

# CORPORATE GOVERNANCE

## INSURANCE AUSTRALIA GROUP LIMITED'S APPROACH TO CORPORATE GOVERNANCE

Insurance Australia Group Limited (IAG, the Group, or the Company) is committed to attaining the highest level of corporate governance to help ensure the future sustainability of the organisation and to create long term value for its shareholders. To achieve this, IAG promotes a culture that rewards performance, integrity, respect and a considered sense of urgency.

The regulatory environments in which IAG conducts its businesses continue to have a major influence on the Group's corporate governance practices. Sound regulatory regimes are required to assist with the stability and sustainability of the general insurance sector in the countries in which IAG operates or intends to operate.

IAG believes that active engagement with governments, regulators and industry and professional groups helps ensure that the interests of IAG and its stakeholders are properly considered in the formulation of proposals to improve corporate governance, the general insurance regulatory and prudential regimes and insurance industry practices. In this context, IAG strives for regulation that enhances rather than stifles competition, protects consumers, encourages efficiency and promotes and sustains public confidence in general insurers and their products.

IAG is a founding member of The Australian Business Roundtable for Disaster Resilience & Safer Communities (Roundtable), which released a White Paper in June 2013 that details a more sustainable and comprehensive approach to managing natural disasters that could ultimately save lives, reduce damage to property and vital national infrastructure and free taxpayer money to spend on essential public services. In July 2014, the Roundtable released a report highlighting that the Australian Government could save up to \$15 billion by 2050, if it invested in natural disaster mitigation and created a national platform to share critical information about catastrophes.

Both the White Paper and the report on creating a national platform can be found on the IAG website at [www.iag.com.au/business-sustainability](http://www.iag.com.au/business-sustainability). Roundtable member organisations - Australian Red Cross, IAG, Investa Property Group, Munich Re, Optus and Westpac - have come together to champion safer and more resilient communities. Each organisation plays a crucial role in either community planning or disaster recovery and believes there is an opportunity to develop a national, long term approach to managing natural disasters through a co-ordinated resilience response that focuses on prevention.

IAG actively participates in the debate to improve Australia's corporate governance regime, making submissions to Federal and State government committees, reviews and inquiries, and regulators in relation to new legislation, particularly regulation affecting the general insurance industry. As part of IAG's commitment to open and transparent communication, all Australian public government submissions are available in the News Centre on IAG's website at [www.iag.com.au/news-events/government-submissions](http://www.iag.com.au/news-events/government-submissions). IAG has also contributed to changes to the New Zealand regulatory and legislative framework.

IAG representatives participate in forums, working parties and committees of domestic and overseas insurance industry associations, as well as accounting, actuarial and legal professional bodies, to help formulate responses to proposals to improve corporate governance, prudential and financial reporting standards and practices relevant to the general insurance industry. Consistent with this and our purpose, IAG became a founding signatory to the United Nations Principles for Sustainable Insurance (UN PSI) in June 2012, and IAG's Chief Strategy Officer, Leona Murphy is Co-Chair of the UN PSI Board.

The corporate governance policies are on IAG's website at [www.iag.com.au/about-us/corporate-governance](http://www.iag.com.au/about-us/corporate-governance). They are not an exhaustive list of all corporate governance practices in place at IAG. Copies of IAG's Board and Board Committee charters are also available on the same IAG website. For the financial year ended 30 June 2015, IAG has complied with the Australian Securities Exchange Corporate Governance Council (ASXCGC) Principles and Recommendations (3rd edition) and is compliant from 21 August 2015.

## PRINCIPLE 1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

### 1.1 THE BOARD

The Board is responsible for protecting the interests of policyholders and to shareholders for the performance, operation and affairs of IAG. The Board's principal role is to provide leadership and to govern, rather than manage, IAG. The Board represents and serves the interests of the shareholders, collectively overseeing and appraising strategies, policies and the performance of IAG.

The Board is responsible for oversight of IAG, including:

- driving and monitoring the strategic direction of IAG and approving Group strategies;
- approving significant corporate initiatives including major acquisitions, divestments and capital management transactions;
- setting IAG's risk appetite;
- selecting appropriate candidates and recommending to IAG shareholders the election, re-election or removal of Non-Executive Directors;
- appointing the Chairman, evaluating Board processes and performance of the Board as a whole, as well as contributions by individual Non-Executive Directors;
- overseeing the integrity of IAG's accounting and reporting systems, including the external audit process;
- review and approval of IAG's remuneration policies and framework;
- monitoring management's performance and the exercise of the Board's delegated authority;
- evaluating regularly and, if necessary, replacing the Chief Executive Officer (CEO);
- reviewing CEO, Chief Financial Officer (CFO) and senior management succession planning; and
- setting standards for and ensuring that proper governance practices (including appropriate standards of ethical behaviour, corporate governance, workplace health & safety, social and environmental responsibility) are adhered to at all times.

Find out more about these responsibilities in the Board Charter on IAG's website at [www.iag.com.au/about-us/corporate-governance](http://www.iag.com.au/about-us/corporate-governance)

## **THE CEO**

The Board has delegated responsibility for the overall management and profit performance of IAG, including all day-to-day operations and administration, to the CEO, who is responsible for:

- the efficient and effective operation of IAG;
- fostering a culture that supports IAG's commitment to be closer, braver and faster in all its interactions with customers, partners, and shareholders;
- ensuring the ongoing development, implementation and monitoring of IAG's risk management and internal controls framework;
- ensuring the Board is provided with accurate and clear information in a timely manner to promote effective decision making by the Board; and
- ensuring all material matters affecting IAG are brought to the Board's attention.

The CEO manages IAG in accordance with the policies, budget, corporate plan, strategies and risk appetite approved by the Board, and has the power to manage IAG, subject to the limits set out in the Charter of CEO Delegated Authority Limits attached to the Board Charter which is available at [www.iag.com.au/about-us/corporate-governance](http://www.iag.com.au/about-us/corporate-governance)

## **1.2 APPOINTMENT OF DIRECTORS**

The Board assesses the skills required to competently discharge its duties, having regard to IAG's performance, financial position and strategic direction, including the specific knowledge, skills and experience that the Board determines one or more of the Non-Executive Directors must possess.

The Board assesses candidates for appointment to the Board, either when a vacancy arises or if it considers that the Board would benefit from the services of a new Director. Particular attention is given to the mix of skills, experience, diversity and expertise of existing Directors and how the candidate's competencies will complement and balance these qualities. External consultants are also engaged, on an as required basis, to assist with candidate identification. All selected candidates for Board positions undergo appropriate background checks, including IAG's Fit & Proper assessment before being appointed to the Board. Any Director appointed during the year to fill a casual vacancy or as an addition to the existing Directors must stand for election at the next annual general meeting (AGM).

The notice of AGM includes the appointment date and biographical details, including the relevant qualifications and experience and details of any other directorships held, of any new Non-Executive Directors and Non-Executive Directors seeking re-election. The Board discloses all information relevant to a decision on whether or not to elect or re-elect a Director in the Notice of AGM and advises shareholders of whether it supports the election or re-election of each Non-Executive Director.

## **1.3 APPOINTMENT TERMS**

Formal appointment letters have been issued to and signed by each Non-Executive Director, including the Chairman, to assist Non-Executive Directors in understanding the role of the Board and the corporate governance principles and practices it has adopted. The letters formally document the basis of each Non-Executive Director's appointment including:

- the role of the Board and of Non-Executive Directors;
- corporate governance principles followed by IAG;
- the Chairman and the majority of the Non-Executive Directors are independent of the management of IAG;
- the right of Non-Executive Directors to obtain independent professional financial and legal advice, at the Company's expense, to assist with discharging their duties efficiently;
- the right of access to management and IAG records;
- the indemnity and insurance arrangements available;
- the measures used, and the processes to be applied, by the Board to assess the individual performance of Non-Executive Directors, details of which are set out in section 1.6 below;
- the term of appointment and remuneration including superannuation rights;
- the circumstances that would cause a Non-Executive Director's position to become vacant;
- the confidentiality of Board papers and presentations to the Board; and
- the requirement that Non-Executive Directors abide by IAG's Code of Ethics and comply with its Continuous Disclosure and Security Trading Policies.

Employment agreements for the CEO and Executive team are for unlimited terms but may be terminated by written notice by either party. Details of these employment agreements are outlined in the Remuneration Report.

## **1.4 COMPANY SECRETARY**

The Company Secretary is responsible to the Board for ensuring Board and Board Committee procedures are complied with and also providing advice and counsel to the Board in relation to the Company's constitution, corporate governance and other matters.

The Company Secretary is also responsible for the timely dispatch of Board and Board Committee papers and the accurate recording of business discussed at the Board and Board Committee meetings in the minutes.

The Company Secretary also assists in the induction and ongoing professional development of Directors. The qualifications and experience of IAG's Company Secretary are set out in the Directors' Report. All Directors have unfettered access to the Company Secretary and the appointment and removal of the Company Secretary is decided by the Board.

## **1.5 DIVERSITY**

Diversity is a key aspect of IAG's strategy. IAG's diversity ambition is to respect and value the different experiences of our people as well as harness the opportunity and business benefits that diverse ideas and perspectives bring to our organisation stakeholders and customers. IAG's diversity policy statement can be found on IAG's website at [www.iag.com.au/about-us/corporate-governance/codes-and-policies](http://www.iag.com.au/about-us/corporate-governance/codes-and-policies).

## Diversity activity

Our diversity and inclusion strategy and program of work aims to challenge bias, particularly in the areas of gender, age and cultural diversity. During the financial year, IAG undertook a number of initiatives, including:

- embedding divisional Diversity and Inclusion Action Groups, designed to support IAG's focus areas of gender, age and ethnicity while targeting initiatives that most support the needs of each division in IAG;
- furthering our commitment to IAG's Diversity & Inclusion agenda by creating and appointing Divisional Diversity & Inclusion Consultant roles, designed to deliver an integrated and aligned program of work across our regions;
- continuing IAG's family support program through IAG's online Work & Life Hub, providing support to our employees across all life stages, providing comprehensive information and services across key areas such as caring responsibilities, parents, parents to be, transition stages, seniors, health and wellbeing, flexibility and disability;
- commencing work to explore 'All Roles Flex', a project to change the work flexibility culture of IAG by proposing that every role can be flexible;
- broadening our understanding of Diversity & Inclusion in IAG Asia to build a greater understanding of workplace cultures and recommendations on how Diversity & Inclusion can help support business strategy, EVP and customers;
- leveraging a Corporate Champions Government grant to commence a project to strengthen our understanding of age related Diversity & Inclusion issues and provide recommendations on targeted activity that will support change in this space;
- launching the IAG School Holiday Program, Kids@IAG, across Australian head office locations. This program celebrates IAG's commitment to creating an inclusive workforce by addressing affordable, accessible school holiday care for our working parents;
- incorporating sexual orientation and gender identity initiatives within the Personal Insurance Diversity & Inclusion Strategy; including participating in Pride in Diversity Australia Workplace Equality Index (AWEI) benchmarking submission, and piloting LGBTIQ (Lesbian, Gay, Bisexual, Transgender, Intersex and Questioning) initiatives with a view to cascade more broadly across IAG;
- delivering Inclusive Leadership unconscious bias awareness training to Executive leaders, increasing leaders' awareness of and commitment to creating a diverse and inclusive workplace;
- continuing to provide one of the most generous and accessible parental leave programs in the financial services industry, including 14-weeks paid parental leave and an additional six week welcome back lump sum payment to Australian-based employees who are primary carers returning to work after having a child; and
- continuing our commitment to support indigenous communities through ongoing partnership with the Jawun Secondment Program and sponsoring the Jawun 15th Anniversary Dinner. IAG became a corporate sponsor of the NPY Women's Council in Alice Springs, and a National Partner with the Australian Indigenous Mentoring Experience. IAG became the second organisation to sign up to the CareerTrackers 10/10 Club, providing 22 internship opportunities for Australian Indigenous university students. IAG was recognised for our support of CareerTrackers by being awarded the winner of the Corporate Coordinator of the Year Award at the CareerTrackers Leadership Development Institute.

The IAG Diversity and Inclusion Action Group includes senior representatives from each of the key businesses and its progress is monitored by the People and Remuneration Committee (PARC).

## Diversity targets

IAG continues to be committed to increasing the representation of women in senior management positions. IAG measures this by tracking the gender of management staff, with the goal that 33% of senior management roles should be filled by females.

This year, we reported that women filled 31.5% of our senior management roles, across the Group and 33.3% in our businesses in Australia and New Zealand. While our Group result is not quite at the goal we set in 2010 to have 33% of senior management roles filled by women this year, we have improved significantly from the 27% we reported in 2010. We remain committed to increasing the representation of females in senior management positions and are developing a range of initiatives to take us forward. A summary of the percentage of women in IAG's workforce is provided below:

DIVERSITY OBJECTIVES	ACTUAL 2015*	ACTUAL 2014*
Women in workforce	59%	59%
Board positions	33%	33%
Executive positions	13%	25%
Senior management positions	31%	32%

\*These figures cover the workforce in Australia, New Zealand and Asia.

The role of senior management positions at IAG is generally identified as the internal HR position code CEO-3 and above, however there are exceptions to this rule.

## **1.6 MEASURING THE PERFORMANCE OF NON-EXECUTIVE DIRECTORS**

The Board conducts a review of its performance, composition, size and succession planning at least every three years with assistance from external experts (Formal Review). A Formal Review of the Board and each Non-Executive Director (including the Chairman), with assistance and input from an independent board performance expert, was last conducted in 2014. The Formal Review process involves the completion of questionnaires by Non-Executive Directors and Group Executives; interviews with the independent expert; the collation of results; and discussion with individual Non-Executive Directors and the Board as a whole led by the Chairman.

In between Formal Reviews, the Board annually conducts an internal review of its performance and that of the Board Committees. In addition, each Non-Executive Director's performance is annually evaluated by the Chairman and then discussed between the Chairman and the Director.

Measures of a Non-Executive Director's performance include:

- contribution to Board teamwork;
- contribution to debates on significant issues and proposals;
- advice and assistance given to management;
- input regarding regulatory, industry and social developments surrounding the business; and
- in the case of the Chairman's performance, fulfilment of the additional role as Chairman.

Individual Non-Executive Directors also evaluate the Chairman's performance annually. The Boards and Committees of key operating subsidiaries also regularly review their own performance.

## **1.7 PERFORMANCE ASSESSMENT – CEO AND GROUP EXECUTIVES**

Financial and non-financial goals are set through the completion of an individual balanced scorecard for each Group Executive in conjunction with the CEO at the commencement of each financial year. The goals are stretch goals and are designed to encourage Group Executives to strive for exceptional performance while ensuring IAG's long term financial soundness. Achievement against these goals is the basis for assessing an individual Group Executive's performance. The methods of assessment have been selected so that performance can be objectively measured and verified. At the end of each financial year the CEO completes a formal review of each Group Executive's performance against the balanced scorecard goals set at the commencement of the year. These assessments are the basis for determining any short term incentive payments and for allocating long term incentives to Group Executives. The Group Executive assessments are reviewed by the PARC and approved by the Board.

Financial and non-financial goals and the performance of the CEO are determined and assessed by the Board using the same approach. Further detail on the CEO's and Group Executives' short and long term incentives is set out in the Remuneration Report.

Newly appointed Group Executives have access to an orientation program which includes meetings with other members of the Group Executive team and select senior managers to explain the details of IAG's operations, financial position, strategies and risk management framework.

## **PRINCIPLE 2. STRUCTURE THE BOARD TO ADD VALUE**

### **2.1 NOMINATION COMMITTEE**

The Nomination Committee (NC) currently comprises Non-Executive Directors Brian Schwartz (Chairman), Elizabeth Bryan and Philip Twyman. Yasmin Allen was a member of the NC until June 2015. All members of the NC have the skills and experience necessary to fulfil this role as shown in their biographies in the Directors' Report.

The role of the NC is to support the Board in fulfilling its statutory and fiduciary responsibilities by ensuring that there are appropriate processes for: Board renewal and succession; assessment of performance and Director induction and continuing education programs.

The NC assesses candidates and recommends to the Board the appointment, either when a vacancy arises or if it considers that the Board would benefit from the services of a new Director. The Board has adopted a framework for effective Director selection and Board succession to help ensure that the Board's skills, competencies and knowledge match IAG's strategic objectives. Some key tenets of the framework are:

- determining the skills, competencies, behaviours and experience required for an effective Board and the nature and measurement of these competencies;
- the Board should demonstrate diversity in age, personality, gender, work and life experience and comprise people who think differently and have different backgrounds; and
- the adoption of a formal approach to Director selection and a systematic and strategic approach for Board succession.

The NC reviews all Directors submitting themselves for election and re-election at an AGM, prior to consideration by the Board.

The NC met twice during the reporting period and member attendance at each meeting is shown in the Directors' Report.

The NC Charter, which provides details of the NC's responsibilities, is available on IAG's website at [www.iag.com.au/about-us/corporate-governance](http://www.iag.com.au/about-us/corporate-governance).

### **2.2 BOARD SKILLS**

The Board currently comprises eight independent Non-Executive Directors, and Executive Director, Mr Michael Wilkins, IAG's Managing Director and CEO.

The Board's policy is to help ensure that the Board comprises Directors who collectively have the relevant experience, knowledge, diversity and skills required for IAG. This takes into account IAG's current size, market position, complexity and strategic focus. In reviewing its composition, skills and requirements for Director succession, the Board is also mindful of the corporate governance practices and requirements for Directors.

The skills, competencies and composition of the Board are regularly reviewed to ensure that the Board continues to have an appropriate mix of skills, knowledge, diversity and experience and to identify any gaps or opportunities to enhance Board skills. A comprehensive review of Board skills was undertaken in March 2015. The review focused on differentiating the key skills collectively required by the Board and ensuring those skills align to IAG's current strategic direction and its operational and risk environments. This resulted in the addition of digital as a core competency of the Board. The core competencies and experience required, and collectively possessed, by the Board are in the areas of:

<b>Risk &amp; Finance</b>									
<b>Insurance</b>									
<b>Digital</b>									
<b>Business Development</b>									
<b>Strategy</b>									
<b>International experience</b>									
<b>Marketing &amp; customer</b>									
<b>Asian/emerging markets</b>									
<b>Business/commercial acumen</b>									
<b>General Management</b>									
<b>Strategic HR</b>									
<b>Number of Directors with requisite skills</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>

Additional competencies and experience identified for, and collectively possessed by, the Board are in the areas of:

Experienced CEO (listed entity)									
Experienced Board/Committee chairperson (listed entity)									
Government Relations									
Asset & Investment mgmt									
Strategic IT									
<b>Number of Directors with requisite skills</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>

In addition to the competencies detailed above, the Board seeks to ensure that it has a broad and diverse membership which brings different perspectives and experiences to Board deliberations.

### 2.3 BOARD OF DIRECTORS

Directors are expected to continue as Directors only for so long as they have the confidence of their fellow Board members and the confidence of IAG's shareholders.

The Board has a tenure policy for Non-Executive Directors to help ensure the Board comprises Directors who collectively have the relevant experience and skills required and assist in maintaining the independence of the Board. The policy, among other things, provides a standard tenure for a Non-Executive Director of up to 10 years, although the Board has the discretion to invite Non-Executive Directors to stand for an additional term which may take their total tenure beyond 10 years. Details of the current Non-Executive Directors' tenure are shown below:

INDEPENDENT NON-EXECUTIVE DIRECTORS	TERM IN OFFICE AT IAG (AT THE DATE OF THIS STATEMENT)
Brian Schwartz (Chairman)	10 years and 8 months
Yasmin Allen	10 years and 10 months
Hugh Fletcher	7 years and 11 months
Philip Twyman	7 years and 1 month
Alison Deans	2 years and 7 months
Raymond Lim	2 years and 7 months
Thomas Pockett	7 months
Elizabeth Bryan	8 months

The names of Directors in office at the date of this report, their year of appointment, experience, expertise and biographical details are set out in the Directors' Report.

### **Potential conflicts of interests**

Where the Board is required to approve a transaction or arrangement with an organisation in which a Director has an interest, the relevant Director must disclose his or her interest and abstain from voting. Directors with potential conflicts do not serve on any Board Committees that are appointed to oversee the implementation of transactions or arrangements with which the Directors' interests may conflict.

### **2.4 DIRECTOR INDEPENDENCE**

The Board has determined that it must comprise a majority of independent Non-Executive Directors and that the Chairman must be an independent Non-Executive Director. The Non-Executive Directors are free of any business or other relationship that could materially interfere with the independent exercise of their judgement. All current Non-Executive Directors have confirmed their continued independence.

The Board is of the opinion that each Non-executive Director whose tenure is beyond 10 years, being Mr Schwartz and Ms Allen, continue to possess the requisite independence to perform their role on the Board. Mr Schwartz provides effective Board leadership and his broad strategic and management experience brings considerable strength to the Board. Ms Allen's extensive financial services expertise and senior management experience enables her to significantly add to the deliberations of the Board and the People & Remuneration, Audit and Risk Committees. Each Director continues to act in the best interests of IAG and their skills and expertise enhance the Board's required skills, expertise, and diversity profile. The Board believes that Mr Schwartz and Ms Allen have not formed relationships with management which may compromise their ability to exercise independence, and judgement in decision making, or which could materially interfere with the Directors acting in the best interests of IAG.

The Board determines whether each Non-Executive Director is independent using the principles outlined in its Charter. Further information is available at: [www.iag.com.au/about-us/corporate-governance](http://www.iag.com.au/about-us/corporate-governance).

### **2.5 THE CHAIRMAN**

The Chairman is an independent Non-Executive Director and is responsible for ensuring the Board fulfils its responsibilities to IAG and stakeholders. The Chairman provides leadership to the Board and promotes constructive and respectful relations between Directors and between the Board and management. The Chairman presides at Board and general meetings of IAG.

### **2.6 NON-EXECUTIVE DIRECTOR INDUCTION, EDUCATION AND TRAINING**

IAG encourages continuing professional education for each of its Directors. All Directors are expected to remain up-to-date in relation to issues affecting IAG, the general insurance industry and their duties as Directors. Directors participate in ongoing education activities, including with local and overseas experts in particular fields, which are relevant to IAG's operations. A letter of appointment notes the right of Non- Executive Directors to obtain independent professional financial and legal advice, at the Company's expense, to assist with the efficient discharging of their duties.

New Non-Executive Directors have access to an induction program to introduce the Group Executives and the detail of IAG's businesses. Induction includes individual meetings with the CEO, Group Executives and senior management.

Workshops are conducted, as required, to further Non-Executive Directors' education on topics which include reinsurance, capital, risk management and investment management. Directors have unfettered access to Group Executives and the external auditor and are encouraged to meet with these Group Executives to further their knowledge and understanding of the organisation. Executive Directors appointed to subsidiary and associated company boards are offered and encouraged to undertake training to help ensure they can continue to effectively and competently perform their roles as Executive Directors.

### **PRINCIPLE 3. PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING**

IAG takes ethical and responsible decision making very seriously. It expects its employees and Directors to do the same, as they are all accountable for ensuring that their behaviours, decisions and choices are:

- in accordance with all laws and regulations of the countries in which IAG operates; and
- consistent with the Group's ethical principles as set out in IAG's Code of Ethics (the Code) and the IAG policies and standards that relate directly to their duties.

The Code has been developed to provide all Group officers, employees and contractors with a framework to make good, informed business decisions and to act on them with integrity. The Code sets out the principles to guide the behaviours of every officer, employee and contractor in IAG. This means that when IAG's stakeholders interact with IAG, they should feel assured that IAG will act in a responsible, ethical, transparent and honest way, wherever IAG operates.

The Code applies to all Non-Executive Directors, Group officers, employees and contractors for all entities where IAG has majority ownership or which are otherwise to be considered IAG subsidiaries.

In some regions the Code is also supported by a Code of Conduct, which provides more specific guidance for operating in the local legal and regulatory environments.

Find out more about the IAG Code of Ethics, Codes of Conduct for Australia and New Zealand and The Way We Choose To Do Business on IAG's website at [www.iag.com.au/about-us/corporate-governance/codes-and-policies](http://www.iag.com.au/about-us/corporate-governance/codes-and-policies).

## **PRINCIPLE 4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

### **4.1 AUDIT COMMITTEE**

The Audit Committee (AC) comprises five Non-Executive Directors: Philip Twyman (Chairman), Yasmin Allen, Alison Deans Hugh Fletcher and Thomas Pockett. All members of the AC have financial management experience as shown in their biographies in the Directors' Report.

The main role of the AC is to assist the Board in fulfilling its statutory and fiduciary responsibilities by monitoring:

- the integrity of IAG and subsidiary external and internal financial reporting, including compliance with applicable laws, regulations and other requirements in relation to external financial reporting;
- the provision of high quality financial and non-financial information to Directors and management that reflects a true and fair view of the Company performance and can be relied on by them to make informed judgements;
- tax and financial risks; and
- that the independence of the Auditor, Group General Manager Internal Audit, Group Actuary and the Global External Peer Review Actuary is safeguarded.

The AC will provide prior endorsement to the Board on the appointment, reappointment and rotation of the audit engagement partner, removal and remuneration of the Auditor and will assess total fees paid for all non-auditor services provided by the Auditor.

The AC is also empowered as the AC of IAG's insurance subsidiaries, except for Insurance Manufacturers of Australia Pty Limited and those entities which have established their own ACs. In addition, the AC acts as the Audit Committee for IAG Finance (New Zealand) Limited, a company with securities listed on the ASX.

The AC met four times during the reporting period and member attendance at each meeting is shown in the Directors' Report.

The AC Charter, which provides details of the committee's responsibilities, is available on IAG's website at [www.iag.com.au/about-us/corporate-governance](http://www.iag.com.au/about-us/corporate-governance).

### **4.2 ASSURANCES**

The Board has received assurance from the CEO and CFO that the annual declaration provided in accordance with section 295A of the Corporations Act 2001 is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

### **4.3 EXTERNAL AUDITOR**

The external Auditor attends the AGM and is available to answer shareholders' questions received prior to the AGM and asked at the AGM, concerning the conduct of the audit, the preparation and content of the Auditor's Report, the accounting policies adopted and auditor independence.

## **PRINCIPLE 5. MAKE TIMELY AND BALANCED DISCLOSURE**

IAG's Continuous Disclosure Policy reinforces its commitment to continuous disclosure, as well as the responsibility of all employees regarding inside information.

The Continuous Disclosure Policy includes a protocol outlining how information is released to the public and provides examples of what could constitute inside information. The IAG Continuous Disclosure Policy is available online at [www.iag.com.au/about-us/corporate-governance/codes-and-policies](http://www.iag.com.au/about-us/corporate-governance/codes-and-policies).

IAG is committed to timely, factual and balanced disclosure to help ensure investors are informed of material developments for the Group. Care is taken to help ensure announcements do not omit material information and are expressed in a clear and objective manner that allows investors to assess the impact of information when making investment decisions.

All announcements are subject to a minimum of two sign-off reviews at senior levels within IAG before release to the ASX. The CEO or CFO jointly with the Chairman or any other Director must jointly approve announcements of particular significance where time does not permit a full Board to be convened. All IAG announcements to the ASX are available online at [www.iag.com.au/news-events/announcements](http://www.iag.com.au/news-events/announcements).

Policies have been designed and established to ensure compliance with the ASX Listing Rules' disclosure requirements and to help ensure accountability at a senior Executive level for that compliance. In accordance with its Continuous Disclosure Policy, IAG is committed to ensuring all investors have access to information on IAG's financial performance. IAG posts on its website all investor and media material released to the ASX, including:

- annual and interim reports;
- investor and media releases and presentations of half year and full year results;
- webcasts of CEO and CFO presentations at half year and full year results announcements;
- notices of general meetings and explanatory material;
- the Chairman's and CEO's addresses to the AGM;
- investor and media releases and presentations regarding divestments and acquisitions;
- investor and media presentations given at investor strategy sessions and other one-off events; and
- all other information released to the market.

## **PRINCIPLE 6. RESPECT THE RIGHTS OF SHAREHOLDERS**

### **6.1 INFORMATION AND GOVERNANCE**

IAG maintains a comprehensive website at [www.iag.com.au](http://www.iag.com.au) providing shareholders with information about IAG, including links to the Corporate Governance policies adopted by IAG. The website also provides links to the biographies of the Board members and the Group Executives.

IAG also maintains a separate Shareholder Centre page on its website to provide shareholders with links to annual and interim reports, share price history, dividend payments made on IAG ordinary and preference shares by year and links to IAG public offers and proposals. Shareholders are also able to access details of their holdings of IAG securities.

These web sites are actively promoted to all shareholders on dividend payment statements and in AGM materials.

### **6.2 INVESTOR RELATIONS PROGRAM**

Shareholders and investors can raise any issues or concerns at any time by contacting the Company by email at [investor.relations@iag.com.au](mailto:investor.relations@iag.com.au). Alternatively shareholders and investors can write to the Chairman or Company Secretary at Insurance Australia Group Limited, Level 26, 388 George Street, Sydney NSW 2000, Australia.

Shareholders are provided with a Question Form with their AGM documentation. Shareholders who are unable to attend the AGM are encouraged to ask questions as they submit their voting intentions either online or when mailing back the voting form. Questions received from shareholders are collated and, during the course of the AGM, the Chairman or CEO responds where possible to the most frequently asked questions.

### **6.3 PARTICIPATION AT GENERAL MEETINGS**

Shareholders are encouraged to attend AGMs and ask questions of the Chairman and the Board. IAG is mindful of the need to adopt best practice in the drafting of notices for general meetings and other communications to help ensure that they are honest, accurate, informative and not misleading. All AGM material can be found on IAG's website at [www.iag.com.au/shareholder-centre/annual-meetings](http://www.iag.com.au/shareholder-centre/annual-meetings).

IAG shareholders and authorised intermediaries such as custodians are offered online proxy and direct voting to facilitate lodgement of their votes on resolutions put to general meetings. The AGM is also webcast for viewing by shareholders and other interested parties on IAG's website at [www.iag.com.au/shareholder-centre/annual-meetings](http://www.iag.com.au/shareholder-centre/annual-meetings).

### **6.4 ELECTRONIC COMMUNICATIONS**

IAG actively promotes to shareholders the benefits of using electronic communications. As at 31 July 2015, 27.3% of shareholders had registered their email address. Shareholders who use this service are advised when communications including the annual and interim reports, annual reviews, dividend advices and holding balance statements are available to be accessed via the internet.

IAG also has an email alert system for investors, beneficial owners and other interested parties who may not be shareholders to receive advice of important media releases, financial announcements, presentations and annual reports as they are released to the market through the ASX.

## **PRINCIPLE 7. RECOGNISE AND MANAGE RISK**

Managing risk is central to the sustainability of IAG's business, its purpose and the delivery of shareholder value. IAG's risk management framework uses an enterprise approach to risk and is a core part of its governance structure and includes internal policies, key management processes and culture.

The Group Chief Risk Officer (CRO) reports to the CEO. The CRO oversees risk activities across IAG and is supported by a governance and risk function and divisional risk and compliance functions. Further details on risk management at IAG are included in the notes to the Financial Statements.

### **7.1 RISK COMMITTEE**

The Risk Committee (RC) comprises five Non-Executive Directors: Philip Twyman (Chairman), Yasmin Allen, Alison Deans, Hugh Fletcher and Thomas Pockett. All members of the RC have relevant experience as shown in their biographies in the Directors' Report.

The RC is supported in its oversight of risk by a series of divisional Executive Risk and governance forums.

The RC assists the Board to discharge its responsibility to exercise due care, skill and diligence regarding:

- effective management of material risks to which IAG is exposed and oversight of risk management and control systems for adequacy and effective function;
- monitoring IAG's compliance with the Group Risk Management Strategy (Group RMS), Group Reinsurance Risk Management Strategy (Group REMS) and other governance and risk related Group Policies identified in the Group RMS;
- effective operation and management of compliance systems and to help ensure compliance with the requirements of applicable laws, regulations, industry codes, listing authorities' rules and organisational policies and standards;
- oversight of the Group's risk management and governance frameworks; and
- safeguarding the independence of the CRO, the Group General Manager Risk and Governance and Chief Actuary.

The RC met four times during the reporting period and member attendance at each meeting can be found in the Directors' Report. The RC Charter, which provides details of the RC's responsibilities, is available at [www.iag.com.au/about-us/corporate-governance](http://www.iag.com.au/about-us/corporate-governance).

## 7.2 REVIEW RISK MANAGEMENT FRAMEWORK

The RC assists the Board in discharging its risk management responsibilities and has oversight of the Group's risk management and governance frameworks and material risks to which the Group is exposed. The RC reviews and endorses IAG's Risk Management Strategy and other key risk documents and is satisfied that the governance frameworks in place are effective, remains appropriate and are operationally sound. The Board receives information on risk matters of particular significance and regular updates from the Chairman of the RC.

IAG's Group Risk and Governance function provides regular reports to the RC on the operation of IAG's risk management framework, the status of key risks, risk and compliance incidents and risk framework changes. Divisional risk and compliance functions also report regularly to divisional risk committees.

The RC considers IAG's enterprise risk profile, risk appetite and core risk documents on an annual basis. In addition, business Executives are required to attend and report to the RC on the effectiveness of the risk management frameworks embedded in their respective business divisions.

At an Executive level, risk management is delegated to the Group CEO who is assisted in discharging risk management responsibilities by the IAG Executive Risk Committee (ERCO) and the Asset and Liability Committee (ALCO). ERCO operates in accordance with its Charter and with delegations from the Group CEO, who is ERCO's Chairman. ERCO oversees the development and implementation of IAG's risk management framework and governance arrangements in respect of operational, insurance and strategic risk. ERCO comprises the divisional CEOs, the Group CRO and the Group General Manager Risk and Governance. ALCO oversees financial risks (such as reinsurance and capital) and some aspects of insurance risk. ALCO operates in accordance with its charter and comprises the Group CEO and Group CFO and Group General Managers involved in the management of financial related risks.

IAG operates a "Three Lines of Defence" approach to risk management. The First line (risk owners) own their risks and their management. The Second line (risk advisers) is typically the risk and associated functions and the Third line is the independent audit functions.

All Group Executives are responsible for the management of risks faced by their Division. This includes full responsibility for the embedding of the risk management processes and culture, through:

- providing the mandate and commitment to risk management (i.e. set the tone at the top with regards to risk management);
- ensuring their Division complies with the RMS requirements, Board approved policies and all applicable regulatory / legal requirements;
- establishing Divisional Risk Owner and Risk Adviser functions that are sufficiently resourced as appropriate to the nature, scale and diversity of the Division and have the necessary standing and support;
- using risk management processes as part of key decision making;
- ensuring the business operates within the Group / Divisional Risk Appetite;
- regularly receiving and considering risk management reports; and
- promoting and reinforcing the Group's proactive risk management culture.

## 7.3 INTERNAL AUDIT FUNCTION

The Board has established the Group Internal Audit function as a key component of IAG's governance framework. The Group Internal Audit function's objective is to evaluate and improve the effectiveness of internal controls, governance processes and overall risk management, via its independent and objective review program and to:

- provide assurance to the Board that IAG's financial and operational controls designed to manage the Group's risks and regulatory obligations, and achieve its objectives, are operating in an efficient, effective and ethical manner; and
- assist management in improving IAG's business performance.

The Group General Manager, Internal Audit reports functionally to the AC and administratively to the Group CRO, with direct access to the CEO and the AC.

## 7.4 ECONOMIC, ENVIRONMENTAL AND SOCIAL SUSTAINABILITY RISK

IAG is a founding member of the United Nations Environment Program Finance Initiative, Principles for Sustainable Insurance (PSI) and is one of the only two Australian insurers among 43 signatories. Launched in June 2012 as part of the United Nations Environment Program Finance Initiative (UNEPFI), the PSI is a set of voluntary global principles to guide insurers to:

- embed in their decision-making relevant environmental, social and governance issues;
- work together with clients and business partners to raise awareness of these issues, manage risk and develop solutions;
- work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social, and governance issues; and
- demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.

IAG is an active member of the UNEPFI PSI and IAG's Chief Strategy Officer is Co-chair of the PSI Board. IAG has taken a lead position on PSI activities, including through its sponsorship of the three-phase Global Resilience Project, which aims to deepen the understanding of disaster risk reduction activities and investments globally, identify the human and economic cost of disasters, and help governments, businesses and NGOs focus more closely on necessary disaster risk reduction activities in the world's most vulnerable countries. Phase I and II of the Global Resilience Project are detailed below:

- Phase I — the "Building disaster-resilient communities and economies" report — was launched at a major PSI event in London in June 2014. The report identified and assessed the effectiveness of a range of disaster risk reduction measures for cyclones, floods and earthquakes. The research focused on net economic and social benefits, and the cost to implement a particular disaster risk reduction measure relative to other options; and
- Phase II — the Global Risk Map — was introduced at a major PSI event in Switzerland in May 2015, and formally launched at the International Insurance Society's (IIS) Global Insurance Forum in New York in June 2015. The Global Risk Map covers major natural disasters over the past 115 years. The map highlights the social and economic devastation caused by cyclones, floods, earthquakes and related perils, as well as areas/countries of high vulnerability to these natural hazards.

Part of IAG's commitment to implementing the PSI principles is ensuring that IAG has governance systems – structures, values, principles, frameworks and policies – to define its decision-making context and the boundaries for managing operations sustainably. Responsibility for adhering to these systems sits at every level of the organisation. IAG's Board takes overarching responsibility for monitoring the development, implementation and reporting of IAG's approach to the proactive management of risk that drives sustainable outcomes and how effectively IAG responds to stakeholders.

As well as actively managing sustainability risks internally, IAG believes it also has a responsibility to share its knowledge about risk to make communities safer, stronger and more confident. It does this by promoting better understanding and reduction of risks, at home, at work, on the road and in the natural environment.

An example of this is the IAG led Australian Business Roundtable for Disaster Resilience & Safer Communities. The Roundtable was formed in December 2012 by the Chief Executive Officers of the Australian Red Cross, IAG, Investa Property Group, Munich Re, Optus and Westpac Group. The CEOs created the Roundtable as all believe building resilient communities that can adapt to extreme weather events is of national importance. The Roundtable has released two significant evidence based papers to Government both of which have contributed to the findings of the Productivity Commission's Inquiry into Natural Disaster Funding Arrangements. The Commission's Final Report was released by Government on 1 May 2015. In recognition of this work the Roundtable was awarded the Certificate of Distinction at the 2015 United Nations Sasakawa Awards for Disaster Risk Reduction, the first private sector organisation to do so in the 30 year history of the awards.

More information about how IAG shares its risk management expertise and details of other shared value and sustainability activities, including how IAG defines and addresses the issues it faces, can be found in the 2015 Annual Review.

## **PRINCIPLE 8. REMUNERATE FAIRLY AND RESPONSIBLY**

### **8.1 PEOPLE AND REMUNERATION COMMITTEE**

The four members of the People and Remuneration Committee (PARC) are Elizabeth Bryan (Chairman), Yasmin Allen, Raymond Lim and Brian Schwartz. Yasmin Allen was Chairman of PARC until June 2015 and remains a PARC member.

The PARC assists the Board in fulfilling its statutory and fiduciary responsibilities by:

- monitoring the development and implementation of Group's people and culture strategies;
- monitoring the development and implementation of IAG's workplace, health and safety framework and strategies;
- reviewing succession plans for Executives that report to the CEO and other senior Executives;
- providing assurance to the Board relating to the effectiveness, integrity and compliance with IAG's remuneration policies and practices;
- assessing whether the Group Remuneration Policy is effective and complies with regulatory requirements on remuneration including those specified in the Corporations Act and APRA's prudential standards;
- monitoring the appropriateness and relevance of the Group Reward Strategy and its approach to deliver the strategic goals of IAG; and
- overseeing Board composition of designated IAG subsidiary and associated companies.

The PARC is also empowered as the remuneration committee of IAG's subsidiaries that are authorised general insurers in Australia, except for Insurance Manufacturers of Australia Pty Limited, which has a separate remuneration committee. The PARC met four times during the reporting period and member attendance at each meeting is shown in the Directors' Report.

Find out more about the PARC Charter at [www.iag.com.au/about-us/corporate-governance](http://www.iag.com.au/about-us/corporate-governance)

### **8.2 GROUP REMUNERATION POLICY**

Details of IAG's remuneration policies for its Non-Executive Directors and senior Executives are disclosed in the Remuneration Report. The Remuneration Report highlights the balance between fixed pay, short term incentive and long term incentive, and includes details of the remuneration paid and the relationship to IAG's performance. IAG's minimum shareholding requirement policy for senior Executives and Non-Executive Directors and 'clawback' policy are also outlined.

### **8.3 EQUITY BASED REMUNERATION**

IAG Non-Executive Directors, the CEO and Group Executives are prohibited from entering into, varying or terminating transactions or arrangements which operate to limit the economic risk of their unvested entitlements to IAG securities (such as Executive Performance Rights, Performance Award Rights and Deferred Award Rights) and vested IAG securities which form part of their mandatory holding of IAG ordinary shares. Details of IAG's equity based remuneration policy for the CEO and Group Executives are shown in the Remuneration Report.