



## A year in transition, adapting to regulatory and structural change

<b>Company/ASX Code</b>	Insurance Group Australia/IAG
<b>AGM date</b>	Friday 25 October 2019
<b>Time and location</b>	9.30am Wesley conference centre 220 Pitt St Sydney
<b>Registry</b>	Computershare
<b>Webcast</b>	Yes
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Ian Graves accompanied by David Jackson
<b>Pre AGM-Meeting</b>	Yes, with Chair Elizabeth Bryan and Investor Relations

<b>Item 1</b>	<b>Consideration of accounts and reports</b>
<b>ASA Vote</b>	No vote required

### Summary of ASA Position

2019 was a year in transition for IAG, with the completion of the sale of their Thailand operation, and negotiations underway for the sale of their Vietnam & Indonesia operations.

The continuing operations in Australia and New Zealand saw a gross written premium (GWP) growth of 3.1% with like-for-like growth of 4%. This arose mainly from rate increases and a favourable foreign exchange translation effect in New Zealand.

Overall the Company saw an increase in gross claims losses, sustaining multiple catastrophic events that included the December 2018 hailstorm that affected the NSW coast, the Townsville floods in January 2019 and the hailstorm that affected Western Sydney significantly in March 2019. But, due to the benefits of the reinsurance program, net profit after tax (NPAT) was up 16.6% to \$1,076m, although Cash Return on Equity (ROE) was down slightly to 14.4%, with cash earnings per share (EPS) down 4.78 cents on the previous year.

Dividend per share was 37.5c, 70% franked, down from 100% franking the previous year, but in line with previous guidance.

### Governance and culture

As a result of the Hayne Royal Commission into the financial services sector, IAG's subsidiary Swann Insurance was named for having sold a junk add on insurance

product through motor and motorcycle dealers. The subsidiary received over \$1.07 billion in premiums over a decade, with only 10% paid in claims. Although IAG ceased the practice in October 2018 and refunded premiums, it is now likely to be subject to a class action relating to the matter. IAG has taken significant steps to ensure that there is no repetition of such misconduct by ensuring an increased emphasis on desired business culture. This is being reinforced through changes to their remuneration structure.

### Key Board Changes

Long serving Director Philip Twyman who had been on the Board since 2008 resigned from the Board in October 2018.

Mr George Savvides was appointed to the Board in June 2019

### Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	1,076	923	929	625	728
UPAT (\$m)	931	1034	990	867	987
Share price (\$)	8.36	8.202	6.395	5.587	5.44
Dividend (cents)	37.5	34	33	36	29
TSR (%)	5.6	30.8	30.5	6.6	0.5
Cash EPS (cents)	39	43.78	41.6	35.78	42.33
CEO total remuneration, actual (\$m)	5.407	4.502	3.841	4.174	4.046

For 2019 the CEO's total actual remuneration was **62.3 times** the Australian Full time Adult Average Weekly Total Earnings of \$88,145 (May 2019 data from the Australian Bureau of statistics)

<b>Item 1</b>	<b>Adoption of Remuneration Report</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

The table below sets out the CEO's statutory remuneration figures.

IAG has revised its remuneration practices in line with the BEAR (Banking Executive Accountability Regime), legislation which pre-dated the Banking Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry which Commissioner Hayne recommended be extended beyond banks to include all APRA-regulated financial services institutions.

Short term incentives (STIs) are allocated based on a scorecard of financial and non-financial measures which are tested if a behavioural gateway has been satisfied. Those who have not behaved in line with expected standards will not receive any STI in that year, regardless of their performance. Long-term incentives (LTIs) are based on financial measures. IAG does not currently outline target remuneration, with maximum opportunity amounts based on a multiple of the fixed remuneration.

	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.996	24%
STI – Cash	1.497	18.1%
STI - Equity	1.497	18.1%
LTI	3.293	39.8%
Total	8.283	100%

### Summary of ASA Position

In August 2018 The CEO and 3 other executives received fixed pay increases ranging from 5% to 11.8% which were applied to meet market pay levels.

The remuneration structure is now fixed pay, STI subject to the achievement of short-term goals 50% cash and 50% DAR's (deferred award rights) deferred for 2 years.

The fixed pay is set with reference to the median of the external market. Fixed pay for Australian executives is compared to the Standard & Poor's/ASX 50 index including financial services that are of similar size to IAG.

LTI rewards long-term financial incentives base on ROE and RTSR (Relative Total Shareholders Return), deferred over 4 years. The Share price is measured against the top 50 Industrial companies in the S&P/ASX100 index, excluding as defined by S&P those in the energy sector (Global Industry Classification Standard Tier 1) the Metals and Mining industry (GICS Tier 3).

The group balanced scorecard objectives which determine the STI are;

Financial measures (60%) - which include Underlying profitability, Controllable expenses and Growth.

The non-financial measures are 40% of the scorecard, comprising, Customer Advocacy, Employee Advocacy, Agility - three indicators relating to Leadership Effectiveness and Risk Maturity. The weightings for each objective range from 30% for profitability to 7.5% for employee advocacy.

The STI objectives provide for a maximum STI outcome of 150% of fixed pay.

For 2019 the maximum outcome for the key management personnel ranged between 47% -63% providing between 50 - 76% of Fixed pay.

With LTI:

ROE is calculated half-yearly by dividing cash earnings by average shareholder's equity objectives at three years;

RTSR is tested at four years. This year's testing of the 2014/15 award IAG's TSR was ranked at 61st percentile of its peer group, which resulted in a 72% vesting.

Last year ASA voted against the IAG remuneration report, but the substantial rewriting, although at the instigation of APRA, is most welcome.

Therefore, ASA will vote all undirected proxies in favour of this resolution

<b>Item 2</b>	<b>Approval of LTI grant to CEO/Managing Director Peter Harmer</b>
<b>ASA Vote</b>	<b>For</b>

Mr Harmer was granted 75,700 DARs and 377,000 executive performance rights (EPRs) in November 2018 as a result of shareholders approving the granting of them at the 2018 AGM.

Although ASA voted against last year's allocation of rights the resolution was overwhelmingly carried by shareholders.

A number of the objections we had to the previous plan have been resolved by the new plan. Therefore, ASA will be voting all undirected proxies in favour of this resolution.

<b>Item 3</b>	<b>Election of George Savvides as a Director</b>
<b>ASA Vote</b>	<b>For</b>

Mr Savvides was appointed to the board on 12 June 2019 and is a member of the People & Remuneration, Risk, and Nomination committees. He is a Non-Executive Director of Ryman Healthcare Ltd and Next Science Limited and Deputy Chairman of SBS. His Executive career encompassed 14 years as CEO of Medibank & Sigma Healthcare.

Mr Savvide's experience as an executive and Director in Health insurance adds further industry experience to the Board.

Therefore, ASA will vote all undirected proxies in favour of the resolution.

<b>Item 4</b>	<b>Re-election of Dr Helen Marion Nugent as a Director</b>
<b>ASA Vote</b>	<b>Undecided</b>

Dr Nugent was appointed to the board in December 2016 and is a member of the Audit, Nomination and Risk Committees.

She is currently serving as Chair of Ausgrid, Chair of the National Portrait Gallery as well as Chair of the National Disability Insurance Agency and a member of the Board of Garvan Institute for Medical Research.

Previously, Dr Nugent has served on a number of relevant boards including Veda Group, Funds SA, Swiss Re (Australia), Sydney Airports and Macquarie Airports.

Dr Nugent is an experienced Director and holds 26,630 shares. ASA prefers that a Director after 3 years should hold shares to the value 1 year's fees and anticipates that this will be achieved.

Although Dr Nugent is an experienced Director and the ASA would normally support her re-election, we have concerns about her workload. We are hoping to assess her response to our concerns at the AGM and depending on her response, we will vote undirected proxies for or against.

<b>Item 5</b>	<b>Re-election of Thomas William Pockett as a Director</b>
<b>ASA Vote</b>	<b>For</b>

Mr Pockett was appointed to the Board in January 2015 and is Chair of the Audit Committee and a member of the Risk Committee and Nomination Committee. He is also Chair of the Stockland Group, and Autosports Group Limited, a Director of Sunnyfield Association and of O' Connell St Associates.

His Executive career encompassed 11 years as CFO and 7 years as Finance Director with Woolworths. Prior to that role he held senior finance roles in banking and real estate accounting. Mr Pockett is an experienced director and holds 32,057 shares.

ASA will vote all undirected proxies in favour of the resolution.

<b>Item 6</b>	<b>Refresh capacity to issue securities</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Under ASX Listing Rule 7.1, IAG cannot issue or agree to issue more equity securities during any 12-month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the start of any 12-month period.

IAG issued 45,000 medium term subordinated notes for \$45m in March 2019 and these can be converted under special circumstances, which may lead them to be taken into the calculation of the 15%.

This is a noncontroversial resolution.

Therefore, ASA will be voting all undirected proxies in favour of the resolution.

<b>Item 7(a)</b>	<b>Adoption of new or amended constitution</b>
<b>ASA Vote</b>	<b>Against</b>

### Summary of ASA Position

The following resolutions 7(a) has been proposed by an organisation called Market Forces while resolution 7(b) is an advisory resolution and may only be properly considered if resolution 7(a) is passed.

The resolutions are not endorsed by the board. Whilst, on the face of it, a resolution to increase shareholder power may appear beneficial to shareholders, under the existing framework, shareholders who wish to raise an issue must propose a constitutional amendment in order to provide for such a power. We are reluctant to vote in favour of changing company constitutions in part due to the limited flexibility of the engagement – our preference is for a public policy consultation on whether there should be a right to more non-binding shareholder resolutions.

ASA will be voting all undirected proxies against this resolution

<b>Item 7(b)</b>	<b>Fossil fuel investment exposure reduction targets</b>
<b>ASA Vote</b>	<b>Against</b>

This Resolution is conditional on the resolution in Item 7a being passed by the required majority. The Resolution will not be put to the meeting if Resolution 7(a) is not passed.

If this resolution is put to the meeting ASA will be voting all undirected proxies against this resolution for the same reasons as in Resolution (7a)

The individual involved in the preparation of this voting intention doesn't have any shares in this company.

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