



2002 Annual General Meeting CEO Presentation

13 November 2002



Insurance Australia Group Limited ABN 60 090 739 923

Year in review



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Momentous events in the insurance industry



- **Claims:**
 - World Trade Center (“S11”)
 - Bushfires
 - Storms
- **Investment markets:**
 - Negative equity returns (worst in 14 years)
 - Low interest rates
- **Negative sentiment towards the insurance industry:**
 - HIH demise
 - Medical indemnity
 - Public liability

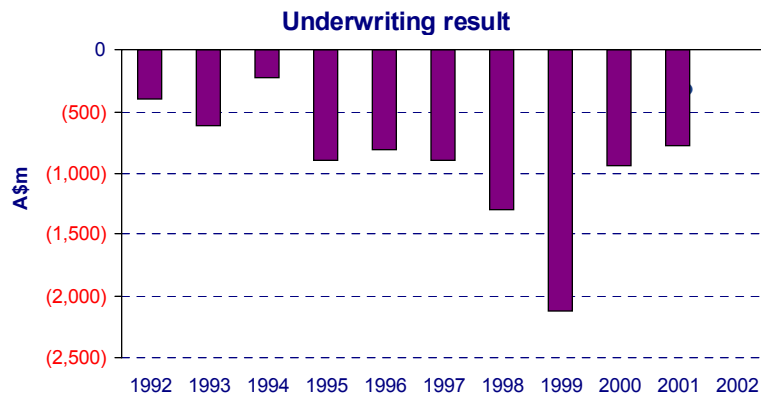
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- The insurance industry has faced a tumultuous year impacted by unprecedented global catastrophes, investment market volatility and corporate controversies.
- The events of S11 amount to what is expected to be the largest catastrophe in insurance history to date, with losses expected to exceed \$50 billion. This event not only affected the global insurance industry but also rattled investment market confidence.
- This year also marked the worst performing investment market conditions in the past 14 years which adversely affected investment market returns for the insurance industry.
- Domestically, the insurance industry has suffered from public scrutiny and criticism following the demise of HIH and the medical indemnity and public liability crisis during the year.

A decade of underwriting losses in Australia



Source: APRA Statistics: Total private sector underwriting results.

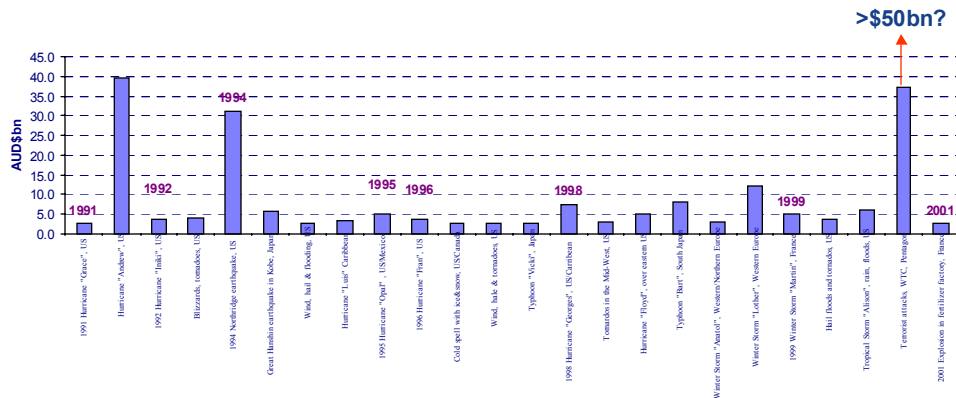
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- The ten year underwriting history of Australian insurers shows that, without exception, every year was an underwriting loss.
- The underwriting result has continued to improve over the past four years.
- The 2001 results do not include HIH's Australian losses as they did not lodge a return. They could have been expected to add significantly to the reported loss if the liquidators' estimate of the group loss of \$5bn are correct.
- In my view, these underwriting losses are driven by three major factors:
 - Rising claims costs within all forms of liability classes due to the increasing community trend to sue for damages;
 - The rising trend in the severity and frequency of catastrophes due to the changing nature of conflict and global warming; and
 - Inefficiency in the insurance industry.
- Historically, insurance companies have raised premiums as the main counteraction to losses. Our objective at IAG is to limit these premium rises as much as possible and focus on significantly reducing claims costs whilst retaining the best claims paying reputation in the industry.

Insured catastrophes – WTC may be worst ever



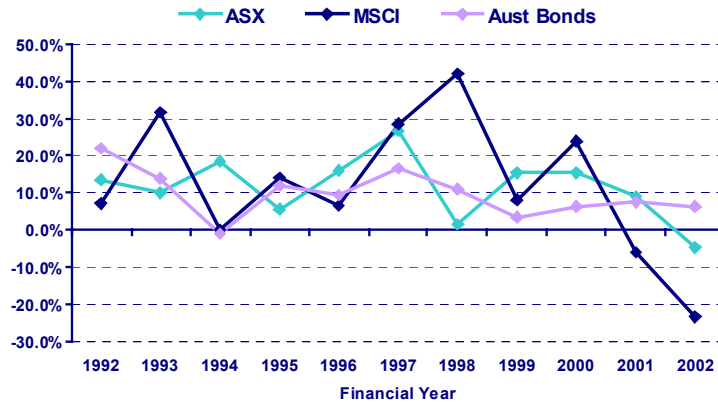
Source: Insurance facts and figures 2002, PricewaterhouseCoopers

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- The graphs shows the 24 most costly insurance losses for calendar years 1991 to 2001.
- The three events that stand out in terms of insurance losses are Hurricane Andrew occurring between 1991-1992, A\$39.6bn, Northridge Earthquake in 1994, A\$31.8bn and WTC terrorist attacks on September 11, 2001, A\$37.2bn.
- This schedule was prepared some months ago – so the WTC losses do not reflect the well-publicised increases in provisions by the major insurers in recent months.
- These insurance catastrophes have a flow-on impact to Australian insurers either through direct losses or future cost base increases due to the rise in reinsurance premiums.

Investment markets - worst performance in a decade



Source.

1. ASX is the S&P ASX 200 Accumulation Index. Up until 1 April 2000 the ASX All Ordinaries Accumulation Index was used.
2. MSCI is the MSCI ex Australia Net dividends reinvested in AUD.
3. Aust Bonds is the WDR Composite Bond Index (All maturities)

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•This graph just shows a story that most of you are familiar with but this picture graphically illustrates the difficult investment environment.

•Against this background, it is difficult for an investor in equities to report a profit in this period.

Reference notes

•For the financial year, the S&P/ASX200 Accumulation index fell by 4.7%, which is the worst performance for the Australian equity market since 1987, when the index fell by 8.6%.

•The international market also exhibited extreme volatility, finishing down 23.5% for the financial year 2002 as measured by the MSCI World index (ex Australia) in Australian dollars.

Insurance Australia's performance



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Record performance from underlying business



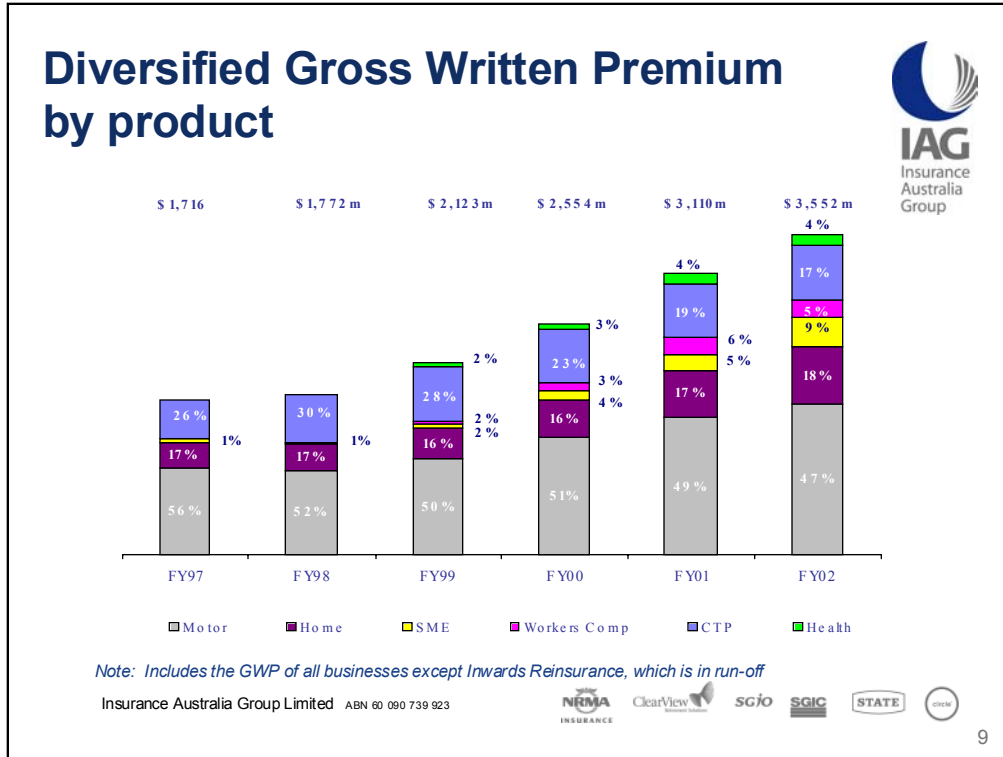
- Net earned premiums increased by 15% to \$3,195 million
- Underwriting profit of \$142 million
- Expense ratio improved from 20.3% to 19.7%
- Combined ratio improved by over 5% to 95.6%
- Insurance margin rose from 7.6% to 8.7%
- Insurance profit rose by 32% to \$278 million
- A bottom line loss of \$25 million due to impact of worst equity market performance in 14 years
- Total dividend increased by 5% to 10.5 cents per share

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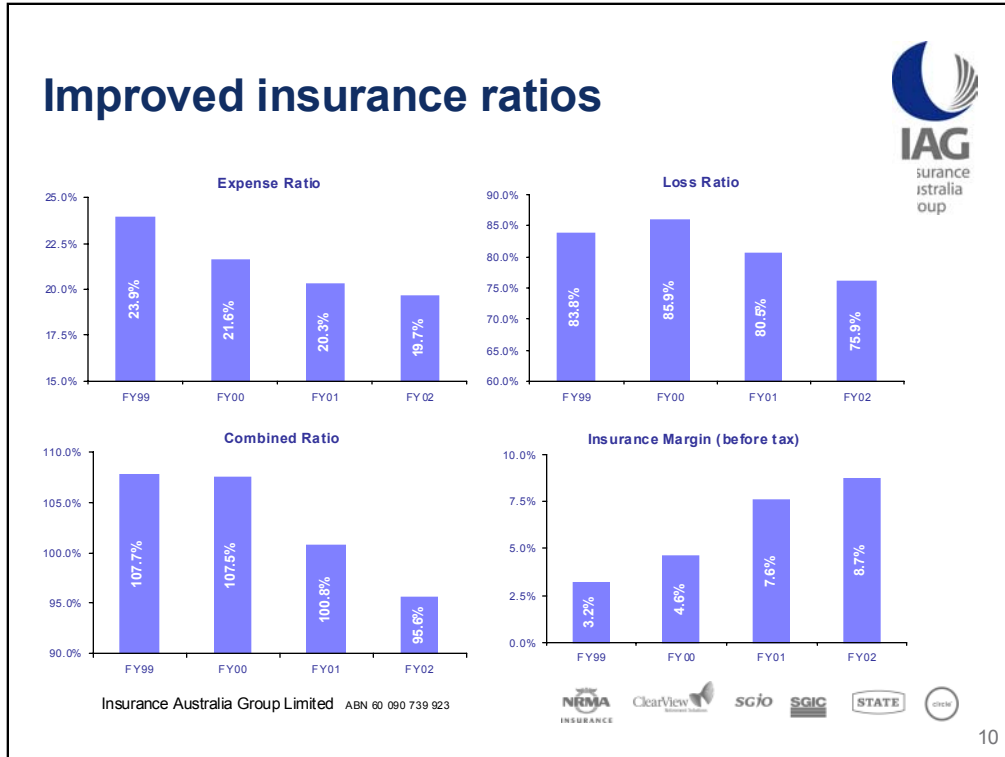


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- Your Company has continued to generate quality, sustainable earnings growth, despite the impact of investment markets.
- For the 2001/2002 financial year, our insurance business performed well, delivering significant improvements on the previous year.
- Net earned premium increased by 15% to \$3,195 million.
- We reported an underwriting profit of \$142 million.
- Our expense ratio improved from 20.3% to 19.7%.
- Our combined ratio – that is, claims and underwriting costs as a percentage of net earned premium – improved by over 5% to 95.6%.
- Our insurance margin rose from 7.6% to 8.7%.
- And our insurance profit rose by 32% to \$278 million.
- Despite this solid performance, we reported a bottom line loss of \$25 million due to the impact of the worst equity market performance in 14 years.
- We delivered a final dividend of 6 cents per share, fully franked, increasing the total annual dividend by 5% to 10.5 cents per share.
- We have also continued to pay more home and motor claims combined than any other insurance group in Australia, and settle CTP claims faster than the market average.



- The Group has delivered GWP growth of over 250% in 7 years.
- As we've previously said, the growth is around 50% organic and 50% from acquisition.
- In the last three years double digit growth in net earned premium continued, achieving a compound growth rate of 17.6% per annum in the period from June 1999 to June 2002.
- The GWP shows positive trends in the emerging businesses maintaining its proportion of a larger GWP base. In particular, commercial business has achieved significant growth increasing from 5.6% to 9.1% of total GWP. Reflecting the growth of Eazybiz in Australia and Circle in NZ.
- We also continue to reduce our reliance on motor related products.
- In 1997, 56% of GWP was motor insurance based, this is now 47%; CTP was 26% it is now 18% and home has remained at 17%.
- The maintenance of the home % was achieved in the same period that we have more than doubled the GWP from \$1,716m to \$3,552m.
- All these changes are positive for diversification which underpins the sustainability of our earnings.
- During the same period we have expanded our product offerings introducing SME commercial, health and workers' compensation which has shown significant growth making positive contributions to the Group's underwriting results.



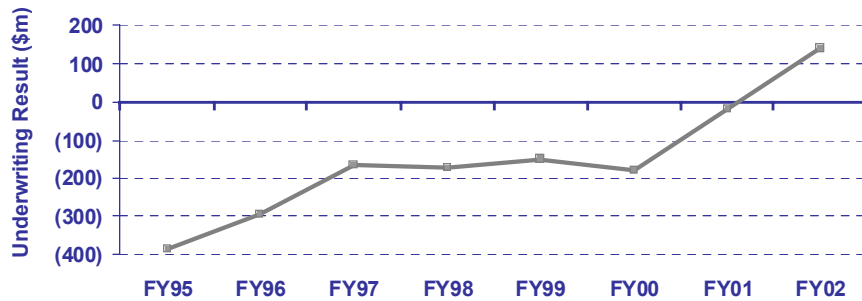
The Group ratios continue to show the right trends, with the combined ratio, loss ratio and expense ratio all decreasing.

There were some one-off benefits in the results. However, the underlying group combined ratio for the FY02 year was 99.5% - still under our 100% target.

The strong underwriting result has driven the insurance margin higher, despite poor investment returns.

If we can contain the combined ratio under 100%, based on our current mix of business and target ratios for long and short tail of 96-98% and 105-110%, insurance margins of at least this rate should be sustainable.

Achieved underwriting profit



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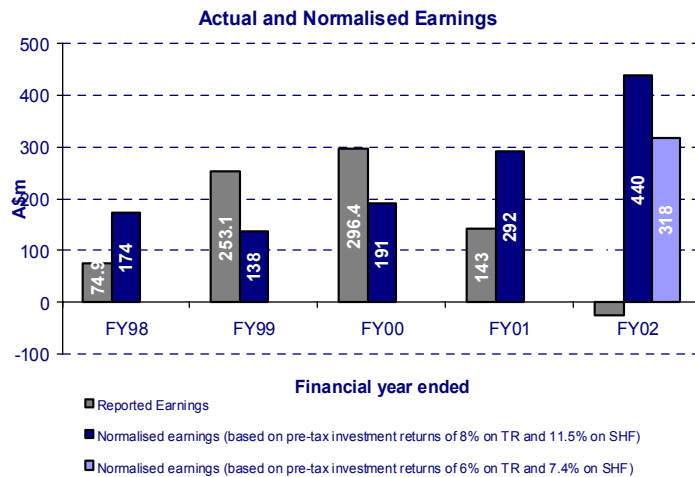


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We have delivered our first full year underwriting profit and the third consecutive half year with underwriting profits.

This is the result of a concerted effort on a number of fronts, predominantly expense management and claims efficiencies, across the whole Group over the past four years.

Improved earnings growth



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Note: FY98-00 are NRMA Insurance Limited results and FY01 is a full year's result, not just the post-demutualisation period.

Remain strongly capitalised



- **Strong MCR multiple in the range of 1.35 to 1.65**
- **90% probability of sufficiency reserving policy**
- **Strengthened reinsurance programme**
- **Restructured investment holdings**
- **Reduced cost of capital**
- **Very strong insurer financial strength rating of 'AA'/stable outlook* from Standard & Poor's**

*post 30/6/02 event

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We remain strongly capitalised operating within the range of 1.35 to 1.65 multiple of MCR (minimum capital requirement) at 30 June 2002. This is the consolidated multiple based on APRA (Australian Prudential Regulation Authority) requirements for regulated entities and economic capital for others.

Our reserving policy of 90% probability of sufficiency has been retained as is, and is above the 75% APRA requirement. In addition, where known, our WTC exposure is reserved to maximum levels.

Our reinsurance programme was renewed with improved features and security:

- a stronger counter-party rating – 100% is with counterparties with A or above ratings and 68% with AAA or AA rated counterparties;
- maintenance of the event retentions for our business lines;
- increasing the upper limits of our covers, including to \$1.25bn for NSW; and
- improving the definitional event coverage.

Restructured our investment holdings:

- Within our technical reserves – sold down some equities and put swaps in place on the remainder such that we no longer have any exposure to underlying equity market risk in this portfolio
- Reduced the tracking error of the shareholders' equity portfolio to be 2-3% (ex-ante tracking error per Barra) and put a structured collar in place over about half of the equities by sacrificing some of the high potential upside (above 10%) to acquire downside protection. This programme of collars is actively managed by our Asset Liability Committee.

Reduced cost of capital:

- Issued \$350m of reset preference shares;
- Completed a \$300m buy-back of ordinary shares;
- Streamlined the legal vehicle structure of the Group; and
- Reduced shareholder registry costs.

Full year dividend increased



- **Reflection of strong performance**
- **Normalised earnings up 51% to \$440m using the historic assumptions**
- **Normalised earnings up 9% to \$318m using the new investment assumptions**
- **Final dividend of 6 cents per share, fully franked (paid 21 October 2002)**
- **Total dividend for FY02 of 10.5 cents per share**
 - Fully franked
 - Up 5% on last year (FY01 of 10.0 cents per share)

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- The final dividend for FY02 was 6.0 cents per share, this brings the full year dividend to 10.5c.
- The dividend payment is based on 44% of normalised earnings.
- This is at the low end of the range set in our dividend policy which refers to a payout ratio of 40 – 70% of normalised earnings.
- The Directors resolved to continue to apply the existing policy in view of the underlying strength of the business but opted to prudently pay at the lower end of the range in the policy in view of the current short-term uncertainties in equity market performance, bearing in mind that the 2001 dividends also represented a payout ratio of in excess of 100% of reported profits.

Performance to 30 September 2002



	Target	YTD September Scorecard
GWP Growth	5%-9%	exceeded
Combined Ratio:		
Group target	Sub 100%	exceeded
Short-tail target	96-98%	exceeded
Long-tail target	105-110%	exceeded

- **Insurance margin is above 10% reflecting strong underlying business performance**
- **The Group's results continue to be impacted by poor equity market conditions**

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- The underlying business continues to perform strongly.
- The Group continues to maintain a strong competitive position with renewals and new business volumes supporting the growth in GWP, slightly higher than the 5%-9% target range.
- The short-tail portfolio combined ratio is currently performing ahead of our set target of 96-98%. This reflects favourable weather conditions, lack of large claims and the effectiveness of the Group's underwriting fundamentals and processes. These have led to lower claims frequency, average claims costs and lower expenses.
- The emerging business of health and commercial continue to deliver growth to the Group premiums with strong growth in policies in force.
- The long-tail portfolio is performing ahead of set targets, with both CTP and workers' compensation portfolio delivering strong underwriting results.
- The Group's underlying business strength has produced an insurance margin for the quarter which is above 10%. This also reflects the removal of outright equity market risk from those assets backing technical reserves.
- However, poor equity market conditions continue to affect the Group's quarter to September 2002 results. In fact, the ASX200 for the first quarter FY03 has fallen by 6.4%.

Where to from here?



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Early this year we undertook a review of our existing strategy. This process confirmed that our focus would be on general insurance. We announced this strategy in May this year.

We have set a range of 5 year financial goals which are representative of our commitment to deliver strong returns whilst remaining well capitalised. These goals need to be looked at together. There is no point doubling premium if we can't deliver quality returns from growth.

To deliver these goals we plan to work on the key tenets set out on the left.

CGU/NZI acquisition - consistent with stated strategy



Strategy		Acquisition Scorecard
Extending scale and diversity in general insurance	→	✓
Leveraging core capabilities in underwriting and claims	→	✓
Improving risk - Diversification of geography, product and distribution channels	→	✓
Delivering high quality growth and improved sustainability of earnings	→	✓

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The acquisition of CGU/NZI is a very strong fit with this strategy - which is why we targetted it. It delivers on four out of five of the key tenets. The fifth - customer focus - is also receiving significant attention which I will refer to later.

Delivers new brands



	<p>GWP A\$1,571m Products Home, motor, commercial, workers compensation, public liability Geography Australia - All states</p>
	<p>GWP NZ\$357m (A\$290m) Products Commercial products and personal lines Geography New Zealand</p>
	<p>GWP A\$116m Products Consumer credit and motor vehicle related products Geography Australia - All States</p>
	<p>GWP A\$32m Products Home, contents, car, travel, trailer, caravan and boat insurance Geography Victoria and South Australia [51% owned by CGU]</p>

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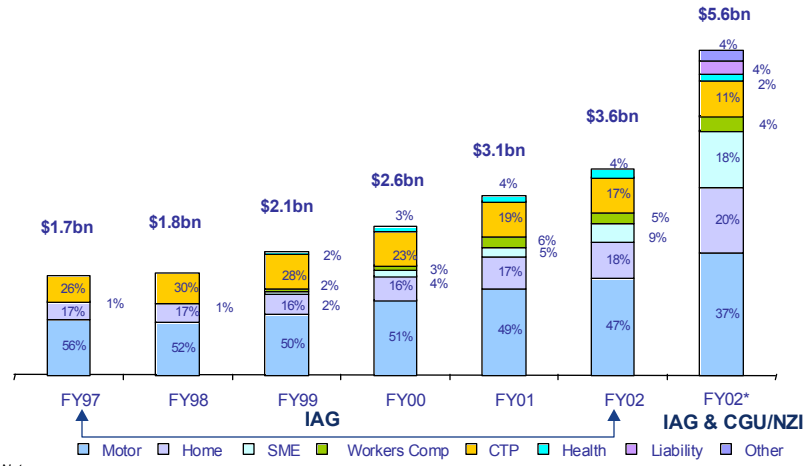
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The acquisition will bring a number of strong brands to the Group. In particular, both CGU and NZI are leading brands in the section of the market that deals with brokers.

We will be retaining these leading brands for these markets and focusing our existing Insurance Australia owned brands on direct distribution.

Delivers product diversification

Gross Written Premium By Business



Note:

- FY97-FY02 is based on year ended 30 June for IAG (excluding inwards reinsurance, which is now in run-off).
- IAG & CGU/NZI is the aggregation of the annualised mix of business for CGU/NZI for the half year to 30 June 2002 and full year ended 30 June 2002 for IAG.
- * proforma basis

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The acquisition is expected to add over 50% to our annual premium.

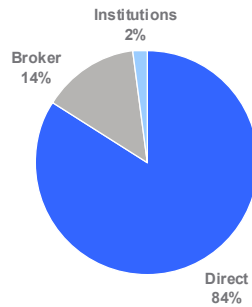
Importantly, it will also add further diversification to our product base. This reduces risk by reducing our reliance on any one line of business. It also provides us with capacity to provide an even more complete range of services to customers.

Delivers complementary distribution channels

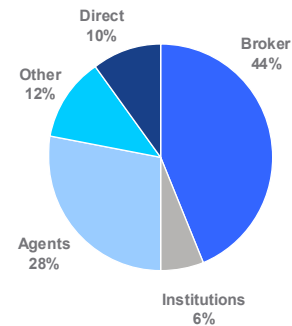
- IAG is predominantly a direct insurer, CGU/NZI improves the balance between distribution channels



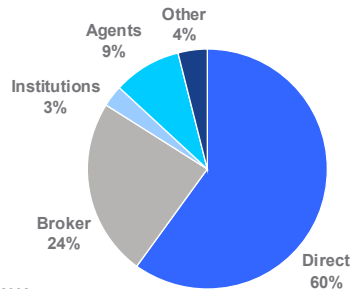
Distribution of IAG business by source



Distribution of CGU/NZI business by source



Distribution of combined IAG & CGU/NZI business by source



Source: CGU Presentation to S&P in May 2002.

Note: Excludes CTP, Fortis, Professional risks, Trade credit, NTI and AMIA

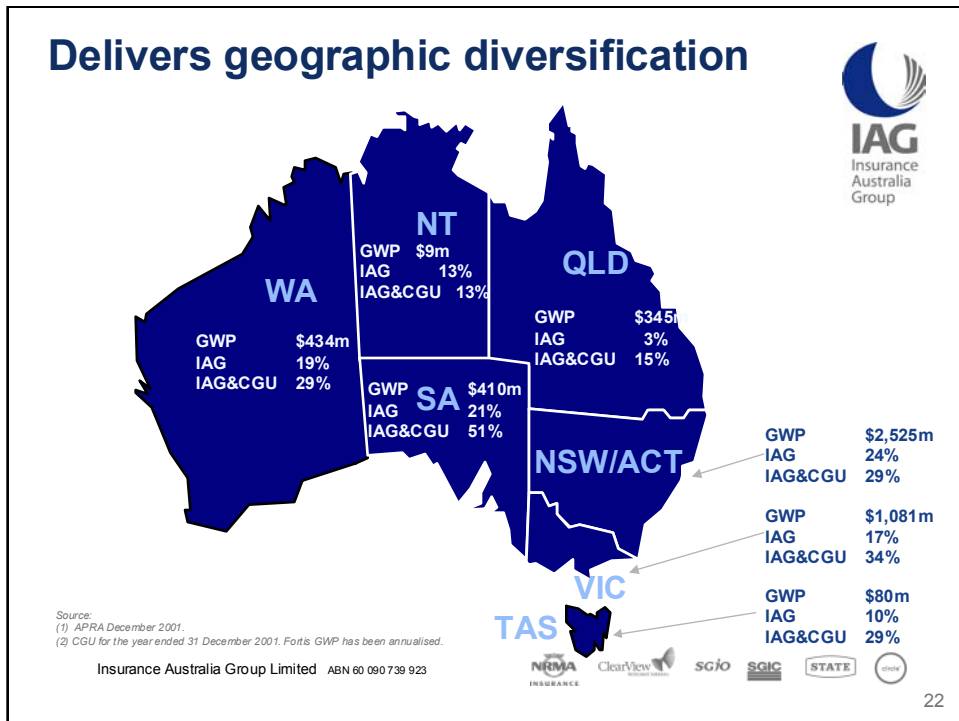
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Insurance Australia has been recognised as the leading provider of general insurance through direct channels.

CGU/NZI is a leader in intermediated distribution of insurance.

Together we will have the capacity to bring quality service to customers through whatever distribution channel is most appropriate to their needs.



Insurance Australia’s origins are, as you know, in NSW and ACT. Over the past seven years, we have gradually moved into the other States and Territories.

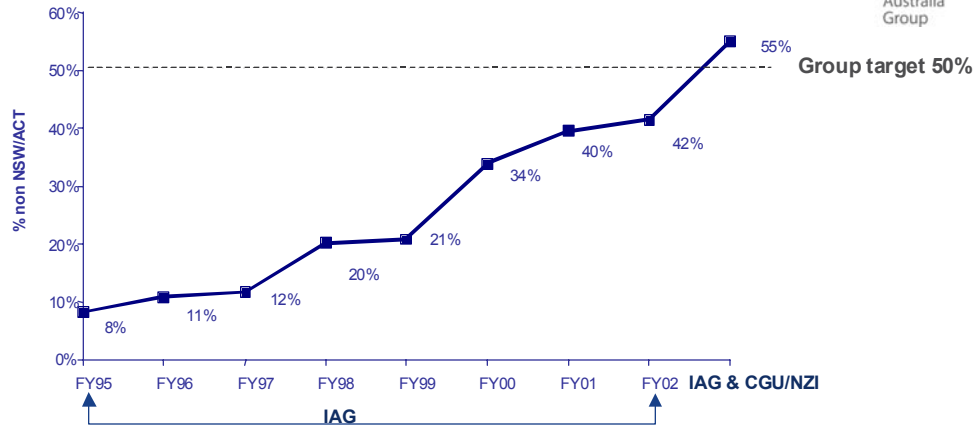
Our market penetration in Queensland - the State whose population is growing fastest - has been low. This acquisition will provide us with a stronger platform for growth in Queensland with market share there estimated to increase from 3% to 15%.

Similar benefits occur in New Zealand where our participation in the Auckland area will be sufficiently enhanced.

Delivers geographic diversification



Gross written premium outside NSW/ACT



Note: Combined business based on 12 months to 30 June 2002 for IAG and 12 months to 31 December 2001 for CGU/NZI, including annualising for Fortis business.

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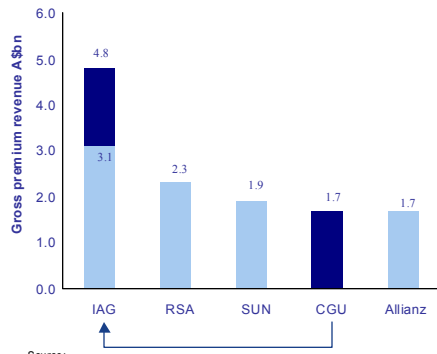


The extent of our improved geographic diversification can be seen on this chart. Similar to product diversification, this improves risk by reducing our reliance on any one region.

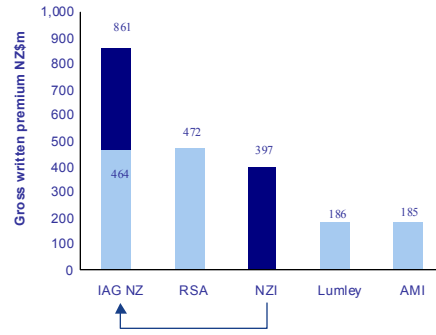
Industry premium



Australian General Insurance (A\$bn)



New Zealand General Insurance (NZ\$m)



Source:

- Australian general insurance statistics - APRA as at 31 December 2001, NZ general insurance statistics - Insurance Council of New Zealand at 30 June 2002.
- NZI figures are slightly higher than the previous page as this is for the 12 months to 30 June 2002 as provided by the Insurance Council of New Zealand.
- IAG and SUN figures have been adjusted to reflect the consolidated gross premium revenue of the respective business for the full year ended 30 June 2002. RSA, CGU and Allianz have 31 December year end.
- Allianz adjusted for HIH portfolio not yet reported through to APRA.

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Our market position post the acquisition will establish us as the largest general insurance group in each market.

This gives us significant advantages in managing costs as we can spread the significant fixed costs of operating our business across more policies.

Synergies – Insurance Australia the natural owner



- **Overall synergy benefits expected to be \$160 million pre-tax per annum**
- **Generate synergies through complementary operations**
 - Merge IAG's commercial operations into CGU/NZI
 - Merge CGU/NZI personal lines into IAG
- **No revenue synergies have been included**
- **Restructuring costs expected to be \$145 million (pre-tax), of which \$60 million capitalised**

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We consider Insurance Australia to be the natural owner of this business because of the complementary nature of our products, skills and distribution.

By leveraging our complementary strengths, we can deliver maximum synergy benefits and service for our customers.

We have not assumed any revenue synergy benefits.

Restructuring costs of \$145 million are expected. Most of these will be incurred in the first year.

Fair price



- **Discount to annual GWP for combined CGU/NZI of \$2bn***
- **Within NTA range of 1.1 - 3.4 for transactions in past 3 years**
- **Synergy benefits conservative**
- **Tangible asset backing is a higher percentage of price paid than recent transactions**

*G&A and NZI GWP for year ended 31 December 2001



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There has been considerable comment about the price of this acquisition. We are satisfied that we are acquiring quality businesses at a fair price.

On this slide we have noted some parameters against which people may judge the acquisition.

The most important, in our view, is the fact that we are paying less than the annual premium for a business that can deliver a combined ratio of under 100% when we have completed the restructuring. Unlike measures such as NTA (net tangible asset) multiples, this is not affected by equity market movements.

Acquisition update



- **Funding and Share Purchase Plan**
- **Regulatory approvals**
- **Integration timetable**

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The Share Purchase Plan is scheduled to close on 21 November 2002. By now, eligible ordinary shareholders registered on 24 October 2002 will have received an information pack on how to participate in the Plan.

The terms for the Share Purchase Plan are:

- Eligible ordinary shareholders can purchase up to A\$5,000 of Insurance Australia ordinary shares without paying brokerage fees or transaction costs.
- The price at which the ordinary shares will be issued will be the lower of:
 - A\$2.55 – the price paid by institutional investors in the recent Institutional Placements; or
 - a discount of 5% to an average market price calculated over a 10 trading day period after the close of the offer.

We are continuing to work with the ACCC and the NZCC regarding their market reviews to ensure they are comfortable with all aspects of the acquisition.

Our integration teams, under Rick Jackson in Australia and David Smith in New Zealand, are currently finalising planning for the integration process.

The proposed integration program at this stage will see:

1. Pre-merger planning - between now and the end of December
2. Finalising synergies and integration blueprint - in January and February
3. Program roll-out and implementation - February through to end June 2003
4. Full line management implementation - 12 months to end June 2004.



Some other initiatives



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Initiatives



- **Customers – Getting it Right, “Help” brand campaign**
- **People**
- **Risk management**
- **Advocacy position – risk management for the community- share information we have gathered during our 75 year history, creating a safer community environment**
- **Sponsorship program – crime prevention, injury prevention and emergency response services (CrimeSafe, Kidsafe and Careflight)**

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Customers

- ‘Getting it Right’
- new brand campaign
- improvement in service levels in Branches/Telephone Centres
- pay claims and reduce incidences of customer concerns

People

- environment of strong values - honesty, teamwork, meritocracy, transparency, social responsibility
- consistent people management processes to create output based evaluations
- building capability - reduce turnover

Risk Management

- new capital regime, new Board governance structures
- ALCO
- quarterly business risk assessment
- independent actuarial review

Advocacy

- Artarmon testing centre
- fraud statistics
- information about theft and how to avoid
- advising companies on how to reduce risk

Sponsorship

- aligned to our role in reducing risks in community

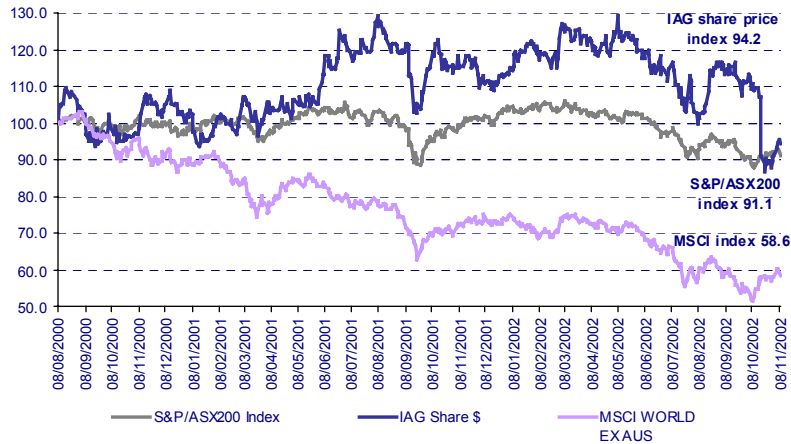


Share price performance



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IAG share price relative to market performance

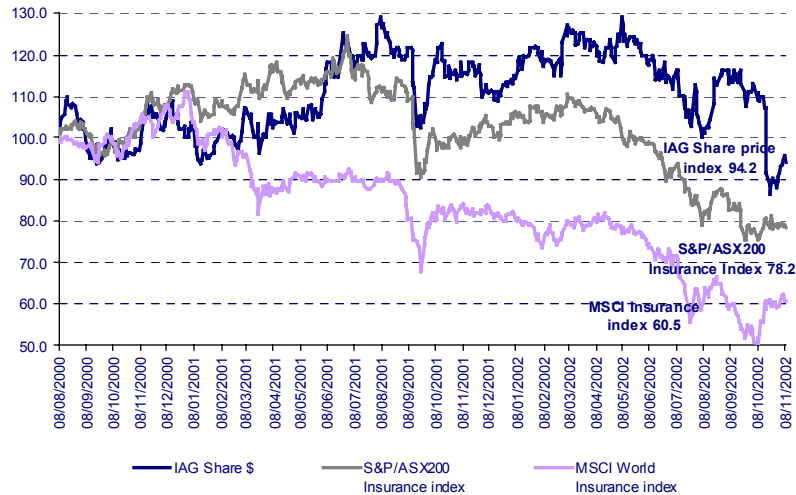


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As at 8 November the IAG share price was \$2.59. Since demutualisation our share price performed 3.1% better than the S&P/ASX200 and 35.6% better than the MSCI world index (ex Australia).

IAG share price relative to insurance industry performance



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And since demutualisation, we have consistently outperformed the industry relative to our domestic and international peers.



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