~50bps)	
FY22 reported margin guidance		10.0-12.0% <sup>1</sup>

Notes (1) Refer to Appendix 1: FY22 Guidance and Outlook for more detail

# Our **value proposition**

## Medium-term margin target



Notes (1) Three-year average over FY18 to FY20 (2) Refer to 1H22 Results Presentation (Appendix 1: FY22 Guidance and Outlook) for more detail (3) Reported margin required to generate current ROE target based on balance sheet settings and SHF asset allocation at 31 December 2021. It also assumes no reserve releases and peril costs in line with allowances.



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# Appendix 1: FY22 Guidance and Outlook

Following stronger than expected GWP growth in 1H22 and ongoing supportive economic conditions, IAG is upgrading GWP guidance and reaffirming reported insurance margin guidance of 10–12%, as announced on 2 November 2021 (13.5–15.5% prior to this announcement).

## Guidance for FY22 includes the following:

- GWP guidance for ‘mid single-digit’ growth (previously ‘low single-digit’). This incorporates the combined effect of the following expectations:
  - Rate increases in short tail personal lines and modest growth in customer numbers in DIA;
  - Ongoing rate increases and a supportive market across commercial lines in IIA;
  - Less impact on volume growth from portfolio optimisation in IIA than expected at the start of FY22;
  - A ~\$100m GWP reduction in 2H22 from the exit of IAL Personal Lines for new business, effective 1 November 2021; and
  - Largely rate driven increases in New Zealand.
- Reported insurance margin guidance of 10–12%. A key factor supporting 13.5-15.5% reported margin guidance at the start of FY22 was an improvement in the underlying margin recorded in FY21 on a like-for-like basis of approximately 100-300bps (before the offsetting impact of the higher perils allowance), mainly from the earn through impact of targeted rate increases in DIA and IIA. This remains IAG’s expectation.
- The following changes in guidance assumptions have been made since the start of the year:

- Net natural perils claim costs of \$1,045m, in line with the 2 November 2021 increase of approximately \$280m (~350 basis points);
- An estimated net positive impact from COVID-19 of around \$55-\$65m post-quota share in 1H22, with no net benefit factored in for 2H22;
- \$37m of reserve strengthening as reported for 1H22 and no allowance for prior period reserve releases or strengthening in 2H22; and
- No material movement in foreign exchange rates and a neutral impact from investment markets on a full year basis.

FY22 guidance aligns to IAG’s aspirational goal to achieve a 15-17% insurance margin over the medium term. This goal encompasses organic direct customer growth that at least matches the market in DIA and New Zealand, an insurance profit of at least \$250m<sup>1</sup> by FY24 in IIA and delivering further simplification and efficiencies in the cost structure of the company over the next three years.

Note (1) IIA’s goal is based on the combination of the flow through of operational efficiencies, lower loss ratios driven by a portfolio led improvement plan and the earn through impact of targeted rate increases. The long tail deterioration experienced in FY21 and 1H22 is expected to improve from 2H22 onwards through rate and other initiatives.



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