

CEO's review

In an era of unprecedented focus on consumer expectations, we are delighted to present another set of results that are testament to the success of our continuing work to better understand our customers and meet their needs. These results also speak to the strength of our brands and – more importantly – the passion and commitment of our people.



Peter Harmer
Managing Director and
Chief Executive Officer

We are making sound progress in our efforts to transform IAG into a company able to anticipate, respond to and satisfy the needs of all those who rely on us. Succeeding in this effort will allow us to continue to invest in the services, products and experiences our customers and the community want and need.

At the heart of the company we are creating is our purpose: to make your world a safer place. We focus our energy around three priorities: Customer, Simplification and Agility, and on organisational capabilities that will enable us to succeed now, and thrive in an unpredictable future.

Our priorities: Customer, Simplification and Agility

Our ambition is to provide our customers with experiences that are at least the equal of the best they receive anywhere else in the world. To deliver these, we are developing a deeper understanding of their needs and behaviours, and moving away from simple product-led services towards creating valuable experiences.

We understand different customers have distinct, specific needs and desired experiences. We are using these insights to align our key brands with our customers so they can be clear about the experience they will receive from each brand.

To deepen customer empathy and understanding across all areas of the business, we expanded our Customer Connections Program, so our board, senior executives and all employees can visit call centres and see the way customers experience our business.

Our Simplification work is helping us to become a simpler, modular and lower-cost operation. This year's successes included consolidating our claims systems so all motor and property claims in Australia are now lodged on a single software platform. Having one system also means we can more quickly allocate resources to respond to claims if there is a significant weather event.

Our Agility program ensures we will be an organisation distinguished by innovation, speed and skill. We are improving our agility by applying the Leading@IAG management and leadership framework, bringing improved role clarity and focus throughout the company. Our capacity for innovation shines through the new products and services we are building in our Firemark Labs in Sydney and Singapore, in partnership with the start-ups we support.

Our customer understanding will help us grow

We think we know more about the assets that matter to people than almost any other organisation in Australia and New Zealand. Between our businesses in Australia and New Zealand, we have over 8.5 million customers, a record of almost every motor vehicle ever registered in these markets and a profile of nearly every domestic residence.

Thanks to our improved understanding of what customers want, and how they want to receive services, we can now start to define the additional experiences that customers will find compelling. Our research with customers tells us that the most desirable and valuable experiences are in areas that we describe as mobility, shelter and work. It is also possible for some of these products and services to be supplied by others.

As our understanding of the needs and desires of our customers has improved, we have begun to identify new and exciting opportunities that are logical and complementary extensions to our business. It is this work that makes us excited about our future growth.

Our mitigation message is finding a broader audience

We have long been in the business of making the world a safer place, with our work to establish the Australian Business Roundtable for Disaster Resilience & Safer Communities a striking example of our approach.

For over six years, the Roundtable has developed and promoted fact-based discussion on the merits of investing in mitigation before extreme weather events. It has been enormously satisfying this year to see the Australian Federal Government accept the importance of our arguments and coordinate its own activities by establishing a National Resilience Taskforce.

We are also seeing encouraging activity across states and territories – including the Queensland Government's establishment in May of a \$38 million Disaster Resilience Fund.

In July, we co-organised a conference that brought the United Nations Environment Programme – Finance Initiative to Sydney for the first time. Having the organisation in Australia provided us with the perfect opportunity to talk more broadly about our own Climate Action Plan, which we published in July, and enabled us to work more closely with 100 Resilient Cities and Resilient Sydney as they promoted their work to quantify risk, understand costs and identify investment priorities for mitigation.



Our focus delivered strong results this year

Our underlying performance improved over the financial year, reflecting a strong performance from Australian Consumer, modest improvement from Australian Business and a continued strong performance from New Zealand.

Our gross written premium – broadly speaking the money we collected from the products we sold during the year – rose by 1.8% to \$11,647 million. Our reported premium income was affected by: rate reductions and premium refunds stemming from reform to the New South Wales Compulsory Third Party scheme; our decisions to exit Swann Insurance’s motor dealership and intermediated motorcycle activities in Australia; and an adverse foreign exchange movement for New Zealand. Excluding the impact of these items, premium growth was over 4%.

Net profit after tax of \$923 million was similar to last year. It reflected a near-11% increase in insurance profit from the combination of improved underlying profitability, lower reserve releases and a markedly more favourable net natural peril claim cost; a greater than \$80 million contraction in contribution from investment income on shareholders’ funds, including lower equity market returns in the second half of the year; a higher effective tax rate of 25.5%; and a \$34 million increase in amortisation and impairment expense following a write down of Asian assets.

Our reported insurance margin of 18.3% slightly exceeded our updated guidance of 16-18%, largely reflecting a favourable net natural peril claim cost outcome and higher than anticipated prior period reserve releases.

Our strong operating performance was evident in an improved underlying insurance margin, which is our reported insurance margin adjusted to strip out reserve releases above 1% of net earned premium, net natural peril claim costs less our related allowance, and credit spread movements. The underlying insurance margin was 14.1%, up from 12.4% last year. While the majority of the improvement is the result of the combined 12.5% quota share deals from 1 January, pricing and operating actions led to improved loss and expense ratios.

In February this year, we announced a strategic review of our Asia businesses. As a result of this review, in June we advised the sale of our interests in Thailand, Indonesia and Vietnam and these businesses have been classified as discontinued operations in this year’s financial statements. We maintain the minority interests in our joint ventures in Malaysia and India.

The Royal Commission

Whether as businesses, customers, employees or shareholders, we have all been aware of the progress of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Royal Commission) throughout this year, and the extent to which it has too often highlighted differences between community expectations and business practices. We regard this community expectations lens as crucially important.

This has provided us with an added incentive to move faster to make some changes we already had underway – for example, reviewing and redesigning our products through the lens of our customer-inspired product design principles, and withdrawing products or from partnerships where good customer outcomes could not be assured.

At the time of publishing this review, we have not been called to appear before the Royal Commission – although that could change at any time. We have made submissions and provided information as requested to the Royal Commission. The Royal Commission will determine specific areas it wishes to focus on and we will continue to give our support.

As confronting as the revelations from the Royal Commission have been, we are confident the financial services sector will emerge stronger, and better able to win and maintain customers’ trust.

We are a business that makes your world a safer place

Our short-to-medium term financial performance will benefit from growth in our core markets of Australia and New Zealand; by our being a simpler and more efficient business; and from some capital management activities that flow from changes to our capital mix.

We expect to further improve our underlying performance in the 2019 financial year, growing our gross written premium by 2-4% as customers continue to support the quality products and services we offer through our leading brands. Our reported margin guidance is for a range of 16-18%, and includes a pre-tax benefit of approximately \$100 million from our optimisation program initiatives, net losses from natural perils in line with an allowance of \$608 million and reserve releases of around 2% of net earned premium.

Looking at the longer term, by delivering on our three key strategic priorities and meeting the new and emerging needs of customers in innovative ways, we are confident of achieving good levels of growth.

Simplifying our business creates the capacity to invest in future growth opportunities and the partnerships that will allow us to offer the products and services our customers need and want into the future.

When we evaluate the value of the products and services we deliver now and in the future, we do so through the lens of our purpose. Ultimately, our goal is to be a company that our customers and the community recognise makes the world a safer place.