

Is better year sustainable?

Company/ASX Code	Insurance Australia Group/IAG
AGM time and date	9:30am AEDT Wednesday, 24 October 2024
Location	Wesley Conference Centre, 220 Pitt St, Sydney 2000
Registry	Computershare
Type of meeting	Hybrid
Monitor	John Lin assisted by Tony Coleman
Pre-AGM Meeting	Yes, with Chairman, Tom Pockett, George Savvides, Wendy Thorpe and Mark Ley (Investor Relations)

Monitor Shareholding: The individuals (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

1. How we intend to vote

No.	Resolution description	
2(a)	Re-election of Mr David Armstrong as a non-executive director	For
2(b)	Re-election of Mr George Sartorel as a non-executive director	For
2(c)	Re-election of Ms Michelle Tredenick as a non-executive director	For
3	Adoption of the Remuneration Report	For
4	Allocation of rights to Nick Hawkins, MD and CEO	For

2. Summary of Issues and Voting Intentions for AGM

- The company's FY24 performance has recovered to pre-pandemic levels. Additionally, a reinsurance transaction has been implemented to reduce volatility related to prior year reserves and future natural perils costs, under a whole-of-accounts quota share¹ with external partners². However, there are still two unresolved legal matters concerning Greensill and ASIC, the outcomes and impacts of which remain unknown.
- In FY24, IAG implemented changes to align with APRA Prudential Standard CPS 511 requirements. These changes include incorporating non-financial measures such as

¹ Quota share reinsurance where risks and premiums are shared proportionally.

² Berkshire Hathaway, Munich Re and Swiss Re and Hannover Re.

customer experience tNPS³ into the remuneration plan, extending the maximum LTI deferral period from four to six years, and determining the STI pool based on a material weight of 40% of the Group Balanced Scorecard⁴. Consequently, we are supporting the remuneration plan this year.

- The size of the board remains large, even with the recent changes. The Chairman's response was that due to their New Zealand business, both Scott Pickering and Simon Allen were required. We note that their skills matrix was based on categories of skill rather than the skills against each board member as some other companies have.

See [ASA Voting guidelines](#) and [Investment Glossary](#) for definitions.

3. Matters Considered

Accounts and reports

IAG has clearly had a better year in FY24 than FY23.

This is due largely to:

- (i) the effect of premium increases commenced in FY23 now flowing through into earned premiums in FY24
- (ii) moderating rates of inflation in claims costs compared to FY23
- (iii) lower incidence of natural perils claims in FY24 than in FY23
- (iv) considerably higher investment returns from higher interest rates and stronger equities markets in FY24 compared to FY23
- (v) reserve releases, including those for Covid business interruption legal cases won.

These improved results have allowed IAG to report a materially higher profit after tax, pay a higher dividend and to implement a share buyback program during FY24.

IAG's S&P credit rating has also been upgraded from AA- to AA. IAG's share price closed at \$7.14 as of 30 June 2024, up 25% on the share price one year earlier compared to an increase of only 7.8% in the ASX200 index over the same period.

The key question for IAG shareholders is – *“Is this a sustainable level of performance for the future or is FY24 as good as it is likely to get?”* IAG has stated that their 'through the cycle' targets are an insurance margin of 15% and a Return on Equity (ROE) of 14% to 15%, aiming to deliver returns at or above the levels achieved in FY24.

In June 2024, IAG announced three significant reinsurance transactions with Berkshire Hathaway, Canada Life and Enstar. These transactions are designed to reduce volatility in prior year reserves

³ tNPS: transactional Net Promoter Score

⁴ Group Balanced Scorecard non-financial objectives relating to customer number growth, digital channel share, enterprise platform delivery, employee engagement, risk and climate management.

and future natural perils costs, as well as lower capital requirements. They are expected to deliver returns that meet or exceed IAG's Return on Equity (ROE) targets.

The difference in reinsurance expenses as a portion of net earned premiums between IAG and Suncorp is due to IAG's whole-of-account quota share arrangements with Berkshire Hathaway (initiated in 2015) and Munich Re, Swiss Re, and Hannover Re (since 2017). These arrangements reduce capital requirements and provide a 5% margin uplift.

IAG CEO Nick Hawkins was recently quoted as saying: *"We provided 20,000 customers with financial support, invested heavily in our people, making sure we're identifying as quickly as possible vulnerable customers."* IAG achieves this by identifying vulnerable customers through trained staff, AI alerts, and voice analytics, referring cases to a specialist team. Staff receive empathetic and trauma-informed training. Support includes waived or deferred premiums.

Regarding the progress of the Greensill litigation, which involves an approximate A\$7 billion exposure to its wholly owned subsidiary Insurance Australia Limited (IAL), Tom Pockett stated that IAG is defending all claims and maintains its position of 'no net exposure.' He noted that all issues arose after IAG sold its interest in BCC Trade Credit Pty Ltd to Tokio Marine Management (Australasia). Detailed information can be found on pages 110 and 111 of the Annual Report. Several court proceedings related to trade credit claims have commenced, and IAG anticipates that resolving these matters will take several years.

Last year, ASIC announced that they were commencing civil proceedings in Federal Court and a class action was launched by law firm Slater & Gordon. It was alleged that Insurance Australia Limited (IAL) failed to honour discount promises made to customers holding NRMA-branded insurance policies. IAG maintains that they have fulfilled their loyalty promises to customers and disputes the claim that they misled customers about the extent of the discounts. IAG intends to defend the proceedings. The pricing of premiums is complex, and IAG disagrees with ASIC's characterization of the process used to calculate renewal premiums and its impact on customers.

Financial performance

(As at FYE)	2024	2023	2022	2021	2020
NPAT (\$m)	898	832	347	(427)	435
Underlying Insurance Profit (\$m)	1,137	1,052	1,157	1,095	1,172
Cash Earnings (\$m)	905	452	213	747	279
Share price (\$)	7.14	5.7	4.36	5.16	5.77
Dividend (cents)	27.0	15.0	11.0	20.0	10.0
TSR%	30.0	34.17	(13.37)	(7.10)	(28.93)
EPS (cents)	37.3	33.9	14.1	(17.8)	18.9
CEO total remuneration, actual (\$m)	3.423	2.677	2.272	2.480	5.743

Underlying insurance profit is reported on annually by the company and is the reported insurance profit (pre-tax) adjusted for natural perils, credit spreads and reserve releases/strengthening.

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking, by the share price at the start of the year).

Governance and culture

Last year, innovation was implemented across all departments. IAG will provide a progress report to investors at the end of 2024.

Key board or senior management changes

As outlined on page 6 of the Annual Report, Jon Nicholson has announced his intention to retire from the Board at the conclusion of this year's AGM. George Savvides has stepped down as Chair of the People and Remuneration Committee but continues as a non-executive director.

There are no anticipated changes to the board, which means that IAG still has 10 directors (including the MD/CEO), which is a very large Board. The Chair indicated that both Scott Pickering and Simon Allen were required for the New Zealand business. Once again, we stated our preference for a skills matrix listing skills of each director individually⁵ rather than combined.

Sustainability/ESG

The environment and social skillset are lowest in the skills matrix. Our concern is how IAG hope to achieve their Carbon Emission target by 2030.

4. Rationale for Voting Intentions

Resolution 2(a) Re-election of Mr David Armstrong as a non-executive director

David Armstrong has been a Director of IAG since September 2021 and Chair of the Audit Committee since October 2021. He is also a member of the Risk Committee. With over 40 years of experience at PricewaterhouseCoopers, David has extensive expertise in banking, capital markets, real estate, and infrastructure. He is currently the Chair of The George Institute for Global Health and the Opera Australia Capital Fund Limited. Previously, he was a Non-Executive Director at National Australia Bank, where he chaired the Audit Committee and was a member of the Risk & Compliance Committee. David is a Fellow of the Institute of Chartered Accountants in Australia and a member of the Australian Institute of Company Directors.

Mr Armstrong has the skills and experience to continue to contribute to the Board and as such we will be voting all undirected proxies for his re-election.

Resolution 2(b) Re-election of Mr George Sartorel as a non-executive director

George Sartorel has been a Director of IAG since September 2021 and is a member of the People and Remuneration Committee and the Risk Committee. He is a seasoned insurance CEO with

⁵ IAG FY24 Corporate Governance Statement p9

extensive experience in property, casualty, health, life insurance, and asset management. George's career at Allianz included roles as Chief General Manager of Allianz Australia, CEO of Allianz Italy and Allianz Turkey, and Asia-Pacific CEO. He was also Chair of the Allianz Asia Advisory Council and a founding member of Allianz X. Currently, he is a Non-Executive Director of Prudential plc and has previously served as a Director of BIMA. George has also been a member of the Financial Centre Advisory Panel (Monetary Authority of Singapore).

Mr Sartorel has the skills and experience to continue to contribute to the Board and as such we will be voting all undirected proxies for his re-election.

Resolution 2(c) Re-election of Ms Michelle Tredenick as a non-executive director

Michelle Tredenick was appointed as a Director of IAG on 13 March 2018. She has been Chair of the Risk Committee since 1 September 2023 and is a member of the People and Remuneration Committee. Michelle has over 25 years of experience in financial services, having held senior executive roles at National Australia Bank, MLC, and Suncorp. Her roles have included Chief Information Officer, Head of Strategy and Corporate Development, and senior leadership positions in corporate superannuation, insurance, and wealth management.

Michelle was appointed as a Non-Executive Director of First Sentier Investors in June 2020 and became Lead Independent Director in 2024, where she also chairs the Audit and Risk Committee. She is a Non-Executive Director of Hub24 Limited, IDP Education, and Urbis Pty Ltd. Previously, she chaired the IAG & NRMA Superannuation Fund (2012-2018) and served as a Director of Cricket Australia (2015-2022) and the Ethics Centre (2013-2022). Michelle also served as a Non-Executive Director of Zafin Labs Americas Incorporated, chairing the Human Resources and Governance Committee (2021-2024), and was a member of the Senate of the University of Queensland (2014-2021).

Directorships of other listed companies held in the past three years:

- Hub24 Limited (since 2024)
- IDP Education Limited (since 2022)

Ms Tredenick has the skills and experience to continue to contribute to the Board and as such we will be voting all undirected proxies for his re-election.

Resolution 3 Adoption of the remuneration report

As a follow up from last year, IAG have applied the main changes because of CPS 511.

For CPS 511 IAG applied following changes for FY24.

- Group CEO STI 50% is paid in cash in year one and that the remaining 50% paid in DAR⁶ that maybe deferred out to year six.

⁶ DAR: Deferred Award Rights plan is incentive scheme to reward executives over medium term such as STI.

- Balanced Score Card for the STI is weighted 60%/40% financial and non-financial objectives respectively. The financial objective is based on 30% NPAT and 30% underlying insurance profit.
- Group CEO LTI EPRs⁷ measured over a four-year performance period and vesting equally in years 4,5 and.
- From FY24 LTI plan now includes a non-financial measure of customer experience measured by tNPS⁸ which is equally weighted with the existing financial measures, Return on Equity (ROE) and Total Shareholder Return (TSR).
- The FY24 Annual Report highlights a decline in tNPS, dropping from 49.1 to 47.8 over the year. The tNPS threshold is set at 47, with a stretch goal of 55.

The FY24 Group Balanced Scorecard (BSC) outcome was 3.8/5, exceeding the target of 3.0/5. Consequently, the Board determined the Group CEO's Short-Term Incentive (STI) outcome to be 80% of the maximum. However, no Long-Term Incentive (LTI) was awarded as the Return on Equity/Weighted Average Cost of Capital (ROE/WACC) was 0.82 times (target 1.4 times) over a four-year period, and the relative Total Shareholder Return (rTSR) was ranked in the 38th percentile (target 50th) against the peer group.

The fixed pay has been increased by 5% for the Group CEO and by 5.3% for six senior executives. For FY24, as in FY23, the STI section of the remuneration plan still does not comply with ASA guidelines, as it exceeds 100% of the fixed remuneration.

Overall, while the fixed pay is not excessive and many of our previous concerns relating to CPS 511 have been addressed, we have decided to vote all undirected proxies in favour of this resolution.

Resolution 4 Allocation of share rights to Nick Hawkins, MD and CEO

We are voting for the remuneration report and are supportive of how this aspect of remuneration operates under the current plan so will be voting all undirected proxies for this resolution.

⁷ EPRs: Executive Performance Rights plan is incentive scheme to reward executives over long term such as LTI.

⁸ tNPS: customer experience measured by transactional Net Promoter Score.

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Appendix 1

Remuneration framework detail

CEO rem. Framework for FY24	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.8	36%	1.8	25%
STI - Cash	0.90	18%	1.35	19%
STI - Equity	0.90	18%	1.35	19%
LTI	1.350	27%	2.7	38%
Total	4.950	100%	7.200	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.