

GLOSSARY

Actuary

An actuary applies mathematical, economic and financial analyses as well as risk assessment to financial contracts, in a wide range of practical business problems.

AGAAP

AGAAP (Australian Generally Accepted Accounting Principles) were used by the Group to prepare financial reports up to and including the year ended 30 June 2005. From 1 July 2005, the financial reports were required to be prepared under AIFRS (defined below).

AIFRS

The Group was required to adopt AIFRS (Australian equivalents of International Financial Reporting Standards) when preparing its financial report for the year ended 30 June 2006.

APRA

APRA (Australian Prudential Regulation Authority) is the prudential regulator of insurance companies, banks, superannuation funds, credit unions, building societies and friendly societies in Australia. APRA is responsible for ensuring that policyholders, depositors and superannuation fund members are protected by, for example, ensuring that companies have enough capital to be able to meet their ongoing business needs, including reserving to pay claims.

Business volume

This measures the volume of business at a point in time. The basis of the measure depends on the class of business. In the personal lines class, the relevant volume measure is 'risks in force'. In commercial classes, the volume measure is 'policies in force'. The difference in the definition is required to capture the distinct nature of IAG's business mix.

Claims reserves

The portion of premium set aside to cover obligations for unexpired insurance contracts, claims and expenses to be incurred. This amount is invested and the returns on these investments form part of pricing and profit from insurance operations.

CO₂e emissions

In this instance, CO₂e emissions are calculated for electricity use, office paper and print paper consumption, tool of trade fuel consumption and air travel using emission factors obtained from the Australian Greenhouse Office (AGO). The 2005 conversion factors are taken from the December 2005 AGO workbook. Green power electricity emissions are not included.

Customer satisfaction index

This measures the end to end customer experience when enquiring, taking out, renewing or making a claim for direct personal insurance. Customer satisfaction levels are determined by a third party through telephone interviews with a random sample of customers contacted. During the year, there has been a change in the survey provider; however only the customer satisfaction index for the retained provider has been included (results for the 6 months to June 2006). The measure for 2006 also includes customer experience when making a claim.

Employee engagement score

Determined through six mandatory questions in the 'Your Voice' employee survey conducted by a third party. The survey assesses the extent to which employees consistently say positive things about working at IAG, want to stay with IAG and strive to achieve above and beyond what is expected of them. Participation in the survey is voluntary but is made available to all employees, with the exception of those who have been employed for less than three months.

FTE

FTE (full-time equivalent) is a measure of the size of employees that takes account of part-time employees. It is determined by dividing working hours (excluding overtime) for all employees by the standard full-time hours. The FTE includes all permanent full-time and part-time employees but excludes casual employees, guests, employees on a fixed-term contract and employees on extended leave (over 28 consecutive calendar days) on the day that we report the data.

Funding of the OH&S department

This measure includes funding of occupational health and safety (OH&S) initiatives such as spending on medical costs for employees, fire protection, first aid training and an employee assistance program, as well as funding of the OH&S department's salaries and on-costs.

Funds for community investment

This measures direct financial support of community groups and programs, as well as indirect support to help promote and raise awareness of these community organisations. This also includes direct IAG management and administration-related costs. Figures reported are exclusive of GST.

Head count

The number of people employed by IAG, regardless of hours worked, excluding casuals, guests and employees on a fixed-term contract.

Insurance cycle

Insurance is a cyclical business. The insurance cycle represents the peaks and troughs of insurance premiums and profitability. When capacity (ie the availability of capital from insurers to underwrite risks) increases in a market, insurers may reduce premiums, which is called a 'soft cycle'. When there is limited capacity, and premiums rise, this is called a 'hard cycle'.

Long-tail and short-tail insurance

In general terms, this name stems from the length of time (the 'tail') that it takes for a claim to be made and settled. For 'short-tail' insurance products, claims are usually known and settled within 12 months, and are generally based around property. For 'long-tail' insurance products, claims may not even be reported within 12 months, and settlements can take many years, and are generally based around injury compensation (eg medical, legal and loss of income) or other risks such as professional indemnity.

Lost time injury frequency rate

This measures the number of work-related injuries resulting in a lost time injury, per million hours worked. A lost time injury is an injury that has resulted in at least one shift/day's absence from work and for which a workers' compensation claim has been lodged as at 30 June 2006. Million hours worked includes all scheduled hours, plus overtime less scheduled leave (ie annual leave) and also includes the hours worked by casual employees.

Market capitalisation

The size of a company is often measured by its market capitalisation. This is calculated by multiplying the total number of shares on issue by the market price of the shares.

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Minimum capital requirement

APRA (defined above) requires licensed insurers to have a minimum amount of capital to meet its prudential standard. The amount of capital required is determined by APRA based on formulae designed to reflect the risk profile of each insurer's business and balance sheet, and is called the minimum capital requirement (MCR). Licensed insurers must report their MCR and surplus above it, which is generally stated as a multiple of MCR.

Number of employee volunteer hours

This measures the total number of hours that IAG employees have logged for community/charity leave, defence forces leave and emergency services leave for the year. Defence forces leave and emergency services leave were newly included in 2006.

Policies in force

Policies in force is a measure of the total number of policies covered by an insurance company at a point in time.

Recycled commingled waste

This is a measure of paper, cardboard and commingled material collected for recycling at nine IAG sites (in 2005 only two IAG sites were included), as well as documents destroyed on behalf of IAG in Australia.

Reinsurance

Insurers pay premiums to other insurers (reinsurers) to spread their risk or cover major losses from specific events such as large hailstorms. This is called reinsurance.

Risks in force

Risk refers to the subject matter that an insurance policy or contract protects (eg number of vehicles, houses, employees). An insurance policy may cover one risk or many risks, depending on the terms of the policy. 'Risks in force' is a measure of the total number of risks covered by an insurance company at a point in time.

S&P

S&P stands for Standard & Poor's, a global financial ratings company that analyses the financial strength of companies and individual securities, and assigns them ratings. S&P has many ratings categories, the highest of which is AAA.

S&P/ASX-100 and S&P/ASX-200

S&P/ASX 100 and S&P/ASX 200 are indices made up of the top 100 and 200 companies listed on the ASX. The companies are included based on their size in terms of market capitalisation (defined above).

Shareholders' funds

The investment portfolio other than claims reserves and investments in related entities. It essentially represents the shareholders' capital that is not being utilised in day-to-day operations.

Short-tail insurance

See long-tail insurance.

Staff turnover

Turnover percentage is the sum of the monthly turnover rates determined by dividing the total number of terminations by head count each month. Termination includes all permanent full-time and part-time employees but excludes casual employees, guests and employees on a fixed-term contract.

Underwriter

This is the company or person who assumes the risk under an insurance policy.