



## IAG reduces earnings volatility with long-term reinsurance agreements

- Two strategic agreements with global reinsurers improve future financial stability
- Long-term natural perils volatility protection with Berkshire Hathaway and Canada Life Reinsurance provides greater certainty over natural perils cost for customers
- Adverse Development Cover with Enstar reduces long-tail risks
- Reduced volatility delivers an expected capital benefit of around \$350m
- FY24 Reported Insurance Profit and Margin on track to be around the upper end of guidance ranges

IAG today announced it has purchased reinsurance protection to mitigate natural perils volatility for the next five years, alongside securing adverse development protection for its \$2.5b long-tail reserves.

The company also confirmed it is on track to achieve FY24 Reported Insurance Profit and Margin around the upper end of guidance ranges.

### Executing on IAG's strategy

IAG Managing Director and CEO Nick Hawkins said: "Today's announcement is an important milestone in our strategy to create a stronger, more resilient IAG.

"Our long-term relationships with leading global reinsurers have allowed us to secure an innovative reinsurance arrangement that benefits our customers and shareholders. It will provide greater certainty over the cost of natural perils cover for our customers, stabilise our earnings and reduce our capital requirements.

"This cover, combined with the long-tail protection we are announcing today, provides IAG with a strong capital base on which to continue to develop our business in Australia and New Zealand.

"Investment in our brands and customers continues and the business now has more than five million insurance policies migrating to our new Enterprise Platform technology. We are already seeing improvements to the customer experience as well as delivering the business the ability to better price and manage risk.

"The platform is designed to support our existing business and allows us to execute at scale. We expect to accelerate the rollout of the platform through the remainder of the calendar year.

"We're also pleased to confirm that we're on track to achieve FY24 Reported Insurance Profit and Margin around the upper end of guidance ranges we set at the beginning of the financial year," Mr Hawkins said.

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## **Berkshire Hathaway and Canada Life Reinsurance provide long-term natural perils' volatility protection**

IAG has entered into a comprehensive five-year natural perils reinsurance agreement starting from July 2024 with National Indemnity Company, a subsidiary of Berkshire Hathaway Inc and Canada Life Reinsurance, providing up to \$680m of additional protection annually, and up to \$2.8b over the entire five-year period.

In conjunction with IAG's quota share and traditional reinsurance protections, this will effectively limit natural perils costs to \$1,283m in FY25 (67.5% of gross claims costs of \$1,900m), an increase of approximately 17% on the FY24 natural perils allowance of \$1,098m.

The reinsurance against natural perils events provides material downside protection for future earnings volatility against extreme weather events and weather patterns. As a result, the expected FY25 net natural perils costs are capped at \$1,283m in over 90% of modelled scenarios. To exceed this cap, gross natural perils costs will need to exceed \$2.9b (pre-quota share for events capped at \$500m).

Based on IAG modelling, in the majority of years of the agreement, a profit commission arrangement delivers a graduated premium offset. This is in addition to the financial benefit of any favourable natural perils experience, and as a result, the range of potential financial outcomes are weighted to the upside.

The annual cost of the protection will be flat for the five years, with the annual natural perils allowance (FY25: \$1,283m) only increasing relative to the underlying exposures.

Mr Hawkins said: "Australians and New Zealanders have experienced multiple extreme weather events over the past five years which has resulted in increased reinsurance costs and ultimately property insurance premiums. This long-term agreement will help to provide greater certainty over natural perils cost as extreme weather events become more frequent and severe.

"For our shareholders, this transaction builds on IAG's comprehensive reinsurance strategy and provides greater earnings stability and reduces our capital requirements," Mr Hawkins added.

### **Long-tail adverse development protection with Enstar**

In addition to existing protections covering long-tail lines, IAG has also purchased an adverse development cover (ADC) which provides \$650m of protection for IAG's long-tail reserves of approximately \$2.5b at 1 January 2024.

The transaction, which is subject to regulatory approval, is with Cavello Bay Reinsurance Limited, a wholly owned subsidiary of Enstar Group Limited. It applies to portfolios across Australia including Product & Public Liability, Compulsory Third-Party Motor, Professional Risks and Workers' Compensation. The ADC includes explicit cover for Molestation and Silicosis up to a sublimit of \$50m.

IAG Chief Financial Officer William McDonnell said: "This additional long-tail protection is a further demonstration of IAG's ability and ongoing effort to reduce financial risk, capital requirements and earnings volatility.

“We are confident that our long-tail liabilities are appropriately provisioned, complementing the improved underwriting risk profile of our Intermediated business. This reinsurance protects against deterioration due to the inherent uncertainty of long-tail insurance risks such as adverse judicial developments and superimposed inflation,” Mr McDonnell said.

### **FY24 financial update**

IAG confirmed it is on track to report the FY24 Reported Insurance Profit and Margin around the upper end of guidance ranges.

IAG’s FY24 Reported Insurance Profit is expected to be around the upper end of the \$1.2b to \$1.45b (FY23: \$803m) guidance range. The FY24 Reported Insurance Margin is also expected to be around the upper end of the 13.5% to 15.5% guidance range taking into account the additional ADC cost and assuming net natural perils costs for June are in line with seasonal expectations.

The FY24 Underlying Insurance Margin, which includes the additional ADC cost and removes the impact of natural perils experience, is expected to be around the mid-point of the 13.5% to 15.5% range.

FY24 Gross Written Premium (GWP) growth is expected to be consistent with the ‘low-double digit’ guidance.

### **Capital impact and financial targets**

As a result of the additional reinsurance protections, IAG expects, subject to APRA approval, a reduction in its Prescribed Capital Amount of around \$350m.

IAG will provide its formal FY25 guidance in conjunction with its FY24 results announcement on 21 August 2024. IAG’s Reported Insurance Margin target on a ‘through the cycle’ basis remains at 15% with the lower capital requirement, combined with recent organic topline growth, expected to deliver an increased Return on Equity ‘through the cycle’ target of between 14% and 15%.

### **Teleconference details**

IAG Managing Director and Chief Executive Officer Nick Hawkins and Chief Financial Officer William McDonnell will hold a teleconference at 9am (Sydney time) today to discuss the attached ‘Market Update’ presentation. The teleconference details are:

Sydney – 9007 3187

Australia – 1800 809 971

New Zealand – 0800 453 055

Conference ID: 10039947

This release has been authorised by IAG’s Managing Director and Chief Executive Officer.

### Important information

This announcement contains forward-looking statements, opinions and estimates, including statements regarding IAG's strategy, guidance, targets and expectations regarding results. Such statements involve risks, uncertainties and assumptions, many of which are beyond IAG's control. This may cause actual results to differ materially from those expressed or implied in those statements and, consequently, undue reliance should not be placed on those statements. IAG assumes no obligation to update those statements (except as required by law).

### About IAG

IAG is the parent company of a general insurance group with operations in Australia and New Zealand. IAG's main businesses underwrite over \$14 billion of insurance premium per annum under many leading brands, including: NRMA Insurance, RACV (under a distribution agreement with RACV), CGU and WFI (Australia); and NZI, State, AMI and Lumley (New Zealand). For further information, please visit [www.iag.com.au](http://www.iag.com.au).

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# Market update

28 June 2024



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Any forward-looking statements, opinions and estimates in this presentation are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. This includes statements regarding IAG's strategy, targets, goals, ambitions, intent, belief, objectives, commitments and current expectations regarding IAG's business, results, financial condition, capital adequacy, risk management practices and market conditions.

Forward-looking statements may generally be identified by the use of words such as "should", "would", "could", "will", "may", "expect", "intend", "plan", "forecast", "aim", "anticipate", "believe", "outlook", "estimate", "project", "target", "goal", "ambition", "continue", "guidance", "aspiration", "commit" or other similar words. Guidance on future earnings or performance are also forward looking statements. While IAG believes the forward-looking statements to be reasonable, such statements involve risks (both known and unknown) and assumptions, many of which are beyond IAG's control (including adverse natural peril

events causing losses to exceed forecasts, and uncertainties in the Australian and global economic environment). This may cause actual results, outcomes, conditions or circumstances to differ from those expressed, anticipated or implied in such statements. For further information on some of IAG's key risks see 'Note 3.1 Risk and Capital Management' in IAG's FY23 Annual Report.

In addition, there are particular risks and uncertainties associated with implementation of IAG's strategy and related targets, ambitions and goals. As the targets, ambitions and goals span a number of years, they are subject to assumptions and dependencies which have greater levels of uncertainty than guidance given for FY24. IAG's ability to execute its strategy and realise its targets, ambitions and goals will depend upon its ability to respond and adjust its business plans (as and when developed) to any changes in such assumptions and dependencies, including disruptions or events that are beyond IAG's control.

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References to currency are to Australian dollars, unless otherwise specified. Prevailing exchange rates have been used to convert local currency amounts into Australian dollars, where appropriate.

Further information, including IAG's business structure, portfolio and partnerships is available on IAG's website at <https://www.iag.com.au/about-us/what-we-do>

# IAG Market Update

## Agenda

<b>01</b>	<b>Financial update</b>	Nick Hawkins
<b>02</b>	<b>Strategic recap</b>	Nick Hawkins
<b>03</b>	<b>Operational update</b>	Nick Hawkins
<b>04</b>	<b>Capital and Balance Sheet</b>	William McDonnell
<b>05</b>	<b>Reinsurance transactions</b>	William McDonnell
<b>06</b>	<b>Financial outcomes</b>	Nick Hawkins
<b>07</b>	<b>Q &amp; A</b>	Nick Hawkins William McDonnell

# 1. Financial update

FY24 Reported Insurance Profit and Margin expected to be around the upper end of guidance<sup>1</sup> ranges



## Reported Insurance Profit

Expected to be around the **upper end of the \$1,200m to \$1,450m guidance range** based on June perils experience in line with seasonal expectation, resulting in ~\$1,000m net perils for FY24 (~\$100m below allowance)



## Reported Insurance Margin

Expected to be around the **upper end of the 13.5% to 15.5% guidance range**



## Underlying Insurance Margin

Expected to be around the **mid-point of the 13.5% to 15.5% range**



## GWP growth guidance

of 'low double digit' remains



## Strong capital

with announced transactions reducing Prescribed Capital Amount by around \$350m, subject to APRA approval

**Full details of the FY24 financial results will be released on 21 August 2024.**

<sup>1</sup> Refer to Appendix 1 for further details on IAG's FY24 Guidance, aspirational goals and ambitions. Also refer to the Important Information disclaimer on page 2.



# 2. Strategic recap

**Purpose** | We make your world a safer place

**Strategy** | Create a stronger, more resilient IAG

**People** | Our people are the difference: bringing our purpose to life and delivering our strategy

## Focus

## Achieved



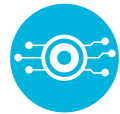
Grow with our customers

Enterprise Platform successfully being rolled out across IAG delivering contemporary pricing tools  
Brand rationalisation and improved partner alignment



Build better businesses

Simplification of our operations with clear accountabilities  
Intermediated Insurance Australia delivering > \$250 million FY24 Insurance profit target



Create value through digital

Enterprise Platform providing improved digital opportunities  
Commercial Enablement commenced addressing underinvestment in intermediated technology



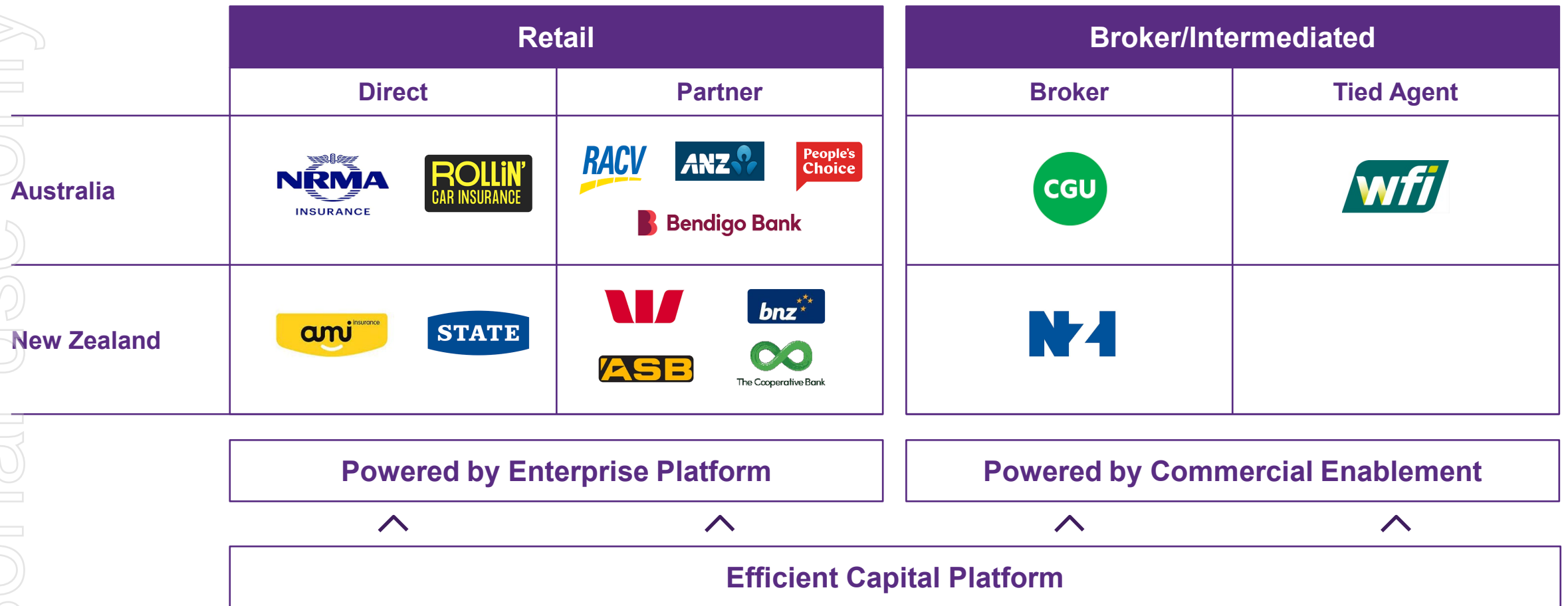
Manage our risks

Comprehensive long-term protection of natural perils volatility  
\$650 million protection against adverse movement in \$2.5 billion long-tail reserves



# 2. Strategic recap

Trusted direct and partner brands powered by enhanced technology and efficient capital platform



# 3. Operational Update - Enterprise Platform delivery for our retail business

Modern policy and pricing technology successfully being rolled out, building on the delivered claims platform

	Initial go live	EP capability enabled for all divisions	Large brands enabled on EP	<b>ON TRACK</b> Re-use base and switch on remaining brands at pace
	FY22	FY23	FY24	FY25+
DIA	 WA/SA HBF and CGU Direct to NRMA	 WA/SA SGIO and SGIC to NRMA	 NSW/Qld	 CTP
NZ		 Partner capability & NZ foundation	 Home & Landlord	  Motor & Niche
IIA				 Other IIA partners

- ### Benefits
- System simplification reducing technology and operational risk
  - Digital capability enabled for partner brands and improved for direct brands
  - Greater connection with perils pricing models providing improved pricing capability
  - Better customer experience through improved communications
  - Early signs suggest improved conversion particularly in digital channels and lower risk perils quotes

~5 million policies now on, or renewing onto, the Enterprise Platform technology

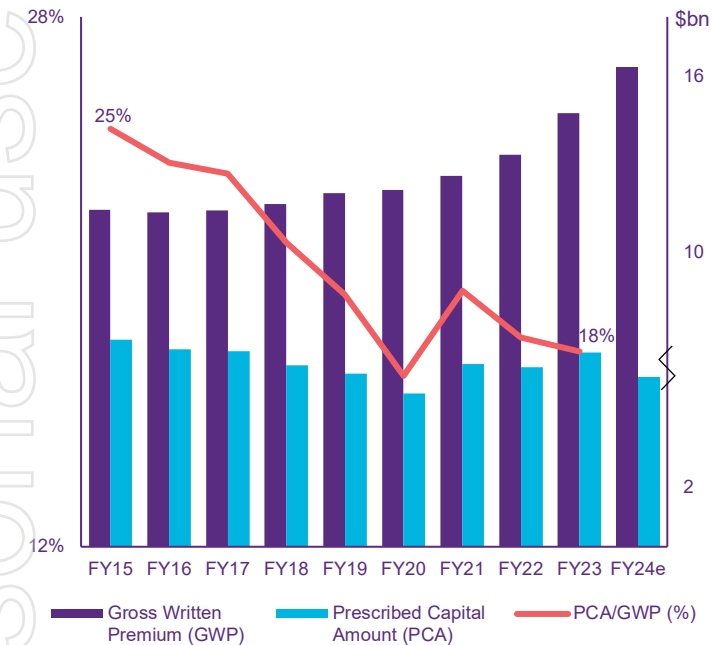
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# 4. Capital and Balance Sheet

Lower volatility reduces capital requirements

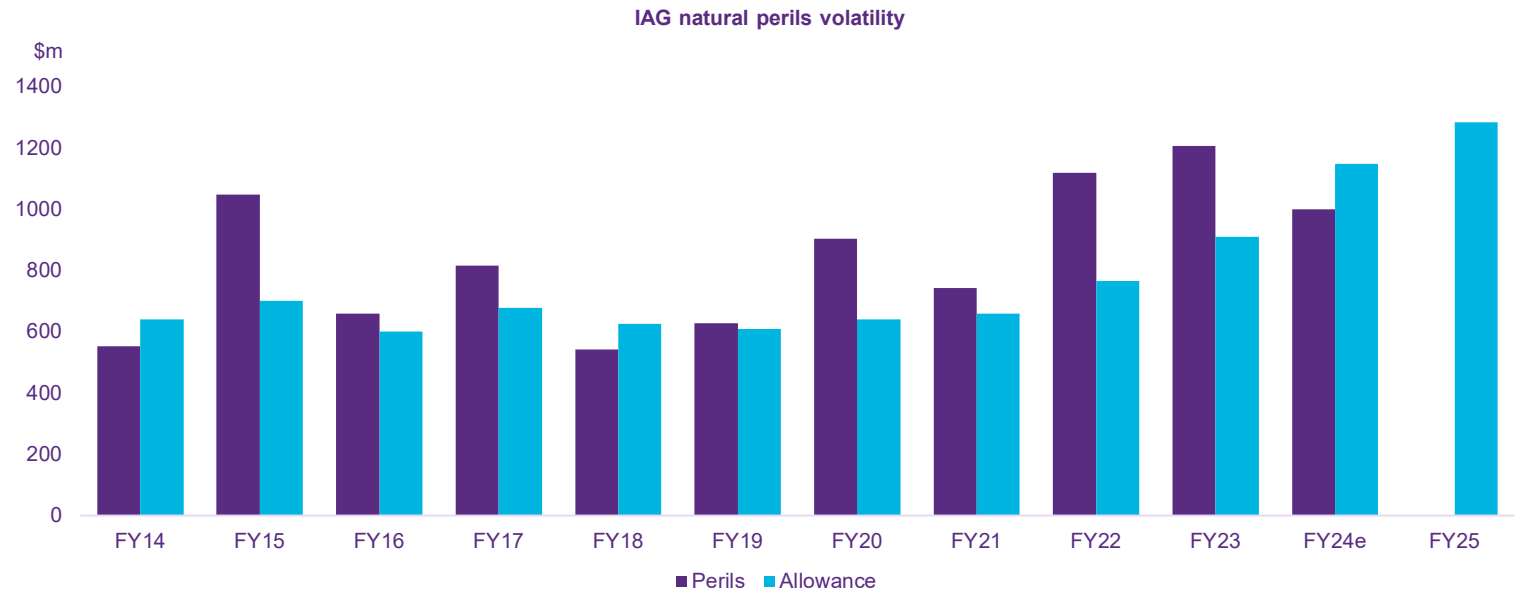
## Capital approach

- Strong capital targets based on regulatory requirements
- Prudent balance sheet and capital management
- Global reinsurance arrangements to reduce insurance risk and earnings volatility



## Outcomes

- Comprehensive reinsurance program with multiple components:
  - Unique 32.5% whole-of account quota shares renewed
  - Traditional annual catastrophe protection up to \$10.5 billion
  - Long-term natural perils volatility protection; and
  - Long-tail reserve protection
- Successful hybrid capital issues
- Completed \$550 million in on-market buybacks
- S&P credit rating upgrade to 'AA'
- **Increased ROE 'through the cycle' target of 14% to 15%<sup>1</sup>**



<sup>1</sup> Refer to slide 13 for further details

# 5. Reinsurance transactions

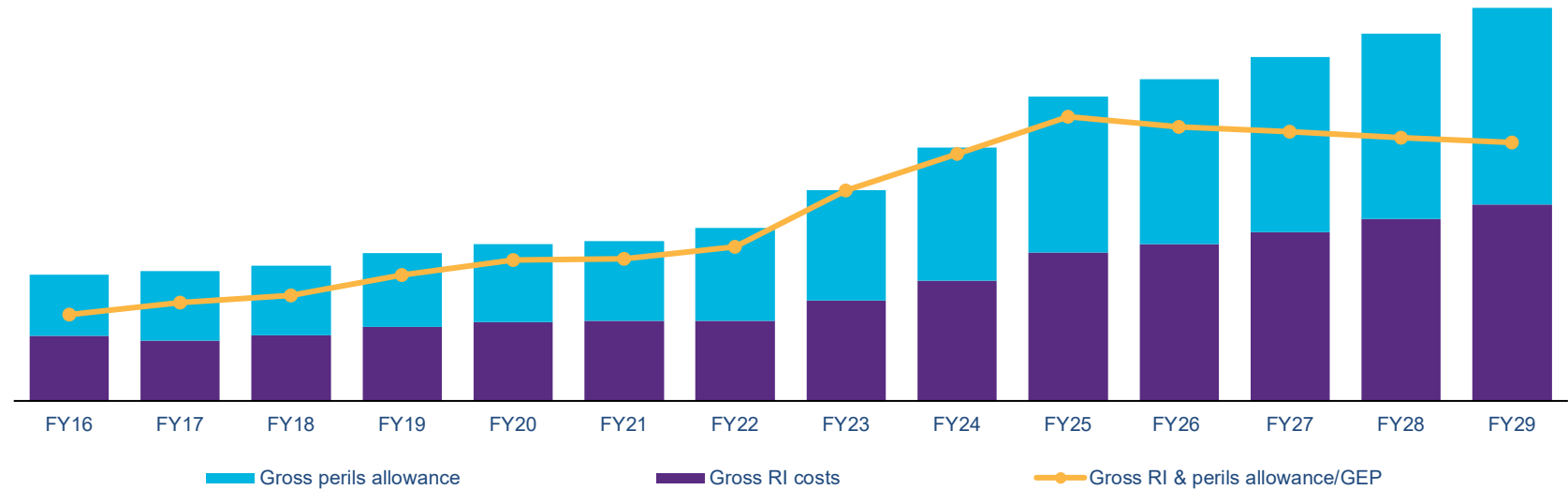
## Long-term perils volatility protection

### Agreement details

- Up to \$680 million of protection per year, effectively limiting FY25 perils costs to \$1,283 million (67.5% of \$1,900 million attachment point)
- Up to \$2.8 billion total protection over the five-year period
- Comprehensive protection for all natural perils from business written in Australia and New Zealand, up to a gross \$500 million limit per event
- Profit commission provides partial premium offset in the event of favourable perils experience
- Annual premium is flat for five-year agreement
- Annual attachment point increases relative to underlying exposure
- Reinsurance protection provided by Berkshire Hathaway and Canada Life Reinsurance

### Financial and capital impacts

- Unique long-term deal to provide additional protection against increasing severity and frequency of perils events
- Expected reduction in regulatory capital requirement
- Significant downside protection to limit maximum perils costs in FY25 to \$1,283 million (\$1,900 million pre-quota share) in over 90% of scenarios
- Benefits customers as perils reinsurance expense is fixed for next five years, reducing the impact of perils on potential premium increases



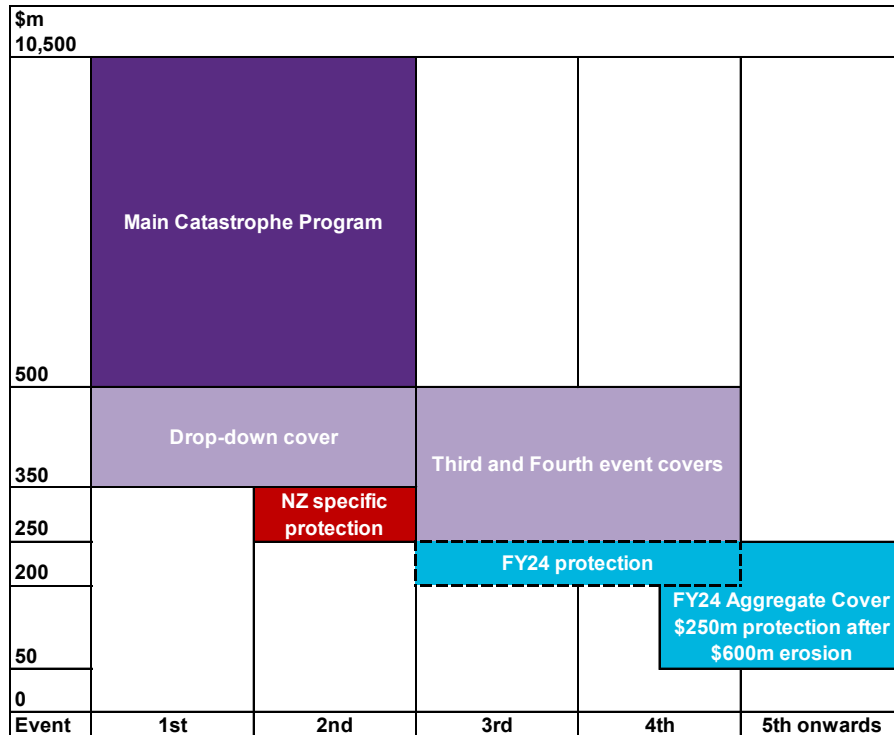
Illustrative only – future premium and exposure growth aligned to average premium growth of ~7.5% over last 5 years

# 5. Reinsurance transactions

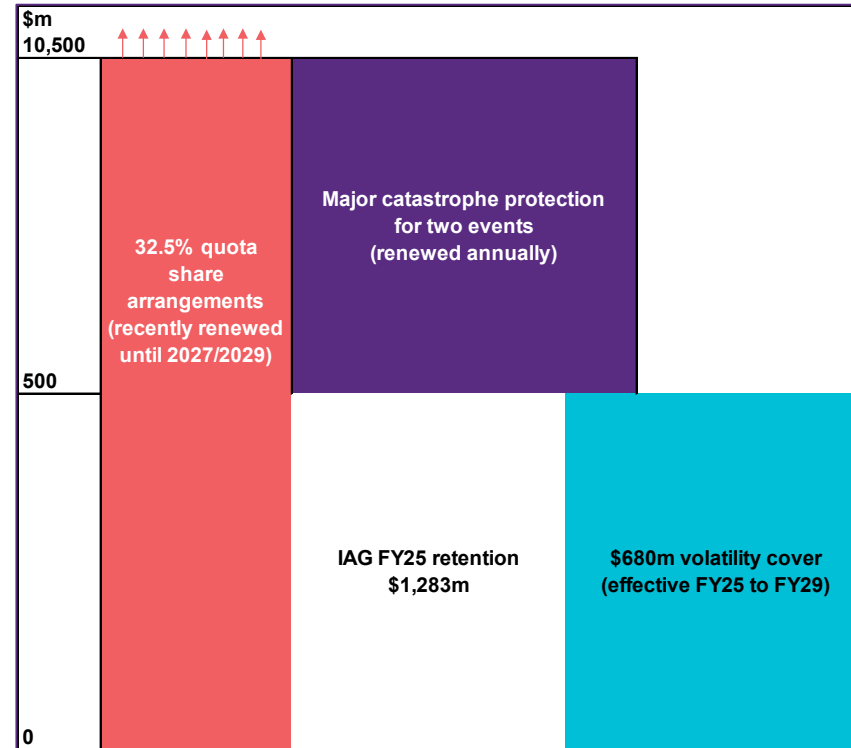
## Simplified structure of long-term perils protection

### FY24 program structure

All covers places to 67.5% reflecting quota share arrangements



### Program structure for the next five years<sup>2</sup>



### All natural perils including:

- Storm
- Hail
- Wind
- Flood
- Bushfire
- Earthquake
- Cyclone<sup>1</sup>

1. Cyclones for eligible policies (home, strata and small business) are now covered by the Australian Reinsurance Pool Corporation  
 2. 10% of the 32.5% Whole of Account Quota Share arrangements have been renewed for five years to 31 December 2027, The 2.5% arrangement has been renewed to 30 June 2028.

# 5. Reinsurance transactions

## Adverse Development Cover



### Agreement details

- \$650 million of protection against adverse movement in \$2.5 billion long-tail reserves
- Includes cover for molestation and silicosis up to \$50 million
- Applies to reserving position at 1 January 2024
- Covers liability, CTP, professional risks and workers' compensation across Australia
- Reinsurance protection provided by Enstar
- Transaction is subject to regulatory approval

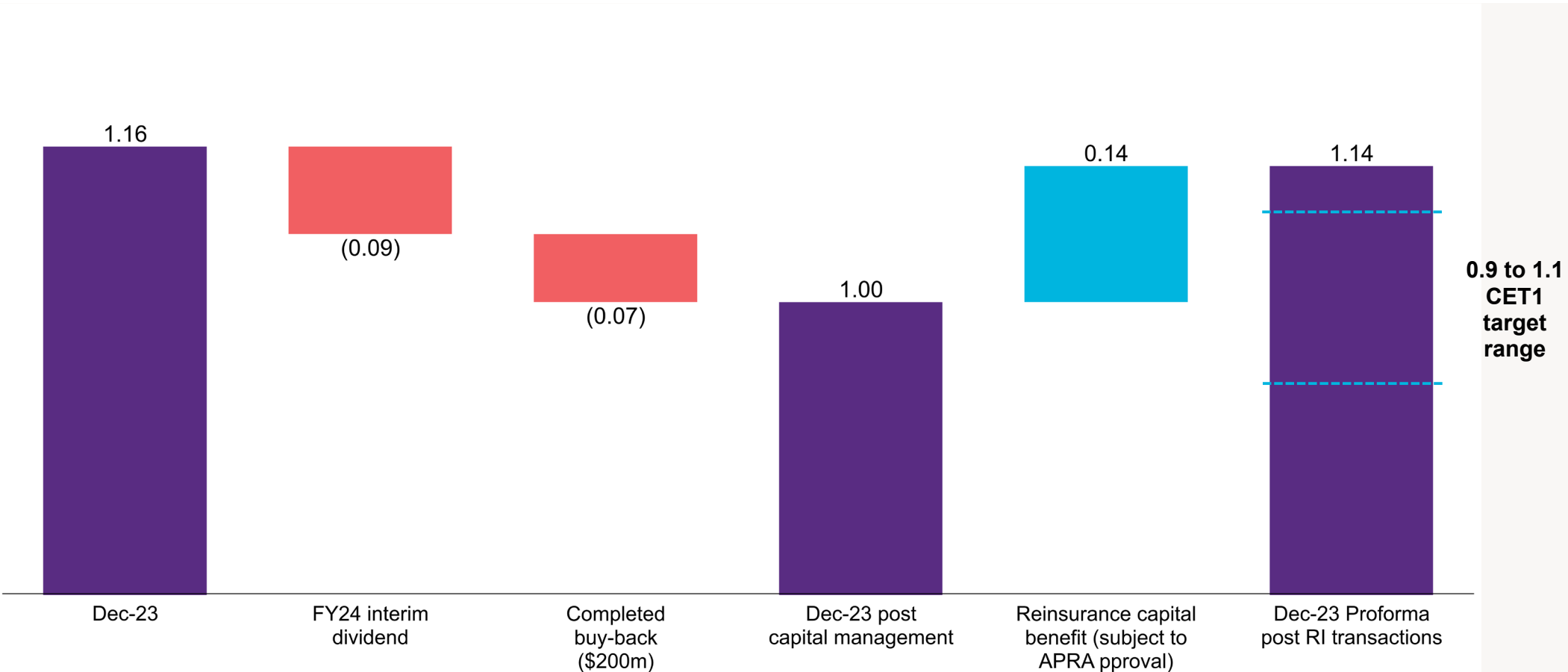


### Financial and capital impacts

- Significant protection against potential deterioration of long-tail reserves
- Expected reduction in regulatory capital requirement
- Reinsurance expense amortised over life of the contract
- Lowers earnings volatility without material impact on financial metrics

# 5. Reinsurance transactions

## Capital Benefit

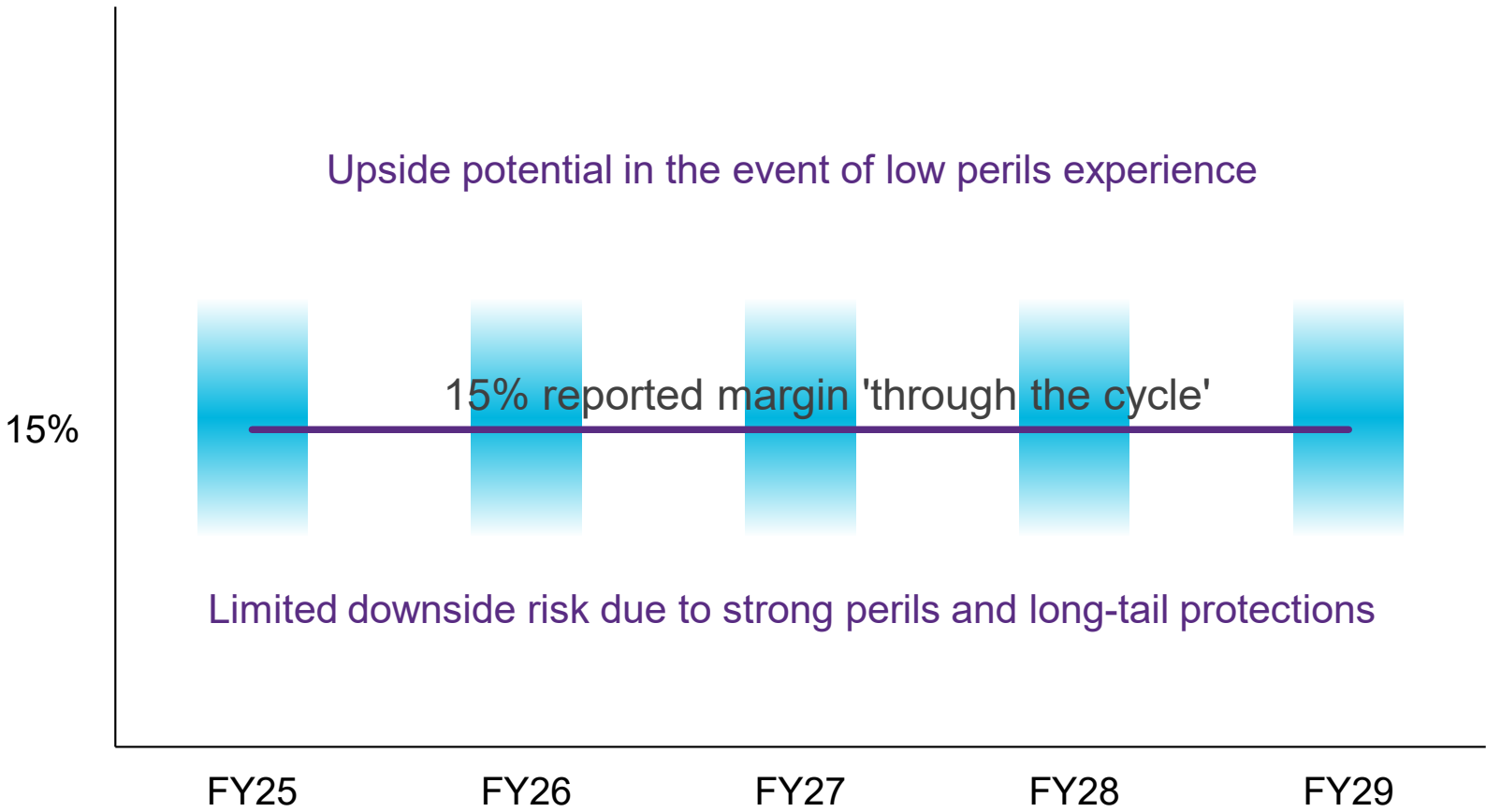


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# 6. Financial outcomes

Greater stability with Reported Insurance Margin 'through the cycle' target maintained at 15%, expected to deliver increased ROE 'through the cycle' target of 14% to 15%<sup>1</sup>



Annual margin guidance range will be set based on market conditions

<sup>1</sup> These targets are subject to assumptions and dependencies, including that there are no material adverse developments in macro-economic conditions and disruptions or events beyond IAG's control (for example, natural perils events in excess of IAG's allowances). As they span a number of years, these assumptions and dependencies have a greater level of uncertainty than guidance. Refer to the Important Information disclaimer on page 2 of this presentation for further detail.

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# Appendix 1:

## FY24 Guidance and Outlook

**IAG's confidence in the strength of its underlying business is reflected in FY24 guidance which remains:**

- GWP growth of 'low double digits'. This will be primarily rate driven to cover claims inflation, higher reinsurance costs and an increased natural peril allowance; and
- Reported insurance margin guidance of 13.5% to 15.5% which assumes:
  - Continued momentum in the underlying performance of IAG's businesses, supported by increased investment yields;
  - A revised natural peril expectation of \$1,098 million;
  - No material prior period reserve releases or strengthening for the second half of FY24; and
  - No material movement in macro-economic conditions including foreign exchange rates or investment markets.

**The FY24 guidance aligns to IAG's aspirational goals to deliver a 15% insurance margin and a reported ROE of 13% to 14% on a 'through the cycle' basis. As previously outlined, IAG also has ambitions of:**

- One million additional direct customers;
- An IIA insurance profit of at least \$250 million in FY24;
- \$400 million in value from DIA claims and supply chain cost reductions on a run-rate basis from FY26; and
- Further simplification and efficiencies to reduce the Group's administration ratio.

These goals and ambitions are subject to assumptions and dependencies, including that there are no material adverse developments in macro-economic conditions and disruptions or events beyond IAG's control (for example, natural perils events in excess of IAG's allowances). As they span a number of years, these assumptions and dependencies have a greater level of uncertainty than the FY24 guidance. Refer to the Important Information disclaimer on page 2 of this presentation for further detail.

Based on information from slide 26 of IAG's 1H24 Results Presentation released on 16 February 2024