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| Company | Insurance Australia Group Limited |
| Code | IAG |
| Meeting | AGM |
| Date | 26 October 2018 |
| Venue | Sofitel Wentworth Hotel, Phillip St, Sydney |
| Monitor | Richard Wilkins and Ian Graves |

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| Number of attendees at meeting | 300 shareholders and 94 others |
| Number of holdings represented by ASA | 456 |
| Value of proxies | \$15.0m |
| Number of shares represented by ASA | 2.14m |
| Market capitalisation | \$16.6 B |
| Were proxies voted? | Yes, on a poll |
| Pre AGM Meeting? | Yes, with Chair Elizabeth Bryan and Investor Relations |

Strong focus on risk and climate change

This was a [long but well-managed AGM](#), with 16 shareholders speaking. Three or four spoke as IAG customers - with both criticism and praise for branch services. The CEO and Chair reassured them that the branch network was highly valued, and will be maintained. It will not be compromised by IAG's emphasis on increasing efficiency and enhancing its digital customer services. Other questions were split roughly equally between climate change matters and the rest of IAG's business.

In her formal address, the Chair said "responding to the Royal Commission has involved IAG in a huge amount of self-examination throughout the Group." With respect to the 'add-on' motor insurance sold through Swann – the only part of IAG that was criticised in the Royal Commission - she said that IAG decided to sell or withdraw from that business in August 2016 and October 2017- "in hindsight we could have acted earlier". IAG has found the input of external stakeholders and experts, in the regular meetings of its Consumer Advisory Board, Customer Conduct Council and Ethics Committee, to be very valuable. Their advice is used to develop IAG's formal set of Product Design Principles. On staff conduct, IAG enforces its behavioural and ethical standards, with disciplinary action taken when warranted.

Shareholders had also submitted questions before the AGM: their main themes were IAG's remuneration policy; the Capital Management initiative (see Resolutions 7 & 8); the financial services Royal Commission; political donations; and climate change.

Both in their formal addresses, and in response to shareholder questions, the Chair and CEO argued persuasively that IAG accepts the science and effects of climate change, its crucial relevance to IAG as an insurer, and takes a strong public stance on it. Mr Harmer said “IAG has long been an advocate for climate science because of its exposure to claims from environmental factors including floods, fires and cyclones. We are feeling the effects of climate change already. We see it in our own industry’s data, which tells us an inescapable truth. In recent years we have seen an increase in the frequency of severe weather events that are affecting greater and greater numbers of people. We know climate change impacts will increase even further.” IAG is modelling scenarios for 2 and 3 degree temperature increases. From FY19 IAG will include direct accountability for climate change objectives in setting performance goals and short-term incentives for its senior executives, over the next three financial years. The Climate Action Plan Scorecard sets targets and deadlines in five key areas that include current and future actions to help mitigate climate risk.

IAG itself has been carbon neutral since 2012. Only 0.25% of IAG’s investments are in fossil fuels, and its insurance exposure is mainly for workers compensation. It doesn’t insure the physical assets of carbon-intensive companies. IAG holds \$50m in “green bonds” that finance environmentally friendly projects and committed \$50m to a low carbon fund led by National Australia Bank that invests in renewable energy.

Mr Harmer reconfirmed IAG’s financial guidance for FY19 with 2-4% premium growth and a 16-18% reported insurance margin. Following the recent sale of the three Asian subsidiaries, he stated that “at this stage, we are retaining our interests in Malaysia and India and are continuing to assess our position, but we do not envisage further material investment in the region.” ASA has commended the sale price of the Thai business, which will generate \$200m after-tax profit, to be recorded in FY19. This accounts for over 95% of the proceeds; the two small sales have not yet settled.

ASA, and another shareholder, praised the excellent quality of IAG’s financial and other reporting. We asked the auditor about the high value of NZ tax losses (6.5 years’ worth of NZ profits), held on IAG’s balance sheet as a deferred tax asset. He acknowledged this: KPMG had assessed this rigorously and was satisfied that those tax losses would be recoverable. We asked the Chair to elaborate on the Annual Report statements of a stronger emphasis on risk in FY18, and even more in future. IAG appointed an expert Chief Risk Officer, and has about 200 staff dedicated to risk analysis and control. Satisfactory risk governance is a major qualitative factor in the award of STIs.

We asked about IAG’s growth outlook and cyclical factors. The Chair responded that IAG’s personal lines business is not cyclical, and accounts for 70% of premiums. There is a cycle in business insurance; she acknowledged ASA’s caution and said that aspect has been allowed for in its financial guidance. There is no wider significance in the sale this month of the Community Business Network to Steadfast: the ownership of that business portfolio is better suited to a broker, like Steadfast, but the sale doesn’t contradict IAG’s desire to underwrite more SME business.

A shareholder noted that, after strong increases, IAG’s share price had been weak recently, and asked whether that presaged bad news. The Chair thought that the only identifiable cause was a major overseas shareholder reducing all its A\$ holdings, and added “the market is fully informed about IAG”.

Remuneration Report and CEO share-based incentives.

IAG reviewed its pay policy in 2017, and noted APRA’s insurance sector remuneration review of early 2018. These have led to some policy changes at IAG, including a greater emphasis on risk governance. Additional changes are being introduced in FY19, e.g. increasing the deferred part of the STI to 50% (for grants from September 2019) and extending the return on equity (ROE) tranche of the LTI to a 4 year assessment period (from 3 years), for grants starting in November 2018. Those changes are definite. The Chair said “we will

complete our review of employee sales incentives, either to discontinue them or change them so they are sure to meet customer objectives.” She added “IAG will [also] review the level of our cash ROE for incentive purposes.”

ASA welcomes these actual and proposed changes—we have been arguing for the ROE change for several years, and it was a significant part of our reason for voting against the FY18 remuneration report. The other proposal is also welcome: such incentives have been a major area of criticism at the Royal Commission, although not with reference to IAG’s use of them. The FY19 Executive pay arrangements are now definite, so any changes to them would be deferred to FY20. Some changes to sales incentives are already in train.

We explained why ASA would vote against Resolutions 1 & 2, but acknowledged the improvements to IAG’s pay structure and disclosures in recent years. We praised the clarity and transparency of the report. Only two other shareholders spoke on these matters: one protested that senior pay and incentive awards in the finance sector were excessive by community standards. The Chair argued the need to meet market pay norms for well qualified executives, but conceded that change in pay policy is coming. “Our board is well-aware of shifting community expectations regarding executive remuneration. We recognise there is an increasing appetite for change and the Royal Commission has sped up the process.”

Other resolutions

The four directors standing for election or re- election addressed the meeting, and were supported by votes above 98%. There were only one or two questions on these resolutions. We had expressed concern before the AGM that the two new directors, Ms Tredenick and Ms McGregor, had extensive commitments outside IAG. We were satisfied by their answers (endorsed by the Chair) that they could devote sufficient time to IAG. Ms McGregor said that the reason for her resignation from Seven West Media last year was not her workload, or anything that could cause her not to be fully available to IAG.

The resolutions for the capital return and special dividend received 99.7% support from shares voted, including from ASA. IAG will still be strongly capitalised after these payments. One minor adverse effect is that, after the large extra fully franked dividend now, dividends from 1 July 2019 may be franked less, in the range of 70 – 100%.

All resolutions were determined by poll. The remuneration report received a 3.3% against vote, compared with 4.5% in 2017, and 2% in prior years. The resolution to approve the CEO’s equity-based incentives received a modest against vote of 2.3% (similar to previous years).

1,311m shares (55% of IAG’s total shares) were voted. Of these, 132m were “direct votes” (more than double the number last year). The direct votes are the shares not voted by proxy: these are likely to represent mostly individual members voting online before the agm, and most of the shareholders present at the agm. Some caution should be taken in interpreting this, as a precise analysis is impossible, but the direct *against* votes were higher than the overall poll figures (although by a lesser extent than last year): the numbers of direct against votes were: the Remuneration Report 6.3%; Mr Harmer’s incentives 9.6%; the other resolutions about 2.5%.

There was little media coverage of the AGM, although the Australian published an interview with Mr Harmer, held after the AGM. The interview was entirely about climate change, and didn’t cover other aspects of IAG’s business strategies. [The AGM was webcast live.](#)