

**iag**

**2018  
corporate  
governance  
statement**

# 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.

We believe satisfied customers, more resilient communities, and the passion of our people and partners are at the heart of superior performance and integral in delivering strong returns for our shareholders. We will use our influence and role as a major investor, purchaser and employer for the good of everyone. We will balance competing demands using our purpose – to make your world a safer place – as a guide in making the right decisions.

Our corporate governance practices are also influenced by the legislative and regulatory environments in which we operate because sound regulatory regimes are required to assist with the stability and sustainability of general insurance.

We actively engage with governments, regulators and industry and professional groups to help ensure that our interests, and those of our stakeholders, are properly considered in any proposals to improve corporate governance, general insurance regulatory and prudential regimes, and insurance industry practices. Our objective is to ensure regulation enhances competition, protects consumers, encourages efficiency and promotes and sustains public confidence in general insurers and their products.

We actively participate in the debate to improve Australia's corporate governance regime by making submissions to Federal and State government committees, reviews and inquiries, and regulators about new legislation, particularly where it affects the general insurance industry. As part of our commitment to open and transparent communication, all the public submissions we make to Australian governments are available in the News & Events area of our website ([www.iag.com.au](http://www.iag.com.au)). We have 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.

While we do not make direct donations to any political party, we do engage in the democratic process by participating in lunches, dinners, conferences or other events with political parties and IAG representatives make a financial contribution to attend some of these functions. Consistent with Australian legislative requirements, we disclose all political contributions made to political parties and these are displayed on the Australian Electoral Commission website.

Our main corporate governance and other policies are available in the About Us area of our website ([www.iag.com.au](http://www.iag.com.au)), along with IAG Board and Board Committee charters.

For the financial year ended 30 June 2018, we have complied with the Australian Securities Exchange Corporate Governance Council (ASXCGC) Principles and Recommendations (3rd edition). Details of our compliance with the individual principles are set out below.

## Principle 1: Lay solid foundations for management and oversight

### 1.1 The board

The Board is responsible for protecting the interests of shareholders and policyholders and 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 and policyholders, 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 and the Corporate Plan annually;
- overseeing management's implementation of IAG's strategic direction and its performance generally;
- overseeing IAG's processes for making timely and balanced disclosure of all material information concerning IAG that reasonable persons including shareholders would expect to have a material effect on the price or value of IAG's securities;
- approving significant corporate initiatives including major acquisitions, divestments and capital management transactions;
- setting IAG's risk appetite and approving the risk management strategy and risk appetite statement;
- selecting appropriate Board candidates and recommending to IAG shareholders the election, re-election or removal of Non-Executive Directors and other senior executives;
- appointing the Chairman, and evaluating Board processes, the performance of the Board as a whole, and the contributions of individual Non-Executive Directors;
- overseeing the integrity of IAG's accounting and reporting systems, including the external audit process;
- reviewing and approving IAG's remuneration policies and framework;
- monitoring management's performance and the exercise of the Board's delegated authority;
- appointing, evaluating regularly and, if necessary, replacing the Chief Executive Officer (**CEO**);
- reviewing Non-Executive Director, 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 policies, workplace health and safety, social and environmental responsibility) are adhered to at all times.

These responsibilities are explained in more detail in the Board Charter which is available in the About Us area of our website ([www.iag.com.au](http://www.iag.com.au)).

### The CEO

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

- the efficient and effective operation of IAG;
- fostering a culture that supports ethical principles and achieves our purpose to make your world a safer place in everything we do;
- ensuring the ongoing development, implementation and monitoring of IAG's risk management strategy and internal controls framework;
- ensuring the Board is provided with timely, accurate and clear information that supports effective decision making; 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, subject to the limits set out in the Charter of CEO Delegated Authority Limits appended to the Board Charter.

## Appointment of Directors

The Board assesses the skills it requires to competently discharge its duties, taking into account IAG's performance, financial position and strategic direction. This assessment also includes the specific knowledge, skills and experience that 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, as required, to assist with candidate identification. All nominated 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 provides 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 nominating for election or re-election.

## 1.2 Appointment terms

Formal appointment letters have been issued to and signed by each Non-Executive Director, including the Chairman. The letters formally document the basis of each Non-Executive Director's appointment, including:

- the term of their appointment and remuneration including superannuation rights;
- the requirement to disclose their interests in matters which may affect their independence;
- the circumstances that would cause a Non-Executive Director's position to become vacant; and
- the confidentiality of Board papers and presentations to the Board.

Each new Non-Executive Director is provided with a Director Induction Guide to help them to understand their role on the Board. The Director Induction Guide provides additional guidance to the Director, including:

- the role of the Board and of Non-Executive Directors;
- the corporate governance principles followed by IAG;
- the right of Non-Executive Directors to obtain independent professional financial and legal advice, at the Company's expense, to assist them to efficiently discharge their duties;
- 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 1.5 below);
- the requirement that Non-Executive Directors abide by IAG's Code of Ethics and Conduct and Continuous Disclosure and Security Trading Policies.

Employment agreements for the CEO and the GLT are for unlimited appointment terms but may be terminated by written notice by either party. Details of these employment agreements are outlined in the Remuneration Report within the 2018 annual report. This is available in the Results & Reports area of our website (<http://www.iag.com.au/>).

All Non-Executive Directors are required under IAG's Constitution to retire as a Director by rotation at least once every three years after each election by IAG shareholders. The maximum tenure for a Non-Executive Director is 10 years, although, the Board has the discretion to invite a Non-Executive Director to stand for an additional term which may take their total tenure beyond 10 years.

## 1.3 Company secretary

The Company Secretary is responsible to the Board for ensuring compliance with Board and Board Committee procedures and providing advice and counsel to the Board on 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 in the minutes of the business discussed at the Board and Board Committee meetings.

The Company Secretary also assists with the induction and ongoing professional development of Directors. The qualifications and experience of IAG's Company Secretaries are set out in the Directors' Report within the 2018 annual report. This is available in the Results & Reports area of our website (<http://www.iag.com.au/>). All Directors have unfettered access to the Company Secretaries and the appointment and removal of the Company Secretaries is decided by the Board.

## 1.4 Diversity, inclusion and belonging

Diversity, Inclusion and Belonging is a key enabler of IAG's strategy and supports our ability to achieve our purpose of making your world a safer place. Diversity of thought enhances our ability to innovate, creates greater understanding of the communities we serve, and supports our customer focus.

### Diversity activity

Our focus on diversity encompasses our employees, customers, partners and communities. IAG has three main areas:

- Flexibility – we consider flexibility a business tool. Flexible work boosts the performance of our people and removes barriers to workforce participation.
- Equity – we focus on equity rather than equality. Equality focuses on creating the same starting line. Equity has the goal of providing everyone with the full range of opportunities and benefits, to get them to the same finish line.
- Accessibility – we are committed to creating a diverse and accessible work environment across IAG. This includes improving accessibility, inclusion and support for all our customers and people, and helping to change attitudes towards people with disability in our broader community.

Key activities undertaken this year include:

- Evolving our supporting infrastructure through:
  - the growth of our Employee Network Resource Groups (ENRGs). These groups are run by and for IAG employees who form communities of support for members (and their allies) to effect positive change for people identifying with a particular area of focus: including representation of Pride; working families; Maori; reconciliation; mental health; women at work; and domestic and family violence;
  - IAG senior executives committing to the achievement of specific Divisional Diversity initiatives and to the pursuit of a set of personal diversity commitments; and
  - continuing partnerships with Out for Australia, Pride in Diversity and Move in May, supporting the LGBTQ+ community.
- Completing diversity and inclusion reporting including the Workplace Gender Equality Agency (WGEA) gender pay gap report and the Australian Workplace Equality Index (AWEI) and submissions for diversity related ANZIF awards. IAG has identified a zero gender pay gap between men and women doing equivalent roles across the Group. IAG NZ was recently awarded the Rainbow Tick accreditation acknowledging it as a supportive and productive workplace that specifically recognises and welcomes sexual and gender diversity.
- Extending piloting of flexibility initiatives and technologies further into operating Divisions.
- Extension of our hugely successful onsite school holiday programme Kids@IAG as part of our efforts to support IAG's working parents.
- Continuing our commitment to support Indigenous communities through the launch of our third Reconciliation Action Plan (RAP), a Stretch RAP. We will continue to partner with our four primary RAP partners CareerTrackers, Jawun, NPY Women's Council and the Australian Indigenous Mentoring Experience (AIME) – to achieve our vision that Aboriginal and Torres Strait Islander peoples, businesses and communities will be safer, stronger and more confident as we partner with Indigenous led solutions and engage the passion of our people.

- Continuing initiatives to address broader diversity and inclusion segments, including CareerTrackers Indigenous Internship Program (for Indigenous university students) and CareerSeekers New Australian Internship Program (for asylum seekers and refugees who aspire to obtain professional employment).

IAG was acknowledged as the 200th member of Australian Network on Disability (AND) – a national, membership based, for-purpose organisation that makes it easier for organisations to welcome people with disability in all aspects of business.

#### Customer Inclusion

Our Diversity, Inclusion and Belonging activity also considers the impacts of customer inclusion and barriers that prevent our customers from fully accessing our products and services. These barriers include:

- Culture, including language and religion.
- Age and life stage.
- Gender, including gender identity and sexual orientation.
- Accessibility, including physical disability, hearing and sight impairment, mental illness, financial literacy and digital access.
- Social issues, including domestic and family violence, trauma and vulnerability, affordability and financial hardship.

We consider Customer Inclusion work through the following lenses:

- Removing barriers through systemic improvements and capability uplift.
- Improving our systems, processes, policies and capability to create market leading customer service.
- Identifying and exploring new market opportunities in previously unidentified or untapped areas of insurance.

#### Diversity, Inclusion and Belonging – Targets

IAG has made a commitment that women will hold 38% of our Senior Leadership roles across the Company by 2020. Senior Leadership roles are defined as IAG's Group Executive, Executive General Managers and the reporting level below.

We also have specific geographical targets:

- Australia – 40%
- New Zealand – 50%

As at June 2018, 34.5% of Senior Leadership roles across IAG were held by women. We are committed to making further progress to achieve these targets and have a number of activities underway to support our work.

IAG has committed to increase Aboriginal and Torres Strait Islander employment to represent 1.5% of the Australian workforce by November 2018 and will report against and reset this target through our annual review.

## 1.5 Measuring the performance of Non-executive Directors

- The Board reviews its performance, composition, size and succession annually, and conducts an independent review of these matters at least every two years with the assistance of an independent external board performance expert (**Formal Review**). A Formal Review of the Board and each Non-Executive Director (including the Chairman) was conducted in 2018. The Formal Review process involved the completion of questionnaires by Non-Executive Directors, members of the GLT and each Company Secretary; interviews with the independent expert; the collation of results; and discussion with individual Non-Executive Directors, the Board as a whole and the GLT, led by the Chairman.

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, the fulfilment of the additional role as Chairman.

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

## 1.6 Performance assessment – CEO and Group leadership team

A Group Balanced Scorecard comprised of financial and non-financial goals for IAG is approved by the Board at the start of the financial year. The Group Balanced Scorecard is intended to drive progress towards achieving the Group's business strategy. The GLT is collectively accountable for delivering Group Balanced Scorecard outcomes. The goals within the Group Balanced Scorecard are stretch goals and are designed to encourage the GLT to strive for exceptional performance, while ensuring IAG's long term financial soundness.

At the end of each financial year, the CEO completes a formal review of the performance of each member of the GLT based on his or her contribution to achieving Group Balanced Scorecard outcomes. As part of this review process, each GLT member is also assessed on the extent to which he or she has met IAG's behavioural expectations as defined in the IAG Spirit. Assessment methods allow performance to be objectively measured and verified. Performance assessments are reviewed by the PARC, with input from the Chairman of the Risk Committee, and approved by the Board. The outcomes of the performance assessments are considered in determining any short-term incentive payments for GLT members.

The Board determines the financial and non-financial goals of the CEO, and evaluates his performance, using the same approach as described for other GLT members. Further detail on the short and long-term incentives for the CEO and the GLT is set out in the 2018 Remuneration Report.

## Principle 2: Structure the board to add value

### 2.1 Nomination committee

The Nomination Committee currently comprises all the Non-Executive Directors (who are independent Directors) as well as the Managing Director and CEO, Peter Harmer. The Committee is chaired by an independent Director.

The role of the Nomination Committee 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 Board and Director performance; and Director induction and continuing education programs. All members of the Nomination Committee have the skills and experience necessary to fulfil their roles on the Committee. Each Director's qualifications and experience are shown in their biographies in the Directors' Report within the 2018 annual report.

The Nomination Committee assesses Director candidates and makes recommendations to the Board for appointments either when a vacancy arises or if the Nomination Committee 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;
- ensuring the Board demonstrates diversity in age, personality, gender and work and life experience and comprises people who think differently to each other and have diverse backgrounds; and
- adopting a formal approach to Director selection and a systematic and strategic approach for Board succession.

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

The Nomination Committee met once during the reporting period. Member attendance at each meeting is shown in the Directors' Report within the 2018 annual report.

The Nomination Committee Charter includes details of the Committee's responsibilities and is available in the About Us area of our website ([www.iag.com.au](http://www.iag.com.au)).

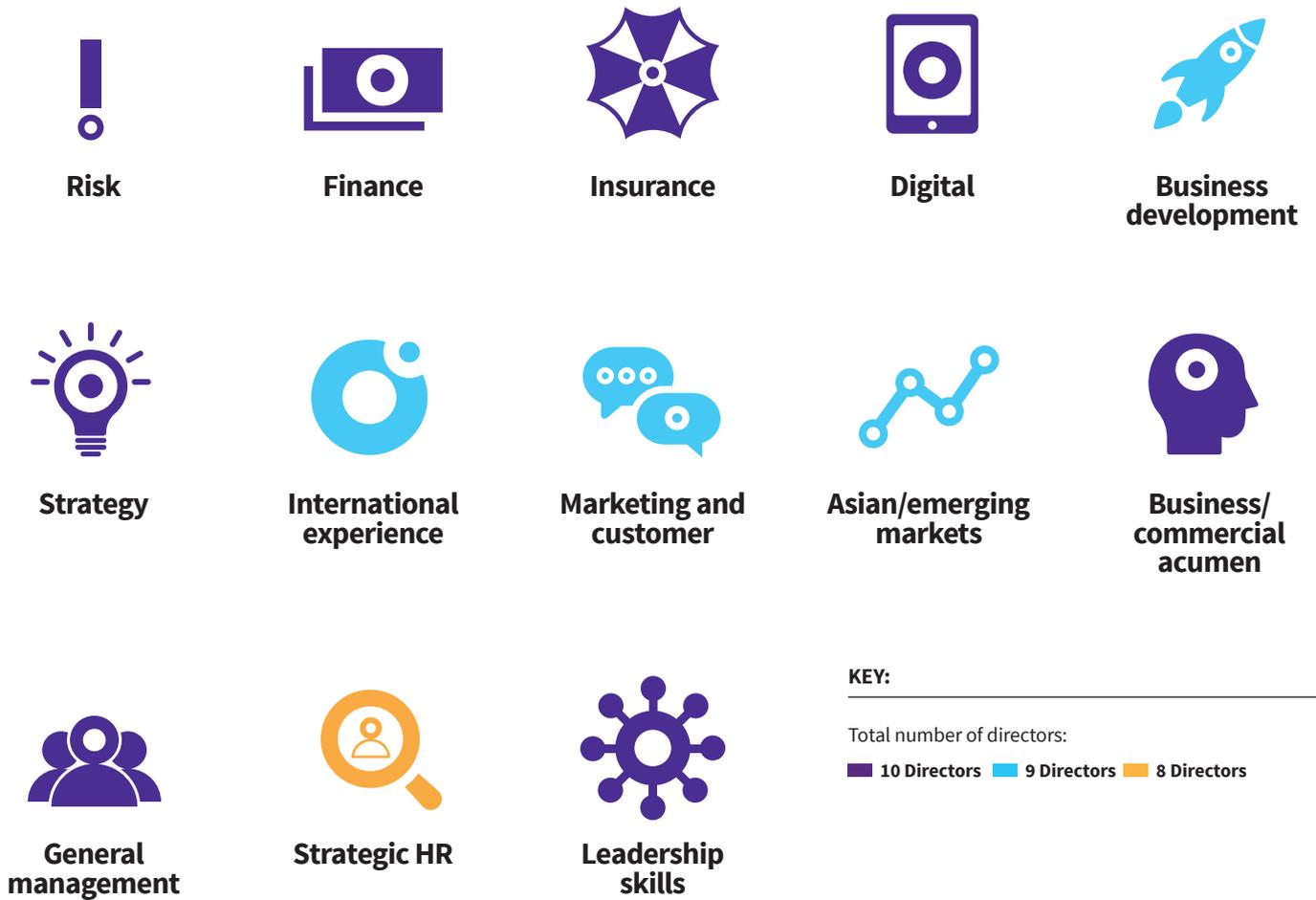
## 2.2 Board skills matrix 2018

The Board currently comprises nine independent Non-Executive Directors, and an Executive Director, Peter Harmer, 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 July 2017. 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 leadership skills as a core competency of the Board.

The core competencies and experience required, and collectively possessed, by the Board are in the areas of:



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

	1	2	3	4	5	6	7	8	9	10
Experienced CEO (listed entity)	■	■	■	■	■	■	■	■	■	■
Experienced Board/Committee chairperson (listed entity)	■	■	■	■	■	■	■	■	■	■
Government Relations	■	■	■	■	■	■	■	■	■	■
Asset and Investment Management	■	■	■	■	■	■	■	■	■	■
Strategic IT	■	■	■	■	■	■	■	■	■	■

## 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)
Elizabeth Bryan (Chairman)	3 years and 8 months
Thomas Pockett	3 years and 7 months
Helen Nugent	1 year and 8 months
Philip Twyman	10 years and 1 month
*Hugh Fletcher	10 years and 11 months
Sheila McGregor	5 months
Jonathan Nicholson	2 years and 11 months
Duncan Boyle	1 year and 8 months
Michelle Tredenick	5 months

\*\*Mr Twyman has signalled his intention to retire with effect from the close of the 2018 AGM.

\*The Board has exercised its discretion in relation to Mr Fletcher's tenure and considers it appropriate that Mr Fletcher continues to serve out his further term on the Board, noting the significant regulatory enquiries the Group is responding to, notably the Royal Commission, the ACCC Inquiry into Northern Australia and the APRA Risk Governance Review. In addition to this, the Group is part way through a number of transformational projects. In this context, the retention of corporate history is important. Following Mr Twyman's retirement, Mr Fletcher will be the only Director with corporate history exceeding four years.

The names of Directors in office at the date of this statement, their year of appointment, experience, expertise and biographical details are set out in the Directors' Report within the 2018 annual report.

### Potential conflicts of interests

The Board has adopted a policy on managing conflicts of interest and duties. Directors are required to disclose all their interests on an ongoing basis and, in particular, are required to disclose interests that could conflict with IAG's 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, unless the Board determines otherwise. That Director will also be excluded from receiving any papers about the conflicted transaction or arrangement. Directors with potential conflicts do not serve on any Board Committees that are appointed to oversee the implementation of transactions or arrangements.

The Board Policy on Managing Conflicts of Interest is appended to the Board Charter and is available in the About Us area of our website ([www.iag.com.au](http://www.iag.com.au)).

## 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 determines whether each Non-Executive Director is independent using the principles outlined in its Charter.

## 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, Nominations Committee and general meetings of IAG. The Chairman attends all Board Committees in an ex-officio capacity.

## 2.6 Non-executive Director induction, education and training

We encourage continuing professional education for each of our Directors. All Directors are expected to remain up to date about issues affecting IAG, the general insurance industry and their duties as Directors. Directors participate in a formal Board Education and Engagement Program and are involved in ongoing education activities, including with local and overseas experts, which are relevant to IAG's operations.

New Non-Executive Directors are provided with a Director Induction Guide and have access to an induction program to introduce the GLT and information about IAG's businesses. Induction includes individual meetings with the CEO, members of the GLT 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, with specific education sessions held from time to time on topics such as cyber security and climate change. Directors have unfettered access to members of the GLT and the external auditor and are encouraged to meet with the GLT to further their knowledge and understanding of the organisation.

## Principle 3: Promote ethical and responsible decision making

IAG takes ethical and responsible decision making very seriously. We expect our 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;
- aligned to the Group's Social and Environmental Policy that describes IAG's commitment to managing risk and opportunities (including from climate change) that arise through our operations in the community; and
- consistent with the Group's ethical principles as set out in IAG's Code of Ethics and Conduct (**Code**) and the policies and standards that relate directly to their duties.

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.

The Code has been developed to provide all our officers, employees and contractors with principles and a framework to make informed business decisions and to act on them with integrity. This means that when our stakeholders interact with us, they should feel assured that we will act in a responsible, ethical, transparent and honest way, wherever we operate.

We are acutely aware of the significant role culture plays in how a business operates and performs. IAG is committed to creating a culture that supports ethical and responsible decision making in relation to our customers and our people. We continue to build trust in our organisation by being authentic in the way we communicate and run our business. In response to wider community discussions related to corporate culture, IAG appointed renowned ethicist, Dr Simon Longstaff (Executive Director, Ethics Centre), to lead the IAG Ethics Committee. This appointment has provided a valuable external perspective.

The Code and IAG policies for Australia and New Zealand are available in the About Us area of our website ([www.iag.com.au](http://www.iag.com.au)).

## Principle 4: Safeguard integrity in financial reporting

### 4.1 Audit committee

Our financial reporting is overseen by the Audit Committee, which comprises five Non-Executive Directors: Thomas Pockett (**Chairman**), Duncan Boyle, Helen Nugent, Sheila McGregor and Philip Twyman. All members of the Audit Committee have sufficient skill, experience and technical expertise, as shown in their biographies in the 2018 Directors' Report, to ensure that the Committee understands the Group's business, financial, accounting and risk requirements.

The main role of the Audit Committee 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's performance and can be relied on by them to make informed decisions;
- tax and financial risks; and
- the independence of the Auditor, Group General Manager, Internal Audit, Group Actuary and the Global External Peer Review Actuary and ensuring that independence is safeguarded.

The Audit Committee provides prior endorsement to the Board on the appointment, reappointment, removal and remuneration of the Auditor, and the rotation of the audit engagement partner, and assesses total fees paid for all non-auditor services provided by the Auditor.

The Audit Committee is also empowered as the Audit Committee of IAG's Australian insurance subsidiary – Insurance Australia Limited. Its other insurance subsidiary, Insurance Manufacturers of Australia Pty Limited, has established its own Audit Committee. In addition, the Audit Committee acts as the Audit Committee for IAG Finance (New Zealand) Limited, a company with securities listed on the ASX.

The Audit Committee met four times during the reporting period and member attendance at each meeting is shown in the 2018 Directors' Report.

The Audit Committee Charter includes details of the Committee's responsibilities and is available in the About Us area of our website ([www.iag.com.au](http://www.iag.com.au)).

### 4.2 Assurances

- The CEO, CFO and Chief Risk Officer (**CRO**) have assured the Board that the annual declaration provided in accordance with section 295A of the Corporations Act 2001 (Cth) is founded on a sound system of risk management and internal controls 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 on the conduct of the audit, the preparation and content of the Auditor's Report, the accounting policies adopted and auditor independence.

IAG also engages an external Auditor to provide independent assurance over IAG's annual non-financial reporting. The Independent Assurance Statement can be found in the Shared Value area of our website ([www.iag.com.au](http://www.iag.com.au)).

## Principle 5: Make timely and balanced disclosure

We have an ASX Disclosure Policy to reinforce our commitment to continuous disclosure, and our employees' responsibilities regarding inside information.

Our ASX Disclosure Policy includes a protocol outlining how information is released to the public and provides examples of what could constitute inside information. The Policy is available in the About Us area of our website ([www.iag.com.au](http://www.iag.com.au)).

We are committed to timely, factual and balanced disclosure to ensure investors are informed of all material developments for the Group. Announcements are prepared to ensure they do not omit material information and are expressed in a clear and objective manner to allow investors to assess the impact of information when they make investment decisions.

All material price-sensitive announcements are subject to a sign-off process at senior levels within IAG before they are released to the ASX.

We have established policies to ensure we comply with the ASX Listing Rules' disclosure requirements and to help ensure senior executives are accountable for that compliance.

In accordance with our ASX Disclosure Policy, we are committed to ensuring all investors have access to information on our financial performance. We post on our 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 on 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

We maintain a comprehensive website at <http://www.iag.com.au/> to provide our shareholders with information about IAG, including our Corporate Governance policies. The website also provides detailed biographies of Board members and the GLT.

The website has a separate Shareholder Centre to provide 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 IAG securities holdings via a link to our share registry's Investor Centre. These features 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 13, Darling Park, Tower 2, 201 Sussex Street, Sydney NSW 2000, Australia.

### 6.3 Participation at general meetings

Shareholders are encouraged to attend the AGM and ask questions of the Chairman and the Board. IAG adopts best practice in the drafting of notices for general meetings and other communications to help ensure that they are accurate, informative and not misleading. All AGM material is made available in the Shareholder Centre area of our website ([www.iag.com.au](http://www.iag.com.au)).

We offer our shareholders and authorised intermediaries, such as custodians, online proxy and direct voting to facilitate lodgement of their votes on resolutions put to general meetings. We also webcast the AGM live for viewing by shareholders and other interested parties; an archived file of the meeting video is made available shortly after completion of the meeting.

### 6.4 Electronic communications

We actively encourage shareholders to embrace the benefits of electronic communications. As at 31 July 2018, 31.37% of our shareholders had registered their email address to receive notices that communications including annual general meeting materials, dividend advices and holding balance statements are available on our website.

We also maintain an email alert system through our website ([www.iag.com.au](http://www.iag.com.au)) to advise investors, beneficial owners and any other interested parties when important media releases, financial announcements, presentations and annual reports are released to the market through the ASX.

## Principle 7: Recognise and manage risk

Managing risk is central to the sustainability of our business, our purpose and our creation of shareholder value and is integral to delivering our strategy and decision making. We do not seek to avoid all risks, but we do aim to optimally manage risks. Our Risk Management Framework (RMF) uses an enterprise approach to risk and is a core part of our governance structure, providing the processes for identifying, assessing, managing and reporting risk.

### 7.1 Risk committee

IAG has a Risk Committee to assist the Board in fulfilling their risk management and compliance responsibilities and is supported in its oversight of risk by a series of executive and regional risk and governance forums.

IAG's Risk Committee comprises six Non-Executive Directors: Duncan Boyle (Chairman), Philip Twyman, Hugh Fletcher, Thomas Pockett, Helen Nugent and Jonathan Nicholson. All members of the Risk Committee have relevant experience as shown in their biographies in the 2018 Directors' Report.

The Risk Committee's purpose is to:

- provide oversight of material risks to which IAG is exposed and the adequacy and effectiveness of IAG's risk management strategy (Group RMS) and control systems;

- monitor IAG's compliance with the Group RMS, Group Reinsurance Risk Management Strategy (Group REMS) and other governance and risk related IAG policies identified in the Group RMS;
- ensure effective operation of compliance systems, having regard to the requirements of applicable laws, regulations, industry codes, listing authorities' rules and IAG's policies and frameworks;
- oversee IAG's governance frameworks; and
- safeguard the independence of the CRO, Chief Actuary and the risk and compliance functions.

The Risk Committee is also empowered as the Risk Committee of IAG's Australian insurance subsidiary – Insurance Australia Limited. Its other insurance subsidiary, Insurance Manufacturers of Australia Pty Limited, has established its own Risk Committee.

The Risk Committee met four times during the reporting period and member attendance at each meeting can be found in the 2018 Directors' Report. The Risk Committee Charter includes the Committee's responsibilities and operations and is available in the About Us area of our website ([www.iag.com.au](http://www.iag.com.au)).

### 7.2 Review risk management framework

The Board is responsible for setting the Group RMS. The Risk Committee assists the Board in fulfilling its risk management responsibilities.

The Risk Committee recommends the Group RMS and other key risk documents (e.g. Group REMS and the risk appetite statement and selected IAG policies) to the Board for approval. It also satisfies itself as to the contents of the annual APRA Risk Management Declaration and matters to be disclosed to APRA based on risk reviews conducted during the period. The Board receives information on significant risk matters and regular updates from the Chairman of the Risk Committee.

The CRO and risk function provide regular reports to the Risk Committee on the operation of the Group RMS, the status of key risks, risk and compliance incidents and risk framework changes.

The Risk Committee considers IAG's enterprise risk profile, risk appetite and core risk documents on an annual basis. In addition, the GLT is required to attend and report to the Risk Committee on the operation of the risk management frameworks embedded in their respective business divisions. IAG operates a "Three Lines of Defence" approach to risk management. The first line is operational management (risk owners), who own and manage their risks. The second line (risk advisers and risk specialists) is typically the risk management and compliance functions, and the third line is the independent audit functions.

Members of the GLT are responsible for managing risks faced by their division, including embedding risk management processes and culture, by:

- providing the mandate and commitment to risk management (i.e. set the risk management tone at the top);
- ensuring their division complies with the Group RMS requirements, Board approved policies and all applicable regulatory/legal requirements;
- embedding divisional risk owner responsibilities;
- ensuring there are divisional/regional risk teams which have resources 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.

Risk culture and behaviours are the foundation for appropriate risk management, governance and business sustainability. Conducting business in a manner aligned with IAG's purpose is a core goal. Conduct related matters and risks are managed through our enterprise approach to risk and associated practices.

### 7.3 Internal audit function

The Board has established our Group Internal Audit function as a key component of our governance framework. The Group Internal Audit function evaluates the effectiveness of internal controls, governance processes and overall risk management, via its independent and objective Review Program. Its role is to:

- provide assurance to the Audit Committee and 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 Audit Committee and administratively to the CRO, and has direct access to the CEO and the Audit Committee.

## 7.4 Economic, environmental and social sustainability risk

As a general insurer operating in Australia, New Zealand and parts of Asia, IAG is exposed to economic, environmental and social sustainability risks and opportunities. Our Board has overarching responsibility for economic, environmental and social risk management. This includes overseeing the development and implementation of IAG's approach to managing risk that drives sustainable outcomes for all stakeholders.

Economic, environmental and social sustainability risks are identified and managed as part of the Group's risk management framework as overseen by the Board. Through risk profiling and ongoing trend analysis, we collect information on these risks and use it to report to the GLT and the Board, and update our strategy at appropriate intervals.

A cross-functional Shared Value Advisory Council (SVAC) was established in 2014 to fulfil the role of a Sustainability Committee for IAG and provide advice and input to the organisation's approach to shared value, sustainability and broader community activity. The SVAC also acts as a forum to identify and respond to environmental and social risks. The SVAC meets at least three-monthly, is chaired by the Group Executive Strategy and Corporate Development, and is comprised of Senior Leaders from across the business, including the Group Executive - People, Performance and Reputation who is a GLT member.

A Reconciliation Action Plan (RAP) Steering Committee provides strategic advice, support and direction on IAG's Indigenous Engagement strategy, including monitoring performance against commitments as outlined in IAG's RAP and assisting with the internal advocacy and engagement of leaders across the business. The RAP Steering Committee meets three-monthly and is comprised of Senior Leaders from across the business, including three members of the GLT.

Economic, Environmental and Social Sustainability Risks are also identified through forums such as the Ethics Committee, Consumer Advisory Board, Customer Forum, Diversity Network Advisory Group and Employee Network Resource Group.

IAG is a signatory to several voluntary principles-based frameworks which inform the identification of risk and guide the integration of environmental, social and governance considerations into our business practices:

- we are a member of the United Nations Environment Programme Finance Initiative (UNEP FI) and we support the UN Sustainable Development Goals and use it as a framework to guide the impact we can have. The Group Executive – People, Performance and Reputation, Jacki Johnson, is a member of the UNEP FI Global Steering Committee;
- we are a signatory to the UNEP FI Principles for Sustainable Insurance (PSI), with IAG's Chief Customer Officer, Julie Batch, a member of the PSI Board; and
- we are a signatory to the UN Principles for Responsible Investment (PRI).

As a founding member of the Australian Business Roundtable for Disaster Resilience & Safer Communities and Resilient New Zealand and through our involvement with the 100 Resilient Cities Initiative, IAG is sharing its risk management expertise with government and communities to influence programs and policies to help make Australia, New Zealand and the region more resilient to natural disasters. More information is available at [australianbusinessroundtable.com.au](http://australianbusinessroundtable.com.au) and [resilientnewzealand.co.nz](http://resilientnewzealand.co.nz).

We have in place a safer communities framework that supports execution of our purpose in the community, guides decision making and ensures we are creating value for both the community and our business. We believe we have a responsibility to support risk transfer through insurance and share our knowledge about risk to make communities Safer, Stronger and More Confident. We do this by promoting better understanding and reduction of risks at home, at work, on the road and in the natural environment. Our sustainability performance is managed within this framework and is supported by many policies and position statements.

Each year, we undertake a materiality assessment process to identify and prioritise risks and opportunities. The results of the assessment are used to inform our shared value and sustainability approach and ensure our reporting addresses the risks and opportunities that matter most to our stakeholders and our business.

Details of our material environmental and social sustainability risks, how we manage these risks and details of other shared value and sustainability activities are set out in the 2018 Annual Review and Safer Communities Report and in the Safer Communities area of our website ([www.iag.com.au](http://www.iag.com.au)). Further information on our economic and social risk can be found in Note 3. Risk Management in the 2018 annual report.

Our Social & Environmental Policy and Public Policy Position on Climate Change are also available in the Safer Communities area of our website ([www.iag.com.au](http://www.iag.com.au)).

## Principle 8: Remunerate fairly and responsibly

### 8.1 People and remuneration committee

The four members of PARC are Jonathan Nicholson (Chairman), Duncan Boyle, Hugh Fletcher and Michelle Tredenick.

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 members of the GLT;
- monitoring the development and implementation of workplace diversity and inclusion strategies;
- assessing whether the Group Remuneration Policy is effective and complies with regulatory requirements on remuneration, including those specified in the Corporations Act 2001 (Cth) and APRA's prudential standards;
- reviewing and making recommendations to the Board in relation to the remuneration levels and contractual arrangements of GLT members; and
- monitoring the appropriateness and relevance of the Group Reward Strategy and its approach to delivering the strategic goals of IAG.

The PARC is also empowered as the PARC of IAG's Australian insurance subsidiary – Insurance Australia Limited. Its other insurance subsidiary, Insurance Manufacturers of Australia Pty Limited, has established its own People, Culture and Remuneration Committee.

The PARC met four times during the reporting period and member attendance at each meeting is shown in the 2018 Directors' Report.

Information about the PARC is set out in the PARC Charter which is available in the About Us area of our website ([www.iag.com.au](http://www.iag.com.au)).

### 8.2 Group remuneration policy

Details of remuneration policies for our Non-Executive Directors and the GLT are disclosed in the 2018 Remuneration Report. The Remuneration Report describes how the pay for Non-Executive Directors and the GLT is structured, and includes details of the actual remuneration paid to all key management personnel; the relationship to IAG's performance; and the process that allows the Board to adjust variable pay downward. The Remuneration Report also outlines IAG's minimum shareholding requirements for the GLT and Non-Executive Directors.

### 8.3 Equity based remuneration

Our Remuneration Policy prohibits Non-Executive Directors and members of the GLT 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 Non-Executive Director Award Rights, Executive Performance Rights and Deferred Award Rights); and
- vested IAG securities which form part of their mandatory holding of IAG ordinary shares.

Details of our equity based Remuneration Policy for the CEO and the GLT are shown in the 2018 Remuneration Report.