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IAG may sell Asian businesses, capital return tipped

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Insurance Australia Group may put its Asian businesses on the block, adding to predictions the insurer could soon be holding excess capital to return to shareholders.

IAG on Wednesday lifted earnings guidance for the year ahead, as it reported strong profit growth and unveiled a strategic review of its Asia division, citing "limited" expansion opportunities in the region.

IAG said there were limited expansion opportunities for it in Asia, so it would review the future of its businesses in the region. Photo: Bloomberg

With about $850 million invested in Asia and group-wide profit margins widening, analysts predicted that within six months the insurer may be holding surplus capital, which could be used to fund a share buyback or special dividend.

The general insurer reported a 23.5 per cent lift in net profit after tax, which hit $551 million in the six months to December, helped by price rises in its consumer and commercial insurance products.

IAG raised full-year guidance for its margins to between 15.5 per cent and 17.5 per cent, and it also affirmed guidance for "low single digit" growth in gross written premium.

Shares in IAG, which sells insurance under brands including NRMA and CGU, rose 3.2 per cent to $7.50.

Investors Mutual portfolio manager Michael O'Neill said the result pointed to "strong underlying growth in premium and margin," alongside solid control of costs. He backed the Asian strategic review, which is due to be completed by the end of this year, and also highlighted moves to release capital through reinsurance arrangements.

"It's not just a story of costs out... here's a financial company getting some top-line growth," Mr O'Neill said. "We should see more potential for capital release in the second half."

Bell Potter analyst TS Lim predicted the company would look to sell its Asian businesses, which are in Thailand, Vietnam, Indonesia, Malaysia and India. They collectively make up 3 per cent of the group's gross written premium.

Mr Lim also noted that commercial insurance premiums were rising, and consumer premiums had also increased, which would further boost capital generation.

"I reckon that because capital is strong, they could set themselves up for a special dividend," Mr Lim said.

Chief executive Peter Harmer said "everything needs to be on the table" as it considers the future of its Asian operations, noting that the profitability of these businesses varied from country to country.

"To make sure that we generate the best shareholder value we possibly can, we’ve got to be alive to all opportunities and all options,” Mr Harmer said.

Mr Harmer would not speculate on potential capital management action, but said IAG remained "committed to making sure that we don’t hang onto excess capital unnecessarily.”

He said IAG did not expect further price rises in consumer insurance premiums, but there would probably be "modest" increases in premiums in some parts of its commercial insurance portfolio.

IAG raised its dividend by 1c, to 14c, which will be fully franked and paid on March 29.