DEVELOPMENT.

NEW PHASE IN OUR
NEW BRAND FOR
CUSTOMER EXPERIENCES.

FOR WORLD-LEADING
CREATING MOMENTUM
and New Zealand:
three growth levers in Australia.

We will do this by focusing on
agile and quick to respond.
simpler and more scalable,
and customer-led, and data-driven,

Our overarching strategy is to
create a company that is:
customer-led, and data-driven,
simpler and more scalable, and
agile and quick to respond.

Our new identity also strengthens
the link between IAG and our
customer brands. This will help our
customers, who value knowing who
stands behind the insurance brands
they choose, particularly the financial
security, strength and scale that comes from being backed by IAG.

In recent months, we have made changes
within our organisation – improving our agility
and providing a sharper customer focus – that
mean we can start to look more creatively at our
future. We believe that future involves delivering
world-leading customer experiences.

IDENTIFYING GROWTH LEVERS
TO ACHIEVE OUR STRATEGY.

Our overarching strategy is to
create a company that is:
customer-led, and data-driven,
simpler and more scalable, and
agile and quick to respond.

We will do this by focusing on
driving world-leading
customer experiences,
corporate partnering, and
customer-led digital ecosystems,
and by pursuing selective growth
opportunities in Asia within our
target markets:
• dial-up opportunities to existing
  forward-facing, and
• in-market consolidation when it is
  available, and
digital opportunities.

We have also identified simplicity,
scalability and agility as levers to
drive profitability across IAG.

IDRONEAS ASSESS DAMAGE
IN AUSTRALIAN INSURER FIRST.

In January 2016, for the first time in Australia, IAG
used drones to view damage caused by the devastating
bushfires in Victoria’s Great Ocean Road area. Fast
tracking the assessment process for customer claims,
IAG mobilised the drone technology through a
property risk partner to inspect properties before
physical access was granted by authorities and
property repair partner to inspect properties before
aerial imagery shot by the drones also allowed
assessors and customers to review damage from a safe location, removing the risks associated
with physical site visits such as asbestos, fallen
power lines and land slips.

IAG worked with the Country Fire Authority
throughout the process to ensure the use of
drones would not impair fire fighting efforts.

In July we began trials of InsureLite,
as a solution for families suffering from
home insurance affordability stress
in Queensland.

In September, we released ShareCover
insurance for people who rent out all
or part of their home on a recognised
sharing economy platform.

Also in September, in an Australian first, we partnered with Good
Shepherd Microfinance to launch
Insurance 4 That, an accessible and
low-cost single item insurance product.

IAG has launched three innovative
products created by bringing together
customer needs and data insights.

In the last six months:

IAG continues to

WE ARE STRUCTURED
FOR SUCCESS.

In Australia, we have a Consumer
Division focused on individuals and
families, and a Business Division
focused on businesses of all sizes.

These customer-facing businesses
are supported by three divisions
focusing on the customer experience,
technology and operations:
• Customer Labs is driving product
innovation through data and
insights, brand architecture across the
Group, and new business
incubations and venturing
• Digital Labs is providing digital
and design innovation and
identifying and harnessing disruptive
technology. It will also
build digital apps and ecosystems,
and simplify existing core platforms.
• Operations is responsible for claims
and functions such as procurement
and supply chain management.

Our Asian and New Zealand
businesses have moved into
a new International Division which
will grow our established presence in Malaysia, Thailand, India, Indonesia and Vietnam; and maintain our
market-leading presence in the mature
New Zealand market.

We have also created a Challenger
Division in Australia, giving it
independence and flexibility to
develop products and deliver customer experiences in new ways that will act as a learning opportunity for the rest of the organisation.

IN DECEMBER 2015.

WE ANNOUNCED
THE NEW STRUCTURE
CUSTOMERS INFORMED
24/7 claims assistance.
• mobile customer service through the
  CGU Insurance Major Event Rapid Response Vehicle,
• technical assistance with verified building
  consultants for customers who elected to
  manage the re-build process themselves,
• emergency accommodation assistance and
  immediate access to emergency funds, and

• 24/7 claims assistance.

• claims for G10 Insurance, Will and Colen Insurance were assessed using the drone technology developed through IAG’s property repair partner.

THE STORY
SO FAR.
IAG has achieved an insurance profit of $69 million and an insurance margin of 14.9% for the first half of the 2016 financial year, despite challenging conditions in its core Australian and New Zealand commercial markets. Gross written premium was $5,543 million, reflecting the difficult commercial market conditions and lower Compulsory Third Party (CTP) volumes offset by growth in consumer premium and sound growth in Asia. An underlying margin of 14.3% demonstrates the Group’s strong profitability.

The Berkshire Hathaway quota share arrangement, which came into effect on 1 July 2015, had a broadly neutral effect on our insurance profit, and a favourable natural perils outcome compared to the February 2015 Canterbury earthquake.

Gross written premium grew by 1.6% to $5,543 million, reflecting the difficult commercial market conditions with lower CTP volumes, partially offset by growth in consumer premium and sound growth in Asia. The reported first half insurance margin of 14.9% also includes:

- net natural peril claim costs of $279 million, $22 million lower than the related allowance and after a benefit of approximately $10 million of recoveries under our catastrophe aggregate reinsurance cover;
- an adverse credit spread impact of $15 million, and
- prior period reserve releases of $60 million, equivalent to 1.6% of net earned premium, from higher than expected CTP releases and a NZ$30 million increase to the risk margin relating to the February 2011 Canterbury earthquake.

Net profit after tax of $666 million was 2.2% lower than for the same period last year, including a significantly lower contribution from investment income on shareholders’ funds due to weaker equity markets in the period.

DIVISIONAL RESULTS

The Australian Consumer Division, which represented 51% of Group GWP, performed well with an underlying margin of 15.5%. The division’s reported margin of 24.6% included reserve releases significantly above long-term expectations, with around 8% of net earned premium. The division also enjoyed a favourable natural perils outcome compared to allowances.

IAG Group gross written premium growth of 1.6% reflected advances in short tail home and motor lines, partially offset by lower CTP volumes. 

OUTLOOK

For the 2016 financial year we continue to expect gross written premium growth will be relatively flat, which is in line with market guidance. The Group has maintained its underwriting discipline.

The Australian Consumer Division saw a 6.3% contribution to GWP, with a continuation of tough commercial market conditions pushing average rates lower, and strict adherence to underwriting disciplines contributing to lower volumes. The business maintained a double digit underlying margin of 10.7%, assisted by the quota share with Berkshire Hathaway. This mitigated partially offsetting pressures from the market environment. The reported margin of 8.4% is lower than the underlying margin following an adverse perils experience compared to allowance.

New Zealand continues to perform well, reflecting a strong underlying margin of 18.4%. The lower reported margin of 14.1% reflects the increased risk margin for the February 2011 earthquake event, partially offset by a relatively benign natural perils experience in the half. The business has maintained its market-leading position, with modest premium growth in direct personal lines more than offset by the tougher market conditions in the commercial segment, combining to produce a 4.1% decline in GWP.

Australia saw GWP growth of more than 20%, with sound growth in Thailand amplified by a favourable foreign exchange offset. This half saw the first full six months’ contribution from the small business acquired in Indonesia. Asia’s overall earnings continues its strong performance, providing good market access to diversify its adverse to market movements on investments.


divided

1H15
1H16
$5,543m
$5,543m
GROSS WRITTEN PREMIUM ($m)

14.9%
14.9%
INSURANCE MARGIN (%)

$466m
$466m
NET PROFIT AFTER TAX ($m)

13.0cps
13.0cps
DIVIDEND (CPS)

10.0
10.0
Dividend

13.0
13.0
Dividend

Divided
Special Dividend

\*Assumptions behind the reported margin guidance include:
- No material movement in foreign exchange rates or investment markets
- Prior period reserve releases of at least 1% of NEP
- A CETL-AAA gross written premium growth of 1-5%
- A CETL-AAA underlying margin of 12.5%
- A CETL-AAA operating expenses increase of 3%
- A CETL-AAA core return on capital of 19%
- A CETL-AAA ordinary share price of $10.00
- A CETL-AAA ordinary share price of $10.00

More detail about our results is contained in our 1H16 Investor Report and financial statements, which are available in the Results and Reports area of our website (www.iag.com.au).


THE STORY.

IAG has delivered a sound result in an increasingly complex and dynamic environment.

IAG’s consumer businesses in Australia and New Zealand, representing more than 60% of the Group’s gross written premium (GWP), are performing well, achieving strong profitability and modest GWP growth in a low claims inflation environment. Our ability to broadly manage market share with limited movement on price demonstrates the strength and resilience of our market-leading brands. The contribution to gross written premium growth by the consumer businesses was offset by challenging market conditions for some of our commercial businesses. Here, we are prudently managing our results in the most competitive conditions in almost four decades.

IAG’s capital and risk management disciplines contributions to lower volumes. The business maintained a double digit underlying margin of 10.7%, assisted by the quota share with Berkshire Hathaway. This mitigated partially offsetting pressures from the market environment. The reported margin of 8.4% is lower than the underlying margin following an adverse perils experience compared to allowance.

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IAG’s capital and risk management disciplines.

ACTION

MANAGING CAPITAL, RISKS AND EARNINGS VOLATILITY

Other key factors that differentiate IAG is our ability to complete transactions that create value for shareholders and help us manage our capital and risk profiles, and reduce earnings volatility. Good examples are the AMI and Woodforders acquisitions, and our agreement with Berkshire Hathaway.

IAG’s focus on improving its capital efficiency, in a move to further improve our capital efficiency, we have entered into an innovative reinsurance arrangement with Berkshire Hathaway that mitigates IAG’s exposure to its two most material legacy reinsurance recoveries.

In a further move to improve our capital efficiency, we have entered into an innovative reinsurance arrangement with Berkshire Hathaway that mitigates IAG’s exposure to its two most material legacy recoveries.

The Board has determined to pay an interim fully franked dividend of 1.30 cents per ordinary share (ex-dividend with the last ex-dividend date of 13 October and payable to a ratio of 10.8% of cash earnings.

In recognition of our strong capital position, IAG will increase our dividend payout policy to 60-80% of cash return capital to shareholders, while retaining a strong ability to complete transactions that create value for shareholders and help us manage our capital and risk profiles, and reduce earnings volatility. Good examples are the AMI and Woodforders acquisitions, and our agreement with Berkshire Hathaway.

We are driving future growth and profitability by sharpening our focus on customers’ needs. Our goal is to create a company that is customer-first, data-driven, simpler and scalable, agile and quick to respond to the changes we are seeing in the world and the industry.

As we work to achieve our strategy, we will continue to invest prudently for the future, and manage our capital and risks to ensure our long-term viability as a strong capital and risk management discipline.

CHAIRMAN APPOINTMENT

In a change flagged at the 2015 annual general meeting in October, the IAG Board has appointed a new Chairman. Ms Elizabeth Bryan will assume this role effective 31 March 2016. Ms Bryan was appointed as a director of IAG in December 2014 and as Deputy Chairman in June 2015. Her depth of experience in leading some of Australia’s most successful companies serves us extremely well.

IAG and its management team, and ensures the interests of shareholders.

PETER HARMER
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

30% OWNED UNLESS INDICATED

IAG’s short term personal insurance products are distributed in Victoria under the RACV capital partnership via a distribution arrangement with RACV. These products are distributed by IAG and underwritten by Insurance Manufacturers of Australia by IAG (B) Ltd, which is 100% owned by IAG and 51% owned by RACV. IAG holds a 98.9% beneficial interest in Safety Insurances, based in Thailand, which includes under the safety and NPL branch, IAG owns 49% of the general insurance arm of Malaysia-based AmBank Group, AmGeneral Holdings Berhad (Malaysia), which includes AmGeneral Insurance and Kariera Indonesia. IAG owns 10% of 51% owned by IAG and 49% by Safety Insurances. IAG owns 49% of the general insurance arm of Malaysia-based AmBank Group, AmGeneral Holdings Berhad (Malaysia), which includes AmGeneral Insurance and Kariera Indonesia. IAG owns 10% of 51% owned by IAG and 49% by Safety Insurances.

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