

REVIEW OF OPERATIONS

As part of the integration of CGU and NZI, acquired on 2 January 2003, the Group's business operations have been reorganised into seven key segments.

PERSONAL INSURANCE

Business description

Our Personal Insurance operation develops and underwrites short-tail insurance products, and provides claims and assessing services for Insurance Australia Group's customers in Australia. Its key products are motor and home insurance and it also provides niche insurance such as pleasure-craft, caravan and travel. Customers are serviced directly, through our NRMA Insurance, SGIO and SGIC brands and our RACV partner brand in Victoria, and indirectly under the CGU brand. Personal Insurance is Australia's largest insurance underwriting and claims and assessing operation. It has a presence in every state and territory.

Year in review

Responding to the ACT bushfires was a major undertaking for our Personal Insurance business in the past year. As demonstrated on page 3 of this report, the team was able to deliver on its commitment to exceptional customer service, when managing claims and after the claim through the NRMA Insurance Help Expo. But the team's achievements during the past year don't end there – here are just a few of the highlights.

The redesign of all personal insurance renewal certificates for customers was a key project for the year. Working with the Communication Research Institute of Australia, the redesign focused on making it easier for customers to locate policy information such as expiry and validity dates and encouraging policyholders to check their details before payment. Prototype documents, incorporating business requirements, were tested among policyholders before being released. New renewal documents

took effect from March 2003, with other documents released in May 2003.

Considerable work has also been conducted during the year to better understand the risk of bushfire, storm, flood and burglary so that we can improve our home product cover, provide more equitable pricing and help the community reduce the impact of major events.

We also introduced a range of customer-oriented improvements to our personal insurance discounts and product suite. New products included the Motor Prime product in Victoria for those aged 50 and over, to match our existing Home Prime insurance cover. For our car policyholders, we introduced a no-claim discount for the life of the policy. Greater policy discounts also now apply for homes with alarm systems, as part of our aim to reduce risk through an enhanced focus on safety. These initiatives are in addition to our existing multi-policy and loyalty discounts.

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Help when making a claim is one of the most important experiences for our customers. As a result, we are focused on ensuring all claims processes and systems include a balanced approach to cost, quality and enhanced customer service. During the year, we extended our Online Repair Management technology to the Smithfield and Gateshead salvage centres and significantly improved assessment processing times from 10-plus days to an average 24-hour turnaround. We also introduced a Preferred Towing programme in NSW to ensure our customers requiring a tow receive a hassle-free, fast-track process and that, if it is their choice, their vehicles are quickly repaired by one of our Preferred Smash Repairers.

We are Australia's largest purchaser of white and brown goods and a significant buyer of glass. To make sure we can purchase home replacement and repair items at competitive prices, we have utilised an electronic network of suppliers. This network database, called E-Claims, has been available to insurance companies in NSW and Victoria for some time. Following our acquisition of CGU, E-Claims has now been implemented in all states and the ACT. This means that when we require a particular item to settle a claim, we merely enter the model number and the system ensures the supplier with the most competitive price listed on the site receives the purchase order for the item. The system also provides the necessary detail to identify the current equivalent model for superseded items.

Insurance fraud is a dishonourable and costly part of our business. The overwhelming majority of claims are genuine, and we are determined to protect honest policyholders who end up paying for fraudulent claims. During the year,



NRMA Insurance, established in 1925 to provide motor insurance for motoring club members, is the leading motor, home and CTP insurer in NSW and the ACT. Along with SGIO and SGIC, NRMA Insurance provides motor, home and small business insurance over the phone, in branches and on the web, and distributes health insurance, now underwritten by MBF. NRMA Insurance also sells CTP insurance in NSW, the ACT and Queensland.



SGIO is a leading insurer in Western Australia and has been a part of the Western Australian community for 76 years. Its origins were as a public entity, providing workers compensation insurance to miners in the Goldfields. SGIO was acquired by IAG in 1998. Along with the NRMA Insurance and SGIC brands, SGIO provides motor, home and small business insurance over the phone, in branches and on the web, and distributes health insurance, now underwritten by MBF.

we highlighted the problem of fraud and car dumping on NSW waterways through a one day operation with NSW Water Police and NSW Waterways Authority on the Georges River in Sydney. More than 12 submerged vehicles were dragged from the river, demonstrating the prevalence of fraud as well as the danger to the waterways environment and boats.

Next steps

Looking ahead, we are focused on achieving the full integration of the CGU personal insurance businesses by 30 June 2004. Building on the sound footing of our existing business, we will also focus on enhancing our ability to provide seamless, repeatable, and excellent customer service. We will be reviewing all of our business processes to make it easier for customers to take out, renew or change a policy. This will be supported by an increase in spending on training at all levels across our organisation, with particular focus on our team managers who are in primary control of our customer interface. As well, significant resources will be applied to ensuring our cycle times on all repair categories are minimised so our customers' claims are settled faster.

BUSINESS PARTNERS

Business description

Created as a separate unit following the acquisition of CGU, our Business Partners operation develops and manages our relationship with more than 100 financial institutions and alliance partners. This makes us Australia's leading provider of general insurance products sold through financial institutions.

Products provided through our business partner network can carry the CGU brand or are co-branded as a way of extending

the business partner's value proposition to its customer base. Those business partners include financial institutions – banks, mortgage originators, building societies and credit unions. Our alliances cover not-for-profit organisations, affinity groups and international and national brokers that require personalised sales and customer service support.

Help when making a claim is one of the most important experiences for our customers. As a result, we are focused on ensuring all claims processes and systems include a balanced approach to cost, quality and enhanced customer service.

The Business Partners operation includes Swann Insurance (Swann), Australia's leading provider of retail insurance products through the retail motor trade, motor financiers and motor manufacturers, for both motor vehicle and motorcycle networks. Swann also provides its niche products through our financial institutions network and more than 1,000 other agents.

And through Mutual Community General Insurance (MCGI), a joint venture with BUPA Health, we distribute personal insurance products to members of its Mutual Community and HBA health funds.

Year in review

During the year, our Business Partners division continued to prosper, retaining and growing key relationships and business profitability. This is a reflection of the consistent efforts of the team during the challenging integration process, as well as market confidence in the expanded Insurance Australia Group.

Since the announcement of the CGU acquisition by Insurance Australia Group, we have secured 18 new accounts and retained all key existing customers. We were appointed as Aon's primary supplier of personal insurance in Australia – in the past, this business had been placed through a panel of insurers. Through Swann, we have also secured a number of significant new relationships, including a three year badging agreement with Toyota Financial Services. Under the arrangement, Swann will provide a comprehensive range of consumer and commercial insurance products, including warranty insurance, to participating Toyota dealerships across Australia. Swann also extended the alliance with GMAC to include branded insurance product offering to complement Suzuki and Subaru Finance.

In the face of the increasingly competitive motor retail market, Swann has developed innovative product and relationship solutions. This has resulted in key partnerships with Mercedes and Chrysler Jeep, amongst others. At the same time, Swann's product sales through financial institutions grew by 10% for the year.

In August 2002 we cemented our MCGI alliance when we extended our agency agreement with BUPA Health for another 10 years. This was a positive development for the Group, given MCGI's improved sales



SGIC was established by South Australian Parliament in 1971 to provide the community with an insurer that was dedicated to the State. SGIC was acquired by IAG in 1998. Along with the NRMA Insurance and SGIO brands, SGIC provides motor, home and small business insurance over the phone, in branches and on the web, and distributes health insurance, now underwritten by MBF.



CGU is one of Australia's largest intermediary-based insurers. It offers a diverse mix of personal, commercial and rural insurance products, sold through a comprehensive distribution network of brokers, agents and business partners. The CGU brand is now also used for our workers compensation products (the CGU NRMA brand is used in South Australia). CGU has been protecting the Australian way of life for over 130 years and has a proud tradition of supporting people through difficult times. IAG acquired CGU in January 2003.

performance during the year. To 30 June 2003, MCGI sales improved by 8.3% over the same period last year.

Next steps

During the next 12 months, our priorities are to:

- Continue improving our web enabled point of sale system – now used by more than 100 business partners nationally – and expanding our use of web-based technology into new areas;
- Centralise our systems platforms as part of the broader Group's technology services overhaul;
- Focus on identifying new product opportunities for Swann sales through financial institutions and grow the reach of Swann's motor dealer business; and
- Maximise opportunities for MCGI to provide the Group's diverse product offering to BUPA's health insurance customers.

INTERMEDIARY BUSINESS

Business description

Our Intermediary Business division manages and develops our relationships with more than 1,700 insurance intermediaries (brokers and agents). It distributes all products sold through intermediaries including commercial, personal and rural insurance, and workers compensation, and underwrites all commercial products (except workers compensation).

The division also manages our 50% stake in the Associated Marine Insurers Agents and National Transport Insurance businesses. Associated Marine is the leading agent for marine insurance in Australia and is a joint venture between CGU and Zurich Australian Insurance. National Transport Insurance is Australia's leading truck insurance company and is a joint venture with Promina.

Year in review

The Intermediary Business division performed strongly across all insurance lines during the year by maintaining strong customer relationships and a commitment to disciplined underwriting. This was achieved even as the intermediary landscape altered in the face of competitor acquisition programmes and broker consolidation triggered by the Australian FSR legislation.

We took a proactive approach to assisting our agents with their business and compliance obligations related to the rollout of FSR legislation.

Our focus on the customer saw us negotiate enhanced relationships with international broker facilities in Australia. We were also appointed as the preferred insurer by key broker cluster groups, including IBNA, OAMPS, Austbrokers, Steadfast and RIBA. These achievements, combined with our ongoing partnerships with heartland customers and rural alliances, including Wesfarmers Landmark, Roberts and Canegrowers, served to stimulate GWP growth.

We took a proactive approach to assisting our agents with their business and compliance obligations related to the rollout of FSR legislation. Associated FSR training was implemented across the 80 strong branch network and across our extensive authorised representative network.

At the same time, following research among our key intermediaries in NSW and Victoria,

we introduced more consistent claims management processes in all states and territories. This has delivered faster and easier access for clients to lodge claims through their chosen intermediary. We also introduced a telodgement pilot for commercial claims in Victoria, with a view to a national rollout when the results are evaluated.

Next steps

During the next 12 months, opportunities in regional and rural areas will be constrained because of the ongoing impact of the drought. Increased market competition in all areas is expected, particularly in the small to medium enterprises and mid-sized commercial segments, but conditions remain favourable for growing sales and maintaining satisfactory profitability. We will help to drive sales by continuing to innovate with a broad range of market relevant products, particularly driven by web-based delivery.

PERSONAL INJURY

Business description

Our Personal Injury operation incorporates compulsory third party motor liability (CTP) and workers compensation products and services. Public liability claims associated with home policies also form part of this operation.

We have emerged as the leading insurance group in Australian workers compensation, and we operate in every state and territory scheme with private sector involvement. Our workers compensation business trades as CGU Workers Compensation in all locations apart from South Australia. At the request of SA Workers Corporation, we operate in South Australia as CGU NRMA Workers Compensation as an interim step before moving to the CGU brand.



Swann Insurance is one of Australia's largest niche insurers, offering a range of quality consumer credit and motor vehicle related products. Working in partnership with financial institutions, motor vehicle and motorcycle manufacturers, dealers and financiers, Swann stands behind many of the most-respected insurance products on the Australasian market. IAG acquired Swann Insurance in January 2003 when it purchased the CGU Insurance Group.



ClearView Retirement Solutions is a specialist division of NRMA Financial Management Limited. ClearView specialises in retirement advice and provides superannuation, allocated pension and managed investment products to customers nearing, or in, retirement. ClearView's financial advisers help customers make the most of their financial assets regardless of their amount of savings.

Using the NRMA Insurance brand, we are the largest CTP insurer in NSW. We also have a 100% market share of CTP in the ACT and are currently maintaining our small Queensland business. As of 4 July 2003, we no longer manage CTP claims in South Australia. After more than 30 years, the State Government made the decision earlier this year not to renew its Motor Accidents Commission CTP claims management contract with SGIC.

Year in review

During the past year, the industry environment has remained very competitive, both for CTP and workers compensation.

Despite this, we further expanded our position in the CTP market, increasing policy numbers by about 100,000 so that we now have approximately 1.7 million policyholders in NSW. The primary reasons for this market growth are increased vehicle registrations and that we continue to offer the most competitive rates for most risks, evidenced by the fact that we are the cheapest provider for about 70% of the NSW market.

The workers compensation business achieved very good outcomes during the recent 30 June 2003 renewal period, a critical time for our operations because about 90% of national policies renew during June each year. Notable achievements during this period include:

- The retention rate for national accounts was over 97%;
- Several large new national and state accounts were obtained;
- In South Australia, the only opportunity for companies to change agents is at 30 June each year, and we increased market share by almost 2%; and

- Our market share in NSW has increased by almost 1%.

The success of this renewal period means we now provide workers compensation insurance to more than 167,000 employers nationally, covering an estimated 1.7 million employees. It also suggests the CGU acquisition has been well received by employers and brokers, and that they are confident the combined group will be able to deliver an even higher level of service and competitiveness.

As the largest personal injury insurer in Australia, we are well placed to participate in discussions with governments and the community about the future direction of the industry's policy environment.

As the largest personal injury insurer in Australia, we are well placed to participate in discussions with governments and the community about the future direction of the industry's policy environment. Among our recent work in this area was the detailed submission to the current Productivity Commission inquiry into OHS and workers compensation. The submission argues for more nationally consistent workers compensation arrangements, which would improve efficiency and allow private insurers to play a greater role in underwriting. The inquiry is expected to be completed in 2004.

Reflecting our focus on safety and development of new customer services, during 2002/2003 we gained accreditation in Victoria for our Health & Safety course. This course, which aims to help employers minimise the incidence and cost of workplace accidents, provides basic OHS training to managers and safety staff on a fee for service basis. The courses commenced in February 2003 and, to date, four series have been conducted.

We also piloted a Workplace Health and Recovery programme, which is now being rolled out more widely. By sharing detailed information on injury treatment and ways to improve risk management between the injured worker, treating doctor, employer and insurer, the programme aims to improve health outcomes. Tangible benefits of this approach are being seen, with one of the large employers that participated in the pilot experiencing a 64% reduction in its average claims cost.

Next steps

We will continue to cement the integration of our acquired workers compensation operations nationally, as well as CGU's CTP claims portfolios. Particular areas of focus include managing the change in brand for workers compensation nationally and further improving the performance of our combined operations.

The acquisition of CGU provides us with another opportunity to expand our distribution networks. For CTP, we are exploring partnership arrangements with a number of organisations in Queensland. We will also work closely with the Intermediary Business operation to identify distribution and sales opportunities for our workers compensation products.



State is the brand under which all of IAG NZ's direct insurance business is now sold. State has played a significant role in the New Zealand community since it began as the Government's State Insurance Office in 1905 and grew to become the largest general insurer in New Zealand. State has a flexible range of products and services available through a nationwide network of sales centres and call centres. IAG acquired State in February 2000.



NZI was formed in 1859 and is one of New Zealand's largest and longest serving general insurers with a leading position in commercial insurance. It is now the brand under which IAG NZ distributes all its indirectly sold insurance, in particular commercial insurance, through brokers, agents and financial institutions. IAG acquired NZI in January 2003.

Another major priority for the year ahead is to develop further new products and services, which focus on improving safety, and reducing claims costs for employers. Significant attention will also be placed on enhancing our data analysis capabilities to enable better risk assessing and analysis of trends in claims performance.

IAG NEW ZEALAND Business description

The IAG NZ business has grown and strengthened significantly as a result of the acquisition of NZI which was completed in January 2003. With approximately 40% market share, we are now the leading general insurer in New Zealand in both the direct and intermediated channels, and hold strong positions in all geographic markets, including the very important Auckland market.

Through the New Zealand integration process, we have maintained State as our direct brand and NZI as our indirect brand, capturing the heritage and customer loyalty those brands carry in New Zealand. Our Circle brand, which was launched in April 2001 to specifically focus on distributing our products through broker networks, is being folded in under NZI. We also retained our 'AA' Standard & Poor's financial insurer strength rating. A scheme of arrangement, approved by the New Zealand High Court on 21 May 2003, means NZI policies are now assigned the 'AA' rating too.

Year in review

The hallmark achievement for IAG NZ during the year has been its success with the integration of the State and NZI businesses, while delivering improvements across all key business indicators. Our customers' continuing satisfaction with our insurance

service is reflected in our research for the year ended 30 June 2003. State delivered renewal rates of 93% and claims satisfaction of 88%. NZI reported renewal rates of 88% and claims satisfaction at 84%. We believe NZI's lower scores on these measures reflect the fact that we have less ability to influence the customer experience through the broker network.

During the year, we launched a new focus to deliver on our social responsibility as New Zealand's leading insurer. This is consistent with Insurance Australia Group's commitment to safety, the environment and the community.

Integral to these overall successes, we continued to build on the foundation created by our national operating model, introduced in 2001 to ensure consistent policies, processes and people management.

Project Endeavour, which was launched in 2002 to re-engineer all our processes end to end from a customer perspective and replace our legacy information technology systems, was expanded to include the NZI business. We are on track to launch our single integration technology platform for IAG NZ by 30 June 2004.

Supporting our efforts to move to a single culture under the IAG NZ brand, we began

the initial rollout of the 'Good2Great' people programme. As indicated by the programme's name, it is aimed at supporting the transformation of two very good organisations, State and NZI, into one truly great one.

We also successfully renewed our key corporate partners relationships with ASB Bank and Bank of New Zealand, and moved them to a more commercially sustainable footing. Our new agreements take into account the true cost of distribution and introduce mutuality in the relationship.

During the year, we launched a new focus to deliver on our social responsibility as New Zealand's leading insurer. This is consistent with Insurance Australia Group's commitment to safety, the environment and the community. One of the major initiatives currently under way is a national partnership with NZ Fire Service aimed at encouraging the use of smoke alarms and domestic sprinkler systems. Another is our work with the Thames Council, following last year's weather bomb, detailed on page 3.

Next steps

We are on schedule to complete the integration of NZI and deliver the targeted synergy benefits of \$20 million pre-tax per year. Hand in hand with integration, we will continue to implement the 'Good2Great' people programme. We will also focus on completing Project Endeavour and improving operating efficiencies.

OTHER INTERNATIONAL OPERATIONS

During the year, we continued to nurture our other international business interests,

including the CAA roadside assistance venture in China, a strategic shareholding in the publicly-listed Safety Insurance in Thailand, and a cooperative agreement with AIOI Insurance of Japan.

The CAA joint venture is the largest roadside rescue organisation in China and is providing Insurance Australia Group the chance to participate in the new business environment in one of the world's fastest growing economies. Similar to our own origins, our CAA strategy is to extend our roadside assistance service to a number of provinces in China and, once we have obtained scale, consider applying for a licence to supply motor insurance to our own clients in that market.

Safety Insurance is the fifth largest motor insurer in Thailand. Our interest in this business is starting to contribute positively to our results and, with our technical assistance, we believe it will continue profitable growth in the Thailand general insurance market.

Finally, our alliance with AIOI Insurance played an integral role in assisting the Group's Business Partners team to secure the three year exclusive contract with Toyota Finance in Australia for the insurance needs of Toyota and its customers.

While the Group's focus for the next year is on improving the businesses we already own, we are undertaking research on potential international opportunities for the medium term. We will seek opportunities to leverage our core competencies with partners for whom these can add value.

CLEARVIEW RETIREMENT SOLUTIONS

Business description

ClearView Retirement Solutions specialises in retirement financial advice, providing personalised, practical investment solutions to help customers maintain their lifestyle and financial position in retirement. ClearView currently operates in NSW and the ACT. Life risk insurance products are also distributed and managed through this business unit under the NRMA Life brand.

ClearView introduced a variety of communication materials to help continue to demonstrate the value of a practical and relevant approach to advising customers on their financial future.

Year in review

Despite a promising response by customers to the ClearView brand launched in February 2002, the past year has been a challenging one for the financial planning industry in Australia. Global economic uncertainty surrounding the Iraqi conflict, SARS and the threat of terrorism, and the poor performance of global and domestic equity markets during the year, have resulted in negative annual growth for the industry.

Faced with this challenging operating environment and what was still a very new brand in the market, it is to the ClearView team's credit that since July 2002 ClearView

has been rated among the top three companies considered for retirement advice by customers in NSW and the ACT, according to independent research organisation, Millward Brown.

This achievement was made possible because of the flexibility and dedication of the ClearView team to finding new ways to build sales and inspire confidence with customers, while continuing to meet and exceed all relevant legislative requirements.

ClearView introduced a variety of communication materials to help continue to demonstrate the value of a practical and relevant approach to advising customers on their financial future. There was ongoing training and education for our consultants to keep them informed about current market issues such as business cycles, risk and return, and compliance.

ClearView continued its efforts to build brand awareness through marketing. Building on last year's Australian Advertising Association gold award-winning campaign, ClearView launched a series of successful campaigns to further highlight its focus on helping everyday Australians secure their future.

The life risk insurance business has continued to perform very well, returning solid profits on a small, growing book of business.

Next steps

With a difficult investment environment expected to continue during the next year, ClearView is developing its sales and service model to improve its sales results and customer satisfaction, while maximising shareholder value.