

PRESENTATION from SAM MOSTYN

OPTIMISING THE VALUE OF CORPORATE CITIZENSHIP

**Communicating the vision and leadership of your organisation
to stakeholders and the community**

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- Before I start, I'll just clarify that Insurance Australia Group is the leading general insurance group in Australasia and trades under a range of brands. The brand which you will all know best is NRMA Insurance which offers home, motor, business, CTP and Workers Compensation Insurance - but we also trade as SGIO and SGIC in Western Australia and South Australia, State in New Zealand, and most recently purchased CGU & NZI.
- Today, I want to talk to you about IAG's goal to be a well managed company and what that means for the way we are approaching our business and realising shareholder value, and for the way we are approaching corporate communications.
- I'd like to start by taking you through the basic principles that underpin what it is to be a well managed company and why we at IAG decided to go down this path in the first place.
- Andreas Soriano III, former Chairman of San Miguel Breweries, has said that:

“A corporation has multiple roles to play in society as an employer, user of resources, producer of goods, stimulator of consumption. Beyond its physical presence, it has social power and impact. Hence it must accept that there is a public responsibility to being a private corporation.”

- In essence, none of us operates in a vacuum. We are, as individuals or as part of the organisations we represent, subject to a complex range of interests and inputs, which are, in turn, shaped by shifting trends over time.
- In recent history, our economies have undergone significant transformation. We've also seen significant shifts in societal values over this period.
- But most notably in the context of companies, we've seen a dramatic change in people's relationships with society's institutions. Exacerbated by behaviour of companies...
- By way of example, in the 1950s, 76% of the population felt you could trust the government "to do the right thing most of the time". By the mid-1990s, the same strong majority, 76%, felt you couldn't have confidence in the government. (trying to find eg re companies)
- This deterioration of trust is by no mean limited to our government institutions. Big business is also high on the radar. The World Economic Forum global survey on trust in business stated clearly that global companies and large national companies are among the least trusted to act in society's best interests. 48% of respondents said they had little or no trust in global companies and 52% said they had little or no trust in large national companies. The only group to rank lower in terms of lack of trust is politicians.
- At some point there has been a breach of trust.

- At the same time, people around the world now increasingly hold the belief that business has a responsibility to society and should have a role in solving social problems.
- Environics International's Corporate Social Responsibility Monitor examines global public opinion on an annual basis on the role of companies in society. Environics's 2002 survey showed that the large majority of people around the world, some 78%, believe large companies should share in the responsibility to reduce the gap between rich and poor. At the same time, there is a strong belief that large companies should do more than give money to solve social problems, with 84% of Australians surveyed supporting this view.
- And most interestingly, the Environics survey showed that consumer activism in response to perceived corporate social behaviour has risen dramatically over the past year in key markets. Australia leads all nations with 77% of people actively punishing and/or rewarding companies because of social performance.
- Clearly, rebuilding trust and responding to society's concerns in a meaningful way must be an integral component of becoming a well managed company for the 21st century.
- Doing business is no longer dependent primarily on generating profits.
- If, that is, it ever actually did.

- Jim Collins and Jerry Porras in their book, *Built to Last*, identified a group of companies including the likes of Walt Disney, 3M, Procter & Gamble, and Hewlett-Packard who they classified as “visionary”. These companies have woven themselves into the very fabric of society and have been able to bounce back from adversity repeatedly. Notably, these companies have also generated significant long term financial returns in comparison to others in the market.
- Collins and Porras showed that an investment of \$1 in a general market stock fund on January 1 1926 would have grown to \$415 by the end of 1990, assuming all dividends were reinvested. But a \$1 investment in a fund made up of the visionary companies over the same period would have grown to \$6,356. A startling difference.
- All this points to the fact that a well managed company will enhance its value to all stakeholders including itself and the shareholders it represents.
- This is the position from which IAG is working. We are striving to be a well-managed business because it is good for business. We are striving to align shareholder and society values because it will create further value in the company and for all stakeholders including shareholders.
- To ensure we weren’t kidding ourselves, we conducted some research on the community’s expectation of our company, and of the insurance and financial services sector more broadly.

- The most interesting finding was the relative weighting people gave to what they believed is our prime responsibility. Not surprisingly almost 90% of people polled told us that we are totally responsible for ensuring that our people act ethically and honestly in selling insurance.
- About 60% believe we are totally responsible for managing our business well to help build a secure economy - and by implication, remain profitable so that we can always pay claims.
- Lower, but still significant numbers of people expect us to undertake activities more closely associated with sustainability and Corporate Social Responsibility.
- The point is simple, but critical:

Consumers don't want environmental & social attributes in lieu of quality, price and excellent service - they want them as well.

- So how is IAG going about realising its goal to be a well-managed company in this context and what part is corporate communications playing in that process?
- The first step for us has been to get our own house in order and the division I head up, Culture and Reputation, has been at the heart of that process.

- The division was created a little over 12 months ago and consists of Human Resources, Communications, Government Relations and Corporate Sustainability. The combined team brings a set of skills and capabilities that are unique to the group by linking the internal and external stakeholders and in particular, focusing on the organisation initiatives and their cultural and reputation impacts.

- At the outset, we agreed there are no “quick fixes” and the work required will be over the long term.

- We have sought to define the key components of a well managed company and distilled it to 5 key themes. These are:
 - Engagement – the extent to which IAG captures the hearts and minds of its people
 - Capability - the need for a spread of capability across the company
 - Reputation – confirming our identity and our purpose with our stakeholders
 - Stakeholders and Community – building dialogue with our stakeholders and the community in which we operate
 - Social Responsibility – aligning our shareholder value and our societal value

- We believe getting these basic components right is simply a good indicator of a well-managed organisation. As such these themes have become the focus of our framework for action.

- In this context, we have sought to define our identity - our reason for being if you like – and arrived at:
to be a well managed company that uses its understanding of risk and claims to advise the community on how to minimise both risk and the impacts of major insurable events.
- Of course, we could simply operate our business on the basis that all we do is appropriately assess the risk and price the premiums accordingly, and keep our own costs down.
- But our goal to be a well managed company means that we think differently. We think it is part of our social responsibility to work with the community to reduce the risk of an event occurring in the first place. Importantly, we have almost 100 years of data about what's been happening in our community, and we can use that information and expertise to predict what's going to happen in the future.
- And, not surprisingly, it is also in our business interest to reduce risk and insured events, because it reduces the cost of claims – which we'd like to think can, over time, be handed back to the community through lower premiums.
- We also do have leverage in our patch. As Australasia's largest general insurance group, millions of people in Australia and New Zealand buy our insurance products. We have important supply chain relationships - in areas like motor vehicle repairs and the building industry – and we're Australia's biggest buyer of household white goods and brown goods.

- We also employ some 11,000 people who can each impact on the knowledge and actions of hundreds of stakeholders every day.
- Part of getting our own house in order has been to introduce internal systems aimed at ensuring our people feel engaged and that we have a spread of capability across the organisation.
- This is based on the assumption that an engaged and capable workforce is essential if IAG if to realise its goal of becoming a high performing organisation, as compared to global industry performance benchmarks. Further, an engaged workforce will have a positive impact on customer satisfaction and retention, employee productivity and retention. Employees will have greater focus on results, innovation, creativity and productivity.
- To that end we are implementing a number of initiatives designed to improve levels of engagement and our spread of capability both at the management and leadership level as well as the technical and specialist level.
- These include
 - a talent matrix that identifies people to be moved around the business in order to gain breadth of experience and build capacity
 - 360-degree reviews to allow honest feedback and to enable our people to work on their own capabilities; and
 - a reward and recognition program to recognise high performance and key staff soon after it occurs.

- Hand in hand with the development of these initiatives has been a corporate communications approach that seeks to ensure a continuous loop of clear, concise communication, not just with the market but with all our stakeholders, including our people.
- By communicating with our people at the same time as we engage other stakeholders, we are working on establishing trust and recruiting them as advocates for the business.
- Doing this well means our employees can answer questions about insurance and the way we do business at IAG, whether they are posed by customers during a normal workday or by friends at a backyard BBQ on the weekend.
- It also means our employees understand our business and can feel a sense of ownership of the business, particularly with customers.
- For example, our people's understanding of IAG's help philosophy means that when catastrophes occur they are willing to go above and beyond the call of duty. Take the 2001 Christmas bushfires. In addition to our catastrophe operational support team reporting to work, we had countless assessors and teleclaims operators voluntarily returning from holidays to help process claims and get our customers' lives back to normal as soon as possible. It's astounding to see this in action.

- On a practical level, our open and timely approach to communication means that any announcement about the business is communicated internally as well as to our external stakeholders. Routinely, this begins with a briefing to all senior managers across the company linked by videoconference. These senior managers are then armed with material and the responsibility to brief their teams that day. Cascade briefings to all then follow, accompanied by more traditional tools such as emails, intranet postings and video messages.
- We have also introduced new ways to engage our people. The CEO Forum is a daylong event for 600 of our people and is convened twice a year by CEO Mike Hawker to look at various aspects of the business. In the past six months as a result of the integration of CGU and NZI, we have also hosted mini-forums in every capital city reaching more than 6,000 of our people in total.
- Of course, we will be measuring engagement within IAG on an ongoing basis to ensure we are directing our efforts appropriately. The initial interrogation of the company revealed engagement around 50%. We would like to achieve 65% engagement within 2 years, in line with other benchmarked high performance organisations.
- Enhancing our reputation with external audiences is not the motivating reason for our goal to be a well managed company. However, if an enhanced reputation is one of the by-products, that's great.

- The best way our corporate communications can help build our reputation with all stakeholders is as a vehicle for our business purpose. By that I mean that we not only articulate our purpose, we also undertake to demonstrate how the business is performing against our goals, and we aim to do it with honesty – this worked, this didn't, this is what we're going to do about it.
- It means that each of our corporate announcements, briefings and reports becomes an opportunity to reinforce IAG's focus on minimising risk and its connection with our everyday business and ultimately with enhancing the company's value.
- As a public company and in the insurance sector it's fair to say we're heavily regulated. But to communicate our vision we don't just comply with these regulations we set our own benchmarks for communications.
- Like all public companies we are required to report our results twice a year. But we also make a quarterly announcement about the status of our investments, update the market on our progress against our strategy twice a year, and set and publish tests for our business that are harder than those required. These measures include the MCR range and probability of sufficiency.
- It means that when we are developing our Annual Report we are thinking about how we can articulate the role of insurance and how to reduce risk in the community AS WELL AS how the business is performing financially.

- In our 2002 Annual Report for example we included additional pages so that we could step our readers through how insurance works. By doing this we were showing clearly how IAG was performing against that formula.
- Our focus on being a well-managed business also means that in addition to creating awareness of our purpose we want to establish an ongoing dialogue with our stakeholders and the community on the issues that are at the heart of how we at IAG want to run our insurance business.
- This means that we strive to be aggressively proactive in making sure customers know exactly what the risks are in their areas, and whether or not they are covered.
- This begins with our products and our business processes, is supported with research and further business and product innovation, and extends to our public advocacy and education programs run by the corporate communication team. Indeed, most of IAG's media voice is now proactive advocacy messages.
- For example, when seasonal risks like winter fires in the home or storms threaten, we can do a lot to help people be prepared through widespread media awareness raising campaigns. In winter last year our corporate communication team generated national media coverage alerting the community to the risks of fires in homes by revealing the Top 10 causes of fires during winter such as candles and incense, overloading powerpoints and kitchen fires.

- This campaign was based on figures from our claims analysis and assessors' work on the ground with customers directly affected by winter fires.
- It's also a campaign our communication team is looking to promote again in the coming weeks, working this time with NSW Fire Brigades.
- We also work with our customers and the broader community so that we learn from disasters and are better prepared for the future. Following the havoc wrought by the Canberra "fire storms" we not only helped our customers get their lives back to normal as soon as possible by paying claims and providing alternative accommodation, we've also focused on helping with the rebuilding task. The corporate communication team played a key role in pulling together the Help Expo, a weekend long event in Canberra initiated by IAG, where people could get access to expert advice and support on the rebuilding in a safe and environmentally sustainable way.
- Innovative corporate communications like this are all part of building understanding and trust between our business and the community.
- Reflecting this information, our community approach includes focussed sponsorship around risk reduction. Specific programs including St John Ambulance, Kidsafe, State Emergency Services, and a Community Help program to encourage volunteer work among our employees, have recently been introduced and work to actively reduce risk in the community.

- We are also developing a more strategic approach to building long term relationships with our key stakeholders who have the greatest value impact on the business. A Stakeholder Strategy has been developed which articulates the need to build and manage relationships strategically across the company.
- The strategy provides the operational framework for a coordinated company approach to stakeholder relationships. It will explain the corporate rationale and expectations, identify key stakeholder groups, allocate clear responsibility for management of relationships with key stakeholders and enable capacity building of key people in the company around stakeholder engagement as a sharp tool for building meaningful stakeholder relationships.
- Sounds simple on paper - we recognise the coordination task is extensive but we believe it is worth it if we are to truly understand and be responsive to the community in which we operate. Those relationships are pivotal to ensuring we can be socially responsible, the last of our five basic components of being a well managed company.
- When we interrogated our “purpose” as a company over the course of the past year, we realised that there were 2 main areas where we should concentrate on reducing risk and also aligning shareholder and societal value – environment and safety.
- As a result, we have begun using IAG’s years of data to highlight how the whole climate in Australia is changing and what actions we can take to reduce the increased risk of associated catastrophic events.

- We are targeting our own emission reductions and most importantly we are shaping our business processes and our products to help our suppliers and our customers to reduce their emissions as well.
- We're also working on a new online application to package the considerable amount of environmental and safety information held by the NRMA Insurance's Technical Research Centre. Customers will be able to compare up to 200 new cars on criteria like greenhouse gas emissions, crash safety, rear visibility, and repair costs. This application is scheduled for release shortly and will be promoted on the drive.com website.
- And just 2 weeks ago, we were able to announce that we had signed the United Nations Environment Program's Finance Initiative, committing ourselves to lessening our environmental footprint and acknowledging our responsibilities to the environment.
- As you can see, IAG's focus on becoming a well managed company involves a significantly different way of looking at how we run our business and how we consider the issue of creating value. It involves innovation to all our systems, processes, policies and operations in line with our cultural and reputational aspirations and indeed society's aspirations for us.

- And it means that our corporate communications efforts are as much about creating awareness of our business approach as they are about assisting to build bridges between our business and our stakeholders and the broader community. Corporate communications at IAG is as much about knowing our community and listening as it is about getting the information out there.
- Just as building a well-managed company will take time so too our communications efforts are about the longer term.