

CEO's review

We've had a successful year, reflecting our ongoing work to connect to our customers and apply what we learn from them to improve the way we organise our business, design and deliver our products, and develop services that meet their needs today, and into the future.

While we continue to focus on our core general insurance business in Australia and New Zealand, we are also taking steps to invest in adjacent businesses that will let us meet a broader range of customers' existing and emerging needs.



Peter Harmer
Managing Director and Chief Executive Officer



Understanding our customers

We have a number of programs that help us better understand what our customers need and want.

We have a customer research panel that provides valuable feedback and guidance on new products and services and how we can deliver better customer outcomes. We used these insights to create the five principles that guide every aspect of the way we design our products and customer experiences:

- honest and upfront
- easy and simple
- anticipate and act
- recognise you and your needs
- treat you fairly.

Our Customer Connection Program connects people at every level of IAG, including our Directors, to our customers' worlds, through experiential events, workshops and storytelling.

We have developed a company-wide Customer Journey plan, with full-time teams dedicated to understanding customer needs and potential issues and continually finding ways to apply innovation to the customer experience.

Our company-wide Heartbeat program provides real-time customer feedback on the quality of experience our customers have with IAG, while our Listen Learn Act framework ensures our people hear what our customers tell us and act on this knowledge.

Data provides us with a lens into our customers' worlds – information about the assets they insure and the risks they face, and the ways they interact with our brands. As we bring all the data we have onto one platform, we can paint an increasingly detailed picture about how we can best serve our customers, and how we can create more engaging and personalised experiences.

Three years of working with and listening to our customers more closely than ever before confirms: they want products that are easy to understand; they want greater digital channels; and when the worst happens, they want it put right as quickly and safely as possible, whether the loss occurs on the road, at home or in their business.

Simplifying our business to better meet customers' needs

We have been working hard to simplify our business so we can continue to improve customer outcomes.

This year we completed a major project to consolidate all our claims platforms onto a single version of Guidewire's ClaimCenter. This consolidation makes it easier for our claims consultants to process claims, and means we can quickly divert employees from one part of our business to another to help our customers get back on their feet – especially when we have a large number of claims after a significant weather event.

We are now focused on a multi-year project to simplify our policy administration on the same Guidewire platform – a significant investment in our core general insurance business that will flow through to improved customer outcomes.

Improving product delivery

Customers tell us they want to be able to interact with us online and increasingly with mobile devices and we have worked hard to make that possible. Today, 80% of insurance products are available online for our NRMA Insurance, SGIO and SGIC brands. More than 50% of all interactions with customers who buy products directly from us now occur online, up from 10% just three years ago.

Towards the end of the financial year, we expanded our digitisation program to cover all the insurance products we offer direct to customers in Australia, including the small-to-medium-enterprise business products offered by NRMA Insurance and CGU.

Customers can now lodge claims online and track and manage their motor and home claims across all our brands in Australia and New Zealand. Having a simpler and more transparent claims process has also reduced associated claims handling costs.

During the year, our Customer Labs team further improved the digital experience for our people and customers. It created a single platform where we can respond to customer enquiries about policies and lodging claims. This simplification has significantly reduced the number of calls we receive a year, because multiple customer needs can be addressed in a single call. Because our people can now access all the information they need through a single system, the average call handling time has also been significantly shortened.

Meeting current and emerging needs

We know that customers who find themselves in the unfortunate position of having to have their cars repaired want the process to be simpler and faster than ever.

This year, we entered a joint venture with the Royal Automobile Club of Victoria (RACV) to set up an enhanced motor repair model to improve customer convenience, and to get cars back on the road quickly, with high quality repairs. Our joint venture also involves two repair partners and initially covers six sites in metropolitan centres.

We continue to pursue deeper, broader relationships with NRMA Motoring & Services and RACV to create the opportunity to deliver better outcomes for our customers and their members.

For example, this year, we ran a campaign that offered a 12-month free roadside assistance product to new NRMA Insurance customers. The offer was developed in partnership with NRMA Motoring & Services and attracted over 15,000 new customers, showing the value of our partnership.

We also continue to develop and offer products that meet changing insurance needs.

Our ShareCover host property rental insurance product, which we launched in September 2015, has been expanded to include other shared economy offerings, including Rideshare for drivers who use their car to provide rideshare services; Boatshare as part of boat-sharing platforms; and TaskCover which provides public liability and professional indemnity insurance for people who offer their skills on service platforms, such as Airtasker.

Between ShareCover and Insurance4That, our single item insurance product, we have seen pleasing customer growth.

We also know that many customers are rethinking their attitudes to car ownership and some are moving to a car subscription model. That led us to acquire a 51% stake in Carbar, a digital car trading platform, in June 2019. Carbar caters to the growing customer appetite for alternative forms of vehicle ownership and provides us with an opportunity to design complementary forms of insurance.

Facing the future

While customers value insurance, they tell us they place an even higher value on not having something go wrong in the first place. That insight is guiding our work to offer products and services that keep our customers safer at home, at work and on the road.

One of the first developments is our Safer Journeys solution that enables us to provide additional services to consumers involved in incidents. Initially, we will use this app to support customers at the scene of an incident but over time, we see the potential to help educate drivers to improve their driving behaviour, reduce distracted driving and link into a loyalty program to reward safer driving. We are in the process of testing the product with employees before making it available more widely.

This year, we established a behavioural science capability that takes insights about the relationship between customer attitudes and behaviours and applies these to the design of future products to create maximum value for customers, and improve their safety. We are also entering research partnerships with universities and industry participants to explore risk-based decision making.

Strengthening our risk focus to protect our future

As a company, we recognise having the frameworks and processes to identify, understand and manage risks, both financial and non-financial, is an essential enabler to business success. This is particularly important as we grow and expand into new areas.

Over the last year we have significantly increased our focus on risk, strengthening our business so we can continue to deliver the best outcomes for our customers – and all those who depend on us.

We are using data to gain insightful risk perspectives and support rapid decision making and we are strengthening our enterprise-wide capabilities to better manage current and emerging risks.

Our focus is improving performance

We improved our underlying performance in the 2019 financial year, showing that we are realising the benefits of our program to simplify the business and we are well placed to build on our customer engagement focus and source future growth opportunities.

Our Australia business produced a sound performance, with a strong result in personal insurance and improvement in commercial. New Zealand maintained its strong profitability and sound growth, reinforcing its position as the country's leading insurer.

Overall, gross written premium grew by 3.1%, largely from increased prices supplemented by a favourable foreign exchange translation effect in New Zealand. Like-for-like premium growth across the Group was close to 4%.

Our underlying insurance margin¹ continued the improvement we recorded last year, increasing to 16.6%. At the reported margin level, the improvement in underlying performance was outweighed by adverse claim costs from natural disasters as well as credit spread movements, and significantly lower prior period reserve releases.

Net profit after tax of \$1,076 million was over 16% higher than that in the 2018 financial year, because it included an over \$200 million profit on the sale of our Thailand operations, which was completed at the end of August 2018.

Outlook

We are expecting gross written premium growth for the 2020 financial year to be at a 'low single digit' level, after recent divestments in underwriting agencies, which will reduce gross written premium by over \$100 million. Our reported insurance margin is expected to be in the range of 16-18%.

We also anticipate reporting up to \$50 million of pre-tax costs in the fee income line, reflecting accelerated investment in data, artificial intelligence and innovation technologies, and associated new businesses.

Changes to our Group Leadership Team

There have been some changes to our Group Leadership Team this year. Our Group Executive People, Performance and Reputation, Jacki Johnson, retired at the end of June after 17 years in a number of executive roles across the company. In July we announced that Jacki's role will be filled by Christine Stasi, who will join us in October 2019.

Three years ago, we put in place a plan to simplify our core insurance business and build growth options for the future. Our focus on doing the simple things well is delivering results and I am pleased with the momentum we are taking into the 2020 financial year. Along with all the members of my Group Leadership Team, I look forward to continuing to share the future successes of our business with you.

¹ IAG defines its underlying insurance margin as the reported insurance margin adjusted for:

- * Net natural peril claim costs less related allowance for the period;
- * Reserve releases in excess of 1% of net earned premium (NEP); and
- * Credit spread movements.