



IAG outlines FY20 results

IAG today provided an update on its results for the year ended 30 June 2020 (FY20), within which it expects to report:

- Gross written premium (GWP) growth of around 1%, consistent with the ‘low single digit’ guidance maintained throughout FY20; and
- An insurance margin of approximately 10%, with the shortfall against prior guidance of 12.5-14.5% largely driven by adverse natural perils, prior period reserving and credit spread factors.

FY20 results

IAG will be releasing its detailed FY20 results on 7 August 2020. Ahead of that, IAG advises that, subject to finalisation of audit and Board approval, it expects its FY20 results to contain the following features:

- GWP growth of 1.1%, including adverse effects from business exits completed in FY19 and lower CTP pricing, as well as a modestly negative estimated COVID-19 impact in 2H20;
- An underlying insurance margin¹ of 16.0% (FY19: 16.6%), including a second half outcome of 15.1% impacted by higher reinsurance costs, lower investment returns and deterioration in the performance of some Australian commercial long tail portfolios;
- A reported insurance margin of 10.1%² (FY19: 16.9%), after inclusion of:
 - Net natural peril claim costs of \$904 million, compared to updated guidance provided in February 2020 of \$850 million, following higher than anticipated attritional perils experience in the final quarter of the financial year;
 - Prior period reserve strengthening of \$48 million (FY19: net reserve releases of \$126 million) driven by adverse development of some Australian long tail reserves;
 - A negative credit spread impact of \$46 million (FY19: \$6 million negative); and
 - A broadly neutral impact from overall estimated COVID-19 effects;
- A pre-tax loss from fee-based business of \$23 million (FY19: loss of \$9 million);
- A pre-tax loss on shareholders’ funds income of \$181 million (FY19: profit of \$227 million), compared to a previously indicated year-to-date loss of approximately \$280 million at the end of April;

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 of 1% of NEP; and
– Credit spread movements.

² The FY20 reported insurance margin indicated in this announcement is presented on a management reported (non-IFRS) basis which is not directly comparable to the equivalent statutory (IFRS) figure that will appear in IAG’s FY20 Financial Report (Appendix 4E). On a statutory basis the reported insurance margin is expected to be 6.8% (a reduction of 330bps), after inclusion of the \$246 million pre-tax provision for customer refunds.

- An increased pre-tax customer refund provision of \$246 million for multi-year pricing issues (1H20: \$150 million), included in the net corporate expense line;
- A total profit after tax of \$326 million on the sale of IAG's 26% interest in SBI General Insurance Company in India, which completed at the end of March 2020. The bulk of this profit is reflected in the net corporate expense line; and
- No final dividend, with the top end of IAG's 60-80% of cash earnings payout policy delivered by the interim dividend of 10 cents per share which was paid in March.

IAG's Managing Director and CEO Peter Harmer said: "We have experienced an immensely challenging second half to the 2020 financial year, characterised by severe natural peril activity, the disruption caused by the COVID-19 pandemic to our people, customers and suppliers, and the marked volatility in investment markets which has adversely impacted our results.

"I am proud of the way our people have risen to the challenges we have seen, maintaining a high level of commitment to our customers through a sequence of major natural peril events in the middle of the financial year. And then, with the emergence of COVID-19, through the swift implementation of customer support measures for those suffering hardship as we rapidly shifted to home working arrangements.

"We have seen some softening in our underlying margin in the second half. This stems from the combination of lower investment returns from diminishing interest rates, an increased reinsurance expense as we bolstered our protection following heavy perils incidence early in the calendar year, and some deterioration in Australian commercial long tail loss ratios.

"We enter FY21 with a strong balance sheet and enhanced reinsurance protection, and are well-equipped to negotiate the challenges and opportunities that a post-COVID environment will present," Mr Harmer said.

COVID-19 impacts on FY20 financial performance

The COVID-19 pandemic is estimated to have had a modestly negative effect on IAG's GWP in FY20, and a broadly neutral impact on its reported insurance margin.

Lower new business volumes are estimated to have reduced GWP by approximately \$80 million across the months of March to May 2020, and lowered GWP growth in 2H20 by over 1%. Since the end of May, IAG has seen new business volumes return to more normal levels in most of its core portfolios, while retention levels have remained high over the course of FY20.

An estimated broadly neutral COVID-19 effect on IAG's FY20 reported insurance margin contains two elements:

- A net benefit of around \$100 million from a mixture of claim cost and expense effects. Predominantly reflecting lower motor claims frequency, especially in the months of April and May, this was partially offset by claim costs in other classes, notably travel and landlords' insurance, and additional operating costs, including those from moving employees to a 'working from home' basis; and
- A provision of approximately \$100 million for potential COVID-19 claim cost impacts that are highly uncertain, sit within a wide range and are estimated on a probability-weighted basis. This accords with accounting requirements and spans potential business interruption, landlords' and other insurance class impacts, including the estimated impact an economic downturn will have on the settlement of long tail claims.

Prior period reserve strengthening

IAG has strengthened its prior period reserves by over \$50 million in 2H20, compared to previous guidance of reserve releases equivalent to 1% of net earned premium (NEP) in that period. Contributing to a full year net strengthening of \$48 million, this action reflects stronger claim development across Australian long tail classes than observed in recent years and further emergence of large claims in excess of expectations. It also recognises the uncertain macroeconomic environment and its potential impact on reserves.

The 2H20 net strengthening includes the following movements from Australian long tail classes:

- Over \$40 million related to liability classes, predominantly in the areas of silicosis and molestation;
- Nearly \$20 million in respect of professional risk-related reserves;
- Over \$15 million of workers' compensation reserve strengthening; and
- Offsetting releases from compulsory third party (CTP) motor liability of around \$25 million, which were in line with expectations.

IAG anticipates negligible impact from net prior period reserve movements in FY21, given the heightened uncertainty attached to long tail reserve development in the current economic and operating conditions.

Customer refund provision

In 1H20 IAG included a pre-tax provision of \$150 million for customer refunds, interest attributable to those refunds and the cost of administering the associated remediation program. This related to a specific multi-year pricing issue identified by IAG where discounts were not always applied in full to premiums for all customers who may have been eligible.

This provision has been increased by \$96 million in 2H20, to \$246 million pre-tax, to cover two further refund programs in respect of similar pricing issues.

On a post-tax basis, the customer refunds provision amounts to \$141 million for the full year, compared to an initial amount of \$82 million recognised in 1H20.

All the issues concerned relate to Australia and were identified as part of a proactive review of pricing systems and processes which is ongoing.

Capital and dividend

IAG remains in a strong capital position, with an anticipated Common Equity Tier 1 (CET1) ratio of 1.23 at 30 June 2020. While comfortably above its targeted CET1 range of 0.9-1.1, IAG regards the current economic circumstances and uncertainty as justifying a more conservative approach to capital than would otherwise be required.

IAG's FY20 cash earnings are expected to amount to \$279 million. Applying the top end of IAG's 60-80% targeted payout ratio, this would equate to a full year dividend payment similar to the 10 cents per share interim dividend paid in March 2020. Consequently, and while subject to finalisation of audit and Board approval, it is anticipated that no final dividend will be paid in respect of FY20.

While IAG recognises many shareholders will be disappointed with no final dividend, it believes it is important to adhere to its long-established dividend payout policy and to maintain a strong capital position in the current uncertain environment.

Reinsurance

IAG enters FY21 with strong reinsurance cover in place, including access to significant protection under its calendar 2020 aggregate cover. The combination of covers in place at 1 July 2020 results in an estimated maximum event retention of \$41 million (post-quota share) at that date, based on current estimates of losses incurred in 2H20 and a gross next event in excess of \$250 million.

In addition, IAG has continued to pursue initiatives that strengthen its overall reinsurance position, including:

- The purchase of an aggregate catastrophe reinsurance cover for the 12 months to 30 June 2021, providing \$350 million of gross protection in excess of \$400 million (\$236 million in excess of \$270 million, post-quota share). This facilitates the transition of IAG's aggregate protection to a financial year format, avoiding the intersection with peak period catastrophe activity that can disrupt the renewal process at calendar year-end. This new protection will overlay the existing aggregate protection for the balance of calendar 2020, with the calendar year aggregate cover not being renewed from 1 January 2021; and
- The purchase of a stop-loss protection for retained natural perils which runs in line with FY21. This provides protection of \$100 million in excess of \$1.1 billion (\$67 million in excess of \$742 million, post-quota share) for the 12 months to 30 June 2021. On a post-quota share basis, this cover will attach approximately \$84 million above IAG's FY21 perils allowance of \$658 million.

FY20 results announcement

IAG will announce its detailed FY20 results on 7 August 2020.

This release has been authorised by IAG's Disclosure Committee.

About IAG

IAG is the parent company of a general insurance group (the Group) with controlled operations in Australia and New Zealand. The Group's businesses underwrite over \$12 billion of premium per annum, selling insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann Insurance and WFI (Australia); and NZI, State, AMI and Lumley (New Zealand). IAG also has an interest in a general insurance joint venture in Malaysia. For further information, please visit www.iag.com.au.

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IAG PRELIMINARY RESULTS - SUBJECT TO AUDIT AND BOARD APPROVAL	1H19	2H19	1H20	2H20	FY19	FY20
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Gross written premium	5,881	6,124	5,962	6,173	12,005	12,135
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)
Net earned premium	3,611	3,627	3,709	3,654	7,238	7,363
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)
Underwriting profit	394	509	420	176	903	596
Investment income on technical reserves	102	219	81	64	321	145
Insurance profit	496	728	501	240	1,224	741
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)
Profit before income tax and amortisation	470	919	372	193	1,389	565
Income tax expense	(123)	(240)	(90)	53	(363)	(37)
Profit after income tax (before amortisation)	347	679	282	246	1,026	528
Non-controlling interests	(25)	(73)	20	(79)	(98)	(59)
Profit after income tax and non-controlling interests (before amortisation)	322	606	302	167	928	469
Amortisation and impairment	(29)	(28)	(15)	(15)	(57)	(30)
Profit attributable to IAG shareholders from continuing operations	293	578	287	152	871	439
Net profit/(loss) after tax from discontinued operations	207	(2)	(4)	-	205	(4)
Profit attributable to IAG shareholders	500	576	283	152	1,076	435
Insurance Ratios - Continuing Business	1H19	2H19	1H20	2H20	FY19	FY20
Reported insurance margin	13.7%	20.1%	13.5%	6.6%	16.9%	10.1%
Underlying insurance margin	16.2%	16.9%	16.9%	15.1%	16.6%	16.0%
INSURANCE MARGIN IMPACTS	1H19	2H19	1H20	2H20	FY19	FY20
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Reserve releases	83	43	5	(53)	126	(48)
Natural perils	(414)	(213)	(419)	(485)	(627)	(904)
Natural peril allowance	304	304	320	321	608	641
Credit spreads	(24)	18	7	(53)	(6)	(46)
Reserve releases	2.3%	1.2%	0.1%	(1.5%)	1.7%	(0.7%)
Natural perils	(11.5%)	(5.9%)	(11.3%)	(13.3%)	(8.7%)	(12.3%)
Natural peril allowance	8.4%	8.4%	8.6%	8.8%	8.4%	8.7%
Credit spreads	(0.7%)	0.5%	0.2%	(1.5%)	(0.1%)	(0.6%)