
Chairman's Address to 2017 AGM.

Ms Elizabeth Bryan AM Chairman, Insurance Australia Group Limited

It is my great pleasure to welcome you to IAG's 2017 annual general meeting.

This meeting is an important opportunity for shareholders to hear about how their company is performing, and ask questions about operations and results. And there will be ample time to do this today.

But this is also an opportunity for you to learn more about your own company. That is where I would like to start today.

When I stood here last year, at my first IAG annual general meeting as Chairman, I said how pleased I was to join a company with such a great purpose: to make your world a safer place.

I described the commitment to this purpose as the glue that holds together the enormous technical skills and the customer service focus that makes up our successful insurance business.

This year these bonds were further strengthened as we continued to help our customers affected by natural disasters as we improved the way we meet our customers' needs, as we sought new opportunities to bring our purpose to life and as we found ways to contribute more broadly to the community.

Making a broader contribution

Businesses today face a big challenge. Being good at their core business – with the sole purpose of producing profits – is no longer enough.

The success of capital investment used to be measured by strong returns. Now, directors and management teams alike are expected to take a much broader and longer-term view of the role the organisation plays, and of the enormous contributions they can make to society and other stakeholders.

Those of us who run companies face a challenge to find, communicate, and deliver on these social contributions and to do this in a meaningful way that creates value for shareholders and the community.

That is what we are trying to do at IAG, and we think we will succeed because of the nature of our business. General insurance is all about mitigating the suffering that unexpected events can cause for our customers. Mostly we do that by paying insurance claims after an event.

But we can also use our technical knowledge and our experience to take steps to help mitigate the harmful impacts these events can have on customers' lives.

Let me give you some examples of this approach in action this year.

It starts with our customers

From everyday claims to significant natural disasters, we continued to excel at what we do best: helping our customers recover from loss.

The three largest events Tropical Cyclone Debbie in Northern New South Wales and Queensland, the Kaikoura earthquake in New Zealand, and the Northern Sydney hail storms together led to over 45,000 claims. They accounted for just some of the almost \$9 billion dollars we paid in claims this year.

Through these payments, we made an important contribution to helping our customers and their communities recover and rebuild their lives.

But we do much more than pay claims. We are there to help communities mitigate the impact of these events. For example, ahead of Tropical Cyclone Debbie, we had emergency supplies and equipment on standby. After its impact, we provided on-the-ground support. This ranged from emergency accommodation, and financial assistance, to access to trauma counsellors.

These events also demonstrate the power of the partnerships we have developed with the State Emergency Services in Queensland and New South Wales, and with the Australian Red Cross nationally to help them to assist all those in affected areas – not just our customers.

Indeed, partnerships are key to how we bring our purpose to life in the broader community.

With the Australian Red Cross, we are helping communities prepare for, respond to, and recover from emergencies. Together, we are developing a digital emergency preparedness tool that demonstrates the best preparation and recovery options for Australian emergency situations.

Helping people prepare for, or prevent, the disruptions that come with natural disasters is good for the community. It is also good for our business, because it builds trust. And it reduces the cost of claims.

Similarly, our partnerships with the New South Wales and Queensland State Emergency Services aim to improve community awareness, so people can reduce the impact of natural disasters. A good example is the storm safe program which encourages people to prepare their homes in advance of the storm season.

We are pleased that people from the Australian Red Cross and the New South Wales State Emergency Services will be in the foyer after the meeting to talk to you about these developments.

Around 18 months ago, we began a different kind of partnering relationship. We established our Consumer Advisory Board to hear from consumer groups who represent the people, families and businesses that we protect.

The insights about customers that we have gained from this forum have led to some really important developments.

For example, we have appointed someone within our company whose sole responsibility is to develop services, and systems, to support vulnerable customers.

We have removed mental illness exclusions from our travel policies. Now, mental illness is treated as a general medical issue, reflecting community expectations that those affected should not be singled out.

And we have engaged our Consumer Advisory Board to help us revise our approach to product design principles. Our products and services must meet the needs and expectations of our customers, deliver fair value for money, protect our customers from the risk of unexpected financial loss, and be easy to understand.

Making communities safer

One of the things about IAG that makes me most proud is the way we look outward to the wider community, to see where we can make a difference to the lives of all those we touch. Helping to solve community issues is something we believe corporations must increasingly do.

This year, we began a program to help communities become more connected. We talked to individuals and resilience experts and found the most important issue we should focus on was the general breakdown of community. People feel less connected than they would like to be.

That led to our national Good 'Hoods initiative. Good 'Hoods is helping people work together to create more resilient communities. For example, we are working with the community in Blacktown in western Sydney to build economic inclusion.

We are partnering with a start-up called Catalyser to help businesses created by refugees and migrants succeed. Once they are successful, they will be able to help their communities.

Another group we are supporting is the farming community. We insure just over half the farming businesses throughout Australia, and we are acutely aware of the challenges faced by farmers and rural communities. With our partners at the National Farmers' Federation and at Lifeline, we are working to understand these challenges. We will then identify how we can promote safety and resilience and how we can support those facing issues that arise from these unique circumstances.

The opportunity of technology

Technology is helping us transform the way we work, the products we offer, and how we deliver them.

Peter will talk about how digital platforms are helping us transform our business, but I want to highlight some examples of where technology advances are supporting our purpose.

Let's start with the extremely dangerous issue of drivers attempting to cross flooded roads.

The State Emergency Services told us that often they only became aware that roads are flooded when people had to be rescued. The DipStik monitor we featured on the cover of our annual review this year helps solve this problem. It constantly monitors water levels and sends messages when they rise, so floodwater warnings can be issued and roads closed.

We are also investigating a number of prototypes that will enable us to better detect and respond to another Australian threat – bushfires.

And we have an eye to a future when self-driving vehicles will have a significant impact on transport efficiency and road safety. We are the only insurer involved in the iMOVE Co-operative Research Centre. This group has business, research and government members who will use data and emerging technology to shape the future of intelligent and connected transport in Australia.

Climate change

The increasing frequency and severity of weather events ensures climate change is a regular topic of conversation in our business, and in the community more broadly. We welcome more informed debate about how businesses are addressing the risks to their own operations.

To us, climate change is a complex issue and a significant challenge that will influence our ability to manage risk and deliver on our purpose.

We have made good progress in reducing our own carbon footprint and we are exploring further opportunities in our own operations and through our suppliers.

Our investment portfolio continues to have very limited exposure to the highest emission intensive companies. These account for less than half of one percent of our total portfolio. Our equity investment managers are actively reducing our exposure to companies that have the poorest environmental management strategy, and that have the highest negative environmental impact.

Our in-house natural perils experts help ensure our policies are priced to reflect risk and remain commercially sustainable.

We also apply this knowledge to influence public policy to support investment that will reduce exposure and improve resilience to natural disasters. Some of the groups we work through include the Australian Business Roundtable for Disaster Resilience & Safer Communities, Resilient New Zealand and 100 Resilient Cities.

The number of insurance policies we issue to businesses in emission intensive industries – such as the broader mining and power industries – is low. These accounted for less than half a percent of the premiums we wrote last year. And the policies we offer to these industries are predominantly for workers' compensation. Considering our purpose is to make your world a safer place, we believe it is important to provide support for workers in all industries.

Results

I have talked extensively of our work to achieve our purpose, and contribute more broadly to the communities in which we operate. But I can assure you we have also focused on the core business performance that attracted many of you as investors in IAG in the first place.

A brief look at some of the key results from last financial year shows the ongoing strength of our operations: our gross written premium was \$11.9 billion; we achieved net profit after tax of \$929 million; we recorded cash earnings of \$990 million; and this gave us a cash return on equity of just over 15%.

Our performance for the year, and our confidence in the short to longer term outlook for the business, led us to increase the final dividend to 20 cents per share. The full year payment was 33 cents per share, a 27% increase on last year's full year dividend. Our payout ratio of nearly 79% was at the top of our range.

Our CEO Peter Harmer will talk to you about our performance and results in more detail shortly.

Other issues of interest

Before I hand over to Peter, I want to address some of the other issues you raised in questions sent in advance of this meeting.

Remuneration

As in past years, many of the questions related to executive remuneration. I welcome these questions. I believe our approach appropriately remunerates executives, and works to achieve better returns for shareholders.

Our executives' remuneration is made up of fixed pay, short term incentive and long term incentive. Both incentive outcomes are tied to improved business performance and increased shareholder value.

In the 2017 financial year, we took a conservative approach to fixed pay. Only four of the 13 members of the executive team received increases, and these were for significant changes in role, or to reflect market pay rates.

Short term incentives depend on how executives perform against a balanced scorecard that has financial and non-financial measures.

The financial measures are growth, controllable operating expenses, profitability and return on equity and they accounted for 60% of this year's assessment.

The rest are measures that make a significant contribution to our future results. They include how well we serve our customers, how well we work with our partners, our people measures, and the management of risk.

All these measures are key to producing a good long term result for our shareholders. And all need to come together to make that happen.

This year, short term incentives for the CEO and each member of our executive team were determined based on their contribution to a Group Balanced Scorecard. This drives collective accountability for IAG's performance.

The Group Balanced Scorecard outcome resulted in an average short term incentive payment of 64% of the maximum achievable.

Our long term incentive is built around performance rights that only vest if IAG delivers superior financial performance. We measure cash Return on Equity over three years, and Total Shareholder Return over four years.

The cash Return on Equity hurdle for the three years to 30 June 2017 vested in full.

Based on IAG's Total Shareholder Return ranking for the four years to September 2016, the vesting outcome was 56%.

Board elections

A second area of interest to you was how we select potential candidates as directors. We regularly review our Board to ensure we maintain an appropriate mix of skills, knowledge, diversity and experience.

Most of our directors have experience in insurance, finance, risk, digital, business development, strategy, and marketing and customer services.

We also look for experience that will help us meet our obligations as an ASX-listed company, and support the business' operations, strategy and growth so we can deliver the best outcomes for our shareholders, and our customers.

Under our constitution, directors appointed to the Board during the year must stand for election at the next annual general meeting. Our notice of meeting for today, lists two directors – Duncan Boyle and Helen Nugent – who are standing for election on this basis.

Our constitution also requires a third of the Board's directors to retire each year and this year's retirees are Alison Deans and Tom Pockett. Tom has offered himself for re-election, while Alison has decided to leave the Board following this meeting.

I am sure you will join me in thanking Alison for her contribution over the four years she has been on our Board, and in wishing her well for the future.

We will hear from each of the candidates standing for election shortly.

Having highlighted the skills of the directors who make up your Board, I would like to recognise their contribution to our company, and to thank them for the support and guidance they have given me – and our management – throughout the year.

It now gives me great pleasure to ask our managing director and CEO, Peter Harmer to address the meeting.

About IAG

IAG is the parent company of a general insurance group (the Group) with controlled operations in Australia, New Zealand, Thailand, Vietnam and Indonesia. The Group's 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.

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