

## IAG delivers revenue growth and improves insurance margin and dividend in FY11

**Insurance Australia Group Limited (IAG) today announced an insurance profit of \$660 million for the 12 months to 30 June 2011 (FY10: \$493m), representing an insurance margin of 9.1% (FY10: 7.0%). Net profit after tax increased to \$250 million (FY10: \$91m). Gross written premium was \$8.1 billion (FY10: \$7.8 billion), representing underlying growth of 4.8% after adjusting for foreign exchange movements.**

IAG Managing Director and CEO, Mr Mike Wilkins, said the result was a solid performance given the challenging operating environment, particularly the unprecedented number of natural perils in the second half of the year, including severe storms and cyclones in Australia and earthquakes in New Zealand.

“The combined Australian and New Zealand businesses have continued to perform well. Together, they reported GWP growth of 6.3% and a combined insurance margin of 12.9%, reflecting strong underwriting discipline and expense management,” Mr Wilkins said.

“Australia Direct is again a standout performer. It has generated further revenue growth and a continuing strong insurance margin of 19.5%. Our Australia Intermediated business, CGU, continued its turnaround and the New Zealand business improved on an underlying basis despite the challenges posed by the Christchurch earthquakes.

“Partially offsetting this sound local performance, our UK business recorded a disappointing result. However, the second half saw an encouraging improvement as remedial actions take hold,” he said.

The Group’s insurance margin of 9.1% improved from last year’s 7.0%, and was in line with the updated guidance announced in February 2011. This result was significantly influenced by:

- Net natural peril claim costs of \$610 million (FY10: \$463 million), \$175 million in excess of allowances of \$435 million;
- A flow-on effect to reinsurance expense of \$83 million including one-off reinstatement costs;
- Higher reserve releases of \$328 million (FY10: \$228 million); and
- An insurance loss of \$181 million reported by the UK operation, reflecting higher than expected bodily injury claim inflation and the cost of a further adverse development cover purchased during the year.

“The Group’s ability to improve its key financial metrics, despite the challenging operating environment, shows that the actions taken since our strategy reset in July 2008 have fundamentally strengthened the business,” Mr Wilkins added.

### **Dividend and capital position**

The Board has determined to pay a final dividend of 7 cents per share (cps) fully franked (2H10: 4.5 cps). This takes the full year dividend to 16 cps, an increase of 23% over FY10. This represents 67% of cash earnings. The dividend will be paid on 5 October 2011 to shareholders registered at 7 September 2011.

IAG’s capital position remains above the Group’s long term benchmark, with a minimum capital requirement multiple of 1.58 at 30 June 2011. Debt to total tangible capitalisation at 30 June 2011 was 33.7%, which is within the Group’s targeted range of 30–40%.

### **Divisional results**

“The strong result achieved by our largest business, Australia Direct, reflects a tireless focus on our customers, including the launch of new services and products, and a major brand campaign. It was also supported by tight underwriting and cost controls, and higher reserve releases,” Mr Wilkins said.

“Our Australian Intermediated business, CGU, grew gross written premium for the first time in some years, reflecting new business volumes, rate increases and acquisitive growth. While underlying profitability continued to improve, the reported margin of 6.5% was severely affected by weather events, partially offset by higher than anticipated reserve releases.

“In New Zealand, underlying performance improved and gross written premium in local currency terms grew 3.4%. However, the reported result was affected by the considerable claim costs, and higher reinsurance expense, arising from the Christchurch earthquakes.

“While the result of our UK business was disappointing, we remain confident that accelerated management actions – including substantially increasing rates and exiting poorly performing business – will move the business towards breakeven in the 2012 financial year.

“In Asia, we’ve made pleasing progress. Our established businesses in Thailand and Malaysia continued to produce solid results, and we expanded the launch of our joint venture in India, SBI General. Earlier this month we announced a strategic investment in a general insurer in China,” he said.

### Outlook

Mr Wilkins said the Group was focused on its reset strategic priorities, announced in June 2011, which aimed to further improve the Group’s financial performance.

“We are confident that the actions we are taking will further improve our performance. This is reflected in our guidance for the 2012 financial year, of gross written premium growth in the range of 6–9% and an insurance margin of 10–12%,” he said.

“Our focus is on accelerating profitable growth in Australia and New Zealand and building our presence in Asia. In the UK, our priority is to return the business to profitability.”

Mr Wilkins said the outlook embraced the following divisional expectations:

- A strong, but lower, reported insurance margin from Australia Direct, reflecting timing differences associated with the recovery of higher reinsurance costs via increased premiums, and lower reserve releases;
- Further improvement in underlying performance from Australia Intermediated, coupled with further GWP growth including the recently-concluded HBF general insurance acquisition;
- An improved reported margin from New Zealand, reflecting maintenance of strong underlying performance and assuming a return to more normal natural peril levels;
- A significantly improved performance from the UK, as the programme of remedial actions drives the business towards a breakeven position; and
- A continued steady performance from established businesses in Asia.

FY12 guidance assumes net losses from natural perils in line with budgeted allowances of \$580 million; no material movement in foreign exchange rates or investment markets; and lower net prior period reserve releases of up to 2% of net earned premium.

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### About Insurance Australia Group

Insurance Australia Group (IAG) is an international general insurance group, with operations in Australia, New Zealand, the United Kingdom and Asia. Its current businesses underwrite approximately \$8 billion of premium per annum. It sells insurance under many leading brands including NRMA Insurance, CGU, SGIO, SGIC, Swann and The Buzz (Australia); NZI and State (NZ); Equity Red Star (UK); and NZI and Safety (Thailand). For further information please visit [www.iag.com.au](http://www.iag.com.au).

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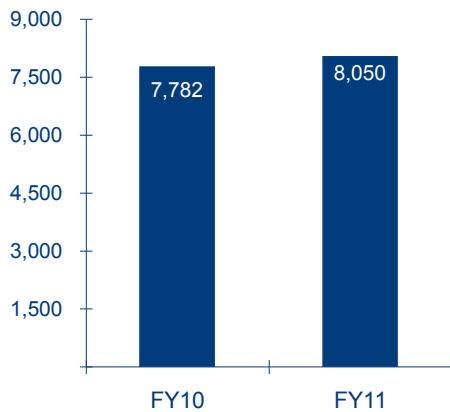
# FACT SHEET

25 AUGUST 2011

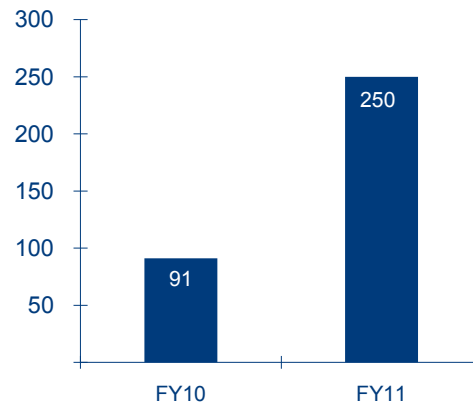


## IAG results for the full year to 30 June 2011: Sound result in a challenging operating environment

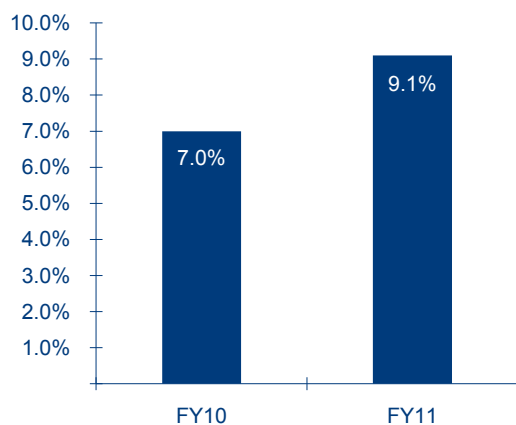
### GROSS WRITTEN PREMIUM (\$m)



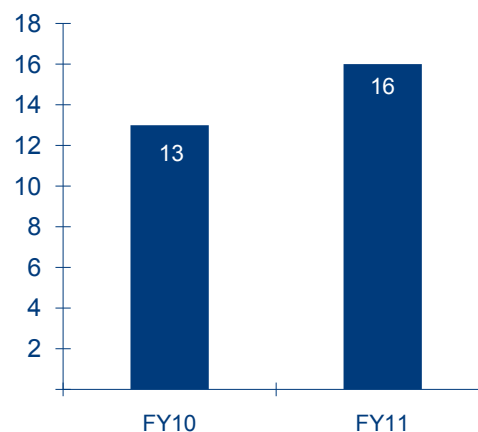
### NET PROFIT AFTER TAX (\$m)



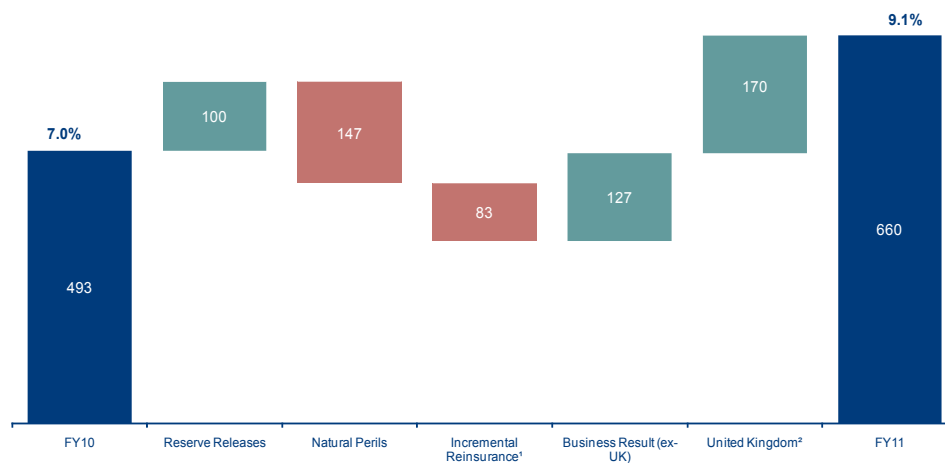
### INSURANCE MARGIN (%)



### DIVIDEND (cps)



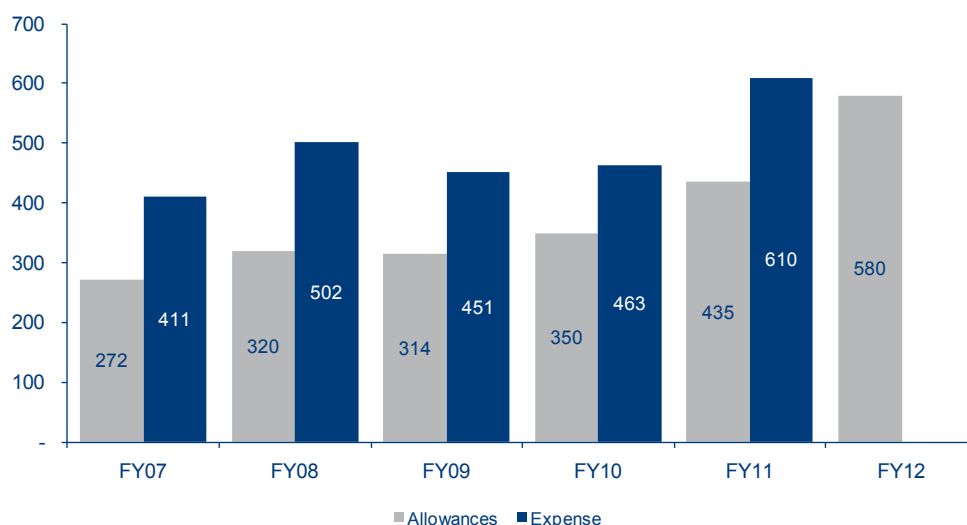
### FURTHER IMPROVEMENT IN UNDERLYING PERFORMANCE



1. Incremental reinsurance costs in FY11 include reinstatement costs and accelerated amortisation.

2. United Kingdom insurance margin movement excludes yield and natural peril movements, as well as reserve strengthening in FY11 (\$20m) and FY10 (\$25m, excluding one-off charge in 2H10).

## NATURAL PERILS: CLAIM COSTS AND ALLOWANCES



## FY11 CLAIMS COST BY EVENT

	Net Cost A\$m
Severe weather - South East Australia (September 2010) <sup>1</sup>	-
Earthquake - Christchurch (September 2010) <sup>1</sup>	-
Heavy snow and wind - New Zealand (September 2010) <sup>1</sup>	-
Severe thunderstorms - Australia (October 2010)	12
Severe storms - South & East Australia (November 2010) <sup>1</sup>	-
Severe storms and wind - South & East Australia (December 2010) <sup>1</sup>	-
Severe storms - NSW & Queensland (November/December 2010) <sup>2</sup>	1
Severe storms - Brisbane & South East Australia (December 2010) <sup>2</sup>	10
Tropical Cyclone Tasha and monsoonal rain - North & East Australia (December 2010)	18
Severe winter weather - UK (December 2010)	11
Heavy rains and storms - Brisbane/Toowoomba (January 2011)	108
Severe storms - Victoria (January 2011)	26
Tropical Cyclone Bianca - Western Australia (January 2011)	16
Ex-Tropical Cyclone Wilma - New Zealand (January 2011)	6
Tropical Cyclone Yasi - Queensland (February 2011)	119
Storms and severe weather - Victoria & Southern Australia (February 2011) <sup>2</sup>	10
Bushfires - Western Australia (February 2011)	6
Earthquakes - Christchurch (February & June 2011) <sup>2</sup>	83
Rain and thunderstorms - South Australia, NSW & Victoria (March 2011)	12
Other events	172
<b>Total</b>	<b>610</b>

<sup>1</sup> Subject to full reinsurance recovery.

<sup>2</sup> Subject to partial reinsurance recovery.

## FY12 GUIDANCE\*

Insurance margin

10–12%

GWP growth

6–9%

\* FY12 guidance assumes net losses from natural perils in line with budgeted allowances of \$580m; no material movement in foreign exchange rates or investment markets; and lower net prior period reserve releases of up to 2% of net earned premium.

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