

**Address by Mr James Strong, Chairman
Insurance Australia Group Limited
2004 Annual General Meeting
10 November 2004**

The main purpose of my address as Chairman today is to provide a brief overview of your Company's performance over the past financial year.

I will then ask Chief Executive Officer Michael Hawker to speak in more detail on the operations of the company and to comment on some emerging business trends.

Mike will also launch our inaugural Sustainability Report, which will explain the first-aid kits and other items we have given to you as part of today's meeting. The launch of this report is an exciting step for the company, providing a tangible demonstration of our commitment to reducing risk in the community. We believe being a sustainable business is what creates shareholder value in the longer term.

Group performance - overview

The 2003-2004 year was a successful year for the Group on many fronts. We met or exceeded all Group financial targets. Shareholders benefited from quality returns, and our continued operational improvements saw us sustain very high customer satisfaction and retention levels.

The Group recorded a net profit of \$665 million for the year, representing a record result for the Group since it listed on the Stock Exchange four years ago. Our improved result was driven by four primary factors:

- An improved underlying performance;
- Record investment income since listing, on the back of the best equity market returns in three years;
- The inclusion in the results of performance of the CGU and NZI businesses for a full 12 months; and

- Profits from the sale of ClearView Retirement Solutions, which we sold earlier this year in line with our strategy to focus solely on general insurance.

I believe the strength of the result is clear evidence that the strategy set in 2002 is working. It was an especially pleasing result given that it was achieved against an environment in which average premiums in most of our classes were reducing or stable.

Mike will provide greater detail about the Group's performance shortly.

Dividends

During the year, your Board reviewed the Group's dividend policy. In recognition of our strong financial position, the Board increased the target dividend payout ratio from 40% to 70% of normalised profit after goodwill amortisation, up to 50% to 70% of normalised profit before goodwill amortisation.

Applying this new policy, the total dividends paid to shareholders this year increased by 91% compared with last year. In October, we paid shareholders a final dividend of 14 cents per share, bringing the total dividend to 22 cents for the year, which represents a 10.5 cents per share increase from the previous year.

Going forward, the Group is aiming to deliver at least 10% dividend growth per year in line with our strategic goal of delivering top quartile shareholder returns.

Capital management

In addition to the increased dividend, we returned surplus capital to shareholders through an off-market share buy-back which was successfully completed in June.

Approximately 5.6% of shares on issue were bought back for a total of \$414 million. The buy-back was completed at 12% below market, reflecting the participants' interest in the franked dividend component. This outcome is expected to increase our earnings per share and return on equity over time.

This was the third buy-back we have undertaken since listing, which demonstrates our active approach to managing the Group's capital to ensure it is administered in the most efficient manner.

Together with the dividend, this brings the total amount of cash returned to ordinary shareholders for the year to \$772 million.

Share price performance

I am pleased to report that our achievements have been rewarded with solid share price performance, with an investment in IAG shares growing 47% over the past financial year. The aggregate total shareholder return has been more than 100% since we listed four years ago.

Risk management and corporate governance

This year's Annual Report has a distinct and deliberate theme: Risk Management. We believe this theme captures the approach we take at every level of Insurance Australia Group, and is at the heart of our approach to corporate governance.

The framework we have established to manage risk involves a robust structure, with a number of key forums at Board and executive level, as well as internal policies and processes to monitor and meet the requirements of the Group's Risk Management Strategy.

However, more important than having these structures and processes, is ensuring they work in everyday practice and are embedded into the culture of the organisation. To meet this challenge, the Board and executive actively promote a culture of transparency, encouraging early and open identification and communication of risks and issues. We do this through mechanisms for

rapid escalation of important matters to relevant executives and/or Board members; and by providing performance incentives to managers aimed at encouraging a proactive risk management culture.

We believe this organisation-wide and transparent approach to risk management is vital to ensuring a sustainable future for the company. As such, the theme of 'risk management' will be visible to shareholders moving into the future.

Regulatory and legislative environment

Once again this year, considerable time was spent on monitoring, analysing and responding to change in our regulatory and legislative environment. We believe that through our active engagement with governments, regulators, industry and professional groups, we can work most effectively to ensure the interests of the Group and its stakeholders are properly considered.

We participated in the debate to improve Australia's corporate governance, making submissions to the Parliamentary Joint Committee on Corporations and Financial Services on the CLERP 9 legislation which became law on 1 July 2004.

In addition, we made submissions to, among others, the Australian Securities & Investments Commission in relation to the Financial Services Reform provisions to the Corporations Act, to the Davis Report into the merits of financial system guarantees, as well as proposals by APRA to strengthen the prudential regime for the Australian general insurance industry.

There is no doubt that the amount of time and money spent on dealing with the constant regulatory change has been significant again this year, and we anticipate further change to come. However, we believe that appropriate regulation enhances competition, protects consumers and sustains public confidence in insurers and their products. Therefore, we will continue to engage in debate and prepare the Group to adapt quickly to changes as they are introduced.

Future Priorities

Looking ahead, Insurance Australia Group has real momentum. Our intention is to optimise our already strong franchises in Australia and New Zealand by continuing to improve our customer service and efficiency, and use our scale responsibly in these markets.

We will also work to identify and pursue new growth opportunities offshore, leveraging our core capabilities in motor underwriting and claims management.

We will continue to focus on risk management, constantly assessing our approach and practices to ensure a risk management culture is fostered throughout the organisation.

I would like to thank the Board, management, and all people across Insurance Australia Group for an outstanding year of hard work and real progress.

In particular, I want to thank our two retiring Directors, Dominique Fisher and Anne Keating. I do this both in my capacity as Chairman, and also on a personal basis. In my term on this Board they have both been active Directors contributing in a constructive manner in all Board discussions.

Dominique and Anne are retiring at this AGM and not standing for re-election in line with our policy for Non-Executive Directors adopted last year. Dominique and Anne were first appointed to the Group's Boards in 1996.

Thank you Dominique and Anne for your role in the success of IAG, particularly in the period of stability and growth over the past three years. You leave the company in very good shape.

I am delighted to welcome two new people to the meeting today – Ms Yasmin Allen and Mr Brian Schwartz. Yasmin and Brian have put themselves forward for election to the Board, and your Board recommends you vote in favour of their election. I will formally introduce Yasmin and Brian, outline their credentials, and ask each of them to address the meeting to demonstrate the skills they will bring to

the Board, when we reach the formal part of the business of the meeting to consider the resolutions.

I would also like to thank Michael Hawker for his excellent leadership as Chief Executive Officer of the Group. The Board and people across the organisation appreciate the guidance and success he has brought to the Group. It is pleasing to also note that, once again this year, he has been recognised externally by commentators and industry organisations, and has been the recipient of a number of awards, including the Best Insurance Executive Award 2004. Congratulations.

Supporting Mike is a very capable management team and an engaged staff, which is vital to our continuing success.

I would also like to thank you, our shareholders, for your continued support. I can assure you that we remain firmly focussed on our strategic goals so we can continue to deliver value to you, and we understand that to meet those goals we must be able to anticipate and respond to the challenges we face.

ENDS