Insurance Australia Group Limited
ABN 60 090 739 923
388 George Street
Sydney NSW 2000
Telephone 02 9292 9222
iag.com.au

18 April 2005

Manager, Company Announcements Office
Australian Stock Exchange Limited
Level 4, Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

INSURANCE AUSTRALIA GROUP LIMITED ('IAG')

CHANGE TO IAG'S DIVIDEND PAYMENT METHOD

Please find attach a letter addressed to holders of IAG ordinary shares with registered addresses in Australia advising a change to IAG's dividend payment method from October 2005. This letter, with relevant attachments, will be sent to shareholders today.

If you have any queries concerning the above, please do not hesitate to contact me on (02) 9292 3169.

Yours sincerely

Anne O'Driscoll
Group Company Secretary &
Head of Investor Relations

Attachment (2 pages)

Insurance Australia
Group Limited
ABN 60 090 739 923
388 George Street
Sydney NSW 2000
Telephone 02 9292 9222
iag.com.au

18 April 2005

IAG
Insurance
Australia
Group

Dear Shareholder

An important change to our dividend payment method

From October 2005 Insurance Australia Group Limited (IAG) will pay all future dividend payments into shareholders' nominated Australian bank or financial institution accounts by direct credit, or into the dividend reinvestment plan.

That is, we will no longer pay dividends by cheque.

If IAG already pays your dividend payments into your nominated account, or you participate in the dividend reinvestment plan (and you wish to continue with these arrangements), you don't have to read this letter.

Why has the dividend payment method changed?

Direct crediting is a much more secure and convenient way for you to receive your dividend payments than by cheque. These are some of the benefits to you:

- Dividends are credited to your account on the payment date as cleared funds, which means that you can immediately use your funds, instead of first having to deposit your cheque and then waiting for the funds to clear before accessing your money;

- It removes the risk of loss, fraud or theft of your dividend payment cheques; and

- It will generate savings for the company, which benefits all shareholders, because paying by direct credit is less expensive than using cheques and reduces the cost of issuing large numbers of replacement payments for those cheques that go missing.

What are your options for future dividend payments?

As we will no longer be issuing dividend cheques, you need to choose another method of receiving your dividend payments. These are your options:

- We can pay all your future dividends into your Australian bank or financial institution; or

- We can pay some of your future dividends into your account, and some can participate in IAG's dividend reinvestment plan; or

- All your future dividends can participate in IAG's dividend reinvestment plan.

To help you decide, and to make sure you are eligible to participate in the dividend reinvestment plan, please refer to:

- the frequently asked questions on the back of the enclosed dividend reinvestment plan form;
- our website at www.iag.com.au/shareholdercentre for the full Terms & Conditions of the DRP; or
- a stockbroker, accountant or other professional adviser.

What do you do next?

Once you have decided what you would like to do, please complete either the enclosed direct credit and/or the dividend reinvestment plan form/s and return them to us in the enclosed reply paid envelope. There are guidelines on the forms to help you complete them.

When should the forms be returned?

It is very important that you return your form/s to us as soon as possible and definitely prior to the record date for the October 2005 dividend, which is expected to be in the second week of September 2005.

What happens if you don't send us your completed Direct Credit form in time?

If you don't return your form by the record date for the October 2005 dividend, we won't be able to make the payment to you on the dividend payment date. Your dividend will be held for you as a non-interest bearing deposit until you send us a completed Direct Credit Form. The dividend will then be paid to your nominated account as soon as possible. No interest will be paid on amounts held pending the receipt of your Direct Credit instructions.

What happens if you don't send us your completed DRP form in time?

If your DRP form is not returned by the record date for the October 2005 dividend, your dividend will be held for you as a non-interest bearing deposit. As we are not be able to retrospectively apply your DRP instructions to the October 2005 dividend, your payment will be credited to your nominated account on receipt of your completed Direct Credit Form. No interest will be paid on amounts held pending the receipt of your Direct Credit instructions.

Your DRP instructions will be processed for Ordinary dividend payments after October 2005.

Need any more help?

Please contact the share registry on 1300 360 688 where one of our customer service representatives will be happy to help you.

Yours sincerely

Anne O'Driscoll

Anne O'Driscoll
Group Company Secretary &
Head of Investor Relations