



**IAG: Picking its way through a perilous year**

<b>Company/ASX Code</b>	Insurance Australia Group (IAG)
<b>AGM date</b>	Friday 23 October 2020
<b>Time and location</b>	10am, Online
<b>Registry</b>	Computershare
<b>Webcast</b>	Yes
<b>Poll or show of hands</b>	Poll
<b>Monitor</b>	Ian Graves
<b>Pre AGM-Meeting</b>	Yes with Chairman Elizabeth Bryan and Jon Nicholson, Chairman People and Remuneration Committee

An individual involved in the preparation of this voting intention has a shareholding in this company.

<b>Consideration of accounts and reports</b>	
<b>ASA Vote</b>	No vote required

**Summary of ASA Position**

**Financial year 2020 was a challenging year for IAG.** Natural hazards again had a major impact. Hailstorms in January, a heavy rain event in February and the East Coast bushfires resulted in the natural perils losses exceeding allowance by \$263m, a margin of 3.6%.

A further challenge was the effect of Covid-19 on clients and IAG’s own business operations with the need to meet the challenge of employees working from home. This risk was provided for by the Risk Management Plan, ensuring that IAG was able to quickly adapt to this event. This was enabled by already having a remote working policy in operation prior to this.

Having completed the sale of Indonesia & India IAG Asia business is now limited to interests in Malaysia, Vietnam & China. IAG’s operations are focused on Australia and New Zealand where they have a dominant position in motor and domestic lines. In recent years, short term growth has been obtained from rate increases, but the company is now experiencing resistance with volume loss occurring mainly in small commercial lines.

The concerns from a retail shareholders perspective is that IAG hasn’t announced their future strategy for the business or how future growth is expected to be achieved. Another concern is that IAG appears to have lost business focus whilst concentrating more on non-core activities at the expense of the business. This is apparent in IAG’s approach to disaster risk reduction where the emphasis appears to be in endeavouring to project a leadership position. This is essentially an activity which duplicates the activities of the Insurance Council of Australia of which they are a member, with the additional cost that entails. Likewise, the relevance of the community connection and resilience programme.

Another concern is the inclusion in the Annual Review and Safer Communities Report without proper referencing, of business matters which are more properly and historically part of the Financial, Remuneration, Group Leadership and Board Reporting.

### Key Board and Senior Management Changes

The big news in this space was Peter Harmer's announcement of his retirement as CEO to take effect by the end of 2020. His successor, Nick Hawkins, was announced 21 September 2020. Hawkins has been acting as Deputy CEO since April 2020 and will take up the CEO position on 2 November. He has declared a continued focus on the issue of climate change and simplifying IAG. We hope to hear more about his intentions and strategy at the AGM.

Other changes:

- Simon Allen joined the Board in November 2019
- Other changes to KMPS: Michele McPherson (formerly CFO for NIB) became Acting Chief Financial Officer when Nick Hawkins took on the role of Deputy Chief Executive Officer, and Christine Stasi became Group Executive, People, Performance and Reputation in November 2019.
- Two group executives resigned from the company in January 2020: Ben Bessell and David Harrington. Ben Bessell had been with IAG for 26 years. David Harrington had been with IAG for 8 years.

### Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT (\$m)	498	969	1026	1015	702
UPAT (\$m)	279	1,076	923	929	625
Share price (\$)	5.77	8.36	8.53	6.78	5.45
Dividend (cents)	10	37.5	34	33	36
TSR (%)	(35.04)	2.35	25.8	30.5	6.6
EPS (cents)	12.12	38.83	42.75	40.13	34.76
CEO total remuneration, actual (\$m)	5,743	5,407	4,502	3,841	4,174

For 2020 the CEO's total actual remuneration was **62.44 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from Australian Bureau of Statistics). Note - For May 2020, the Full-time earnings was \$91,983.

<b>Resolution 1</b>	<b>Adoption of Remuneration Report</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Fixed remuneration is set with reference to the median of the external market for comparable roles and the skills of the individual. In Australia the external market consists of Financial services companies in the S&P/ASX50.

During the financial year, only one KMP received an increase which was increased with promotion. The table below sets out the CEO's remuneration based on Statutory remuneration figures.

Short Term Incentives (STIs) are based on a balanced scorecard of Financial 55% and non-financial performance measures of 45% assessed on Group outcomes. The personal assessments are limited to Compliance, Training and Behavioral gateways evaluated by managerial and Board assessments. The STI is delivered half in cash and half in the form of Deferred Acquisition Rights (DARs) which are deferred for 2 years and calculated based on volume weighted share price (VWAP) over 30 days up to and including 30 June.

Although ASA is skeptical of the rigor in the non-financial assessment, this year the Financial gateway was not met and no STIs were awarded.

The LTI awards are based on 50% ROE and 50% Relative Total Shareholder Return (RTSR) over a 4 year period that will be delivered in the form of Executive performance rights using the same 30 day VWAP as for the STIs and convert into company shares at that date.,

The share price is measured against the top 50 Industrial Companies in the S&P/ASX100 index, excluding those in the energy sector and mining sectors. ASA has concerns as to whether the comparative group is a relevant peer group and continues to advocate changing to more alike comparator group being the financial sector excluding the Banks.

Although ASA would like to see some minor changes the plan is unchanged since last year, which we supported. Therefore, ASA will vote all undirected proxies in favour of this resolution

CEO rem. framework	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.926		1.9	24
STI - Cash			1.425	18.1
STI - Equity			1.425	18.1
LTI			3.135.	39.8
Total			7.885	100

Note: IAG does not currently outline Target remuneration

<b>Additional Resolution 11</b>	<b>Allocation of share rights to Mr Nicholas Hawkins</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

This Resolution was an addendum released on 28 September after it was announced on 21 September that Hawkins would succeed Harmer as CEO on 2 November. Shareholder approval is being sought for the portion of Hawkins FY21 long term incentive award that relates to his service as CEO.

Since the share rights being allocated align to the REM policy outlined above, ASA will vote all undirected proxies in favour of the resolution.

<b>Resolution 2</b>	<b>Election of Simon Allen</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Allen was appointed in November 2019. He is Chairman of IAG New Zealand and is a member of the Nominations Committee, People and Remuneration Committee and Risk Committee. His background is in finance in Australia and New Zealand. He is a director of one other company: The New Zealand Refining Company Limited.

ASA considers him to be an independent director with an appropriate background to undertake his duties. Consequently, we will be voting all undirected proxies in favour of his election.

<b>Resolution 3</b>	<b>Re-election of Duncan Boyle</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Mr Boyle was first appointed to the Board in December 2016. He is Chairman of the Risk Committee and a member of the People and Remuneration Committee and Risk Committee and Nomination Committee. He has a background in insurance. He holds one other directorship as Chairman of TAL Dai-ichi Life.

ASA considers him to be an independent director with an appropriate background to undertake his duties. Consequently, we will be voting all undirected proxies in favour of his election.

<b>Resolution 4</b>	<b>Re-election of Sheila McGregor</b>
<b>ASA Vote</b>	<b>Undecided</b>

#### **Summary of ASA Position**

Ms McGregor was first appointed to the Board in March 2018. She has a background in Law and continues to practice in that area as well as holding four other roles as non-executive director with varying demands. Consequently, she has a heavy workload and ASA will question her on her ability to provide the necessary time to IAG given she is also a member of three IAG committees: Audit Committee, Nominations Committee and Risk Committee.

<b>Resolution 5</b>	<b>Re-election of Jonathon Nicholson</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Mr Nicholson was first appointed to the Board in September 2015. He is Chairman of the People and Remuneration Committee and a member of the Nominations Committee and Risk Committee. He has a background in banking and consulting and previously held various senior positions in government. He currently holds three other non-executive directorships.

ASA considers him to be an independent director with an appropriate background to undertake his duties. Consequently, we will be voting all undirected proxies in favour of his election.

<b>Special Business: Adoption of a New Constitution</b>	
<b>Resolution 6</b>	To approve and adopt a new Constitution (excluding Article 6) which is signed by the Chairman of the Meeting for the purposes of identification, as the Constitution of the Company in place of the current Constitution, with effect from the close of the Meeting.'
<b>ASA Vote</b>	<b>For</b>
<b>Resolution 7</b>	'That, with effect from the close of the Meeting, proportional takeover provisions be inserted into the Constitution of the Company as new Article 6, as set out in the new Constitution that is signed by the Chairman of the Meeting for the purposes of identification under Resolution 6
<b>ASA Vote</b>	<b>For</b>
<b>Resolution 8</b>	'To insert into our company's constitution, the following new clause 10.3A 'Advisory resolutions': "The Company in general meeting may by ordinary resolution express an opinion or request information about the way in which a power of the Company partially or exclusively vested in the directors has been or should be exercised. However, such a resolution must relate to an issue of material financial relevance and cannot either advocate action which would violate any law or relate to any personal claim or grievance. Such a resolution is advisory only and does not bind the Directors or the Company'.
<b>ASA Vote</b>	<b>Against</b>
<b>Resolution 9</b>	'Shareholders request that the company develop a policy which guarantees IAG does not invest in, insure or advocate [1] projects or works that could result in negative impacts on nature or cultural sites [2] occurring within the boundaries of a World Heritage property.
<b>ASA Vote</b>	<b>Against</b>
<b>Resolution 10</b>	'Shareholders request where an industry association that IAG is a member of, or is formally represented by, presents a position that contradicts the companies [sic] own policies, IAG must engage with the body on the matter and, notwithstanding amendment to the position, publicly declare its opposition to the association's policy.'
<b>ASA Vote</b>	<b>Against</b>

### Summary of ASA Position

ASA generally approves of updating a company's Constitution to align it with current market practice. However, ASA does not agree with Resolutions 8, 9 and 10 which were proposed by The Colong Foundation for Wilderness Ltd and requisitioned by a group of shareholders. This is an activist group of short-term shareholders with 0.024% of the shareholding.

In terms of Resolution 8, it is ASA's opinion that this motion seeks to limit the Board's ability to act in the best interests of all stakeholders and has the potential to restrict the Board in discharging its duties.

As it provides a forum for any activist groups to advocate in a public forum on matters unrelated to the activities of the Board, ASA opposes this motion and will be voting all undirected proxies against this resolution

It is also ASA's opinion that motions 9 and 10 seek to direct the Board to discharge duties that are not in the best interests of all stakeholders and could restrict the Board in discharging its other duties. ASA also opposes these motions and will be voting all undirected proxies against the resolutions.

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