Australian Shareholders' Association
Australian Shareholders' Association Limited
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A better year against headwinds

Company/ASX Code	**Insurance Australia Group/IAG**
AGM time and date	**9:30am Wednesday, 11 October 2023**
Location	Wesley Conference Centre, 220 Pitt St, Sydney 2000
Registry	Computershare
Type of meeting	Hybrid
Monitor	Sue Howes assisted by John Lin
Pre-AGM Meeting	Yes, with Chairman, Tom Pockett, George Savvides (Director and Chairman, People and Remuneration Committee), Christine Stasi (People, Performance and Reputation) 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	
1	Re-election of Mr Simon Allen as a director	For
2	Re-election of Mr Jon Nicholson as a director	For
3	Election of Ms Wendy Thorpe as a director	For
4	Adoption of the remuneration report	For
5	Allocation of share rights to Nick Hawkins, MD and CEO	For
6	Increase in the Non-executive Director Fee Pool Cap	Against

2. Summary of Issues and Voting Intentions for AGM

- The company has had to deal with several issues over the last few years but seems to be dealing with them well. Market conditions are tight with pressure from inflation in replacement costs, increases in natural disaster frequency and severity and a tightening reinsurance market, all resulting in the need to increase premiums significantly. The company seems to be managing this while retaining customers.
- Remuneration Plan changes to align with APRA CPS 511 have met many of our objections to the remuneration plan raised last year and we are supporting it this year.
- We are voting against the increase to Board fees due to the size of the Board and the incentive this existing limit gives for a disciplined approach to board renewal.

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

3. Matters Considered

Accounts and reports

The interesting feature of the accounts this year is a substantial shift in the heretofore relatively stable underlying profit.

In the preceding four years the underlying has had minor reductions, mainly as a result of natural disaster claims. The key driver of the shift in underlying is the gross of reinsurance claims expense as a result of inflationary pressures in car and home repairs, significant natural disaster events in Australia and New Zealand and reinsurers increasing premium rates.

This year has seen a release of a significant portion ($392m net of reinsurance and tax) of the provision for business interruption claims arising out of COVID, which has provided a significant increase to the net profit after tax (NPAT). This is removed when calculating the underlying profit.

This provision is held in claims expense in the chart of accounts. When this is adjusted for ($830m gross), the claims expense increases to $10,263m compared to FY22 of $9,079m, an increase of 13%. The comparable increase in reinsurance recoveries was 8%, although we note the above adjustment is net of reinsurance.

The commentary in the report has noted the reduction in capacity in the global reinsurance market. This, combined with the likelihood of continuing natural disasters and a higher inflation environment tend to indicate that underlying profit may have taken a step down for the foreseeable future. However, in our discussions with the company, their retention rates remain good and the premium increases have taken effect in the second half of the year. IAG anticipates the underlying to improve next year as these increases work through the accounts.

We have quizzed the company on the Greensill issue, which centres around disputed claims totalling $7billion. IAG has put a provision in the accounts to cover the cost of claims and expenses reported to date. The window for new claims has now closed and all claims are fully reinsured.

There is also an issue regarding ACCC action regarding premium rate increases above the inflation rate. It is likely IAG could justify the quantum of increase given the increasing claims cost. The company intends to defend its use of AI to ASIC on the basis that customers continue to be treated fairly and reasonable underwriting practices have not changed with the introduction of this innovation.

Financial performance

(As at FYE)	2023	2022	2021	2020	2019
NPAT ($m)	832	424	(264)	498	969
Underlying Insurance Profit ($m)	1,052	1,157	1,095	1,172	1,195
Cash Earnings ($m)	452	213	747	279	931
Share price ($)	5.70	4.36	5.16	5.770	8.260
Dividend (cents)	15.0	11.0	20.0	10.0	37.5
Simple TSR (%)	34.17	(13.37)	(7.10)	(28.93)	1.63
EPS (cents)	33.9	14.1	(17.8)	18.9	46.3
CEO total remuneration, actual ($m)	2.677	2.272	2.949	5.743	5.407

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

The scrutiny around premium increases and the use of AI has resulted in reputational issues for the company. The company is in a similar boat to competitors with regard to price increases to cover costs and is closely monitoring customer retention rates, which have not shifted significantly.

There is a resolution tabled to increase the director fee pool. The company now has 11 directors (including the MD/CEO), which is a very large Board. This was discussed at our meeting with the company and the Chair has been explicit in his plan to reduce the size of the Board over the next several years while also sharing the renewal strategy that will involve a short-term increase in numbers as greater diversity and additional skills are sought. We will continue to monitor this aspect.

Key board or senior management changes

The CFO, who joined as Acting CFO in April 2020 and then moved into the CFO role fully in November 2020, is now leaving, even though the responsibilities under this role are expanding to take in strategy (a decision we question as, generally, finance and strategy pull in opposite directions).

The CFO stepped up considerably over the COVID period and has now decided on a change of direction. The company have conducted a global search for a replacement and are expecting the make an announcement imminently.

We quizzed the company on the movement of strategy under finance and the explanation is that company strategy is owned by the CEO and the leadership team while the coordination now sits under finance. The Board have quarterly strategic deep dive days where strategy is the only item on the agenda.

The three-year program around the overhaul of senior structure is now seen as complete by the company and the attrition rate at IAG is lower than industry average.

Sustainability/ESG

IAG is a company in an interesting position regarding ESG, it is greatly affected by it without the ability to make significant changes to reduce its impact. The increase in premiums would seem to be both necessary and industry wide and are effectively the only major response for the company.

Having said this, the company has been focused in aligning community contributions to organisations that align with its strategic plan, mostly to increase preparedness and reduce climate risk.

4. Rationale for Voting Intentions

Resolution 1 - Re-election of Mr Simon Allen as a director

Mr Allan has a background in finance in the NZ market. We consider him to have suitable skills and experience to assist this board. While we could vote undirected proxies against on the basis of board numbers and lack of diversity, we also realise that allowing the board to undertake an orderly renewal program can be in the best interests of the company. We have decided to vote for this director and will continue to monitor board size and diversity.

Resolution 2 - Re-election of Mr Jon Nicholson as a director

Mr Nicholson has an extensive background in risk and strategy. Particular skills that are essential to this Board and often difficult to acquire. While we have the same overall reservations as indicated above, given the skillset and allowing an orderly reorganisation we are voting all undirected proxies for this resolution.

Resolution 3 - Election of Ms Wendy Thorpe as a director

Ms Thorpe brings an extensive background in technical insurance skills and IT that provide depth on the one hand and bring highly needed skills on the other. Ms Thorpe clearly assists with gender diversity also. We will be voting all undirected proxies for this resolution.

Resolution 4 - Adoption of the remuneration report

While the resolution relates to the FY23 plan, which we had a number of objections to, there have been significant changes to the remuneration plan for FY24, many of which resolve our previous objections.

The main changes as a result of CPS 511 are:

- Increase in STI and LTI for executive KMP other than the CEO.
- Financial weighting on the STI has increased to 60% overall weighting.
- BSC approach to STI has been slightly simplified.
- STI deferral extended for CEO.
- LTI hurdles change to 1/3 each for Relative TSR, Reported ROE and a customer focused net promoter score metric.
- LTI vesting period has been extended from four years to 6 years for the CEO.

The STI section of the remuneration plan still doesn't comply with ASA guidelines by being more than 100% of the Fixed remuneration. We would also prefer greater transparency with regard to the determination of the scorecard outcomes and pool determination. The company has indicated that they will look at greater transparency in this aspect of reporting for next year.

On balance, fixed is not outrageous and many of our previous concerns have now been addressed, so we have decided to vote all undirected proxies for this resolution.

Resolution 5 - 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.

Resolution 6 - Increase in the Non-executive Director Fee Pool Cap

The current fee pool sits at $3.5m. The resolution is to increase this pool to $4.0m. While there has been no increase since 2013, the current total of annual Director fees (without the addition of Ms Thorpe) is $2.86m. This Board is also quite large, and we have discussed our concerns in this area with the company. While we understand the rationale behind the Board renewal program and the time since fees were last increased, we consider the discipline involved in having the current fee cap on efficiently managing board changes to be beneficial from a retail shareholder standpoint and accordingly will be voting all undirected proxies against this resolution.

Appendix 1
Remuneration framework detail

CEO rem. Framework for FY24	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.851	29%	1.851	26%
STI - Cash	0.90	14%	1.35	18%
STI - Equity	0.90	14%	1.35	19%
LTI	2.7	43%	2.7	37%
Total	6.35	100.0%	7.25	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. Some remuneration framework set a maximum opportunity amount, but not all.

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