Insurance Australia Group Limited (IAG) today announced an insurance profit of over $1.4 billion for the year ended 30 June 2013 (FY12: $845 m). This equates to a reported margin of 17.2% (FY12: 11.5%) and incorporates an improved underlying margin of 12.5% (FY12: 12.0%), on a continuing operations basis.

The result was achieved on the back of an 11.8% increase in gross written premium (GWP) to $9.5 billion. The Group’s net profit after tax increased to $776 million (FY12: $207 m).

IAG Managing Director and Chief Executive Officer, Mr Mike Wilkins, said the full year result reflected further improvement in the Group’s underlying business performance.

“Maintaining a clear focus on our strategic priorities, to accelerate growth in Australia and New Zealand and build our Asian footprint, has underpinned the Group’s ability to deliver this strong result,” Mr Wilkins said.

“Over the past few years we have created a solid platform for growth and have addressed the underperforming areas of our business. Part of this process was the sale of our UK business, which was completed in April 2013.”

The Group’s reported insurance margin of 17.2% is at the upper end of the updated guidance provided on 17 July 2013, and has been assisted by the following favourable features:

- A net natural peril claim expense of $464 million, compared to an allowance of $620 million;
- A positive credit spread impact of $110 million, compared to a negative effect of $70 million in FY12; and
- Higher than originally expected reserve releases equivalent to 2.5% of net earned premium (NEP), derived from continued favourable experience in long tail classes in a low inflation environment.

The IAG Board has determined to pay a fully franked final dividend of 25 cents per share (cps), resulting in an increased full year payout of 36cps (FY12: 17cps). This equates to 64.7% of cash earnings in FY13 and is towards the upper end of the Group’s policy to pay out 50–70% of cash earnings each financial year. The final dividend will be paid on 9 October 2013 to shareholders registered on 11 September 2013.

DIVISIONAL RESULTS

“Australia Direct, IAG’s largest business, reported an increase in GWP of 6.6% and an underlying insurance margin of 13.5%. GWP growth was achieved across most product classes and all states. When compared to FY12, motor and home GWP increased by 4.7% and 12.6% respectively. The slightly lower underlying margin, compared to FY12, reflects pressures from NSW CTP, but showed encouraging improvement in the second half of the year,” Mr Wilkins said.

“CGU, our intermediated business, delivered strong GWP growth of 9.7% and achieved its targeted double digit underlying insurance margin which, at 11.2%, was a significant improvement over the preceding year. The implementation of CGU’s new operating model is proceeding to plan, with close to $30 million of pre-tax benefits realised in FY13. It remains the Group’s expectation that these benefits will increase to $65 million pre-tax by the end of FY15.”
"In New Zealand, GWP increased by 26.8% in local currency terms and the business delivered an underlying margin of 11.1%. This strong performance includes a full year contribution from AMI (FY12: 3 months), the integration of which is on track to realise synergies of at least NZ$30 million within two years of its purchase. In addition, we launched a national consumer education campaign, customised across our brands and partners, to support the move from open ended to specified sum insured policies.

“Our Asia division delivered a much-improved profit of $20 million for FY13, highlighting the strong underlying performance of our established businesses in Thailand and Malaysia, the latter boosted by the acquisition of Kurnia in September 2012. Collective results from our emerging markets interests, in India, China and Vietnam, were slightly ahead of expectations, as our capability transfer programmes gain traction. Adjusting for a full year of Kurnia, Asia represented around 7% of the Group's GWP, on a proportional basis, in FY13," Mr Wilkins said.

CAPITAL POSITION

The Group remains strongly capitalised. As at 30 June 2013, the Group reported:

- A Prescribed Capital Amount (PCA) multiple of 1.67, compared to the Group’s long term benchmark of 1.4–1.6; and
- A Common Equity Tier 1 (CET 1) ratio of 1.09, within the Group’s target range of 0.9–1.1 times the PCA.

If allowance is made for the 2H13 dividend of 25 cents per share, which will be paid in October 2013, the PCA multiple at 30 June 2013 would reduce to a level around the mid-point of the Group’s targeted benchmark range.

OUTLOOK

Mr Wilkins said the past year had been one of significant achievement across the Group which had delivered positive results for customers, shareholders, employees and the community. "We continue to develop services that meet our customers' needs and products that are relevant and appropriately priced based on individual or business risk exposure.

"We remain committed to making our communities safer and more resilient by promoting a deeper understanding and awareness of risk. Over the long term, this will play a key part in ensuring insurance remains affordable and accessible to all those who need it.

"Further improvement in the Group’s performance is expected in FY14. We will continue to focus on our strategic priorities which are delivering demonstrably positive results for the Group. The momentum evident in FY13 will continue into FY14 and we have set guidance of GWP growth of between 5-7% and a reported insurance margin in the range of 12.5–14.5%;" said Mr Wilkins.

The outlook includes:

- Further GWP growth from all business divisions;
- A higher underlying margin from Australia Direct;
- An improving underlying margin from CGU, as further benefits from its new operating model are realised;
- Maintenance of a strong underlying performance in New Zealand; and
- Further operational progress from Asia, building on the positive momentum of FY13 as the business increasingly moves its focus from development to delivery.

FY14 guidance assumes net losses from natural perils in line with budgeted allowance 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 (FY13: 2.5%).
About Insurance Australia Group
Insurance Australia Group Limited (IAG) is the parent company of a general insurance group with controlled operations in Australia, New Zealand, Thailand and Vietnam, employing around 13,500 people. Its current businesses underwrite approaching $10 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); Safety and NZI (Thailand); and AAA Assurance (Vietnam). IAG also has interests in general insurance joint ventures in Malaysia, India and China. For further information please visit www.iag.com.au.

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