



CEO presentation to 2019 AGM

Mr Peter Harmer
Managing Director and CEO, Insurance Australia Group Limited

Slide 1: title slide

Thank you, Elizabeth

Good morning, ladies and gentlemen.

I am delighted to add my welcome to Elizabeth's, and very proud to provide you with this update on our company's performance.

Slide 2

2019 financial summary

Further underlying improvement, in line with guidance

 3.1% \$12,005m Gross written premium	 13.0% \$1,224m Insurance profit	 140bps 16.9% Reported margin	 250bps 16.6% Underlying margin
 16.6% \$1,076m Net profit after tax	 10.0% \$931m Cash earnings	 5.9% 32cps Ordinary dividend	

We achieved a very pleasing result for the 2019 financial year, highlighting the ongoing underlying improvement in our business.

As ever, this performance speaks to the strength of our brands and the incredible passion and commitment of our people, which has been tested at times in a year of reasonably high perils activity, particularly here in Sydney.

Overall, gross written premium grew by just over 3%, largely from increased prices, supplemented by a favourable foreign exchange translation effect in New Zealand. Like-for-like premium growth across the Group was close to 4%.

Our underlying insurance margin continued the improvement we recorded last year, increasing to 16.6%.

At the reported margin level, that improvement in underlying performance was outweighed by claim costs from natural disasters, credit spread movements, and significantly lower prior period reserve releases.

Net profit after tax of \$1,076 million was over 16% higher than in the 2018 financial year, because it included an over \$200 million profit on the sale of our Thailand operations, which was completed at the end of August 2018.

Slide 3



Our focus

- Create a customer-focused organisation with enhanced capabilities in data, digital, analytics and artificial intelligence, brand and innovation
- Build a lean, efficient and modular insurance operation
- Create a more agile organisation



Progress

- Simplification well-advanced
- Increased future focus on customer engagement and growth

At IAG, our purpose is to make your world a safer place: for our customers, shareholders, employees, partners and the communities we serve.

We believe our purpose will enable us to become a more sustainable business over the long term, and deliver stronger and more consistent returns for our shareholders.

Our strategy is to optimise our core insurance business and create future growth options by making customers feel safer on the road, in their homes and at work.

Our results demonstrate that our strategy – based around the three priorities of customer, simplification and agility – is achieving robust operational and financial performance.

Crucially, this places us in a strong position to increase our focus on customer engagement and growth, and I'll tell you some of the things we are doing on this front.

Slide 4

Customer

Delivering world-leading customer experiences



2019 activities

- Enhanced customer digital experiences, via simpler motor and home claim processes
- Adopted a customer journey design framework to deliver offerings and experiences accessible to all customers
- Developed a real-time, interactive customer insights portal, providing IAG employees with a deeper customer understanding

2020 priorities

- Meet changing customer needs by accelerating investment in data, artificial intelligence and innovation, to build out new businesses
- Accelerate use of the public cloud to more fully access its benefits, allowing more rapid, efficient and flexible customer decisions
- Apply behavioural science insights to future products to create value for customers and improve their safety

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25 October 2019

This year, we have focused on how we might grow Customer engagement and pursue longer term growth opportunities.

Our Customer Labs team continued to digitise our home and motor claim processes.

We can now increasingly personalise the experiences we offer customers, and connect them to more products and services.

One development means that customers can now track motor repairs via SMS updates – which has proved very popular.

We continue to move our data to the cloud, accessing the associated benefits around speed, efficiency and flexibility in customer decision-making.

We are now taking significant steps to build out new businesses that complement our core insurance offering.

This involves accelerated investment in the data, artificial intelligence and innovation capabilities that we have been establishing in Customer Labs for some years now.

We have already translated our investment into new business opportunities in the transport space, with our recent investment in the Carbar digital car trading platform.

Slide 5

Customer experience

Enhanced frameworks to guide our relationships



- **Product governance framework** developed to help identify when products no longer align with our purpose and community expectations
- Major products reviewed against our **Product Design Principles**; review of all other products will be completed this financial year
- **Ethics Committee and Consumer Advisory Board** continue to provide insights and improve our understanding and response
- **Customer Equity Framework** developed to ensure we deliver world-leading customer experiences, and remove barriers to accessing our products and services
- Committed to **Financial Inclusion Action Plan** to achieve greater financial inclusion for our customers, people, community and partners

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In the aftermath of the Royal Commission, there is a much bigger focus on consumers and the experiences they have with companies.

We are well prepared for this.

This year we enhanced several of the frameworks that guide our relationship with our customers.

We know our products must be fit for purpose, clearly described and affordable. We must also deliver them in a way that achieves our purpose – to make our customers' worlds safer.

We also know that customers who claim on their policies may be contacting us when they are at their most vulnerable.

It is critical that we treat them with empathy and care and I am so proud of the extent to which our people consistently demonstrate just how much they do care – on the ground after an event, or on the phone, helping our customers with their claims.

Simplification

Simplified, modular and lower-cost operating model



2019 activities

- Claims component of systems consolidation largely complete, across Australia and New Zealand
- Transition of targeted activities to offshore operational partners completed
- Progressed divestment of/exit from non-core businesses

2020 priorities

- Decommissioning of redundant claims systems following technology platform consolidation
- Commence execution of policy administration system consolidation
- Geographic expansion of optimised repair model within Australia and New Zealand

We have also made considerable progress with our simplification initiatives, which have enabled our customer focus.

Targeted activities have been outsourced to our operational partners, and are now very much business-as-usual.

We have largely consolidated our claims system and the emphasis is now on decommissioning redundant systems.

This year, we will begin to tackle the consolidation of our policy administration systems – a much more complex and lengthier task than for claims.

We've also been busy refining our enhanced repair model. We now have majority ownership of a number of rapid repair motor workshops. We will expand the model more broadly across Australia and New Zealand in the coming year.

I'm pleased to advise that RACV is one of our partners in this initiative.

We have also simplified our operational profile. Asia is one aspect of this, and just last week we took another significant step, when we agreed the sale of our 26% interest in SBI General Insurance in India.

Our underwriting agency interests in Australia are another area we have simplified, divesting several businesses which are non-core and which are better owned by other parties.

Agility

An organisation distinguished by innovation, speed and execution skills



2019 activities

- Embedded **Leading@IAG** program, strengthening connection of IAG's purpose and strategy to individual accountability and performance
- Continued deployment of **Future ME** program, enabling employees to build their knowledge and preparedness to participate in the workforce of the future

2020 priorities

- As part of **MyFlex** program, expand Switch shift management tool, enabling greater workforce flexibility in a cost-effective and customer-centric manner
- Continued development of partnerships, products and shared value programs that drive safer communities and deliver on IAG's purpose



Under our Agility priority, we have continued to roll out employee programs that clarify people's roles and accountabilities, and build their capacity to participate in our workforce of the future.

We have also been actively implementing measures that increase workforce flexibility.

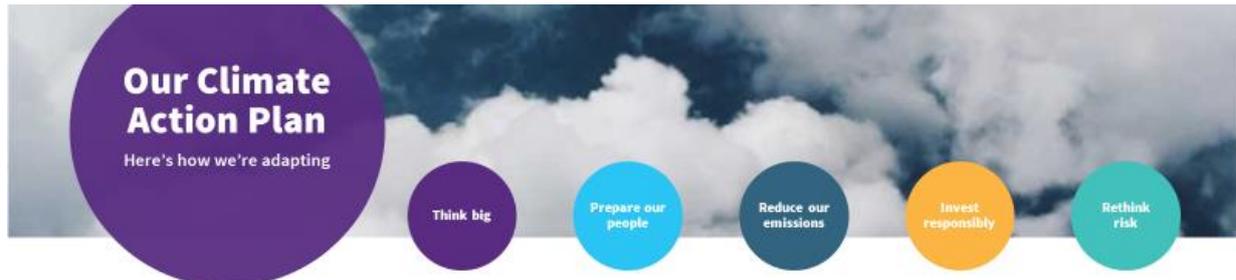
We launched an online shift management tool across all our large contact centres, allowing employees to quickly and easily change their rosters to accommodate their life needs.

And our Kids@IAG program is now into its fifth year, providing a free school holiday care program for the children of our employees over an expanded number of locations. In our most recent program, we entertained nearly 600 children across six separate locations.

We provide a range of flexible working options for our people and estimate that up to 70% of our workforce now works flexibly.

So, all in all, it's been another busy year, and we have a similarly broad list of priorities in the year ahead, as we continue to look at ways to strengthen our relationships with our customers and the company's future growth prospects as a whole.

Slide 8



Our Climate Action Plan
Here's how we're adapting

Think big

Prepare our people

Reduce our emissions

Invest responsibly

Rethink risk

Climate Action Plan

Our roadmap for re-creating insurance in a changing world

- Scorecard launched at 2018 AGM
- Senior executives directly accountable for climate change objectives
- Third scorecard released in October 2019

Progress

- CO₂ emissions reduced by 22% since FY18
- Increased disclosure – in-depth Task Force on Climate-related Financial Disclosures (TCFD) material included in 2019 annual report
- Leading climate research and analysis, including on natural perils, to support stakeholders in their response to climate change
- Leadership in Australian Sustainable Finance Initiative with significant climate considerations

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At last year's AGM, we showcased our Climate Action Plan and introduced a scorecard that assigns direct accountability for climate change objectives to our senior executives.

Since last year's meeting, we have published two Climate Action Plan scorecards with updates on our progress against the targets and deadlines that we set.

Some of the highlights include:

- increased disclosure in our 2019 annual reports, aligned to the TCFD framework;
- our leadership in establishing the Australian Sustainable Finance Initiative, which has significant climate considerations; and
- the 22% reduction in our emissions since the 2018 financial year.

Slide 9



Local

- State Emergency Services
- Australian Red Cross
 - Co-developed Get Prepared app
 - 22,000 downloads since launch



National

- Australian Business Roundtable for Disaster Resilience & Safer Communities
- Resilient New Zealand



Global

- United Nations Principles for Sustainable Insurance
- United Nations Environment Programme – Finance Initiative

We continue to broaden our approach from helping individual customers who have suffered loss, to mitigating the risk of loss for people in the wider community.

In that context, we welcomed last week's increase in the Emergency Response Fund from \$150 million to \$200 million, with bi-partisan support for the extra \$50 million to be dedicated to disaster mitigation and preparedness initiatives.

We support first responders such as the State Emergency Services to provide immediate assistance to customers who are affected by an event, and we continue to work with communities to assist them to become more resilient.

The Get Prepared app we developed in conjunction with the Australian Red Cross is another way we are helping people to think ahead about how they can prepare for, and respond to, emergencies.

We are delighted that Red Cross representatives are with us in the foyer today to demonstrate how easy it is to use the app. Please make time to see them so you can be prepared for the coming storm and bushfire season.

We are also contributing to the Australian Federal Government's national disaster risk reduction program and are working through the Climate Leaders Coalition in New Zealand to ensure businesses are adapting and building resilience to the impact of climate change.

Financial year 2020 outlook

Further improvement in underlying performance expected

The slide is divided into two main sections: 'FY20 guidance measures' and 'Underlying assumptions'. The 'FY20 guidance measures' section includes 'GWP growth Low single digit' and 'Reported insurance margin 16-18%'. The 'Underlying assumptions' section is numbered 1, 2, and 3, covering 'Net losses from natural perils of \$641m, in line with allowance', 'Reserve releases of around 1%', and 'No material movement in foreign exchange rates or investment markets'. Below these are detailed bullet points for 'GWP growth guidance of low single digit', 'Reported insurance margin guidance of 16-18%', 'Fee based business', and 'Net profit after tax'. The IAG logo and 'Annual General Meeting 25 October 2019' are at the bottom left.

% FY20 guidance measures		i Underlying assumptions		
GWP growth Low single digit	Reported insurance margin 16-18%	1 Net losses from natural perils of \$641m, in line with allowance	2 Reserve releases of around 1%	3 No material movement in foreign exchange rates or investment markets

GWP growth guidance of 'low single digit'

- Rate increases and modest volume growth across short tail personal lines
- Further commercial rate increases, reduced pace in New Zealand
- Lower commercial volumes, principally from business exits (>\$100m reduction in GWP from divested underwriting agency interests)
- Lower CTP GWP – scheme change effects in NSW, ACT and SA

Reported insurance margin guidance of 16-18%

- Improved underlying performance, including an increase in pre-tax benefit from optimisation program initiatives of ~\$160m
- Some offset from increased regulatory and compliance costs – up to \$50m increment in FY20

Fee based business

- Increased pre-tax loss of ~\$50m – accelerated investment in data, artificial intelligence and innovation technologies, and associated new businesses

Net profit after tax

- Expected to include >\$300m profit from agreed sale of Indian JV interest

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I would like to touch briefly on the outlook for this year.

We are guiding to a reported margin range of 16 – 18%. While this is the same guidance we had for the 2019 financial year, it is of a much higher quality. It includes:

- substantial improvement in our underlying performance (much of it derived from our simplification program)
- some offset from higher regulatory and compliance costs
- and a reduction in reserve release expectations

Overall, our guidance represents another step up in our underlying profitability.

So, in summary, we've had another very satisfactory year.

We put a plan in place three years ago, and I'm very pleased with the progress we are making against that plan. Our focus has been on doing the simple things very well, and it is delivering results.

We have strengthened the business from a customer perspective, and from an employee brand perspective.

We have good momentum, and I'm looking forward to further progress in this current financial year.

I will now return you to Elizabeth

Thank you.

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 I (New Zealand). IAG also has interests in general insurance joint ventures in Malaysia and India. For further information, please visit www.iag.com.au.

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