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## Chairman's Address to 2016 AGM.

### **Ms Elizabeth Bryan AM Chairman, Insurance Australia Group Limited**

Good morning ladies and gentlemen and welcome to the Insurance Australia Group Limited 2016 Annual General Meeting.

My name is Elizabeth Bryan and in March this year, the Board paid me the compliment of electing me as Chairman of your company. This is the first time I have had the opportunity to speak to many of you, and I am looking forward to our conversations during the course of today's AGM.

As a group of stakeholders, whether we are investors, employees, directors or customers, we are engaged in providing a very important function to our society. We provide security for millions of individuals and businesses across Australia, New Zealand and parts of Asia.

IAG's purpose is to make your world a safer place. That is something really worthwhile and I am so pleased to be a part of it.

I have found in my time with IAG that commitment to this purpose is the glue that holds together the enormous technical skills, the supply chains, the distribution networks, the financial acumen and customer service that makes up our successful general insurance business.

In meetings like our AGM today, we mostly focus on the business results and the nuts and bolts of commerce that go into making our business successful, and I am about to turn to that. But more and more, people are also looking for companies to be true to their purpose while also delivering commercial results.

### **The Numbers**

We are a company with a great purpose and we have delivered it, along with good financial results, this year.

Peter Harmer in his CEO address will take you through the details, but let me just hit some high spots.

We have delivered sound financial results for 2015-16. Our gross written premium was \$11.4 billion and we achieved net profit after tax of \$625 million, cash earnings of \$867 million, and a cash return on equity of 13%.

The strength of this result enabled the Board to provide shareholders with a full year fully franked dividend of 26 cents per share. This equates to a full year cash payout ratio from the company of 72.9%.

This year shareholders also benefited from an additional special dividend of 10 cents per share.

We were also able to return additional capital to shareholders in the form of an off market buy back of \$314 million. We expect that this will improve IAG's future earnings per share and return on equity.

Along with these financial returns to our shareholders we have held true to our purpose of "making your world a safer place". We made payments of over \$9 billion to our customers who have suffered losses.

In addition to our financial support for those who have suffered hardship we have put a lot of work and thought into how we help people make their lives more resilient to disaster, and in particular to natural disasters.

This is becoming more and more important as climate change is resulting in greater frequency and severity of natural disasters. Through the work of our own specialist teams and in collaboration with other organisations, we are building the concept of creating resilient communities into all our work. This is based on a simple insight: that investment in infrastructure that mitigates a disaster is much, much more effective and less costly than trying to help people recover after a natural disaster has destroyed their property and communities.

## **Matters of General Interest**

I would now like to take a few moments to set the scene on a number of issues that either you have advised us are of interest to you, or have been part of media focus recently.

### **Culture**

Let me start with culture.

Culture in all financial institutions has been a prime focus of our regulators recently. Culture is a generalised term describing the ways of thinking, behaving or working that exist within organisations. At IAG we strive for a culture that ensures a commitment to serving the best interests of our customers and other stakeholders, in ways that are in keeping with standards of good commercial practice and community expectations.

This is one of the reasons I have just shared with you my pleasure at the cultural driving force I have found in IAG about making our customers' world a safer place.

In IAG our heritage is that of a customer focused organisation. We started life nearly 100 years ago as a mutual, set up solely for the benefit of our members, and only changed to a corporate structure some 16 years ago. A lot of the culture of a mutual is still part of our DNA at IAG.

This is not to say that in the millions of policies issued or renewed, and claims that are handled every year by the company, there will never be a transaction, or a series of transactions, that requires scrutiny or reflection.

But it does say that the Board, management and the vast numbers of people who work for IAG are alert to the ongoing need to meet customer and stakeholder needs and expectations, and will bring their utmost endeavours to ensuring the right thing is always done by our customers.

### **Climate Change**

Climate change is another issue that is increasingly on all our minds. IAG sees the increasing rate and severity of natural disasters, and that scientists tell us are climate change related, coming through our own data and experience.

We support the need to take action on climate change and we work hard to mitigate risks that climate change exposes to our businesses, communities and economy.

For more than a decade now, we have been making important contributions to the climate change discussion and highlighting the need for action, and we are a member of a number of global organisations which deal with climate change and its effects.

Climate change decisions come to the fore in both the investment side of our business and in the insurance side of our business.

In our investment portfolio, we estimate that high emission intensive industries are less than half one percent of our investment assets.

On the insurance side of our business, our underwriting exposure to emissions intensive industries is modest. Within this the main product line we underwrite is Workers' Compensation, as we believe workers in high-risk environments should be fully protected.

Climate change is an important issue and IAG seeks to play its role as a constructive participant in our society, while at the same time continuing to carry out our duties to our customers, shareholders, regulators and staff.

## **Remuneration**

All good AGMs need to talk about remuneration, so let me set the scene for this one.

We appointed a new executive leadership team this year. When Peter Harmer took the Managing Director and CEO role in November 2015, he made changes to the operating structure of IAG and appointed his executive team.

Those executives had their fixed remuneration set to reflect external market benchmarks and the experience they brought to their roles. There were no increases to Executive fixed remuneration during the 2016 financial year, other than where there was a change of role.

A large proportion of our executive's remuneration is at risk each year, as it is tied to performance. Peter has 75% of his remuneration tied to performance and his executive team has over 70% of their remuneration tied to performance.

The short term performance of the company has been sound during 2016 and so the Short Term Incentive Scheme yielded average payments of 67% of the maximum payable bonuses.

IAG believes it is important to balance the attainment of financial measures with the achievement of non-financial measures. However, the Board has elected to strengthen the link between financial outcomes and overall short term incentives by increasing the weight of the financial component in the Executives' balanced score card from 50% to 60% for financial year 2017.

The Long Term Incentive Scheme, which is based on both Return on Equity and Total Shareholder Return, fully vested this year for the component based on Return on Equity and achieved a 54% vesting for the Total Shareholder Return component.

Our remuneration scheme is working appropriately and as it was structured to do. However, the Board has approved some adjustments which we consider will better support the results we have targeted.

For example, during financial year 2016 we introduced a behavioural gateway to accessing the short term incentive scheme.

To be eligible for any short term incentive, our employees need to have demonstrated behaviours in keeping with what we call the IAG Spirit ... a way in which we manage our relationships with all our customers, partners, shareholders, communities, and each other.

We sum this up with the words, Closer, Braver and Braver. What we mean by this is service more aligned with what customers want, decisions made more quickly and for our staff to take accountability for the decisions they need to make. This is part of building an organisation which is ready for the new digital world.

For financial year 2017 we have also introduced to the balanced scorecard the advocacy measure of Net Promoter Score to assess our success in meeting the needs of our customers and partners.

## **Asian growth**

I'd now like to turn to our investment in Asia.

Around a year ago, there was significant discussion in the press about IAG's growth strategy in Asia, and in particular about possible investment in China. After reviewing IAG's strategic priorities, the Board decided not to proceed with a major investment in China.

We have been developing businesses in the Asian region for more than 10 years. The Board still considers that it makes good commercial sense for IAG to seek growth opportunities in some Asian countries.

We have, for example, established profitable businesses in both Malaysia and Thailand and we think growth and consolidation in these countries could offer significant benefits to IAG.

However, we also understand that amongst shareholders there are concerns about both the risks and the amount of capital that might be involved in further investments in Asia.

The Board is encouraging management to continue to focus on opportunities in Asia, and to concentrate on our presence in established markets where there is a path to success that is in keeping with the stable management of the company's financial exposures.

## **Board**

Before I come to the end of my remarks, I would like to thank my colleagues on the IAG Board for the help they have given me in settling into this role over the last 8 months. They have been very generous with their time and assistance.

We are very fortunate to have a strong mix of experience, skills and tenure on our Board, and the Board is very pleased to support the re-election of two of our most experienced Directors, Hugh Fletcher and Philip Twyman, who are standing for re-election today.

As you are aware membership of Boards refreshes periodically and like most companies we will continue to have changes at IAG.

One such change will be the retirement of Raymond Lim, who has advised us that the February 2017 Board meeting will be his last. As this now is his last AGM, I take this opportunity to thank Raymond for his valuable insights and knowledge over the four years he has been on our Board. He has been generous with his time and skills and your Board has benefitted greatly from his involvement.

I hope to be able to announce soon some new members to the Board so that we ensure smooth succession.

## Conclusion

In conclusion, let me thank our past Chairman, Brian Schwartz, and our past Managing Director and CEO, Mike Wilkins, for their service to IAG. They have left us with a strong platform to build on and Peter and I are privileged to stand on their shoulders.

I would also like to thank all the people who have worked so diligently at IAG to make the company into the great institution it is. We have many challenges ahead of us in our uncertain world, but we also have a great team to overcome them.

And, most importantly, to our shareholders today, thank you for your support and confidence in this company, and I look forward to continuing to work with you and in your interests.

Let me now hand over to Peter Harmer for his first CEO's report to shareholders.

## About IAG

IAG is the parent company of a general insurance group with controlled operations in Australia, New Zealand, Thailand, Vietnam and Indonesia, 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 Insurance and WFI (Australia); NZI, State, AMI and Lumley Insurance (New Zealand); Safety and NZI (Thailand); AAA Assurance (Vietnam); and Asuransi Parolamas (Indonesia). IAG also has interests in general insurance joint ventures in Malaysia and India. For further information please visit [www.iag.com.au](http://www.iag.com.au).

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