



Being guided by our purpose helps us  
**make your world  
a safer place**

Annual review and safer communities report 2018  
**Insurance Australia Group Limited**

ABN 60 090 739 923

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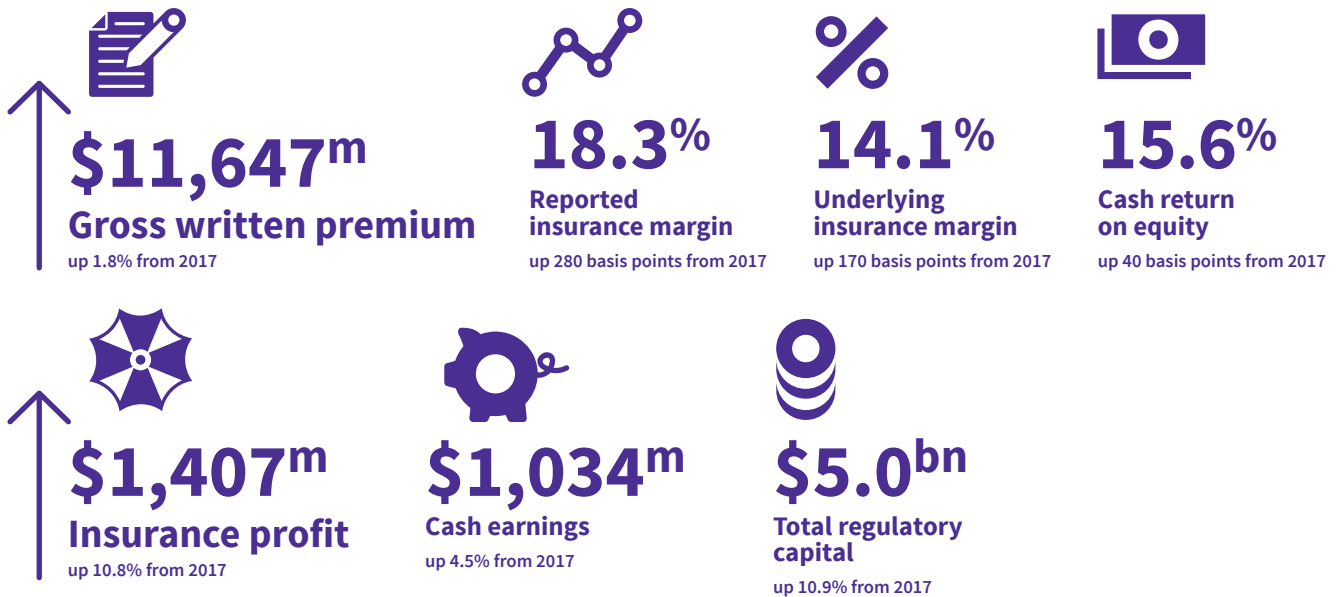
## 2018 Annual General Meeting

**IGAG's 2018 annual general meeting will be held on Friday, 26 October 2018, at the Sofitel Sydney Wentworth Hotel, 61-101 Phillip Street, Sydney, commencing at 9.30am. Details of the meeting, including information about how to vote, will be contained in our notice of meeting, which will be mailed to shareholders and available online at [www.iag.com.au](http://www.iag.com.au), from Monday, 10 September 2018.**

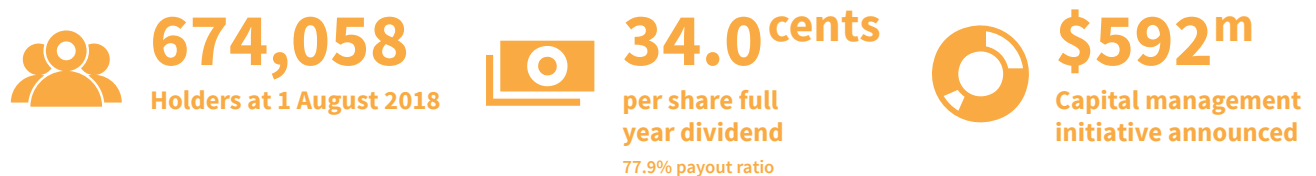
Throughout this review, the consolidated businesses in Asia (Thailand, Indonesia and Vietnam) have been treated as 'discontinued operations' for disclosure purposes. Comparative figures for the 2017 financial year have been adjusted accordingly.

# 2018 overview

## Financial strength



## Shareholders



## Customers



This year, our Australia and New Zealand businesses insured:



## Community



# Chairman's review

In a year dominated by discussions about the impact and importance of a company's culture, I have reflected frequently on the extent to which our purpose shapes our culture. Being dedicated to and aligned behind a meaningful purpose helps us focus on the needs of our customers, and support them and society more broadly.



Elizabeth Bryan AM  
Chairman



**We make  
your world  
a safer place**

## **Our purpose guides our work and helps us form meaningful relationships**

**Our purpose provides all of us who work here with a profound sense of pride and accomplishment. It guides our advocacy and efforts before disasters to mitigate their effects, and our work afterwards to help people and communities recover.**

It perfectly describes the core role our people play when they help customers who have lost property after a major event. For example, we had 55 customers who lost their homes in the devastating bushfires at Tathra, New South Wales, in March this year. Our people were on the ground within days to begin assessments and start clean-ups. Our purpose lies behind the national and state-based partnerships we have with the Australian Red Cross and the New South Wales and Queensland State Emergency Services to build safer and more resilient communities. I talked about these partnerships last year and I am pleased to report we continued to invest in further developing these long-term relationships this year. With the Australian Red Cross, we have co-created the Get Prepared app to guide people to take simple steps to prepare their own emergency plans on their smartphones. Get Prepared is a key part of the Red Cross' ambitious plan to help three million Australians to prepare for and recover from an emergency by 2020. This target received a boost in July when the app was included in the Resilient Sydney pack launched by Sydney City Council.

We continue working with the New South Wales State Emergency Service to identify new locations for ongoing practical trials of the DipStik flood monitoring device we featured in last year's annual review.

Our purpose is also evident when we apply our shared value principles to make a positive impact that may ultimately help our own business by improving community connections and resilience, reducing risk and – possibly – claims. The effectiveness of this approach is demonstrated in the collaborative community partnerships we are forming in the Blacktown local government area in western Sydney.

One of these projects, Catalysr is partnering with our CGU brand to support local leaders in refugee and migrant communities to establish their own businesses and provide employment. Catalysr's success supports CGU research released in January 2018

that found migrant small business owners make a significant contribution to our economy, including the creation of thousands of new jobs. We know from our Good 'Hoods project that helping people into work reduces community isolation, improves wellbeing and contributes to stronger and more resilient communities.

Our purpose has also guided us to form significant national and international relationships with organisations similarly committed to making the world safer.

At a national level in Australia and New Zealand, we remain committed to the Australian Business Roundtable for Disaster Resilience & Safer Communities we founded, and to Resilient New Zealand. This year, we had the satisfaction of seeing our calls for increased funding for mitigation adopted by governments at Federal and State levels.

Internationally, we are active members of the United Nations Environment Programme – Finance Initiative. We were honoured to help bring the organisation to Australia for the first time in July this year for an event dedicated to laying the groundwork for creating Australian and New Zealand roadmaps to finance a resilient and sustainable economy. The conference concluded with more than 300 finance sector organisations with \$10 trillion in assets under management releasing a Joint Statement in Support of a Sustainable Financial System for Australia and New Zealand. We are proud to be involved at the start of this important journey to make our financial systems more resilient to environmental and social stress, less affected by the impact of climate change, and aligned to global goals such as the Sustainable Development Goals.

## **We are participating in a new era for business culture**

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry underway in Australia this year has exposed instances where business has failed to meet community expectations. As a result, the wider community is looking at business culture much more critically.

Business reputation generally has taken something of a battering in recent times, affected by tales of bad corporate behaviour across a range of industries, coupled with widening income disparities.



The increased focus on business culture is likely to hasten companies' move away from focusing on narrow, profit-generating roles towards really embracing their wider responsibilities to society. To succeed in this new era, companies will have to fully embrace trust and respect, and people and culture – long the cornerstones of good governance and leadership.

With the 160-year-plus heritage we have through some of our brands, our beginning as a mutual organisation through the NRMA, and our purpose, we are already well advanced on this journey. We also benefit enormously from the views and contributions of the many senior leaders of major community organisations who participate in our Consumer Advisory Board and our Ethics Committee.

Culture will be a key factor in our response to community expectations and I am pleased with the steps IAG is taking to embed a culture that provides new ways of engaging people, and winning and retaining trust and respect.

Supported by our Leading@IAG framework and a focus on diversity, IAG is introducing new technology into the workplace, moving away from old hierarchical structures, encouraging accountability and increasing the speed of decision making right down into the organisation.

I commend all those who work at IAG for the enthusiasm with which they are embracing these sometimes radical changes. Their efforts received a significant boost in June this year with the company's move to new offices at Darling Park in Sydney, providing a range of open working spaces that encourage collaboration and connectedness for everyone.

### **Board guidance remains key**

While legislation, regulation and codes influence individual and corporate behaviour, they do not ultimately control it. Increasingly, however, boards are expected to. Reputation, stakeholder management and business conduct remain a focus for our directors, and we believe these are key to the long-term success of our company.

We are well served by the experience, skills and perspectives of the directors who make up the Board, and this year we were delighted to further strengthen the Board's skillset with the appointment of two new directors, Michelle Tredenick and Sheila McGregor, in March.

I am grateful for the support of my fellow directors. The responsibilities and workloads of all boards – including IAG's – have risen considerably following recent major changes in our industries and I thank directors for their ongoing contribution.

### **Sharing the results of our success**

The focused efforts of management and all the people at IAG delivered gross written premium of \$11,647 million, net profit after tax of \$923 million, cash earnings of \$1,034 million and cash return on equity of 15.6%, slightly above our target of 15%.

These returns mean that IAG can continue to invest in developing our people and the products and experiences that attract and retain our customers, and support our communities. Importantly, we can also share these sound returns with our shareholders, via a fully franked final dividend of 20.0 cents per share, to be paid on 27 September 2018. The dividend takes the full year payment to 34.0 cents per share, a payout ratio of 77.9% consistent with our increased dividend payout policy of 60 – 80% of cash earnings for the full year.

On behalf of the Board, I congratulate Peter and his leadership team on the work they are doing to embed a culture of purpose and trust in IAG, and recognise the achievements of everyone who works here in embracing this so enthusiastically. I also acknowledge the ongoing support of all our shareholders who enable us to continue our important work.

Our purpose helps align our culture, values and strategy. It also tells the story of who we are, what we are here to do and how we will do it. This story allows all those who have a stake in our operations to know what we are trying to do, to believe we can do it, and to trust that their interests will be fairly and respectfully managed.

IAG's purpose provides us with the opportunity to tell extraordinary stories. We look forward to sharing many more of these with you as IAG brings its purpose to life and plays a wider role in our society.

# CEO's review

In an era of unprecedented focus on consumer expectations, we are delighted to present another set of results that are testament to the success of our continuing work to better understand our customers and meet their needs. These results also speak to the strength of our brands and – more importantly – the passion and commitment of our people.



Peter Harmer  
Managing Director and  
Chief Executive Officer

**We are making sound progress in our efforts to transform IAG into a company able to anticipate, respond to and satisfy the needs of all those who rely on us. Succeeding in this effort will allow us to continue to invest in the services, products and experiences our customers and the community want and need.**

At the heart of the company we are creating is our purpose: to make your world a safer place. We focus our energy around three priorities: Customer, Simplification and Agility, and on organisational capabilities that will enable us to succeed now, and thrive in an unpredictable future.

## **Our priorities: Customer, Simplification and Agility**

Our ambition is to provide our customers with experiences that are at least the equal of the best they receive anywhere else in the world. To deliver these, we are developing a deeper understanding of their needs and behaviours, and moving away from simple product-led services towards creating valuable experiences.

We understand different customers have distinct, specific needs and desired experiences. We are using these insights to align our key brands with our customers so they can be clear about the experience they will receive from each brand.

To deepen customer empathy and understanding across all areas of the business, we expanded our Customer Connections Program, so our board, senior executives and all employees can visit call centres and see the way customers experience our business.

Our Simplification work is helping us to become a simpler, modular and lower-cost operation. This year's successes included consolidating our claims systems so all motor and property claims in Australia are now lodged on a single software platform. Having one system also means we can more quickly allocate resources to respond to claims if there is a significant weather event.

Our Agility program ensures we will be an organisation distinguished by innovation, speed and skill. We are improving our agility by applying the Leading@IAG management and leadership framework, bringing improved role clarity and focus throughout the company. Our capacity for innovation shines through the new products and services we are building in our Firemark Labs in Sydney and Singapore, in partnership with the start-ups we support.

## **Our customer understanding will help us grow**

We think we know more about the assets that matter to people than almost any other organisation in Australia and New Zealand. Between our businesses in Australia and New Zealand, we have over 8.5 million customers, a record of almost every motor vehicle ever registered in these markets and a profile of nearly every domestic residence.

Thanks to our improved understanding of what customers want, and how they want to receive services, we can now start to define the additional experiences that customers will find compelling. Our research with customers tells us that the most desirable and valuable experiences are in areas that we describe as mobility, shelter and work. It is also possible for some of these products and services to be supplied by others.

As our understanding of the needs and desires of our customers has improved, we have begun to identify new and exciting opportunities that are logical and complementary extensions to our business. It is this work that makes us excited about our future growth.

## **Our mitigation message is finding a broader audience**

We have long been in the business of making the world a safer place, with our work to establish the Australian Business Roundtable for Disaster Resilience & Safer Communities a striking example of our approach.

For over six years, the Roundtable has developed and promoted fact-based discussion on the merits of investing in mitigation before extreme weather events. It has been enormously satisfying this year to see the Australian Federal Government accept the importance of our arguments and coordinate its own activities by establishing a National Resilience Taskforce.

We are also seeing encouraging activity across states and territories – including the Queensland Government's establishment in May of a \$38 million Disaster Resilience Fund.

In July, we co-organised a conference that brought the United Nations Environment Programme – Finance Initiative to Sydney for the first time. Having the organisation in Australia provided us with the perfect opportunity to talk more broadly about our own Climate Action Plan, which we published in July, and enabled us to work more closely with 100 Resilient Cities and Resilient Sydney as they promoted their work to quantify risk, understand costs and identify investment priorities for mitigation.



### **Our focus delivered strong results this year**

Our underlying performance improved over the financial year, reflecting a strong performance from Australian Consumer, modest improvement from Australian Business and a continued strong performance from New Zealand.

Our gross written premium – broadly speaking the money we collected from the products we sold during the year – rose by 1.8% to \$11,647 million. Our reported premium income was affected by: rate reductions and premium refunds stemming from reform to the New South Wales Compulsory Third Party scheme; our decisions to exit Swann Insurance’s motor dealership and intermediated motorcycle activities in Australia; and an adverse foreign exchange movement for New Zealand. Excluding the impact of these items, premium growth was over 4%.

Net profit after tax of \$923 million was similar to last year. It reflected a near-11% increase in insurance profit from the combination of improved underlying profitability, lower reserve releases and a markedly more favourable net natural peril claim cost; a greater than \$80 million contraction in contribution from investment income on shareholders’ funds, including lower equity market returns in the second half of the year; a higher effective tax rate of 25.5%; and a \$34 million increase in amortisation and impairment expense following a write down of Asian assets.

Our reported insurance margin of 18.3% slightly exceeded our updated guidance of 16-18%, largely reflecting a favourable net natural peril claim cost outcome and higher than anticipated prior period reserve releases.

Our strong operating performance was evident in an improved underlying insurance margin, which is our reported insurance margin adjusted to strip out reserve releases above 1% of net earned premium, net natural peril claim costs less our related allowance, and credit spread movements. The underlying insurance margin was 14.1%, up from 12.4% last year. While the majority of the improvement is the result of the combined 12.5% quota share deals from 1 January, pricing and operating actions led to improved loss and expense ratios.

In February this year, we announced a strategic review of our Asia businesses. As a result of this review, in June we advised the sale of our interests in Thailand, Indonesia and Vietnam and these businesses have been classified as discontinued operations in this year’s financial statements. We maintain the minority interests in our joint ventures in Malaysia and India.

### **The Royal Commission**

Whether as businesses, customers, employees or shareholders, we have all been aware of the progress of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Royal Commission) throughout this year, and the extent to which it has too often highlighted differences between community expectations and business practices. We regard this community expectations lens as crucially important.

This has provided us with an added incentive to move faster to make some changes we already had underway – for example, reviewing and redesigning our products through the lens of our customer-inspired product design principles, and withdrawing products or from partnerships where good customer outcomes could not be assured.

At the time of publishing this review, we have not been called to appear before the Royal Commission – although that could change at any time. We have made submissions and provided information as requested to the Royal Commission. The Royal Commission will determine specific areas it wishes to focus on and we will continue to give our support.

As confronting as the revelations from the Royal Commission have been, we are confident the financial services sector will emerge stronger, and better able to win and maintain customers’ trust.

### **We are a business that makes your world a safer place**

Our short-to-medium term financial performance will benefit from growth in our core markets of Australia and New Zealand; by our being a simpler and more efficient business; and from some capital management activities that flow from changes to our capital mix.

We expect to further improve our underlying performance in the 2019 financial year, growing our gross written premium by 2-4% as customers continue to support the quality products and services we offer through our leading brands. Our reported margin guidance is for a range of 16-18%, and includes a pre-tax benefit of approximately \$100 million from our optimisation program initiatives, net losses from natural perils in line with an allowance of \$608 million and reserve releases of around 2% of net earned premium.

Looking at the longer term, by delivering on our three key strategic priorities and meeting the new and emerging needs of customers in innovative ways, we are confident of achieving good levels of growth.

Simplifying our business creates the capacity to invest in future growth opportunities and the partnerships that will allow us to offer the products and services our customers need and want into the future.

When we evaluate the value of the products and services we deliver now and in the future, we do so through the lens of our purpose. Ultimately, our goal is to be a company that our customers and the community recognise makes the world a safer place.



# CFO's review

This year, we maintained our disciplined and active approach to the way we manage and allocate your capital.

Nick Hawkins  
Chief Financial Officer

## We made further improvements to our capital efficiency and reduced earnings volatility

In December 2017, we announced three agreements to quota share a combined 12.5% of our consolidated business, further improving our capital mix by increasing our use of more efficient reinsurance capital.

The agreements, with reinsurers Munich Re, Swiss Re and Hannover Re, came into effect on 1 January 2018. They provide the reinsurers with a combined 12.5% of our consolidated gross earned premium, and they are responsible for 12.5% of our claims and expenses.

As part of the agreements, we also receive an exchange commission payment from the reinsurers, which recognises the value to them of accessing our strong core franchise.

These agreements build on the 10-year, 20% whole-of-account quota share arrangement with Berkshire Hathaway which has been in place for over three years.

All the quota share agreements deliver similar benefits in terms of:

- reduced earnings volatility, as we effectively exchange insurance risk for a more stable fee income stream;
- lower requirement for catastrophe reinsurance and reduced exposure to volatility in associated premium rates; and
- reduction in the amount of regulatory capital we are required to hold.

## Sale of Asia businesses

We have progressed a strategic review of our Asia businesses, with the outcomes including sale agreements for our operations in Thailand, Indonesia and Vietnam.

We expect the sale of these businesses to realise an after tax profit of at least \$200 million, which we will recognise in the 2019 financial year. The vast majority of expected proceeds relate to the sale of the business in Thailand, and we anticipate settlement by 31 August 2018.

We continue to hold the minority interests in Malaysia and India.

## Our capital position is strong

Our key capital measure is our Common Equity Tier 1 (CET1) ratio, and we have a benchmark target range of 0.9 to 1.1 times the Prescribed Capital Amount, which is higher than the regulatory minimum of 0.6 times.

At 30 June 2018, we had regulatory capital of \$5.0 billion, resulting in a CET1 ratio of 1.26, significantly higher than our benchmark and the regulatory requirement. Over the longer term, we are committed to managing our CET1 capital broadly in line with our targeted benchmark.

## Returning capital to our shareholders

We have long maintained that we think the best place for surplus capital is with shareholders.

The combination of the quota share arrangements releasing capital, and the sale of the Asia businesses, means that we now have a considerable amount of surplus capital.

Given that we have no material operational demands for capital, we have announced a \$592 million capital management initiative that will amount to 25 cents per ordinary share and is expected to be made up of:

- a capital return of 19.5 cents;
- a fully franked special dividend of 5.5 cents; and
- a share consolidation which is expected to reduce IAG's ordinary shares on issue by approximately 2.4% and preserve consistency of earnings per share calculation. After the consolidation, each shareholder's proportionate interest in IAG will be unchanged.

The capital return and share consolidation components are subject to shareholder approval, which will be sought at our Annual General Meeting on 26 October 2018. Payment of the special dividend is conditional on this approval. If approved, payment will occur on or around 26 November 2018. Further details of the initiative will be included in the notice of meeting which will be distributed from 10 September 2018.

## Dividends and future franking credits

As advised by the Chairman in her review, shareholders will receive a fully franked final dividend of 20.0 cents per ordinary share, taking the full year payout to 34.0 cents per share, a cash payout ratio of 77.9%.

One result of the capital management measures undertaken in recent years – including the special dividend component of the planned November 2018 return – is that we may not be in a position to fully frank dividends from the second half of calendar 2019 onwards. Franking from that date is expected to be in the range of 70% to 100%.



An aerial photograph showing the aftermath of a bushfire. The ground is dark and charred, with scattered debris including large sheets of corrugated metal that have been blown or broken apart. The surrounding area is filled with blackened tree trunks and sparse, dead vegetation. The overall scene is one of significant destruction and desolation.

## Our purpose in action

The people of Tathra on the New South Wales south coast were caught unaware when a bushfire swept through their beachside community on 23 March 2018.

The town is home to around 1,600 residents whose homes are perched on the hills that lead down to the seaside town and beach. The bushfire swept towards them so quickly that some evacuated leaving everything behind, others stayed to try and save their homes, while many headed for what they thought was the safety of the surf club at the beach, only to be ordered to evacuate by police as thick smoke, embers and flames drew closer.

Most of these people made their way to the evacuation centre at the nearby showground where our partners at the Australian Red Cross were ready to care for them.

The fire destroyed rows of houses at the top of the town. Closer to the water the damage was spread out, with the fire destroying one or clumps of two and three houses but leaving neighbours untouched.

Within a week, our Claims and Assessing team was on site to identify the scale of repairs and rebuilds required, in preparation for getting the all-clear to begin cleaning up properties.

We also sent our people to the Emergency Response Centre established in nearby Bega. This enabled us to help people lodge their claims at the same place they accessed government financial support, counselling, and the support of the Australian Red Cross.

We had 55 customers who lost their houses, and a total of 179 building and contents claims across all our brands. As at 1 August 2018, we had settled all the claims for lost houses and 79% of the remaining claims. Repairs for over half of the outstanding claims have been finalised, with the majority of those remaining now scheduled.

# Our strategy

## Optimise our core insurance business while creating future growth options

At IAG, our **purpose** is **to make your world a safer place**: IAG's purpose means that whether you are a customer, partner, employee, shareholder or part of the communities we serve, IAG exists to 'make your world a safer place'. We believe our purpose will enable us to become a more sustainable business over the long term, and deliver stronger and more consistent returns for our shareholders.



## Financial Targets

IAG is focused on delivering through the cycle targets of:

- Cash return on equity 1.5x weighted average cost of capital;
- A dividend payout of 60 – 80% of cash earnings;
- Top quartile total shareholder return; and
- Approximately 10% compound earnings per share growth.

## Strategic Priorities

IAG has identified three key strategic priorities, supported by organisational capabilities, to deliver its strategy:

### I. Customer – World-leading customer experiences:

Create a delivery platform that transforms customer experiences:

- Better connect customers and automate processes, enabling IAG to reach more customers in a timely manner;
- Develop an innovation approach which provides the ability to think differently and deliver quickly;
- Embed cognitive capabilities and artificial intelligence that anticipate customers’ needs; and
- Use data to power decision-making, allowing IAG to better understand its customers.

### II. Simplification – Simplified, modular and lower cost operating model:




- Reduce organisational complexity by consolidating technology platforms, harmonising products, simplifying processes and systems, and executing the technology strategy;
- Leverage operational partners to optimise the operating model and drive scale economies across the value chain; and
- Improve allocation and maximise utilisation of the preferred repairer network to reduce average claim size.

### III. Agility – An agile organisation distinguished by innovation, speed and execution skills:

- Create a disciplined approach to IAG’s management and leadership, including building stronger role clarity and introducing agile ways of working;
- Build a talent pipeline based on the skills required to deliver IAG’s strategy and help IAG people transition to the future of work; and
- Be recognised as a purpose-led organisation that shapes its internal and external environment.

## Operational scorecard

A range of activities linked to our three strategic priorities

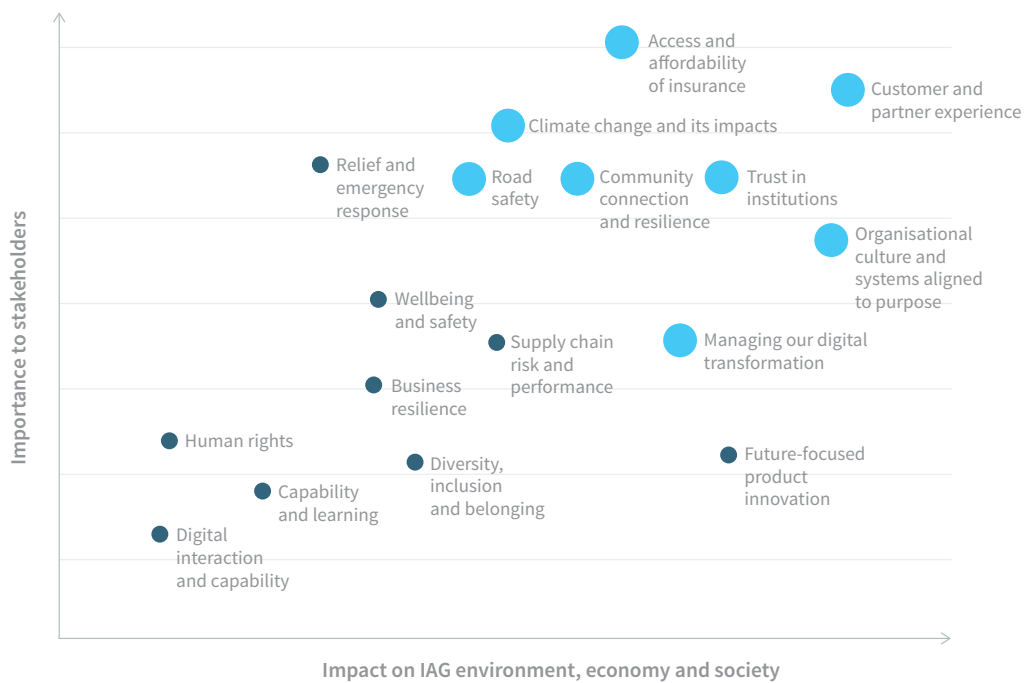
	2018 activities	2019 priorities
 <b>Customer</b>	<ul style="list-style-type: none"> <li>• Applied the customer segmentation model to inform brand strategy, marketing and customer journey design</li> <li>• Digitised key customer journeys including redesigning the motor claims process</li> <li>• Consolidated IAG’s data asset using open source technologies and received the Red Hat 2018 Innovation Award</li> <li>• Deployed world-class pricing capability using machine learning and real-time pricing models, across core personal lines portfolios</li> </ul>	<ul style="list-style-type: none"> <li>• Apply customer behavioural analysis to prioritise investment decisions that drive customer advocacy</li> <li>• Transition the data platform onto a scalable, flexible and cost-efficient cloud capability that powers decision-making</li> <li>• Embed cognitive capabilities such as chat bots and computer visioning across the organisation</li> <li>• Continue digital transformation through the development of application programming interfaces (API), scaling of digital infrastructure and use of cloud</li> </ul>
 <b>Simplification</b>	<ul style="list-style-type: none"> <li>• Embedded single Australia Division operating structure</li> <li>• Completed Australian personal motor and home lines claims component of systems consolidation</li> <li>• Continued transition of targeted activities to operational partners</li> <li>• Embedded operational partnering excellence framework</li> </ul>	<ul style="list-style-type: none"> <li>• Continue consolidation of core technology platforms and decommissioning of redundant systems</li> <li>• Complete transition of targeted activities to operational partners</li> <li>• Progress review and delivery of optimised repair model</li> </ul>
 <b>Agility</b>	<ul style="list-style-type: none"> <li>• Deployed Leading@IAG program, linking purpose and strategy to individual accountability and performance</li> <li>• Increased employee advocacy score by 18 points</li> <li>• Launched Future ME program to empower employees to build their knowledge and preparedness to participate in the workforce of the future</li> <li>• Continued investments through Firemark Labs and partnerships to launch products and solutions that deliver on IAG’s purpose</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthen ways of working, leadership and people frameworks to create clarity, improve productivity and evolve skills to be successful in the future</li> <li>• Continue to develop partnerships, products and shared value programs that drive safer communities and deliver on IAG’s purpose: we make your world a safer place</li> </ul>

# Our material issues

Each year, we identify the material issues that reflect the impact we have on the community, environment and economy and that affect our ability to deliver on our purpose and achieve our strategy. We ask a wide range of stakeholders to help us identify issues that are important to our customers, employees, partners, shareholders and the communities in which we operate. We then prioritise these

issues based on their potential to affect our business performance, the areas where we have impact, and their importance to our stakeholders. This year, more than ever, we saw trust become a broad theme that affected and influenced many of the issues. This informed our priorities and helped us determine our material issues for 2018.

## Materiality matrix



● Our 2018 material issues



## Customer and partner experience

Business success relies on the delivery of meaningful and valuable customer and partner experiences through the interactions we have every day, from face-to-face to technology solutions. For our business, this experience needs to be replicated across our network of operational partners, community partners, distributors and suppliers. Increasing customer and partner advocacy supports our purpose and organisational strategy. We are focused on putting the customer at the centre of decision making and believe this requires understanding of the diverse needs and behaviours of the customer segments we serve. Getting this right is critical to our long term success.

## Trust in institutions

As evidenced by research from Edelman through the Trust Barometer, we have seen a trend towards the erosion of trust across government, business, non-government organisations and media. The drivers for this are complex but scandals, data breaches and increased access to information have all contributed. The erosion of trust is also a particularly relevant issue for financial institutions as the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry conducts its inquiry. We believe trust is the foundation of our business and maintaining and building it is essential to our long-term commercial viability.

## Organisational culture and systems aligned to purpose

Having a capable, engaged and productive workforce is important for any large organisation to achieve its strategic objectives. We believe this becomes easier when a business is purpose-led, delivering on its promises and providing people with meaningful work. At IAG, our purpose is to make your world a safer place. This is more than words – it guides our strategy, our culture and our operational execution. This is particularly relevant for us and our people as we prepare for a changing world affected by artificial intelligence, digital transformation, cyber risks and climate change. Our purpose, supported by our culture and systems, will help us navigate this world; investing in our people through learning and development will enable our business to thrive.

## Access and affordability

Many people do not have adequate insurance cover due to affordability issues, a lack of understanding around the level of protection they require, or a lack of suitable insurance products. We know that inadequate insurance reduces the ability of individuals, communities and our economy to recover from adverse events. As a major insurer, we have a responsibility to ensure insurance remains accessible and affordable. With increased risk, this is not easy. We recognise the need for us to ensure products are in place to meet customers' and community needs. We need to continue to focus on how insurance can be affordable for all, acknowledging our commitment to financial inclusion. We also need to assist customers and communities to understand the level of protection they require. If we focus on our purpose of making your world a safer place we will not only improve the resilience of our current customers and communities but also open new market opportunities for IAG.

## Managing our digital transformation

Digital transformation is one of the defining trends of the last decade. Digitisation affects almost every facet of our business, creating both opportunities and challenges to the way we operate. In this disrupted world, we must continue to evolve our business model to stay relevant. Innovation and product development become critical to ensuring business sustainability and we must also acknowledge the challenges of a digital world, such as privacy and data security, which our stakeholders care deeply about.

## Community connection and resilience

Communities are rapidly evolving and face new and increasingly complex challenges. Both individuals and communities need to be equipped with the knowledge and skills to survive, adapt and grow when facing stresses and shocks – whatever these may be. We know communities are more resilient when they are well prepared and connected. Communities which are resilient recover more quickly, adapt and thrive after shocks and stresses. They also rebuild and own assets more quickly, which provides insurance opportunities. Improving shared understanding of the risks people face is critical to improving safety on our roads, in our homes and in businesses.

## Climate change and its impacts

We recognise climate change as one of the biggest threats to our society and way of life today. This risk is heightened through urbanisation and further coastal development. The risk of extreme and destructive weather events will increase if we don't succeed in reducing our global greenhouse gas emissions. This is particularly relevant to our business. We are there when extreme weather events occur and pay out claims to help our customers and communities recover. As a result, climate risk presents clear challenges for the sustainability of our business – but it also creates significant opportunities. We are well-positioned to use our industry expertise to help customers, partners and communities understand and manage the changing risk environment, build resilience and navigate the transition to a low carbon economy.

## Road safety

In contrast to the downward trend of the last 30 years, fatal traffic accidents have been increasing in Australia and New Zealand in recent years. Current thinking is this could be related to the introduction of mobile phones and other technology leading to distracted driving. This is an issue picked up by the United Nations with Sustainable Development Goal 3.6 focused on halving the number of global deaths and injuries from road traffic accidents by 2020. As one of the largest motor insurers in the region, this issue is particularly relevant to our business – during the 2018 financial year we paid over \$3 billion in road insurance claims. This is especially pertinent for our major NRMA Insurance brand which holds road safety as a fundamental priority.

**For more information about how we are addressing these issues, look for the matching icons throughout this review.**

# Operating performance

## Australia

**IAG has market-leading shares in personal and commercial insurance lines in Australia, with products sold under brands including NRMA Insurance, CGU, WFI, SGIO and SGIC.**

Australia achieved like-for-like gross written premium growth of over 3% driven by ongoing rate increases in motor, home and commercial policies. The business' reported insurance margin of 19.6% was boosted by significant prior period reserve releases, a favourable perils outcome and the initial impact of the recent 12.5% quota share agreements. Australia's underlying margin of 12.9% reflected a sound performance.

### Consumer

IAG is the largest personal lines insurer in Australia, offering motor and home products across the country under a range of brands, supplemented by Compulsory Third Party insurance in New South Wales, the Australian Capital Territory and South Australia.

Consumer increased its gross written premium by 1.6% to \$6,214 million. Excluding the effect of New South Wales Compulsory Third Party-related changes, like-for-like gross written premium growth was over 4%.

Reported premium growth in personal motor policies exceeded 5% as higher rates met increased claim costs.

Reform to the New South Wales Compulsory Third Party scheme resulted in significant reduction in average premium price, alongside lower claim costs.

There was also 4% growth in home premiums as rate increases were partially offset by slightly lower volumes.

Online sales channels for our flagship consumer brands continued to register substantial growth, with NRMA Insurance conducting approximately 28% of new business sales and renewals online during the 2018 financial year.

### Business

IAG sells a range of commercial products in Australia through its suite of brands. IAG's Business offering has a strong small-medium-enterprise emphasis, and a leading market share in rural areas.

Business reported a slight decrease of 1.1% overall in gross written premium this financial year, but like-for-like premium was marginally higher, after allowing for discontinued Swann Insurance activities.

The overall Business premium outcome included:

- a continuation of rate increases across most business classes;
- remediation of the property and fleet portfolios;
- underwriting agency-derived growth, primarily from NTI;
- retention levels in key portfolios which were slightly lower than last year, however higher than expected;
- lower new business volumes; and
- an approximate \$40 million reduction from divested or discontinued Swann Insurance activities.

A focus on maintaining underwriting and pricing discipline across Business segments through targeted portfolio reviews was a feature of the 2018 financial year, and appropriate rate increases occurred across all portfolios with varied impact on volumes.

Growth in the direct market was supported by improved digital capability and a targeted CGU marketing campaign. This area represented 24% of overall Business premium.

### Customer initiatives

During the year, Australia enhanced its product offering, strengthened its partnerships and improved the quality of customer service by:

- opening the first NRMA Insurance hub in Liverpool, New South Wales, offering immersive installations and educational zones;
- piloting a digital capability to provide customers having motor repairs completed with email and SMS status updates and the expected completion date;
- including Compulsory Third Party in the new NRMA Insurance customer management system, providing knowledge management tools to optimise the customer experience;
- launching the CGU 'More Time' campaign to provide small business owners with a specialised portal which incorporates time-saving solutions through partnerships with Airtasker, Squirrel Street and Legal Access Services; and
- continuing the foundation partnership with Tropfest, including screening two short films commissioned by CGU highlighting the contributions of migrant small business owners, supporting the most recent CGU Direct marketing campaign.



This year, the NRMA Insurance and CGU brands' strong levels of service and partnership capabilities continued to be reflected in industry recognition from key bodies including the Australian and New Zealand Institute of Insurance and Finance, National Insurance Brokers Association and Insurance Business Australia magazine.

#### Gross written premium (\$m)

2018	9,144
2017	9,081

#### Insurance profit (\$m)

2018	1,190
2017	1,145

#### Percentage of IAG's gross written premium

**79%**

## New Zealand

**IAG is the largest general insurer in New Zealand, trading under the State, NZI, AMI and Lumley Insurance brands.**

New Zealand's local currency gross written premium grew by 8.9% to NZ\$2,696 million, reflecting the combination of:

- continued premium growth in the Consumer Division, led by higher volumes and increased rates in the private motor vehicle portfolio; and
- strong premium growth in the Business Division, following rate increases in both commercial and personal lines, partially offset by lower new business volumes as the business maintained its underwriting disciplines.

Reported New Zealand gross written premium growth was 6.3%, after an adverse foreign exchange translation effect, particularly in the first half of the year.

The Consumer Division demonstrated its dedication to IAG's purpose through corporate partnership with the New Zealand Red Cross to build community resilience and preparedness.

The Business Division's strong market standing was demonstrated at the 2017 New Zealand Insurance Industry Awards held in November 2017. NZI was named Intermediated Insurance Company of the Year and, for the second consecutive year, won the Innovation of the Year award for its Seeing Machines Guardian System, designed for commercial motor vehicles and to help prevent driver fatigue and distraction-related incidents with real-time alerts.

New Zealand achieved a reported insurance margin of 13.8%, up from 7.6% last year, with the improvement reflecting the combination of:

- the initial impact from the 12.5% quota shares which took effect from 1 January 2018;
- higher gross earned premium, driven by good growth in both the Consumer and Business Divisions;
- lower net natural peril claim costs, despite significant peril activity in the second half of the year and an overrun against the full year allowance;
- continued focus on disciplined expense management; and
- some offset from prior period reserve strengthening.

New Zealand's strong underlying performance was demonstrated by the increase in its underlying margin to 17.6%, up from 14.8% in 2017.

### Gross written premium (\$m)

2018	2,486
2017	2,339

### Insurance profit (\$m)

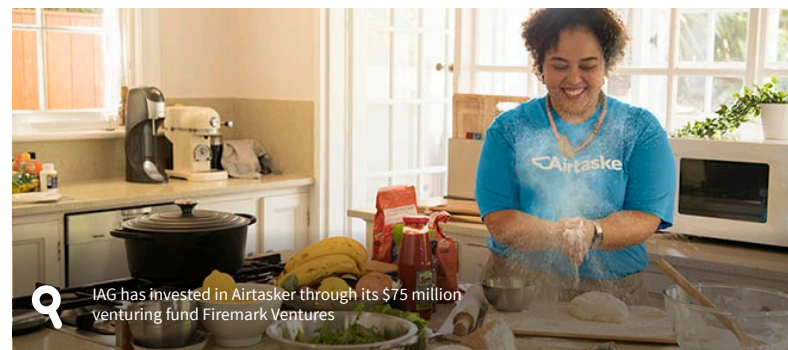
2018	218
2017	125

### Percentage of IAG's gross written premium

**21%**



Overview of the Castlepoint lighthouse and village, New Zealand, at sunrise



IAG has invested in Airtasker through its \$75 million venturing fund Firemark Ventures

## Customer Labs

**Customer Labs is responsible for developing IAG's customer experience strategy using a deep understanding of customer data and insights. Our customer understanding enables us to design product, pricing and marketing innovations. Customer Labs is also responsible for digital innovation across IAG, including identifying and harnessing disruptive technology; building digital apps and ecosystems; brand architecture; human centred design; and new business incubation and venturing.**

This year, Customer Labs:

- began to analyse the correlation between advocacy and customer behaviour to help us identify and prioritise investment into initiatives that improve customer experience;
- established the IAG Customer Connections Program;
- used open source technologies to deliver a simplified,

consolidated data platform that allows customers to interact with IAG in more engaging and personalised ways, winning a Red Hat 2018 Innovation Award;

- completed extensive testing and reinforcement of its data platform to ensure best practice in data security, governance and risk management;
- deployed IAG's world-class pricing capability, which relies on machine learning and real-time pricing models, across the core personal lines insurance portfolios in Australia;
- delivered the first viable product in the redesign of the motor recovery journey: the tracking of the motor repair status and associated customer notification; and
- oversaw Firemark Ventures' work to assess 185 opportunities and make five investments.

# Bringing our purpose to life with our people and in the community

At IAG, meeting community expectations and maintaining the trust of our customers remains paramount. The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Royal Commission) has highlighted instances where businesses have fallen below these standards.

**Business ethics is a key point of public concern and it is understandable that our stakeholders identified trust, customer experience and organisational culture as leading priorities for them.**

In this review, we believe it is important to outline how we are continuously aiming to both improve our business and ensure we are doing the right thing by our customers. This includes our approach to addressing ethical expectations and practices (page 16), our organisational culture (page 15) and our efforts to provide purpose-led products and partnerships that address key concerns for our customers and our communities (pages 17 and 18).

IAG has a clear purpose: to make your world a safer place. Our purpose is at the heart of our strategy to achieve world-leading customer experiences, and to operate with simplicity, scalability and agility. To help us execute our strategy and maintain our purpose, we developed a shared value framework that supports the creation of safer, stronger and more confident communities. This framework guides our customer and community facing initiatives, with our efforts delivered through four priority areas that manage material business risks and realise potential opportunities:

## **1. Using our purpose to create meaning for our people and support our performance**

Continuing to strengthen people and culture programs to drive alignment with IAG's purpose, increase agility and build readiness for the future of work.

## **2. Acting responsibly to build and maintain trust**

Remaining committed to operating transparently and ethically. Ensuring our actions build a foundation of trust by addressing social and environmental issues important to our stakeholders.

## **3. Embedding our purpose through shared value innovation and supply chain management**

Building on this foundation by developing and adapting products, services and business models that deliver commercial, customer and community advantage.

## **4. Building safe, confident and connected communities**

Looking beyond our own business model by collaborating with partners to tackle systemic issues that affect community resilience and our business. By addressing risk exposure, community preparedness, insurance access, and insurance affordability, we aim to achieve our mutual objectives – to make communities safer and more resilient so they can thrive.

## **Sustainable governance and alignment to the United Nations Sustainable Development Goals**

We have strong governance structures that shape how we manage issues key to our business. Our Board has overarching responsibility for shared value and sustainability, with our internal Shared Value Advisory Council providing advice and input on our approach and supporting the Group Executive People, Performance and Reputation in recommendations to the Group Leadership Team. We also have a Customer Advisory Board to keep abreast of our customers' needs while our Ethics Committee considers ethical perspectives in the way we engage with our customers and partners. Details can be found on our website.

Increasingly, the social and environmental challenges faced by communities, countries and regions affect businesses and influence commercial success. IAG supports the international commitment to the United Nations' 17 Sustainable Development Goals (SDGs) to advance economic, social and environmental prosperity. We acknowledge the SDGs can only be achieved if business, government and society work together. While our work on safer communities and risk transfer through insurance can support many of the SDGs, we recognise and prioritise those where we can make the biggest difference:

- **Decent Work and Economic Growth** – recognising insurance is a service that helps communities to thrive and recover from adversity. The need for wide access to insurance is explicitly called out in Target 8.10.
- **Industry, Innovation and Infrastructure** – ensuring we play our role in supporting investment in resilient infrastructure, innovation and supporting technological progress to finding lasting solutions to both economic and environmental challenges.
- **Sustainable Cities and Communities** – using our expertise and partnerships to deliver resilient and sustainable communities and infrastructure.
- **Climate Action** – given IAG's central role of helping customers transfer the risk stemming from weather-related natural perils.





## Our people

# Using our purpose to create meaning for our people and support our performance

**Overview:** We are focused on creating a workplace where our people are aligned to and support our purpose and have the skills and capability to respond quickly to the evolving needs of our customers, and the changing nature of work. Our Leading@IAG program provides the system of work to support this throughout IAG. Using our purpose to guide our decisions helps us create a culture where customers can trust that we will deliver on our promise to them, and our people experience meaningful and purposeful work. There have been calls for a broad-based cultural shift within the financial sector and we acknowledge culture is pivotal to ensure we meet community expectations.

### Building agility through Leading@IAG

Our Leading@IAG system of work sets clear expectations about the skills and behaviours we expect from our people, at every level of our organisation. Leading@IAG helps our leaders link purpose and strategy to the design of their systems of work and roles, and helps them identify talent and manage people's performance.

### Encouraging an effective and engaging culture



The consistency and alignment that flow from Leading@IAG help increase the level of trust within the organisation and contribute to a more engaging, agile and effective culture.

We believe building deeper, more trust-based relationships with each other helps us ensure that our culture supports our business to meet the needs and expectations of our people, our customers and the community.

We want our workplace to be characterised by a greater degree of collaboration, ethical behaviour, diversity in our people and a strong sense of belonging. These cultural aspirations were integral to the design of our new Sydney office in Darling Park. An activity-based working environment helps us work more effectively, so we can better serve our customers.

We monitor our culture using an organisation-wide employee net promoter score that measures advocacy and agility indicators. The advocacy measure reflects how likely people are to recommend IAG as a good place to work. Agility indicators help us understand our people's experience at IAG and that contributes to innovation, speed and delivery.

This year, our rolling six-monthly employee net promoter score improved from -29 to -2 by 30 June 2018. The negative result reflects a variety of factors, including uncertainty following internal restructures and the subsequent need to embed new structures, roles and ways of working but this is improving. Our goal is to reach +20 by 2020.

We use a culture dashboard to measure shifts in engagement across every team, every two months and our leaders' annual performance outcomes are linked to these results.

A key contributor to our culture is the extent to which our people feel they belong so we have a specific focus on diversity, inclusion and belonging: greater diversity helps us to be agile and innovative, while greater inclusion increases connection and understanding. We have set targets for key areas, including the percentage of senior management roles held by women, and the percentage of employees who are Indigenous. Our targets and this year's results are set out on page 19.

### Focusing on our people's safety

Our 2020 Work Health & Safety Strategy prioritises psychological and physical health, flexible and mobile workforces, security and managing emergencies. This year, we focused our efforts on increasing mental health awareness.

We use the internationally-recognised measure of lost time injury frequency rate to measure how we are performing, and our targets and results are set out on page 19. We also review measures that may help us predict future issues. These include use of our Employee Assistance Program; hazard and incident reporting and follow-up; and compliance with the safety and wellbeing training that is compulsory for all new employees, and repeated by all people managers.

### Discussion: Preparing our workforce for the future

Workforce design helps us focus on having the right skills, experience and capability now and into the future. Workforce insights and analytics help us anticipate the future demands for skills within our organisation, and consider how technology will affect the ways our customers live, how and where our people prefer to work, and future types of work. We are also gaining greater clarity on the skills that are aligned to our strategic aspirations and our purpose.

These insights are informing our Future ME initiative to help us prepare our people to transition to a new world of work.

We know we must evolve our business if we are to provide exceptional customer experiences in the future. This means the skills and capabilities we require in our people will also continue to change. While technology, automation and global partnering will affect some roles, they will also create new opportunities. Adaptability, cognition, data, digital and design are some of the critical skills we will need to evolve our future workforce.

Our Future ME program incorporates practical steps to help people prepare for the future of work. We are trying to take a proactive approach by building our people's awareness of the future of work, providing greater clarity on skillsets that are aligned to our strategic objectives and supporting people to develop these capabilities for use either within or outside IAG. We believe Future ME empowers our people to plan ahead and gives them a degree of control over their future.

We also acknowledge we can create greater development opportunities by connecting our people to skilled volunteering with our community partners. We see alignment between the skills being developed through these programs and future of work capabilities and requirements.

## Our responsibility

# Acting responsibly to build and maintain trust

**Overview:** We are operating in a complex environment where community expectations of business conduct and ethics are increasingly clear. Consumers have greater access than ever before to information about business behaviour and they, along with regulators and consumer advocates, are sending a clear signal about what is acceptable. Effectively addressing social and environmental issues to build and maintain trust in IAG is more important than ever and we accept that we have a responsibility to act. Actions this year included a continued focus on listening to customer views and considering ethics through our Consumer Advisory Board and Ethics Committee, formalising our Climate Action Plan, and setting science-based emissions targets for our operations.

### Maintaining trust through ethical business practices

Government inquiries, regulator reviews and the Royal Commission have highlighted misalignment between community expectations and business practices. Assessing our business through the community expectations lens is crucial because it provides us with the opportunity to understand what is important and valuable to our customers.

We already have a number of mechanisms in place to help us do this. Our Consumer Advisory Board gives us insights from key consumer groups and our Ethics Committee provides ethical guidance on customer and partner engagement. Our Product Design Principles guide IAG's employees when developing, selling, distributing or communicating about IAG products. The principles help us evaluate whether our products are meeting customer needs and offering them fair value. These support our well established underwriting, governance and regulatory compliance processes.

In past years, ASIC raised concerns about insurers selling add-on insurance through motor vehicle dealers. The industry has agreed to pay money back to customers who bought this insurance. IAG is paying \$39.5 million to 64,187 Swann Insurance customers and we are working with ASIC to complete this program. So far, we have paid out more than half of this amount.

We know that these products did not deliver the value they should have for many customers. We did not get it right in this instance. IAG has since sold its Swann Insurance motor vehicle distribution rights and no longer sells add-on insurance through motor vehicle dealers. We will also be making a community benefit payment from unclaimed amounts and that payment has been approved by ASIC.

We understand the importance of meeting community expectations and believe the Royal Commission provides us with a valuable opportunity to listen, learn and make any necessary improvements to our business to help ensure we do the right thing by our customers.

### Taking action on climate change

Reducing carbon emissions is increasingly urgent to avoid the effect of catastrophic climate change and potential longer term commercial impacts. IAG began implementing a three-year Climate Action Plan this financial year and publicly launched this

in July 2018. We are committed to assessing and disclosing risks and opportunities that are aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD):

**Governance:** Accountability and oversight for IAG's Climate Action Plan, including our approach to disclosure, sits with the Board and Group Leadership Team<sup>1</sup>.

**Strategy:** We consider climate change in our strategy setting process. Our strategy is resilient to short term climate change risks due to our use of risk-based pricing, reinsurance and the ability to annually adjust premiums. We recognise there are medium and longer term strategic considerations from increasing frequency and severity of natural peril events and associated increases in claim costs. We have commenced transitional and physical risk assessments using climate scenarios to inform improved business outcomes. We are also investigating further product and service opportunities that support adaptation and emission reductions, in addition to the existing fuel-efficient vehicle pricing benefit provided through our NRMA Insurance and NZI brands.

**Risk management:** IAG considers climate-related risks through our Enterprise Risk Profile, supported by our Risk Management Framework and Risk Management Strategy. In the 2018 financial year, we commenced an assessment of physical and transitional risks. We continue to work with leading climate researchers on the trends and impacts of extreme weather events. The first phase modelled different climate futures informing how much, and in what locations, extreme weather may affect claim events and ultimately home insurance cost. Our risk assessments, scenario analysis and disclosure will also be informed by our participation in a global pilot led by the UNEP FI Principles for Sustainable Insurance (PSI).

**Metrics and targets:** IAG has been climate neutral since 2012 and achieved our absolute carbon emissions reduction target of 10% ahead of our 2020 commitment. We recently set science-based targets for our scope 1 and 2 emissions for a 20% reduction by 2020 and a 95% reduction by 2050<sup>2</sup>. See page 19 for details.

### Expanded TCFD disclosure

We will provide expanded TCFD disclosure by the end of the 2019 financial year. This will be informed by our participation in the global PSI Pilot on TCFD, which commenced in August 2018. This disclosure will consider the most appropriate analysis of the physical and transitional risks faced by IAG in various global warming scenarios, and their financial implications for us.

<sup>1</sup> Information on our corporate governance can be found on our website: <https://www.iag.com.au/about-us/corporate-governance>

<sup>2</sup> Details of our targets and emission footprints are also available on our website and in our FY18 data summary and glossary of terms.

## Our purpose

# Embedding our purpose through shared value innovation

**Overview:** Applying shared value as a business model supports connections between our business objectives and our purpose, to make the world a safer place. This year, we continued to build commercially viable solutions that make individuals and communities safer, stronger and more confident. We also increased our focus on inclusive products and services that work for all our customers. Our partnership with the innovative Airtasker helped us incorporate shared value into the gig economy.

### Making our roads and homes safer



We conduct research at our IAG Research Centre and share the results with manufacturers. This helps to improve car design in areas like anti-theft security, crash safety and whiplash reduction through head restraint design. In 2018, the IAG Research Centre broadened its focus on emerging issues affecting vehicles and mobility, such as the development of autonomous vehicles. In partnership with the National Motor Vehicle Theft Reduction Council we created a program to look at cyber security and vehicle theft.

Distracted driving has been shown to significantly increase the chance of crashing and the NRMA Safer Journeys app was developed to address this. Users score points for not touching their phone and get rewards for doing this consistently. See the website for more details: <https://saferjourneys.com.au/>.

IAG has a history of helping people understand risks at home with initiatives like Safer Homes, Need2Know and First Place virtual reality that were covered in this review last year. This year, we engaged a group of NRMA Insurance customers to pilot Safety Hub – an app designed to build awareness around common risks and help people deal with them safely. For example, damaged flexi hoses are a leading cause of water damage in homes in Australia. Safety Hub alerts people to check if they have a flexi hose, helps them find a qualified person to repair it, and rewards them for doing so.

#### Discussion: Balancing disruptive opportunities while staying true to our purpose

The markets we operate in are increasingly affected by disruptive forces like automation, the gig economy and insurtech. We need to embrace these forces to remain competitive and continue to provide customers with the experiences they expect. Sometimes, these changes also introduce new risks. We will navigate through these challenges by keeping our purpose in mind when designing strategy, keeping communities safer and our economy resilient.

To achieve the balance required, innovators from inside and outside our business are working together to reimagine how we design and deliver insurance so that we can make our markets more sustainable and resilient as they change.

Following on from our ShareCover insurance for the sharing economy, our recent investment in Airtasker demonstrates our customer-led innovation strategy in action. With more than two million Australians using the Airtasker platform, our partnership will help us to understand emerging insurance needs and explore what type of protection the sharing economy requires to thrive.

### Responding to the needs of all our customers



Our commitment to customer equity delivers on our purpose and is aligned with our ambition to create world-leading experiences for all customers, regardless of age, gender identity, sexual orientation, mental and physical abilities, culture, language or financial situation.

In Australia, we developed a Customer Inclusion Program to continue to remove barriers that prevent customers from fully experiencing our products and services. This year, we delivered employee compliance training on Mental Health and Domestic & Family Violence; removed blanket exclusions on travel policies; and participated in awareness-building events including the White Ribbon Walk and R U OK? Day.

### Demonstrating our purpose in claims servicing and managing our supply chain

#### Partnering with like-minded suppliers

Our Supplier Governance Framework enables us to assess risks across our global supply chain and use increasingly sophisticated tools to manage performance. We have established systems to pull real-time data from more than 500,000 sources to monitor risk exposure across our global supply chain, and engaged Made In A Free World to help us monitor human rights across our network. In 2019, we will continue these initiatives, focusing on modern slavery and climate change.

#### Positive impacts through our supply chain

We promoted diversity and talent by supporting the Women in Collision award with Australasian Paint & Panel magazine and the Future Leaders award with the National Collision Repairer magazine. Our environmental accreditation program, EcoSmash, helps repairers comply with good environmental practices. In 2018, we built on the program's impact by developing a monitoring framework. We now require top level compliance for all new exclusive repairers and are introducing minimum requirements for partner repairers.

In 2018, IAG supported Indigenous enterprises by continuing to partner with Supply Nation. We are proud to now be working with 18 Indigenous suppliers, surpassing our original target of 12 by December 2018. While our impact has expanded, several engagements were one-off events. Our new Reconciliation Action Plan, launching in 2019, will expand our Indigenous supplier engagement and find opportunities for longer-term relationships.

## Our communities

# Building safe, confident and connected communities

**Overview:** Our extensive community and customer engagement continues to highlight the importance of reconnecting local communities to support their resilience and our business success. Our collaboration ranges from international programs such as the United Nations Environment Programme – Finance Initiative, to national partnerships like the Australian Red Cross, to state and local level activities through partners and programs such as State Emergency Services and 100 Resilient Cities. At an industry level, we partnered with others to better understand issues important to our business.

### A global approach to sustainable finance and risk management

In July 2018, IAG worked with NAB, Responsible Investment Association of Australia, Investor Group on Climate Change, Principles for Responsible Investment and the United Nations Environment Programme – Finance Initiative to host the Financing a Resilient and Sustainable Economy conference in Sydney. We are now helping to develop a regional plan for Australia and New Zealand, focused on creating sustainable finance solutions that support progress against the United Nations Sustainable Development Goals.

### Building a resilience movement



#### Confident communities

In 2018, we continued to grow our local community partnerships through our Good 'Hoods program. While we initially set out to partner with five communities, we found making meaningful impact takes time. We have now focused our efforts on:

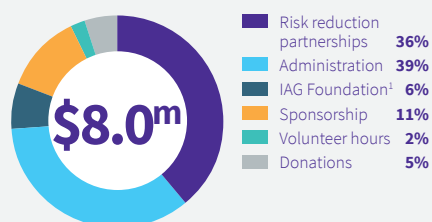
- co-creating a framework with the Blacktown community to improve economic inclusion; increase community connection; and reduce the impact of severe weather events; and
- partnering on a community-led planning framework and supporting resilience initiatives in Murrindindi, a region we have supported since the 2009 Black Saturday bush fires.

### National, regional and local partners

Our NRMA Insurance partnership with both the New South Wales and Queensland State Emergency Services aims to improve community understanding of storm and flood risk, to reduce potential impacts. For example, almost nine in ten people who saw our storm preparedness campaign took mitigating action. We also continued to trial the DipStik flood-warning device – a flashing beacon that warns motorists not to drive through flood-prone locations and communicates with emergency services – in six flood-prone areas of Australia.

Research indicates that while 80% of Australians believe preparing for an emergency is important, fewer than 20% prepare.

#### Community investment by type – 2018



<sup>1</sup> This reflects the contribution by the business to the IAG Foundation, and includes matched funding for employee workplace giving.

Through our 10-year partnership with the Australian Red Cross we co-created and launched the Get Prepared smartphone app. The app provides an easy way to prepare for emergencies, such as identifying tasks, and lets you digitally share your plan. A study conducted with a cohort of users showed that 63% increased their awareness of potential risks in their local area and 56% felt more prepared than they did before using the app.

We are also supporting the 100 Resilient Cities strategies in Sydney and Melbourne. This includes partnering with the City of Sydney to target 100,000 downloads of the Get Prepared app in the city.

### Industry-specific partnerships

We also collaborate to better understand topics relevant to our business. This year, we supported the waste industry through a forum with the Environment Protection Authority, fire brigades, government, regulators and insurers. This investigated best practice operating standards, risk management and contingency planning. We entered a 10-year partnership with iMOVE Australia to get insights into the future of smart, connected transport and continued to work with Suncorp and James Cook University Cyclone Testing Centre to understand the cost of claims and community resilience after cyclones. We also worked with the US National Centre for Atmospheric Research, a global leader in climate modelling, to better understand how climate change will affect our region.

#### Discussion: Partnering to amplify community impact



In 2017, CGU partnered with Catalysr, Australia's first start-up incubator for refugee and migrant entrepreneurs in Blacktown. The program was built on the knowledge that many refugees and migrants are skilled and highly motivated, but face unique barriers to entering the workforce. CGU's support has been critical in helping Catalysr to empower 'migrapreneurs', bring more business ideas to life, and to evolve and scale the program. A 2018 report by CGU estimated that refugee and migrant small business owners could create 200,000 new jobs in the next five to ten years.

# Our commitments

## Progress against our commitments

Our objective	Our commitment	Measure	Progress update end of 2018 financial year
Make your world a safer place	Create safer, stronger and more confident communities through business, employee and community programs	% progress against shared value measure (SVM)	The SVM tracks community impact, employee involvement and business impact. Eight indicators feed into this measure including the perception of safety and resilience of people who interact with our programs, employee engagement with the Safer Communities work and customer advocacy scores. In financial year 2018, we recorded a baseline score of 52.9%. <b>Status:</b> ▲
	Reduce our lost-time injury frequency rate (LTIFR) annually	Number of lost-time injuries per one million hours worked	<ul style="list-style-type: none"> <li>LTIFR in Australia continuously improved, reducing from 2.39 in 2017 to 2.10 by the end of the 2018 financial year (12% reduction)<sup>1</sup></li> <li>our 2018 LTIFR target in New Zealand was 0.86 and we ended the year at 0.92. This deterioration relates to three LTI cases in 2017 and five cases in 2018</li> </ul> <b>Status:</b> ●
Realising the benefits of a diverse and inclusive workforce	Increase the number of women in senior management (WISM) to 40% in Australia and 50% in New Zealand by 2020	% women in senior management	WISM across IAG Group increased from 33.7% to 34.5% by the end of the 2018 financial year, including: <ul style="list-style-type: none"> <li>a constant representation in Australia of 34.6%</li> <li>an increase in New Zealand from 37.8% to 40.4%</li> <li>an increase in Asia from 22.9% to 28.6%</li> </ul> <b>Status:</b> ●
	Increase Aboriginal and Torres Strait Islander employment to represent 1.5% of the Australian workforce by November 2018	Number of Aboriginal and Torres Strait Islander employees	Aboriginal and Torres Strait Islander employees made up 0.96% of our workforce by the end of the 2018 financial year. Increasing this has been challenging due to retention and measurement systems. To continue to progress on this target we have made improvements to our governance and management systems. We will reset and publicise our targets in line with a new Reconciliation Action Plan in 2019. <b>Status:</b> ●
Continuous environmental improvement	Maintain carbon neutrality commitment	Carbon neutral status	We remain carbon neutral by purchasing offsets from projects in our markets that help us make communities safer and more resilient. Information is available on our website. <b>Status:</b> ●
	Long term emission reduction targets in line with our vision on climate change	Introduction of science-based emission targets for Scope 1 and 2 activities	We met our 2020 target for absolute reductions ahead of time so in 2018 we set new targets. We used science-based approaches to keep our emissions in line with our view to limit climate change to no more than 2°C from pre-industrial levels. Based on the models suitable for our business, our targets cover our scope 1 and 2 emissions, which in the 2018 financial year were 34,198 tonnes CO <sub>2</sub> e. <b>Status:</b> ▲
		Continuous improvement in overall emissions footprint	Our overall group GHG emissions at the end of the 2018 financial year showed little change compared to the start of the year – this was a result of decreasing emissions in our buildings and fleet being offset by increasing emissions from air travel. We see this as a temporary impact as our business partnering programs develop. We will continue to develop emission reduction initiatives across all of our emissions and through interactions with suppliers, investors and customers. <b>Status:</b> ●
Demonstrating leadership through our sphere of influence	Maintain an effective management system to manage and monitor environmental, social and governance risks in our supply chain and work with our partners to enhance social outcomes and resilience	Maintenance of effective policies, processes and tools for risk management and monitoring  Positive impacts on ESG topics via supply chain	In 2018, IAG improved management system elements to execute policies and positions that were updated in 2017. This includes expanded due diligence processes and tools to manage our supplier-related risks and real-time media monitoring for adverse events related to material, high and medium risk suppliers. In the 2019 financial year, we will continue to work to embed forward-looking management and monitoring on key social issues and potential environmental, social and governance risks in our supply chain. <b>Status:</b> ●
	Increase the number of Aboriginal and Torres Strait Islander Supply Nation suppliers used across IAG to 12 (both Tier 1 and Tier 2) (by December 2018)	Number of Aboriginal and Torres Strait Islander suppliers	We continued to implement and maintain our plan to support the growth of Indigenous enterprise through selective procurement. With our partner Supply Nation, we surpassed our target and have engaged with 18 suppliers by the end of the 2018 financial year. We will reset and publicise our targets in line with a new Reconciliation Action Plan in the 2019 financial year. <b>Status:</b> ●
Affordable and transparent protection for all	Leverage customer insights, agile methods and a data-driven approach to develop and test solutions that respond to evolving customer needs and help enhance resilience and social inclusion	Number of products, services or innovative solutions launched	In 2018, we assigned accountability and ownership of access and affordability to an executive sponsor, and developed a suite of initiatives in our Customer Inclusion Program. Our work includes training our people to support customers at risk of mental illness and family violence, and exploring insurance products that best serve Indigenous Australians. <b>Status:</b> ●

For our commitments, the following symbols illustrate progress: ● Achieved ● Significant progress ● In progress ● Some progress ▲ New commitment

<sup>1</sup> Data presented to reflect the LTIFR as recorded at 30 June 2018. Each year we adjust LTIFR data to reflect LTIs substantiated after the original report date. The Australian LTIFR was restated from 1.84 to 2.39 for the period 1 July 2016 to 30 June 2017

# Remuneration approach

IAG's remuneration approach focuses Executives on generating strong financial outcomes for shareholders, while creating a world leading experience for IAG's customers.

## **The value IAG has created is reflected in the remuneration provided to Executives.**

IAG rewards Executives for the value they help create through a combination of fixed pay, short term incentives (STI) and long term incentives (LTI). IAG delivered improved business performance on an underlying basis in the 2018 financial year. During the year, further steps were taken to reduce earnings volatility and regulatory capital requirements via greater use of reinsurance quota share capital. The announced sale of IAG assets in Thailand, Vietnam and Indonesia will result in a profit in the next financial year and, in tandem with quota share effects, is facilitating a considerable return of capital to shareholders.

The Board considers overall Group performance, together with an assessment of each Executive's personal performance, to determine individual STI outcomes. Reflecting IAG's strong performance during the year ended 30 June 2018, the Group Balanced Scorecard outcome was 74% of the maximum achievable. Consistent with this outcome, the average STI payment for Executives was 71% of the maximum achievable, with payments to individual Executives ranging from 50% to 84%.

Based on strong returns over the three year period up to 30 June 2017, the cash Return on Equity (ROE) hurdle of the 2014/2015 LTI award vested in full. The Board reviewed the ROE vesting outcome to ensure it appropriately reflects the value created for shareholders. Consistent with the approach used when calculating cash ROE in previous tests, the cash earnings result was reduced by the value of the software impairments announced to the market on 19 August 2016.

On 30 September 2017, the relative Total Shareholder Return (TSR) hurdle of the 2013/2014 LTI award was tested. IAG's TSR was ranked at the 42nd percentile of the peer group and consequently this award did not vest. During the year, the TSR hurdle of the 2012/2013 LTI award was tested for the final time. IAG's TSR was ranked at the 69th percentile of its peer group, resulting in a final vesting outcome of 88%. Given that 56% of this award had vested previously, Executives received an additional 32% vesting during the year. This was the last LTI grant issued with a retesting provision and there will be no further retests of any LTI grant.

In determining variable pay outcomes for Executives, the Board considers IAG's risk culture and evaluates how well risks have been identified, assessed and mitigated. This process ensures remuneration practices encourage behaviour that supports sound risk management practices and IAG's long term financial soundness. In order to inform the Board's assessment, the Group CEO provided the Board with his evaluation of IAG's risk management performance. In addition, the Board also separately received input from the acting Chief Risk Officer and the Chair of the Risk Committee. The Board's assessment of IAG's risk management performance was considered both in determining STI outcomes for the year, and also in determining whether there were any material risk events that warranted an adjustment to unvested awards of LTI or deferred STI. Based on the assessment undertaken by the Board, no adjustment for material risk failings was applied to the STI awards for the 2018 financial year, nor to the deferred STI or LTI awards granted to Executives in prior years that will vest by 1 September 2018. The Board will continue to consider risk based adjustments when determining STI awards and when elements of deferred pay come due.

In the 2018 financial year, Craig Olsen, Chief Executive, New Zealand, was the only Executive to receive a fixed pay increase as part of the August 2017 review to meet market pay levels.

For the 2019 financial year, the Board has approved fixed pay increases for four Executives. Peter Harmer was appointed Group CEO in 2015. At this time, the Board determined that his fixed pay should be rebased downwards relative to the previous Group CEO. Reflecting this decision, his fixed pay was set at \$1.7 million and was unchanged for the two subsequent financial years. For the August 2018 pay review, the Board has determined to increase his fixed pay from \$1.7 million to \$1.9 million to better reflect market pay levels and his performance in the role. During the August 2018 fixed pay review, the Board also determined to increase the fixed pay of Mark Milliner, Chief Executive Officer, Australia, to reflect a change in role and market relativities; and Craig Olsen, Chief Executive, New Zealand and Julie Batch, Chief Customer Officer, to reflect market pay levels and performance in the role. These increases will be reflected in the Remuneration Report for the year ending 30 June 2019.

## **IAG continues to evolve its remuneration framework to focus the Executives on generating value for all of IAG's stakeholders.**

Issues highlighted through the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, APRA's review of remuneration practices across regulated organisations, the 'Retail Banking Remuneration Review' (Sedgwick Report) and the Banking Executive Accountability Regime, have significant implications for the design and governance of remuneration frameworks. The Board is reviewing IAG's approach to executive remuneration to ensure it remains aligned to IAG's purpose and strategy, while also reflecting broader community expectations. As part of this review, the following enhancements to IAG's remuneration approach were introduced for the year ended 30 June 2018:

- Applying a more rigorous process for considering risk when assessing performance;
- Formalising the role of the Chair of the Risk Committee and Chief Risk Officer in informing the Board's assessment of risk management performance;
- Reducing the variable component of the Chief Risk Officer's remuneration mix to further support the independence of this role; and
- Reviewing IAG's sales incentive plans with the aim of improving the customer outcomes and supporting IAG's Purpose.

In addition to the changes described above, the Board has determined that the following changes to IAG's remuneration approach will apply for the year ending 30 June 2019:

- The proportion of an Executive's STI award that is deferred will increase from one third to one half. This change will apply to any Executive STI awards made from September 2019; and
- The performance period for the cash ROE hurdle will be extended from three to four years.

The Board will continue to review the remuneration framework to ensure it is fit for purpose and further changes may be made in future years.

**The information shown on pages 20 and 21 is an extract from the 2018 remuneration report, which appears on pages 18-38 of the 2018 annual report.**

## Executive and Director remuneration

Details of the remuneration received by Executives during the 2018 and 2017 financial years are set out below. The table provides fixed pay and other benefits paid, and the value of prior years' deferred STI and LTI awards that vested during the financial years. For remuneration details provided in accordance with the Accounting Standards, refer to Table 12 in Appendix 1 – Statutory remuneration disclosure requirements; this table appears on page 32 of the 2018 annual report.

Executives	Financial year	Fixed pay <sup>1</sup>	Other benefits and leave accrual <sup>2</sup>	Termination benefits <sup>3</sup>	Cash STI <sup>4</sup>	Deferred STI vested <sup>5</sup>	LTI vested <sup>6</sup>	Total actual remuneration received
								\$000
		\$000	\$000	\$000	\$000	\$000	\$000	\$000
Peter Harmer	2018	1,700	88	–	1,258	398	1,058	4,502
	2017	1,700	17	–	1,139	288	697	3,841
Julie Batch <sup>7</sup>	2018	700	(7)	–	403	141	169	1,406
	2017	662	(11)	–	353	110	111	1,225
Tim Clark <sup>8</sup>	2018	206	12	–	76	–	–	294
Nicholas Hawkins <sup>7</sup>	2018	1,200	37	–	768	344	1,058	3,407
	2017	1,173	25	–	643	327	697	2,865
Jacki Johnson	2018	1,091	12	–	663	289	1,054	3,109
	2017	1,091	(40)	–	524	240	644	2,459
Mark Milliner	2018	1,000	76	–	576	–	–	1,652
	2017	1,000	22	–	536	–	–	1,558
Craig Olsen <sup>9</sup>	2018	728	58	–	496	119	122	1,523
	2017	711	33	–	381	74	79	1,278
<b>Executives who ceased as key management personnel</b>								
Ben Bessell <sup>8</sup>	2018	35	(21)	–	17	131	141	303
	2017	700	33	–	308	82	91	1,214
Anthony Justice	2018	269	(2)	555	–	130	90	1,042
	2017	690	(6)	–	375	71	–	1,130
Clayton Whipp	2018	329	26	255	130	218	309	1,267
	2017	775	11	–	310	153	127	1,376

<sup>1</sup> Fixed pay includes amounts paid in cash, superannuation contributions plus the portion of IAG's superannuation contribution that is paid as cash instead of being paid into superannuation. Fixed pay also includes salary sacrifice items such as cars and parking as determined in accordance with AASB 119 *Employee Benefits*.

<sup>2</sup> This column includes annual and mid service leave accruals, 30% tax rebate on car allowances for certain KMP who have salary sacrifice arrangements on cars and other short term employment benefits as agreed and provided under specific conditions. Other benefits provided are limited to Craig Olsen for salary continuance insurance.

<sup>3</sup> Payment in lieu of notice, which incorporates statutory notice and severance entitlements.

<sup>4</sup> Cash STI earned within the year ended 30 June 2018 and to be paid in September 2018.

<sup>5</sup> The deferred STI vesting on 1 September 2017 was valued using the five day VWAP of \$6.34 (1 September 2016: \$5.60).

<sup>6</sup> The LTI vested was valued using the five day VWAP at vesting date which was \$6.43 for awards vested on 24 August 2017 and \$6.39 for awards vested on 30 September 2017 (22 August 2016: \$5.90 and 30 September 2016: \$5.46).

<sup>7</sup> Fixed pay for Nicholas Hawkins and Julie Batch has increased between the 2017 and 2018 financial years as their remuneration in the 2017 financial year was increased part way through the year.

<sup>8</sup> Remuneration for Tim Clark and Ben Bessell is presented for the period for which they served as a KMP. As Tim Clark was not a KMP in the prior year, no information is shown for the year ended 30 June 2017.

<sup>9</sup> Remuneration for Craig Olsen was determined in New Zealand dollars and reported in Australian dollars using the average exchange rate for the year ended 30 June 2018 which was 1 NZD = 0.922 AUD.

## Independent Non-Executive Directors

Details of total remuneration for Non-Executive Directors for the year ended 30 June 2018 are set out below:

Independent non-executive directors	Financial year	Short term employment benefits		Post employment benefits			Termination benefits	Share-based payment	Total
		IAG Board fees received as cash	Other Board and committee fees	Super-annuation	Retirement benefits	Other long-term employment benefits			
		\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Elizabeth Bryan	2018	481	197	20	–	–	–	90	788
	2017	474	226	19	–	–	–	97	816
Duncan Boyle	2018	176	63	23	–	–	–	–	262
	2017	92	18	10	–	–	–	–	120
Hugh Fletcher	2018	176	184	21	–	–	–	–	381
	2017	176	187	21	–	–	–	–	384
Sheila McGregor <sup>1</sup>	2018	53	7	6	–	–	–	–	66
Jon Nicholson	2018	176	55	22	–	–	–	–	253
	2017	177	46	20	–	–	–	–	243
Helen Nugent	2018	176	59	22	–	–	–	–	257
	2017	69	26	11	–	–	–	24	130
Tom Pockett	2018	179	68	20	–	–	–	–	267
	2017	180	68	19	–	–	–	–	267
Michelle Tredenick <sup>1</sup>	2018	53	7	6	–	–	–	–	66
Philip Twyman	2018	178	60	20	–	–	–	–	258
	2017	180	70	19	–	–	–	–	269
<b>Non-executive director who ceased as key management personnel</b>									
Alison Deans	2018	59	15	7	–	–	–	–	81
	2017	149	32	20	–	–	–	24	225

<sup>1</sup> Non-Executive Directors appointed part way through the year ended 30 June 2018.

# Board of Directors

The composition, structure and conduct of IAG's Board and conduct of IAG's Board are governed by IAG's Constitution, the Corporations Act, Prudential Standards made under the Insurance Act, the Australian Securities Exchange's Listing Rules and general law.

The Board also oversees our compliance with the Australian Securities Exchange Corporate Governance Council Principles and Recommendations. Details of our compliance with the individual principles are set out in our 2018 Corporate Governance Statement, which is available online in the About Us area of our website ([www.iag.com.au](http://www.iag.com.au)).

**Q** Detailed information about our directors, our board and our board committees is available in the About Us area of our website ([www.iag.com.au](http://www.iag.com.au)).



**Elizabeth Bryan** AM, BA (Econ), MA (Econ)  
Appointed December 2014  
Appointed Chairman March 2016  
Chairman, Nomination Committee  
Chairman of Insurance Manufacturers of Australia Pty Limited



**Peter Harmer**  
Managing Director and Chief Executive Officer,  
Executive director  
Appointed November 2015  
Member, Nomination Committee



**Duncan Boyle** BA (Hons), FCII, FAICD  
Independent non-executive director  
Appointed December 2016  
Chairman, Risk Committee  
Member, Audit Committee, People and Remuneration Committee, Nomination Committee



**Hugh Fletcher** BSc/BCom, MCom (Hons), MBA  
Independent non-executive director  
Appointed September 2007  
Chairman, IAG New Zealand Limited  
Member, Risk Committee, People and Remuneration Committee, Nomination Committee



**Jonathan (Jon) Nicholson** BA  
Independent non-executive director  
Appointed September 2015  
Chairman, People and Remuneration Committee  
Member, Risk Committee, Nomination Committee



**Dr Helen Nugent** AO BA (Hons), PhD, MBA, HonDBus  
Independent non-executive director  
Appointed December 2016  
Member, Audit Committee, Nomination Committee, Risk Committee



**Sheila McGregor** BA (Hons), LLB, AICD Diploma  
Independent non-executive director  
Appointed March 2018  
Member Audit Committee, Nomination Committee



**Tom Pockett** CA, BCom  
Independent non-executive director  
Appointed January 2015  
Chairman, Audit Committee  
Member, Risk Committee, Nomination Committee



**Michelle Tredenick** BSc, FAICD, F Fin  
Independent non-executive director  
Appointed March 2018  
Member, Nomination Committee, People and Remuneration Committee



**Philip Twyman** AM BSc, MBA  
Independent non-executive director  
Appointed July 2008  
Member, Audit Committee, Risk Committee, Nomination Committee



# Group Leadership Team

IAG's Group Leadership Team supports our core businesses and our focus on our strategic priorities of customer, simplification and agility. The Group Leadership Team is headed by our

Managing Director and Chief Executive Officer, **Peter Harmer**. Detailed information about the members of our Group Leadership Team is available in the About Us area of our website ([www.iag.com.au](http://www.iag.com.au)).



**Peter Harmer**  
Managing Director and Chief Executive Officer  
Key Management Personnel



**Julie Batch** MApp Fin, ANZIIF (Fellow)  
Chief Customer Officer  
Key Management Personnel



**Rebecca Farrell** BA, LLB (Hons)  
Acting Group General Counsel & Company Secretary<sup>1</sup>



**Ben Bessell**  
Executive General Manager Distribution,  
Group Executive  
Ceased as Key Management Personnel  
on 19 July 2017



**Duncan Brain** BApp Sc (Maths), MBA  
Chief Executive, Asia



**Tim Clark** FIAA, BSc  
Acting Chief Risk Officer  
Key Management Personnel



**David Harrington**  
BCom, LLB, MBA, GCertAppFin  
Group Executive, Office of the CEO



**Nick Hawkins** BCom, FCA  
Chief Financial Officer  
Key Management Personnel



**Jacki Johnson**  
BApp Sc (OT), GDipSafSc, EMBA, FAICD  
Group Executive, People, Performance & Reputation  
Key Management Personnel



**Mark Milliner** BCom, MBA, GAICD  
CEO Australia  
Key Management Personnel



**Neil Morgan** BSc (Hons) Management Sciences  
Group Executive Technology



**Craig Olsen** BA Acc  
Chief Executive, New Zealand  
Key Management Personnel

<sup>1</sup> Chris Bertuch was Group General Counsel & Company Secretary during the 2018 financial year and is currently on extended leave until 30 September 2018 when his resignation from the company will take effect.

# Five Year Financial Summary

	2018 \$m	2017 <sup>9</sup> \$m	2016 \$m	2015 \$m	2014 \$m
Gross written premium	11,647	11,439	11,367	11,440	9,779
Gross earned premium	11,522	11,321	11,411	11,525	9,721
Outwards reinsurance premium expense	(3,851)	(3,122)	(3,183)	(1,196)	(1,077)
Net premium revenue	7,671	8,199	8,228	10,329	8,644
Net claims expense	(4,617)	(5,082)	(5,397)	(6,941)	(5,201)
Underwriting expenses	(1,877)	(2,079)	(2,116)	(2,847)	(2,303)
Underwriting profit <sup>1</sup>	1,177	1,038	715	541	1,140
Net investment income on assets backing insurance liabilities	230	232	463	562	439
Management reported insurance profit <sup>1</sup>	1,407	1,270	1,178	1,103	1,579
Net investment income from shareholders' funds	165	246	97	223	396
Other income	164	180	204	187	199
Share of net profit/(loss) of associates <sup>2</sup>	31	19	17	6	(8)
Finance costs	(82)	(93)	(99)	(107)	(98)
Corporate and administration expenses <sup>3</sup>	(185)	(222)	(423)	(383)	(255)
Amortisation expense and impairment charges of acquired intangible assets and goodwill	(90)	(57)	(54)	(80)	(11)
Profit before income tax	1,410	1,343	920	949	1,802
Income tax expense	(384)	(328)	(218)	(119)	(472)
Profit after tax from continuing operations	1,026	1,015	702	830	1,330
Loss after tax from discontinued operation	(25)	(10)	-	-	-
Net profit attributable to non-controlling interests	(78)	(76)	(77)	(102)	(97)
Net profit attributable to IAG shareholders	923	929	625	728	1,233
Ordinary shareholders' equity (\$ million)	6,669	6,562	6,563	6,817	6,568
Total assets (\$ million) <sup>4</sup>	29,766	29,597	30,030	31,402	29,748
<b>Key ratios</b>					
Gross written premium growth	1.8%	n/a	(0.6)%	17.0%	3.0%
Loss ratio <sup>5</sup>	60.2%	62.0%	65.6%	67.2%	60.2%
Expense ratio <sup>6</sup>	24.5%	25.3%	25.7%	27.6%	26.7%
Combined ratio <sup>7</sup>	84.7%	87.3%	91.3%	94.8%	86.9%
Insurance margin <sup>8</sup>	18.3%	15.5%	14.3%	10.7%	18.3%
<b>Share information</b>					
Dividends per ordinary share – fully franked (cents)	34.00	33.00	36.00	29.00	39.00
Basic earnings per ordinary share (cents)	39.06	39.03	25.79	31.22	56.09
Diluted earnings per ordinary share (cents)	38.30	37.72	25.34	30.45	53.62
Ordinary share price at 30 June (\$) (ASX: IAG)	8.53	6.78	5.45	5.58	5.84
Convertible preference share price at 30 June (\$) (ASX: IAGPC)	-	-	101.50	101.60	106.44
Capital notes price at 30 June (\$) (ASX: IAGPD)	104.67	106.53	-	-	-
Reset exchangeable securities price at 30 June (\$) (ASX: IANG)	102.66	103.40	100.00	103.10	107.00
Issued ordinary shares (million)	2,367	2,367	2,431	2,431	2,341
Issued convertible preference shares (million)	-	-	4	4	4
Issued capital notes (million)	4	4	-	-	-
Market capitalisation (ordinary shares) at 30 June (\$ million)	20,191	16,048	13,249	13,565	13,671
Net tangible asset backing per ordinary share (\$) <sup>4</sup>	1.47	1.36	1.30	1.34	1.27

<sup>1</sup> The amounts for 2016 financial year are presented on a management reported (non-IFRS) basis which is not directly comparable to the equivalent statutory (IFRS) figure. A reconciliation between the two is outlined in the Operating and Financial Review section of the Directors' Report in the 30 June 2016 Annual Report.

<sup>2</sup> Share of net profit/(loss) of associates includes regional support and development costs.

<sup>3</sup> Includes a \$198 million impairment of capitalised software for 2016 and a \$60 million impairment of the investment in Bohai Insurance for 2015.

<sup>4</sup> The financial information for 2014 has been restated to reflect the fair value adjustments to the net assets acquired in respect of the former Wesfarmers business in 2014.

<sup>5</sup> The loss ratio refers to the net claims expense as a percentage of net premium revenue.

<sup>6</sup> The expense ratio refers to net underwriting expense as a percentage of net premium revenue.

<sup>7</sup> The combined ratio refers to the sum of the loss ratio and expense ratio.

<sup>8</sup> Insurance margin is a ratio of insurance profit over net premium revenue.

<sup>9</sup> The financial information for 2017 has been re-presented to reflect the changed treatment of the Asian businesses as discontinued operations. Financial information for 2016, 2015 and 2014 is not re-presented.

# Shareholder information

## Key Dates

2018 financial year end	30 June 2018	Half year end	31 December 2018
Full year results and dividend announcement	15 August 2018	Half year results and dividend announcement	6 February 2019*
Notice of meeting mailed to shareholders	10 September 2018	Interim dividend for ordinary shares	
Final dividend for ordinary shares		Record date	13 February 2019*
Record date	22 August 2018	Payment date	20 March 2019*
Payment date	27 September 2018	2019 financial year end	30 June 2019
Annual general meeting	26 October 2018	Full year results and dividend announcement	8 August 2019*

\*Please note: dates are subject to change. Any changes will be published via a notice to the Australian Securities Exchange (ASX)

## 2018 annual report suite

This **annual review** contains a summary of the 2018 financial year performance of Insurance Australia Group Limited (IAG). Unless otherwise indicated, references to 2018, 2017 and 2016 in graphs and copy throughout this review refer to IAG's financial years ended 30 June 2018, 2017 and 2016 respectively. All figures are in Australian dollars unless otherwise stated.

Information about IAG's 2018 financial performance is available in the Results & Reports area of our website ([www.iag.com.au](http://www.iag.com.au)). The website also houses financial updates, investor reports, ASX announcements, key dates and a comprehensive shareholder centre.

Our 2018 **annual report** contains more detailed financial information, including full statutory accounts, and the Directors' and remuneration reports for the 2018 financial year. This year's corporate governance report is available in the About Us area of our website ([www.iag.com.au](http://www.iag.com.au)). To have a copy of the annual review or annual report mailed to you, contact IAG's Share Registry using the contact details on the back cover.

In addition to the non-financial data contained in the review, we publish on our website comprehensive customer, community, workforce and environment data summaries by country. This information is contained in the safer communities area of our website ([www.iag.com.au](http://www.iag.com.au)).

## Scope and assurance of sustainability reporting

Pages 10-11 and pages 14-19 of this annual review provide an outline of our shared value and safer communities performance during the year ended 30 June 2018.

EY was engaged by IAG to undertake limited assurance over selected disclosures in the safer communities section of IAG's 2018 annual review and safer communities report, and associated online content. The subject matter for EY's limited assurance engagement for the year ended 30 June 2018 for Australia, New Zealand and Asia was limited to:

- all customer, community, workforce, and environmental quantitative indicators contained in the safer communities online content ([www.iag.com.au/safer-communities/our-performance](http://www.iag.com.au/safer-communities/our-performance)); and
- the consolidated metrics presented throughout the safer communities section of IAG's 2018 annual review and safer communities report.

## EY's conclusion statement

Based on the limited assurance procedures conducted, nothing has come to our attention that causes us to believe that, for the year ended 30 June 2018, selected disclosures in IAG's safer communities section of its 2018 annual review and safer communities report have not been reported and presented fairly, in all material respects, in accordance with IAG's criteria for reporting.

We draw attention to the sections of IAG's 2018 annual review titled 'Our Material Issues' and 'Safer Communities'. These sections identify trust as a material issue for IAG's business and stakeholders. These sections provide IAG's response to the matter of trust. The complexity and breadth of this matter as well as the subjective assessment individual stakeholders may make in respect of the matter of trust, means IAG's disclosures may not be sufficient to meet all of the information requirements of IAG's stakeholders and the users of IAG's 2018 annual review. Our conclusion is not modified in respect of these matters.

EY's independent Limited Assurance Statement to the Board and Management of Insurance Australia Group Limited is available in the safer communities area of our website.

## Glossary

**APRA** is the Australian Prudential Regulation Authority.

**Credit spread** is the difference between the average yield to maturity of the portfolio of non-government securities and the average yield to maturity of the liability profile, valued using Commonwealth Government of Australia yields.

**Gross written premium** is the total amount of insurance premiums that we receive from customers.

**Insurance margin** represents our insurance profit as a percentage of our net earned premium.

**Insurance profit** is our underwriting result plus the investment income on assets backing our technical reserves.

**Long tail** classes of insurance are those such as compulsory third party and workers' compensation where the average period is generally greater than 12 months between the time when earned premiums are collected and final settlement of claims occurs.

**Net earned premium** is gross earned premium less reinsurance expense.

**Net profit after tax** is our net result, after allowing for income taxes and the share of profit owing to non-controlling interests.

**Shareholders' funds** is the investment portfolio of assets we hold in excess of the amount backing technical reserves; it represents shareholders' equity not used in day-to-day operations.

**Short tail** classes of insurance (such as motor, home and small-to-medium enterprise commercial) are those with an average period generally less than 12 months between the time when premiums are earned and final settlement of claims occurs.

**Technical reserves** are the investments we hold to back the outstanding claims liability and unearned premium, net of recoveries and premium debtors.

**Underlying margin** is defined by IAG as the reported insurance margin adjusted for net natural peril claim costs less related allowance for the period; reserve releases in excess of 1% of net earned premium; and credit spread movements.



## Shareholder information

### Share Registry

Computershare Investor Services Pty Limited  
GPO Box 4709, Melbourne VIC 3001 Australia

Hand deliveries:

Level 4, 60 Carrington Street  
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### Online information

To view other information about IAG and to manage your shareholding online, visit [www.iag.com.au](http://www.iag.com.au). You can also register to receive email news alerts when IAG makes important announcements.

## Australia



## New Zealand



## Asia



- 1 IAG's short tail personal insurance products are distributed in Victoria under the RACV brand, via a distribution relationship and underwriting joint venture with RACV. These products are distributed by RACV and manufactured by Insurance Manufacturers of Australia Pty Limited (IMA), which is 70% owned by IAG and 30% by RACV.
- 2 IAG owns 100% of Insurance Australia Limited (IAL), the underwriter of general insurance products under the Coles Insurance brand. These products are distributed by Coles under an Authorised Representative Agreement with IAL.
- 3 IAG owns 49% of the general insurance arm of Malaysia-based AmBank Group, AmGeneral Holdings Berhad (AmGeneral), which trades under the AmAssurance and Kurnia brands.
- 4 IAG owns 26% of SBI General Insurance Company, a joint venture with State Bank of India.

100% owned unless indicated (all ownership percentages are as at 30 June 2018).



Pacesetter Laser Recycled is 30% recycled and made up from elemental chlorine free bleached pulp which is PEFC™ certified sourced from sustainably managed sources. It is manufactured by an ISO 14001 certified mill.