

# CORPORATE GOVERNANCE

## IAG'S APPROACH TO CORPORATE GOVERNANCE

IAG is committed to attaining the highest level of corporate governance to 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 environment in which IAG conducts its business continues to have a major influence on IAG's corporate governance practices. Sound regulatory regimes are required to assist with stability and sustainability of the general insurance sector in the countries in which we operate or intend to operate.

IAG believes that active engagement with governments, regulators and industry and professional groups ensures that the interests of IAG and its stakeholders are properly considered in the formulation of proposals to improve corporate governance, the general insurance prudential regime 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.

In the past year, IAG has again actively participated 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 and regulation affecting the general insurance industry. IAG has also participated in a number of reviews of the New Zealand regulatory and legislative framework. As part of IAG's commitment to open and transparent communication, all public government submissions are available to view on the IAG website at [www.iag.com.au](http://www.iag.com.au).

In addition, IAG representatives continued to participate in forums, working parties, committees of domestic and overseas insurance industry associations, and accounting and actuarial professional bodies to help formulate responses to proposals to improve corporate governance, prudential and financial reporting standards and practices that have particular application to the general insurance industry.

The key corporate governance practices followed by IAG and its people are summarised below. They are not an exhaustive list of all corporate governance practices in place. Copies of IAG's board and board committee charters and key corporate governance policies can be found on IAG's website at [www.iag.com.au/about/governance](http://www.iag.com.au/about/governance).

Throughout the reporting period, IAG has complied with the Australian Securities Exchange (ASX) Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd edition) below.

1. Lay solid foundations for management and oversight
2. Structure the board to add value
3. Promote ethical and responsible decision making
4. Safeguard integrity in financial reporting
5. Make timely and balanced disclosure
6. Respect the rights of shareholders
7. Recognise and manage risk
8. Remunerate fairly and responsibly

How IAG complies with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations is addressed in more detail below.

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

### ROLES AND RESPONSIBILITIES

#### 1.1 THE BOARD

The board is accountable to shareholders for the performance, operations and affairs of IAG. The board's principal role is to govern, rather than manage, IAG. The directors represent and serve the interests of the shareholders and collectively oversee and appraise the strategies, policies and performance of IAG.

The board is responsible for oversight of IAG, including:

- driving the strategic direction of IAG and approving group strategies;
- approving significant corporate initiatives including major acquisitions, projects and divestments, and capital management transactions;
- setting IAG's risk appetite;
- selecting appropriate candidates and recommending to IAG shareholders the re-election, election or removal of directors;
- evaluating board processes and performance of the board as a whole, as well as contributions by individual directors;
- 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, and social and environmental responsibility) are adhered to at all times.

More details on the board's responsibilities are set out in the board charter which can be found at [www.iag.com.au/about/governance](http://www.iag.com.au/about/governance).

## 1.2 APPOINTMENT TERMS

Formal appointment letters have been issued to each non-executive director, including the chairman, to assist individual directors in understanding the role of the board and the corporate governance principles and practices adopted by the board. The letters formally document the basis of each director's appointment, including the standard term of their appointments.

The appointment letters also provide for:

- 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 measures used, and the processes to be applied, by the board to assess the individual performance of directors, details of which are set out in section 2.8 below; and
- the expectation that directors will abide by the Code of Ethics and comply with the IAG Continuous Disclosure and Security Trading Policies.

## 1.3 THE CHIEF EXECUTIVE OFFICER (CEO)

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

- the efficient and effective operation of IAG;
- fostering a culture that rewards performance, integrity, respect and a considered sense of urgency;
- 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 and strategies 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, a copy of which can be found attached to the board charter at [www.iag.com.au/about/governance](http://www.iag.com.au/about/governance).

## 1.4 PERFORMANCE ASSESSMENT – CEO AND GROUP EXECUTIVES

Financial and non financial goals are set 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. Measuring achievement against these goals is the basis for assessing an individual group executive's performance. The methods of assessment have been selected so that they 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. These assessments are the basis for determining any short term incentive payments and for allocating long term incentives to group executives, which are reviewed by the Nomination, Remuneration & Sustainability Committee (NRSC) and approved by the board.

Financial and non financial goals and performance of the CEO are determined and assessed by the board using the approach outlined above.

Further detail on short and long term incentives of the CEO and group executives is set out in the remuneration report on pages 18 to 32.

Newly appointed group executives have access to an orientation program which includes meetings with other members of the executive team and select senior managers to apprise them of the detail of IAG's operations, financial position, strategies, and risk management framework.

## PRINCIPLE 2. STRUCTURE THE BOARD TO ADD VALUE

### 2.1 STRUCTURE AND COMPOSITION

The company's constitution provides for a minimum of three directors and a maximum of 12 or less directors as determined by the directors from time to time. The directors have determined that, for the present, the maximum number of directors is eight.

The board currently comprises six non-executive independent directors, and one executive director, Michael Wilkins, the CEO of IAG.

The board considers its size and composition annually. The board's policy is to ensure that the board comprises directors who collectively have the relevant experience, knowledge, diversity and skills required for the company. This takes into account IAG's current size, market position, complexity and strategic focus. In reviewing its composition and requirements for director succession, the board is also mindful of the corporate governance practices and requirements for directors of general insurance companies.

During the year, the board adopted a framework for effective director selection and board succession to ensure that the board's skills, competencies and knowledge match the strategic objectives of IAG. Some key tenets of the framework were:

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

The framework is expected to undergo further refinement during the year after the board has considered in more detail the implications of changes to be made to the ASX Corporate Governance Principles and Recommendations in relation to diversity, which have been recently announced.

### 2.2 DIRECTOR INDEPENDENCE

The board has determined that the board must be comprised of 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 relationship that could materially interfere with the independent exercise of their judgement.

All current non-executive directors have confirmed their continued independence.

The board will determine whether each director is independent, using the principles outlined in its charter which can be viewed at [www.iag.com.au/about/governance](http://www.iag.com.au/about/governance).

### 2.3 THE CHAIRMAN

The chairman provides leadership to the board and IAG. The chairman presides at board and general meetings of the company. The chairman is an independent non-executive director and is responsible for ensuring the board discharges its role, and works closely with the CEO in that regard.

### 2.4 COMMITTEE PROCESSES

All standing board committees are required to have at least three members and currently comprise only independent non-executive directors. Each committee meets at least four times each year.

The CEO, group executives and senior management are invited to meetings as required. All directors have access to committee papers and may attend any committee meeting.

The chairs of the committees give oral reports on outcomes at the board meeting immediately following each committee meeting and copies of all committee minutes are made available to the full board.

Each committee annually reviews fulfilment of its responsibilities under its respective charter. Performance of each committee is reviewed at the same time as the board conducts its review of performance.

Copies of the committee charters are available at [www.iag.com.au/about/governance](http://www.iag.com.au/about/governance).

### 2.5 APPOINTMENT OF DIRECTORS

The NRSC assesses the skills required to discharge competently the board's duties, having regard to the company's performance, financial position and strategic direction, including the specific knowledge, skills and experience that the board determines as necessary for one or more of the directors to possess.

The NRSC annually makes recommendations to the board on candidates for appointment and re-election of directors, either when a vacancy arises or if it is considered that the board would benefit from the services of a new director, with particular attention 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.

The constitution of the company requires one third of eligible directors to retire from office. Eligible directors who retire may offer themselves for re-election by shareholders at the annual general meeting. The board confirms to shareholders whether it supports the re-election of each retiring director by including a statement in the notice of annual general meeting. 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.

The board may from time to time, and as considered appropriate, engage reputable recruitment consultants to assist the board to identify suitable candidates for appointment to the board.

### 2.6 TENURE

It is expected that directors will continue as directors only for so long as they have the confidence of their fellow board members and the confidence of the company's shareholders.

The board has a tenure policy which applies to non-executive directors to 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 that the standard tenure for a non-executive director would be up to 10 years, although the board has the discretion to invite directors to stand for an additional term which may take their total tenure beyond 10 years.

INDEPENDENT NON-EXECUTIVE DIRECTORS	TERM IN OFFICE AT IAG (AT THE DATE OF THIS STATEMENT)
Brian Schwartz (Chairman)	5 years and 7 months
Yasmin Allen	5 years and 9 months
Phillip Colebatch	3 years and 7 months
Hugh Fletcher	2 years and 11 months
Anna Hynes	2 years and 11 months
Phillip Twyman	2 years and 1 month

The names of directors in office at the date of this report, their year of appointment, their designation as a non-executive independent or executive director, and their experience, expertise and biographical details are set out at pages 11 to 13.

### 2.7 POTENTIAL CONFLICTS OF INTEREST

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 their interest and abstain from voting. Directors with potential conflicts do not serve on any board committees that are appointed to provide oversight of the implementation of transactions or arrangements in which the other organisation plays a role.

### 2.8 MEASURING THE PERFORMANCE OF DIRECTORS

Each director's performance is subject to evaluation by the chairman annually, by discussion between the chairman and the director. Individual directors also evaluate the chairman's performance annually.

The NRSC conducts a formal review of the board's performance, composition and size at least every three years. A formal review of board performance and succession was conducted in June–July 2009, with assistance and input from an independent board performance expert. The review process involves the completion of questionnaires by directors and group executives, the collation of results and discussion with individual directors and the board as a whole led by the chairman.

Measures of a director's performance will include:

- contribution of the director 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, the fulfilment of his or her additional role as chairman.

## **2.9 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.

New directors have access to an orientation program to introduce the executive team and the detail of IAG's businesses. Orientation includes individual meetings with the CEO, group executives and other senior management, as well as site visits.

Workshops are conducted, as required, to assist directors' education on topics which include reinsurance, capital, risk management and investment management. Directors have unfettered access to senior executives and the external auditor and are encouraged to meet with these executives to further their knowledge and understanding of the organisation.

Executive directors appointed to subsidiary and associated company boards are required to undertake director training and to demonstrate that they have undertaken ongoing development and training to continue to effectively and competently perform their roles as executive directors. During the past year, Australian executive directors and selected senior executives completed a one day 'Essential Directors Update' workshop conducted in-house by the Australian Institute of Company Directors.

## **2.10 BOARD OPERATIONS**

The board meets formally at least seven times during the year. From time to time scheduled board meetings are held interstate and overseas as required. Directors are also involved in a number of additional board meetings for specific purposes.

The board meets each March with IAG's executive team to review the company's strategic plan and to set the company's overall strategic direction.

Directors are encouraged to bring to board meetings objective independent judgement in relation to the matters under consideration, to ask incisive, robust questions and to require accurate, honest answers.

The board and its committees have unfettered access to group executives, senior management and advisers.

Directors' attendance at board and committee meetings held during the year is shown at page 14 in the directors' report.

Directors set aside time in meetings from time to time to meet without the CEO and/or management representatives present. The board usually also meets with the CEO (without other executive management present) at the commencement of each scheduled board meeting.

Senior management representatives frequently attend board meetings at the board's invitation. Directors receive agendas, board papers and minutes in hard or soft copy in advance of meetings.

## **2.11 COMPANY SECRETARY**

All directors have access to the company secretary and the appointment and removal of the company secretary is decided by the board.

The company secretary is responsible to the board for ensuring board procedures are complied with and also provides advice and counsel to the board in relation to the company's constitution, corporate governance and other matters.

The qualifications and experience of IAG's company secretary are set out at page 13.

## **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 IAG's ethical principles as set out in IAG's Code of Ethics and the IAG policies and standards that relate directly to their duties.

The IAG Code of Ethics, *The Way We Choose To Do Business*, is available at IAG's website [www.iag.com.au/about/ethics](http://www.iag.com.au/about/ethics).

## **3.1 IAG CODE OF ETHICS**

The IAG Code of Ethics has been developed to provide all group employees 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 employee in IAG. This means that when IAG's stakeholders interact with our employees, they should feel assured that employees will act in a responsible, ethical, transparent and honest way, wherever IAG operates.

The Code applies to all employees of entities where IAG has majority ownership, or which are otherwise to be considered IAG subsidiaries, and to all non-executive directors.

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

Copies of the Codes of Conduct for Australia and New Zealand are available at [www.iag.com.au/about/governance](http://www.iag.com.au/about/governance).

### 3.2 DIVERSITY

IAG remains committed to promoting diversity as a way to bring a range of experience, ideas and opinions, including at the board level, into the organisation. Our approach to business sustainability includes attracting and retaining the right people with the appropriate skills to meet our current and future skills requirements. Diversity enables us to leverage the evolving demographics of our customers and the community. For us, diversity encompasses age, ethnicity, gender, thought and ability. Importantly, creating a 'balanced' workforce gives us access to a broader pool of talent, an ability to empathise with our customers, and an invaluable depth of experience—IAG creates an environment and culture where this experience and diversity are valued.

IAG expects to be a recognised diversity leader and role model at all levels, including the board. IAG believes we need to ensure that board members comprise directors who collectively have the relevant experience, knowledge and skills required for the company, taking into account its current size, market position, complexity and long term strategic focus, and assist in maintaining the independence of the board.

The ASX Corporate Governance Council proposes to expand the Corporate Governance Principles and Recommendations to require each entity listed on the Australian Securities Exchange, including IAG, on an 'if not, why not?' basis, to disclose in their annual report:

- their achievement against gender objectives set by their board; and
- the proportion of women on the board, in senior management and employed throughout the whole organisation.

These changes will take effect and will first apply to IAG's 2011–2012 financial year. As a first step, IAG has set an objective that by 2015 the ratio of women in senior management positions will increase from 26.8% currently, to 33%. IAG will report progress against this, and other diversity objectives to be determined by an internal working group formed for this purpose, in its 2011 annual report.

### 3.3 WHISTLEBLOWING

Employees are encouraged to raise any material matters of concern through IAG's management structure as part of IAG's objective of building a culture where people perform their duties in an ethical and appropriate manner. Open access is provided to the CEO and the chairs of the IAG Board and its standing board committees and IAG has established mechanisms for rapid escalation of important matters to relevant executives and/or board members.

IAG is proactive about preventing, detecting and investigating all instances of suspected serious inappropriate behaviour. ActionLine, an independent whistleblowers' hotline, is a mechanism designed to capture the most serious incidents of inappropriate behaviour within the organisation and to encourage employees to raise other material matters of concern that they believe have not been appropriately addressed through IAG's management structure. This can be done anonymously through the external provider via web application, telephone, email and facsimile.

### 3.4 SECURITY TRADING POLICY

The Security Trading Policy sets the framework for employee dealings in IAG securities, and aims to prevent employees from inadvertently breaching insider trading laws. The protocol specifies that directors, group executives and other employees (collectively, designated persons) may only trade in IAG securities in the four week trading window beginning two trading days after IAG's half year and full year results announcements and the annual general meeting or any other period approved by the board, subject to these persons not being in possession of inside information as defined by the law.

In addition, IAG directors, group executives and certain designated executives may only trade in IAG securities in these periods after they have received prior consent from the NRSC and complied with any conditions on trading in IAG securities that the NRSC imposes, subject again to not being in possession of inside information as defined by the law.

Designated persons are also prohibited from trading in IAG securities during 'blackout periods' (the periods between 1 January and one day following the announcement of the half year results and 1 July and one day following the announcement of the full year results) except in exceptional circumstances and with the prior consent of the NRSC.

Each of the IAG directors is required to notify the company of the existence of any margin loans or similar financial products to which they or their associates are a party in relation to any IAG securities where the percentage of each class of IAG securities held in aggregate by IAG directors reaches 1%.

Designated persons including IAG directors and group executives may not enter into transactions or arrangements that operate to limit the economic risk of unvested entitlements (such as Executive Performance Rights and Deferred Award Rights) to IAG securities. IAG directors and group executives are also prohibited from entering into transactions or arrangements which operate to limit the economic risk of their vested security holdings which form part of their mandatory holdings of IAG securities. Further details in relation to IAG directors and group executives' mandatory holdings can be found at pages 33 and 27 in the remuneration report, respectively.

IAG's Security Trading Policy is available at [www.iag.com.au/about/governance](http://www.iag.com.au/about/governance).

### 3.5 RESPONDING TO OUR STAKEHOLDERS

IAG recognises that its business has an impact on the community, the environment and the wider economy and believes it must operate in a way that responds to these impacts effectively to meet its commitments to shareholders, customers, employees and other stakeholders.

IAG is committed to ensuring it has appropriate policies and agreed practices to guide its actions, including employee practices, conduct in the marketplace, environmental care, governance and ethical conduct, occupational health and safety, human rights and community involvement.

IAG reports annually on its social, economic and environmental performance against a series of indicators. The quantitative results of our business sustainability performance are incorporated into the company's annual review. These quantitative results, together with qualitative information and discussion of material issues of interest to our stakeholders, can also be found at the IAG website, [www.iag.com.au](http://www.iag.com.au). This approach to the reporting of our business sustainability performance demonstrates the ongoing commitment to ensuring business sustainability issues are considered as part of IAG's overall performance.

Ongoing stakeholder dialogue is a key element that drives IAG's business sustainability-based initiatives and it is embedded not only within our corporate strategy but also in our governance frameworks. IAG continues to undertake extensive stakeholder dialogue on key issues and activities in the business. IAG conducts research of stakeholder perceptions of IAG's business sustainability work and regularly tests the extent to which stakeholders believe that IAG is successfully addressing relevant social and environmental issues.

A bi-annual discussion forum has been established and aligned to the five pillars of IAG's business sustainability strategy: economic, customer, community, workforce and environment. These forums will complement our existing stakeholder engagement mechanisms both at the corporate and business division levels.

Sustainable outcomes and behaviours continue to be encouraged through several customer offerings. IAG's major operating brands of NRMA Insurance, SGIO and SGIC offer lower motor insurance premiums for highly fuel-efficient vehicles, plus offer opportunities for customers to offset the carbon emissions from their vehicles via the Climate Help website (available at [www.climatehelp.com.au](http://www.climatehelp.com.au)). Also, our CGU brand offers business insurance policyholders assistance to ensure that their businesses are insured sufficiently through their Right Cover service.

IAG will continue to investigate and implement practical customer offerings that make business sense and have concurrent social and environmental benefits.

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

### **4.1 AUDIT, RISK MANAGEMENT & COMPLIANCE COMMITTEE (ARMCC)**

The three non-executive directors who are members of the ARMCC are currently Philip Twyman (chair), Yasmin Allen and Hugh Fletcher. All members of this committee have financial management experience as shown in their biographies on pages 11 to 13 of this report.

The main role of this committee is to assist the board in discharging its responsibilities in relation to ensuring:

- 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;
- that directors and management are provided with high quality financial and non financial information that can be relied upon by them to make informed judgements;
- that appropriate and effective systems of internal, accounting and financial controls are in place and maintained to safeguard IAG's financial and physical resources;
- that sound risk management and compliance frameworks are in place to identify, assess and manage risks within IAG's risk appetite determined by the board; and
- that the independence of the external auditor, the internal auditor, and IAG group actuary is safeguarded.

The ARMCC charter, which provides details of the committee's responsibilities, can be found at [www.iag.com.au/about/governance](http://www.iag.com.au/about/governance).

A framework is used by the ARMCC to assess total fees paid to the external auditor and which, among other things, sets out guiding principles for dealing with the external auditor firm for non audit services and the rotation of the external auditor,

The ARMCC is also empowered as the audit, risk management & compliance committee of IAG's subsidiaries that are authorised general insurers in Australia, except for Insurance Manufacturers of Australia Pty Limited, which has a separate audit, risk management & compliance committee. In addition, the ARMCC acts as the audit committee for IAG Finance (New Zealand) Limited, a company with securities listed on the ASX.

## **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 company's Continuous Disclosure Policy is available online at [www.iag.com.au/about/governance/codes.shtml](http://www.iag.com.au/about/governance/codes.shtml).

Directors and management are encouraged to assist in the process of the board identifying, evaluating and reporting on matters to comply with the provisions of the Corporations Act 2001 and the ASX Listing Rules in relation to continuous disclosure so as to keep markets fully informed.

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

All announcements are subject to a minimum of two sign-off reviews at very 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 group announcements to the ASX since 2000 are posted on the company's website, [www.iag.com.au](http://www.iag.com.au).

Policies have been established and designed to ensure compliance with ASX Listing Rules disclosure requirements and to 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;
- investor and media releases and presentations to the annual general meeting;
- notices of general meetings and explanatory material;

- webcast of CEO and CFO presentations at half year and full year results announcements;
- the chairman's and CEO's addresses to the annual general meeting;
- 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

IAG maintains a Shareholder Centre page on its website at [www.iag.com.au/shareholder/](http://www.iag.com.au/shareholder/) which provides shareholders with access to all company announcements, publications and their holdings of IAG securities. This web page is actively promoted to shareholders.

Over 150,000 ordinary shareholders, representing approximately 17.5% of total shareholders, have registered their email address, an increase of approximately 27% in the last 12 months following targeted approaches to shareholders. Shareholders who use this service will be 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 system to alert investors, beneficial owners, and other interested parties who may not be shareholders and who register for this service to receive important media releases, financial announcements, presentations and annual reports as they are released to the market through the ASX.

Media coverage of key events is also sought as a means of delivering information to shareholders, investors and the market. Formal communication with shareholders and investors is also conducted via the annual and interim reports, annual review and at the AGM which is also webcast for viewing by interested parties including shareholders.

IAG is mindful of the need to adopt best practices in the drafting of notices for general meetings and other communications with shareholders to ensure that they are honest, accurate, informative and not misleading. All AGM material is available for viewing on our website at [www.iag.com.au/results/agsm/index.shtml](http://www.iag.com.au/results/agsm/index.shtml).

Online proxy and direct voting are available to IAG shareholders and authorised intermediaries such as custodians and help to facilitate ease and timeliness of lodgement by shareholders of their votes on resolutions put to general meetings of shareholders. Shareholders are encouraged to attend general meetings and ask questions of the chairman and the board.

The external auditor attends general meetings and is available to answer shareholders' questions concerning the conduct of the audit, the preparation and content of the auditor's report, the accounting policies adopted and audit independence.

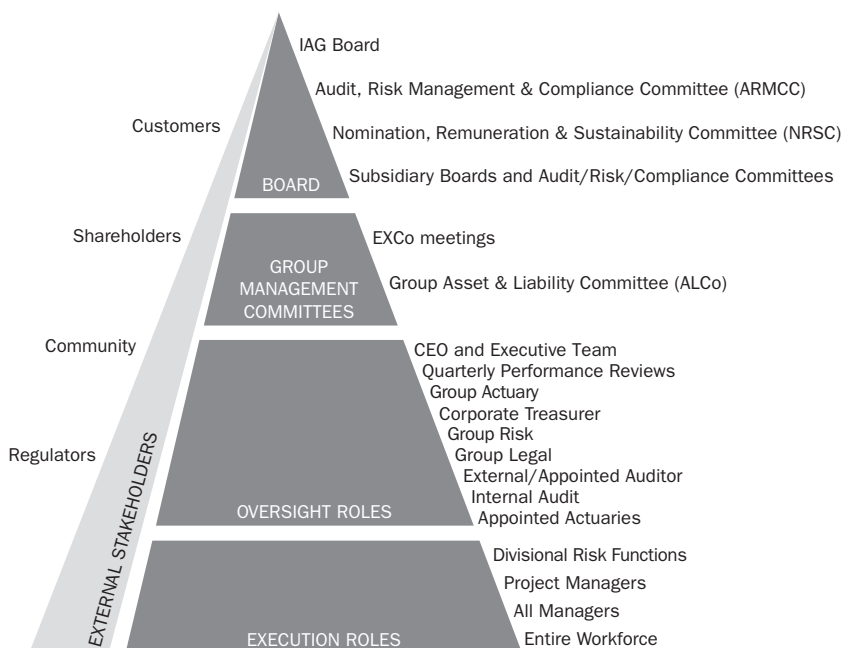
Shareholders and investors may raise any issues or concerns at any time by contacting the company, by email. Questions or comments should be addressed to [investor.relations@iag.com.au](mailto:investor.relations@iag.com.au) or write to the chairman or company secretary at Insurance Australia Group Limited, Level 26, 388 George Street, Sydney NSW 2000, Australia.

## PRINCIPLE 7. RECOGNISE AND MANAGE RISK

Managing risk is central to the sustainability of our business and delivery of value to shareholders. IAG's risk management framework is based on the interaction of the oversight structure, internal policies, key management processes and culture.

Some of the key underlying principles that influence IAG's approach to risk management are:

- risk is part of business—risk management is not about trying to avoid all risks, rather risks need to be identified, understood and assessed against the levels of risk IAG is willing to take and appropriately managed and monitored;
- a proactive risk management culture provides the foundation for appropriate and sustainable risk management;
- to consider the reasonable expectations of stakeholders in considering factors which bear upon the company's continued good standing; and
- to take into account the company's legal and statutory obligations.



### 7.1 OVERSIGHT STRUCTURE

Roles and responsibilities of the IAG Board and its standing committees, the ARMCC and NRSC, are set out elsewhere in this report.

The Executive Committee (EXCo) fulfils an advisory role to IAG CEO and provides the operational oversight of IAG's risks and risk management framework. The EXCo comprises the CEO, Michael Wilkins (chair), and his group executive team. All group executives are responsible for:

- overseeing implementation of board-approved policies;
- overseeing the ongoing implementation of, and compliance with, IAG's Risk Management Strategy (RMS) and Reinsurance Management Statement (REMS) and monitoring IAG's risks;
- authorising capital allocation to major projects within financial delegation limits approved by the CEO/board;
- conducting periodic financial performance reviews of the business division;
- reviewing the performance in the areas of health, safety, environment and community performance;
- reviewing risk governance arrangements established at the business division level;
- reviewing human resource performance and reward strategies; and
- promoting and reinforcing IAG's risk management culture.

In addition to these, the corporate office group executives are also responsible for:

- reviewing corporate strategies and the performance of IAG and its business divisions compared to budgets and corporate plans;
- formulating recommendations to the board concerning issues related to capital management and risk management, including credit risk and asset allocation;
- conducting periodic financial performance reviews of IAG's businesses; and
- reviewing risk governance arrangements established at the IAG level.

### 7.2 INTERNAL POLICIES

The RMS is IAG's overarching risk management policy. The RMS:

- is a primary input to, and evolves with, IAG's corporate strategy;
- describes the risk management framework within IAG including risk governance processes, risk categories (as outlined in the diagram 'IAG's risk categories' below), IAG's risk appetite, key accountabilities, the key risk management processes and other group level risk management related policies;
- is a statement of minimum requirements for managing the full spectrum of risks associated with pursuing IAG's corporate intent; and
- is reviewed annually by the ARMCC before being recommended for adoption by the IAG Board.

### 7.3 IAG'S RISK CATEGORIES



## 7.4 KEY RISK MANAGEMENT PROCESSES

The board and management employ the following key processes to meet, as well as monitor, the requirements of IAG's RMS.

### Management assurance framework

This is a set of processes (for example, a set of self assessment questions posed at least every six months to, and answered by, management) relating to the provision of assurance on the effectiveness of risk management processes and internal controls. These processes support the CEO, CFO and board declarations on risk management, internal control and external financial reporting.

Underpinning this CEO/CFO assurance are assurances received from business division group executives and other executive management attesting to the effectiveness of business division risk management and internal control processes and assurance as to substantial compliance with IAG's RMS.

The board has received assurance from the CEO and CFO that the 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.

IAG's risk management and internal audit functions provide regular reports to the IAG ARMCC on the operation of IAG's risk management framework, the status of key risks, details of significant audit findings, risk and compliance incidents, and risk framework changes.

### Risk reporting

Reporting on risk management initiatives and issues is provided to:

- the EXCo, with input from each business division;
- the ARMCC; and
- regulators and industry groups, where relevant and appropriate.

In addition, the IAG ARMCC receives regular reports monitoring the status of IAG's risk exposures and enterprise risk profile, which shows trends of each of IAG's material risks and their estimated monetary impact on IAG. In addition, business division group executives are required to attend and report to the ARMCC on the effectiveness of the risk management frameworks embedded in their respective business divisions.

### Independent reviews

Internal audit conducts independent reviews of the business divisions' key risk areas, processes and projects. The head of this function reports to the IAG executive, corporate office and the ARMCC.

External independent reviews of key financial risk areas, processes and issues are also carried out by the independent external auditor as part of the annual audit.

An independent party is also used to review and assess the adequacy and efficiency of the IAG Risk Management Framework.

## PRINCIPLE 8. REMUNERATE FAIRLY AND RESPONSIBLY

### 8.1 NOMINATION, REMUNERATION & SUSTAINABILITY COMMITTEE (NRSC)

The four members of the NRSC are currently Yasmin Allen (chair), Brian Schwartz, Phillip Colebatch and Anna Hynes.

The purpose of this committee is to:

- provide advice and support to the board in fulfilling its responsibilities to shareholders to ensure that the board is comprised of persons who have the necessary range of skills, expertise and experience to enable it to discharge its responsibilities effectively;
- provide advice and support to the board in the performance, composition and size of the board;
- oversee composition of IAG key subsidiary and associated companies;
- provide assurance to the board relating to the effectiveness and integrity of, and compliance with, IAG's remuneration policies and practices;
- assess the effectiveness of IAG's group remuneration policy and compliance with regulatory requirements on remuneration; and
- monitor the development, implementation and reporting of IAG's business sustainability strategy.

The NRSC charter, which lists the committee's responsibilities, can be found at [www.iag.com.au/about/governance](http://www.iag.com.au/about/governance).

The NRSC 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.

### 8.2 IAG GROUP REMUNERATION POLICY

Details of IAG's remuneration policies for its non-executive directors and senior executives, the relationship of these policies to IAG's performance, and details of the remuneration paid to the non-executive directors and to relevant senior executives are disclosed in the remuneration report on pages 18 to 32. The remuneration report highlights the balance between fixed pay, short term incentives, long term incentives, and a minimum shareholding requirement for senior executives of IAG.