



## Chairman's address to 2020 AGM

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

### Slide 1: title slide

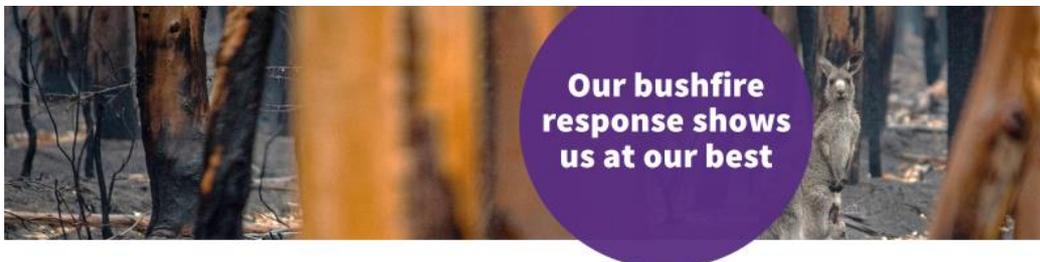
Before we move to the business of this year's meeting, I would like to take a few minutes to reflect on some of the events that have shaped the year for IAG.

When I think back over the year since I last spoke to you, I reflect not only on the scale of the challenges that we have faced as a business, but also on the extraordinary disruption that each of us has faced in our lives – whether as customers, investors or employees.

In the face of this disruption, we are all working to ensure that IAG doesn't just survive, but thrives, in a post-pandemic world.

This organisation's over-riding role has been, and is, to contribute as much as we can to making the world a safer place for all of us.

### Our bushfire response shows us at our best



**Dedicated claim teams**  
in regional recovery centres



**Emergency accommodation and financial assistance**  
for affected customers



**\$920m being paid for more than 20,000 bushfire-related claims**  
makes significant contribution to recovery for customers, and their communities

When we met last October, Australia had already seen almost a month of bushfires, after the earliest ever start to the annual bushfire season.

The 'Black Summer' bushfires were devastating for all Australians. The loss of life, properties and the impact on our communities and wildlife was heartbreaking.

IAG is at its best when our customers need us most. Our networks and experience enabled us to quickly set up dedicated claim teams in regional recovery centres and provide emergency accommodation and financial assistance to our affected customers.

The \$920 million we are paying out for more than 20,000 bushfire-related claims is making a significant contribution to the recovery of our customers, and to the communities in which they live.

It is a testament to the important role general insurance plays, and the reason I am so proud to be associated with this critical industry.



However, our purpose – to make your world a safer place – means that we see our role extending beyond simply paying claims.

Our purpose drives us to understand, reduce and avoid risk, and to build resilience and preparedness.

For communities to continue to be protected by affordable insurance, we need the focus to shift from disaster recovery to mitigating the effects of natural perils like bushfires.

This requires co-ordination between governments, businesses and the not-for-profit sector so communities are more engaged, and the built and natural environments are more resilient.

We are already active participants in this process. We established and continue to lead the Australian Business Roundtable for Safer Communities & Disaster Resilience; we support the New South Wales State Emergency Services and the Australian Red Cross; and we are engaged with all levels of government as they develop and implement policies that protect people and communities.

Given Australia's recent bushfire season, we were especially pleased to contribute our experience and expertise to the Australian Government's Royal Commission into National Natural Disaster Arrangements as well as the Senate Committee on Finance and Public Administration's Inquiry on Lessons to be learned in relation to the Australian Bushfire Season 2019-2020.

## Supporting our people and customers through COVID-19



### Supporting our people and customers through COVID-19

#### With COVID-19 – as with natural disasters – we are guided by our purpose as we support our customers and employees

By late March, over 98% of our people were working from home; the majority continue to do so; those unable to have safe alternatives

Support for personal insurance customers whose travel plans were affected, or who were experiencing financial hardship

Support for small businesses including deferred premium payments and refunds on unused portion of premiums for cancelled policies

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While the Black Summer bushfires were eventually extinguished, the year's other critical occurrence – the COVID-19 pandemic – continues to severely affect many of our customers and the community more widely.

As with natural disasters, we continue to be guided by our purpose as we support our customers and employees during these challenging times.

To protect our people and our customers, we initially closed our kiosks and retail stores. Then we closed our offices and directed our people to work from home wherever possible. For those unable to work from home, we put in place plans to help keep them safe. By late March, over 98% of our people were working from home and the majority of them continue to do so.

We introduced a range of support measures for personal insurance customers whose travel plans were affected by the coronavirus, or who were experiencing financial hardship. Small businesses were supported by steps including deferred premium payments and refunds on the unused portion of premiums for cancelled policies.

## The role of insurance



**A pooling of the premiums** of the many to pay the claims of the few who suffer loss



**An economic shock absorber** when individuals or communities suffer loss



Not designed, structured, or capitalised to cover such systemic risks as a pandemic

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The pandemic has thrown into sharp relief the fundamental role of insurance in society. At its core, insurance is a pooling of the premiums of the many to pay the claims of the few who suffer loss.

Insurance acts as an economic shock absorber when individuals or communities suffer loss. However, it is not designed, structured, or capitalised to cover such systemic risks as a pandemic. This is where governments step in to act as that shock absorber, and we have seen our own Federal Government take on that role in a robust manner.

We know that a number of organisations are struggling as a result of the pandemic, and they are looking to their insurers as well as their government to support them. As I have outlined, we *have* provided support to businesses, but we are not able to step in and respond to all the issues they face as a result of the impact of COVID-19.

Specifically, while we are sympathetic to the plight of these businesses, we – and the industry as a whole – are clear that our policies do not provide cover for business interruption resulting from a pandemic. We believe this is clearly reflected in our policy wording.

Some uncertainty over business interruption cover led the Insurance Council of Australia and the Australian Financial Complaints Authority to support a test case to resolve one of the questions COVID-19 has raised.

This test case was considered by the New South Wales Court of Appeal on the second of October 2020. The Court has not yet delivered its judgement.

## 2020 financial year results and dividend



### 2020 financial year results and dividend

Gross written premium of over  
**\$12bn**

Net profit after tax of  
**\$435m**

Cash return on equity of  
**4.5%**

**Cash earnings of \$279 million – 70% lower than the prior financial year** (costs of extreme weather and other events, and COVID-19 investment market volatility)

**No final 2020 financial year dividend** – top end of 60-80% targeted payout range delivered by interim dividend of 10 cps paid in March

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Responding to the extraordinary challenges we have faced this year came at a cost to the company, but this is the business we are in. Unfortunately, there was also a cost to you, our shareholders.

IGAG achieved gross written premium of over \$12 billion, net profit after tax of \$435 million, and cash return on equity of 4.5%.

Our cash earnings result of \$279 million was 70% lower than the prior financial year, depleted by the costs of extreme weather and other events, and by the investment market volatility associated with the COVID-19 pandemic.

Our dividend policy guides us to paying out 60-80% of cash earnings on a full year basis. This year's cash earnings result meant that there was no final 2020 financial year dividend. In fact, the top end of our 60-80% targeted payout range was delivered by the interim dividend of ten cents per share which was paid in March.

We acknowledge some shareholders expressed disappointment with this decision, but we believe it is important that we adhere to our long-established dividend payout policy. This is designed to ensure we stay well capitalised to deal with uncertainty. Our decision is also appropriate given regulatory guidance urging companies to exercise caution around capital distributions in the face of this ongoing uncertainty, and the heightened economic risk.

## Financial results impact on remuneration

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Executive remuneration aims to align executive pay outcomes with the interests of customers, the community and shareholders

Despite employees' tireless efforts to meet the year's challenges, shareholder returns declined materially

In response, the Board determined that, following August 2020 pay review:

<b>No increase in fixed pay for senior managers including Executives</b>	<b>No increase in fees for Directors</b>	<b>No payment under short term incentive plan for the 2020 financial year</b>
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Additionally, downward risk-related adjustments \$2.7m made to deferred awards to current and former senior leaders for risk control failures identified and assessed during the year

I now turn to executive remuneration. Our approach to executive remuneration is intended to align executive pay outcomes with the interests of our customers, the community and our shareholders.

Despite the tireless efforts of our employees to meet the challenges presented this year, shareholder returns for the 2020 financial year declined materially.

In response to these results, the Board determined that following the August 2020 pay review, there would be no increase in fixed pay for senior managers including Executives, and no increase in fees for Directors. Eligible employees below the top three layers of management were provided a fixed pay increase of one per cent. Additionally, none of our employees received a payment under the Group short term incentive plan for the 2020 financial year.

The Board also made a number of downward risk-related adjustments to deferred awards to current and former senior leaders. The adjustments of approximately \$2.7 million dollars were related to risk control failures identified and assessed during the year.



## Determining future Executive pay outcomes will involve:

Continued assessment of financial and non-financial drivers of business performance	Continued maturing of remuneration governance practices so they operate effectively and readily adapt to the Financial Accountability Regime and the APRA Prudential Standard CPS 511 Remuneration
Continued monitoring of alignment of remuneration outcomes with business performance, economic environment and shareholders' experience	Comprehensive risk assessment process to ensure results are sustainable for all our stakeholders

In determining future Executive pay outcomes, we will continue to assess both financial and non-financial drivers of business performance. Our comprehensive risk assessment process will help ensure we deliver results in a sustainable way for all our stakeholders. We will continue to monitor the alignment of remuneration outcomes with business performance, the economic environment and the experiences of our shareholders, and we will exercise discretion where required.

We also continue to mature our remuneration governance practices. Our aim is to ensure our practices operate effectively and will readily adapt to the future regulatory context of the Financial Accountability Regime and the APRA Prudential Standard CPS 511 Remuneration.

## Ensuring our business succeeds well into the future



### Your Board:



Has strong focus on the key issues of strategy and risk



Is guiding and supporting management as it further refines a customer-focused business strategy aligned to our core insurance operations



Is maintaining an intense focus on risk, endorsing management's goal of achieving a fully effective risk management system at every level of the organisation

I would now like to turn to the future – to both the matters we are managing in the business and to a matter of importance that was originally put to this meeting by The Colong Foundation for Wilderness.

Your Board remains strongly focused on the key issues of strategy and risk to ensure the ongoing success of our business well into the future.

We are guiding and supporting management as it works to further refine a customer-focused business strategy aligned to our core insurance operations.

We are also maintaining an intense focus on risk, endorsing management's goal of achieving a fully effective risk management system at every level of the organisation. A sound understanding of risk will ensure the company is well equipped to manage its business and benefit from the new opportunities it identifies.

### **Board succession**

We are committed to ensuring your Board has the combination of skills we need to continue to guide your company.

Following the retirement of our long-term director Hugh Fletcher at last year's annual general meeting, we were pleased to appoint Simon Allen to the Board in November 2019 as an independent non-executive director. You will have an opportunity to learn more about Simon shortly, when he speaks to the resolution that deals with his election.

### **Welcome to our new CEO**

This year, your Board has undertaken one of the most important responsibilities of any board: managing the succession of the CEO, after Peter Harmer advised us in April of his intention to retire by the end of this year.

After an extensive internal and external search process, we were delighted to appoint Nick Hawkins to succeed Peter. I'm very pleased that we have been able to appoint a new CEO from within the ranks of our current management team. At a time of significant external disruption, we see tremendous value in the stability and continuity that comes from making an internal appointment.

Nick will assume the role of CEO from 2 November and the Board and I look forward to working with him in his new role and congratulate him on his appointment.

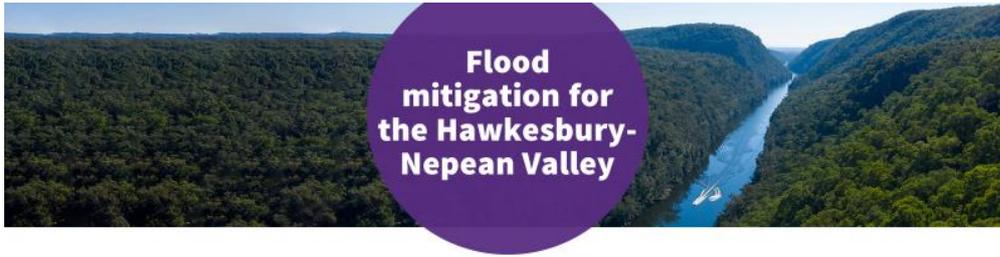
I take this opportunity to recognise Peter's significant contribution to our company. On behalf of the Board, I sincerely thank him for his five years at the helm of IAG. Peter has been pivotal to the creation of a more innovative and customer-focused IAG. He has taken important steps to simplify the company while driving a culture that values digital innovation and puts the customer first. Peter leaves IAG in a strong position for future success. Thank you, Peter.

Before handing over to Peter to talk to you about the business' performance over the last year, I would like to address an important matter that was originally listed on our agenda as Resolutions 8, 9 and 10.

### **Flood mitigation for the Hawkesbury-Nepean Valley**

As I have previously mentioned in my address, our purpose drives us to advocate for disaster risk reduction. This focus is at the heart of how we have approached an issue that is captured in the three shareholder resolutions The Colong Foundation for Wilderness asked to put before this meeting today.

Since we issued the Notice of Meeting, we have had a number of positive conversations with representatives of The Colong Foundation and I am pleased to advise the meeting that we have been able to satisfactorily address their concerns. As a result, they have withdrawn the resolutions that were before the meeting.



Our purpose drives us to advocate for disaster risk reduction, and this has led us to express support for the raising of the Warragamba Dam wall

It has become clear that a decision to raise the height of the Warragamba Dam wall could well result in the destruction of both large areas of natural environment and also important cultural heritage sites

IAG will therefore continue to support the need for flood risk mitigation in the Hawkesbury-Nepean Valley to reduce the risk to life and property, but we will step back from advocating for a specific solution

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In discussions with The Colong Foundation for Wilderness, and others more closely involved with this debate, it has become clear that a decision to raise the height of the Warragamba Dam wall could well result in the destruction of both large areas of natural environment and also important cultural heritage sites.

At IAG we have extensive data and experienced technical people who have used this data to evaluate the significant flood risk in the valley below the Warragamba Dam. In the past we have expressed support for the raising of the wall, however we now have additional information concerning the probable loss of significant cultural heritage sites, and important natural habitats.

IAG will continue to support the need for flood risk mitigation in the Hawkesbury-Nepean Valley to reduce the risk to life and property. However, given our increasing awareness of the environmental and cultural heritage issues, I make the commitment that we will step back from advocating for a specific solution, including the raising of the Warragamba Dam wall. Instead, we will support appropriate environmental impact studies to explore the best way to achieve safety for the residents of the Hawkesbury-Nepean Valley, while recognising the issues presented by The Colong Foundation for Wilderness.

Further, we commit to exploring the appropriateness of IAG becoming a signatory to the United Nations Principles for Sustainable Insurance-WWF-World Heritage Sites initiative.

I thank The Colong Foundation for Wilderness and the Gundungurra Traditional Owners for drawing the complexities of this issue to our attention. Our engagement with The Colong Foundation for Wilderness informed the development of the Environmental & Social Framework approved by the Board earlier this month.

Ladies and gentlemen, thank you for your attention. I now invite Peter Harmer to report to you on the details of our business performance for the 2020 financial year.

I will then invite our next Managing Director and CEO – Nick Hawkins – to briefly address the meeting.

This release has been authorised by the Board of Insurance Australia Group Limited.

## About IAG

IAG is the parent company of a general insurance group (the Group) with controlled operations in Australia and New Zealand. The Group's businesses underwrite over \$12 billion of premium per annum, selling insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann Insurance and WFI (Australia); and NZI, State, AMI and Lumley (New Zealand). IAG also has an interest in a general insurance joint venture in Malaysia. For further information, please visit [www.iag.com.au](http://www.iag.com.au).

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