

Direct Insurance Australia.

Direct Insurance Australia is our largest division and plays an integral role in delivering on our strategic pillar to *Grow with our customers* by increasing customer reach and delivering personalised, digitally-enabled services.

The business holds the largest share in direct personal insurance in Australia, selling products under multiple leading brands including NRMA Insurance, RACV, CGU, SGIO and SGIC. The business also provides direct insurance to small-to-medium enterprises, which we see as a significant growth opportunity.

FY21 performance

In FY21, Direct Insurance Australia increased the number of customers it served by some 1.2% to around 4.8 million and provided around 8.6 million policies.

The business reported gross written premium of \$5,772 million, an increase of 4.3% over FY20. Growth was driven by both increased volumes and higher rates across personal short-tail classes, that broadly matched claims inflation.

Direct Insurance Australia's insurance profit was \$718 million, up from \$627 million in FY20. This equates to a higher reported insurance margin of 20.7%, compared to 18.7% in FY20, which included the net effect of a lower underlying margin, a significantly lower experience of extreme weather and bushfires in FY21 and credit spread gains in FY21, compared to losses in FY20.

Direct Insurance Australia's FY21 underlying margin of 21.4% was lower than the prior year's 26.1%, affected by three key elements:

- underlying margins in FY20 assumed a normalised level of reserve releases of 1% of net earned premium, in line with IAG's definition of underlying margins at the time, whereas no normalised releases are assumed from FY21;
- a net COVID-19 benefit of around \$60-\$70 million in the first half of FY21, predominantly from reduced motor claims frequency; and
- a net COVID-19 benefit of around \$100 million in the second half of FY20 for similar reasons.

Excluding these impacts, the underlying margin was around 20% in FY21, which is approximately 2.0% below the equivalent metric for FY20. Key drivers of the year-on-year movement included:

- a greater than 1% increase in the administration expense ratio (ex levies) reflecting the combined impact of increased technology, compliance, governance and corporate insurance spend; and costs associated with the transition to the new operating model (non-recurring); and
- reduction in the running yield on investments reflecting the lower interest rate environment.

Personal short tail

Personal short tail gross written premium grew by 4.5% compared to FY20, driven primarily by rate increases. Motor premium increased 3.6% relative to FY20, from average rate increases that reflected claims inflation trends, supplemented by growth in overall customer numbers. Home premium rose by 5.7%, primarily derived from rate increases, with overall volumes modestly lower. Renewal levels for both motor and home have remained high and stable.

Gross written premium from niche and other short tail lines, comprising boat, caravan and veteran and classic car, was around 10% higher than FY20, reflecting rate and volume growth.

Personal long tail

Long tail (Compulsory Third Party) premium grew by 2.3% and reflected an increased volume in South Australia, an approximately 3% decline in New South Wales premium, and a more than 20% decrease in Australian Capital Territory premium.

Direct commercial

The direct commercial portfolio achieved premium growth of 6.8%, reflecting robust volume growth as the Australian economy recovered from the initial impact of COVID-19. Growth was supported by digital and product enhancements. Direct distribution to small-to-medium enterprises will be an area of focus for potential future growth.

Customer and digital initiatives

Details of our FY21 customer and digital initiatives are set out in the Delivering our Strategy section on pages 06-07 of this review.

Gross written premium (\$m)

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|------|-------|
| 2021 | 5,772 |
| 2020 | 5,533 |

Insurance profit (\$m)

| | |
|------|-----|
| 2021 | 718 |
| 2020 | 627 |

Detailed information about our Direct Insurance Australia results is contained in the FY21 Investor Report which is available in the Results & Reports area of our website (www.iag.com.au).

* IAG has reported separate results for the two new divisions of Direct Insurance Australia and Intermediated Insurance Australia for the FY21 result and prior year comparative results have been restated accordingly.