

# Financial results Year ended 30 June 2002

**Michael Hawker, Chief Executive Officer**  
**George Venardos, Chief Financial Officer**

**20 August 2002**



Insurance Australia Group Limited ABN 60 090 739 923

## Note:

In this presentation all data and comparisons referring to FY01 relate to a full year's operation of Insurance Australia Group Limited (IAG) and NRMA Insurance Limited, even though IAG did not acquire NRMA Insurance Limited until that company's demutualisation on 22 July 2000.

# Agenda



<b>Overview of performance</b>	M Hawker
<b>Dividend</b>	M Hawker
<b>Results analysis</b>	G Venardos
<b>Conclusion &amp; Questions</b>	M Hawker & G Venardos

# Overview of performance

**Michael Hawker, Chief Executive Officer**



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Will go through the overall results.

Important to look at these in the context of the two main cycles in which insurers operate.

Will look at IAG's recent performance and trends in this context.

# Record performance from underlying business



Financial Results/Ratios	Full year ended June-01	Full year ended June-02
Net earned premium	\$2,775	\$3,195
Total investment income	\$358	(\$98)
Underwriting profit/(loss)	(\$22)	\$142
Reported result	\$143	(\$25)
ROE % (Actual)	5.32	(1.00)
ROE % (Normalised)	10.9%	18.1%
<b>Insurance ratios</b>		
Combined ratio - Group	100.8%	95.6%
Insurance margin (before tax)	7.6%	8.7%
Insurance margin (before tax) Normalised	10.9%	14.2%
Consolidated MCR multiple	n/a	1.56x

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The bottom line result is a loss - actually \$25m - and therefore our reported ROE is negative. However, despite this loss we had a:

- Record performance in terms of net earned premium, underwriting profit and insurance profit. The reported combined ratio of 95.6% is well under 100% - which is our maintainable target – but this includes a number of significant items which I will run through on the next slide;
- The reduction in our result before tax caused by investment market downturn can be seen here – over \$450m; and
- The strength of the business performance drove an increase in the insurance margin, in spite of the investment market performance.

Using the same assumptions in each year (8.0% technical reserves, 11.5% shareholders' funds) for normalising the result for investment income, we generated a return of 18.1%. Moving forward we will use more conservative assumptions of 6.0% for technical reserves and 7.4% for shareholders' funds. Even with these more conservative investment assumptions, this year's result produced a normalised return of 13.3%.

With all the growth in the business and the damage done by poor investment markets, our consolidated MCR multiple – based on APRA's new requirements – was 1.56 at 30 June 2002.

# The result includes a number of significant items



Significant items	Pre-tax	Pre-tax	Pre-tax	Post-tax
	1H02	2H02	FY02	FY02
	A\$m	A\$m	A\$m	A\$m
Reinsurance recoveries (WAASL valuation)	110	75	185	130
Net claims from WTC, major storms & bushfires	(90)	(10)	(100)	(70)
<b>Net impact on underwriting profit</b>	<b>20</b>	<b>65</b>	<b>85</b>	<b>60</b>
Profit on sale of Building Society	45	-	45	32
Costs re 1994 demutualisation proposal	(12)	-	(12)	(12)
NSW Insurance Protection Tax	(10)	(11)	(21)	(15)
<b>Net impact on Group results</b>	<b>43</b>	<b>54</b>	<b>97</b>	<b>65</b>

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The Group's results include a number of significant items which are worth bringing to your attention - the net affect of these was to increase profits by \$97m before tax and \$65m after tax.

There are no new items since the first half but there have been updates in the quantum:

- The WAASL (whole of account aggregate stop loss) valuation adjustment increased;
- The major losses have increased by \$10m overall - due to a \$20m increase of reserves for the impact of WTC (World Trade Center) and a reduction in the estimated total cost of the NSW bushfires and storms in December 2001; and
- An additional six months of the NSW Insurance Protection Tax.

Even if we only exclude the two extreme elements – the WAASL and \$60m relating to the WTC, the underwriting profit would have been \$17m – a record in itself.

Other one-off items include the sale of the Building Society at a \$45m profit before tax, other parties' legal costs for the failed 1994 demutualisation proposal and the NSW Insurance Protection Tax to recoup losses from the HIH failure.

# Significant improvements on last year



- Net earned premiums up 15% to \$3,195m
- Underwriting profit of \$142m
- Expense ratio improved from 20.3% to 19.7%
- Combined ratio of 95.6%, down from 100.8%
- Insurance margin up from 7.6% to 8.7%
- Insurance profit up 32% to \$278m

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- Every element of the insurance profit improved – generating an insurance profit of \$278m.
- And – as we will mention later – we believe the quality of the insurance result is sustainable.

# Impact of equity markets



- **Bottom line loss of \$25m**
- **Worst equity market performance in 14 years**
  - Local market down 4.7%
  - International market down 23.5% \*
- **Applying 2001 returns would have increased the reported result by \$315m**

\* MSCI ex Australia, unhedged  
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Bottom line loss of \$25m – driven wholly by:

- International market (MSCI ex Australia) down by 23.5% for the financial year and close to 40% since the company floated; and
- Domestic market (S&P/ASX200 Accumulation index) down by 4.7% for the financial year and 5% since the company floated.

The key take-out on this slide, I believe, is that by merely applying last year's investment returns to this year's figures – and last year was hardly a stellar year in the markets – we would have had a profit after tax \$315m higher.

We remain committed to equities as the appropriate way for a well capitalised company like IAG to invest its shareholder funds.

# Operating environment



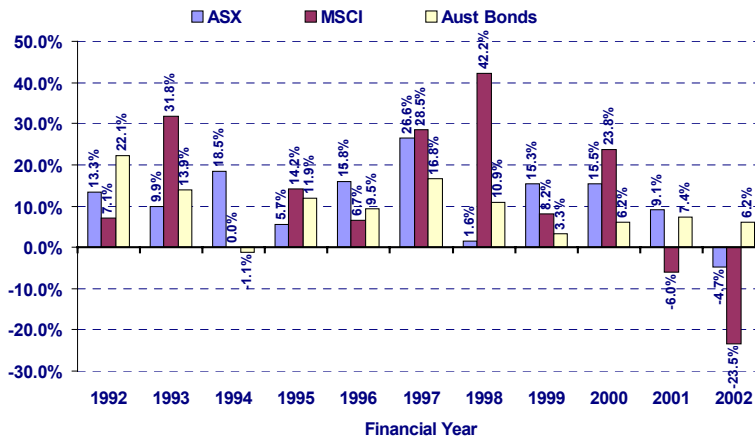
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- This year will be remembered as one of the most difficult for the general insurance industry. Not only did we have one of the largest catastrophes ever, with the events of September 11, the investment market returns have been dismal, delivering the worst performance for many years.

- I'd like to put this in a long term perspective and then view our performance against that.

- I hope that by the end of today's presentation, we will have been able to demonstrate that, while we are influenced by the cycles, we are improving our immunity to them.

# 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.

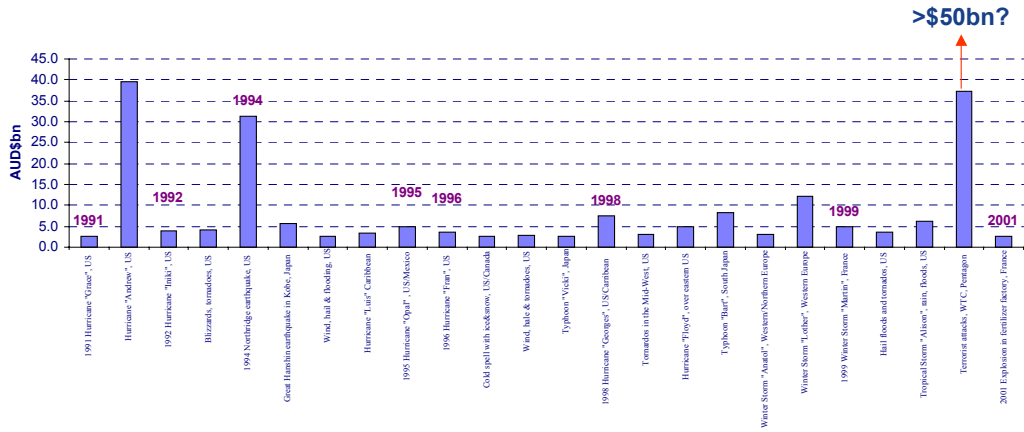
- Against this background, it is difficult for an investor in equities to report a profit in this period.

## 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 the 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.

# Insured catastrophes – WTC may be worst ever



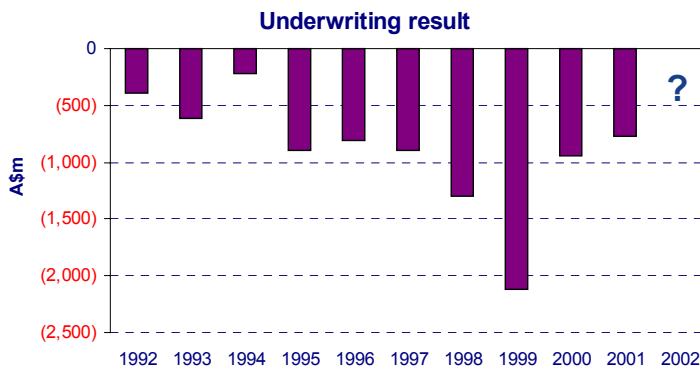
Source: Insurance facts and figures 2002, PricewaterhouseCoopers

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- The graph 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, 2002 (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.

# A decade of underwriting losses in Australia



Source: APRA Statistics: Total private sector underwriting results.

- 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 last four years.
- The 2001 results do not include HIH – if the liquidator’s comments about a \$5bn shortfall are true, then those losses would need to be added to the reported losses shown above.

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 premium rises as much as possible and focus on significantly reducing claims costs whilst retaining the best claims paying reputation in the industry.

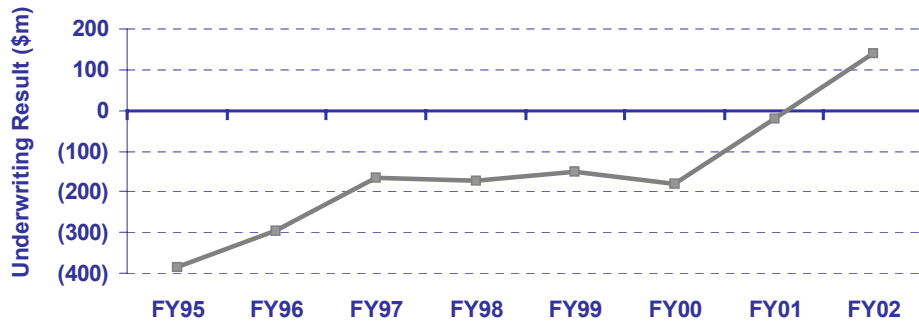
# So what has IAG done?



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So moving onto our performance against this backdrop ...

# Achieved underwriting profit



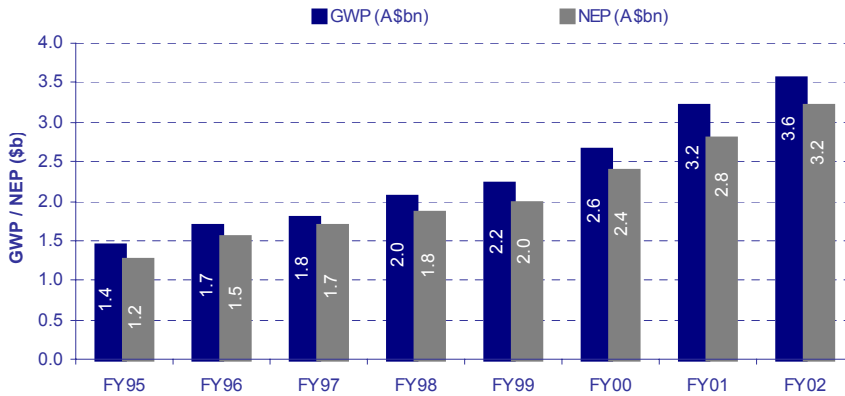
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We have delivered our first full year underwriting profit and the third consecutive half year with underwriting profits.

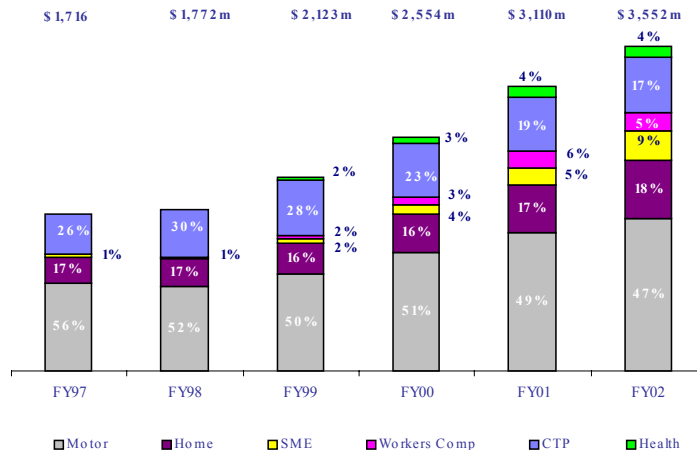
This is the result of a concerted effort on a number of fronts by the whole Group over the past four years.

# Sustained growth in GWP



- 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.
- The last three years alone continued double digit growth in net earned premium, achieving a compound growth rate of 17.6% per annum in the period from June 1999 to June 2002.

# Diversified GWP by product



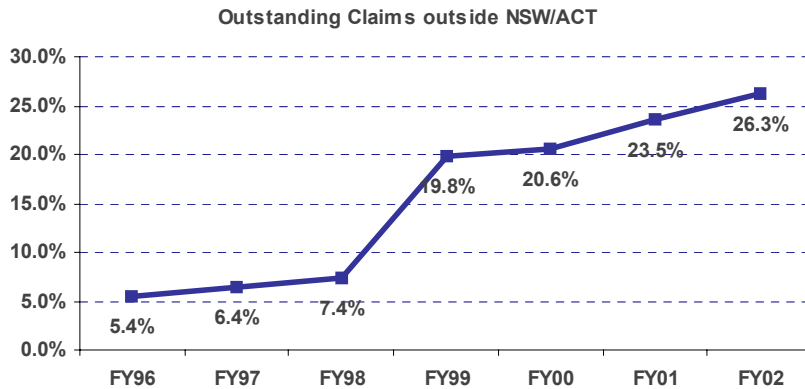
Note: Includes the GWP of all businesses except Inwards Reinsurance, which is in run-off

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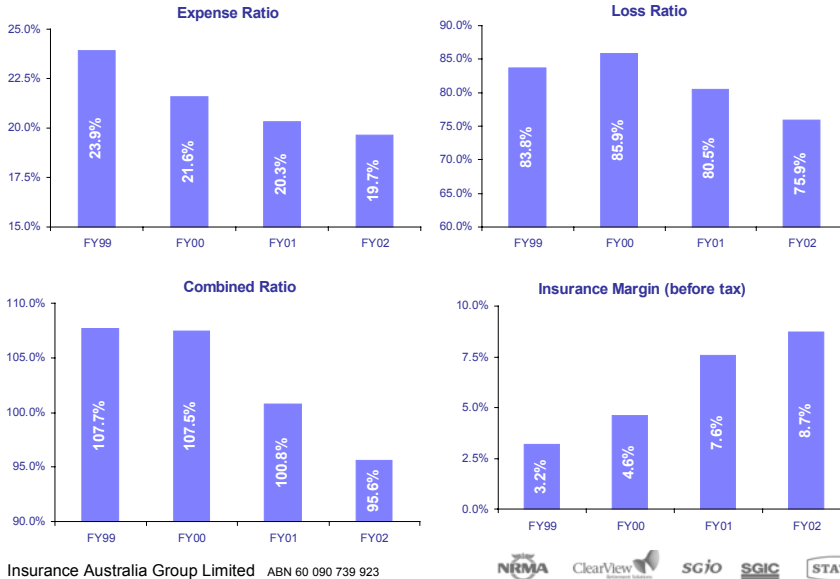
- The GWP shows positive trends in the emerging businesses maintaining their contribution to a larger GWP base. In particular, our commercial business has achieved significant growth, increasing from 5.6% to 9.1% of total GWP. This reflects the growth of Eazybiz in Australia and Circle in NZ.
- We also 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 our reported earnings.
- During the same period we have expanded our product offerings introducing SME commercial, health and workers' compensation have shown significant growth, making positive contributions to the Group's underwriting results.

# Reduced claims exposure to NSW/ACT



- Within the premium growth and product diversification shown on the last two slides, there has also been a substantial improvement in geographical diversification. Back in 1996, only 11% of the premium was sourced outside NSW/ACT. This has grown to 42%.
- The liabilities were even less diversified than the premium in 1996 with less than 6% outside NSW/ACT. This figure has risen to over 26%.
- The upward trend will continue as we accumulate reserves for newer businesses, particularly the acquired WA workers' compensation portfolio.

# Improved insurance ratios



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

The group combined ratio, excluding the WAASL and WTC, was 99.5% - still under the 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 amount should be sustainable.

# Remained strongly capitalised



- **Strong MCR multiple of 1.56x**
- **90% probability of sufficiency reserving policy**
- **Strengthened reinsurance programme**
- **Restructured investment holdings**
- **Reduced cost of capital**

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We remain strongly capitalised with a 1.56 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:

- 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.

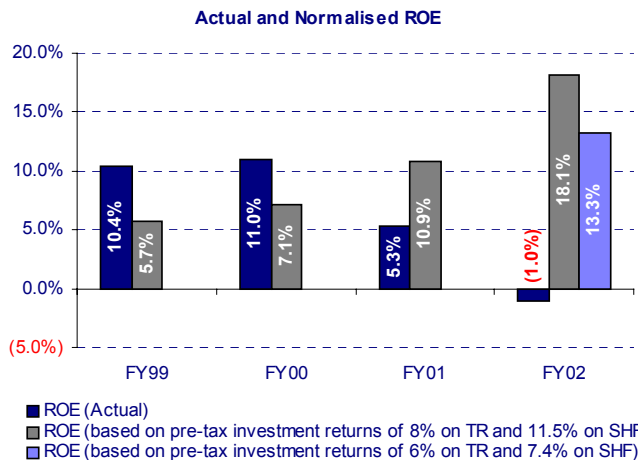
Restructured our investment holdings:

- 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 equity market movements in this portfolio; and
- 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 some floors. 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.

# Result – further improvement in underlying returns



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- Until December 2001, we had been normalising investment returns by using pre-tax returns of 11.5% for shareholder funds and 8.0% for technical reserves. The second bar for each year is based on these figures.
- For the purposes of considering our final dividend – we decided to lower the figures again to reflect the removal of equity exposure from technical reserves and the lower equity market expectations.
- The third bar on FY02 reflects the new lower assumptions of pre-tax returns of 6.0% on technical reserve and 7.4% on shareholder funds. This shows the ROE of 13.3% to which I referred earlier.
- The continued trend of improved performance is the outcome of the efforts referred to earlier. We will continue to apply this focus to deliver sustainable quality results.
- The Group's capital management initiatives have helped to maintain the Group's capital position stable for the past 4 years, despite its exposure to the volatile investment markets and continued growth in GWP.

*For information purposes*

\$M	1999	2000	2001	2002
Equity attributable to shareholders	2,540	2853	2523	2476
NPAT	253	296	143	(25)

- ROE is calculated on average equity.

# Full year dividend increased



- **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**
- **Total dividend for FY02 of 10.5 cents per share**
  - Fully franked
  - Up 5% on last year

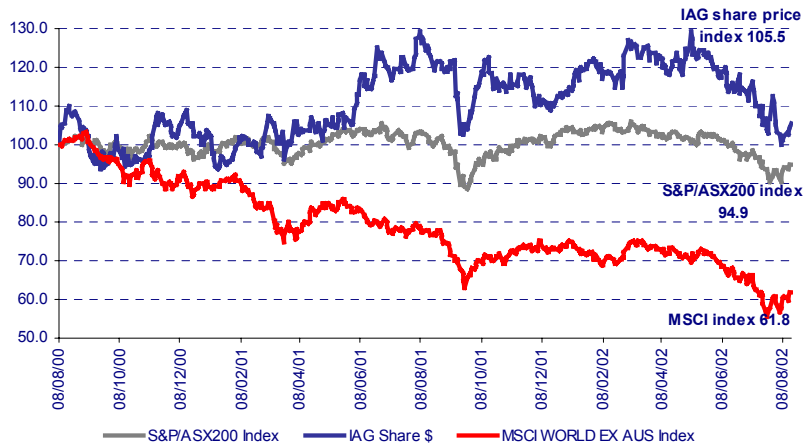
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- The final dividend for FY02 is 6.0 cents per share. This brings the full year dividend to 10.5c.
- The dividend payment is based on 44% of normalised earnings.
- This is at the low end of the range set in our dividend policy which refers to a payout 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.

# Outperformed the market in the two years since listing



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- The graph shows the movement in the S&P/ASX200 index, IAG share price and MSCI since listing on 8 August 2000 to 16 August 2002.
- Local and international market indices have declined since IAG's listing.
- The issue price of the IAG shares when floated on 8 August 2000 was \$2.75.
- By close of trading on 16 August 2002 on a base index of 100, the following should be noted:
  - IAG shares had risen 5.5% measured from the original price of \$2.75;
  - the S&P/ASX200 had fallen to 94.9% (fall of 5.1%); and
  - the MSCI World index fell to 61.8% (fall of 38.2%).
- The relative strong performance of our share price recognises the strength of the Group's core business.

# Results analysis

**George Venardos, Chief Financial Officer**



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Mike has explained the performance of the company in terms of our capital efficiency and with the backdrop of the investment market returns. I now have the pleasure of explaining the details behind our strong underlying business performance and why this performance is sustainable.

# Improving trend in earnings composition



	Full year ended June-00	Full year ended June-01	Full year ended June-02
	A\$m	A\$m	A\$m
Net premium revenue	2,384	2,775	3,195
Underwriting result	(178)	(22)	142
Investment income on technical reserves	288	232	136
<b>Insurance result</b>	<b>110</b>	<b>210</b>	<b>278</b>
Net corporate expenses	(66)	(121)	(42)
Financial services	21	20	(5)
Profit/(loss) from fee based businesses	(42)	15	32
NSW insurance protection tax	-	-	(21)
<b>Underlying business result (pre-tax)</b>	<b>23</b>	<b>124</b>	<b>242</b>

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- Business has grown strongly over 3 years – over 17% p.a growth in net earned premium.
- Improved underlying performance of the business and significantly reduced our risk profile.
- The COR (combined operating ratio) for 2H02 is 93.6%, generating an underwriting profit of \$105m and an insurance margin of 9.4%.
- Excluding the WAASL valuation adjustment of \$75m in 2H02 - a COR of 98.2% - still under our target of 100%.
- Similarly, excluding the WAASL valuation of \$185m from the full year figures – along with the \$60m expensed for WTC - COR was 99.3%. This is the third half in a row with COR's under 100%.
- Poor equity market returns reduced the insurance profit by around \$100m. Despite this, we have produced an insurance profit of \$278m or an 8.7% insurance margin for the year.
- We have also continued to reduce our corporate expenses when compared to the prior year - down from \$121m to \$42m. We incurred \$24m in 1H02 and \$18m in 2H02.
- We restructured our financial services business with a view to improving our focus on high growth profitable segments. This involved selling the NRMA Building Society and incurring around \$12m in establishing the new business model, including the launch of the ClearView brand in NSW. The business has been re-positioned to return to profitability with stronger growth prospects in the next 12 months.
- We have more than doubled the fee based business profits - up from \$15m to \$32m before tax.
- The NSW Government Insurance Protection Tax or the HIH/FAI levy was introduced during the year. Our share, based on our NSW premium, resulted in a cost of \$21m for the year before tax.

# Sustainability of earnings



	Full year ended June-02	Normalised Result year ended June-02
	A\$m	A\$m
Net premium revenue	3,195	3,195
Underwriting result	142	57
Investment income on technical reserves	136	222
<b>Insurance result</b>	<b>278</b>	<b>279</b>
Net corporate expenses	(42)	(42)
Financial services	(5)	20
Profit/(loss) from fee based businesses	32	32
NSW insurance protection tax	(21)	(21)
<b>Underlying business result (pre-tax)</b>	<b>242</b>	<b>268</b>

## Assumptions

Excl WAASL, WTC & \$40m storm & bushfires  
6% return

Excluding one-off restructure cost and normalised investment income

The purpose of this slide is to review the underlying sustainability of our operating profit by removing the 'noise' from this year's result:

- Exclude the benefit of our WAASL adjustment, the negative impact from the WTC and the \$40m in abnormal storms and bushfires - then COR would have been 98.2% giving an underwriting result of \$57m.
- As you know we cancelled the WAASL contract at 30 June 2002. The inwards re book is in run off with no live exposures from 1 July 2002.
- We have also removed the equity exposure from our technical reserves. Substituting the revised normalised earnings assumption of 6% per annum for these reserves, the technical reserves investment earnings would have been \$222m for the year.
- These adjustments produce an insurance profit of \$279m, or 8.7% of NEP
- Improved the business operations result from \$23m for FY00 to \$242m for FY02. We have also reduced the risk profile of the business and significantly reduced the potential volatility going forward.
- Stable net asset position and maintained capital strength.

# Short tail profitability increased



Domestic Short Tail	Full Year ended June-00	Full Year ended June-01	Full Year ended June-02
	A\$m	A\$m	A\$m
Gross written premium	1,876	2,183	2,357
Net premium revenue	1,709	1,988	2,125
Underwriting result	(103)	31	97
Investment income on technical reserves	74	56	34
Insurance result	(29)	87	131
<b>Insurance ratios</b>			
Loss ratio	82.7%	77.6%	74.1%
Expense ratio	23.4%	20.8%	21.4%
Combined ratio	106.1%	98.4%	95.5%
Insurance margin (before tax)	(1.7%)	4.4%	6.2%

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The key features of the result include the continued strong performance of the NSW car book, stable market shares, improved claims satisfaction metrics and strong top line growth.

Our short tail business has performed ahead of our target operating zone of a COR in the range of 96% to 98%.

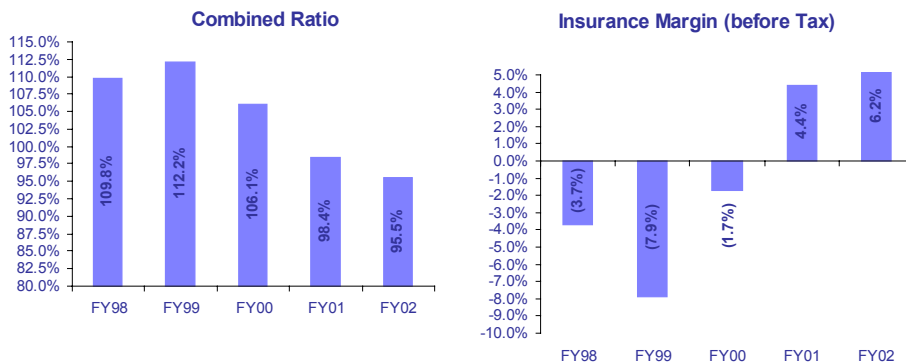
The full year result of 95.5% includes a WAASL adjustment of \$46.25m. If we add back the WAASL adjustment the COR for the year was 97.6% which is in the zone.

The COR for the 2H02 was 92.8%. If you add back the WAASL adjustment the COR for the 2H02 was 94.6%.

As you can see, we had a slight increase in our expense ratio up from 20.8% to 21.4%. This increase is directly attributable to the allocation of our e-commerce channel, branch restructure and the implementation of Privacy Act requirements during the year.

The insurance margin improved up from 4.4% to 6.2% when compared to the prior year.

# Continued improvement in short tail ratios



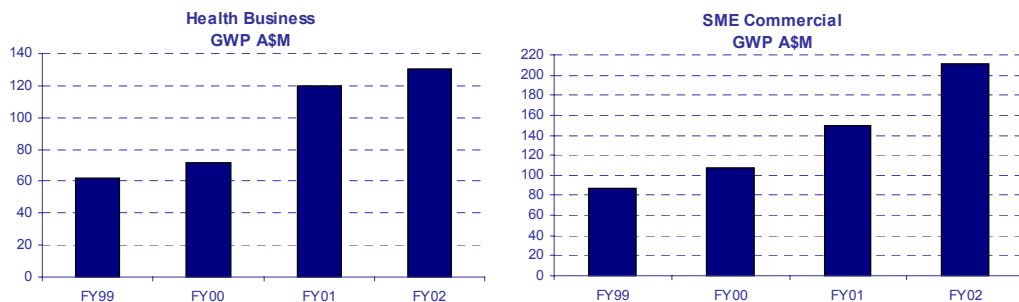
\*COR (excluding WAASL valuation) 97.6%

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- The improvements achieved in the short tail business are obvious when you look at this this slide which sets out the COR's from 1998 and the insurance margins for the same period.
- The important thing to note when you look at the insurance margins graph is that the improvement continued despite the deteriorating investment markets.
- As I said, the insurance margin in the second half was 8.4%.
- Our underwriting and claims initiatives are delivering results well ahead of the target range of 96-98%.

# Momentum in GWP growth from emerging businesses



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Our short tail results include the emerging businesses of Health & SME commercial.

## SME Commercial

National market share for the SME commercial business has increased from 4.3% last year to 6.2%.

The annual GWP growth was 41% and policies in force grew by 46%.

## Health

The pick up in growth in the second half for health delivered 9% for the year and 30% p.a for the three years since 1999.

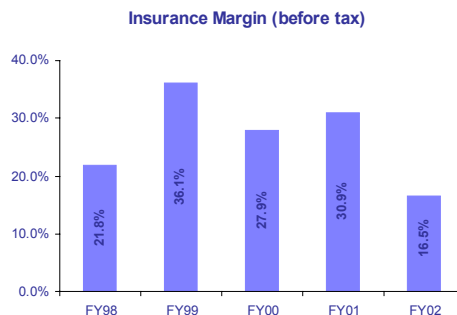
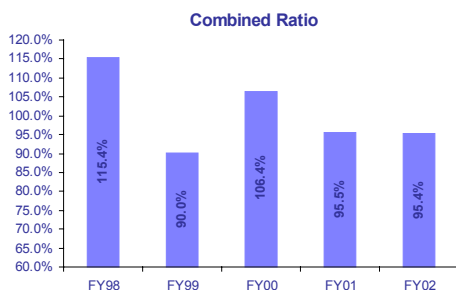
The SME commercial business has produced compound growth of 34% for the last three years.

# Solid result from long tail

Domestic Long tail	Full Year	Full Year	Full Year
	ended June-00	ended June-01	ended June-02
	A\$m	A\$m	A\$m
Gross written premium	674	788	811
Net premium revenue	601	618	729
Underwriting result	(38)	28	33
Investment income on technical reserves	206	163	87
Insurance result	168	191	120
<b>Insurance ratios</b>			
Loss ratio	91.2%	82.2%	83.5%
Expense ratio	15.2%	13.3%	11.9%
Combined ratio	106.4%	95.5%	95.4%
Insurance margin (before tax)	27.9%	30.9%	16.5%

- Long tail COR for the year is 95.4%.
  - We experienced 18% growth (ie, \$111m) increase in our NEP which is directly attributable to the workers' compensation portfolio acquired last year.
  - At the same time we were able to hold our costs which reduced our expense ratio from 13.3% to 11.9%.
  - The COR for the 2H02 was 94.2%.
  - If you remove the WAASL benefit the COR for 2H02 was 103%.
  - The long tail result includes a \$69m loss from our inwards reinsurance run-off. Around \$60m of that loss is directly attributable to the WTC disaster.
- Result includes WAASL release of \$139m in FY02. Offsetting this is the short fall in investment on technical reserves of \$76m (relative to FY01).
- Excluding the WAASL, the COR is 106.8%. This is within the operating zone of 105-110% despite the impact of WTC.
- Long tail produced a strong insurance margin despite poor equity returns. Long tail had about \$550m of equities in technical reserves, which made a \$35m loss for the year.

# Long tail ratios within target zones



\*COR (excluding WAASL valuation) 106.8%

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- Continued reductions in the frequency of claims in the three key statutory schemes where we are the major private underwriter.
- Continued product innovation and focus on claims handling and cost control across the entire product suite.
- Insurance margin decline reflects the impact of poor equity markets.
- The investment income from technical reserves is \$76m less than the prior year.

# Positive contribution from International



International Operations	Full Year ended June-00	Full Year ended June-01	Full Year ended June-02
	A\$m	A\$m	A\$m
Gross written premium	-	139	487
Net premium revenue	-	110	341
Underwriting result	-	(7)	12
Investment income on technical reserves	-	1	15
Insurance profit	-	(6)	27
<b>Insurance ratios</b>			
Loss ratio	-	65.9%	71.0%
Expense ratio	-	40.8%	25.5%
Combined ratio	-	106.7%	96.5%
Insurance margin (before tax)	-	(5.4%)	7.9%

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## Captive

- The Captive eliminates on consolidation so it doesn't impact the result. We account for it in international given its location.
- The captive is effectively licensed in Australia and meets all the APRA requirements.

## Status of NZ acquisition

- Proceeding well - solid underwriting result despite \$10m accrual for the new system and further restructuring costs (\$10m or 3% on COR).
- Strong growth in premiums (up 12%) and policies, particularly the Circle business.
- Big improvements in expenses - reduced from 40.8% to 25.5%.
- The business is now fully integrated into our Group risk management framework with all duplicated costs and processes removed during the year.

# Retirement Services – based on two entities



Profit Before Tax	Full year ended June-00	Full year ended June-01	Full year ended June-02
	A\$m	A\$m	A\$m
NRMA Life Limited	15	10	7
NRMA Financial Management Limited	(4)	1	(9)
<b>Total</b>	<b>11</b>	<b>11</b>	<b>(2)</b>

The Retirement Services business is operated from two entities - NRMA Life Limited and NRMA Financial Management Limited.

NRMA Financial Management is both the company through which our advisers and support team work, as well as the responsible entity for our personal investment trusts.

The following slides will deal with how the business operates rather than focusing on the respective entities.

# Retirement Services – rebuilt for the future



ClearView Retirement Solutions	Full year ended June-00	Full year ended June-01	Full year ended June-02
	A\$m	A\$m	A\$m
Managed investments	5	5	5
Risk products	3	9	12
Shareholders funds investment income	6	6	1
Retirement Solutions development	(2)	(9)	(12)
Distribution channel	(1)	-	(8)
<b>Net profit/(loss) after statutory fund tax and before income tax</b>	<b>11</b>	<b>11</b>	<b>(2)</b>
Statutory fund tax	13	9	(4)
<b>Net profit/(loss) before statutory fund and income tax</b>	<b>24</b>	<b>20</b>	<b>(6)</b>

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- Risk business reflects improved expenses with all other measures as planned.
- Investment income on Shareholder Funds and the shareholder's working capital in the Statutory Funds was \$5m below last year's level, as a result of poor investment returns.
- Development of the ClearView Retirement Solutions business during the year focused a significant amount of resources. The current year's development relates entirely to the ClearView strategy, especially product development and production and implementation of new technology solutions including Siebel, as the front office system and Fintechnix (back office system).
- The new business model operates with 22% fewer FTE and 30% lower distribution costs.
- The net profit after tax result reflects the effects of income tax on the results. In the current year, favourable tax adjustments have occurred which have improved the overall results.

# ClearView Retirement Solutions launched



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ClearView Retirement Solutions launched in February 2002.

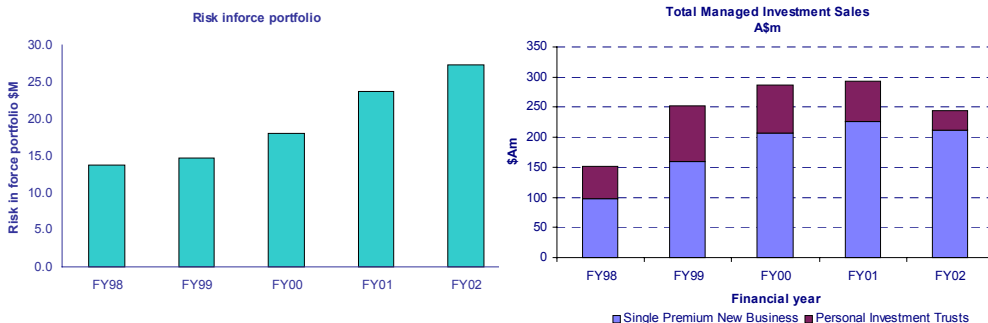
Since then, strong brand awareness achieved.

Appointments over 30% higher than expected.

Results don't reflect performance of business due to lag between appointment and receipt of funds.

Further sales from FY2002 appointments should appear in FY2003.

# Risk in-force portfolio & investment sales

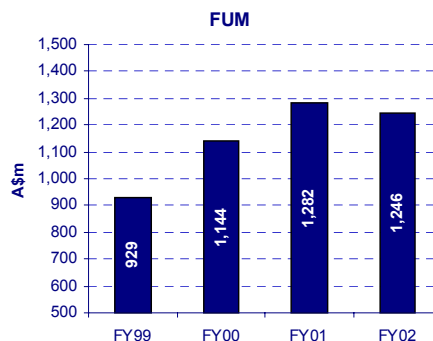
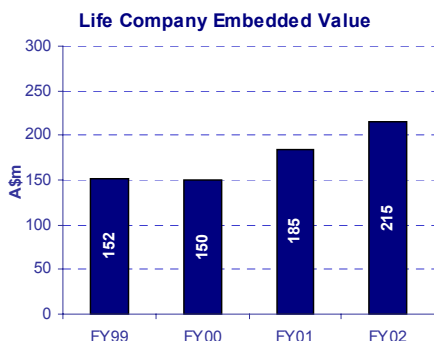


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- Sales are below expectation because in these difficult investment markets the investors who are being targeted by ClearView, those who are close to retirement, have been deferring their retirement if possible. This has meant that while the response to the ClearView brand has been positive, there is a time lag to sale that was unexpected.
- Positive inflows net of redemptions on investment products.
- Sales for investment products are below last year due to the traction lost in the transition to the new business model.
- IAG products sold through our distribution channel increased from 43% to 52%.
- The in-force risk business increased from \$24m to \$27m (up from \$14m in 1999).
- Expect continued growth for risk portfolio going forward.

# Increase in embedded value and FUM marginally down



## Life embedded value

Increase in EV due to improvement in Risk business, and Investment business (to a lesser extent), predominantly due to reduction in maintenance expense assumptions. The basis for the lower expense assumptions stems from reduction in costs from implementation of low cost model. This is evidenced in the lower cost of managing the distribution channel and improved operating expenses from staff reductions and other expense improvement initiatives.

## Funds under management

- FUM has reduced by \$36m during the year, despite positive net cash inflows.
- The level of funds under management is 3% below June last year. The factors influencing the result have been the poor investment markets worldwide resulting in negative investment income, and lower than expected sales.

# Reduced returns due to equity market downturn



Portfolio Return (Pre-tax) and Incl hedge & put option	FY00	FY01	FY02
	%	%	%
Technical reserves	8.3	6.7	3.5
Shareholder funds	18.2	4.5	(8.2)
<b>Total Yield</b>	<b>12.0</b>	<b>5.8</b>	<b>(1.3)</b>

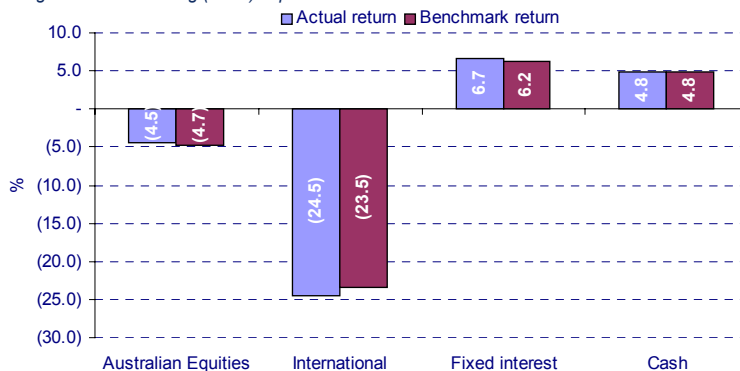
Investment Returns	FY00	FY01	FY02
	A\$m	A\$m	A\$m
Technical reserves	288	232	136
Shareholder funds	417	126	(234)
<b>Total</b>	<b>705</b>	<b>358</b>	<b>(98)</b>

- The poor performance of the equity markets is reflected in the negative return for FY02 compared to the previous corresponding periods.
- For 1H02, shareholders' funds lost \$50m. The condition of the equity markets in the second half caused the Group to lose an additional \$184m.
- Importantly, our investment earnings result is \$456m behind last year and \$803m behind June 2000.
- This demonstrates the potential future earnings profile of the Group now that we have positioned the business to ensure we continue to produce results in the operating zones for our underwriting result.

# Performance held up against the benchmarks



Excluding derivatives costing (0.2%) in performance



**Invested: \$2,105m\* + \$514m + \$ 3,178m + \$ 285m = \$6,082m**

\* Under the equity overlay the Group still holds \$550m in Australian equities of which the Group will earn a fixed interest return and any active return and franking credits on the Australian equity market without direct exposure to the domestic equity market.

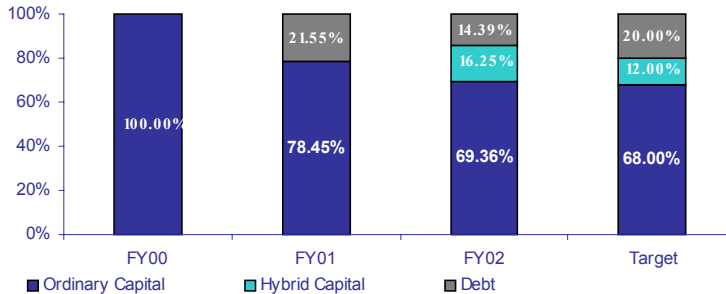
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- Based on our own investment performance we performed very close to benchmark across the asset classes (overall we outperformed by 40 basis points).
- The overlay on our equities in technical reserves will allow us to earn fixed interest return plus any active Australian equity return plus the associated franking credits from 1 July 2002 onwards.
- We implemented a number of protection strategies during the year using a combination of swaps and futures.
- The overall asset mix at 30 June 2002 shows a dramatic reduction in our equity exposure down from 32.8% to 23.3%.

# Capital mix – close to target

IAG Capital Mix



Equity Capital=Equity attributable to ordinary shareholders-outside equity interests-intangibles (100% goodwill)-dividends

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Our target capital mix was set nearly two years ago to demonstrate our commitment to both reducing our WACC (weighted average cost of capital) and maintaining an AA+ rating.

With the completion of both the RPS issue of \$350m and a \$300m ordinary share buy-back in June 2002, we are now very close to our target ratios.

This is significant progress from our position at listing when we were 100% equity funded.

## In summary...



- **Sustained double digit growth in GWP**
- **Achieved key target ratios - sustainably**
- **Improved underlying business profitability**
- **Corporate expenses reduced**
- **Investment income in line with benchmarks**
- **Capital mix improved – close to target**

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The Group continues to achieve double digit growth in GWP.

The solid underlying business is producing the results that are within the key target zones.

The improved underlying business will be sustainable as the Group has taken steps to reduce risk by:

- Diversifying the Group GWP and claims liabilities; and
- Reducing its exposure to equities by eliminating equity exposure from its technical reserves.

The Group also has successfully completed three major capital initiatives being issue of RePs, buy-back and internal restructure of SGIO Group.

We delivered a normalised return that is within the Group's 13% to 15% ROE target.

# Conclusion & outlook



- Sustainable operating performance
- Delivered 13.3% ROE (normalised) and increased annual dividend
- Maintained strong reserving & capital position
- Reduced exposure to, and volatility of, equity investments
- Customer led process review under way
- Growth expectations remain on track

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sgio



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# Questions

*All materials available on [www.iag.com.au](http://www.iag.com.au)*



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