



IAG

Insurance
Australia
Group

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MEDIA RELEASE

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IAG increases profit and dividend on the back of a full 12 months of CGU/NZI acquisition, improved sales and efficiencies, and a \$434 million boost from investment income

Insurance Australia Group Limited (IAG) today announced a net profit after tax of \$665 million for the year ended 30 June 2004 (30 June 2003: \$153 million), reflecting a full 12 months of the CGU/NZI acquisition, a strong performance from the underlying business and investment income of \$434 million. Profits from the sale of non-core businesses also contributed to the result.

IAG Chief Executive Officer, Mr Michael Hawker said the performance of the Group's insurance business and the investment markets aligned to produce a solid result.

"CGU and NZI are now fully integrated into our business and we've completed the programme to deliver the \$160 million in annual synergies promised at the time of the acquisition," Mr Hawker said.

"Completing the integration is an important milestone as we now have centralised platforms for underwriting and claims management across our core businesses, a wider range of products, and a greater presence in all markets, in particular the important commercial and rural sectors.

"We've got real momentum in our business. Customer satisfaction, sales, operating efficiencies and employee engagement all increased during the year and contributed to the improvement in our insurance margin from 12.3% to 13.5%. We entered new markets including home warranty and marine insurance, and launched NRMA Insurance in Tasmania.

"Our focus is now firmly on general insurance, with the sale of both our health underwriting operations and ClearView Retirement Solutions completed during the year, contributing around \$57 million in after tax profits.

"Our performance was also boosted by return on our shareholders' funds of \$434 million, which is a record since listing, and a \$554 million turnaround from the loss of \$120 million recorded on this portfolio last year. We experienced the best equity market returns since listing with the ASX 200 up 21.3% and the MSCI World Index ex Australia up 19.4% on last year."

Mr Hawker said IAG had exceeded all Group operating targets, despite an unusual operating environment.



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“We experienced severe storms during the period, the damage from which totalled around \$265 million, while drier weather conditions along the eastern sea board of Australia meant there were fewer claims than expected in our motor portfolio,” Mr Hawker said.

“Our ability to produce a strong result, despite these contrasting influences, shows the real value of the diversified nature of our business, both in terms of geography and product mix.”

The Group’s insurance margin was 13.5%, ahead of the long-term target of 9-12%. In the second half, the insurance margin was 15.2%. The Group’s combined operating ratio was 90.7%, ahead of the original target for the year of 93-96% and an improvement from the 95.7% reported in the previous corresponding period. Increased discount rates applicable to claims reserves contributed 2% to the improved combined ratio relative to the target for the year.

“A pleasing aspect of this result is that it’s been driven by increasing sales (risks in force) and efficiencies, as premiums in most classes are reducing or stable. Sales grew 5.2%, while annualised gross written premium was up 2.5%, showing that average premiums have actually decreased by 2.5%.

“Rates in CTP and workers’ compensation reduced and we saw far greater stability in liability classes, as benefits of government reform continued to flow through to customers,” Mr Hawker said.

Other elements of the full year result compared with the previous year, bearing in mind the impact of the CGU and NZI acquisition on trend comparisons (CGU & NZI results were only included in the second six months of the 2003 financial year), include:

- Gross written premium increased 25% to \$6,427 million from \$5,150 million. The majority of the increase (22.5%) is due to the acquisition of CGU and NZI. The remaining 2.5% came from organic growth, including a 5.2% increase in risks in force;
- Underwriting profit increased to \$548 million from \$199 million; and
- Insurance profit increased to \$792 million from \$571 million.

In light of the Group’s strong performance and in line with its new dividend policy, the Board has increased the final dividend from 7 cents to 14 cents. This brings the total dividend for the year to 22 cents per share, an increase of 91% on the previous year. The Group is targeting growth of at least 10% per annum in dividends per share going forward.

Mr Hawker said the Group was in a strong financial position having maintained its ‘AA’ insurer financial strength ratings for key entities from Standard & Poor’s and a Minimum Capital Requirement (MCR) multiple of 1.75 at 30 June 2004.

“Our financial position is strong and we expect to continue to generate excess capital from our business,” Mr Hawker said.

“With the diversity of our business and our low cost, scale franchise, the company is well placed to compete effectively should trading conditions become less favourable.

“We believe that we can continue to grow insurance earnings faster than premiums in the next 12 months as the full benefits of integration and our various efficiency programmes, such as technology transformation, come on-line. As a result, in the short term we expect to sustain an insurance margin above our target 9-12%.



“For the longer term, our strategy remains largely unchanged. Our aim is to deliver a normalised return on equity at a minimum of 1.5 times our weighted average cost of capital (WACC).

“We’ll do this by deriving further value from our Australian and New Zealand operations through initiatives that continue to improve customer service, and retention and enable us to tailor our products to suit different customer segments.

“At the same time we’ll continue our search to build a foothold in Asia at the right time and price,” Mr Hawker said.

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Insurance Australia Group (IAG) is Australasia’s leading general insurance group. The group includes some of Australia and New Zealand’s most trusted brands – NRMA Insurance, SGIO, SGIC, CGU, Swann Insurance, State Insurance and NZI.

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