

The basic principle of insurance is simple. Premiums are paid to insurers to reduce the financial hardship of an unexpected loss.

While the principle may be simple, the mechanics of running an insurance company are not.

Insurers price products before their actual cost is known. That's made more difficult by the influence of long-term cycles outside our control. Weather patterns, investment returns, changing regulation, availability of capital and reinsurance, and shifting community attitudes towards risk, can all take years to manifest themselves. Insurers also deal with events that happen at a moment's notice, like the damage from a severe storm.

Although Insurance Australia Group deals in uncertainties, there is one thing we do know for sure. One in three households in Australia and New Zealand relies on us to protect them and their assets. It's a responsibility we take seriously, and one we believe requires us to deliver value in four ways:

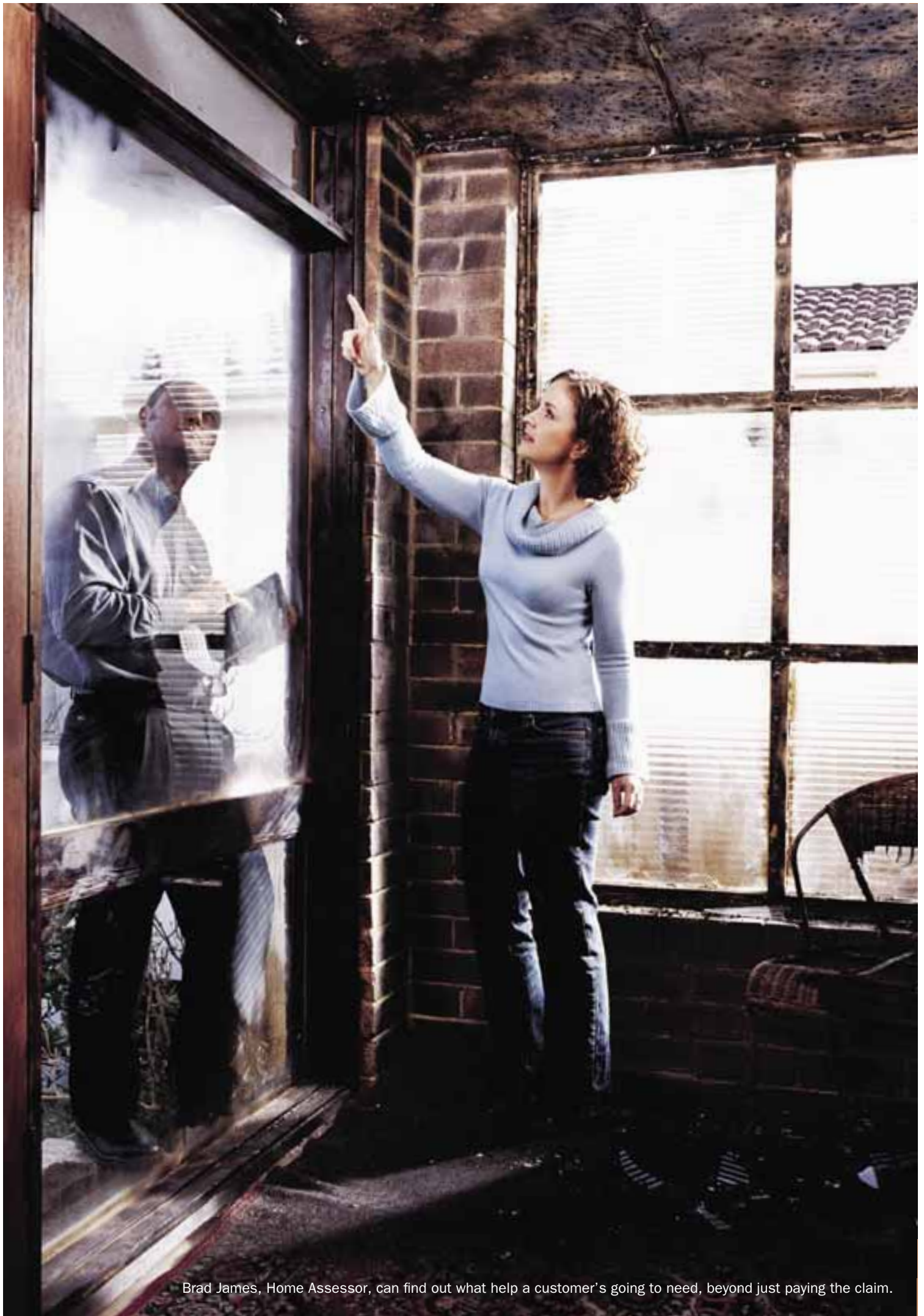
- paying claims;
- understanding and pricing risk;
- managing our costs; and
- reducing risk in the community.

Aligning our people and our business around these four principles is the key to ensuring our future sustainability and creating value for our shareholders.

However, a risk management story can't be told over one year. That's why we've made this report the first instalment of an ongoing series. It's a new way of reporting, but one we trust will help you view the 12-month performance of a long-term investment.

Michael Hawker
CEO, Insurance Australia Group

James Strong
Chairman, Insurance Australia Group



Brad James, Home Assessor, can find out what help a customer's going to need, beyond just paying the claim.

THERE'S A LOT MORE TO PAYING CLAIMS THAN PAYING CLAIMS.



During the year, Insurance Australia Group paid out about \$4.2 billion in claims. That's around \$11 million a day. But paying claims is the easy part. The real work is getting customers back on the road or back to work, or replacing their goods as quickly as possible. That's why insurance policies include features such as lifetime guarantees on repairs, new-for-old replacement, and temporary accommodation. It's also why Insurance Australia Group offers a 24-hour emergency Helpline to many of our customers.

24-HOUR HELPLINE CALLS

Number of customer calls for emergency assistance through our 24-hour Helpline during the year:

37,421

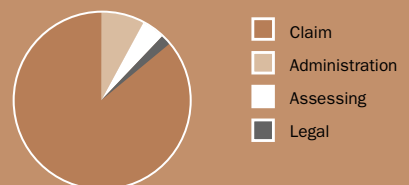
CLAIMS SATISFACTION

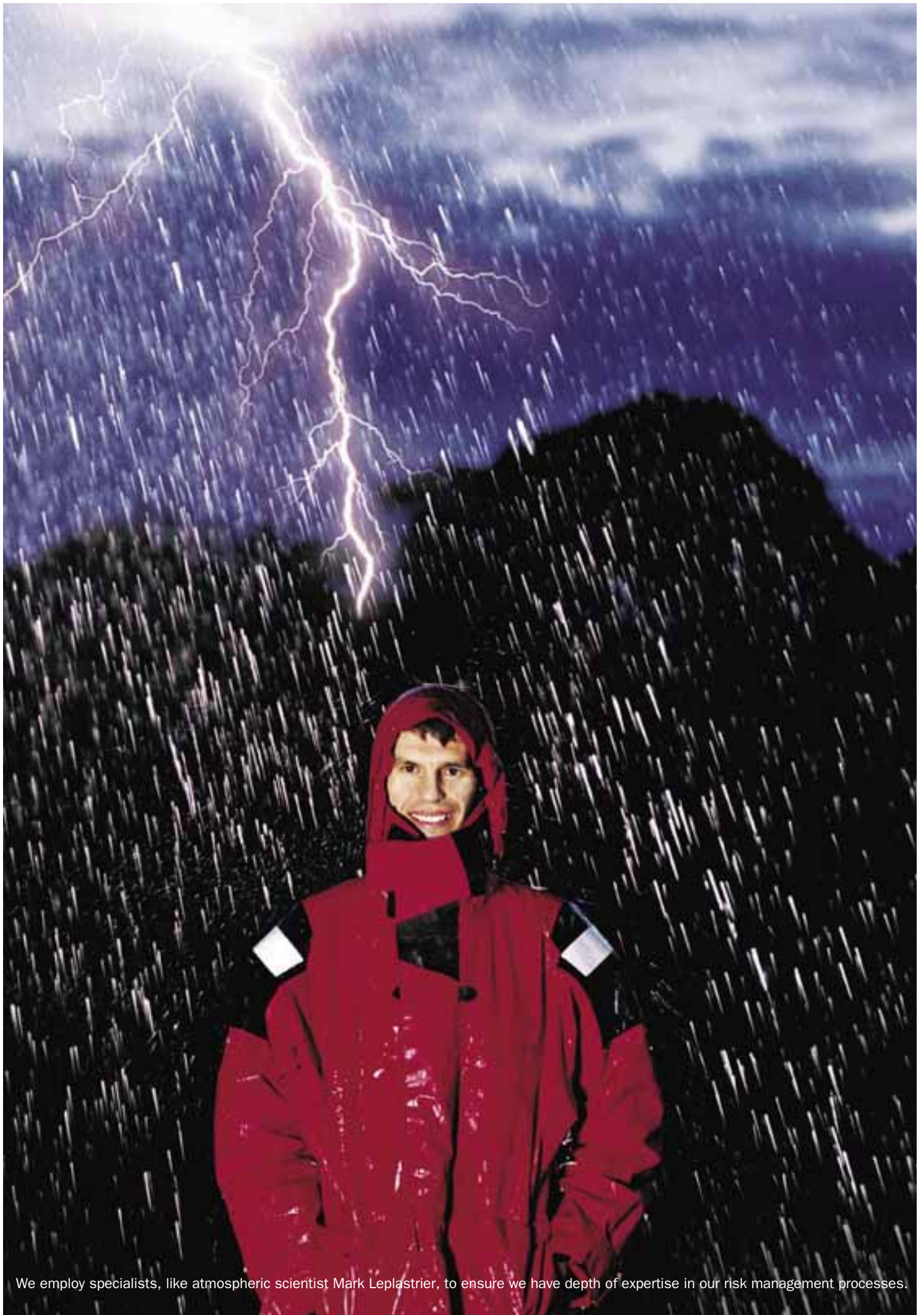
Satisfaction with claims management among customers in our largest portfolios of direct motor and home insurance in Australia:



THE COSTS OF A CLAIM

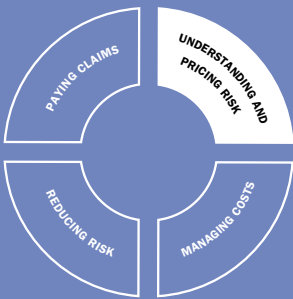
On average, when IAG pays a claim, these are the expenses incurred:





We employ specialists, like atmospheric scientist Mark Leplastrier, to ensure we have depth of expertise in our risk management processes.

SEEING A RISK IS ONE THING, ANTICIPATING IT IS ANOTHER.



Insurers set premiums before the cost of claims is known. Take car insurance for example. The price of a premium is set before it's known if the car will be involved in a collision, stolen, broken into or damaged. The challenge for an insurer is to anticipate the potential risk and price it accurately and fairly, ensuring it's neither overpriced nor underpriced. Expertise in managing risk is vital to an insurer's long-term viability. That's why Insurance Australia Group employs specialists such as industry researchers, atmospheric scientists, underwriters and actuaries, who collect and analyse comprehensive data relating to risks.

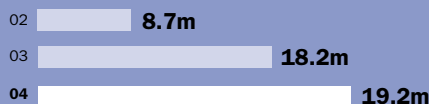
TOTAL PROPERTY VALUES INSURED

Total property values insured by IAG across Australia and New Zealand as at 30 June 2004:

\$816 billion

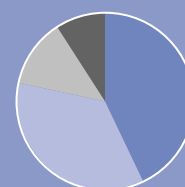
NUMBER OF RISKS IN FORCE

The number of risks that IAG insures:



IAG'S PEOPLE INVOLVED IN MANAGING RISK

Our 11,500 employees across all areas of our business involved in managing risks:



- Claims management
- Frontline (sales and distribution)
- Risk management
- Corporate and infrastructure



Stephen Ware, Motor Assessor, understands that the economics of the Group's business are based on scale.

WITH OUR ECONOMIES OF SCALE, MORE REALLY IS LESS.



Insurance Australia Group is Australasia’s largest general insurance group. The Group insures approximately one in three cars, one in three homes, one in two farms, and one in six businesses in Australia. In total, the Group insures more than \$800 billion worth of property. The economics of the Group’s business are based on scale. Scale allows access to volume discounts across the supply chain, without sacrificing quality. For customers, that means better, more competitively priced products and services. Scale also allows risks and costs to be spread across a larger number of policies, delivering greater stability of earnings for shareholders.

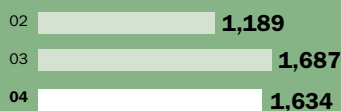
ADMINISTRATION RATIO

Our administration ratio (our administration expenses measured as a percentage of our net earned premium):

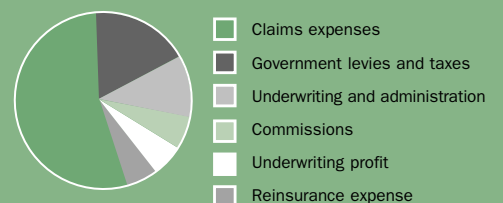
18%

RISKS PER FULL-TIME EMPLOYEE

The number of risks that IAG insures per employee:



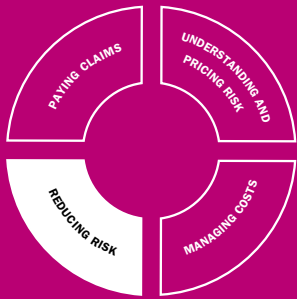
CONTRIBUTORS TO THE COST OF RUNNING OUR BUSINESS





Hang Nguyen, Financial Analyst, knows just how much providing security and smoke alarm systems reduces risk in the community.

THE FEWER THE RISKS THE BETTER – FOR EVERYONE.



Working to reduce risk in the community and consequently the number of claims makes good commercial sense. But it also makes good common sense. Fewer risks mean customers can avoid unnecessary hardships, and they benefit from lower premiums too. That’s why Insurance Australia Group invests in risk reduction programmes, such as fire prevention strategies, workplace safety initiatives, crime prevention programmes and community grants.

COMMUNITY GRANTS

Number of grants provided to community organisations through IAG’s Community Help Grants programme during the year:

139 grants,
totalling more
than \$500,000

WORK-RELATED INCIDENTS AT IAG

Number of work-related incidents that became workers’ compensation claims per million hours worked:



THE AREAS IAG TARGETS TO REDUCE ITS ENVIRONMENTAL IMPACT

- Energy use
- Print paper consumption
- Office paper consumption
- Fuel use
- Air travel
- CO₂ emissions