Chairman’s address to 2019 AGM

Ms Elizabeth Bryan AM
Chairman, Insurance Australia Group Limited

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This financial year included the last several months of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

The Royal Commission was followed by widespread public discussion on the roles of companies, and early moves by Australia’s major corporate regulators to signal the priorities and proposed activities that will shape their response.

My Chairman’s Review at the beginning of our 2019 Annual Review sets out your Board’s reaction to this debate.

Let me recap very briefly: The Board welcomes conversations about broadening corporations’ focus to ensure we fully consider the interests of all our stakeholders, including customers, shareholders, employees and the communities we work amongst.

We believe that a balanced focus on all these stakeholders will make our company stronger, more sustainable and more successful in the longer term.

The Board also welcomes the focus on six ethical principles that Commissioner Hayne suggests should inform the conduct of financial services entities.

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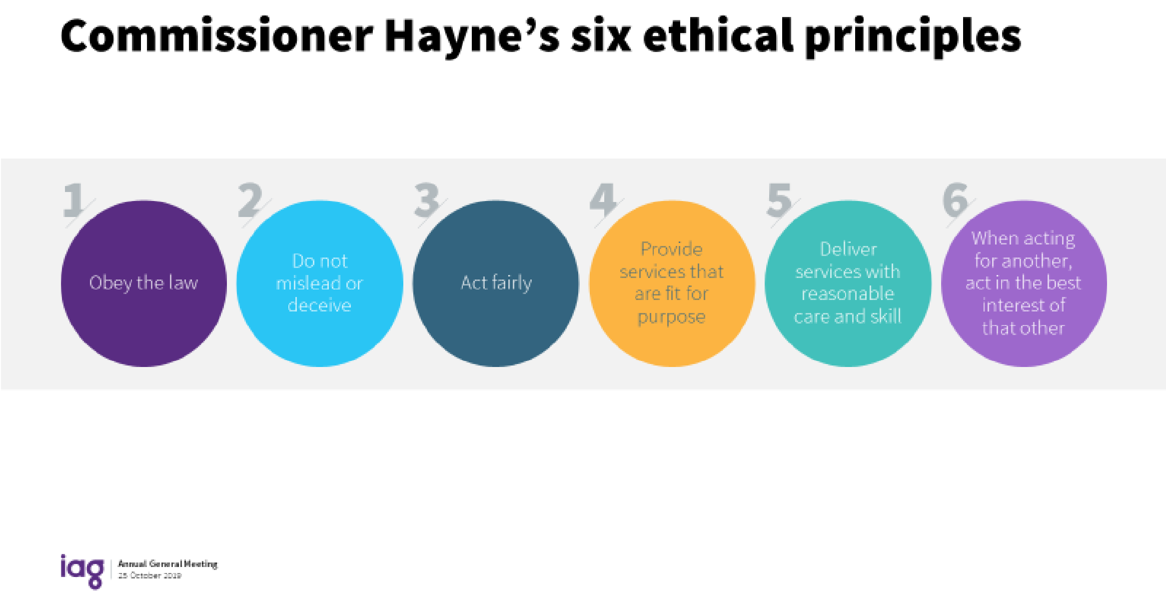

These are:

- Obey the law,
- Do not mislead or deceive,
- Act fairly,
- Provide services that are fit for purpose,
- Deliver services with reasonable care and skill, and
- When acting for another, act in the best interest of that other.

We wholeheartedly support these principles and we believe we are well-positioned to meet them.

Our confidence stems from the important role our core business of general insurance plays in supporting individuals and communities, and the caring way our people provide our products and services.

In the last six months, we have seen a much stronger focus on regulation that is affecting business now, and will continue to affect us into the future.

Responding to this environment is a work in progress for IAG – as it is for most large companies.

As always, your Board will work co-operatively with our regulators to bring about changes that are best for both our industry, our company, and all our stakeholders.

Two areas that are featuring heavily in current corporate debate – led by our regulator APRA – are the impact of climate change on businesses, and remuneration structure and outcomes.

These are also subjects that you have shown interest in.

We will discuss these later in the meeting, but let me say a few words about the Board's perspective on each subject now.

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First, climate change

Those of you who have been coming to our AGMs over the years will know that IAG has taken a strong public stand on both the perils of climate change, and the need to act to mitigate its effects.

This is not surprising, as a large part of our business involves insuring our customers against loss from weather events.

We acknowledge that shareholders also have legitimate concerns about climate change.

And we recognise these are reflected – partly – in the resolutions from Market Forces on today's agenda.

We share those concerns, which go to the heart of our business as an insurer.

We see first-hand the devastating impact that a changing climate has on our customers, and on our communities.

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Our focus on climate change goes to the heart of our purpose to make your world a safer place.

To address the risks that arise from the changing climate we work with local communities and with all levels of government to mitigate the risks of extreme weather events, increase preparation before an event, and build resilience to help speed up recovery after.

Like many of the world's leading organisations – and almost all of its governments – we have committed to play our part to deliver on the Paris Agreement, and to limit climate change to two degrees above pre-industrial levels.

We are a member of several local and global organisations which deal with climate change and its impacts.

We have used our knowledge of risk to instigate the establishment and ongoing work of the Australian Business Roundtable for Disaster Resilience & Safer Communities and Resilient New Zealand.

We have science-based carbon emission reduction targets for our operations, consistent with the commitments in the Paris Agreement.

In 2019, IAG reduced greenhouse gas emissions by 22.6%, exceeding our target to reduce carbon emissions by 20% by 2020.

IAG has also been carbon neutral since 2012.

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Investment portfolio

Let me now explain how our approach to our investment portfolio also supports our climate change objectives.

Under our investment mandates, we no longer invest in companies which are predominantly engaged in mining thermal coal.

We have investment processes for our equity portfolio that exclude or restrict investment in high risk companies with poor climate change risk management; and support companies which are improving their performance by reducing their carbon risk and investing in renewables.

Our process has reduced the carbon footprint of our equity portfolio by 60% since 2017.

At the end of June 2019, our exposure to companies that we assess as making the largest contributions to climate change was just 0.13 percent, or $15 million of our $11 billion investment portfolio.

We believe these businesses which we have invested in are managing their environmental impact to transition to a low carbon future.

Moving to a low carbon future must involve transitions by many companies, and we want to support those transitions.

We also continue to invest in and support the Green Bond market. At the end of June this year, we held $79 million in green/social bonds.

In 2018 we made a $50 million commitment to a low carbon portfolio which is financing the operation of solar and wind generation assets.

We continue to review and refine our investment criteria, including by assessing and using ESG research, engaging with other like-minded investors and counterparties, and participating in organisations like the UN-supported Principles for Responsible Investment.

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Underwriting

We also manage climate risk through our underwriting process.

For many years, IAG has had minimal underwriting exposure to entities that mainly are in the business of extracting fossil fuels, or of power generation using fossil fuels.

We have committed to ceasing any residual underwriting in these types of companies by 2023.

One exception to this is our decision to continue to underwrite workers' compensation insurance, irrespective of the climate intensity of the industry involved.

This approach reflects our belief that everyone needs to be protected at work and is aligned with our purpose of making your world a safer place.

Last financial year, IAG's annual gross written premium relating to all mining and fossil fuel power generation – including workers' compensation in these areas – was less than 0.1% of the total premium IAG wrote in that period.

We provide updates on our climate-related investment exposure through the scorecards related to our Climate Action Plan, and by reporting aligned with TCFD recommendations.

We have a specialist Natural Perils Team and our experts are increasingly sharing their knowledge.

Our goal is to help as many organisations as possible understand the impact of extreme weather events.

Next week, the team will launch research that explores the global science of climate change and the implications of extreme weather events in Australia.

They are also working to bring about amendments to planning approvals and building codes to address the impact of changing weather.

We are not standing still on this important issue of climate change.

Executive remuneration

Let me move now to the subject of remuneration – consistently a cornerstone of annual general meeting discussions.

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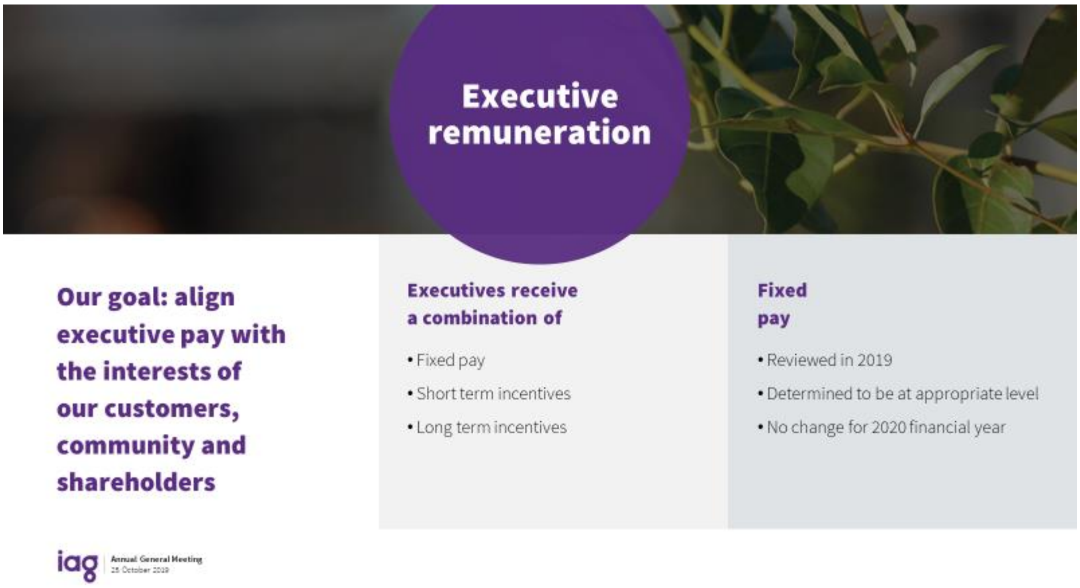

Our goal is to align executive pay with the interests of our customers, community and shareholders.

To do this, we assess both financial and non-financial performance. We also include a risk assessment and behavioural gateway.

Our approach ensures results are delivered in a way that is sustainable and benefits all IAG stakeholders.

Executives receive a combination of fixed pay, short term incentives and long term incentives.

We reviewed fixed pay in the 2019 financial year and determined that executive fixed pay levels are appropriate. As a result, fixed pay will not change for the 2020 financial year.

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Short term incentive outcomes consider the financial and non-financial performance of the company and the performance of the individual executive.

This year's outcomes reflected the further improvement in underlying business performance.

Payments under our short term incentive ranged from 47 – 72% of the maximum achievable and averaged 60%.

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Our long term incentive plan rewards long term performance and has two hurdles: cash return on equity, and relative total shareholder return.

As I foreshadowed at last year's annual general meeting, this year we reviewed the cash return on equity hurdle. We considered the impact of monetary policies on the global cost of capital, our changing capital base and the need to ensure the hurdle is sufficiently stretching.

We have now increased the vesting range for this hurdle to 1.4 to 1.9 times the weighted average cost of capital for future awards.

We are confident this change will embed an appropriate level of stretch.

To align the interests of non-executive directors and executives with shareholders, we continue to require them to hold a significant number of IAG shares after a set period. All those who are required to meet the requirement did so.

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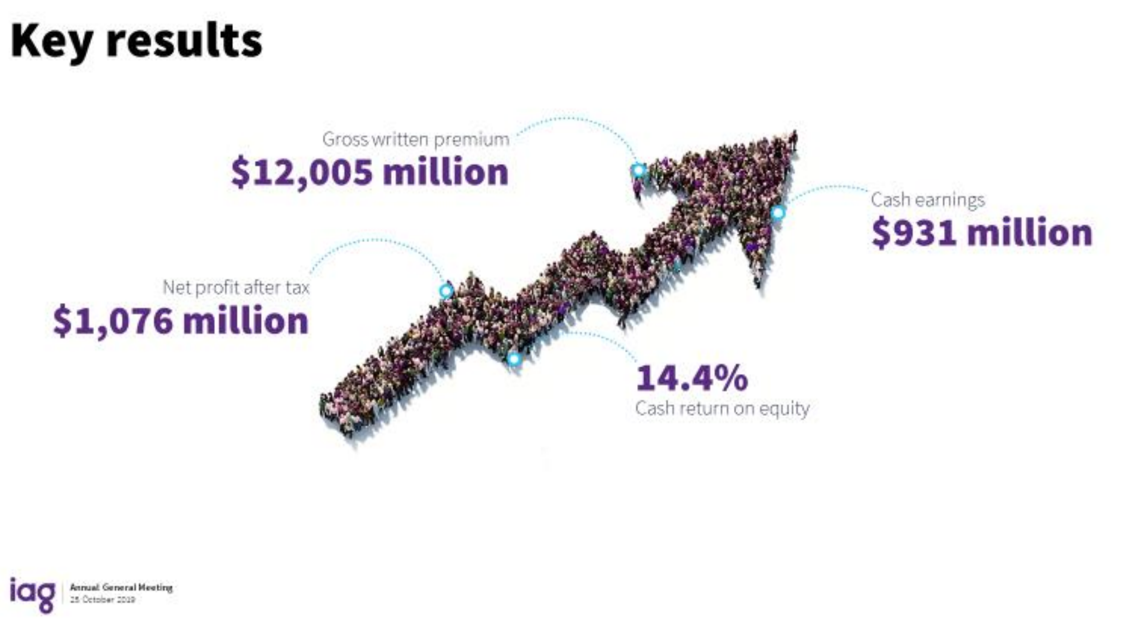

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Results

I am pleased to say IAG has again managed its business successfully to provide shareholders with strong returns. We achieved gross written premium of just over $12 billion; net profit after tax of over $1 billion; cash earnings of just over $930 million; and a cash return on equity of 14.4%, within touching distance of our target of 15%.

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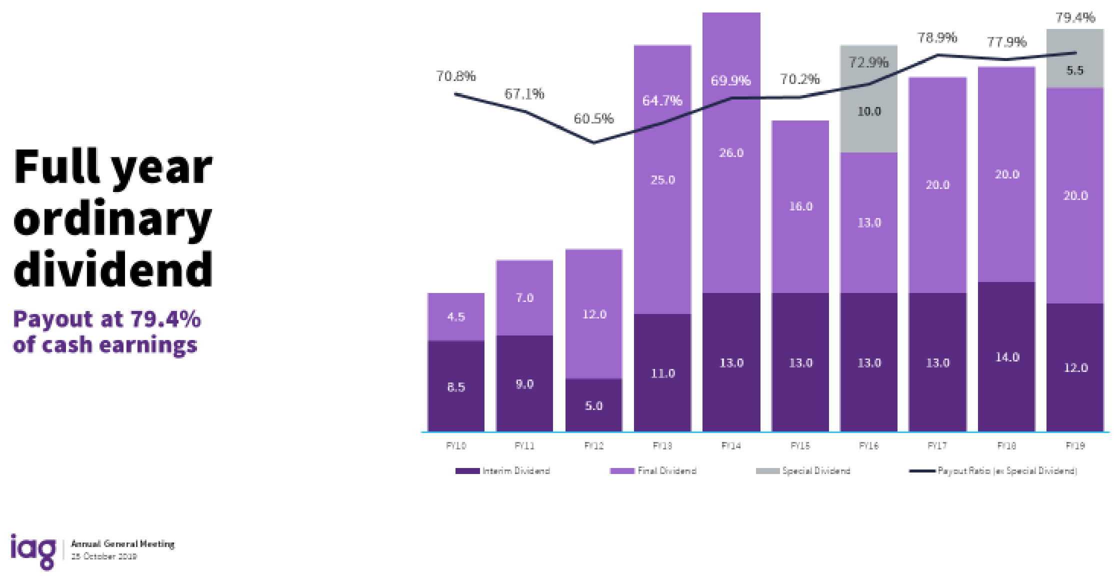

Dividends

Shareholders have shared in our success through a final dividend of 20 cents per share, paid on 30 September, bringing the full year ordinary dividend to 32 cents per share.

Peter will provide some more details about our performance shortly.

Our Board

Let me now turn to our Board.

This meeting heralds a change in our Board, with the retirement of our long-serving director, Hugh Fletcher. Hugh has served as a director since 2007 and has helped transform our business into the one you see today. He has also served as Chairman of IAG New Zealand since 2003 and is retiring from that role as well. On behalf of all shareholders, thank you Hugh, for your untiring service to IAG. We wish you all the best for your future.

As part of our ongoing process of board renewal, we appointed George Savvides to the Board in June. I look forward to introducing him to you shortly, when we reach the resolution on his election.

Before we move to the business of the meeting, I want to acknowledge the efforts by everyone who works at IAG, and thank my fellow directors for their support.

Your contribution is helping to ensure our company continues to meet the expectations of everyone who relies on us.

I now invite our Managing Director and Chief Executive Officer, Peter Harmer, to provide us with an overview of our performance.

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 interests in general insurance joint ventures in Malaysia and India. For further information, please visit www.iag.com.au.

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