News Release

22 July 2022

IAG provides preliminary FY22 results and FY23 guidance

IAG today announced its preliminary financial results for the year ended 30 June 2022 (FY22) and its FY23 guidance.

The results, which are subject to finalisation of the audit process and Board approval, are expected to be:

- Reported NPAT of $347 million (FY21: $427 million loss) including:
  - strengthening of prior period reserves by $135 million in the second half (FY22: $172 million), driven by the commercial liability portfolio, reflecting the inflationary impact on claims settlement costs and the greater than anticipated late notification of large claims mainly from the 2017 and 2018 accident years, which are now assumed to continue into later years;
  - a challenging operating environment with a high incidence of natural perils, volatile investment markets, and a higher inflationary environment;
  - a $200 million pre-tax release from the business interruption provision; and
  - a strong momentum in the underlying[1] business performance which provides confidence in the outlook for FY23.

- GWP growth of 5.7% (FY21: 3.8%), consistent with guidance of 'mid-single digit' growth;

- A reported insurance profit of $586 million representing a margin of 7.4% (FY21: 13.5%), below the guidance range of 10% to 12%, reflecting:
  - Net natural peril costs of $1,119 million, $354 million above the original allowance of $765 million, consistent with the expectation of 'approximately $1.1 billion' as announced on 9 March 2022;
  - Prior period reserve strengthening of $172 million; and
  - Negative credit spread impacts of $45 million.

- An underlying insurance margin[1] in the second half of FY22 of 14.1% (2H21:13.5%).
- A loss on shareholders' funds of $105 million.
- A pre-tax net corporate expense benefit of $200 million (FY21: $1,510 million loss) reflecting a reduction in the business interruption provision.

[1] IAG defines its underlying insurance margin as the reported insurance margin adjusted for net natural peril claims costs less the related allowance; prior period reserve releases or strengthening; and credit spread movements.

IAG Managing Director and CEO Nick Hawkins said:

"Our preliminary FY22 financial results reflect high natural perils and volatile investment markets. We have also strengthened our reserves following adverse experience in our commercial liability portfolio from prior accident years.

"The FY22 preliminary underlying results reflect the positive momentum we've achieved as we build a stronger, more resilient IAG.

"Despite the challenges we have seen in the external environment over the year, our businesses have performed well, delivering strong GWP growth.

"Our direct insurance business in Australia is growing in key segments, particularly as we roll out the NRMA Insurance brand in Western Australia and South Australia," Mr Hawkins said.

Prior period reserve strengthening

The full-year result reflects net prior period reserve strengthening of $172 million (FY21: $81 million strengthening) includes a further $135 million in the second half (1H22: $37 million).

A strengthening in the commercial liability portfolio of $168 million in the second half of FY22 recognises an increase in late reported medium to large claims, notably worker injury claims in the 2017 and 2018 accident years. In addition, we are projecting higher levels of claim inflation based on recent settlements that reflect a more litigious environment and expanded nature of claims covering mental health and enhanced expectations of the standard of care costs. The recent adverse experience from the 2017 and 2018 accident years has been assumed to continue into later accident years.

Around $45 million of the commercial liability reserve strengthening relates to silicosis exposures in which the assumed average claim size has doubled during the year.

IAG has taken significant steps to refine its pricing and underwriting decisions to mitigate future impacts for a range of issues including silicosis and worker injury.

Other classes' claims experience has been broadly in line with expectations with modest releases in the second half of FY22.

Business interruption provision

Following the appeal judgment in the second business interruption test case handed down on 21 February 2022, which is currently subject to applications for special leave to appeal to the High Court of Australia, the following factors have been considered in determining the appropriate level of the business interruption provision at 30 June 2022:

- the number and nature of the claims received since the second test case; and
- analysis of the scope of the judgment and its application.

Consistent with our update in February 2022 that a release of the provision was likely to be recognised over time, we have reviewed the actuarial model supporting the provision, and the business interruption provision has been reduced to $975 million at 30 June 2022.

This provision continues to include a significant risk margin continuing to reflect the uncertainty of the potential legal outcomes and subsequent claims that may arise following that decision. This results in a release of $200 million in FY22.

Capital and dividend

IAG expects to report a solid capital position at 30 June 2022 with a CET1 ratio comfortably within the target benchmark of 0.9 to 1.1. In addition, the expected completion of the sale of the Malaysian business by 31 July 2022 will add a further $150 million (~6pts) to the Group's CET1.

Given confidence in IAG's capital position, it is expected that in this instance, the release from the business interruption provision will be included for the purposes of determining any final FY22 dividend. The Group has available franking credits of $42 million at 30 June 2022.

FY23 guidance

IAG's strong underlying[1] business momentum is reflected in its guidance for FY23, and includes:

- GWP of 'mid-to-high single digit' growth. This will be primarily rate driven to cover claims inflation, higher reinsurance costs and an increased natural peril allowance. Modest volume growth and an increase in customer numbers are expected.
- Reported insurance margin guidance of 14% to 16% which assumes:
  - Continued momentum in the underlying performance of IAG's businesses, supported by increased investment yields;
  - An increase in the natural peril allowance to $909 million post quota-share, an increase of $144 million or nearly ~19% on the FY22 allowance;
  - No material prior period reserve releases or strengthening; and
  - No material movement in macro-economic conditions including foreign exchange rates or investment markets.

"As we enter FY23, our guidance demonstrates both top-line and margin improvement.

"We have been impacted by claims inflation in our key home and motor portfolios and have significantly increased our natural perils allowance to help ensure the business can withstand the impact of increasing frequency and severity of natural perils.

"In our intermediated business, the steps we've taken to improve the performance are showing promising signs and positions us well to deliver the targeted insurance profit of $250 million in FY24.

"By creating a more focused operating model, a leadership team with deep expertise, and a clear strategy for growth we have confidence in the future," Mr Hawkins said.

FY22 results announcement

IAG will announce its final audited FY22 results on 12 August 2022.

This release has been authorised by the Board of Insurance Australia Group Limited.

Teleconference details

IAG Managing Director and CEO Nick Hawkins will host a teleconference to discuss this announcement on Friday 22 July at 10.00am AEST. To register for the conference, please select from the phone numbers below, and quote conference ID 10023943.

Australia (Main):	1800 809 971
Australia (ALT):	1800 558 698
New Zealand:	0800 453 055
Singapore:	800 101 2785
Hong Kong:	800 966 806
Other International:	+61 7 3145 4010

About IAG

IAG is the parent company of a general insurance group with operations in Australia and New Zealand. IAG's main businesses underwrite over $12.5 billion of insurance premium per annum under many leading brands, including: NRMA Insurance, RACV (under a distribution agreement with RACV), CGU, SGIO, SGIC and WFI (Australia); and NZI, State, AMI and Lumley (New Zealand).
For further information, please visit www.iag.com.au.

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