

# Chairman's review

In the last year we have seen a significant change in the expectations that regulators, customers and society have of companies – particularly those like IAG that provide financial services.



**Elizabeth Bryan AM**  
Chairman



## We welcome a broader conversation

I welcome the fact that conversations about the role of corporations have this year broadened from focusing solely on returns to shareholders as a measure of success, to considering the duty that businesses owe their customers, the community and their employees, as well as their shareholders.

I also welcome the explicit focus on the underlying principles that should drive organisations, as identified by Commissioner Hayne in his final report on the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry in February. These are:

- obey the law;
- do not mislead or deceive;
- act fairly;
- provide services that are fit for purpose;
- deliver services with reasonable care and skill; and
- when acting for another, act in the best interests of that other.

Your Board and management at IAG wholeheartedly support these principles. Indeed, we would like to think these are consistent with the values embedded in our DNA from our beginnings as a mutual organisation in the 1920s.

However, we know that is never enough. Like all organisations, we need to ensure that our people, systems and processes work together to ensure we meet these expectations in all that we do.

The proof of our commitment to these principles lies in us consistently delivering against them, to all our stakeholders. To give you an illustration of how we are approaching this challenge, I want to share with you some of the areas we have focused on this year.

## Being there for our customers

Let's start with our business. Insurance is a key part of society's infrastructure. It allows consumers and businesses to share the financial risk of many things that are outside their control. By taking out insurance, they receive the security and confidence of knowing they are protected from severe financial loss. It is therefore vital that the products we sell are fit for purpose, clearly described and affordable.

In our view, it is not enough to meet our minimum obligations to customers; we must deliver to them in a way that achieves our purpose – to make their world safer.

Many customers who claim on their policies talk to us when they are at their most vulnerable. It is critical that we treat them with empathy and care and we are proud that our people demonstrate that these are the characteristics our brands stand for.

This year's extreme weather events have provided our people with many opportunities to go above and beyond their roles in helping our customers, and I acknowledge their efforts here.

We also recognise that there are instances where customers do not feel that they have been treated well or fairly. We are working to improve our processes, so we can identify these cases more quickly, and take better steps to improve outcomes.

There will also be times when customers find it difficult to get the best outcome from our products or services and we have done a lot of work to better understand how we meet some customers' specific challenges.

## Strengthened focus on regulation

More broadly, we are seeing a stronger focus on regulation affecting business. We know this will remain a work in progress and are in an ongoing conversation with our regulators to ensure we continue to meet their requirements.

We saw the 2018 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry as an opportunity to learn and improve our customer focus. We publicly announced our in-principle support for each of the recommendations outlined in the final report of the Royal Commission and we are carefully considering each of the reform recommendations to see how these can assist us to continue to improve our operations, culture and governance.

IAG's involvement in the Royal Commission concerned the design and sale of add-on insurance products which were sold under our Swann Insurance brand. We know that the Swann add-on insurance products sold in the past may not have delivered the value they should have to some of our customers. IAG sold the Swann motor vehicle dealer distribution channel in 2016 and exited the motorcycle dealer business in 2017. This was not a large part of our business, and it was managed remotely as a stand-alone business. We are now well aware of the risks of such a structure.

We now have a new framework for product governance to ensure that we have appropriate mechanisms in place to identify when elements of a product may no longer align with our purpose and community and customer expectations. We have reviewed our major products to ensure they align with our Product Design Principles, and the review of all other products will be completed by June 2020.

We recognise the importance of understanding and responding to customer, consumer and community issues and are committed to ensuring we consider insights on current and emerging issues through our work with our Ethics Committee and Consumer Advisory Board.

### **Playing a stronger role**

There has also been a lot of talk this year about organisations playing a stronger role on more widespread social issues.

The climate debate is obviously very close to our business, because we insure against extreme weather events. Consequently, we have deep knowledge of changing climate patterns and this is knowledge we seek to share.

One impact of climate change is that there will continue to be an increase in the severity of events, occurring in more populated parts of the country – which means more of our customers are likely to be affected. We are working with all levels of government and the community to help increase the focus on disaster preparedness and recovery to address or mitigate some of the issues.

We are active in supporting first responders to provide immediate assistance to customers who are affected by an event, and we continue to work with communities to assist them to become more resilient.

We are also contributing to the Australian Federal Government's national disaster risk reduction program and are working through the Climate Leaders Coalition in New Zealand to ensure businesses are adapting and building resilience to the impact of climate change.

### **We are getting our own house in order**

This year, we supplemented our Climate Action Plan with a scorecard that assigns direct accountability for climate change objectives to our senior executives and are reporting six-monthly on their progress against the targets and deadlines we set.

Our investment portfolio has very limited exposure to companies with the largest contribution to climate change – they represent less than 0.25% of our investment assets. Our assessment is that these companies are contributing in transitioning to a low-carbon economy and working towards reducing their carbon emissions.

We continue to seek opportunities to invest in reputable Green Bonds. In 2019 we held around \$111 million in Green Bonds backing renewable energy projects in wind and solar.

We have also committed to assess and disclose risks and opportunities aligned with the recommendations of the Task Force on Climate-related Financial Disclosures and these are set out in pages 13 – 16 of our 2019 annual report and on our website.

### **Board renewal**

Changing expectations of companies, and the boards that oversee them, challenge us to find people with the best combination of skills and experience to guide IAG. In that context, we were very pleased to welcome George Savvides to the Board in June. George will stand for election at the 2019 annual general meeting on 25 October, and I look forward to introducing him to shareholders there.

Board renewal also involves farewelling long-serving Directors who have given many years of service to our company. This year, Hugh Fletcher has advised that he will retire from our Board at the end of the 2019 annual general meeting. Hugh has served as a Director since 2007 and has overseen many aspects of the transformation of our business into the one you own today. He has also served as Chairman of IAG New Zealand since 2003 and he is retiring from this role at the same time as he leaves IAG. I am sure I speak for all shareholders when I thank Hugh for his unwavering service to IAG and wish him all the best for the future.

### **We are sharing our success with shareholders**

We need to run our business well to ensure we will be there when our customers need us. And we need to provide our investors with an appropriate level of return on the capital they provide to us.

The strong results we achieved in the 2019 financial year are evidence of the success with which we are performing in these important roles.

Meeting our customers' needs helped IAG achieve gross written premium of \$12,005 million; net profit after tax of \$1,076 million; cash earnings of \$931 million and cash return on equity of 14.4%.

We are very pleased to share our successful year with shareholders through a final dividend of 20.0 cents per share. The dividend will be paid on 30 September 2019 to shareholders registered on 20 August 2019 and will be franked at 70%.

### **Our people are creating a business for the future**

I commend our CEO, Peter Harmer, his leadership team and all the people who work at IAG for your efforts to achieve the success that we are describing in this annual review. I also commend you for your commitment to our purpose, and our efforts to be a company that people want to do business with, and that communities want to engage with. Succeeding on these measures will create the best possible returns for all our stakeholders.