



A solid result overshadowed by prior year provision increases

Company/ASX Code	Insurance Australia Group Limited/IAG
AGM date	Friday 22 October 2021
Time and location	9.30am via Lumi
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Ian Graves assisted by Bala Varadarajan
Pre AGM-Meeting?	Yes, with Chairman Elizabeth Bryant, Chairman elect Tom Pocket, George Savides, Chairman People & Remuneration Committee, James Coghill, Exec GM Investor Relations

Please note any potential conflict as follows: The individuals involved in the preparation of this voting intention don't have a shareholding in this company.

Summary of issues for meeting

1 Remuneration

Changes made to this year's Remuneration Framework as shown in Appendix 1 increased the Fixed Remuneration, reduced the LTI whilst further increasing the STI making it the largest component of the remuneration.

2 Risk Management

In previous years ASA has been critical of the report having too much emphasis on the ESG component with the focus highlighting committee activities and lack of focus on Risk management issues specifically in relation to underwriting exposures. This year the report has provided more details on the Risk Management Framework and minimisation of identified exposures.

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

A sound performance in what was a difficult year with Results impacted by prior year Claim reserves strengthening of \$81m. plus a further \$1,310m. for previous years events of Business Interruption Provisions, Customer refunds, Payroll compliance and Swann class actions.

Over the last few years ASA has been critical of the lack of business focus and it is pleasing that with changes to the CEO and recruitment of new Executives to provide additional skills in here has also been several Board and KMP changes

Summary

(As at FYE)	2021	2020	2019	2018	2017
NPAT (\$m)	(264)	498	969	1026	1015
UPAT (\$m)	747	279	1,076	923	929
Share price (\$)	5.16	5.77	8.36	8.53	6.78
Dividend (cents)	20	10	37.5	34	33
Simple TSR (%) *	(7.10)	(35.04)	2.35	25.8	30.5
EPS (cents)	28.51	12.12	38.83	42.75	40.13
CEO total remuneration, actual (\$m)	2.949	5.743	5.407	4.502	3.841

For 2021 the CEO's total actual remuneration was **32 times** the Australian Full time Adult Average Weekly Total Earnings (from the Australian Bureau of Statistics). \$92,034.80

<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>

*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

As a result of the significant costs resulting from the failure of several material legacy systems which are reflected in this year's provisioning. Resulted in IAG making several changes to their technical and risk maturity systems. Investing between \$450 to \$600 m in consolidating the multiple systems reducing them from 34 different systems to one core Insurance platform Stage one provided a single claims platform. Stage two will consolidate and simplify multiple policy and administrative systems.

Major improvements have been made to their risk infrastructure and significant progress in a \$100m program to improve their Risk management practices under Project rQ. This program is nearing completion and will strengthen risk controls. As well as fundamental changes to organisational structure and leadership through the hiring of additional skills.

Underwriting practices have been improved with more stringent Natural Hazard risk selection e.g., Flood cover not provided in flood prone areas. The Reinsurance program also amended to reduce IAG's net exposures. With the Balanced scorecard now to include risk management as one of the key pillars across the group.

Managing Emissions

IAG have been carbon neutral since 2012 and using Paris agreement commitments selecting FY2018 as baseline for IAG's net exposures, to achieve 95% reduction by 2050.

Financial performance

The reported GWP of \$12,602m. was a 3.8% increase over the previous year with premium growth from both sales and rate increases, personal lines from DIA, supported by stable retention in IIA commercial portfolios.

Although the underlying insurance margin of 14.7% was lower than last financial year. This was a result of additional non-recurring expenses and deterioration in commercial long tail claims. Along with increased reserving for natural perils claims.

COVID-19 also impacted the first half with reduced premiums, along with increased provisioning for Business Interruption claims. Yesterday a test case for payment of these claims was decided in favour of the insurers, although it is likely to be appealed.

New Zealand also experienced reduced premiums although pre-tax earnings slightly increased as a result of fewer motor claims.

Cash Earnings were up from \$468m to \$747m, with Dividends increasing from 10 cents to 20 cents per share

Key events

December 2020 completed a \$775m Capital raising with \$650m through a fully underwritten institutional placement and \$126m from retail shareholders. Although initially targeting \$100m from retail shareholders, IAG was mindful of its shareholders' interests and increased the cap to accept all valid applications.

IAG also issued a further \$450 million AUD subordinated convertible term notes due 2036 increasing interest bearing debt securities to 37.3% an increase of 5% although still within the targeted range of 30% to 40%

Restructure

With the appointment of the new CEO a new structure was announced to split Australia Division into Direct Insurance Australia and Intermediated Insurance Australia. To provide increased focus on intermediated Business which IAG see as an area for further growth.

Key Board and senior management changes

Last year was one of change both with the Board and Senior management.

Board

As part of the ongoing refreshment of the Board 2 new directors were appointed.

George Sartorel and David Armstrong both appointed to the Board on 1 September. With both the Chairman Elizabeth Bryant and Duncan Boyle retiring after the AGM.

Tom Pockett who has been a director since 2015 is to succeed Ms Bryant as Chairman.

As announced 9 August, Mr Scott Pickering has been appointed a director based in New Zealand

Senior Management

Changes were a result of three factors The retirement of CEO Peter Harmer, restructuring of the Australian business and recruitment for new positions to fill identified skill gaps.

CEO Peter Harmer announced retirement with effect 2 November 2020.

CFO Nick Hawkins was promoted to CEO from 2 November.

Acting CFO Michelle McPherson was promoted to CFO.

CEO Australia Mark Milliner former Group Executive Insurance Australia left the group 2 November.

Julie Batch appointed Group Executive Direct Insurance.

Jarrold Hill was recruited to be Group Executive Intermediated Insurance Australia to commence during September 2021.

Since the end of the Financial Year, Tim Plant has been recruited for the newly created role of Chief Insurance & Strategy Officer and is to commence later this year.

Item 2, Res. 1	Adoption of Remuneration Report
ASA Vote	Against

Summary of ASA Position

The new CEO's actual remuneration of \$2.949m, is shown as 32 times the Australian Full time Adult Average Weekly Total \$92,034.80, which is half the previous CEO's actual remuneration. This is an anomaly resulting from the new CEO only being appointed in November 2020. His actual remuneration before that is based on his prior role as CFO and 2020 cash STI, as well as being impacted by the non-vesting of the FY17-18 LTI. Next year's take home pay will increase as fixed remuneration has increased to \$1.8m.

Last year ASA voted in favour of the remuneration report, although with reservations. Regarding the STI assessment rigour with nonfinancial measures, STI at the maximum opportunity was 36% which exceeded ASA guidelines being larger than Fixed Remuneration although less than the LTI of 40%. With no STI being paid, our opposition to the STI became immaterial.

As can be seen by the Framework Table in Appendix 1, this year it is even more unbalanced with the STI at the maximum opportunity exceeding the LTI and the Fixed Remuneration being reduced to 24%. ASA voting Guidelines recommend that the STI should be less than fixed remuneration and the LTI. As well, last year the CFO received a Cash sign on fee of \$509,176. ASA guidelines acknowledge that sign on fees can be unavoidable but when paid should be deferred equity which vests upon meeting 3 -5-year performance hurdles. This was not the case with this appointment. In discussions with the PARC chairman the guidelines for any sign on fee is that they are only to reimburse forgone benefits and be in same kind as them.

In the annual review, the PARC Chairman, advised a remuneration consultant has been engaged to undertake a formal review in anticipation of the regulatory changes already announced by APRA under CPS511. In addition, in recognition of the impact of operational risks issues on the results the Board determined that STI's for 2020 not be awarded and the 2021 outcomes for individuals would be reduced to no more than 64% their maximum, and STI pool funding reduced from 100% to 60% of the maximum.

Although recognising we support the interim measures by the Board and the announced approach to the changes of the remuneration plan. They will not be operational to 2023.

This resolution relates to two awards, the DAR and the EPR. The EPR which is more commonly known as the LTI grant, which ASA is in agrees with both the calculation and hurdles and would vote in favour of. The DAR, deferred component of the short-term incentive amount of the STI, is excessive, especially as the shareholders again lost out with TSR being minus and the share price well below pre Covid levels is not aligned with either shareholder interests or expectations.

ASA doesn't support the plan and will be voting all undirected proxies against the resolution and will be voting all undirected proxies against this resolution.

Item 3, Res. 2	Re-election of Michelle Tredenick as a Director
ASA Vote	For

Michelle Tredenick was appointed to the Board of IAG on 13 of March 2018. She is currently a member of Board People and Remuneration Committee (BPRC) and Board Risk Committee. She has more than 25 years' experience in the Finance Industry in a variety of senior roles ranging from Information Technology and Strategy.

She is Non-Executive Director of First Sentier Investors, Director of Cricket Australia, Director of Urbis Pty Ltd, Member of University of Queensland Senate, Member of Ethics Centre Board

Although she has, a heavy workload, ASA was assured by her and the Chairman that these other nonexecutive positions did not impact her ability to provide the necessary time to IAG.

ASA will be voting all undirected proxies in favour of her election

Item 4, Res. 3	Election of David Armstrong as a Director
ASA Vote	Undecided

David Armstrong was appointed Director on 1 Sep 2021 subject to background checks and Shareholder approval. He is a member of the Board Audit Committee and will assume the role of Chairman of the Audit Committee after the AGM. David has more than 40 years' experience in Professional Services, Banking and Capital Markets. He is currently on the Board of National Australia Bank Limited. He has 4 other roles as. Chair of George Institute for Mental Health, Director of Opera Australia Capital Fund Ltd, President Australian Museum, Director Lizard Island Reef Research Foundation.

Consequently, David has a heavy workload and ASA will ask how David will balance the various demands on his time and find the time to devote the to IAG.

Item 4, Res. 4	Election of George Sartorel as a Director
ASA Vote	For

George Sartoral was appointed to IAG Board on 1 September 2021 and has a background in Life Insurance and Asset Management. George has the necessary experience to play an effective role on the Board of IAG.

ASA will be voting all undirected proxies in favour of his election

Although committed to Diversity and having 44% Female directors with the foreshadowed retirement of the Chairman, female representation will drop to 33%. We expect with further board refreshment this ratio will likely revert to the previous ratio.

Item 5, Res. 5	Approval of LTI grant to CEO/Managing Director Nick Hawkins
ASA Vote	Against

Summary of ASA Position

This resolution proposes that for Mr Hawkins long-term incentives, he be awarded 531,000 (EPRs) these are calculated based on the Value of the Grant is \$1.8m and the value based on the 30day VWAP up to 30 June being \$5.082544.

The performance hurdles are based 50% on TSR IAG relative to peer group of ASX 50 industrial Companies & 50% Cash return on equity.

Although ASA agrees with the EPR's, as explained in Resolution 1, we don't support the resolution as we are opposed to the excessive amount of the STI and nonalignment with shareholders' interests. ASA is unable support the allocation of these share rights and will be voting all undirected proxies against this resolution.

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Appendix 1 Remuneration framework detail

CEO rem. Framework for FY21	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.574	38%	1.574	25%
STI - Cash	0.708	17%	1.180	18.8%
STI - Equity	0.708	17%	1.180	18.8%
LTI	1.180	28%	2.360	37.4%
Total	4.170	100.0%	6.294	100%

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

*Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.