



# Financial results

Full year ended **30 June 2020**

**Peter Harmer**

Managing Director and  
Chief Executive Officer

**Nick Hawkins**

Deputy Chief Executive Officer

**Michelle McPherson**

Acting Chief Financial Officer

7 August 2020

This release has been authorised by the IAG Board

# FY20 highlights

## GWP growth in line with guidance, softer 2H20 underlying margin

### Challenging 2H20 environment

- Low single-digit GWP growth
  - Modest negative COVID-19 effect
- Softer 2H20 underlying margin of 15.1%
  - Largely offsetting COVID-19 impacts on underwriting profit
  - Commercial long tail deterioration
  - Increased reinsurance costs
  - Ongoing pressure from lower interest rates
- Personal lines and New Zealand commercial lines performing well
- Some Australian commercial portfolios underperforming

### Reported margin of 10.1% below revised guidance

- Long tail reserve strengthening
- Higher attritional perils in final quarter
- Negative credit spread impact

### Progress on Asian divestments

- Sale of interest in SBI General in India realising \$326m post-tax profit
- Options for remaining assets continue to be weighed up

### Provision for customer refunds

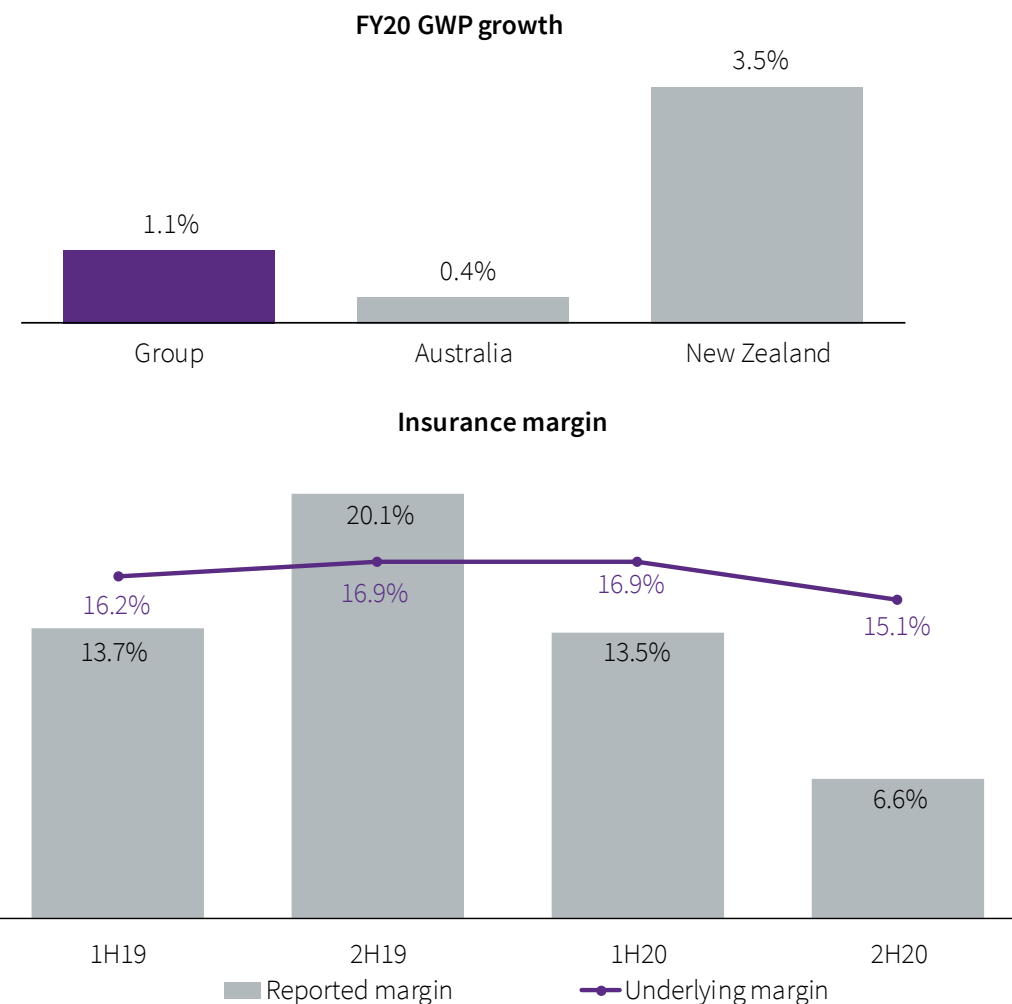
- Increased to \$141m post-tax for full year

### Significant investment market impacts

- Loss on shareholders' funds from 2H20 market volatility, with ~\$100m improvement from position indicated as at end of April

### Capital position

- CET1 comfortably above benchmark
- No 2H20 dividend declared
  - 1H20 payment slightly above full year 60-80% payout policy



# COVID-19

## Comprehensive operating response

### Customers

- Deferred premium payments for home, motor and small business customers experiencing financial hardship
- Offered options such as policy changes, premium reductions, waived cancellation fees and waived/reduced excess fees
- Travel insurance refunds
- Free and confidential phone counselling service
- Accelerated employee training to help employees identify and assist customers experiencing vulnerability and financial hardship
- Customer Care Team established in New Zealand

### Employees

- >98% of staff working from home
- Up to 400 additional people employed locally in customer facing roles
- Provided one-off allowance to assist with expense of setting up a home workspace, and monthly allowance towards utility usage
- Extended employee flu vaccination program to employees' families

### Partners

- Reduced payment times for suppliers
- Working with supply chain partners to ensure customer support through claims process
- Introduced initiatives to support broker partners, including free counselling services, professional development and digital marketing campaign support

### Community

- \$4m community investment in organisations to address domestic violence and mental health
- In Australia, supported the Australian Red Cross' COVID CONNECT program - employees volunteering their time to call vulnerable people
- In New Zealand, IAG volunteers joined the Red Cross to pack parcels containing a range of essential items

# Financial summary

Resilient underlying business performance

	FY19	FY20	Change
GWP (\$m)	12,005	12,135	1.1% ▲
Insurance profit* (\$m)	1,224	741	39.5% ▼
Underlying insurance margin (%)	16.6	16.0	60bps ▼
Reported insurance margin (%)	16.9	10.1	680bps ▼
Fee-based business (\$m)	(9)	(23)	nm
Shareholders' funds income (\$m)	227	(181)	nm
Net profit after tax (\$m)	1,076	435	59.6% ▼
Diluted cash EPS (cps)	38.83	12.12	68.8% ▼
Dividend (cps)	32.0	10.0	68.8% ▼
Cash ROE (%)	14.4	4.5	990bps ▼
CET1 multiple	1.31	1.23	8bps ▼

# Australia

## Improving GWP trend, softer underlying profitability from long tail classes and investment returns

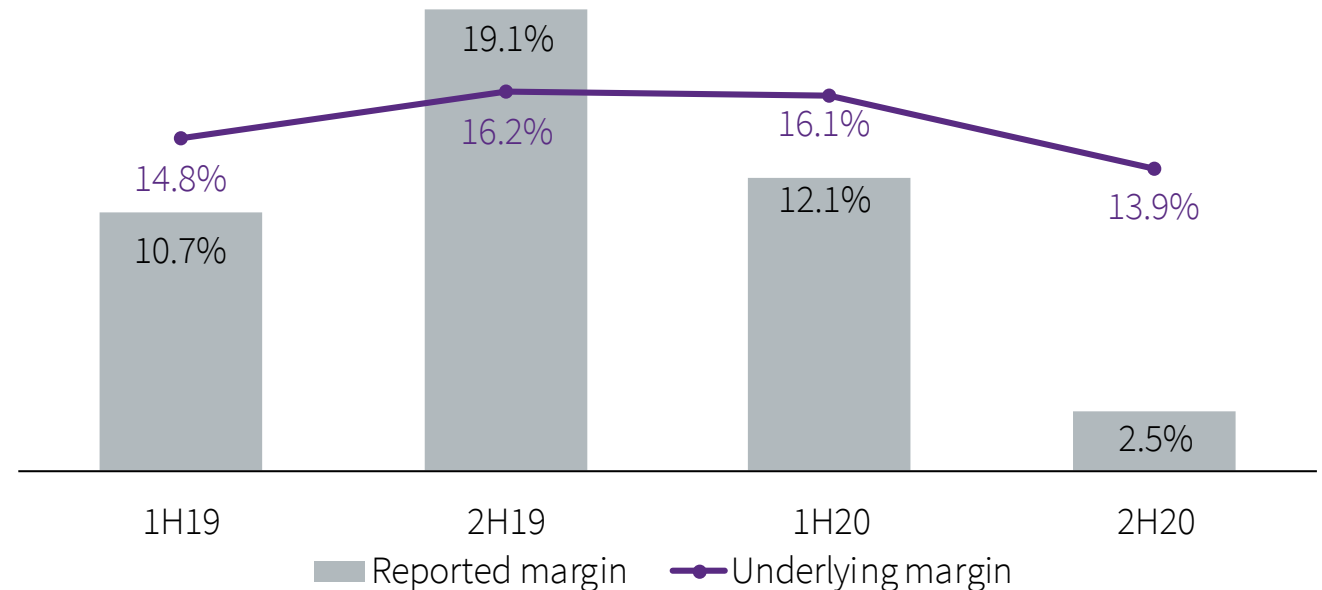
### GWP growth of 0.4%

- Improving 2H20 trend (+0.7%) despite ~\$60m COVID-19 impact from lower new business volumes
- FY20 absorbed business exit and lower CTP pricing effects
- Rate-driven growth in short-tail personal lines of 3.2%
  - Rate increases largely in line with claims inflation
  - Further volume growth in Victoria
- Commercial GWP 2.9% lower
  - Average rate increase of ~5.5%, lower volumes
  - Lower rate of reduction in 2H20 (-1.4%)

### Lower underlying margin of 14.9% (FY19: 15.5%)

- Small net negative impact on underwriting profit from COVID-19 effects
  - Significant motor frequency benefit
  - Partial offset from claims in other classes
  - Provision for potential COVID-19 claim impacts
  - Increased operating costs
- Poorer performance in commercial long tail portfolios
- Significantly lower running yield on technical reserves
- Reported margin decline from mix of adverse peril, reserving and credit spread effects

### Australia - insurance margin



# New Zealand

## Strong performance maintained

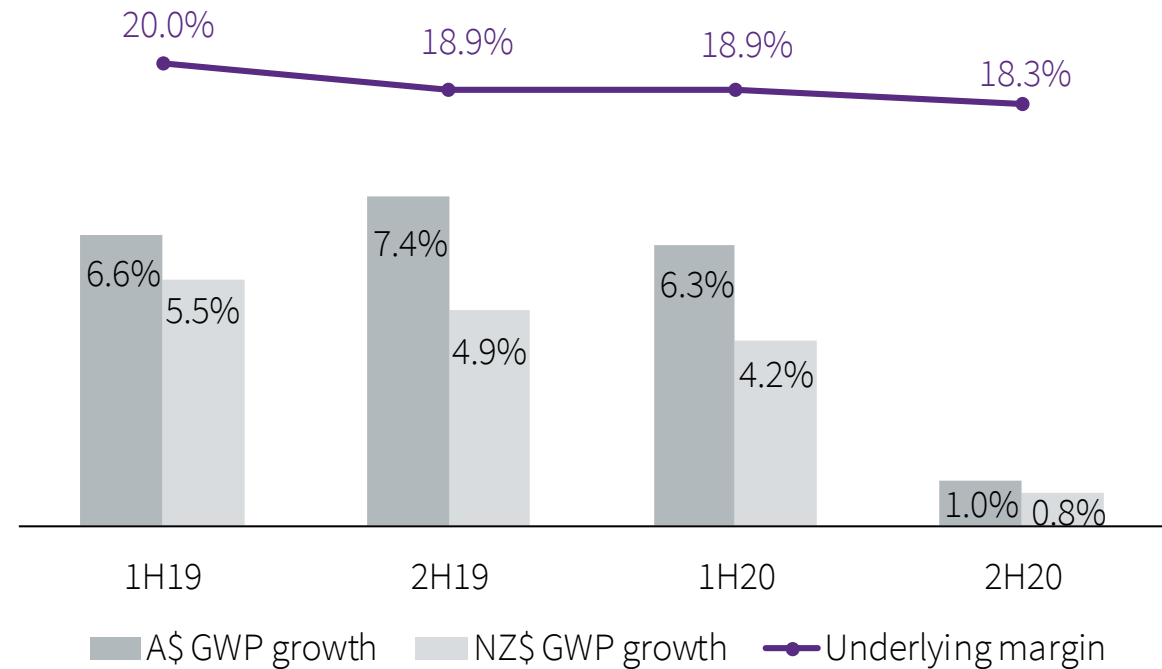
### NZ\$ GWP growth of 2.4%

- Strong Business growth >5%
  - Higher volume in all key commercial classes
  - Higher rates in property and liability
- Relatively flat Consumer GWP
  - Modest underlying growth excluding EQC changes
  - Ongoing rate and volume growth through AMI brand
- Modest COVID-19 impact of ~\$20m from lower new business volumes (reduced 2H20 GWP by ~1.5%)
- Reported GWP growth of 3.5% - slightly favourable FX effect

### Strong underlying margin of 18.6% (FY19: 19.5%)

- Small net positive impact on underwriting profit from COVID-19 impacts
  - Lower motor frequency due to lockdown
  - Increased costs including closure of AMI branches
- Slightly lower 2H20 underlying margin - increased reinsurance expense
- Lower reported margin of 20.2% (FY19: 24.7%)
  - Increased net natural peril claim cost following 1H20 Canterbury hailstorm

New Zealand - GWP growth / underlying margin



# GWP growth

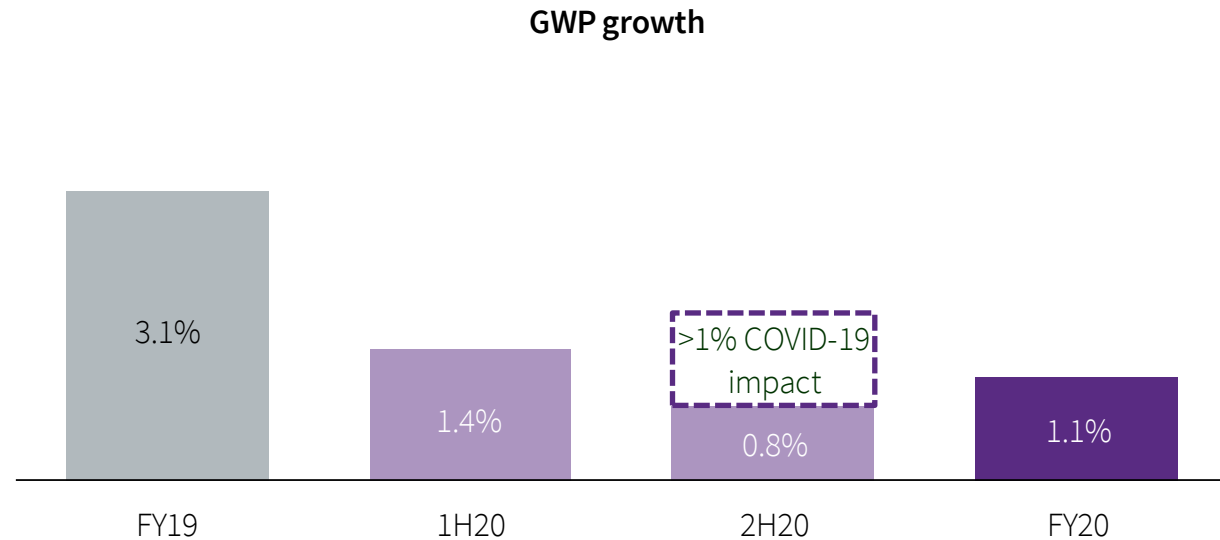
## 2H20 growth impacted by COVID-19 effect on new business volumes

### FY20 GWP growth of 1.1%

- ~\$80m COVID-19 adverse impact on 2H20 – lower new business volumes
- Absorption of lower CTP pricing and business exit effects

### Recent pricing patterns

- Rate increases to broadly match underlying claims inflation in short tail personal lines
- Reduced level of rate growth in New Zealand commercial lines, reflecting profitability of book
- Continued average rate increases in Australian commercial lines of around 5.5%, varying considerably by segment
- Putting price increases through to:
  - Counter cost and investment income pressures
  - Address underperforming portfolios



# Underwriting profit

## 2H20 COVID-19 impacts

### Largely offsetting COVID-19 impacts

#### Positive (~\$150m)

##### Claims

- Lower motor claim frequency, particularly in April and May
- Partial offset from claims in other COVID-19 affected classes (e.g. landlords' insurance and travel insurance)

#### Negative (~\$150m)

##### Claims

- ~\$100m provision for potential COVID-19 claim cost impacts
- Highly uncertain and estimated on a probability-weighted basis
- Spans business interruption, landlords' and other insurance classes

##### Expenses

- ~\$30m additional expenses - mainly from moving employees to a 'working from home' basis
- Closure of AMI branch network in New Zealand (~\$20m) - acceleration of customer behaviour trends



# Prior period reserving

## Negligible net movement expected in FY21

### Second half net reserve strengthening of \$53m

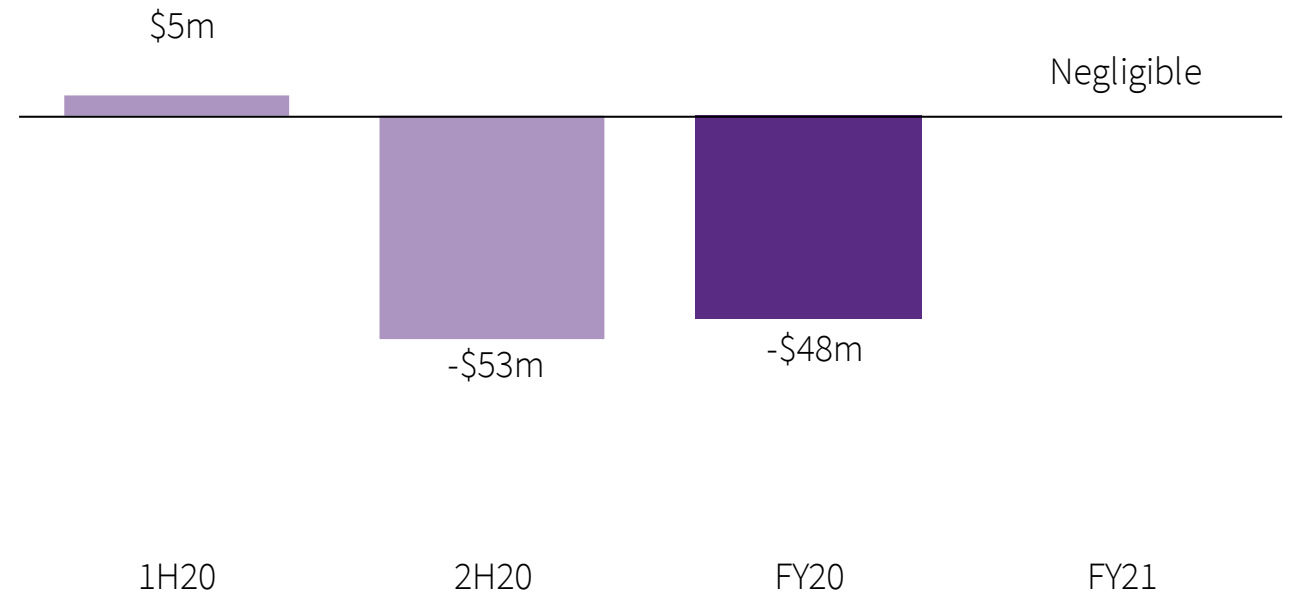
- Driven by strengthening of Australian commercial long tail classes
  - Liability (over \$40m), predominantly in silicosis and molestation
  - Deterioration in professional risks (nearly \$20m) owing to claim frequency, average claim size and large claim emergence
  - Increased workers' compensation reserves (over \$15m) - increased duration of weekly benefit claimants, legislative changes and emergence of large claims
- ~\$25m releases from CTP in line with expectations

### Negligible prior period reserve movement expected in FY21

- Minor CTP and long tail commercial impacts
- Uncertainty attached to long tail reserve development in current economic and operating environment

### Future underlying margin definition to include zero reserve release assumption

### Prior period reserve movements



# Natural perils

## Significant peril activity mitigated by reinsurance

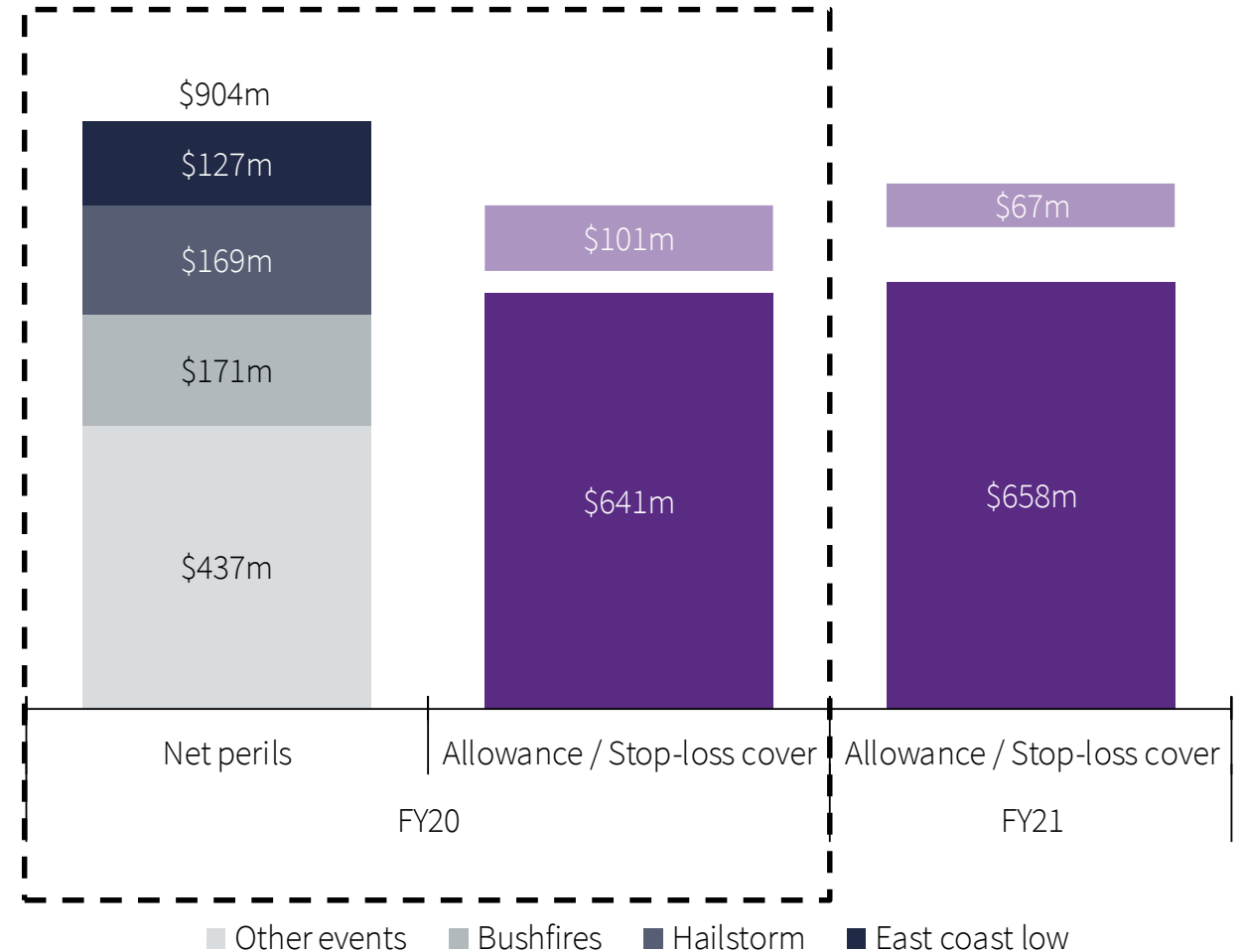
### Severe peril activity in FY20

- Full year outcome \$263m above allowance
- Significant contributions from:
  - Sequence of bushfire events (September 2019 – January 2020)
  - Major January hailstorm
  - February east coast low
- High level of attritional events
- Outcome assisted by significant reinsurance recoveries
  - Over \$700m from range of catastrophe covers

### FY21 perils allowance of \$658m

- Gross allowance (100%) increased ~2.5% to \$975m
- Net (post-quota share) allowance of \$658m, up from \$641m
- Allows for strong reinsurance protection available in 1H21
  - 2020 aggregate cover active

Natural perils vs allowance



# Reinsurance

## Strengthened protection

### Transition to financial year basis for aggregate cover

- Additional aggregate cover purchased for 12 months to 30 June 2021
- Avoids renewal at time of peak period catastrophe activity

### FY21 stop-loss protection

- \$67m xs \$742m, post-quota share
- \$84m above FY21 allowance

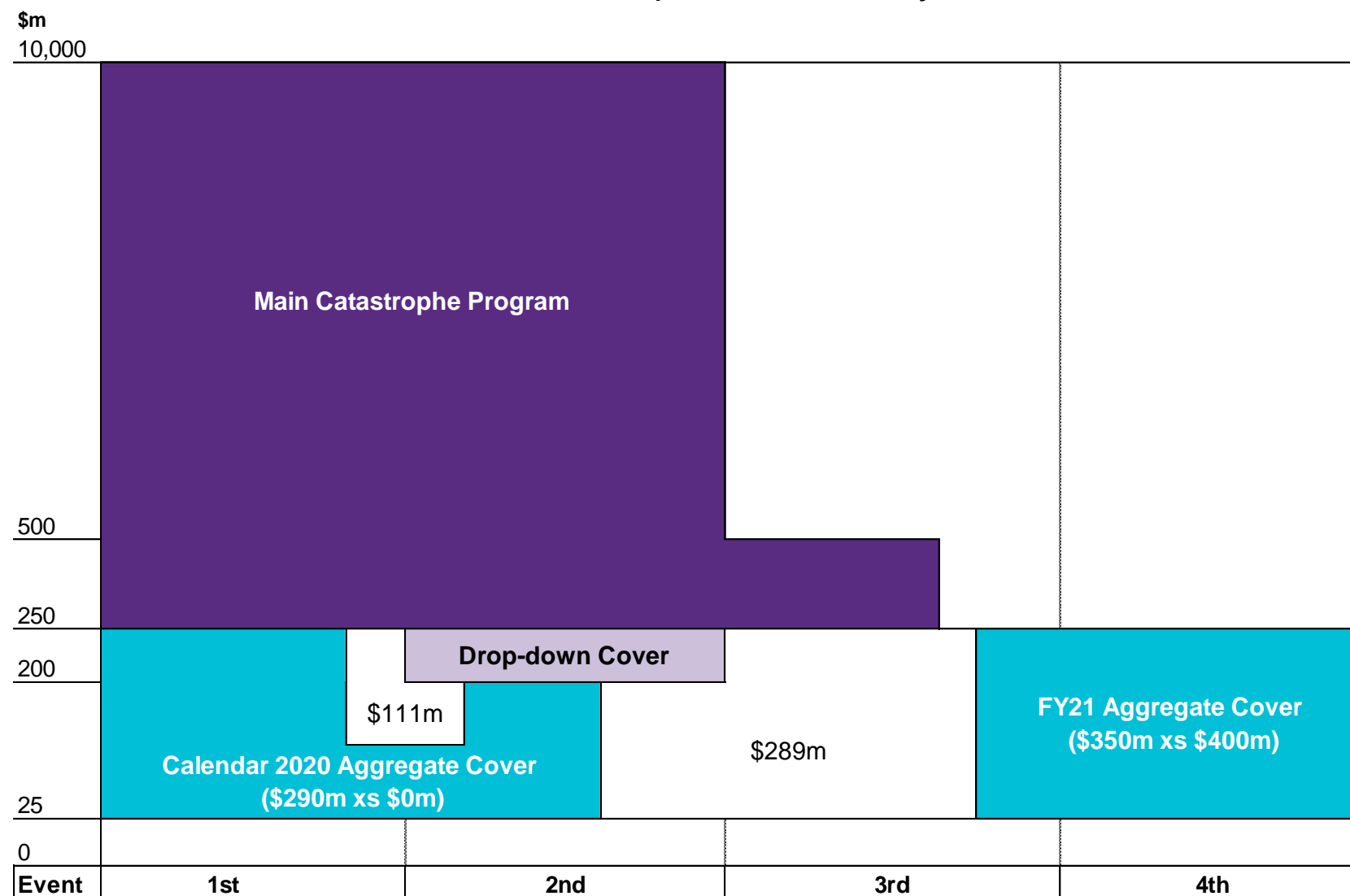
### Strong reinsurance position entering FY21

- MER of \$41m, post-quota share
- \$290m of gross cover available under 2020 aggregate

### Increased 2H20 reinsurance costs

- 2020 catastrophe renewal – increased cover at slightly higher rates
- Replacement covers:
  - Temporary filling of \$111m gap from catastrophe bond in 2020 aggregate
  - Second event drop-down replaced

Gross catastrophe cover as at 1 July 2020



# Investments

## Reduced growth assets weighting of ~25% in shareholders' funds

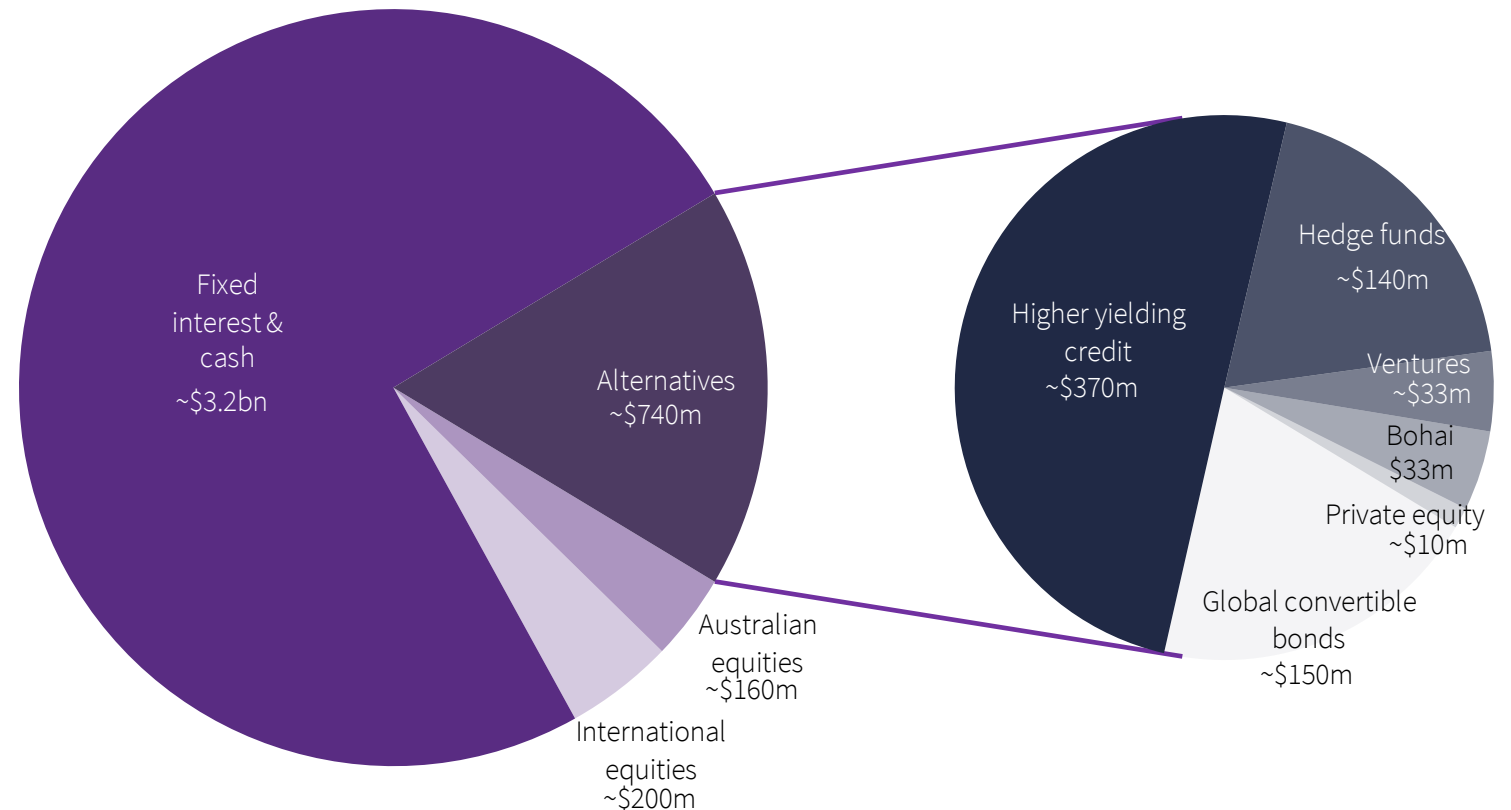
### Technical reserves

- \$5.8bn in fixed interest and cash
- Significant impact from lower running yield in FY20
- Matched duration of ~2 years

### Shareholders' funds

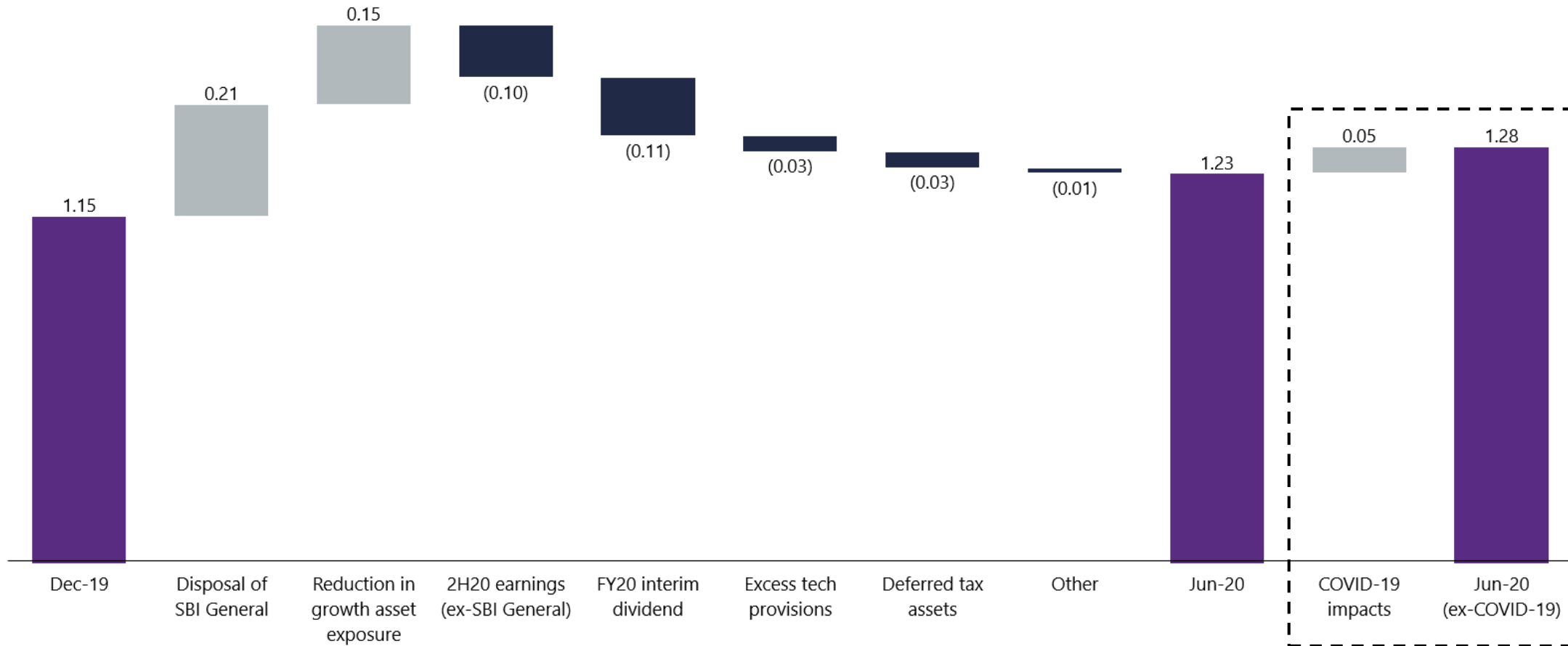
- \$4.3bn invested in mix of fixed interest and growth asset categories
- Reduced growth assets weighting of ~25%
  - Mark-to-market valuation impact
  - Some active reallocation to fixed interest
  - SBI General proceeds placed in fixed interest and cash
- Near-term weighting of ~30%

Shareholders' funds portfolio - 30 June 2020



# Capital

CET1 capital position comfortably above benchmark



# Dividend

## Consistent dividend policy applied

### FY20 dividend

- Full year dividend of 10 cents per share (FY19: 32cps)
  - Interim dividend of 10 cents paid in March
  - No final dividend
- 82.8% of cash earnings
- Negative cash earnings in 2H20

### Adherence to long-term payout policy

- 60-80% of cash earnings
- Cash earnings comprises:
  - Net profit after tax attributable to IAG shareholders
  - Plus amortisation and impairment of acquired identifiable intangibles
  - Excluding any unusual items

### Future franking capacity

- Limited franking level expected over short term
- Reflects expected temporary absence of Australian taxable earnings in FY20

	FY20 A\$m
<b>CASH EARNINGS</b>	
<b>Net profit after tax</b>	<b>435</b>
Acquired intangible amortisation and impairment	30
Unusual items:	
- Gain on sale of interest in SBI General	(309)
- Customer refund provision	246
- Other corporate expenses	2
- Tax effect on net corporate expense	(94)
- Non-controlling interest in net corporate expense	(31)
<b>Cash earnings</b>	<b>279</b>
<b>Dividend paid (10 cents per share)</b>	<b>231</b>
<b>Cash payout ratio</b>	<b>82.8%</b>



**Australia**



**New Zealand**



# Appendix – Group results

<b>GROUP RESULTS</b>	<b>1H19 A\$m</b>	<b>2H19 A\$m</b>	<b>1H20 A\$m</b>	<b>2H20 A\$m</b>	<b>FY19 A\$m</b>	<b>FY20 A\$m</b>
<b>Gross written premium</b>	<b>5,881</b>	<b>6,124</b>	<b>5,962</b>	<b>6,173</b>	<b>12,005</b>	<b>12,135</b>
Gross earned premium	5,984	5,958	6,105	6,059	11,942	12,164
Reinsurance expense	(2,373)	(2,331)	(2,396)	(2,405)	(4,704)	(4,801)
<b>Net earned premium</b>	<b>3,611</b>	<b>3,627</b>	<b>3,709</b>	<b>3,654</b>	<b>7,238</b>	<b>7,363</b>
Net claims expense	(2,358)	(2,261)	(2,433)	(2,577)	(4,619)	(5,010)
Commission expense	(324)	(351)	(337)	(336)	(675)	(673)
Underwriting expense	(535)	(506)	(519)	(565)	(1,041)	(1,084)
<b>Underwriting profit</b>	<b>394</b>	<b>509</b>	<b>420</b>	<b>176</b>	<b>903</b>	<b>596</b>
Investment income on technical reserves	102	219	81	64	321	145
<b>Insurance profit</b>	<b>496</b>	<b>728</b>	<b>501</b>	<b>240</b>	<b>1,224</b>	<b>741</b>
Net corporate expense	5	(9)	(152)	213	(4)	61
Interest	(48)	(46)	(54)	(38)	(94)	(92)
Profit/(loss) from fee-based business	5	(14)	(2)	(21)	(9)	(23)
Share of profit from associates	19	26	29	30	45	59
Investment income on shareholders' funds	(7)	234	50	(231)	227	(181)
<b>Profit before income tax and amortisation</b>	<b>470</b>	<b>919</b>	<b>372</b>	<b>193</b>	<b>1,389</b>	<b>565</b>
Income tax expense	(123)	(240)	(90)	53	(363)	(37)
<b>Profit after income tax (before amortisation)</b>	<b>347</b>	<b>679</b>	<b>282</b>	<b>246</b>	<b>1,026</b>	<b>528</b>
Non-controlling interests	(25)	(73)	20	(79)	(98)	(59)
<b>Profit after income tax and non-controlling interests (before amortisation)</b>	<b>322</b>	<b>606</b>	<b>302</b>	<b>167</b>	<b>928</b>	<b>469</b>
Amortisation and impairment	(29)	(28)	(15)	(15)	(57)	(30)
<b>Profit attributable to IAG shareholders from continuing operations</b>	<b>293</b>	<b>578</b>	<b>287</b>	<b>152</b>	<b>871</b>	<b>439</b>
Net profit/(loss) after tax from discontinued operations	207	(2)	(4)	-	205	(4)
<b>Profit attributable to IAG shareholders</b>	<b>500</b>	<b>576</b>	<b>283</b>	<b>152</b>	<b>1,076</b>	<b>435</b>



# Appendix – Group ratios and key metrics

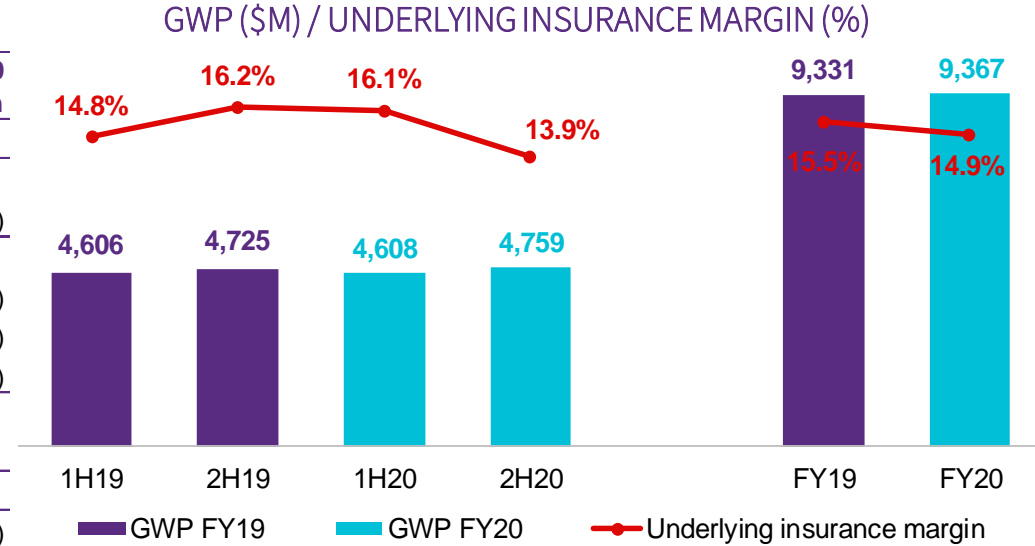
<b>Insurance Ratios - Continuing Business</b>	<b>1H19</b>	<b>2H19</b>	<b>1H20</b>	<b>2H20</b>	<b>FY19</b>	<b>FY20</b>
Loss ratio	65.3%	62.3%	65.6%	70.5%	63.8%	68.0%
Immunised loss ratio	64.6%	59.5%	65.6%	68.6%	62.0%	67.1%
Expense ratio	23.8%	23.7%	23.1%	24.7%	23.7%	23.8%
Commission ratio	9.0%	9.7%	9.1%	9.2%	9.3%	9.1%
Administration ratio	14.8%	14.0%	14.0%	15.5%	14.4%	14.7%
Combined ratio	89.1%	86.0%	88.7%	95.2%	87.5%	91.8%
Immunised combined ratio	88.4%	83.2%	88.7%	93.3%	85.7%	90.9%
<b>Reported insurance margin</b>	<b>13.7%</b>	<b>20.1%</b>	<b>13.5%</b>	<b>6.6%</b>	<b>16.9%</b>	<b>10.1%</b>
<b>Underlying insurance margin</b>	<b>16.2%</b>	<b>16.9%</b>	<b>16.9%</b>	<b>15.1%</b>	<b>16.6%</b>	<b>16.0%</b>
<b>Key Financial Metrics (Total Operations)</b>	<b>1H19</b>	<b>2H19</b>	<b>1H20</b>	<b>2H20</b>	<b>FY19</b>	<b>FY20</b>
Cash earnings (\$m)	319	612	380	(101)	931	279
Reported ROE (average equity) (% pa)	15.4%	18.4%	9.0%	5.0%	16.7%	7.0%
<b>Cash ROE (average equity) (% pa)</b>	<b>9.8%</b>	<b>19.6%</b>	<b>12.1%</b>	<b>(3.3%)</b>	<b>14.4%</b>	<b>4.5%</b>
Basic EPS (cents)	21.31	24.99	12.28	6.60	46.26	18.87
Diluted EPS (cents)	20.48	24.16	12.16	6.38	44.58	18.49
Cash EPS (cents)	13.60	26.56	16.49	(4.37)	40.04	12.12
<b>Diluted cash EPS (cents)</b>	<b>13.40</b>	<b>25.63</b>	<b>15.98</b>	<b>(4.37)</b>	<b>38.83</b>	<b>12.12</b>
<b>DPS (cents)</b>	<b>12.00</b>	<b>20.00</b>	<b>10.00</b>	-	<b>32.00</b>	<b>10.00</b>
Probability of adequacy	90%	90%	90%	90%	90%	90%
<b>CET1 multiple</b>	<b>1.18</b>	<b>1.31</b>	<b>1.15</b>	<b>1.23</b>	<b>1.31</b>	<b>1.23</b>
PCA multiple	2.00	2.12	1.80	1.97	2.12	1.97

# Appendix – Australia

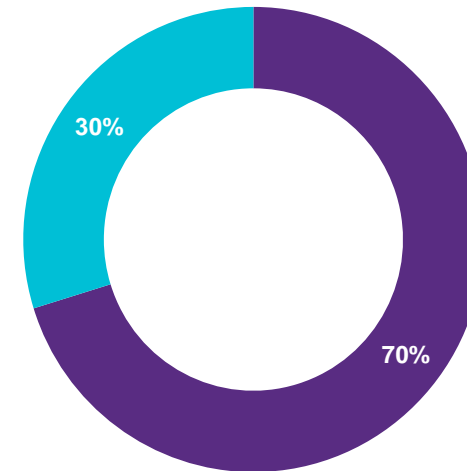
	1H19	2H19	1H20	2H20	FY19	FY20
AUSTRALIA RESULTS	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
<b>Gross written premium</b>	<b>4,606</b>	<b>4,725</b>	<b>4,608</b>	<b>4,759</b>	<b>9,331</b>	<b>9,367</b>
Gross earned premium	4,698	4,625	4,739	4,677	9,323	9,416
Reinsurance expense	(1,864)	(1,807)	(1,859)	(1,835)	(3,671)	(3,694)
<b>Net earned premium</b>	<b>2,834</b>	<b>2,818</b>	<b>2,880</b>	<b>2,842</b>	<b>5,652</b>	<b>5,722</b>
Net claims expense	(1,943)	(1,821)	(1,940)	(2,141)	(3,764)	(4,081)
Commission expense	(239)	(251)	(245)	(242)	(490)	(487)
Underwriting expense	(437)	(401)	(420)	(440)	(838)	(860)
<b>Underwriting profit</b>	<b>215</b>	<b>345</b>	<b>275</b>	<b>19</b>	<b>560</b>	<b>294</b>
Investment income on technical reserves	89	193	74	52	282	126
<b>Insurance profit</b>	<b>304</b>	<b>538</b>	<b>349</b>	<b>71</b>	<b>842</b>	<b>420</b>
Profit/(loss) from fee-based business	9	(10)	6	(17)	(1)	(11)
Share of profit/(loss) from associates	1	1	-	(1)	2	(1)
<b>Total divisional result</b>	<b>314</b>	<b>529</b>	<b>355</b>	<b>53</b>	<b>843</b>	<b>408</b>

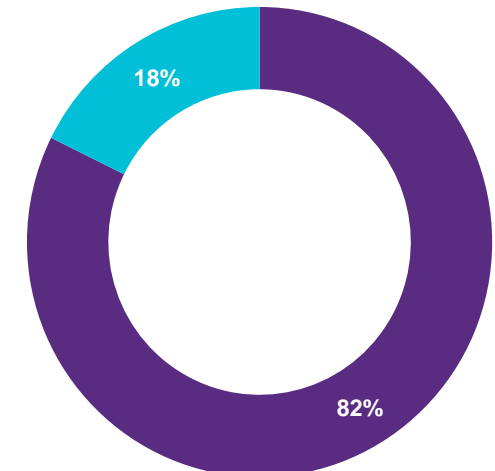
Insurance Ratios	1H19	2H19	1H20	2H20	FY19	FY20
Loss ratio	68.6%	64.6%	67.4%	75.3%	66.6%	71.3%
Immunised loss ratio	67.8%	61.0%	67.3%	72.9%	64.4%	70.1%
Expense ratio	23.8%	23.1%	23.1%	24.0%	23.5%	23.5%
Commission ratio	8.4%	8.9%	8.5%	8.5%	8.7%	8.5%
Administration ratio	15.4%	14.2%	14.6%	15.5%	14.8%	15.0%
Combined ratio	92.4%	87.7%	90.5%	99.3%	90.1%	94.8%
Immunised combined ratio	91.6%	84.1%	90.4%	96.9%	87.9%	93.6%
Reported insurance margin	10.7%	19.1%	12.1%	2.5%	14.9%	7.3%
Underlying insurance margin	14.8%	16.2%	16.1%	13.9%	15.5%	14.9%



FY20 GWP BY SEGMENT



FY20 GWP BY TAIL

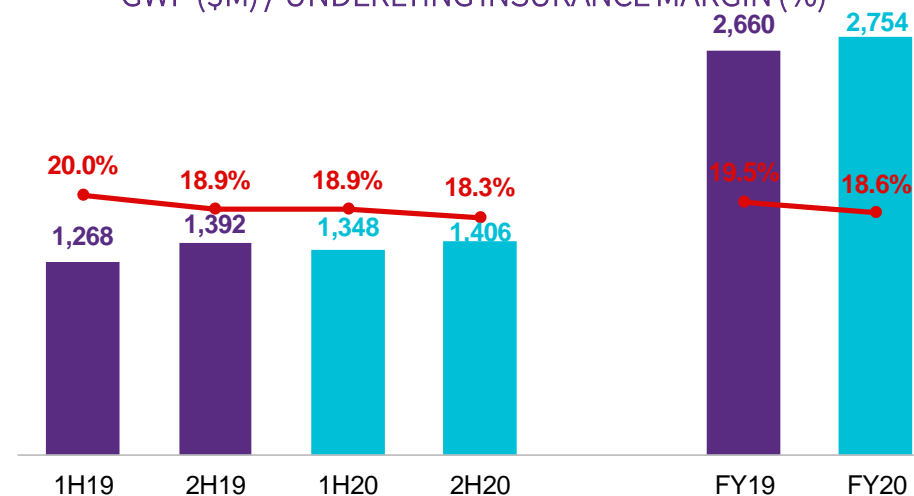


# Appendix – New Zealand

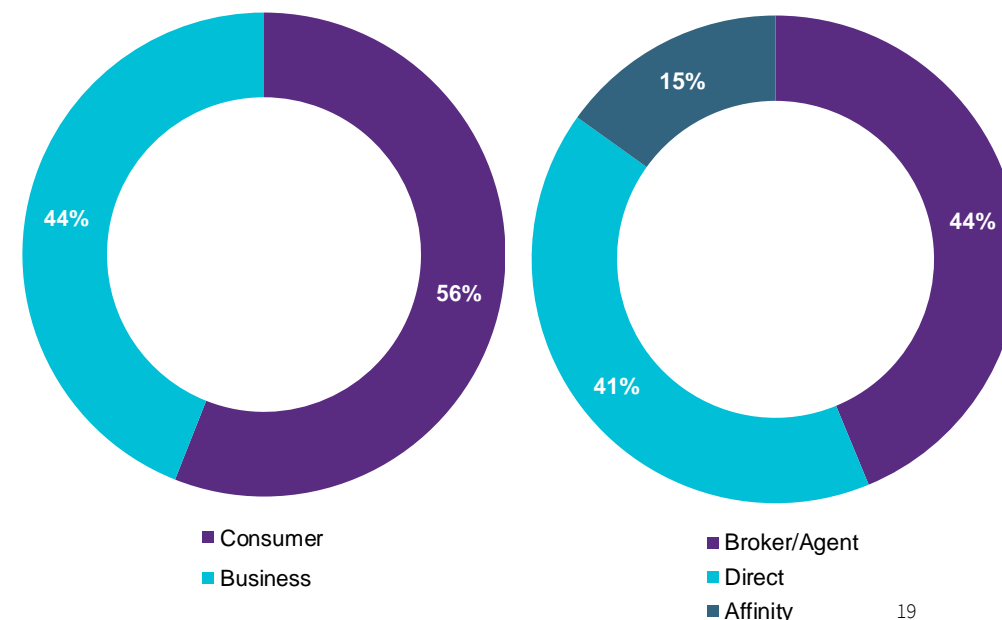
	1H19	2H19	1H20	2H20	FY19	FY20
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
<b>NEW ZEALAND RESULTS</b>						
<b>Gross written premium</b>	<b>1,268</b>	<b>1,392</b>	<b>1,348</b>	<b>1,406</b>	<b>2,660</b>	<b>2,754</b>
Gross earned premium	1,277	1,327	1,357	1,376	2,604	2,733
Reinsurance expense	(503)	(520)	(533)	(565)	(1,023)	(1,098)
<b>Net earned premium</b>	<b>774</b>	<b>807</b>	<b>824</b>	<b>811</b>	<b>1,581</b>	<b>1,635</b>
Net claims expense	(411)	(435)	(485)	(434)	(846)	(919)
Commission expense	(81)	(98)	(90)	(92)	(179)	(182)
Underwriting expense	(98)	(104)	(99)	(124)	(202)	(223)
<b>Underwriting profit</b>	<b>184</b>	<b>170</b>	<b>150</b>	<b>161</b>	<b>354</b>	<b>311</b>
Investment income on technical reserves	9	27	6	13	36	19
<b>Insurance profit</b>	<b>193</b>	<b>197</b>	<b>156</b>	<b>174</b>	<b>390</b>	<b>330</b>

	1H19	2H19	1H20	2H20	FY19	FY20
<b>Insurance Ratios</b>						
Loss ratio	53.1%	53.9%	58.9%	53.5%	53.5%	56.2%
Immunised loss ratio	52.7%	53.5%	59.0%	53.0%	53.1%	56.0%
Expense ratio	23.2%	25.0%	22.9%	26.6%	24.1%	24.7%
Commission ratio	10.5%	12.1%	10.9%	11.3%	11.3%	11.1%
Administration ratio	12.7%	12.9%	12.0%	15.3%	12.8%	13.6%
Combined ratio	76.3%	78.9%	81.8%	80.1%	77.6%	80.9%
Immunised combined ratio	75.9%	78.5%	81.9%	79.6%	77.2%	80.7%
Reported insurance margin	24.9%	24.4%	18.9%	21.5%	24.7%	20.2%
Underlying insurance margin	20.0%	18.9%	18.9%	18.3%	19.5%	18.6%

GWP (\$M) / UNDERLYING INSURANCE MARGIN (%)



FY20 GWP BY CLASS  
FY20 GWP BY CHANNEL



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