

## CEO's Presentation to 2017 AGM.

**Peter Harmer**  
Managing Director and Chief Executive Officer  
Insurance Australia Group Limited

Good morning ladies and gentlemen. I would like to add my welcome to Elizabeth's. It is my great pleasure to take you through some of the highlights of our performance over the last financial year.

### 2017 financial summary

Robust performance in challenging claims environment

Gross written premium  
**\$11,805m**  
▲ 3.9%

Insurance profit  
**\$1,258m**  
▲ 6.8%

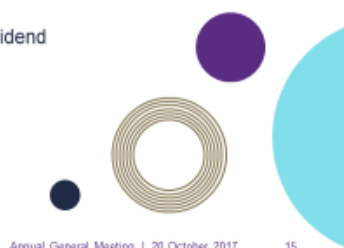
Reported margin  
**14.9%**  
▲ 60bps

Underlying margin  
**11.9%**  
▼ 210bps

Net profit after tax  
**\$929m**  
▲ 48.6%

Cash earnings  
**\$990m**  
▲ 14.2%

Ordinary dividend  
**33cps**  
▲ 26.9%



- We achieved another sound result from our core businesses in Australia and New Zealand, in what has been a relatively tough operating environment, particularly from a claims perspective.
- Our results reflect the ongoing strength and integrity of our brands.
- They reflect our sharpened customer focus, and they reflect the quality and the passion of our people.
- GWP growth was in line with the updated guidance we provided in February, but was higher than we expected at the beginning of the financial year, in part due to better-than-expected retention rates in our commercial business.
- Our reported margin of 14.9% was in the upper half of the guidance we provided in June, and it included:
  - higher reserve releases than we originally expected, which were
  - partially offset by natural peril claims being \$140m above expectations.

- Our underlying margin was slightly lower than we predicted at the half year, due to two significant factors:
  - firstly, we incurred some individual commercial losses that were much larger than we would expect to see in a usual year;
  - and secondly, we experienced some ongoing claims inflation, particularly in motor. We are addressing this through pricing, but there is a slight timing issue.

## Strategic priorities

Supported by two themes of Leading and Fuelling



iag

Annual General Meeting | 20 October 2017 15

- Over the course of the year we continued to focus on our three strategic priorities of Customer, Simplification and Agility.
- I'll talk to the progress we are making against each of these priorities shortly.
- We also made good progress on a number of initiatives that build capability and efficiency into our business.
- These initiatives break down into two themes – Leading and Fuelling – which we talked to you about previously.
- Our Leading theme has us focused on the needs of our customers today, and those of tomorrow, while our Fuelling theme ensures we have an efficient, modular and agile operating platform that creates the capacity for further investment in our Leading activities

# Customer

## Delivering world-leading customer experiences

### 2017 activities

- Created single data hub across company
- Implemented needs-based Australian customer model
- Completed customer journey map (universal to all brands)

### 2018 priorities

- Extend customer model and customer research to New Zealand and Asia
- Update customer value propositions aligned to customer model
- Accelerate digital transformation



iag

Annual General Meeting | 20 October 2017 17

- Under our Leading theme we have substantially upgraded our customers' digital experience:
  - 24% of NRMA's new business is now transacted online, as are 32% of all renewals; and
  - 1.6 million customers now have an active online account, resulting in over 800,000 self-service transactions.
  - This has resulted in nearly 350,000 fewer inbound calls, which frees our people to help with more complex customer enquiries.
- We have established five NRMA Insurance kiosks in retail centres so we can maintain the face-to-face contact our customers value, and cater for customers who want to use our self-service and digital options. You can experience a kiosk in the foyer after the meeting.
- In the year ahead we are extending our customer model to New Zealand and Asia, and we will be more closely aligning our products to our customers' needs in these markets too.
- Our goal is to move from being a product centric company to one completely focused on our customers.
- To help us do this, we have centralised all our data for all our products across all our brands, so we can now see how we're meeting the complete needs of an individual customer

## Simplification

Making it easier for our customers to do business with us

### 2017 activities

- Commenced claims systems consolidation
- Completed refreshed technology strategy and roadmap, including end-to-end digitalisation
- Commenced operational partnering - initial tranches of activities transitioned to Philippines and India
- Consolidated Australian insurance licences

### 2018 priorities

- Embed single Australia Division operating structure
- Complete claims component of systems consolidation
- Continue transition of targeted activities to operational partners
- Embed operational partnering excellence framework



Annual General Meeting | 20 October 2017

18

- In terms of simplification, we are now well-advanced on the claims component of our systems consolidation, as we move to a single Guidewire platform.
- When this is completed later next year, we will be able to provide an even better service to our customers – because our people will be able to handle claims and offer support when and where it is needed – no matter where they are based.
- We recently announced the creation of a single Australia Division headed by Mark Milliner, which is an important step in our overall simplification program.
- It centralises accountability for customer, product, distribution and operations for all of our Australian brands, which will speed up decision-making as we respond to the ever-changing needs and expectations of our customers.
- At the beginning of August this year, we consolidated our nine Australian insurance licences down to two, addressing another layer of unnecessary complexity.
- Overall, our simplification program is well on track.

## Agility

Adapting to the changing needs of our customers and our people

### 2017 activities

- Established Firemark Labs (Sydney and Singapore) to drive innovation
- Created new partnerships and extended existing ones
- Commenced roll-out of Leading@IAG management framework

### 2018 priorities

- Co-create new products and services via Firemark Labs – collaboration and investment in future capabilities
- Pursue new partnership opportunities
- Establish a productive and constructive organisation through people development, efficiency and flexibility



Annual General Meeting | 20 October 2017

19

- Agility is the way we describe being able to adapt to the changing needs of our customers and our people.

- Our progress in this area includes opening Firemark Labs innovation hubs in Singapore and Sydney.
- We are now supporting five start-ups here in Sydney which are working with our teams and our customer insights to solve challenges or to create new opportunities for our customers.
- We have already developed and are testing a smartphone app that will reward good driving behaviour.
- The app tracks whether drivers used their phones in the car trip for any reason whatsoever and will offer rewards to motivate good driving behaviour.
- From a people perspective, we are well-advanced with the roll out of our new management framework, Leading@IAG.
- This helps our people better understand what is expected of them, and empowers them to make decisions that can bring our purpose to life.

## A focus on our people

### Being agile in a changing environment



Annual General Meeting | 20 October 2017 20

- To become an agile organisation we need our people to have a sense of alignment with our purpose of making your world a safer place, and greater clarity on how they can respond to the evolving needs of our customers.
- Agility at IAG means:
  - being connected to our customers,
  - being connected to our partners,
  - and being connected to our people.
- It means building stronger relationships and having a clear focus on achievement.
- We want to create a real sense of belonging.
- We have an organisational design that supports this approach and we measure our progress regularly.

# Shared value performance

Connecting business objectives with the communities in which we operate



Annual General Meeting | 20 October 2017 21

- Shareholders may be aware that we use a shared value approach to help us establish tight connections between our business objectives and our goals for the communities in which we operate.
- The focus on trust in the relationships between businesses and their stakeholders reinforces to us the importance of staying connected to our customers and communities, so that together we can create solutions that respond to their needs.
- This year, we launched our Confident Communities program which aims to create a nation “ready for anything”.
- The first step was the launch of the Good ‘Hoods campaign that Elizabeth mentioned in her address.
- We are now moving deeper into communities with Good ‘Hoods projects such as our work with Murrindindi Shire in Victoria.
- Here we are working with the local council, Australian Red Cross, a local university and community leaders to assess risk, and develop resilience plans for this area, which was devastated by the Black Saturday bushfires in 2009.
- In September, we were very proud to be named #29 on the Fortune 50 change the world list.
- This recognises the top 50 companies who have innovative strategies that positively impact the world.

# FY18 outlook

## Improved underlying performance

### FY18 guidance

GWP growth		Low single digit
Reported insurance margin		Range of 12.5-14.5%

### Underlying assumptions

- 1 Net losses from natural perils of \$680m
- 2 Reserve releases of at least 2%
- 3 No material movement in foreign exchange rates or investment markets

- GWP growth guidance of 'low single digit'
  - Ongoing rate increases expected in short tail personal lines (notably motor) to counter claims inflation
  - Further positive rate momentum in commercial classes, both in Australia and New Zealand
  - Lower NSW CTP pricing in recognition of greater scheme certainty, post-reform
  - Up to \$60m GWP reduction from Swann – ceasing motorcycle dealer distribution, residue of car dealership divestment effect
- Reported insurance margin guidance of 12.5-14.5%
  - Improved underlying performance
  - Reserve release expectation of 'at least 2%' assumes continuation of presently particularly benign inflationary environment
  - A relatively neutral impact from optimisation program activities

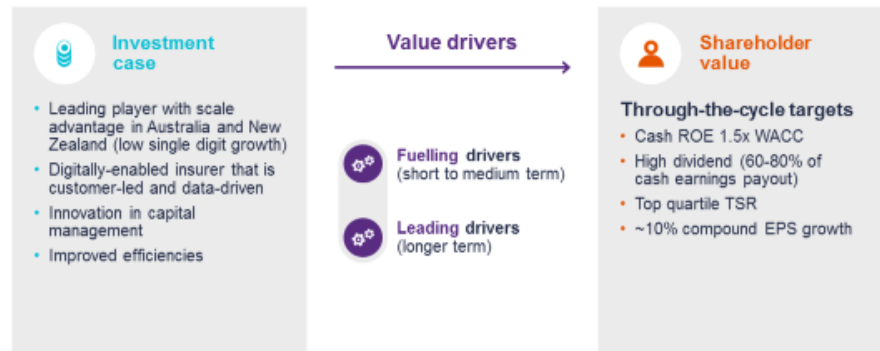


Annual General Meeting | 20 October 2017 22

- Looking at our outlook in a little more detail, we are predicting low single digit growth in gross written premium.
- This includes ongoing rating response to short tail claims inflation, especially in motor.
- It assumes further traction with commercial rates, in Australia and New Zealand.
- Guidance also includes the loss of up to \$60 million of gross written premium from exiting certain channels in our Swann business.
- And it reflects significant reductions in NSW Compulsory Third Party – or Greenslip – rates following the government's reform to the scheme.
- We have already lowered the cost of our Greenslips by 8% since the first of July and we expect further decreases in the future.
- We are expecting our reported margin to be in the range of 12.5 to 14.5%.
- This includes a stronger underlying performance, as rating actions earn through and the size of commercial large losses reverts to a more normal pattern.
- It will include a neutral impact from our optimisation activities.
- And it assumes reserve releases of at least 2% of net earned premium.

# Our value proposition

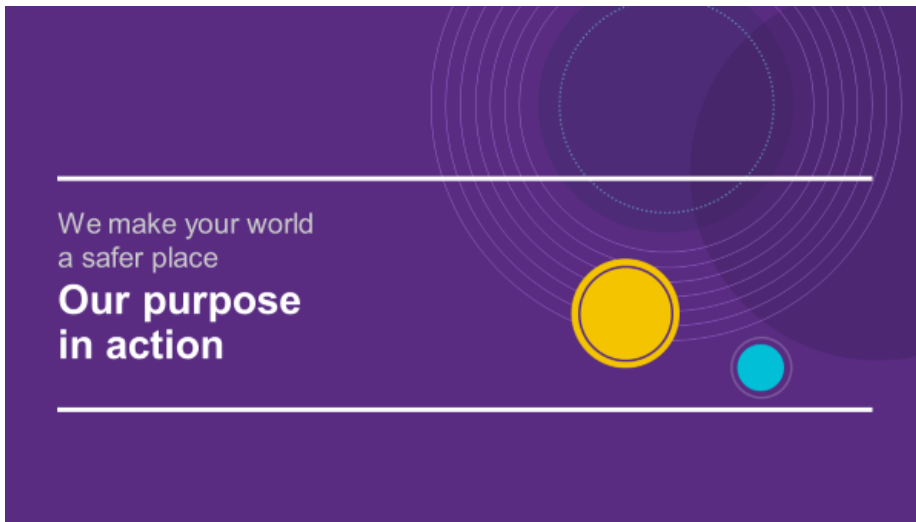
## Delivering strong shareholder returns



Annual General Meeting | 20 October 2017 23

- I will finish by talking to you again this year about how we can continue to deliver strong returns for you.
- We believe that:
  - continuing to grow in our core markets of Australia and New Zealand,
  - combining this with a focus on improving the efficiency of our business,
  - together with some thoughtful capital management,
  - we can deliver 10% compound annual growth in our earnings per share over the next 3-5 years.
- I also want to comment briefly on our Asia business.
- As shareholders know, over the last 12 – 18 months, we have been looking for opportunities to increase our investment in our key markets of Thailand, Malaysia and India.
- We have not been able to find the right circumstances, however, so it is unlikely we will make further investments in Asia in the short term.
- Our core business has many strengths, but at its heart is our unwavering commitment to our purpose: to make your world a safer place.
- In this age of declining public trust in large institutions, we believe we will grow and strengthen our business by continuing to deliver on our purpose and fulfil our promise:
  - it's why we have the most loyal customers
  - it's why we continue to invest in market-leading capabilities
  - it's why we innovate for better customer experiences
  - it's why our brands are the most trusted in the market
  - and it's why I'm incredibly proud of our people who make this happen.





- Like most insurance companies, we will succeed or fail based on how we live up to our promise to be there when our customers need us most.
- I am confident that we will succeed - and I thought I would share with you the reason for that confidence, by showing you how we lived up to our promise for customers affected by Tropical Cyclone Debbie.

#### **About IAG**

IAG is the parent company of a general insurance group (the Group) with controlled operations in Australia, New Zealand, Thailand, Vietnam and Indonesia. The Group's businesses underwrite over \$11 billion of premium per annum, selling insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann Insurance and WFI (Australia); NZI, State, AMI and Lumley Insurance (New Zealand); Safety and NZI (Thailand); AAA Assurance (Vietnam); and Asuransi Parolamas (Indonesia). IAG also has interests in general insurance joint ventures in Malaysia and India. For further information, please visit [www.iag.com.au](http://www.iag.com.au).

#### **Media**

Amanda Wallace  
Telephone. +61 (0)2 9292 9441  
Mobile. +61 (0)422 379 964  
Email. [amanda.wallace@iag.com.au](mailto:amanda.wallace@iag.com.au)

#### **Investor Relations**

Simon Phibbs  
Telephone. +61 (0)2 9292 8796  
Mobile. +61 (0)411 011 899  
Email. [simon.phibbs@iag.com.au](mailto:simon.phibbs@iag.com.au)

#### **Insurance Australia Group Limited**

ABN 60 090 739 923  
388 George Street  
Sydney NSW 2000 Australia  
Telephone. +61 (0)2 9292 9222  
[www.iag.com.au](http://www.iag.com.au)