Insurance Australia Group

15 March 2012

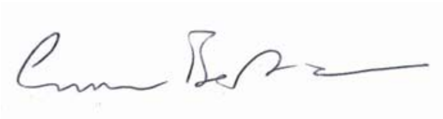
Manager, Company Announcement Office
ASX Limited
Level 4, Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

Presentation to the Morgan Stanley Insurance Forum

Please find attached a copy of a presentation entitled *Looking to the Future – Growing Australia Direct*, to be delivered in Sydney today by Mr Andy Cornish, Chief Executive Officer of IAG's Australia Direct business, to the Morgan Stanley Insurance Forum.

Yours sincerely



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Looking to the future: growing Australia Direct

Andy Cornish, CEO, Australia Direct
Insurance Australia Group

15 March 2012

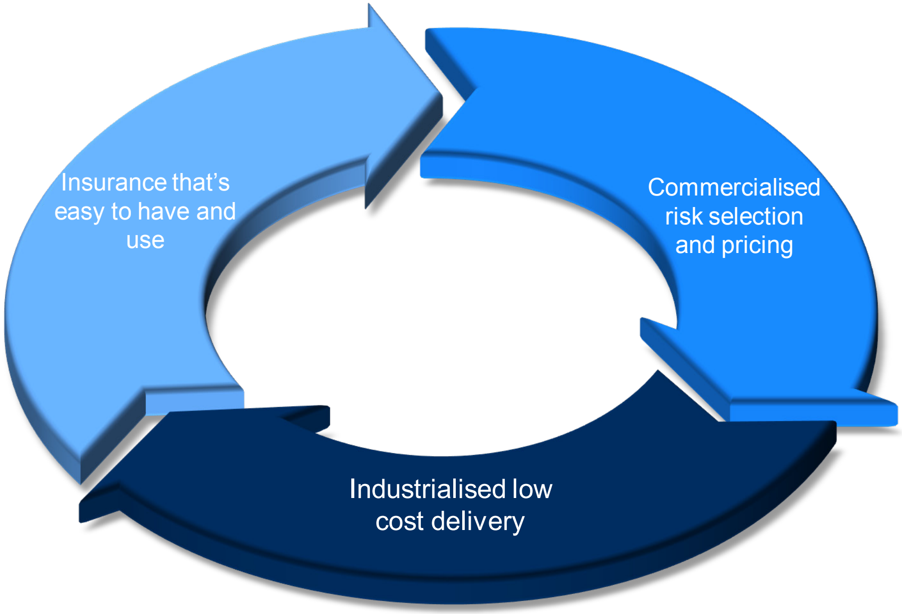
Australia Direct's strategy

CUSTOMER INSIGHTS

Superior customer knowledge driving our service and product development

THE RIGHT PRICE

A world class customer based pricing and risk assessment capability



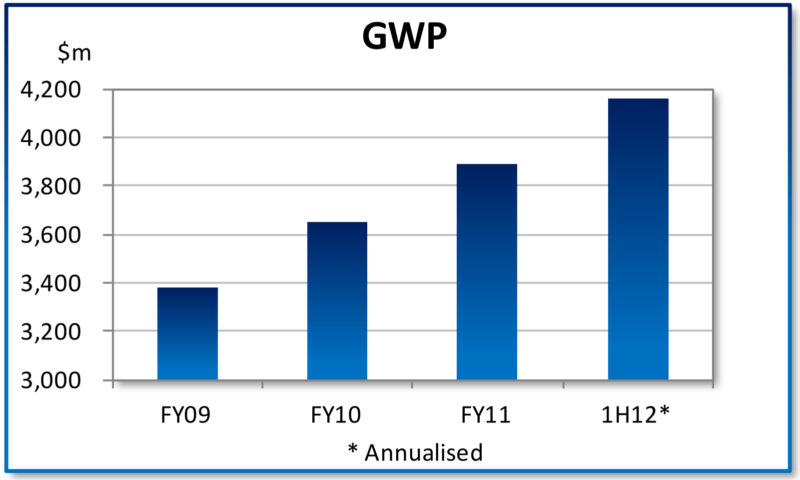
CONSISTENT EXECUTION

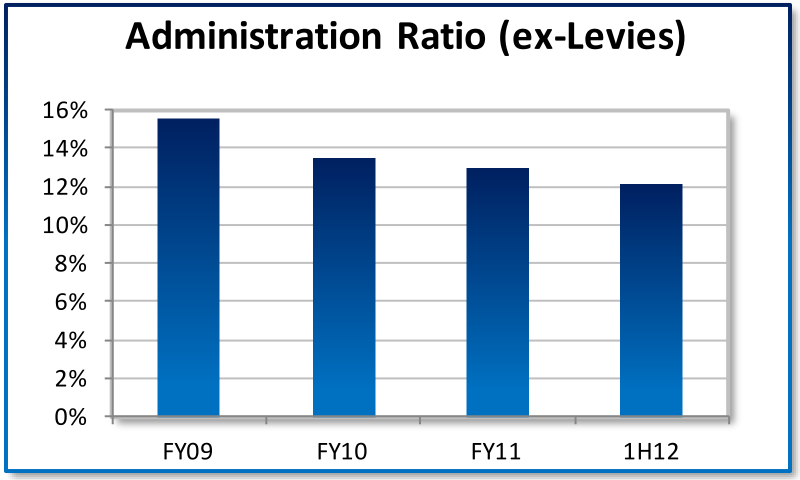
An efficient and dynamic business that leverages our scale and delivers consistently

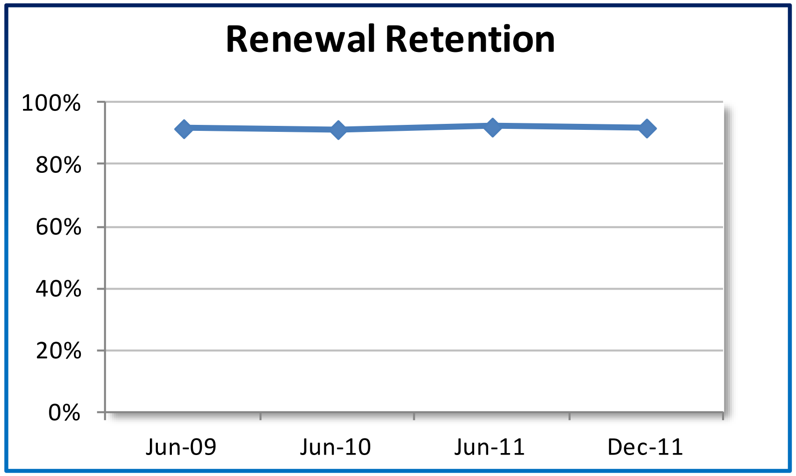
Customer led insurance that is easy to have and use, is delivered consistently, and is reasonably priced

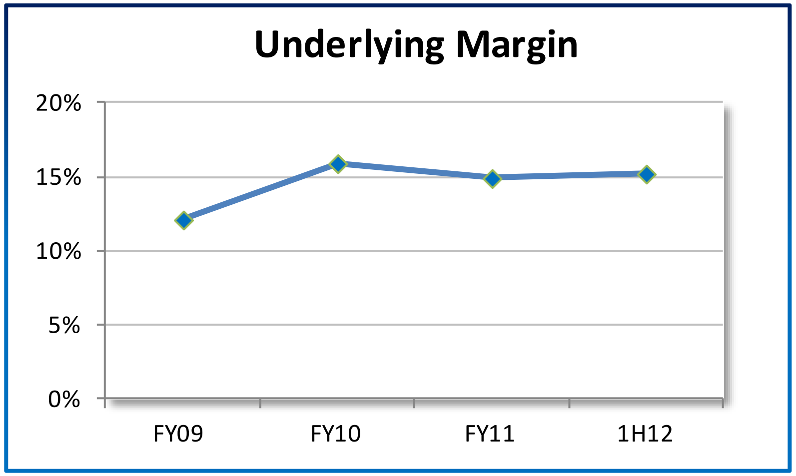
Delivering results

Since 2009 Australia Direct has consistently delivered strong results, setting a platform for further profitable growth





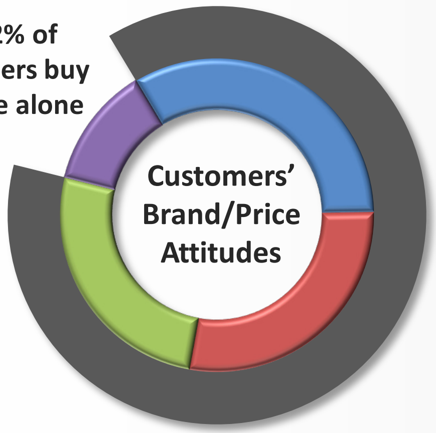




…a strong platform to build on

Customers have the biggest say in shaping the future of the Australian insurance industry

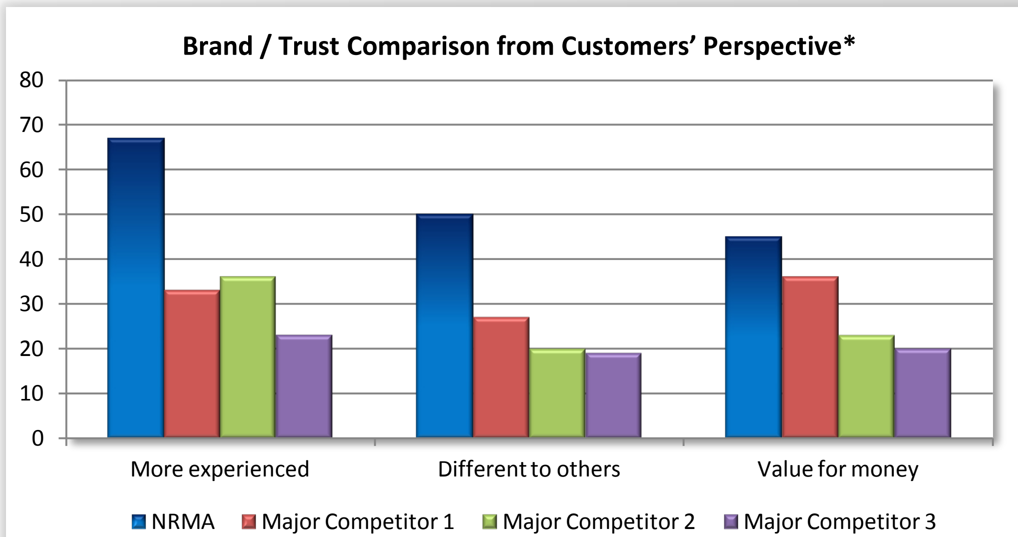
Only 12% of customers buy on price alone



- Within a set of companies I know and trust, I buy the cheapest
- I stick to a company I know and trust
- I choose a reliable insurance company that suits my needs, even if it's not the cheapest
- I always buy the lowest price

Customers want brands they know and trust

Australia Direct is well placed, but we are not complacent



**Source: Review Partners – Brand health tracking January 2012*

Customer insights and implications…

1. Risk selection, pricing and affordability

2. The importance of trust in the claims experience

3. The role of multi-channel distribution

1. Risk selection, pricing and affordability

Pricing capability is increasing…affordability and insurer credibility are emerging issues

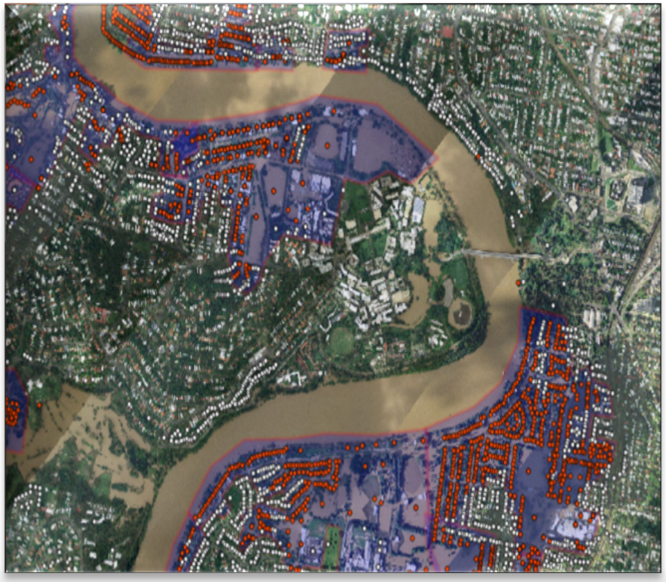
1 Affordability

- Frequency and severity of events lead to reinsurance increases
- Pressure to offer relevant cover – eg flood
- Several other peril exposures – eg storm surge
- New product covers are likely to emerge eg cat only, high excess
- Governments must invest in mitigation activities

2 Industry pricing practices

- From pooling to individual risk based pricing
- Customer concerns about new business discounts:
  - *"I think this practice is unfair. There is no reward for being loyal to one company. We are just figures in their books"*
  - *"I think it stinks, it's a marketing ploy to reel in new customers, forget about the loyal existing customers. This really irks me"*
  - *"I have to say, it's really unfair to loyal existing customers, and they feel hurt"*

^ *Source: Online customer community research*



1. Australia Direct's pricing has become sharper and more granular

We are able to leverage our understanding of our customers to price while maintaining an eye on profitability

Our pricing journey

- One pricing engine for core products across all brands
- Our scale provides data volume and insights that can be leveraged
- Our individual risk based pricing capability incorporates topography, identifying and pricing perils precisely
- Technical pricing and risk identification capability is amongst the best*
- Individual risk based pricing allows us to manage risk exposure and tune for growth, profit, or profitable growth
- Loyalty rewarded

* McKinsey benchmarking

2. The importance of trust in the claims experience:

The right claims model is critical to delivering the insurance promise consistently and to underpin a competitive cost base

Customer Expectations^

- "Had an accident and they took over doing everything without any problem or issue. It was easy. Happy to have all my insurance with them"
- "We have had to make claims in the past and every one has been processed very smoothly and quickly either over the phone or at my local branch. Can't rate them highly enough…"

Cost Base^^

- On average 70-80c of every premium dollar goes to claims

Claims

^ *Australia Direct's Customer Focus Group survey (Topic: 'What do you wish for from insurers' claims processes?')*

^^ *APRA General Insurance Quarterly Performance Statistics – statistics based on rolling 12 months YTD to December 2011 quarter*

2. Australia Direct's claims model is delivering cost efficient, quality and timely claim experiences

Our quality repair framework builds on our current model and is delivering several benefits

Advancing our Quality Repair Framework

- Partnering with repairers:
  - Volume in return for improved cost, quality, timeliness outcomes
  - Retention of customer choice
  - 'Sticking to our knitting'

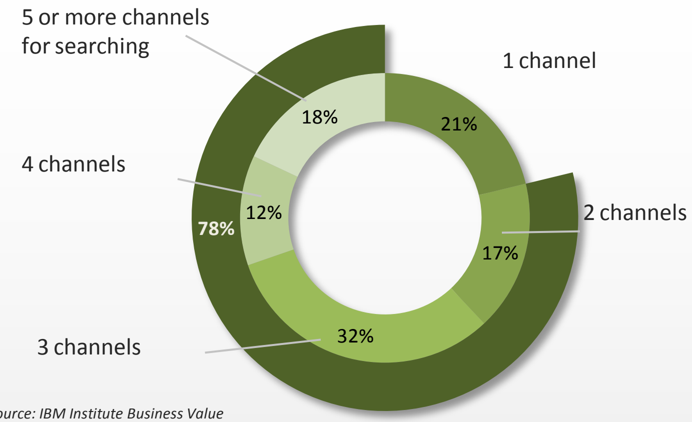
- Resulting in:
  - 28% reduction in cycle times
  - Customer advocacy uplift of 4%
  - Significant cost savings

3. The role of multi-channel distribution

Despite the growth in the internet, customers prefer telephone and branches, and to channel 'graze' through the insurance lifecycle

1 **Consumers channel 'graze' throughout the insurance lifecycle**

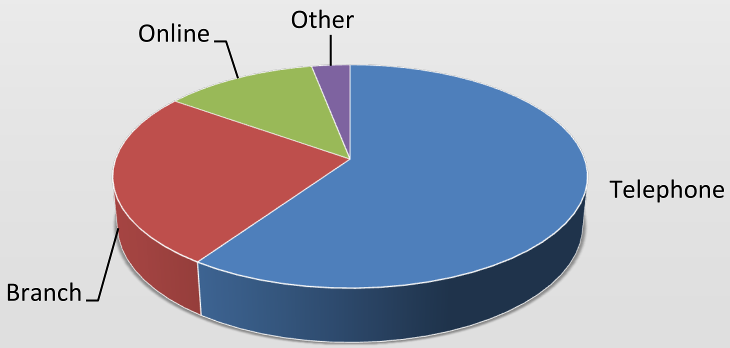
No. of interaction points consumers used for searching



Source: IBM Institute Business Value survey data 2010

2 **While the internet is important, branches and telephone still account for 25% and 60% of new business sales respectively**

Channel choice of customers who bought direct from their insurer



Source: Telstra Research, Roy Morgan
Base: Aust Pop'n 14+, General Insurance policies 12 months moving average

3. Australia Direct's integrated multi-channel model meets customers' desire for choice

Australia Direct will continue to enhance its integrated multi-channel capability to support customers' needs and enhance business profitability

Today

- Distribution channel choice for customers:
  - 22% of motor new business customers commence the purchasing process online
  - Of those customers who commence online, 60% purchase through branches or call centres
- A branch network that still accounts for 37% of NSW transactions
- A digital channel that is geared towards quote and purchase
- Smartphone applications and mobile website

Australia Direct's integrated multi-channel model

7 call centres
200+ branches and agencies
Websites (NRMA, SGIO, SGIC, Buzz Insurance)
Smartphone apps

Next Steps

- A fully transactional digital capability
- Optimised face-to-face network that caters for the local demographic
- Seamless integration of products / services across all channels
- Distribution model nimbleness, ability to tune model in response to channel dynamics

* RACV is via a distribution relationship and underwriting joint venture with RACV Ltd

Australia Direct's strategy will ensure the business continues to deliver

Customer insights will continually improve service and products. Consistent execution builds trust, reduces cost and ensures we offer value for money

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Superior customer knowledge driving our service and product development

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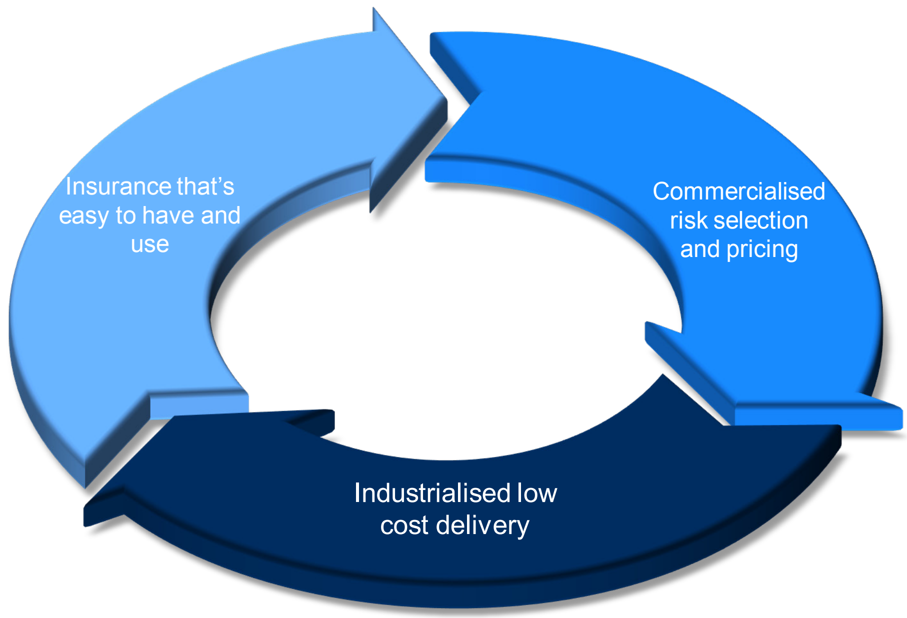

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Questions