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FEATURE INSURER

Geneva Association Interview with Mike Wilkins, Managing Director and CEO, Insurance Australia Group (IAG)

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The most striking statement by Mike Wilkins during our phone interview in November 2013, was "I believe in the future." Mike Wilkins is a dynamic forward-looking CEO who is able to uncover opportunities and take them as far as possible while advancing IAG success for all its stakeholders. *Realising Opportunities* is the title of IAG annual review¹ for 2013 and it states: "This year, we continued to develop services and products to meet our customers' needs and remained committed to making our communities safer and more resilient, by promoting a deeper understanding and awareness of risk".

Overview: IAG today

IAG is the parent company of a general insurance group with controlled operations in Australia, New Zealand, Thailand and Vietnam, employing over 13,500 people (8,759 are in Australia). IAG has more than 762,000 shareholders. IAG's share register is the fourth largest in Australia. IAG is a top 30 ASX-listed company.

IAG's current businesses underwrite approaching AUD10 billion of gross written premium (GWP) per annum, selling insurance under many leading brands including NRMA Insurance, CGU, SGIO, SGIC and Swann (Australia); NZI, State and AMI (New Zealand); Safety and NZI (Thailand); and AAA Assurance (Vietnam). IAG also has interests in general insurance joint ventures in Malaysia, India and China. Standard & Poor's has assigned a 'Very Strong' Insurer Financial Strength Rating of 'AA-' to the Group's core operating subsidiaries. Across IAG's portfolio of brands IAG insurs 8.4 million cars, 2.9 million homes, 103,000 farms, 123,000 employers and 408,900 businesses. IAG had more than 16.1 million policies in force in financial year 2013.

IAG's ambition is to be the world's most respected group of general insurance companies. IAG's strategy is to manage a portfolio of high performing, customer-focused and diverse operations that provide general insurance in a way that delivers superior experiences for customers and creates value for shareholders.

The Group's strategic priorities are to:

- Accelerate profitable growth in Australia
- Sustain a leading position in New Zealand
- Realise the potential of the Asian platform
- Provide customer-focused delivery and execution
- Leverage cultural strengths

Following is a series of questions with Mike Wilkins' answers:

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¹ IAG (2013). *Realising Opportunities*, 2013 Annual Review.



Q: What are the specialties of IAG? What is its size in terms of premiums, number of employees, geographical diversification, etc.?

The Group has a portfolio of end-to-end businesses aligned around customers, brands and markets. Through this devolved model, accountability and responsibility are close to the end customer.

Australian operations

IAG’s Australian operations distribute a range of personal and commercial insurance products, both directly to the customer and indirectly through a network of intermediaries.

There are two businesses in IAG’s Australian operations:

- *Australia Direct* is the Group’s largest business. It distributes products through a network of branches, franchises and country service centres throughout metropolitan, regional and rural Australia, as well as through call centres and online. Australia Direct generated GWP of approximately AUD4.6 billion for the year ended 30 June 2013, representing approximately 48 percent of Group GWP.
- *Australia Intermediated*, known as CGU, sells products nationally, through intermediary channels, including a network of more than 1,000 insurance brokers and authorised representatives, as well as through motor dealerships and financial institutions. Australia Intermediated generated GWP of approximately AUD3 billion for the year ended 30 June 2013, representing approximately 32 percent of Group GWP.

New Zealand operations

IAG is the leading general insurance provider in New Zealand across both the direct and intermediated channels. Insurance products are sold directly to customers predominantly under the State and AMI brands, and through intermediaries (insurance brokers and authorised representatives) predominantly under the NZI brand. Personal lines and commercial products are also distributed under third party brands by IAG’s corporate partners, including large financial institutions. New Zealand generated GWP of approximately NZD2 billion for the year ended 30 June 2013 representing approximately 17 percent of Group GWP in that period.

Asia operations

At 30 June 2013, the carrying value of IAG’s investment in Asia was approximately AUD820 million. The Group has established a presence in five markets Thailand, Malaysia, India, China and Vietnam.

**PORTFOLIO MIX BY BUSINESS –
% OF GWP BY BUSINESS FOR
THE YEAR ENDED 30 JUNE 2013**

- Australia Direct 48%
- Australia Intermediated (CGU) 32%
- New Zealand 17%
- Asia 3%



**PORTFOLIO MIX BY PRODUCT –
% OF GWP BY PRODUCT FOR
THE YEAR ENDED 30 JUNE 2013**

- Motor 33%
- Home 27%
- Short Tail Commercial 19%
- CTP/Motor Liability 10%
- Liability 4%
- Other Short Tail 4%
- Workers' Compensation 3%





Note: ¹RACV is via a distribution relationship and underwriting joint venture with RACV Limited. ²98.6 percent beneficial interest in Safety Insurance. ³49 percent ownership of the general insurance arm of AmBank Group, AmGeneral Holdings Berhad, whose wholly owned subsidiary trades under the AmAssurance and Kurnia brands. ⁴26 percent ownership of SBI General Insurance Company, a joint venture with the State Bank of India. ⁵63.17 percent ownership of AAA Assurance Corporation. ⁶20 percent ownership of Bohai Property Insurance Company Ltd. For more information please go to <http://iag.com.au/about/index.shtml>.

Q: What special highlights would you like to share with the readers regarding the financial results in the past 3-5 years?

IAG has performed strongly across the 2013 financial year. The Group's businesses in Australia and New Zealand have recorded further improvement in underlying profitability, along with strong GWP growth. The Asia division has posted a modest profit and is on track to achieve its longer-term financial goals.

Over the past few years we have created a solid platform for growth and have addressed the underperforming areas of our business. Part of this process was the sale of our U.K. business, which was completed in April 2013.

We expect the Group's performance will continue to improve in the 2014 financial year as the momentum evident in 2013 continues. We anticipate sound GWP growth of between 5–7 percent and an insurance margin in the range of 12.5–14.5 percent.

Q: What are the main highlights in the history of IAG that you would like to share with our readers?

From its beginnings as a motor vehicle insurer in New South Wales (NSW), Australia, IAG has grown to become a general insurance group diversified by product, distribution channel and geography. The Group's heritage dates back to 1921, when the National Roads and Motorists' Association (NRMA) was established and subsequently offered motor insurance to its members. In 2000, the insurance arm of NRMA demutualised and was listed on the Australian Securities Exchange. The company was subsequently renamed Insurance Australia Group Limited in 2002 (ASX:IAG).

While IAG's direct heritage dates back to 1925 when the NRMA started providing insurance to its members in NSW and the ACT, through our CGU business, we have been providing insurance services in Australia for almost 160 years.

In New Zealand, NZI is one of New Zealand's largest and most well-known insurance brands, having been established in 1859.

Q: How would you describe your management philosophy?

I try to hire and promote people who I believe have integrity and are authentic people. From an organisational point of view, integrity is about being true to your purpose. For us, that's helping people manage risk and recover from the hardship of unexpected loss. When an organisation has integrity as its foundation, then it's about achieving success in the right way. That is, delivering on the promises or "social contract" we make to our people, customers, shareholders and community, and living up to the standards we set for ourselves.

Attracting and retaining the right people in the right roles and developing capability and a pipeline of leaders are fundamental to our ability to address the challenges of the future. We must harness and build diversity of thought, make our workplaces safer and develop a strong performance culture.

Leaders make decisions based on what they believe is the right thing to do—and sometimes this can be unpopular. They don't feel compromised, because authentic leaders approach life and business in the same way—and treat their customers and people fairly and with respect, and their personal values align with the organisation's values.

Q: How the corporate structure and corporate governance evolved throughout the 20th century and in the first decade of the new millennium?

From an Australian general insurance sector and corporate governance point of view there is a common misconception that the HIH Insurance Group collapse in March 2001 and its aftershocks prompted a reshaping of the Australian general insurance prudential and regulatory framework. In fact, significant legislative change to modify the legislative framework was already underway before the HIH collapse.

However the collapse accelerated reform and change, escalated its perceived importance and public profile, and caused an expansion of the focus on the various aspects of the legal and regulatory framework which were considered to be in need of attention.

A noticeable trend has been the drive to harmonise more and more regulatory requirements across the various sectors within financial services. There are some aspects, such as business continuity and fit and proper where harmonisation makes absolute sense. However, in other areas there are fundamental differences in the types of risks faced by life insurers, general insurers and banks.

We remain concerned about the tendency to transfer regulatory concepts from one sector of the financial services industry to another without differentiating between them. While endorsing harmonisation of prudential regulation across financial sectors, the Australian general insurance industry believes that regulators should take account of sectoral differences:

- General insurance has different risk profile to banking
- General insurance failures can generally be managed over time. Bank failures occur much faster and have the scope to be more disorderly than insurance failures (there can't be a "run" on an insurance company)
- The failure of a general insurer has less severe and more delayed consequences for the wider economy than of a bank so the need to guard against failure is lower

Q: What are the unique attributes that symbolizes the nature of IAG?

To be the world's most respected group of general insurers, IAG not only needs to outcompete in its chosen markets through effective customer value propositions, we also need to be the leaders in the proactive management of risk. To this end we continued to invest in improving the understanding of risk, its prevention, reduction, protection and recovery, ultimately leading to improving resilience.

For many years, IAG has proactively promoted better understanding and reduction of risks on the road, at home, in business and in the natural environment. We believe we have a responsibility to share our knowledge about risk to make communities more resilient and help people live safer lives.²

In May 2012, we convened the inaugural *IAG Risk Matters Summit* at which community stakeholders gathered to agree the activities we should lead to achieve the greatest reduction of risk in our communities. Since then, we have made progress against the commitments set. These actions will create more sustainable communities, contribute to insurance affordability and deliver tangible benefits to our business. We will continue to focus our risk reduction efforts on these four areas in the coming years.

In New Zealand, IAG continues to work through the complex issues following the devastating Canterbury earthquakes of 2010 and 2011. We launched a national public education campaign, "need2know", to support homeowners making the change from "open ended" to "specified sum insured" home insurance policies, triggered by the need to provide reinsurers with greater certainty around their natural peril exposure. The scale and depth of this public education campaign were market-leading.

² Details about "Risk on the Road," "Risk at Home," "Risk in the Environment," and "Risk In Business" can be obtained from the interviewer.

Q: What additional features reflect IAG's management of cultural differences?

Diversity is a key part of IAG's strategy. IAG's diversity ambition is to respect and value the different experiences of IAG's people, and harness the opportunity and business benefits that diverse ideas and perspectives bring to IAG and its stakeholders. Diverse thinking is key to creating a culture of inclusion and ultimately increasing innovation, IAG's ability to service its customers and improve business performance. This approach is supported by an ongoing focus on diversity demographics such as age, ethnicity and, gender.

Q: How does IAG contribute to the communities, social responsibility activities/actions?

To achieve our ambition, of being the world's most respected group of general insurance companies, we need to manage our businesses in a way that out-competes in our core markets and we need to be the leaders in the proactive management of risk. Helping our customers and broader society have a deeper understanding of risk, how to prevent it, reduce it or more effectively insure it—this underpins our business sustainability strategy and is delivered through a focus on the pillars of our people, our customers, our environment and the community.

IAG reports annually on its social, economic and environmental performance against a series of indicators. The quantitative results of IAG's business sustainability performance are incorporated into the company's annual review. This approach to the reporting of IAG's business sustainability performance demonstrates the ongoing commitment to ensuring business sustainability issues are considered as part of IAG's overall performance.

In December 2012, IAG convened the Australian Business Roundtable on Disaster Resilience & Safer Communities, comprising the CEOs of IAG, Australian Red Cross, Investa Property Group, Munich Re, Optus and Westpac Group. The Roundtable is working collaboratively with governments to bring about change in public policy and increase investment in building safer and more resilient communities with an aim to improve the capacity of people and businesses to better withstand natural disasters. A White Paper released by the Roundtable in June 2013 contains recommendations for action.

Consistent with this and IAG's purpose, IAG became a founding signatory to the United Nations Principles for Sustainable Insurance (PSI) in June 2012, and in February 2013, IAG's Chief Strategy Officer, Leona Murphy, was appointed Co-Chair of the UN PSI Board. We are the only general insurer across Australia and New Zealand to do so.

The Principles are a framework for the global insurance industry to address environmental, social and governance (ESG) risks and opportunities and seek to strengthen the insurance industry's resilience and its contribution to building sustainable communities and economies.

Signatories to the UN Principles commit to integrating environmental, social and governance issues within their businesses. They are also committed to collaborative action to promote sustainable and disaster-resilient communities, while actively proposing solutions to the management of risks—so there is a very close alignment to our goals.

Insurance industry signatories are working together, as well as engaging governments, regulators, non-government organisations and other stakeholders to work on common environmental, social and governance challenges, to achieve sustainable development outcomes. I am proud to say that we are leading the way in this area in Australia.

The value of having sustainability principles embedded in our normal every day way of doing business has been recognised globally. We have been ranked in the Asia Pacific and Australian Dow Jones Sustainability Indices (DJSI) for eight consecutive years, where we are the insurance industry leader for sustainable business practices.

For a similar length of time, IAG has been included in the Carbon Disclosure Project Leadership Index, for reporting on our carbon emissions and our approach to managing risk and building resilience to extreme weather events and climate change.

IAG has been included in the FTSE4Good Index for nine years now, and we are also one of the only nine Australian companies included in the Global 100 Most Sustainable Corporations in the World. And on the award front, we recently won the Best Insurance Company in Socially Responsible Performance award at the recently held AB&F Insurance awards.

Q: Do you have a special Enterprise Risk Management (ERM) system in place? What are the internal controls and philosophy?

Managing risk is central to the sustainability and resilience of IAG's business and delivery of value to shareholders. Risk is part of business and IAG's risk management framework is based on the interaction of the governance structure, internal policies, key management processes and culture. Some of the key underlying principles that influence IAG's approach to risk management are:

- accepting risk management is not trying to avoid all risks, rather risks need to be identified, understood and assessed against the levels of risk IAG is willing to take and those risks are appropriately managed and monitored
- considering the reasonable expectations of all external stakeholders including customers, shareholders, the community and regulators in considering factors which bear upon IAG's continued good standing
- taking into account IAG's legal and statutory obligations and
- a proactive risk management culture at all staff levels within IAG, providing the foundation for appropriate and sustainable risk management.

While having ERM system capability is critically important, it is just one piece of what is needed rather than a silver bullet. The challenge for all insurers, even those with the most sophisticated systems in place, is in understanding the strengths, weaknesses and key assumptions in the systems and then overlaying the qualitative observations, expertise and experience.

Q: What are the new risks that are included in IAG's risk map?

Since the global financial crisis we have broadened the types of external risks that are considered. However, I think the most significant shift has not been what risks are included, but a move from considering each risk in isolation to consider how the major risks can interconnect to each other. This is being done in a similar way to that used by the World Economic Forum. This "interconnectedness" approach can shift the focus from "how do we manage that specific risk" to "how do we manage this cluster of risks". This approach is an acknowledgement that we now live in a highly connected and dynamic world.

The worldwide liberalisation of trade and capital markets has resulted in Australian businesses being increasingly exposed to international opportunities and competition in our home markets. As such, it is vital that Australia has a regulatory framework which allows business to respond to challenges and developments in the international marketplace.

For international companies to continue to operate globally it will be important to ensure that any changes to international regulation of groups lead to reduction or elimination of regulatory overlaps and more efficient and fair operation of the global marketplace.

Q: What were the impacts of the natural disasters in the past two decades?

In Australia there has been an upward trend in natural disaster costs, particularly since 2000. Importantly, there are a number of factors contributing to the increased economic and community impact of natural perils. We are seeing marked increases in population density generally and especially in areas that are prone to natural disasters (particularly around coastal areas), leading to more damage. In addition to the growing number of properties, the increasing value of building and contents and inappropriate construction play a role. A number of factors make Australia particularly vulnerable to the increased threat posed by climate change. For example, more than 80 percent of Australia's population resides within 50 kilometres of the coast and about one quarter of Australia's population growth occurs within 3 kilometres of the coastline. These communities are particularly exposed to some of the most damaging extreme weather events, such as tropical cyclones, storm surges, windstorms, hailstorms and coastal river flooding.

As will be described in the next article about the Australian general insurance market, 2011 was the worst year on record for natural disasters in this country. Insured losses from catastrophes were around AUD5 billion. Across the Tasman where IAG is New Zealand's largest insurer, the damage bill from the Christchurch earthquakes has now topped AUD30 billion alone.

Q: In conclusion, which special “accolades” would you like to share with the readers about your company?

For more than 10 years, IAG has focused on building a culture where driving sustainable outcomes is ingrained in the way we think and do business. We recognise the essential role insurance plays in society and the economy—we are entrusted to help people, businesses and broader communities manage risks and recover from the hardship of unexpected loss. This responsibility motivates our daily decisions and shapes our actions to ensure the proactive management of risk is an outcome of everything we do, ultimately creating more resilient and sustainable communities.

Q: And finally, as the largest insurer in Australia, how do the top executives of IAG manage to sleep well at night (if they are)? How does the governance structure help?

IAG executives not only sleep well at night, they get up in the morning because they are passionate about helping people manage risk and recovery from loss.

The general insurance industry in Australia is considered a competitive and dynamic sector with ever increasing transparency of pricing and policy features. The Australian insurance sector is serviced by a large number of insurers, providing a wide range of offerings to customers. In this market there is intensive price, service and product competition. Customers have access to a healthy range of products from which to choose. They are able to take advantage of special features such as loyalty and multi-policy discounts. This market is considered to be a stable market, being a consolidated market that is quite disciplined in risk-based pricing of its products.