Insurance Australia Group Limited (IAG) today announced a 26% increase in insurance profit to $832 million for the year ended 30 June 2012 (FY11: $660 million). This equates to an insurance margin of 10.6% (FY11: 9.1%), in line with original guidance of a 10-12% margin. The result was achieved on the back of an 11.7% increase in gross written premium (GWP) to $8,992 million.

Managing Director and Chief Executive Officer, Mr Mike Wilkins, said the result reflected a strong business performance and was achieved despite net natural peril claim costs above allowances and wider credit spreads reducing the margin by around 200 basis points combined.

“We have seen significant uplift across key financial measures and have made great inroads against our strategic priorities. I’m very pleased with what we have achieved,” Mr Wilkins said.

“This result is driven by a continued strong performance from Australia Direct, further improvement from CGU and a significant increase in profitability from our New Zealand business. Together our Australian and New Zealand businesses produced an insurance margin of 12.6%.

“The programme of remedial actions in the UK has also delivered further improvement, placing the business close to breakeven, and our Asia division delivered a sound underlying result,” he said.

The insurance result was achieved in the face of:

- Increased net natural peril claim costs of $658 million (FY11: $610 million), compared to original allowances of $580 million and a revised guidance assumption of $630 million announced in February 2012;
- Lower reserve releases of $229 million (FY11: $328 million); and
- An adverse credit spread impact of $70 million.

UK STRATEGIC REVIEW

Mr Wilkins said the strategic review of the UK business was continuing and was expected to be completed before the end of the calendar year. “All options continue to be assessed, including a focus on improving the business’ performance within the current operating model, refining the business’ strategy to a more focused specialist motor offering, and exploring a potential sale of all or part of the business.”

In light of the continuing challenging economic and industry conditions in the local market, IAG has written off all remaining goodwill and intangible assets associated with the UK business ($297 million). This has resulted in a reported net profit after tax (NPAT) of $207 million (FY11: $250 million).

DIVIDEND AND CAPITAL POSITION

Cash earnings increased by 17.5% to $583 million (FY11: $496 million). In line with the company’s policy to pay out 50-70% of cash earnings the Board has determined to pay a fully franked final dividend of 12 cents per share (cps), resulting in an increased full year payout of 17cps (FY11: 16 cps). The final dividend will be paid on 3 October 2012 to shareholders registered on 5 September 2012.
IAG’s capital position is robust with a minimum capital requirement multiple of 1.74 at 30 June 2012, above the Group’s long term benchmark.

DIVISIONAL RESULTS

“Our largest business, Australia Direct, produced a strong underlying insurance margin of 15.2%, consistent with FY11. Revenue growth in motor was 7.8%, reflecting mainly volume gain, while home was up 20.4%. The division benefited from a range of initiatives including an enhanced online capability and the continuing ‘Experience the Difference’ brand campaign,” Mr Wilkins said.

“The underlying performance of CGU continued to improve and revenue growth was up 12% on the back of rate increases and bolt-on acquisitions. Significant progress was also made on the introduction of a new operating model.

“In New Zealand the strong, post-earthquake recovery continues with an insurance margin of 10.4%. GWP growth of more than 26% was reported, reflecting rate increases to recover higher reinsurance costs, some volume growth in NZI and a three-month contribution from AMI, acquired in April 2012.

“In Asia, our established businesses in Thailand and Malaysia performed strongly at an underlying level, but the reported result was affected by the extreme Thai floods. Our joint venture in India is growing rapidly and we’ve recently completed acquisitions in China and Vietnam.

“Our remediation programme has delivered a much improved result in the UK, with an insurance loss of $13 million (FY11: loss of $181 million) in line with our close to breakeven expectations,” he said.

OUTLOOK

Mr Wilkins said he expected the performance of the Group would continue to improve in FY13.

“We remain focused on our strategic priorities which are delivering results. We expect the momentum evident in FY12 will continue in FY13 and have set guidance of GWP growth of between 9-11% and a higher insurance margin in the range of 11-13%.”

The outlook includes:

- Strong GWP growth in Australia Direct with an insurance margin similar to FY12;
- An improved underlying double-digit insurance margin in CGU, including a $25 million pre-tax benefit from its new operating model;
- A strong result from the New Zealand business including the realisation of synergies from the integration of AMI; and
- A modest profit from each of the UK and Asia.

FY13 guidance assumes net losses from natural perils in line with budgeted allowances of $640 million, no material movement in foreign exchange rates or investment markets and lower prior period reserve releases of 1-2% of net earned premium (FY12: 2.9%).

About Insurance Australia Group

Insurance Australia Group (IAG) is the parent company of an international general insurance group, with operations in Australia, New Zealand, the United Kingdom and Asia. Its current businesses underwrite over $9 billion of premium per annum, selling insurance under many leading brands including NRMA Insurance, CGU, SGIO, SGIC and Swann (Australia); NZI, State and AMI (New Zealand); Equity Red Star (UK); and Safety and NZI (Thailand). For further information please visit www.iag.com.au.