
NSW STORMS AND FY15 INSURANCE MARGIN GUIDANCE UPDATE



Insurance Australia Group (IAG) businesses have received nearly 30,000 claims, as at 28 April, as a result of the major storms that impacted New South Wales (NSW) early last week.

IAG's current expectation is that the net cost of this event to the Group will be \$250 million, in line with the maximum event retention (MER) under its 2015 calendar year catastrophe reinsurance program.

As a result of recent events and other perils experience, IAG has revised its net natural peril claim cost assumption for the financial year ending 30 June 2015 (FY15) to \$1 billion, after reinsurance recoveries. This is up from the prior assumption of \$700 million, which was incorporated in IAG's previous insurance margin guidance.

The revised net natural perils cost assessment takes into account the following:

- A net cost of \$250 million in respect of the NSW storm damage last week;
- An approximate \$50 million cost relating to the hailstorm activity in Sydney over the weekend;
- An adverse development of claims associated with prior large events, notably Tropical Cyclone Marcia in February this year, which is now expected to cost approximately \$140 million, compared to the \$60-90 million range provided in March 2015. This is mainly due to the continued notification of commercial claims from remote areas;
- The anticipated full utilisation of the reinsurance cover which provides protection of \$150 million in excess of \$700 million for retained perils in FY15; and
- All other year-to-date peril claims, together with an estimate of activity expected over the remaining two months of the financial year.

Based on the updated net natural peril cost expectation, IAG has revised its FY15 insurance margin guidance range to 10.5-12.5%, down from 13.5-15.5%. FY15 gross written premium (GWP) growth expectations are unchanged from the position stated in February 2015, which indicated an anticipated outcome at the lower end of the 17-20% guidance range provided at the outset of the financial year.

IAG Managing Director and CEO Mike Wilkins said while the recent series of events will adversely affect the reported FY15 insurance margin, the underlying performance of the business remains strong.

"As an insurer, managing events like those we have seen in the past few months is part of our normal business activity, but their incidence and size are unpredictable.

"I'm proud of the response by our people as we focus on helping our customers affected by these recent events. In the longer term we will maintain our emphasis on the importance of mitigation to help lessen the impact of weather events on communities," Mr Wilkins said.

An important component of IAG's 2015 calendar year catastrophe reinsurance program is an aggregate cover which provides \$450 million of protection in excess of \$375 million.

Qualifying events for the aggregate cover are capped at a maximum contribution of \$225 million excess of \$25 million per event. Based on calendar year-to-date experience, including the events outlined above, approximately \$365 million of the applicable deductible has been eroded. As a result, IAG's current MER is estimated to have reduced to approximately \$35 million.

About Insurance Australia Group

Insurance Australia Group Limited (IAG) is the parent company of a general insurance group with controlled operations in Australia, New Zealand, Thailand and Vietnam, employing more than 15,000 people. Its businesses underwrite over \$11 billion of premium per annum, selling insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann, WFI and Lumley Insurance (Australia); NZI, State, AMI and Lumley Insurance (New Zealand); Safety and NZI (Thailand); and AAA Assurance (Vietnam). IAG also has interests in general insurance joint ventures in Malaysia, India and China. For further information please visit www.iag.com.au.

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