22/11/22

RACQ GROUP CEO AGM SPEECH

Thank you, Elizabeth.

On behalf of myself, the board, Group Executive team and our members, I would like to thank you for your 14 years of dedication, commitment, generous spirit and service to RACQ, most recently as President and Chair.

You certainly live the values of our Club each day, and there is no doubting the affection you have for the organisation, you have made a positive difference in keeping with our shared commitment to make a positive difference to the lives of our members.

I know the personal toll that recent challenges, including the pricing promises review have taken, and the deep disappointment you have shared regarding the outcome of that review and the subsequent impact on our members.

You will be missed but please know, this Club is better and stronger for having had you at the helm.

While 2022 will be remembered as one of the most difficult for our Club, it was also the year we began our transformation program that is critical to supporting and driving our 2030 vision – *to be a trusted partner for our members, providing solutions to live and move safely, securely and sustainably.*

The year culminated in a perfect storm which significantly impacted the Club and our members across a range of factors.

February’s catastrophic flood event was the worst ever in the Club’s history.

Internally, Covid-19 continued to impact the wellbeing of our workforce and the pricing promises review has resulted in a large-scale remediation program, as well as a risk transformation program across the business.

Despite these headwinds, I have been humbled by our members’ support and understanding, and I take this opportunity to sincerely thank you as we work hard to continue to earn the trust you place in us.

I can assure you the values of this Club, which have been built on more than one hundred years of being there in the moments that matter, remain steadfast.

Our initial response to the devastating floods was a true reflection of our values.

The ‘Lodge on Behalf of’ initiative was a great example of putting our members first. At the height of the disaster, when more than half of the 15,000 flood-related claims were lodged, the initiative enabled up to 170 people from across the organisation to lean in and take calls, helping our members lodge their claims quickly.

This allowed us to prioritise vulnerable members, secure temporary accommodation and expedite total loss vehicle claims.

We also have significant opportunities as global economies accelerate the shift to decarbonising transport and transition to clean energy sources.

With a history of motoring, together with the purchase of GEM Energy, now RACQ Solar, and our joint investment, with other motoring clubs, in electric vehicle charging network, Chargefox, we are well placed to capitalise on these emerging markets.

With a strong balance sheet, we are positioning now for the future, knowing that as technology emerges, electric vehicles and home solar energy will intersect, allowing us to offer new valuable products and services to more Queenslanders.

Record floods

Before turning to our operating results, I want to update you on the south east Queensland flood event in late February. The speed and scale of this disaster led to a seven-fold increase in open home claims, most of which were lodged in the first week.

Of the claims received to date, we have settled 98.4% of motor claims and 69.7% of home claims and have paid out more than $203.8 million to our members, including $148.2 million to members via cash settlements.

While these large events can take up to 18 months to finalise all claims, I would like to recognise our people for their hard work and commitment and thank our members for their patience.

From a product perspective, our members can be assured that those who have a home insurance policy with us are fully covered.

We made a deliberate decision after the 2011 floods to put clarity and certainty in the minds of our members. While including flood on all home policies does put pressure on premiums – we believe this is in the best interests of our members. It offers the fullest protection against the increasing risk of flood.

Pricing promises

Elizabeth has spoken to the pricing promises matters. I again apologise to our members for what has occurred.

While the outcome of the pricing promises review was disappointing for management and the board, our remediation program which has oversight by ASIC is well established.

Refunds are underway and will begin ramping up over the coming months. However, some of the matters are very complex and will take some time. It is important we get this right so that every eligible member is accurately refunded.

We are also accelerating our risk transformation, with oversight by APRA, and this is vital to support the organisation into the future.

We have engaged an independent firm that has expertise in risk management to review RACQ's activities and identify opportunities for improvement.

Importantly, our additional investment in risk management, compliance and oversight will give us the flexibility and agility to meet the evolving needs of our members more quickly and efficiently.

Our goal is to ensure this never happens again.

Our FY22 performance

As detailed in the Annual Report, this year’s challenges significantly impacted the FY22 results with the Group recording a total deficit of $245 million after tax.

Despite this loss, we remain well capitalised including an appropriate capital buffer. We have also successfully placed our FY23 reinsurance program which provides important balance sheet protection.

The Group’s net assets remain strong at $1.27 billion. Capital levels in both Insurance and Bank remain well above regulatory minimums. With increasing volatility in insurance results now growing in consistency, we have taken steps to further strengthen the capital position in Insurance through changes to our reinsurance structure and exploring other opportunities to reduce volatility.

The Group’s operating loss was driven by both one-off and cyclical impacts within Insurance, as well as weather volatility, which of course may recur.

The slide compares the FY22 result to FY21. As you can see, the largest driver of the result was the pricing promises net impact of $212.8 million, which takes into account the multi-year nature of the refunds to be made, as well as interest and program costs. This is not recurring.

The February floods cost RACQ $50 million. There were a number of other medium sized weather events several times during the year, resulting in our weather costs being $47.2 million higher than last year.

For FY23 we have made changes to our reinsurance arrangements and increased premiums, offsetting increases in the cost of reinsurance. At this stage we expect an improved performance in FY23.

Our CTP portfolio contributed $66 million to the change on last year. This is driven by two issues: scheme design and the cyclical nature of CTP.

The scheme disadvantages RACQ more than any of the three other insurers in the scheme. By participating in the scheme, we must accept all risks and all risks are priced equally. We cannot limit policyholders to RACQ members only. Our CTP portfolio currently has more non-members than members.

Put simply, RACQ’s portfolio carries the highest risk of the other insurers. The Government’s own scheme actuary has identified that we have an adverse risk mix. We believe that we hold 1.13 times more risk per dollar of premium, where the scheme average is one times per dollar.

Our efforts to date to seek fairness in the distribution of premium relative to risk have not progressed with the State Government. RACQ is the only one of the insurers whose shareholders – you our members – are almost exclusively Queensland residents. Queensland taxpayers who are members of RACQ are in effect subsidising the shareholders of the other insurers.

Cyclically, CTP schemes underperform when inflation, particularly wage inflation, increases, and over-perform when the reverse is true. Claims costs also go through periods of cyclicality, though over time premiums respond to compensate. Both wage inflation and higher claims costs contributed to the lower result for CTP last year.

We expect the result for our CTP portfolio to remain challenged in FY23 by the issues I have mentioned.

Motor claims costs were higher than last year, because of significant cost inflation in car parts and lengthy delays in supply chains driving up the per claim cost of hire cars. This led to a motor insurance result being $20.4 million lower than last year.

We also received more claims than expected with high traffic volumes and large volumes of windscreen damage claims, partly reflecting the large, and welcome, investment in roadworks by governments.

We have continued to see cost inflation in motor in the early months of this new financial year, though the pace of increase is stabilising, and starting to be offset by increases in premiums that have been underway for the past 12 months.

Rapid rises in interest rates resulted in non-cash losses on fixed interest investments with equity markets cooling significantly relative to several years of strong performance, with FY22 investment income $64.6 million lower than the prior year.

In FY23, we expect ongoing volatility in interest rates, however the earnings yield on these investments will at least improve.

Insurance

Turning to the business lines, Insurance posted an after-tax loss of $236 million.

Despite inflationary pressure on premiums, member acquisition and retention are holding with overall Personal Lines Insurance Portfolio policy growth of 1.0%. Retention rates on our RACQ home portfolio remained steady at 88.4%, while the retention rate on our RACQ motor portfolio reduced slightly on the previous year to nearly 81%.

We experienced overall policy growth in the RACQ home portfolio of 1.1%, while policies in the RACQ motor portfolio contracted by 0.2%.

Assistance

Reporting a $16 million profit, Assistance had a strong year in delivering a range of automotive services to our members, particularly in the second half, as the demand for roadside assistance increased to pre-pandemic levels, reflecting the increase in members using their cars for work and tourism. Large increases in fuel costs, together with a tightening labour market, reduced the operating result from the prior year.

Earlier this year, we acquired just over 50% of GEM Energy and this partnership is an important first step in our renewable energy and sustainability strategies.

As mentioned, it has since been rebranded to RACQ Solar and will support our members in their pursuit of affordable and renewable energy.

Reflecting changes in how we all get from A to B, RACQ's roadside products and delivery networks are changing to reflect the broader mobility needs of members.

Bank

RACQ Bank contributed positively to the Group's result recording its second consecutive profit and preserving strong capital levels and liquidity holdings.

The $2.3 million profit was a result of continued balance sheet growth, stable net interest margin, and favourable impairment expense movements on a very high-quality loans portfolio. The reduction in profit on last year reflects the large one-off gains associated with our discontinued financial planning business in FY21.

Loans and advances increased by $57.2 million to $2.09 billion during the year with the bank funding $472 million in mortgage loans and $31 million in personal loans. Whilst growth is below system, the bank did not aggressively pursue the high debt to income lending practices of the broader market, constraining our growth.

Member deposits also continued to grow, increasing by $60.4 million to $2.2 billion.

The Bank was also proud to launch a range of green solutions during the year to strongly align with our strategy to help members fund their transition to electrification and make more sustainable choices at home, such as installing solar panels.

We have focused on making our lending processes less complicated and more efficient, reducing our ‘Time to Yes’ for home lending from 25 days to seven days and personal loans from 13 days to four days.

As a result of our performance and to reflect collective accountability for outcomes, Group Executives did not receive salary increases in the annual July 2022 review and were not awarded incentives.

Employees below the Group Executive received reduced incentives reflecting their individual contributions only.

Technology

We have committed to a multi-year program to embed an enterprise-led systems approach that supports efficient operations, provides greater capability and agility for growth and an improved member and employee experience.

We will also streamline some of our business activities via digitalisation of processes and member services.

This enables our members to engage with us in their channel of choice. For many members having a great digital online experience is critical and for others, they value going into a store or calling our Queensland-based contact centre.

Maintaining these channels is a commitment we make to serve our members.

It’s also vital that we dedicate a considerable amount of time to ensuring our members, people and business are protected from increased cyber security threats.

Cyber criminals have become increasingly sophisticated, taking advantage of the adoption of digital channels and shift to remote working.

You can be assured that RACQ continues to invest in our capabilities to reduce the threat and maintain a secure technology environment. Recent high profile data breaches have served to reinforce the risks and I can assure you that both board and management review and discuss the management of cyber risk routinely.

At the same time, with the increase in scams and data breaches, we are looking at new ways to further protect our members’ personal information.

We recently introduced a new identification procedure in our stores which provides an additional layer of protection to ensure we are not providing information to the wrong people.

Advocacy

Every year, we proactively engage with a diverse range of industry and government stakeholders and undertake research to better understand the changes needed to help our members live and move more safely, securely and sustainably while preserving Queensland's liveability.

In welcome news, after more than four years of RACQ campaigning for better protections for roadside workers, the State Government introduced a new road rule which requires motorists to move over or slow down at crashes and roadside incidents in Queensland.

This will help give our teams, emergency services and other roadside responders a safe space to work, so they can continue to help people in their time of need.

Climate risk also poses a significant threat to the lives of our members and communities, and this requires immediate and collaborative action.

We are genuinely concerned about the affordability and accessibility of insurance which is why we continue to advocate for greater investments in disaster mitigation and resilience initiatives to make our communities safer and stronger in the face of catastrophic weather events. We will continue to advocate for additional government funding to support programs like the Resilient Homes Fund.

Aside from supporting the Resilient Homes Fund, we have worked closely with the Federal Government on its new Cyclone Reinsurance Pool and have been advocating for a well-designed pool that will maximise benefits for our north Queensland members.

Despite our best endeavours, RACQ won't be able to join the pool this financial year. We cannot see how the pool will deliver previously announced insurance savings on a broad scale without making fundamental changes to its design.

We want all our north Queensland members to benefit from lower insurance costs as soon as possible. We are committed to continuing to work with the Government to achieve this.

RACQ through its membership of the AAA welcomed Federal Government funding for the establishment of a Real-World Fuel and Emissions Testing Program. The Program will report real world environmental performance of new cars and compare it with each vehicle's laboratory test result.

The announcement means Australian families and businesses will be able to make informed decisions about which new cars put the least pressure on the environment and the household budget.

Our people

RACQ's new leadership team is now in place after the appointment of three new Group executives during the year: Mary-Jane Bellotti – Group Executive Member & Community, Ailsa Heise – Chief Risk Officer and Trent Sayers - Group Executive Insurance.

RACQ is committed to having a diverse and inclusive workforce with women making up 50% of executive roles and more than 50% of all leaders in the organisation. At the board level, 40% are women, including the President and Chair, and the Vice President and Deputy Chair.

As part of our annual Your Voice Survey of employees, it was also pleasing to see the Group's engagement score increase 2% to 68%, in the face of an external trend of falling employee engagement levels.

The past few years have demonstrated our ability to respond quickly to embrace new ways of working while still meeting the needs of our members and business priorities. Under our WeFlex program, employees have an opportunity, where feasible, to adjust their working arrangements to best suit their personal needs.

In closing

In closing, to support our vision for a more sustainable future, RACQ has backed the Insurance Council of Australia's Climate Change Roadmap, standing alongside other insurers in a joint commitment to achieving net zero by 2050.

The Club's own climate commitments will be increased in line with the roadmap framework.

We will make the switch to 100% renewable energy before 2024, however, to meet our operational net zero targets relies on the availability and scalability of new technologies.

This is extremely important as RACQ is more than an insurer, we own the State's largest roadside assistance network which includes a large fleet of heavy vehicles.

We are prepared to lead by example by transitioning to a low emissions fleet and we know more needs to be done to test and prove these new technologies to ensure minimal impact to our members.

We will be working with governments, other fleet owners and the research sector to progress this.

Our other priorities include finalising the refunds arising out of the pricing promises review for our members and I would like to thank and acknowledge the board's support in helping us to manage this challenge.

We know that successfully transforming our systems and processes will allow us to accelerate opportunities to improve outcomes for our members and people and this will further underpin RACQ's success in the future.

I would further like to thank our people for their hard work and commitment to serving our members in what has been an exceptionally difficult year. Without their dedication, RACQ would not be the trusted organisation it is today.

I would also like to again thank Elizabeth, and the whole board, for its support and engagement throughout the past year.

And finally, I would like to thank our members for their continued confidence in our organisation. Without your support we could not help our communities or advocate on your behalf for a better Queensland.

I look forward to making big strides as we drive towards our 2030 strategy.

Thank you