FINANCIAL REVIEW

HD Where to for booming general insurance?

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WC 882 words

PD 22 November 2014

SN The Australian Financial Review

SC AFNR

ED First

PG 56

LA English

LP

Chanticleer

Investors who have backed Australia's two big listed general insurance companies,Insurance Australia Group and Suncorp Group, have had a stellar run over the past five years. Under chief executive Patrick Snowball, Suncorp's shares have doubled in value and beaten the S&P/ASX 50 total return accumulation index by 50 per cent.

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The performance at IAG under chief executive Mike Wilkins has been equally impressive.

But with both companies reporting record or near-record insurance margins, the question has to be asked: where will the growth come from in 2015 and beyond?

General insurance is a mature industry that has shown little propensity for innovation apart from price cutting by challenger brands.

Technology tends to be used by the big companies to streamline back-office functions or improve customer service.

Both IAG and Suncorp have programs for cutting the cost of doing business. At Suncorp, they call it simplification, and at IAG it is a transformation program.

But when it comes to setting out a vision for the impact of technological change, there is not much in the way of inspiration.

Insurance companies ought to look beyond analytics, segmented pricing and brand reach toward bigger questions such as: how is risk changing? What will the advent of driverless cars mean for insurance? Will sensors in homes that are connected to the national broadband network transform household contents insurance?

The big insurers have struggled with basic stuff such as the cross-selling of banking and life insurance products to Suncorp's 9 **million** general insurance customers. Suncorp could snap up workers' compensation and compulsory third-party insurance portfolios being sold by state governments as a strategy for growth.

Snowball was the ideal executive to shake up Suncorp and put it back on a growth path. He was fortunate that in recent years benign weather conditions have enhanced returns.

He remains keen to offer his services to the **company** as long as the board wants him, and he is determined to meet a 10 per cent return-on-**equity** target for 2015.

But June 30, 2015 will be critical for him because on that date the final 300,000 shares in a chunk of 900,000 shares issued in 2009 will vest. That date may well coincide with a board review of succession planning and examination of the question as to who is best to **lead** the **company** into its next phase.

It is interesting that a recent analysis of Suncorp's remuneration by James Coghill at UBS found that "Suncorp's executives have no explicit target in financial STIs to grow the business".

IAG is also facing succession planning because Wilkins has been CEO for six years. The typical tenure of a CEO in Australia is less than six years, but top performers have tended to stay longer.

Wilkins, who had a rocky start to his tenure at IAG, is busy integrating the $1.85 **billion acquisition** of the Wesfarmers insurance business and in May introduced a new operating model.

The **company** says it will deliver $230 **million** in annual synergies from the Wesfarmers deal and the new operating model. He split the **company** into three divisions, with the two most likely successors running the two operating divisions. Personal insurance is led by Andy Cornish and commercial insurance is led by Peter Harmer.

IAG's obvious growth option is Asia. It has invested about $850 **million** in capital in Asia but, thanks to tough rules imposed by the Australian Prudential Regulation Authority, it must make deductions from its domestic capital to account for the risks in Asia.

The Asian expansion is a slow and steady game that will not deliver much in the short term. In fact, IAG is not much interested in the big breakthrough this week allowing Australian companies to offer compulsory third-party insurance in **China**. At home, IAG is losing market share to new players such as Youi.com.au, which bills itself as Australia's fastest-growing car and home insurer. It is said to spend more money on advertising in NSW than Suncorp.

Challenger brands have gained about 13 per cent market share in motor in the past five years. The commercial insurance market is a cyclical business that is suffering from too much capital being deployed. That has squeezed margins.

The **purchase** of Primo Group by the Brazilian **company**JBS SA for $1.45 **billion** is timely, given it happened so soon after the Group of 20 leaders in Brisbane talking about the advantages of greater international trade and investment.

JBS is the world's largest meat processor. For several years, it has been building its downstream **operations** around the world,including in Australia. In June this year, it just missed out on buying meat US processing **company**Hillshire Brands for $US6.5 **billion** ($7.5 **billion**).

That showed the JBS financial fire power and the intent to invest and grow businesses. It will expand the export capacities of Primo and create jobs.

The deal could be a telltale sign of a lift in **M**&A activity involving multinationals attracted by the cheaper asset values caused by the lower Australian dollar.

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