Shareholder questions

Executive remuneration

*Shareholders wanted to understand how executive remuneration is determined.*

IAG rewards Executives for the value they help create through a combination of fixed pay, short term incentives (STI) and long-term incentives (LTI). IAG delivered improved business performance on an underlying basis in the 2018 financial year.

The Board considers overall Group performance, together with an assessment of each Executive’s personal performance, to determine individual STI outcomes.

IAG’s strong performance during the year ended 30 June 2018 resulted in a Group Balanced Scorecard outcome that was 74% of the maximum achievable. The average short-term incentive payment for executives was 71% of the maximum achievable, and payments to individual executives ranged from 50 – 84% of the maximum achievable.

*The Chairman also commented on executive remuneration in her address to the meeting:*

Our board is well-aware of shifting community expectations regarding executive remuneration.

We recognise there is an increasing appetite for change, and we are happy to participate in discussions about changes and adopt improvements to our remuneration system where we identify an opportunity to do so.

In response to a strategic review of remuneration we undertook in 2017 and APRA’s review of remuneration practices at large financial institutions completed in early 2018, we have embarked on a detailed program of work, refreshing both the design and governance of our remuneration policy and practices.

For example:

- we applied a more rigorous process for considering risk when assessing performance. The short-term incentive for the senior executives was updated to ensure there is 10% attributed to risk in the Group score card as well as a new additional overlay which looks at the risk maturity of each executive’s area of responsibility;
- we formalised the role the Chair of the Risk Committee and the Chief Risk Officer have in informing the board’s assessment of risk management performance;
- and we reduced the variable component of the Chief Risk Officer’s remuneration to further support the independence of his role.

IAG has a well-established committee of the Board which is responsible for driving the fulfilment of the Board’s obligations to have both well designed remuneration arrangements and to ensure the governance of them is enforced.

The Board recognises we are on a journey to ensure our remuneration arrangements are both effective and acceptable to all our stakeholders.
We also recognise that we will need to steer a steady but responsive course through widespread debate and concern at all levels of our community on the practices that have grown up around corporate remuneration.

We also seek to align the interests of non-executive directors and executives with shareholders by requiring them to hold a significant number of IAG shares after a set period, and all met this requirement.

After listening to our investors, we are planning additional changes for the year ending 30 June 2019:

- the deferred proportion of any executive short-term incentive awards made from September 2019 will increase from one third to one half;
- the performance period for the cash return on equity hurdle for long-term incentives will be extended from three to four years;
- we will complete our review of IAG’s sales-based employee incentive plans. Our aim is to either discontinue these or evolve them to ensure they support positive customer outcomes and IAG’s purpose;
- and we will review the level of our cash return on equity target for long term incentives.

**Capital management initiative**

*Shareholders wanted information about what the capital management initiative involves and what will happen to their shares after the share consolidation:*

On 15 August 2018, IAG announced a proposed capital management initiative that consists of:

- a payment of 25 cents per ordinary share, comprising a capital return of 19.5 cents per ordinary share and a fully-franked special dividend of 5.5 cents per ordinary share; and
- an equal and proportionate consolidation of ordinary shares.

Collectively, these initiatives are referred to as the capital management initiative and are subject to shareholder approval at the 2018 annual general meeting.

If approved, the capital management initiative will provide shareholders with a payment of 25 cents per ordinary share through a capital return of 19.5 cents per ordinary share and the payment of a fully-franked dividend of 5.5 cents per ordinary share. The total payment to shareholders will be approximately $592 million.

The capital return and special dividend will be accompanied by an equal and proportionate consolidation of ordinary shares. To achieve the consolidation, every ordinary share will be converted into 0.9760 ordinary shares.

If the capital management initiative is approved, the total number of ordinary shares on issue will be reduced from around 2,368 million to around 2,311 million (a reduction of around 57 million ordinary shares), however each shareholder will own the same proportionate interest in IAG after the consolidation as they did before the consolidation (subject to the rounding up of fractional entitlements to the next whole number of ordinary shares).

Note: the two resolutions related to the capital management initiative were passed at the AGM.

**The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry**

*Shareholders asked about IAG’s involvement with the Royal Commission. The Chairman considered this in her address to the meeting:*
From the moment the Royal Commission was announced, we adopted an approach that would maximise our learnings from the process.

We see the commission as an opportunity to further deepen our understanding of our customers and our communities, so we can continue to improve the value of the products and services we provide, shape our future as a business, and strengthen trust in our sector.

While the Royal Commission has some time to run, it is already clear that many of the issues highlighted so far are the result of a failure to consider the best outcomes for customers.

In our own back yard this certainly was the case with the add-on insurance sold by Swann through car yards.

This was the significant issue we identified to the Royal Commission – and is what we were questioned about during the general insurance public hearings in September.

Two years ago, we came to the decision that these products did not deliver the value they should have for many customers.

We sold our Swann Insurance motor vehicle distribution rights in August 2016 and stopped selling add-on insurance through motorcycle dealers in October 2017.

But, in hindsight we could have acted earlier.

Today, we use a variety of mechanisms as we seek to address the need identified by the Commission to more closely monitor how well our products meet the needs of customers.

One of these mechanisms is the valuable external perspective we receive from our Consumer Advisory Board. This Board brings us first-hand insights about concerns they and their clients have in the insurance market.

Another mechanism is our Ethics Committee, which challenges us on how we think about social issues and the trade-offs we have to make as a commercial organisation.

Many of these learnings are taken into a formal set of Product Design Principles that we have developed and are implementing.

These Design Principles will become part of the process we use to help us evaluate whether new and existing products will meet customer needs and offer them fair value.

We have established a Customer Conduct Council to oversee our customer equity policy and provide leadership, insight, advice and guidance on the quality of our customers’ experience.

Responding to the Royal Commission has involved a huge amount of self-examination of our processes, products and performance across a range of customer outcome measures.

It has provided us with the catalyst to examine every aspect of our business.

We are determined to bring all these learnings to bear on our ongoing products and processes to ensure we deliver good customer outcomes.

Climate action
Shareholders were very keen to understand IAG’s response to the issue of climate change. Both the Chairman and the CEO responded to this subject in their addresses to the meeting.

The Chairman said: We know people are looking for companies to be active on this subject. They are looking for evidence of internal and external targets, and actions.
We’re in the business of risk, and climate risk is one of the risks we need to manage, so you are right to expect us to be a leader in this space.

In July, we publicly launched our Climate Action Plan. Today we are providing more details about what we are doing so you can assess our actions.

We are assigning direct accountability for climate change objectives to our senior executives.

Our Climate Action Plan Scorecard sets targets and deadlines around five key areas that include current and future actions to help mitigate climate risk.

Peter will talk to the action plan in more detail shortly, and I encourage you to visit the display in the foyer to learn more about our scenario planning, the targets we have set ourselves and how we will achieve these.

In addition, we have committed to assess and disclose risks and opportunities aligned with the recommendations of the Task Force on Climate-related Financial Disclosures.

This additional disclosure will be part of our 2019 financial year reporting.

*The CEO said:* I know that climate change is an important subject for our shareholders, and therefore for everyone here today – and we share your concerns.

We are feeling the effects of climate change already: we see it in our own industry’s data, which tells us an inescapable truth.

In recent years we have seen an increase in the frequency of severe weather events that are affecting greater and greater numbers of people. And of course, we know climate change impacts will increase even further.

For example, our modelling shows that in a warmer world, we can expect cyclones to travel further south, generating even greater devastation through strong winds and torrential rainfall. In this scenario, there are a further 3.5 million people who could be exposed to significant loss of property, and to personal danger.

As an insurer, we see not only the financial impact on communities, but also the social impact. And we believe we have an obligation to do something about this.

Taking action on climate change and its impacts makes sense for our communities and our business.

We have a long and proud history of action on climate – we’ve made important contributions to climate change discussions and supported action for over a decade.

We have set ourselves an ambition to be a regional leader in tackling this hugely important socio-economic challenge. Our ambition is central to our purpose: to make your world a safer place.

Underpinning our efforts is the primary objective identified in the Paris Agreement to limit global climate change to well-below two degrees of global warming above pre-industrial levels. We have already had about one degree of warming …

We are partnering with the United Nations, the Rockefeller Foundation’s 100 Resilient Cities, Queensland and New South Wales State Emergency Services, the Australian Red Cross, the Australian Business Roundtable and Resilient New Zealand, along with others.

And we are working with experts to reduce risk. A good example is our collaboration with the James Cook Cyclone Testing Station in Townsville, which has enabled the station to demonstrate the clear need for updates to our national building codes and standards to reduce loss.
Over many years, we have also taken practical steps to minimise our own environmental impact.

We’ve been carbon neutral since 2012 and have reduced our carbon emissions by almost 25% since 2015. Our energy efficient offices in Melbourne and Sydney, and a focus on minimising travel, will help to reduce our emissions further still.

The steps we are taking in our business, and in our communities, are set out in our Climate Action Plan. The Plan provides a framework we can use to explain what we are doing, and clearly report progress against our commitments. It lists our objectives, names the Group Leadership Team members responsible for achieving these and identifies key milestones for the next three financial years.

I think we have set ourselves a challenging mix of ambitious and realistic targets and I look forward to providing updates on our progress when we announce our interim and full year results.

**Political donations**

*Shareholders asked if IAG makes donations to political parties:*

IAG does not make direct donations to political parties but it is common for businesses to attend different events with political parties at a local, state and federal level, as part of our participation in the democratic process.

IAG makes a financial contribution to attend some of these events and, consistent with state and federal legislative requirements, we disclose all political contributions. These are displayed on the Australian Electoral Commission website or the relevant state/territory electoral commission website.

IAG has a bipartisan approach to political contributions to ensure they are made in the interests of our customers, shareholders and the communities we operate in.