

9 July 2008

Dear shareholder

I am writing to update you on some important news from your company, Insurance Australia Group Limited (IAG).

1. IAG has a new Chief Executive Officer (CEO), Michael Wilkins, who brings a proven, successful track record

I am pleased to advise Michael Wilkins was appointed CEO in May 2008 after joining IAG as Chief Operating Officer last year. He brings more than 25 years' insurance and financial services industry experience to your company. Most recently, he was the Managing Director and CEO of Promina (formerly Royal & SunAlliance), which was the owner of insurers AAMI, Vero and Australian Pensioners Insurance Agency (APIA).

2. A refined strategy to build a stronger future for IAG

After recently conducting a thorough review of all aspects of IAG's businesses, Michael Wilkins and his new management team are implementing a refined strategy and operating model, designed to build a stronger future for your company and improve investment returns to you.

Key initiatives

We are making operational changes to improve our performance in our home markets of Australia – where we operate under iconic brands including NRMA Insurance and CGU – and in New Zealand.

We estimate these initiatives will deliver approximately \$130 million per annum in savings once fully implemented, expected to be by October 2008. These initiatives will help us reduce costs, improve efficiency and refocus on the best performing parts of our business. Above all, a major focus will be to better understand our customers' needs and provide superior customer experiences.

In the UK we've made some tough decisions, and will be scaling back our operations to focus solely on the more profitable segments, principally our successful Equity Red Star specialist underwriting business. This means we will look to sell some of our UK-based distribution businesses which no longer fit with our corporate strategy.

Asia remains an important market for our future growth. We'll continue to selectively pursue acquisitions to build on our existing presence in general insurance markets throughout the region, particularly in Thailand, Malaysia, India and China.

Your board is fully supportive of the initiatives outlined above which are the culmination of an extensive business review conducted since Michael Wilkins joined the Group in late November 2007. The review both confirms and enhances the board's view of the fundamental value of IAG.

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Cost and capital management

The refined strategy we have outlined is imperative to the future success of IAG, however its implementation will incur one-off costs which will affect our final result for the 2008 financial year.

In addition, although your company continues to have a very strong financial position, we have taken a decision that we could not continue to pay dividends exceeding 100% of our profits. As a result we expect to pay a fully franked final dividend of 9 cents per ordinary share on 3 October 2008, bringing total dividends for the year to 22.5 cents per ordinary share, down 7 cents per ordinary share from the previous financial year.

I would like to assure you that the actions we are taking are aimed at improving the returns on your IAG investment moving forward.

Details of our refined strategy can be viewed online at www.iag.com.au in the News Centre.

3. IAG recently received a takeover proposal, which your board could not recommend to you as it was incomplete, opportunistic and undervalued the company

You may have seen news that IAG received a takeover proposal from QBE. Your board carefully considered QBE's proposal but in our view, the proposal was incomplete, opportunistic and the proposed price was too low to adequately reflect the inherent value of IAG's businesses and brands. As a result, we decided we could not recommend the inadequate proposal to you and it was withdrawn by QBE.

That proposal was largely based on accepting shares in QBE for shares in IAG. As a result, the value of the proposal depended then, and now, on the price of QBE shares. For example, on 2 July the value of the QBE proposal to IAG shareholders would have been \$3.95 not the original \$4.60 still being quoted in news coverage, due to the relative movements in the price of both shares.

Please note: there is currently no takeover offer for your IAG shares, so you do not need to take any action.



New email alert system

You can now register to receive email news updates from IAG. This means you'll receive an alert directly to your email address advising of new media releases, financial announcements, presentations and annual reports. You simply need to visit our website at www.iag.com.au, click on the email alerts button and register your email address.

I would like to take this opportunity to thank you for your ongoing support and loyalty to IAG. I believe the initiatives we are implementing will build a stronger future for your company.

Yours sincerely

James Strong
Chairman

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