

**Address by Mr James Strong, Chairman  
Insurance Australia Group Limited  
Annual General Meeting  
9.30am, 13 November 2002**

The main purpose of my address to the meeting today is to provide a brief overview of the past financial year and subsequent important events, and to offer some comment on the present financial year. I will also ask Michael Hawker as CEO to speak in more detail on the operations of the company.

I do not intend at this stage to comment on the various resolutions before this meeting today. Instead, I will make remarks on each of those matters as we deal with them.

**The Board**

I was appointed Chairman of Insurance Australia in August 2001 with two immediate priorities – to work with the Board to stabilise governance of the Company, and to work with the Board to appoint a new Chief Executive Officer to lead the Company forward.

I am pleased to say that the Board has been working effectively throughout the past year. Its attention has been focused on working closely with the management team. Together, we have reviewed our strategies for the next five years with the specific goal of improving every aspect of our performance to achieve specific financial targets:

- achieve top quartile total shareholder returns;
- record a normalised 13% to 15% return on capital per annum;
- double gross written premium by 2007;
- maintain a combined ratio at less than 100%; and
- maintain very strong “AA” category Standard and Poor’s insurer financial strength rating.

**Stable basis**

As I commented in the Annual Report, I am confident our business has now truly moved into a new era on a stable basis.

Under the leadership of Michael Hawker, the management team is performing well. Since his appointment in December 2001, Michael has worked closely with the management team to review all key areas of our business. The Board considers that the management team is well qualified and committed to ensuring the continuing development of Insurance Australia as the strongest insurance group in our region.

### **Governance**

The past year has seen some poor examples in Australia and overseas of what can happen if companies are not run properly. Unacceptable outcomes can occur if robust controls and diligence are not present.

As with most companies in Australia, Insurance Australia has moved to adopt even tighter rules relating to the audit of our accounts. We have refined the guiding principles governing our external auditor relationship to ensure their ongoing effectiveness and independence. More detail of the guiding principles were set out in detail in the Corporate Governance section of our Annual Report.

Internally, Insurance Australia has two separate Committees specifically monitoring key aspects of our business standards. These are the Audit Committee and the Risk Management and Compliance Committee. This extra surveillance mechanism is necessary because our business is centred on risk, insurance and investment, as well as the complicated legislative and regulatory requirements of our industry.

### **Industry regulatory requirements**

In the past year, major new regulatory arrangements were established to strengthen the insurance industry. Ensuring proper compliance with these new requirements has been complex and time consuming, but beneficial for the long term.

Initiatives to address outstanding insurance issues, such as public liability and medical indemnity arrangements and terrorism cover, are still being finetuned between the industry and the various governments. However, the focus remains on restoring confidence and stability in the insurance industry. As one of Australia's leading insurance groups, Insurance Australia is contributing significant energy and resources to this process.

**Achieving sustainable growth through a stronger underlying business**

As no doubt you are aware, the 2001/2002 financial year was both eventful and difficult for the insurance industry and the community at large. Michael Hawker will provide more detail of the unusual combination of catastrophic events and downturn in the investment cycle, which affected our business.

For the 2001/2002 financial year, our insurance business performed well, delivering significant improvements on the previous year in relation to increased net earned premium (15%), improved underwriting profits, better expense ratios and combined ratio, leading to a rise in our insurance margin. As a result 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.

In this context 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.

**Solid trends for current financial year FY03**

As to the current financial year, we are confident we can continue to deliver a strong underlying operating performance and, barring catastrophes, should achieve our operating targets for the insurance business.

Overall, our general insurance businesses in both Australia and New Zealand have delivered a strong result in the first quarter. We have met or exceeded all key targets, and our CEO will provide more detail.

However, the performance of both domestic and international equity markets has remained depressed in the first quarter and continues to affect Insurance Australia's bottom line results.

We believe there is still room for further improvement in our current business, and the strength of the underlying business means we have a real platform for growth.

**Acquisition**

The CGU and NZI acquisition, which is still subject to regulatory approval, is a pivotal step for our future. The Board believes we are paying a fair price to gain some valuable, strategic assets in CGU and NZI. Experience to date confirms our expectations of natural synergies, including risk assessment and claims cost improvement, as well as opportunities for cost savings.

We have a proven track record of acquiring and integrating businesses – with four acquisitions in the past four years – SGIO/SGIC, the former HIH Australian workers' compensation business, our joint venture with RACV to form Insurance Manufacturers of Australia, and State Insurance in New Zealand have all delivered on expectations. As a result, we are confident our management team has the integration experience to realise an annual benefit of \$160 million (pre-tax) within two years from the CGU and NZI acquisition. We are hopeful we will deliver more.

Meanwhile, organic growth will continue and we believe may be enhanced by the natural strategic fit of the CGU and NZI businesses.

We have stated to the market that we expect the CGU and NZI acquisition will be slightly earnings per share dilutive in the first year and will become earnings per share positive in the second year following acquisition.

We anticipated there would be an initial adverse effect on our share price following the share placement to fund the transaction.

However we are clear in our belief that this acquisition is a very important step which fits our key strategic goals in terms of growth in the right market segments together with greater diversity in business and geographical spread.

We believe there is growing understanding of the advantages the CGU and NZI acquisition creates now and into the future. It positions us well for the medium and longer term.

**Share Purchase Plan**

All ordinary eligible shareholders registered on 24 October 2002 have the opportunity to increase their investment in Insurance Australia through participation in a Share Purchase Plan, which opened last week and is due to close on 21 November.

**Conclusion**

This is an exciting time for your Company. Insurance Australia is now well positioned to be not only a leading group in the insurance industry but also an outstanding group in this part of the world.