



Climate-related disclosure

FY2021

Introduction

IAG's purpose is to make your world a safer place. This enables IAG to become a more sustainable business over the long term, delivering stronger and more consistent returns for shareholders.

IAG's research, claims and industry data indicate climate change as a key risk to its insurance business through the increased social and financial impacts it will have on communities in Australia and New Zealand. Supporting its purpose, IAG has further prioritised climate change and disaster resilience, working with people and communities to improve their resilience.

The FY21 financial year saw continued climate-related regulatory initiatives and severe weather events impact communities and businesses across Australia and New Zealand.

In April, the New Zealand Government became the first national government to introduce a law to parliament requiring mandatory disclosure of climate risks for financial institutions. IAG New Zealand publicly endorsed this, while continuing to engage with Ministers and Officials to advocate for an improved national approach to climate change adaptation. In the same month, the Australian Prudential Regulation Authority (APRA) released a draft prudential practice guide on climate risk management. IAG commends these guidelines as a key step to encourage financial institutions to address the financial risks that are emerging from climate change.

The aftermath of the 2019-2020 Black Summer bushfires saw Australian government inquiries raise concerns on how risk mitigation and insurance pricing will develop in fire-prone areas. This includes the Royal Commission into National Natural Disaster Arrangements, the Australian Competition & Consumer Commission's (ACCC) Northern Australia Insurance Inquiry, and Senate Inquiry on Lessons to be learned in relation to the Australian bushfire season 2019-20. IAG provided evidence to each of insurance impact and insights from its research on natural perils and climate change.

Meanwhile extreme rainfall and flooding events that occurred throughout Australia and New Zealand saw many vulnerable communities impacted. These events provide further insight into the complexities of pricing for physical climate risks while also considering affordability and accessibility of insurance products.

This climate-related disclosure is aligned with the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations. It addresses how IAG is acting on climate change through Governance; Strategy; Risk Management; and Metrics and Targets.

It demonstrates:

- IAG's work to understand which climate risks could have a material impact on its business.
- Strengthened governance of climate-related issues.
- Risk management and strategic integration of climate considerations into its core operations.
- The partnerships, activities and programs it is involved in to mitigate climate risks and innovate opportunities.

Governance

IAG Board

IAG's Board Charter includes oversight of Safer Communities, sustainability and climate change. This includes:

- approval of the IAG Social and Environmental Framework;
- receiving six monthly reporting on safer communities and sustainability; and
- consideration and approval of the external reporting on safer communities and sustainability strategies and initiatives (including climate change) within the Annual Review and the Annual Report.

The Board oversees and considers governance policies and practices, including appropriate standards of ethical behaviour and social and environmental responsibility.

IAG has standing **Board Committees** which have varied responsibilities for governing climate-related issues:

- **Risk Committee:** provides oversight of the material risks of IAG. Climate change is a key risk in IAG's Enterprise Risk Profile.
- **Audit Committee:** oversees the integrity of IAG's external statutory financial reporting framework, including compliance with applicable laws, regulations and other requirements in relation to external financial reporting.

Group Chief Executive Officer

The Board delegates responsibility for overall management and profit performance of IAG, including all day-to-day operations and administration of IAG, to the Group Chief Executive Officer.

Group Leadership Team

The Group Executive People Performance and Reputation has accountability for IAG's Safer Communities function, including oversight of the enterprise-wide Safer Communities Business Plan, climate change activities and the Climate Action Plan. Accountabilities for key objectives and programs outlined in the Climate Action Plan are owned by relevant IAG Group Leadership Team members. Progress against IAG's Climate Action Plan is reported to the IAG Group Leadership Team every six months.

Climate-related Programs and Committees

Climate and disaster resilience is the core strategic priority of IAG's **Safer Communities Business Plan**. Under this Plan, the three-year **Climate Action Plan** sets out the framework, commitment and steps for IAG to mitigate and address the impacts of climate change.



The **Safer Communities Steering Committee** shapes, guides and monitors the Group-wide approach, plans and evaluation to support the Group Executive People Performance and Reputation in the setting and execution of IAG's Safer Communities Business Plan. This includes overall oversight of the Climate Action Plan.

The **Climate Risks & Opportunities Steering Committee** ensures appropriate Group Executive and senior leadership oversight of IAG's approach to identifying, understanding and managing financial risks and opportunities from climate change, and guidance on climate-related financial disclosures. It is chaired by the Group Executive People Performance and Reputation and comprises of senior leaders with representation from across the Group. Committee is reviewed regularly in line with organisational changes. Progress updates on the Climate Risks & Opportunities Program are provided to the **GLT Risk Committee**, a Management committee whose purpose is to assist CEO and GLT to fulfil their risk management and compliance responsibilities, every six months.

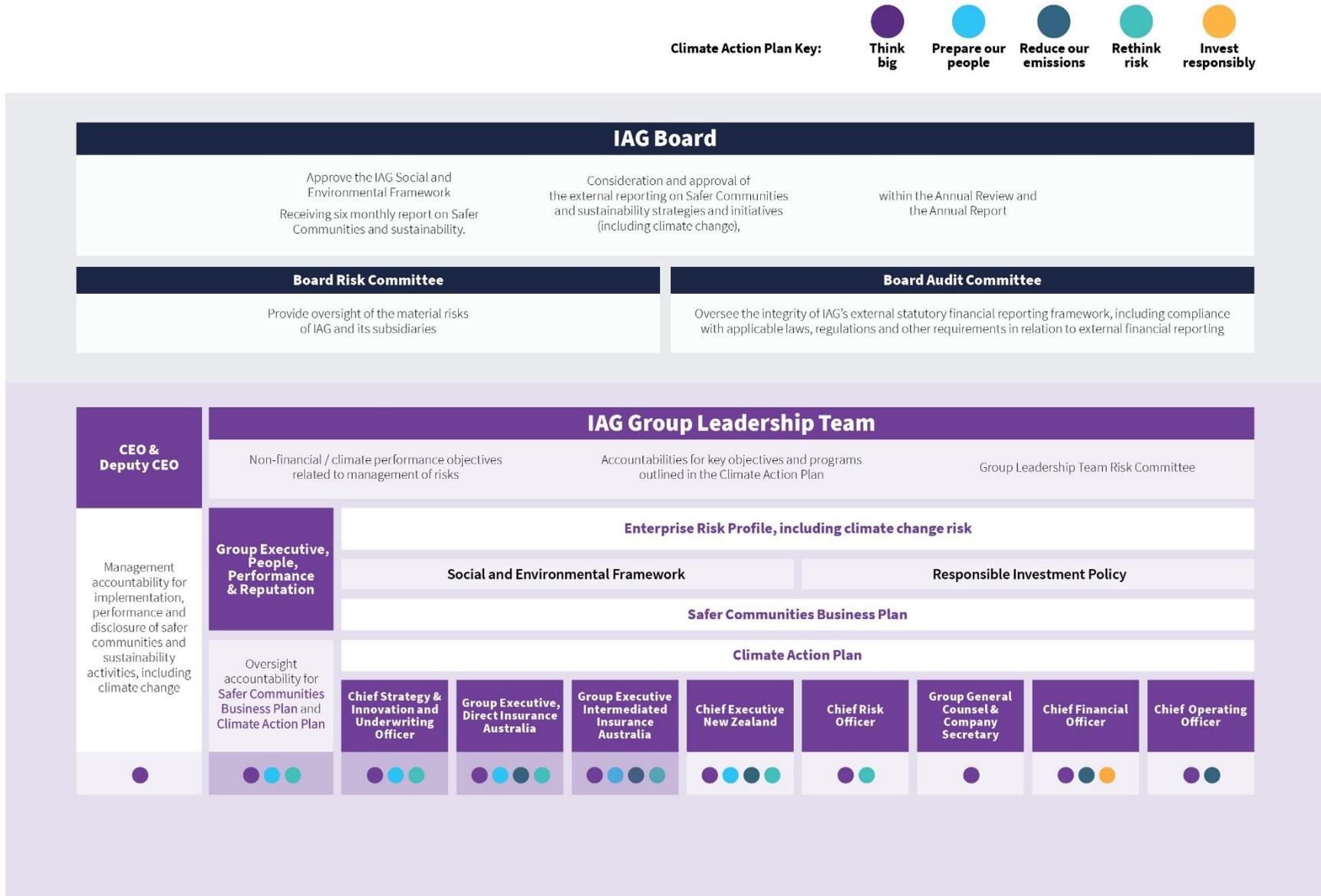
IAG's **Social and Environmental Framework** is a Board-approved Framework that helps identify and manage IAG's direct and indirect social and environmental impacts, outlines IAG's commitments to action, and defines IAG's approach to continuous improvement, including in relation to climate change.

IAG's **Responsible Investment Policy** is a board approved Policy which supports IAG's purpose and strategy by managing IAG's impact and performance on responsible investment issues, including climate.

IAG has published its position on Climate Action within its "**Where we stand - IAG's Public Policy Views**" document. This outlines IAG's support of mitigation activities and cross-industry collaboration to address climate change.

IAG's **Group Insurance Risk Committee** provides guidance and governance of insurance risk, extending to all aspects of Insurance Risk across the Group. The Committee consists of senior managers responsible for decision making, management and governance of portfolio strategy, product management, pricing, underwriting, claims management, reinsurance and other matters related to Insurance Risk across IAG. Within the Committee charter, environmental, social and governance risks, including climate change, are identified as "Emerging Insurance Risks and opportunities".

Figure 1: Specific climate change accountabilities at each level of IAG’s corporate governance and the management strategies and frameworks applied



Strategy

Integrating climate change into IAG's Strategy

IAG transitioned to the next era of its strategy in 2020, focusing on a 'stronger, more resilient IAG'. Climate risk management is strongly embedded into the four pillars of this strategy:

- **Grow with our customers** – ensure the continued value of insurance products to IAG's customers that adequately protect them from emerging climate risks, while remaining affordable.
- **Build better businesses** – incentivise businesses to better understand and manage their climate risks and opportunities by factoring climate change into pricing excellence.
- **Create value through digital** – improved ability to engage customers through digital means, and reducing the natural resources required to operate IAG's business.
- **Manage our risks** – strengthening business opportunities in climate risk mitigation and adaptation to manage the physical, transition and litigation impacts of climate change on IAG.

More details on IAG's strategy can be found in the 'purpose and strategy' section of www.iag.com.au

Driving impact and behaviour change through Safer Communities

Supporting IAG's purpose and strategy is the Safer Communities Business Plan, an enterprise-wide approach to managing sustainability risk. In line with the IAG Strategy, IAG's Safer Communities Business Plan was refined in FY21 to focus on the priority area of Climate and Disaster Resilience. More detail on this can be found in the Safer Communities section of the FY21 Annual Review and Safer Communities Report.

IAG's plan to manage climate risks and opportunities

Objectives to address climate and disaster resilience are captured and disclosed in IAG's three-year Climate Action Plan. Launched publicly in 2018, the current Climate Action Plan has five focus areas:

1. **Think big**: ensuring IAG leads on climate change issues and builds relationships to achieve its ambitions.
2. **Prepare our people**: applying experience from the business and building the capacity of IAG's people to enable embedding of climate change considerations into its culture.
3. **Reduce our emissions**: leading by example and committing to science based emissions reduction for IAG's own operations.
4. **Invest responsibly**: ensuring IAG's investment activities are aligned to IAG's purpose.
5. **Rethink risk**: ensuring climate change considerations are integrated into the core of IAG's insurance business. This allows innovation of products, systems and partnerships that enable customers, business and communities to adapt to a low carbon future and changing climate.

Supporting key aspects of IAG's Climate Action Plan and the Enterprise Risk Profile is the **Climate Risks & Opportunities Program**. This program informs the understanding and management of strategic risks and opportunities from climate change (see Risk Management section).



Leading and collaborating for disaster risk reduction and climate change

Mitigating the impacts of climate change to IAG's business, customers and communities requires a collaborative, multi-stakeholder approach. IAG addresses this by demonstrating leadership and working with other companies, organisations and governments to address climate-related issues. This includes contributing valuable knowledge, insights and capability on how climate risks and opportunities impact financial system sustainability.

Alongside other global insurers, IAG contributed to the United Nations Environmental Program Finance Initiative's **Principles for Sustainable Insurance** (UNEP FI PSI) **TCFD pilot** to enable industry benchmarking and standardisation of disclosure. The report, titled "Insuring the climate transition: Enhancing the insurance industry's assessment of climate change futures", was launched on 19 January 2021. IAG is assessing which methodologies outlined in the report can be applied to improve strategic integration of climate risks into its core business, risk assessments, scenario analysis and climate modelling.

IAG also contributes to sector-wide approaches on insurance availability and affordability, and sustainability issues effecting financial systems. Throughout FY21, IAG was the Co-Chair of the **Australian Sustainable Finance Institute** (ASFI) and a key contributor to New Zealand's **Sustainable Finance Forum** (an initiative of The Aotearoa Circle). Both initiatives established roadmaps for realigning the finance sector to support social, environmental and economic outcomes, with a significant focus on climate change risk. The roadmaps were launched in November 2020, with IAG working to prioritise initiatives for implementation across its business.

IAG is a founding member of the **Australian Business Roundtable for Disaster Resilience & Safer Communities**. Through the Roundtable, IAG works to effect change in public policy, increase investment in building safer and more resilient communities, and improve the capacity of people and businesses to better withstand future natural disasters. IAG has been invited by the governments in Australia and New Zealand to play a role in climate change management, including active engagement and contribution to the **National Disaster Risk Reduction Framework National Action Plan** in Australia. In New Zealand, IAG was a founding member of the **Climate Leaders Coalition**, which encourages businesses to actively mitigate and adapt to climate change. IAG is also a member of New Zealand's **Sustainable Business Council**, helping build a stronger focus on climate action into its new strategy. As a key member of the **Insurance Council of Australia**, the representative body of the general insurance industry in Australia, IAG plays an active role in the Council's Climate Change Action Committee and related subcommittees.

IAG works in collaboration with communities and partners to build community connection and resilience to climate change that also support business outcomes. This includes strategic partnerships working with **Australian Red Cross** and the **State Emergency Service** and **Rural Fire Service in New South Wales** to improve individual and community disaster preparedness.

A more detailed overview of IAG's partnerships can be found on the 'Safer communities' section of www.iag.com.au

Consideration of climate change in underwriting

IAG's underwriting approach incorporates environmental, social and governance (ESG) considerations and extensions for its insurance products. These are included in the IAG Business Division Licences which define IAG's Insurance Risk appetite and approach to underwriting.

IAG is committed to ceasing underwriting entities predominantly in the business of extracting fossil fuels and power generation using fossil fuels by 2023. In alignment with IAG's purpose, IAG will continue to underwrite workers compensation irrespective of the climate intensity of the industry they work in as IAG believes everyone needs to be protected at work.

Further to the 2023 commitment, IAG is assessing and considering other ESG impacts across its underwriting portfolios, and what other positions can be mandated to further align its underwriting approach to IAG's climate action objectives.



Consideration of climate change in investments

Invest responsibly is a focus area in IAG's Climate Action Plan. It commits IAG to:

- Shift investments to companies that have a lower exposure to climate-related risks or have a strategy to manage these risks.
- Actively support action on climate change and a net zero future.
- Measure carbon intensity and include climate-related risks in the ESG risk management of investments.

To further support these objectives, IAG activities in FY21 included:

- September 2020: a new commitment to net zero investment portfolio emissions by 2050 is included in the Climate Action Plan (see the Metrics & Targets section).
- December 2020: IAG's Responsible Investment Policy, a board approved Policy that addresses key ESG risks including climate change, was published on the Codes and policies section of www.iag.com.au.

Continued implementation of the Responsible Investment Policy supports the progress of IAG's invest responsibly commitments. This excludes or restricts investments in higher risk companies with poor climate change risk management, and supports companies which are improving their performance by reducing their carbon risk or investing in renewable energy.

IAG uses external ESG research and capabilities of its investment managers to review climate-related investment exposures, assess carbon footprint and carbon exposure, and to inform portfolio management. Investment due diligence considers investment managers' capabilities to incorporate ESG issues where appropriate. An outline of IAG's approach and performance is included in the Metrics & Targets section of this disclosure.

Climate scenarios supporting strategy and decisions

IAG's application of climate scenarios informs its understanding and strategic response to addressing climate risks and opportunities (**Table 1**). Insights from these scenarios are detailed in the *Risk Management – IAG's understanding of climate risks* section.

Using the latest climate science to inform IAG's catastrophe modelling, IAG undertook physical risk modelling assessments for three potential temperature scenarios (+1.5°C, +2°C and +3°C and over). These are consistent with the Intergovernmental Panel on Climate Change (IPCC) Representative Concentration Pathways (RCP). This developed IAG's understanding of the medium to long-term climate impacts and key findings were published in the first and second editions of the "*Severe Weather in a Changing Climate*" scientific report.

IAG analysed transition impacts using scenarios that consider similar inputs to the Deep Decarbonization Pathways Project (DDPP). This includes using climate scenarios developed by Climate Works to assess Australian impacts, and scenarios developed by the Westpac Climate Change Impact Report to assess New Zealand impacts.

Table 1: Climate scenarios used by IAG to inform physical and transition impacts

Physical Impact Scenarios	Transition Impact Scenarios
<p>IPCC RCP models:</p> <ul style="list-style-type: none"> • Higher Scenario: RCP 8.5 (+3°C+) • Lower Scenarios: RCP 4.5 (+2°C) • Even Lower Scenario: RCP 2.6 (+1.5°C) <p><i>RCP 9.0 was also used to inform on extreme climate futures.</i></p>	<p>Climate Works Australia models</p> <ul style="list-style-type: none"> • Business As Usual: (+4°C) an insufficient trajectory of incremental approaches to technology, society and policy • Balanced Decarbonisation: (+2°C) a steady decline trajectory aligned to the 2°C objective of the Paris Agreement • Delayed Action: (+2°C) an insufficient trajectory up until 2030, followed by a rapid decline trajectory driven by strong actions • Stretch 1.5: (+1.5°C) a rapid decline trajectory driven by strong actions by policy and society, supported by rapid innovation <p>Westpac New Zealand models</p> <ul style="list-style-type: none"> • Business As Usual: (+4°C) an insufficient trajectory of incremental approaches to technology, society and policy • Central Scenario: (+2°C) trajectory of earlier and smoother phased action across technology, society and policy. • Shock Scenario: (+2°C) an insufficient trajectory up until 2030, followed by a rapid decline trajectory driven by strong actions

IAG continues the consistent use of physical, transition and litigation risk scenarios as per TCFD recommendations. IAG’s analysis confirms that even the most conservative future climate projections could potentially have a material medium to long term impact on IAG’s business and customers.

In addition to the scenarios in **Table 1**, IAG developed the 2030 +2°C Climate Scenarios to generate a stronger understanding of significant climate change impacts to its business and inspire purpose-led decision making. Based on the Oxford Scenario Planning Approach, these were developed following workshops with IAG senior team leaders identifying political, social, economic, technological, environmental and legal factors impacted by a +2°C temperature increase by 2030.

A series of four different and plausible futures based on rapid climate change and external factors of trust, inequality and regulation were then developed. The scenarios have been used as experiences across the business to support IAG’s leaders to integrate climate considerations into strategy setting and planning. This includes considering product development and pricing strategies in the short-term and assessing the resilience of IAG’s strategy in the medium and long-term.

Risk Management

IAG regularly profiles and assesses risks to ensure successful execution of its strategy and ‘manage our risks’ strategic pillar. This provides IAG with parameters on how to limit the impact of risks in delivering its organisational strategy and purpose. See the IAG’s FY21 Annual Report for more information.

IAG’s Enterprise Risk Profile

The Enterprise Risk Profile (ERP) articulates risks that can impact IAG’s ability to deliver on its strategic objectives. It drives divisional implementation of IAG’s Strategy and decision-making which is consistent with IAG’s Risk Management Strategy and risk appetite. The Enterprise Risk Profile is assessed annually, enabling informed decisions that are consistent with IAG’s **Risk Management Strategy** (RMS) and risk appetite. IAG’s **Risk Appetite Statement** (RAS) is approved by the Board and outlines the level of risk IAG is prepared to take in pursuit of its objectives. The management of risk within risk appetite parameters is governed by Board and Executive Risk Committees.

The FY21 ERP process revalidated an ‘*Inadequate Climate Change Response*’ as a critical enterprise risk. This is consistent with previous years, reflecting the systemic impact climate change has on IAG. This enterprise risk is defined as; “*failure of governments and businesses (including IAG) to appropriately assist customers to adapt to climate change, provide help to communities to mitigate and recover from climate change impacts and an inability to adequately manage insurance and transition (to green economy) risks from climate change*”.

In the current financial year, IAG has strengthened and improved controls for physical climate risks to its Australian business which present the most material short term climate impact to IAG. Earthquake risk remains more material to IAG’s New Zealand business than physical climate risks, however, transition risks are expected in the medium term as the country moves towards its national net zero target.

IAG’s understanding of climate risks

Since publishing “*The Impact of Climate Change on Insurance against Catastrophes*” in 2002, IAG has emphasised the need to invest in climate science. IAG works collaboratively on research and sharing intellectual property to drive behavioural change across the insurance industry and its value chain. This research base helps IAG access knowledge and points of influence and informs its management of climate risks (see Strategy section).

While IAG supports the categorisation of climate risks into physical, transition and litigation segments, it is acknowledged that these are highly interdependent. IAG advocates for holistic profiling of climate-related risks, which is consistent with the UN Environment Program’s “*Insuring the climate transition*” report that IAG has contributed to.

Research on physical risks

Evidenced by claims costs from severe weather events in Australia and New Zealand, physical risks from extreme weather events on IAG are significant. Insurance affordability is identified as a problem in some areas, which will be exacerbated with further climate change.



IAG uses modelling by its Natural Perils team to inform risk-based technical peril pricing for insurance products and reinsurance requirements. On September 2020, IAG released the second edition of its landmark report, “*Severe Weather in a Changing Climate*”, co-authored with the US National Center for Atmospheric Research (NCAR). IAG worked with the Climate Measurements Standards Initiative (CMSI) to coordinate scientific feedback into the original report released in November 2019.

The second edition expands on knowledge gaps outlining the physical risks Australia can experience in 1.5°C, 2°C and +3°C futures. Complementing the report are severe weather factsheets published for Bushfires, Floods and Tropical Cyclones that can be found on the Safer Communities section of www.iag.com.au.

This research is used to adjust IAG catastrophe modelling to understand the impacts on insurance premiums and reinsurance requirements for future climate scenarios. IAG’s current research assumes no changes to the current building stock. These assumptions can be refined in the future to demonstrate how changes in building stock can reduce physical risk exposure.

This publication underscores IAG’s collaborative approach to engage and share insights to scale up climate resilience activities by individuals, communities, businesses and governments. This can help society adapt to changing physical impacts while addressing related impacts such as underinsurance and financial inclusion. Physical risk insights are also leveraged to address issues beyond IAG’s direct control, including advocacy to update building codes and land planning measures to account for future climate risks.

Research on transition risks

In the previous financial year, IAG commissioned Ernst & Young (EY) and Climate Works Australia to undertake a Climate Transition Impact Analysis to understand implications for its business associated with societal transitioning to climate change. The analysis focused on transition impacts to:

- IAG premiums from business underwriting.
- Technologies associated with IAG’s Home and Motor portfolio.
- Regional supply chain implications from anticipated regulation of carbon.

The findings identified that, while there are some risks to smaller portfolios (such as Agriculture) in the medium-term, the risk to supply chain costs through carbon pricing are relatively immaterial, with the uplift in costs estimated to be in the range of 0.03%-0.05% by 2030. Additionally, there are growth opportunities to consider across expanding sectors and technologies such as 3D printing and energy efficient and smart home appliances. Beyond these insights, IAG recognises transition risks and opportunities will have a wide-ranging impact on its stakeholders. As specific impacts are less certain than modelling for physical risks, IAG looks to deepen its transition risk insights for Australia and New Zealand in the coming years.

Research on litigation risk

IAG recognises litigation risk as a separate category to transition risk, with its response to climate change carrying reputational and regulatory considerations for its business. This is consistent with the UNEP FI Principles for Sustainable Insurance, where litigation risks are defined as “*any risk related to litigation pertaining to climate change and breach of the underlying legal frameworks on both the business and corporate levels*”.

IAG’s understanding of litigation risk is based on qualitative analysis by EY as part of the transition impact assessment outlined above. While this profiles court cases against companies for failing their duty of care of climate issues, methodologies for assessing climate-related litigation risks were not developed at the time of analysis. Going forward, IAG is considering how to apply the appropriate litigation risk assessment options described in the UN Environment Program’s “*Insuring the climate transition*” report.



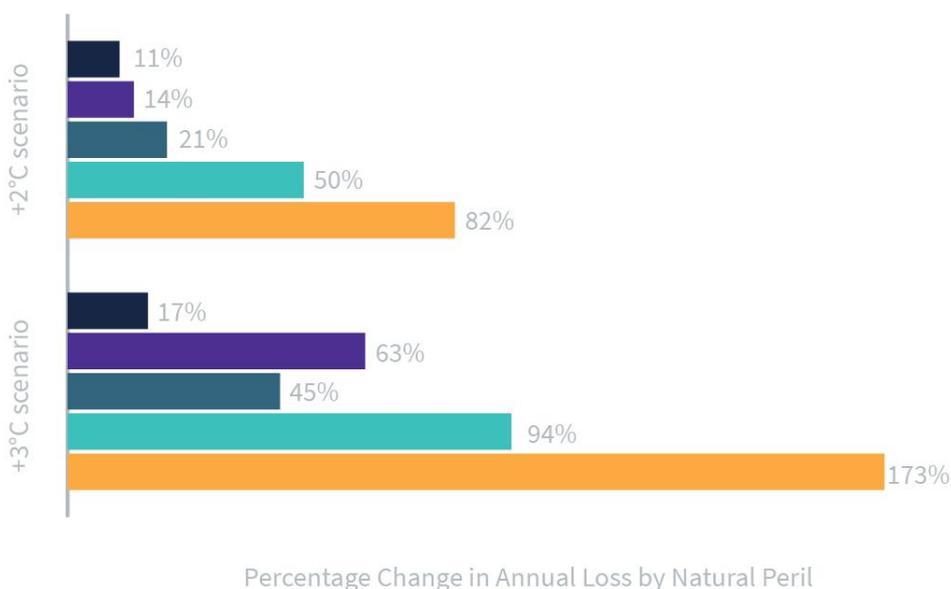
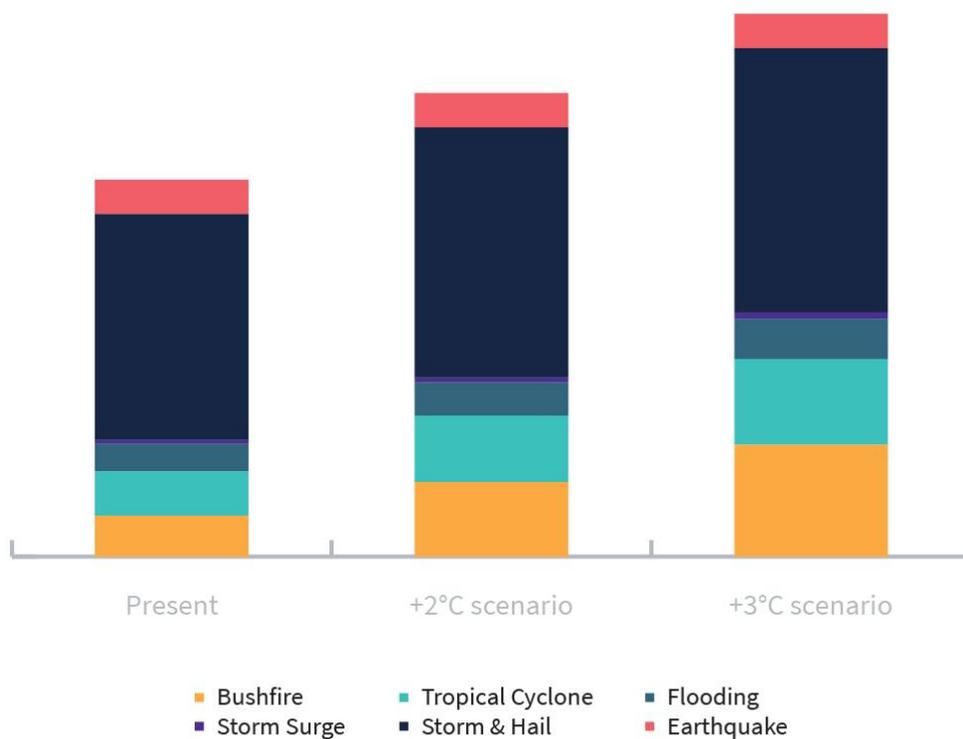
Climate risk impacts on IAG

Among climate risk categories, at the time of disclosure IAG has identified that physical impacts in Australia present the most material short, medium and long-term climate risk to IAG's business. Under future climate scenarios, the potential increase in properties with very high technical peril premiums may drive increased insurance affordability issues. Transition risks provide both medium-term risks and opportunities to its product, customer and investment portfolios. IAG continues to evolve its work to develop a similar understanding of physical climate impacts for New Zealand, as well as deeper analysis of transition impacts for both Australia and New Zealand.

IAG's exposure to physical risk is an exacerbation of existing high-risk hazard areas associated with Flood, Tropical Cyclones, Bushfires and low-lying coastal properties with very high technical peril premiums. Leveraging key insights from the "*Severe Weather in a Changing Climate Second Edition*" report **Figure 3** outlines the extent to which IAG's Australian home insurance portfolio is exposed to these key physical risks. It outlines 'Average Annual Loss', a measure of natural peril risk used to inform technical insurance pricing, and how these are likely to be impacted by climate change.

Figure 2: Average Annual Losses domestic properties in Australia insured through IAG’s brands face at present, and their modelled to change under +2°C and +3°C climate scenarios.

Annual Average Losses to Home Insurance in a Changing Climate



This information is an estimate of potential future insurance risk from natural perils and the scale to which they can increase. Average annual losses to properties from all climate-related natural perils can increase up to 23% in a +2°C scenario, and 43% in a +3°C scenario, illustrating the material financial impact climate change can have without further remedial action. While losses from bushfire and tropical cyclone risks could increase most on average, certain floodplains and coastal hazard zones are likely to experience extreme increases in risk. This significant regional variability in climate risk exposure is not captured in this figure. Although IAG acknowledges climate and financial risk modelling is inherently uncertain, these insights can help inform where disaster resilience and climate risk mitigation should be prioritised to ensure the safety of communities and viability of insurance in high-risk areas.

Managing climate risks and opportunities

The Climate Risks & Opportunities program supports key objectives of the Climate Action Plan's Think big, Invest responsibly and Rethink risk focus areas. The program leverages research on physical, transition and litigation climate impacts to embed climate change considerations into strategy and risk management.

Based on IAG's research and analysis, the physical impacts of climate change present the most material short, medium and long-term risks to IAG's business. Transition impacts of climate change are less material with manageable risks and emerging opportunities to IAG's product, customer and investment portfolios in the medium term.

The Climate Risks & Opportunities program focuses on five areas of IAG's business value chain where climate risks and opportunities are likely to have the greatest impact (**Table 2**):

- Reinsurance and Capital
- Product and Service Pricing
- Portfolio and Customer Segments
- Claims and Insurance Supply Chain
- Investments

Table 2: Summary of the Climate Risks & Opportunities Program which focuses on enabling IAG’s strategic response to climate change

Embedding climate change into Strategy		Embedding climate change into Risk Management		
<ul style="list-style-type: none"> Integrate climate risk and opportunity into corporate strategy Climate change integrated and prioritised in business planning Climate change understood by key business units and informing key decisions 		<ul style="list-style-type: none"> Understanding velocity and connectedness of climate risks Embed climate risk management across Risk Management Framework Enterprise Risk Profile and Risk Response Plan to define and assess controls for climate risks and quantify impacts Effectively manage climate risks across the business 		
Managing Risks and Opportunities across IAG’s Business Value Chain				
Reinsurance & Capital	Product & Service Pricing	Portfolio & Customer Segments	Claims & Insurance Supply Chain	Investments
<ul style="list-style-type: none"> IAG’s access to adequate reinsurance and capital could be impacted as losses and claims increase from more severe and / or frequent extreme weather events globally. Short-term risks from hailstorms and bushfires requiring adjustments to reinsurance programs and premium pricing. Medium-term risks from cyclones extending southward present a key concern due to impact on assets not built for such events. 	<ul style="list-style-type: none"> Increased natural peril costs impact long-term affordability of insurance, especially in high risk areas, which can lead to profit volatility if insurance pricing does not reflect these costs and global reinsurance capacity reduces. Medium- to long-term risks and opportunities as new technologies and consumer behaviours impact on insurance portfolios. 	<ul style="list-style-type: none"> Access and affordability of insurance can be impacted if insurance appropriately reflects risk-based pricing from more severe and / or frequent extreme weather events, and if land planning and building codes remain inadequate to withstanding such events. Medium-term risks are a shrinking insurance market and reputational impact if insuring assets with high physical risk exposure become cost prohibitive. 	<ul style="list-style-type: none"> Increased claims from more severe and / or frequent extreme weather events. Short-term risk on claims capacity during compounding peril events. Medium-term risks from increased average claims cost, due to materials or services becoming constrained by imbalanced supply and demand during major events, or costs impacted by availability of raw materials and carbon regulation. 	<ul style="list-style-type: none"> Climate change transition will have a varied impact on investments, with some assets anticipated to yield decreasing returns, while others increase.

Implementation of the Climate Risks & Opportunities program is reported every six months, internally to the GLT Risk Committee, and externally through the relevant sections of the Climate Action Plan Scorecards.

Adopting the relevant objectives of the Climate Action Plan as risk controls for the Inadequate Response to *Climate Change ERP* has helped provide further validation to IAG’s long-held focus on climate resilience activities. **Table 3** provides a summary of the objectives and key activities that are supporting climate risk management.

Table 3: Climate risk mitigation activities grouped by IAG's Climate Action Plan focus areas and objectives. Think Big objectives help drive system-wide change for climate resilience, while Rethink Risk objectives help drive greater climate resilience as a part of the insurance value proposition.

Think Big		
Objective	Risk mitigation activities	IAG Business Value Chain
1.2 - Provide a leadership role for the insurance industry in addressing climate change	Leading by example: IAG publishes scientific natural perils and climate change insights to drive behavioural change across the insurance industry and its value chain, while reducing its own emission impact. In New Zealand the IAG Climate Change Survey is entering its fourth year, with results shared with the broader business community to upskill on climate change adaptation.	<ul style="list-style-type: none"> Reinsurance & Capital Product and Service Pricing Customer Segments and Affordability Claims and Insurance Supply Chain Investments
1.3 - Pursue system-wide change by collaborating widely across our relationships and networks	Policy settings: In Australia, IAG works with Federal and State Governments and through associations and institutions to influence disaster resilience and climate change policies on behalf of its business, customers and communities. This includes providing submissions to inquiries and commissions. In New Zealand, IAG is regularly involved in discussions with central government on climate adaptation.	<ul style="list-style-type: none"> Reinsurance & Capital Product and Service Pricing Customer Segments and Affordability Claims and Insurance Supply Chain Investments
1.4 - Continue our leadership in supporting community resilience and disaster risk management	Community and customer preparedness: IAG's community connection and disaster resilience programs and partnerships (see Strategy section) help reduce the social and financial costs of disaster recovery to the community and business.	<ul style="list-style-type: none"> Product and Service Pricing Customer Segments and Affordability Claims and Insurance Supply Chain
Invest Responsibly		
Objective	Risk mitigation activities	IAG Business Value Chain
4.2 - Actively support climate action on climate change and a net-zero future	Investment in resilience: IAG leverages the scale of its investments to support low-carbon and resilient infrastructure and services.	<ul style="list-style-type: none"> Investments
Rethink Risk		
Objective	Risk mitigation activities	IAG Business Value Chain
5.1 - Lead climate research and analysis, including on natural perils, to support IAG and our stakeholders to better understand and respond to climate change	Managing Capital: Using in-house understanding of natural perils, IAG pursues a comprehensive and diverse range of reinsurance protection (for more information, see the "Reinsurance" section of the 2021 IAG Investor Report).	<ul style="list-style-type: none"> Reinsurance & Capital
5.2 - Further embed climate risk into the Enterprise Risk Profile, supported by the Risk Management Framework and Strategy	Supporting IAG's Proactive Risk Culture: Providing 6-monthly updates to the GLT Risk Committee has strengthened IAG's ability to engage senior leaders on climate risk management and divisional responsibilities. This is critical to better integrate climate change into IAG's core insurance business and strategic priorities	<ul style="list-style-type: none"> Reinsurance & Capital Product and Service Pricing Customer Segments and Affordability Claims and Insurance Supply Chain Investments
5.3 - Integrate climate insights, risks and opportunities into our strategic choices, portfolio assessments and pricing	Addressing insurance access and affordability: IAG's improved understanding of climate change is supporting its ability to consider specific climate risk factors for customers, supporting its Financial Inclusion Action Plan, and approach to addressing affordability and underinsurance (see www.iag.com.au).	<ul style="list-style-type: none"> Product and Service Pricing Customer Segments and Affordability

<p>5.4 - Help our customers and communities to reduce emissions and adapt to climate change</p>	<p>Shared Value Innovation: IAG's shared value innovation activities explore how climate resilience can be built into the Customer Value Proposition. This includes solutions that incentivise IAG customers to take action to reduce their risk exposure.</p>	<ul style="list-style-type: none"> • Product and Service Pricing • Customer Segments and Affordability
<p>5.5 - Drive risk mitigation in the building industry by generating insights into the impacts of natural perils</p>	<p>Improving land planning, building codes and construction to be climate resilient: IAG's experience in risk assessment and claims response provides valuable information and resources to advise on controls to the built environment and land planning. This includes standards for new builds and retrofitting, and risk reduction options for legacy building stock.</p> <p>Tropical Cyclones: IAG is addressing the cost drivers of damage and loss of amenity such as water ingress issues in northern tropical regions to southern populated regions, and supporting retrofitting schemes for customers to address legacy building stock vulnerabilities. IAG is supporting the Insurance Council of Australia and Master Builders Australia 'Building Stronger Homes Roundtable' to integrate disaster resilience into the national construction code and consider disaster risk in land planning.</p> <p>Flood: IAG is contributing to an understanding of the appropriate land use planning and building codes in flood and low lying coastal zones and to retrofitting schemes.</p> <p>Bushfire: IAG has an increased understanding of property resilient features through land planning, building codes and retrofitting practices; and early fire detection and suppression solutions. IAG is supporting Bushfire Building Council of Australia to create a star rating system to address this.</p>	<ul style="list-style-type: none"> • Product and Service Pricing • Customer Segments and Affordability
	<p>Rebuilding Resilience: IAG's DIA Direct Claims business is exploring how property insurance claim processes can be leveraged to improve resilience of existing building and infrastructure stock to withstand future climate events.</p>	<ul style="list-style-type: none"> • Product and Service Pricing • Claims and Insurance Supply Chain

As further outcomes against the climate risk mitigation activities outlined above are achieved, such measures can be reapplied into IAG's analysis of climate-related insurance risk (from **Table 3**) that can help quantify how and where climate risk has been avoided.

Metrics & Targets

IGAG's climate-related metrics and targets from page 18 to 23 of this Climate-related disclosure are in scope for third party public limited assurance for further details see the limited assurance report at iag.com.au.

Managing IAG's scope 1 and 2 greenhouse gas emissions with science-based targets



Context

Reducing emissions is a key focus in IAG's Climate Action Plan. IAG has been carbon neutral and net zero across its scope 1 and scope 2 emissions (as well as its measured scope 3 emissions) since 2012. IAG purchases carbon offsets ahead of predicted future emissions and maintained FY21 carbon neutrality through the purchase of 38,300 tonnes of carbon offsets.

Using FY18 as its baseline, IAG set science-based absolute emissions reduction targets for its Group scope 1 and 2 emissions to meet its Paris Agreement commitments to keep climate change below 2°C.

Target

These absolute targets for Group scope 1 and 2 emissions include a:

- 20% reduction by 2020.
- 43% reduction by 2025.
- 71% reduction by 2030.
- 95% reduction by 2050.

Figure 3 outlines IAG's scope 1 & 2 absolute Science-Based Target to 2050 at Group level.

Progress

In FY21 IAG reduced scope 1 and 2 greenhouse gas emissions to 18,059 tonnes CO₂ equivalent, remaining on track to meet its 2025 science-based emission reduction target.

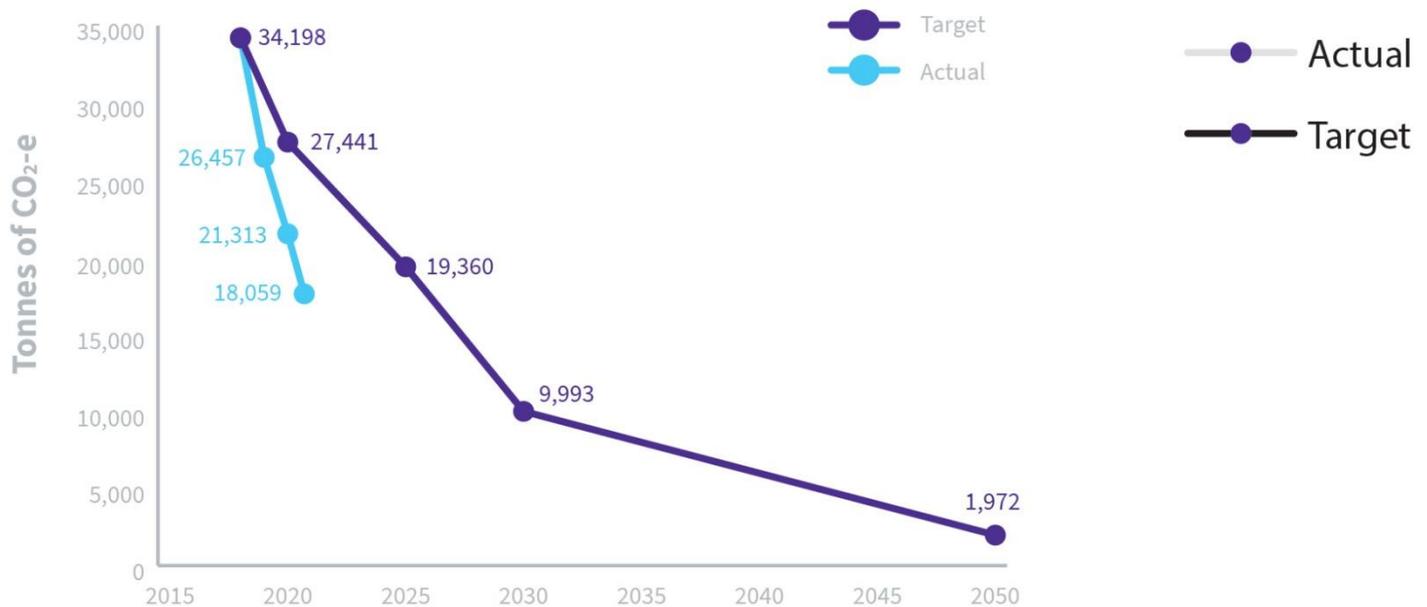
While continued low emissions from operational energy and transport-related activities are partially attributed to COVID-19 impact in the beginning of FY21, IAG's activities in upgrading end-of-life assets (such as chillers) to more fuel efficient models, undertaking office renovations to improve efficiency and consolidate floor space at our West Perth site, and increased fuel efficiency of its vehicle fleet have all played a role in reduced emissions.

IAG also completed installation of a 99kW solar photovoltaic system on its data centre in Melbourne, marking the first IAG property where renewable energy is being generated onsite. The system reduces IAG's annual emissions by around 115 tonnes CO₂ equivalent, which equates to approximately 0.9% of IAG's Scope 2 emissions. This has roughly the same impact as planting 5,000 mature trees or neutralising the impact of 50 cars.

Consolidation of IAG New Zealand's property continues to deliver carbon savings from electricity. IAG New Zealand also undertook a thorough review of its corporate vehicle fleet in relation to meeting emissions reduction targets. From this, IAG New Zealand has committed to transition its fleet to electric and hybrid vehicles and will no longer add petrol vehicles.

Figure 3: IAG's emissions performance against its Science-Based Targets:

IAG SCIENCE BASED TARGET



From FY22, IAG will update its science-based absolute emissions reduction targets considering material changes to its emissions profile since targets were set in FY19 (such as property consolidation). In finalising our approach, IAG will review all new standards particularly in relation to scope 3 emission and will continue to align its disclosures to best practice.

IAG's underwriting portfolio



Context

IAG is committed to cease underwriting entities predominantly in the business of extracting fossil fuels and power generation from fossil fuels by 2023. In FY21, IAG has refined this definition to clarify that this commitment to cease underwriting does not apply to supporting businesses that provide supply, transport, or distribution services to these entities. IAG is assessing and considering other ESG impacts across its insurance portfolios to determine what additional commitments can be undertaken to further align its underwriting approach to IAG's climate action objectives. (see Strategy section).

Target

IAG's key parameters for defining business underwriting exposure to fossil fuels are:

- Fossil fuel extraction – including the mining of any hydrocarbon fuels, where extraction makes up over 30% of all the entity's activities.
- Power generation using fossil fuels – where thermal coal makes up over 30% of the electricity generated.

Application of these parameters do not include:

- Legacy portfolios in run-off for businesses that IAG has divested where the liability for future claims against some of the policies will exist until expiry of the policy.
- Workers' compensation, irrespective of the climate intensity / fossil fuel exposure of the industry they work in, as everyone needs to be protected at work.

Progress

As of 30 June 2021, the current Gross Written Premium (GWP) written relating to all fossil fuel extraction, and power generation using fossil fuel is less than \$1 million, which equates to less than 0.005% of the total GWP written by the group in FY21.

IGAG's investment portfolio



Context

IGAG's investment philosophy is to manage technical reserves (assets backing our policyholder claims - \$7.4 billion) and shareholders' funds (\$5.0 billion) separately. For technical reserves, wherever possible, IGAG invests in securities with interest rate sensitivities that align to the underlying insurance liabilities. Shareholders' funds are invested to maximise return on capital consistent with IGAG's risk appetite and flexibility requirements. IGAG's assets are invested so that the contribution of investment risk to earnings volatility should not dominate the contribution from insurance risk.

IGAG's overall investment allocation is conservatively positioned, with 88% of total investments in fixed interest and cash as of 30 June 2021.

Target

Through the Climate Action Plan focus area of Invest responsibly, IGAG is committed to reducing the overall emissions contained in our investments portfolio to be aligned with the Paris Agreement (Art. 2.1c). In doing so, IGAG will continue to incentivise and require decarbonisation pathways of a scale and pace consistent with the 1.5°C objective of the Paris Agreement. Once companies start to transition towards low-carbon business models, IGAG will see its portfolio decarbonise as well.

IGAG has established intermediate targets to reduce the normalised carbon footprint and carbon intensity for its Australian and Global listed equity mandates. This includes a:

- Target minimum reduction of 25% versus 2020 relevant index level baselines until 2025 (implemented over FY21)
- Target minimum reduction of 50% versus 2020 relevant index level baselines by 2030

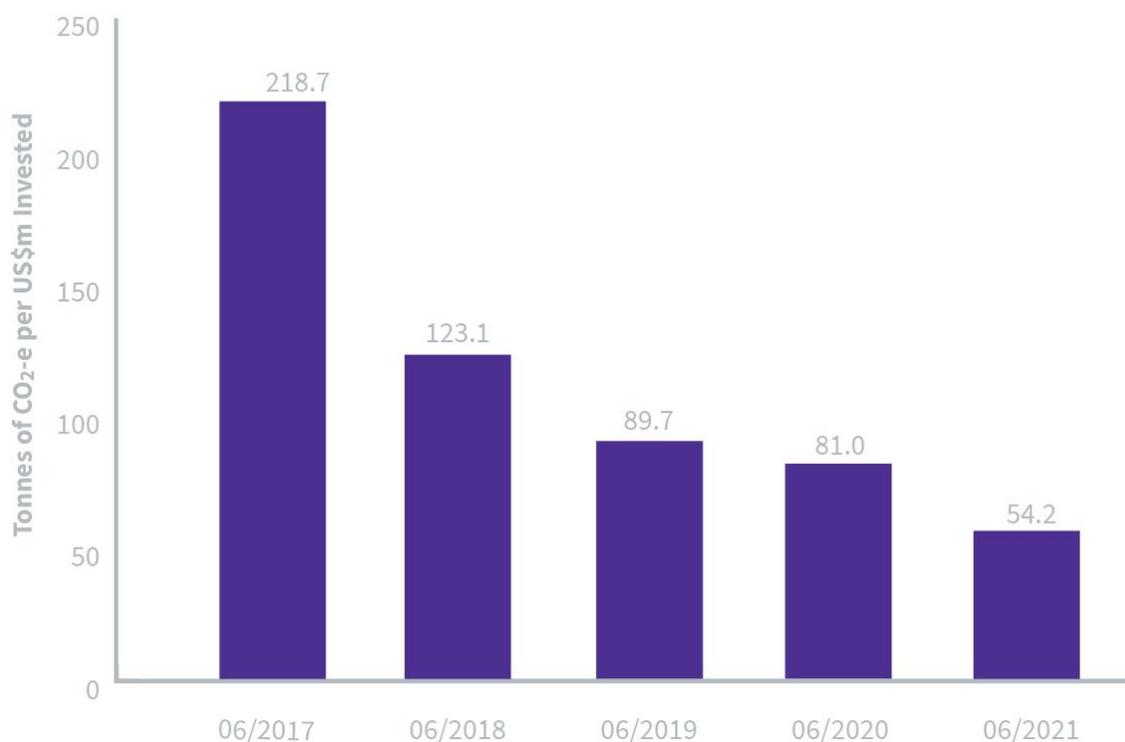
The relevant baselines refer to the ASX200, excluding IGAG, for Australian equities, and the MSCI World for Global Listed equities as of June 2020.

Progress

Figure 4 demonstrates how IGAG's approach to invest responsibly since 2017 has achieved a reduction in the normalised carbon footprint of its equity portfolio through a shift in investments to companies that have a lower exposure to climate-related risks or a strategy to manage these risks.

Figure 4: Normalised Carbon Footprint of Listed Equity Portfolio (Scope 1 and 2) US\$m:

NORMALISED CARBON FOOTPRINT OF LISTED EQUITY PORTFOLIO

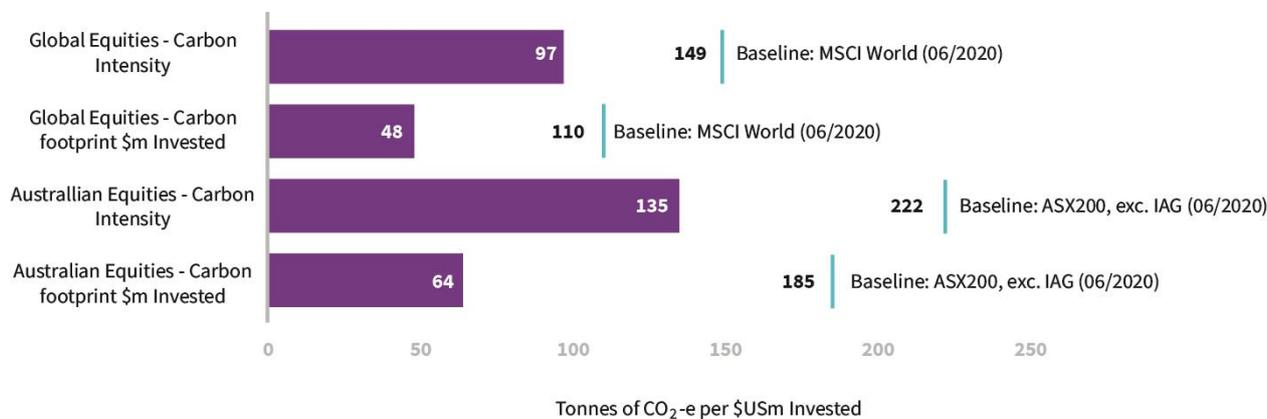


Where carbon emission data is not available or reported, the scope 1 & 2 carbon emissions of the investee are estimated using MSCI's proprietary carbon estimation model.

Figure 5 demonstrates IAG is achieving its intermediate targets to reduce the normalised carbon footprint and carbon intensity for its Australian and Global listed equity mandates.

Figure 5: Scope 1 and 2 emissions related to IAG's Listed Equity Investment Portfolios

Scope 1 & 2 carbon-related metrics of IAG's listed equity investments portfolio



Selected climate-related metrics and targets are in scope for independent assurance as part of the non-financial assurance process of IAG's 2021 Annual Review and Safer Communities Report.

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