
CGU'S REVISED OPERATING MODEL TO DELIVER \$65M IN ANNUAL BENEFITS



Insurance Australia Group Limited (IAG) today announced its Australia Intermediated business, CGU, was revising its operating model as part of its next phase of development. The new model is expected to generate annual cost savings of around \$65 million pre-tax by the end of the 2015 financial year.

IAG Managing Director and CEO, Mr Mike Wilkins, said the changes to CGU's operating model represented a logical progression in its strategy.

"Since resetting its strategy in 2008, CGU's focus on remediation and rebuilding has improved its underlying performance by around \$160 million on an annualised basis. With the work to improve the fundamentals of the business well progressed, we believe the time is right to accelerate the actions we are taking," Mr Wilkins said.

"The changes announced to CGU's operating model today are expected to generate initial cost savings of \$25 million pre-tax in the 2013 financial year, increasing to an annual pre-tax benefit of \$65 million by the end of the 2015 financial year. This will continue the improving trend in CGU's financial performance."

Mr Wilkins said the cost of implementing the operating model was approximately \$75 million pre-tax, of which \$35 million would be recognised in the second half of the 2012 financial year with the balance to be incurred in the 2013 financial year. These items will be recognised as a corporate cost in IAG's reported results, reflecting their one-off nature.

CGU CEO, Mr Peter Harmer, said the revised model was an important step change for CGU.

"This model simplifies our structure, making it easier for brokers and agents to deal with us and access the immense knowledge and expertise that sits within our organisation," Mr Harmer said.

"We will be moving to an integrated, function-based organisation with common approaches to account management, underwriting and claims. This will remove areas of duplication within the business and enable us to provide more efficient and consistent service to our intermediaries and business partners.

"For example, an integrated account management team for each distribution channel will give our intermediaries a principal point of contact across all products and services, which is something they have told us they want.

"A unified claims model on a single system will help drive consistency, best practice and operational efficiencies; while the creation of an intermediary service centre for the broker and agent division will reduce costs by standardising and centralising systems and processes," he said.

"I'm confident the changes we're making will accelerate our performance and help CGU achieve its ambition to be Australia's leading intermediated general insurer.

"CGU's competitive advantage lies in the relationships we have with our intermediaries. The work currently underway will ensure CGU realises this potential."

Mr Harmer said CGU's operating model would result in a reduction of around 600 roles over the next three years.

"Where possible, we will be managing the reductions in roles through natural attrition," Mr Harmer said.

"We are very conscious of the impact that these changes will have on our employees and will be actively supporting them through this transition," he said.

INVESTOR BRIEFING

IAG and CGU management will be hosting an investor briefing at 11:00am (Sydney time) today. The briefing will be webcast live on www.iag.com.au and a teleconference facility is available for analysts and media.

Details are as follows:

To call within Australia:	1800 558 698
To call from New Zealand:	0800 453 055
To call from United Kingdom:	0800 051 8245
To call from elsewhere outside Australia:	+61 2 9007 3187

Investors and analysts ID: 726110

Media ID: 726115

A copy of the presentation can also be downloaded from www.iag.com.au

INFORMATION FOR MEDIA

At 12.15pm, immediately following the investor briefing, CGU CEO, Mr Peter Harmer, will be holding a media conference. Journalists may participate via teleconference on 1800 558 698 or +61 2 9007 3187. Media to quote conference ID: 726111

About Insurance Australia Group

Insurance Australia Group (IAG) is an international general insurance group, with operations in Australia, New Zealand, the United Kingdom and Asia. Its current businesses underwrite over \$8 billion of premium per annum, selling insurance under many leading brands including NRMA Insurance, CGU, SGIO, SGIC, Swann and Buzz Insurance (Australia); NZI and State (NZ); Equity Red Star (UK); and Safety and NZI (Thailand). For further information please visit www.iag.com.au.

Corporate Affairs

Andrew Tubb
T 02 9292 3134
M 0411 014 771
E andrew.tubb@iag.com.au

Investor Relations

Simon Phibbs
T 02 9292 8796
M 0411 011 899
E simon.phibbs@iag.com.au

Insurance Australia Group Limited

ABN 60 090 739 923
388 George Street
Sydney NSW 2000
Australia
T +61 (0)2 9292 9222
www.iag.com.au

CGU Corporate Affairs

Chris Jackson
T 03 9279 5210
M 0411 014 036
E chris.jackson@cgu.com.au

AUSTRALIA INTERMEDIATED (CGU) INVESTOR BRIEFING

Mike Wilkins
Managing Director and
Chief Executive Officer

Peter Harmer
Chief Executive Officer
Australia Intermediated (CGU)

IMPORTANT INFORMATION

This presentation contains general information in summary form which is current as at 9 March 2012. It presents financial information on both a statutory basis (which has been prepared in accordance with the Australian accounting standards, which comply with International Financial Reporting Standards (IFRS)) and non-IFRS basis. This presentation is not a recommendation or advice in relation to Insurance Australia Group Limited ("IAG") or any product or service offered by IAG's subsidiaries. It is not intended to be relied upon as advice to investors or potential investors, and does not contain all information relevant or necessary for an investment decision. It should be read in conjunction with IAG's other periodic and continuous disclosure announcements filed with the Australian Securities Exchange which are also available at www.iag.com.au.

No representation or warranty, express or implied, is made as to the accuracy, adequacy or reliability of any statements, estimates or opinions or other information contained in this presentation. To the maximum extent permitted by law, IAG, its subsidiaries and their respective directors, officers, employees and agents disclaim all liability and responsibility for any direct or indirect loss or damage which may be suffered by any recipient through use of or reliance on anything contained in or omitted from this presentation. No recommendation is made as to how investors should make an investment decision. Investors must rely on their own examination of IAG, including the merits and risks involved. Investors should consult with their own professional advisors in connection with any acquisition of securities.

The information in this presentation is for general information only. To the extent that certain statements contained in this presentation may constitute "forward-looking statements" or statements about "future matters", the information reflects IAG's intent, belief or expectations at the date of this presentation. IAG gives no undertaking to update this information over time (subject to legal or regulatory requirements). Any forward-looking statements, including projections, guidance on future revenues, earnings and estimates, are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause IAG's actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. Any forward-looking statements, opinions and estimates in this presentation are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Neither IAG, nor any other person, gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this presentation will actually occur. In addition, please note that past performance is no guarantee or indication of future performance.

This presentation does not constitute an offer to issue or sell securities or other financial products in any jurisdiction. The distribution of this presentation outside Australia may be restricted by law. Any recipient of this presentation outside Australia must seek advice on and observe any such restrictions. This presentation may not be reproduced or published, in whole or in part, for any purpose without the prior written permission of IAG.

All amounts are presented in Australian dollars unless otherwise stated. All references starting with "1H" refers to the six months ended 31 December, being the first half of IAG's financial year. For example, "1H12" refers to the six months ended 31 December 2011. All references starting with "2H" refers to the six months ended 30 June, being the second half of IAG's financial year. For example, "2H12" refers to the six months ended 30 June 2012. All references starting with "FY" refers to the year ended 30 June. For example, "FY12" refers to the year ended 30 June 2012.

AGENDA

- | | |
|-------------------------------|--|
| 1. Overview | Mike Wilkins |
| 2. CGU Update | Peter Harmer |
| 3. Panel Discussion | Peter Harmer
Steve Nevett, Chairman, Pacific Region, Aon
Robert Kelly, Chairman and CEO, Steadfast |
| 4. Summary and Q&A | Mike Wilkins
Peter Harmer |

OVERVIEW

Mike Wilkins
Managing Director and
Chief Executive Officer

IAG STRATEGIC PRIORITIES

A CLEAR FOCUS ON AUSTRALIA, NEW ZEALAND AND ASIA

AMBITION

Our ambition is to be the world's most respected group of general insurance companies

STRATEGY

Deliver superior performance by actively managing our portfolio and driving operational performance and accountability

TARGETS

Long term financial targets

- ROE \geq 1.5 x WACC
- Top quartile TSR

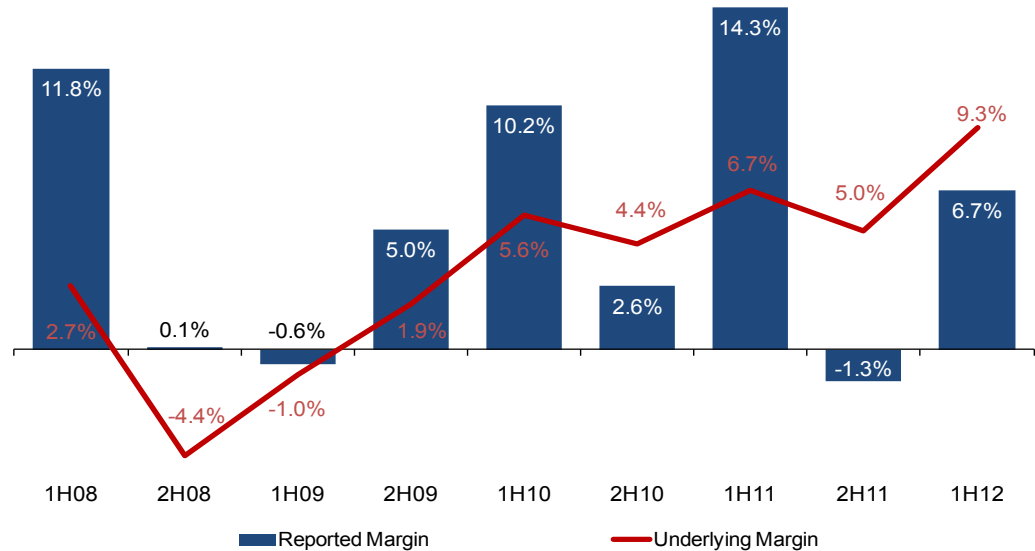
PRIORITIES

- Accelerate growth in Australia and New Zealand
- Restore profitability in the United Kingdom
- Boost Asian footprint to 10% of Group GWP by 2016

IMPROVED PERFORMANCE CGU PROGRESS TO DATE

- Since 2008, CGU has improved underlying performance by around \$160 million on an annualised basis
- Focus has been on remediation, rebuilding core competencies and optimising the existing business model
- Time to accelerate performance by implementing a revised business model more aligned to the next stage of the CGU strategy

CGU'S REPORTED VS UNDERLYING INSURANCE MARGIN (%)



CGU UPDATE

Peter Harmer
Chief Executive Officer
CGU

A CLEAR DIRECTION STRATEGIC REVIEW IN 2011

COMMITMENT TO CORE STRATEGY

- Four years into five-year strategy
- Solid platform to build on
- Greater clarity around future areas of focus and required execution

FOCUS ON BUILDING COMPETITIVE ADVANTAGE

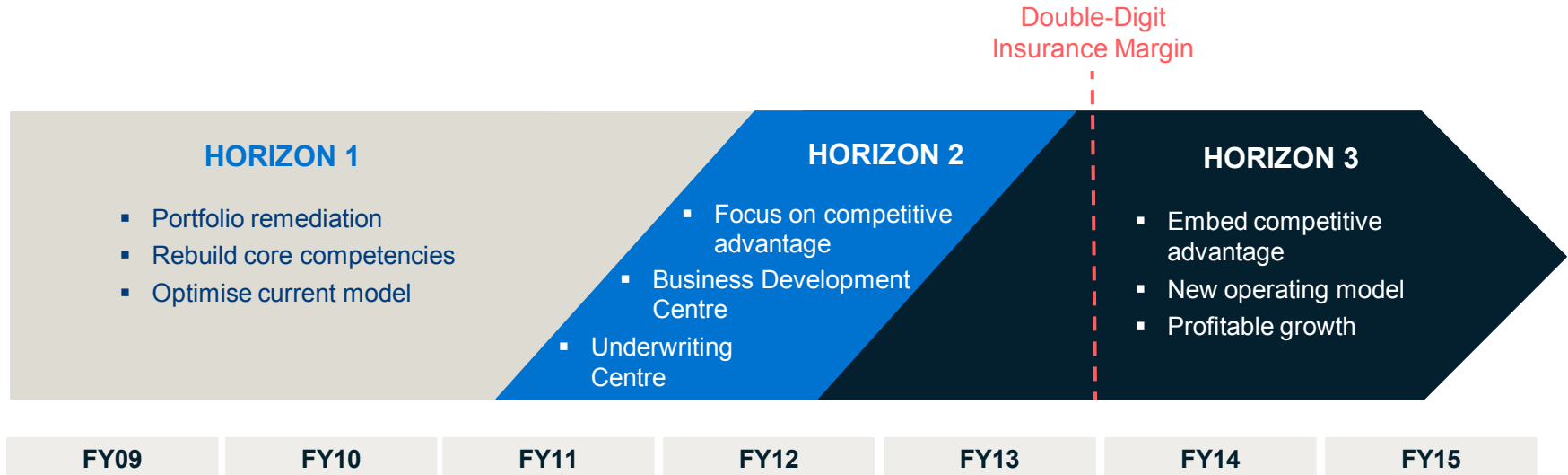
- Sales-led relationship-based account management
- Underwriting expertise and active portfolio management
- Customer and market insights

DRIVING IMPROVED PERFORMANCE

- Commitment to delivering double digit margin in FY13
- Improved underwriting and claims performance
- Profitable growth
- Expense base management
- Process and systems improvement

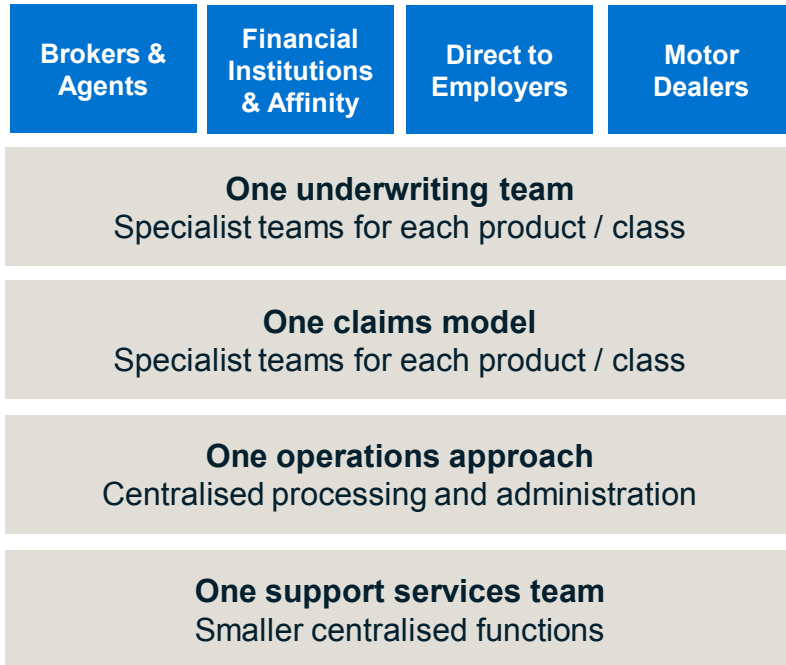
ACCELERATING PERFORMANCE

DELIVERING SUSTAINABLE GROWTH THROUGH THE CYCLE REQUIRES CHANGE



ONE CGU OPERATING MODEL

A SIMPLER, EASIER AND MORE EFFECTIVE WAY TO DO BUSINESS



- One account management team for each channel
- Easier to do business with CGU
- Maintain specialist workers' compensation division
- Active portfolio management
- Greater underwriting rigour and discipline
- Improved claims handling & indemnity costs
- Reduced operating costs, improved experience
- Reduced cost of delivery

ONE ACCOUNT TEAM PER CHANNEL

MAKING IT EASIER TO DO BUSINESS WITH CGU

One account
management team

One underwriting
team

One claims
model

One operations
approach

One support
team

CURRENT STATE

- Intermediaries value relationship with CGU, but find organisation difficult to navigate
- Current service model does not fully reflect strength of relationship with CGU, or our capability

KEY CHANGES

- Principal point of account leadership across all products; single view of relationship value
- Segmented intermediary propositions align service delivery to current and potential value
- Greater emphasis on strategic relationships – international brokers, cluster groups and business partners
- Increased focus on sales-led, relationship-based account management
- Leverage expertise in the Swann and Financial Institutions channels
- Customer / intermediary insights that inform product and service offerings

ONE UNDERWRITING TEAM

DRIVING PORTFOLIO STRATEGY AND UNDERWRITING DISCIPLINE

One account
management team

One underwriting
team

One claims
model

One operations
approach

One support
team

CURRENT STATE

- Distributed underwriting and portfolio management – governance through common frameworks and underwriting licences
- Duplication of underwriting functions impacts efficiency and dilutes expertise
- Account management roles responsible for both sales and underwriting

KEY CHANGES

- CGU-wide perspective enables more dynamic portfolio management to optimise returns
- Focus on profitable growth through more proactive risk appetite
- Increased pricing and risk acceptance discipline – stronger governance
- Sales and underwriting functions separated to create greater discipline
- Increased automation of underwriting in volume products
- Creation of clear underwriting and portfolio management career paths

ONE CLAIMS MODEL

IMPROVED SERVICE, SCALABILITY AND REDUCED COSTS

One account
management team

One underwriting
team

One claims
model

One operations
approach

One support
team

CURRENT STATE

- Systems and processes vary across states
- Mix of centralised claims teams and teams embedded in business units

KEY CHANGES

- A more unified structure around product lines
- Centres of excellence that drive consistent best practice and operational efficiencies
- Moving to a single claims management system – Guidewire ‘ClaimsCentre’ on track to pilot in 1H13

ONE OPERATIONS APPROACH

IMPROVING EFFICIENCY AND REDUCING OPERATING COSTS

One account
management team

One underwriting
team

One claims
model

One operations
approach

One support
team

CURRENT STATE

- Policy administration, credit control and some underwriting and claims functions delivered locally in regional and rural offices
- Inconsistent experience for intermediaries
- Specialist functions are often performed by generalist roles

KEY CHANGES

- Creation of an intermediary service centre for brokers and agents – reduced costs through standardised and centralised processes
- Shift to mobile local account management teams servicing intermediaries, where appropriate
- Build on centralised approach used in other distribution channels

ONE SUPPORT TEAM

CENTRALISED FUNCTIONS DRIVE EXCELLENCE AND REDUCE COST

One account
management team

One underwriting
team

One claims
model

One operations
approach

One support
team

CURRENT STATE

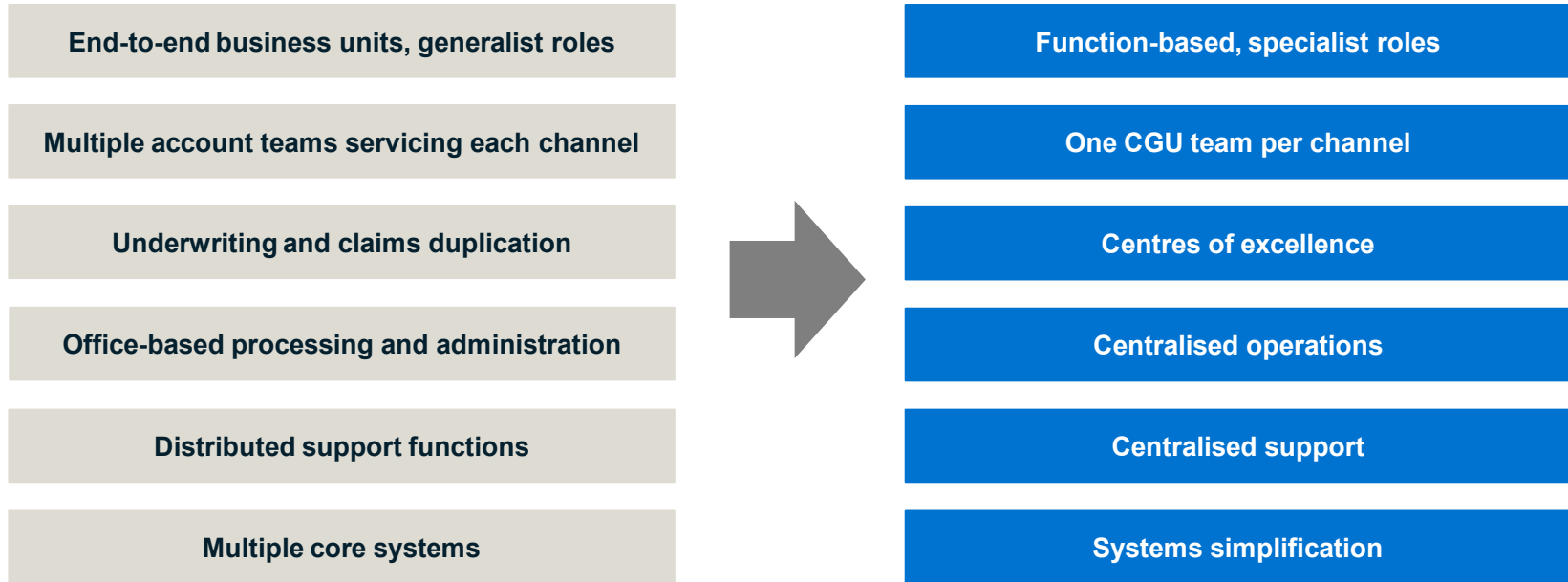
- Support functions are a mix of distributed and centralised teams
- Significant duplication of functions, processes and frameworks
- Specialised expertise is distributed across functions

KEY CHANGES

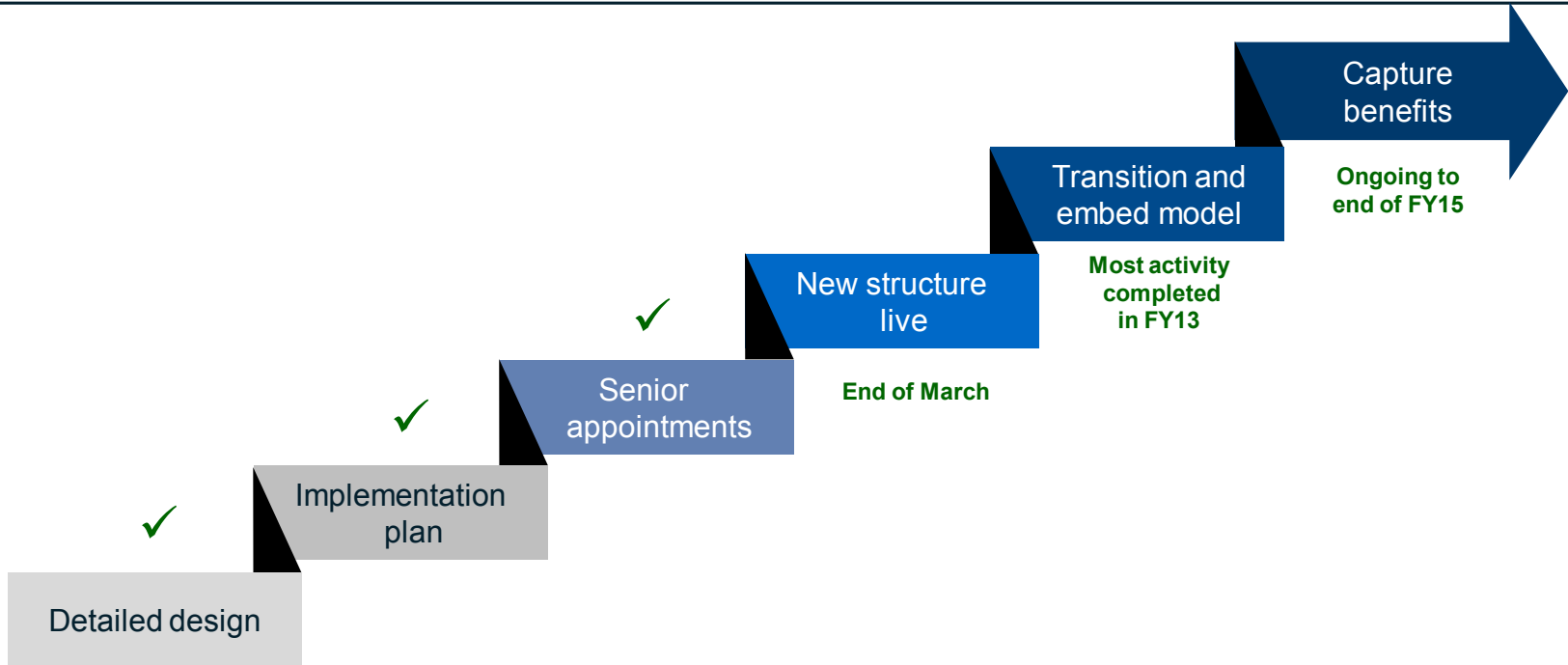
- Centralised support services – delivering reduced costs and centres of excellence
- Key opportunity areas include HR, finance and management information
- Consistent use of business partner model

ONE CGU OPERATING MODEL

TRANSFORMING THE WAY WE DO BUSINESS



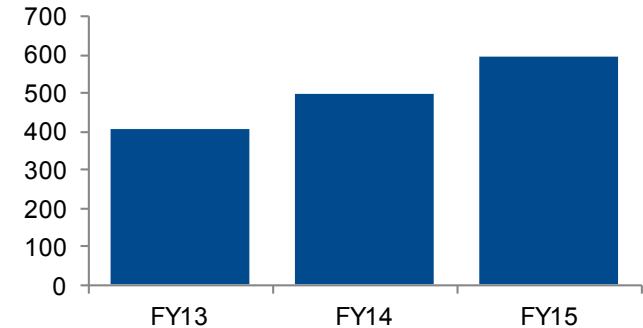
ONE CGU DELIVERY IMPLEMENTATION PROGRESS



ONE CGU TRANSITION SIGNIFICANT BENEFITS

- Annual run rate benefits will reach \$65m pre-tax by end of FY15 – initial \$25m delivered in FY13
- Implementation cost estimated at \$75m pre-tax to be recognised as corporate cost:
 - \$35m of implementation costs to be recognised in 2H12
 - Balance in FY13
 - Does not include past spend on systems simplification funded through direct expenses in prior periods
- Total reduction of around 600 FTE roles by end of FY15 – managed through natural attrition where possible
- Cost savings also driven through premises consolidation

CUMULATIVE FTE REDUCTION



FTE reductions are cumulative and are based on end-of-year levels compared to 31 December 2011

THE PATH TO DELIVERY

ONE CGU TARGET OUTCOMES

- 160-year heritage
- Strong national brand
- Strong intermediary and partner relationships
- Diverse portfolio mix and distribution footprint
- Industry-leading people



- More effective and efficient operating model
- Building competitive advantage around channel and account management
- Focus on profitable growth
- Underwriting discipline and control



- Double digit insurance margin in FY13
- Continued improvement in underlying performance
- Ongoing annual benefit of \$65m pre-tax by end of FY15
- Secure market position

PANEL DISCUSSION

Peter Harmer
Chief Executive Officer
CGU

Steve Nevett
Chairman
Pacific Region, Aon

Robert Kelly
Chairman and CEO
Steadfast

SUMMARY AND Q&A

Mike Wilkins
Managing Director and
Chief Executive Officer

IAG STRATEGIC PRIORITIES

A CLEAR FOCUS ON AUSTRALIA, NEW ZEALAND AND ASIA

AMBITION

Our ambition is to be the world's most respected group of general insurance companies

STRATEGY

Deliver superior performance by actively managing our portfolio and driving operational performance and accountability

TARGETS

Long term financial targets

- ROE \geq 1.5 x WACC
- Top quartile TSR

PRIORITIES

- Accelerate growth in Australia and New Zealand
- Restore profitability in the United Kingdom
- Boost Asian footprint to 10% of Group GWP by 2016

APPENDIX

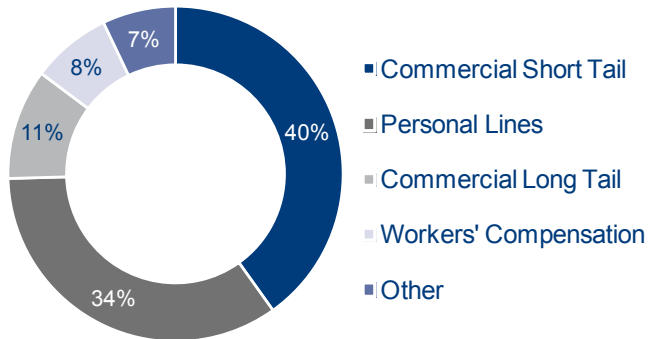
CGU Business Overview

CGU BUSINESS OVERVIEW

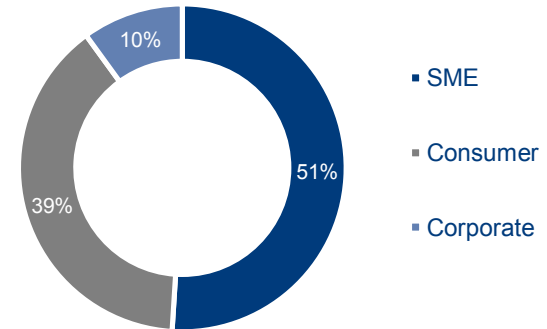
DIVERSE PORTFOLIO MIX

- Large SME portfolio
- Australia's largest regional and rural insurer
- Growing capability in the corporate market
- Major provider of workers' compensation services

PRODUCTS



CUSTOMER SEGMENTS



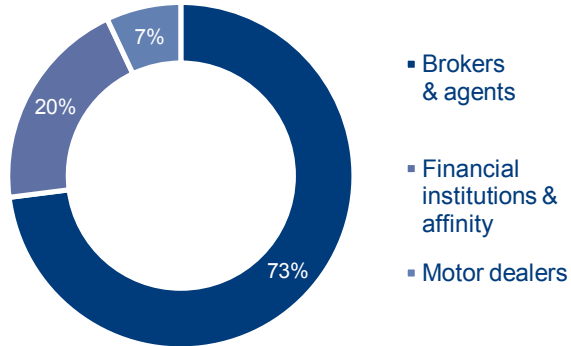
Note: Product and customer segment splits based on 1H12 GWP

CGU BUSINESS OVERVIEW

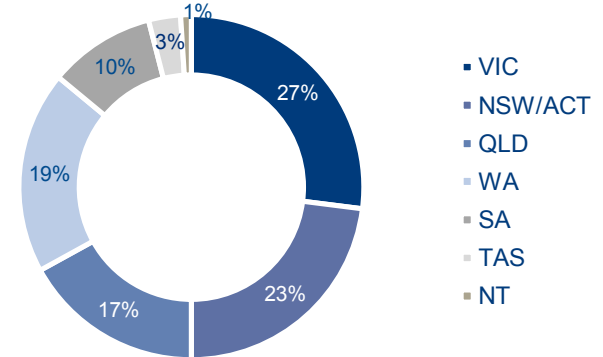
DIVERSE DISTRIBUTION FOOTPRINT

- ~8% of total Australian general insurance market
- ~14% of Australian intermediated general insurance market

DISTRIBUTION CHANNELS



GEOGRAPHIC SPLIT



Note: Distribution and geographic splits based on 1H12 GWP