



Focused on our customers

Corporate governance statement 2019
Insurance Australia Group Limited

ABN 60 090 739 923

Governance at IAG

At IAG, we believe good governance is essential. It is the framework under which we operate our business to deliver on our purpose and our strategy. At IAG, this framework includes:

- our **focus on our customers** through our policies, procedures, models, programs and forums;
- the way we apply our 'Spirit' and Code of Ethics & Conduct to guide our people to **behave legally and ethically**;
- the many policies and practices we have in place, and activities we encourage (such as community activity), to create a **culture** which enables our people to be their best and deliver world-leading customer experiences;
- the **role** we map out for **our Board and our leaders**;
- our **remuneration policies and practices**;
- our **risk management framework**, policies and practices;
- the way **we report** to all our stakeholders, including our shareholders, the ASX and our people; and
- our **continuous improvement approach**, including our commitment to examine and strengthen all aspects of our governance.



We are a purpose-led company

From our origins in the 1920s as the insurance business of the National Roads and Motorists' Association (NRMA), to our CGU Insurance and NZ businesses, which have provided insurance services for over 160 years, IAG has a long and proud history of building trusted relationships with our customers and communities.

We are now the largest general insurer in Australia and New Zealand, with more than 8.5 million customers. We understand the importance of our role in our customers' lives and to the broader community and are guided by a clear purpose to make your world a safer place.

Our purpose drives us to continually improve our understanding of our customers, so we can provide world-leading customer experiences, and make communities safer and more resilient for the future.

Contributing to society and helping to address important issues for our communities are core to our role as an insurer and go to the heart of our purpose of making your world a safer place. Our purpose drives us to work collaboratively with the community to understand, reduce and manage or avoid risk, and to improve preparedness and build resilience. This achieves better outcomes for the community and ultimately results in fewer claims and lower costs for our business.

By broadening our approach from helping individual customers who have suffered loss, to mitigating the risk of loss for people in the wider community, we believe that our purpose enables us to become a more sustainable business over the long term and deliver stronger and more consistent benefits for our shareholders and those who depend on us.

Strategy and strategic priorities

IAG's strategy focuses our executives to achieve a successful, sustainable company that can deliver on our purpose to make your world a safer place. We have three broad strategic priorities: customer, simplification and agility.

We are focused on building a lean, efficient and modular insurance operation, through our simplification priority, while creating a customer-focused organisation with enhanced capabilities in data, digital, analytics and artificial intelligence, brand and innovation, and driving towards the creation of an agile organisation.

With simplification well progressed, we are now increasing our focus on customer engagement and longer-term growth. This includes extending our strategic partnerships to offer products and services that are adjacent to our insurance business, enabling us to make our customers and the community feel safer on the road, in their homes and at work. We are also leveraging our assets – including our data, customer reach and brands – to launch and scale new businesses in markets that complement these adjacent products and services.

The goals of our strategy are centred around building deeper engagement with our customers and growing the number of customers in our network of brands. We seek to create more value for our customers by making their world a safer place and to increase the lifetime value of our customer relationships.

We continue with three key strategic priorities, supported by organisational capabilities, to deliver our strategy:

- delivering world-leading customer experiences;
- creating a simplified, modular and lower cost operating model; and
- becoming an agile organisation distinguished by innovation, speed and execution skills.

1. We are committed to understanding our customers' needs so that we can deliver world-leading customer experiences

Customer policies and programs

We have a range of policies and procedures that guide us in our focus on delivering world-leading customer experiences and a number of programs to help us improve our understanding of what our customers want. We use this knowledge to create products and refine processes to better meet customers' needs:

- We have an active customer research panel to provide feedback and guidance on new products, services and customer experiences.
- We used our customer insights to create the Heart Principles. We use these principles to assess every aspect of the design of our products and customer experiences.
- Our **Customer Connection Program** connects our people to our customers' worlds, through experiential events, workshops and storytelling.
- We have developed a company-wide **Customer Journey** plan, with full-time teams dedicated to understanding customer needs and continually finding ways to apply innovation to the customer experience.
- Our company-wide **Heartbeat** program provides real-time customer feedback on the quality of experience our customers have with us.
- Our **Listen Learn Act Framework** ensures our people hear our customers' voices. By reviewing and discussing what customers tell us and prioritising opportunities across the customer journey, we are continually improving our customer experience.

We also have programs to provide our Board with information about our customer focus and capture broader consumer insights.

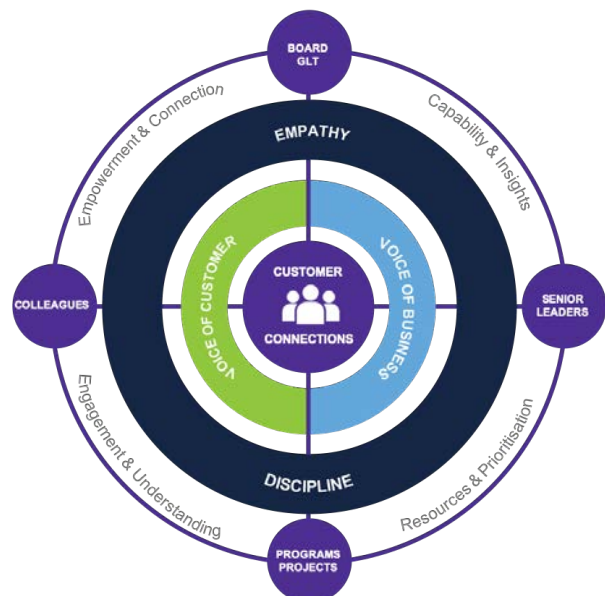


Board reporting

We have agreed company-wide measures of **customer health** which are discussed at each Board meeting. Each quarter, this report is expanded to provide the Board with a deeper, more extensive review of the health of our customer base.

Our **Consumer Advisory Board** is a biannual forum, led and chaired by our CEO and regularly attended by Board members, to engage with industry leaders and senior representatives of consumer organisations. It provides an opportunity for genuine and constructive dialogue about general insurance, customer service and consumer protection, as well as issues of significance to our consumer insurance products.

The Consumer Advisory Board includes representatives from consumer advocacy group CHOICE, Consumer Action Law Centre, The Brotherhood of St Lawrence, Good Shepherd Microfinance, Financial Rights Legal Centre, University of Technology Sydney, NSW Council of Social Service and WEstjustice. Issues it considers include insurance access, mental health and vulnerable customers, Indigenous insurance issues and dispute resolution.



2. We drive ethical and legal behaviour

We take ethical, responsible and legal decision-making very seriously. Through our Code of Ethics & Conduct, our policies, procedures and practices, we hold our people accountable for ensuring decisions and actions meet our compliance obligations as well as our ethical values.

2.1 Creating a “safe to speak up” culture

To support our commitment to behave legally and ethically, we encourage – and expect – our people to speak up when things are not right. Creating an environment where people trust and care about the company and each other supports ethical decision-making, reduces potential incidents and breaches, creates better experiences for our customers and drives continuous improvement.

Employees and others who identify that something isn't right are encouraged to report incidents through the relevant internal channel or speak to their line manager. However, we know there may be times when people would prefer to speak up anonymously, so we also provide an independent whistleblower reporting line which is maintained 24 hours a day, seven days a week.

2.2 Our Social and Environmental Policy

To deliver on our purpose to make your world a safer place and to maintain the trust that enables us to succeed in today's operating environment, we must manage our performance on social and environmental issues.

Our Social & Environmental Policy provides a framework for identifying and managing our direct and indirect social and environmental impacts. The policy outlines our commitments on topical issues and defines our approach to continuous improvement in our social and environmental performance. It reflects our recognition of our social and environmental responsibilities, as well as our safer communities approach – where we seek to create commercial value alongside positive societal outcomes. (See Section 6.4 below for more details.)

2.3 Our Spirit

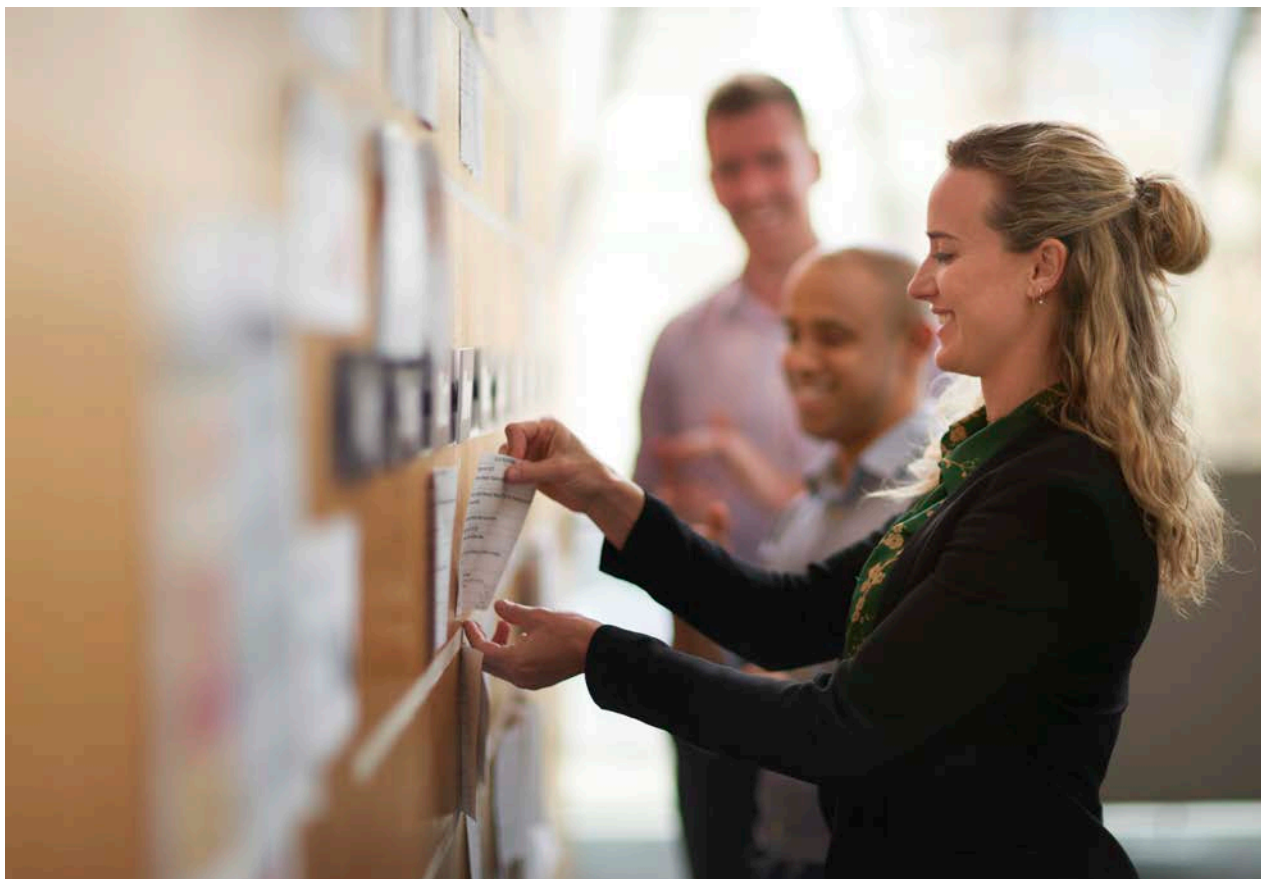
Our spirit captures the essence of what it means to work at IAG. It sets out the behaviours we will demonstrate as we serve our customers, partners, communities, shareholders and each other.

Our Spirit

Closer – create real connections, show you care, say it like it is and hear others, help each other succeed

Braver – think big, stand up for what is right, be curious, shape the future

Faster – make it happen, have a go and celebrate what we learn, be decisive, trust each other to get on with the job



2.4 Our Code of Ethics & Conduct

Our ethical principles are set out in our Code of Ethics & Conduct (the Code). The Code applies to all our Directors, officers, employees and contractors for all entities for which we have majority ownership.

The Code provides our people 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.

Our Code of Ethics & Conduct starts with our purpose and sets out the expectation that we will act to make the world safer for our customers, our communities and our people. It then goes on to provide specific guidance on how to make the right decision and do the right thing.

We are acutely aware of the significant role culture plays in the way a business operates and performs, and we are committed to creating a culture that supports ethical and responsible decision-making for our people and our customers. We continue to build trust in our organisation by being authentic in the way we communicate and in the way we run our business.

IAG's Ethics Committee

IAG's Ethics Committee, chaired by renowned ethicist, Dr Simon Longstaff (Executive Director, The Ethics Centre), was established as an advisory body in 2017. Since then, the Ethics Committee has been invaluable in helping us navigate key ethical issues, including those related to the development of IAG's Product Design Principles and IAG's key partner frameworks, and Dr Longstaff and Ms Samantha Mostyn provide a valuable external perspective. Members of the Board regularly attend the Ethics Committee and offer support and give advice to Management on key ethical challenges. We expect to further engage with the Ethics Committee over the next 12 months as we work through societal and regulator concerns in relation to insurance affordability.

2.5 We prioritise compliance with all relevant laws and regulations

We have systems, frameworks and processes in place to manage compliance with relevant laws and regulations, including an independent risk and compliance division, policies and processes, reporting and incident management procedures and training programs.

Under no circumstances should bribery and corruption play a part in any of our business dealings or influence a business relationship or decision. We have policies that outline our position on accepting gifts, benefits or forms of hospitality, as well as how to disclose and manage conflicts of interest.

Our anti-bribery and corruption efforts are supported by the Code of Ethics & Conduct and a Group Fraud and Corruption Control Framework. The Framework sets out how we manage the risk of fraud, corruption and bribery, by effectively reducing their likelihood and impact. Divisional Fraud and Corruption Control Plans ensure our efforts to prevent, detect and respond to fraud, corruption and bribery are effective throughout the business.

To help ensure there is a fair market for our securities, we have a Security Trading Policy. This Policy reinforces the fact that all Directors, employees and contractors are responsible for exercising care when trading in IAG's securities. We use the Policy and appropriate controls to require designated people who are covered by the policy to only trade IAG shares in defined circumstances.

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

3. We value the role our culture plays in our approach to governance

We believe having a strong culture where we live our purpose and spirit supports us to create an environment where our people can be their best and are inspired to deliver great experiences for our customers and stakeholders. Critical to this is creating a truly diverse and inclusive environment that represents the diverse communities and customers we serve and ensures that all our people feel they are able to contribute.

3.1 Diversity, Inclusion and Belonging

Our Diversity, Inclusion and Belonging strategy outlines what we believe in and stand for. Our approach recognises that we need to build diversity, inclusion and belonging into everything we do. While we take a broad view, three areas receive targeted attention: flexibility, equity and accessibility.

Flexibility – We provide a range of flexible working options for our people using our MyFlex program which considers work time, annual leave, and where and how people work. Options include part-time work, job sharing, variable hours, working from home and compressed working weeks. We continue to invest in flexible working initiatives and technologies, including our Switch program that enables our contact centre employees to change their working times and hours online to suit how and when they wish to work. This year we extended our hugely successful onsite school holiday program Kids@IAG in Australia as part of our efforts to support our working parents.



Equity – We focus on equity rather than equality. For example, in Australia, we increased our commitment to support Aboriginal and Torres Strait Islander communities through our Elevate Reconciliation Action Plan. In New Zealand, we have entered into an agreement with the not-for-profit organisation TupuToa, which connects Maori and Pasifika graduates with employers and we have provided scholarships for several school-leaving students through the First Foundation Scholarship.

Accessibility – We are committed to creating a diverse and accessible work environment across IAG. This includes improving accessibility, inclusion and support for our customers and people, and helping to change attitudes towards people with disability in our broader community. For example, our Darling Park office in Sydney has been designed to be fully accessible and our technology development has applied an accessibility lens to ensure that all people can use our systems and applications.

3.2 Diversity, Inclusion and Belonging targets

In accordance with our Diversity Policy, the People and Remuneration Committee endorsed a target for women to hold 40% of senior leadership roles by 2020. We define Senior Leadership roles as our Group Executive, Executive General Managers and the reporting level below. As at 1 July 2019, women held 37.1% of Senior Leadership roles across IAG. More broadly, women represent 57.6% of our total workforce. We are committed to making further progress to achieving our target for women in Senior Leadership and have several initiatives underway to support our commitment.

Further information on IAG's gender diversity is available in IAG's Workplace Gender Equality report, which is available in the Diversity, Inclusion and Belonging area of our website (www.iag.com.au).

As part of our Elevate Reconciliation Plan, we have made a commitment to increase Aboriginal and Torres Strait Islander employment to 2% of our Australian workforce by December 2021 and 3% by 2023. As at June 2019, we employed 100 Aboriginal and Torres Strait Islander people in Australia, which equates to 1.2% of our total workforce. Our Reconciliation Action Plan commitments provide a strong pathway to help us achieve our target.

3.3 Community activities

Our safer communities activities are focused on two key areas where we believe we can make a meaningful difference:

- **Disaster risk reduction and climate change** – enabling communities in Australia and New Zealand to better prepare for and respond to natural hazards and climate change. Our priorities include:
 - continuing to play a leadership role in the delivery of the Australian Business Roundtable for Disaster Resilience & Safer Communities;
 - delivering and reporting against our Climate Action Plan and Scorecard; and
 - supporting the SES in New South Wales and Queensland to deliver storm preparedness campaigns and programs to raise awareness on how to better prepare for, and respond to storms, floods and cyclones.
- **Community connection and resilience** – building safer and more connected communities that have the capacity to grow and thrive by partnering, accelerating the role of business in resilience and taking a community-led approach. Our priorities include using our 10-year partnership with the Australian Red Cross to work collaboratively to help communities to build their connection and resilience. This includes the expansion of the Get Prepared emergency planning and community connection app.

4. Our leaders are the custodians of our purpose and our customers' experience

We believe that good governance starts with the right 'tone from the top'.

This starts with our Board and our Group Leadership Team, led by our Chairman, Elizabeth Bryan and our CEO, Peter Harmer, respectively. Together, they lead our people in our efforts to 'make your world a safer place' and to deliver world-leading customer experiences.

4.1 Our Board oversees our performance

Our Board's primary role is to ensure there is a proper governance framework in place to promote and protect our interests for the benefit of our stakeholders. To achieve this, the Board oversees and appraises the company's strategy, policies and performance. This oversight and appraisal occurs through the lens of our purpose.

The role of the Board and the matters expressly reserved to the Board and delegated to management are set out in the Board Charter.

Tone from the top

Our Board and Group Leadership Team define and promote our purpose-led culture which provides a guide to decision-making across all levels of the organisation, encouraging a focus on our customers in everything we do.

4.2 Our directors' skills guide our success

The qualifications and experience of each director are set out on pages 1 to 4 of the 2019 annual report. Our directors are (L to R):

Duncan Boyle
Appointed 23 December 2016

George Savvides
Appointed June 2019

Helen Nugent AO
Appointed December 2016

Jonathan (Jon) Nicholson
Appointed September 2015

Elizabeth Bryan AM
Appointed 5 December 2014

Peter Harmer
Appointed 16 November 2015

Sheila McGregor
Appointed March 2018

Tom Pockett
Appointed January 2015

Michelle Tredenick
Appointed March 2018

Hugh Fletcher**
Appointed 1 September 2007



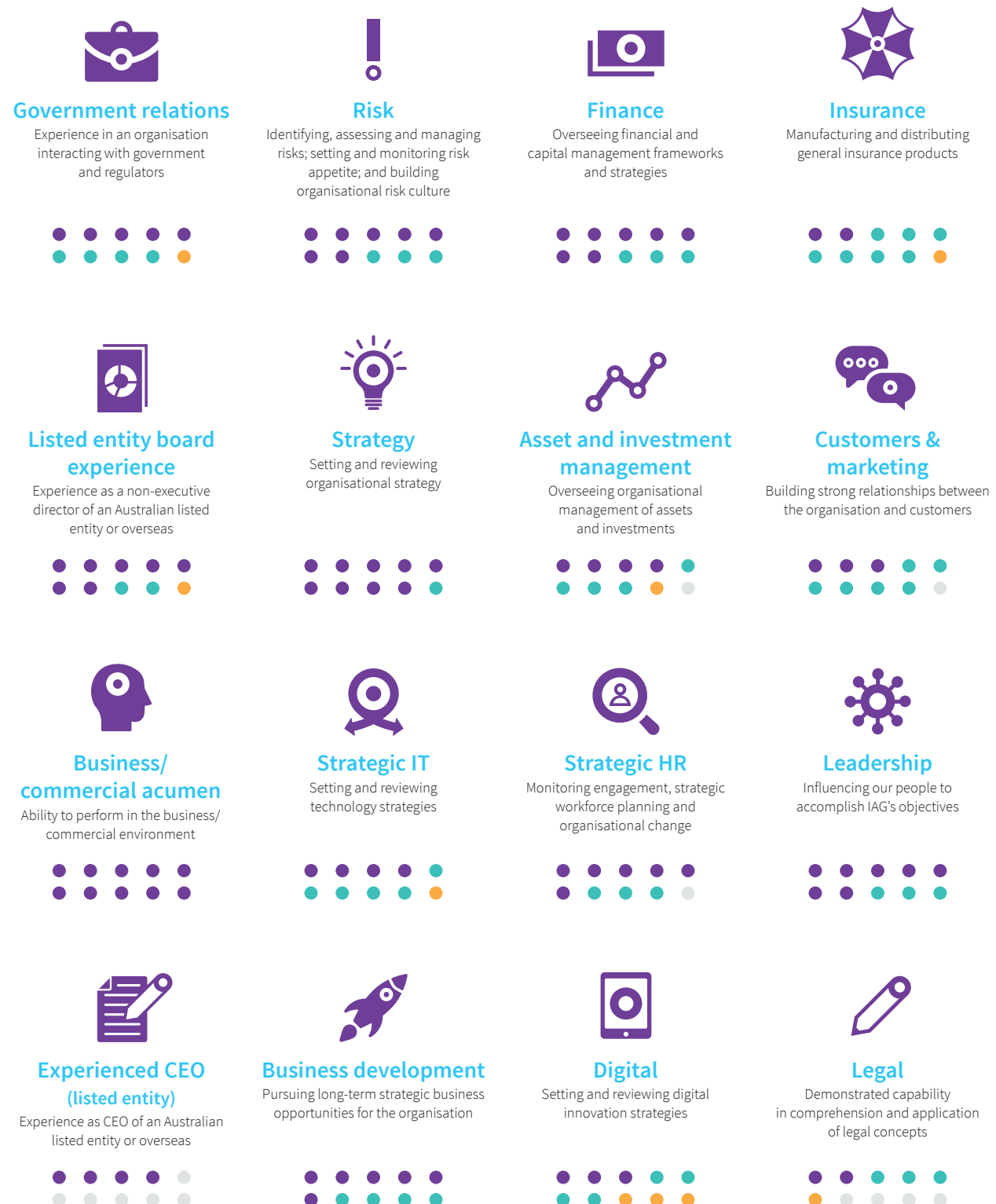
** Mr Fletcher has signalled his intention to retire at the close of the 2019 annual general meeting. While his tenure has exceeded the ordinary 10 year maximum term of appointment, the Board Nomination Committee has determined that he remains independent in accordance with defined criteria.

Board skills matrix

The Board has nine independent Non-executive Directors and an Executive Director, Peter Harmer, our CEO. Its composition reflects our size, market position, complexity and strategic focus.

The Board regularly reviews its competencies and composition to ensure it:

- manages Director succession;
- continues to have an appropriate mix of knowledge, diversity and experience; and
- identifies any gaps or opportunities to enhance its skills, in each case, having regard to our operations and strategy.



Each dot represents one director; skill levels are defined as High ●, Medium ● or Low ●.

4.3 Board Committees help the Board fulfil its responsibilities

The Board has four Committees to help it fulfil its statutory and fiduciary responsibilities.

Audit Committee	Tom Pockett (Chair), Duncan Boyle, Sheila McGregor, Helen Nugent AO
	Assists the Board by monitoring audit matters, financial reporting, tax and financial risks
Risk Committee	Duncan Boyle (Chair), Hugh Fletcher, Jon Nicholson, Helen Nugent AO, Tom Pockett, George Savvides
	Assists the Board to fulfil its risk management and compliance responsibilities
People and Remuneration Committee (PARC)	Jon Nicholson (Chair), Duncan Boyle, Hugh Fletcher, George Savvides, Michelle Tredenick
	Assists the Board to ensure that the organisation's people are appropriately skilled and performing
Nomination Committee	Elizabeth Bryan AM (Chair) and the full Board
	Assists the Board to address Board succession and appointment issues

The number of times each Committee met and attendance at those meetings is set out on page 5 of the 2019 Annual Report.

Board and Committee Charters are available in the Corporate Governance area of our website (www.iag.com.au).

4.4 The role of the Chairman

Our Chairman, Elizabeth Bryan, is an independent Non-executive Director who is responsible for leading the Board to ensure it fulfils its responsibilities to all stakeholders. She provides the key link between Directors, and between the Board and management. Her role includes presiding over Board, Nomination Committee and general meetings. She also attends all other Board Committee meetings in an ex-officio capacity. She also chairs the meetings of our joint venture with RACV, Insurance Manufacturers of Australia Pty Limited, and regularly attends Board and committee meetings of our New Zealand subsidiaries, IAG (NZ) Holdings Limited and IAG New Zealand Limited.

4.5 The role of the CEO

Peter Harmer is IAG's Chief Executive Officer and Managing Director. He manages our businesses subject to the Board's reserved powers and in line with the policies, budget, corporate plan, strategies and risk appetite they set. The Board has delegated to the CEO responsibility for our overall management and profit performance, including all day-to-day operations and administration.

As well as being responsible for our day-to-day operations, the CEO, together with the Board, has a primary role to ensure appropriate governance frameworks are in place across the business. He also keeps the Board informed with timely, accurate and clear information to support effective decision making and ensures that all material matters relevant to the Board are brought to the Board's attention.

4.6 The role of the Company Secretaries

Our Company Secretaries are responsible to the Board for ensuring compliance with the procedures it sets. They provide the Board with advice and counsel on the company's constitution, corporate governance and other matters. They are also accountable to the Board, through the Chairman, on everything to do with the proper functioning of the Board.

The Company Secretaries ensure the timely distribution of Board and Board Committee papers and the accurate recording in the minutes of the business discussed at Board and Board Committee meetings. They also assist with the induction and ongoing professional development of Directors and all Directors have unfettered access to them. The appointment and removal of Company Secretaries is determined by the Board.

4.7 Our Group Leadership Team

The Board delegates responsibility for the company's day-to-day operations and administration to the CEO who leads the Group Leadership Team. This team ensures our effective and efficient operation and is responsible for implementing all governance frameworks, including those in relation to risk management and internal controls. It also provides the Board with accurate and timely information to support its decision-making processes.

4.8 Succession planning and appointing Directors

Our Board is committed to bringing together the best possible combination of individuals so it can serve our shareholders, customers and the community, now and into the future.

It regularly assesses the skills it requires to competently discharge its duties, considering our performance, financial position and strategic direction. The Board uses its Skills Matrix (set out in section 4.2 above) to identify the specific knowledge, skills and experience that Directors must possess.

The Board also conducts ongoing succession planning to help it identify potential candidates to be Directors. The Board's Nomination Committee typically assesses candidates when a vacancy arises or if it considers that the Board would benefit from the services of a new Director. Any assessment considers the mix of skills, experience, diversity and expertise of existing or departing Directors, and how a candidate's competencies will complement and balance these qualities. External consultants may also be engaged to help identify candidates.

All candidates for Board positions undergo appropriate background checks, including our Fit & Proper assessment, before they are appointed. Any Director appointed during the year must stand for election at the next annual general meeting, along with other Non-executive Directors seeking re-election. Under our constitution, all Directors are required to retire by rotation at least once every three years after their election. Under the Board Charter, 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. All the information shareholders need to decide on whether to elect or re-elect a Director is set out in the notice of meeting for the annual general meeting.

New Directors are provided with a letter of appointment and participate in a comprehensive induction process. They meet key people within our business, visit key customer contact sites and receive a Director Induction Guide to help them understand the role of the Board, our corporate governance principles, and Directors' rights and obligations, including the requirement to follow our Code of Ethics & Conduct and our Continuous Disclosure and Security Trading Policy.

Understanding our customers

The Board members regularly attend the Consumer Advisory Board and participate in customer connection experiences that directly relate to the customer insight reports that are provided to the Board. This provides them with a broad range of customer experiences, ranging from motor claims, sales and service in one month, to channel partnerships the next.

4.9 Evaluating Board, Committee and director performance

We believe that superior Board performance underpins good governance and better outcomes for our customers and other stakeholders. The Board continuously reviews its performance to ensure it is operating at the required level.

Consistent with industry best practice, the Board commissions a formal independent review of its performance biennially and

undertakes a self-assessment in the intervening year. The last independent review was completed in June 2019. The Board also assesses the performance of each Committee against its Charter on an annual basis. Each Director's performance is evaluated annually by the Chairman and the Chairman invites Directors to evaluate her performance. These assessments occurred during the reporting period.

4.10 Director independence

We believe Director independence contributes to good governance and delivers superior outcomes for all our stakeholders by encouraging constructive challenge of management.

The Board considers a Director is independent if he or she is free from any interest, position or relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of his or her independent judgement.

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.

All our Directors are assessed against formal standards annually to determine their independent status. Additional assessments are conducted more promptly if a Director considers their independent status has changed.

4.11 Director education and training

We provide our Directors with a significant program of ongoing education and training. Each year, we develop a Board Education and Engagement Program that combines formal education sessions, typically aligned with the Board calendar, with customer connection sessions and other business and employee engagement opportunities.

During the 2019 financial year, Directors participated in education sessions on cyber security, capital initiatives and our technology strategy and architecture. Directors also had opportunities to engage with customers and business partners through visits to our customer call centres in Brisbane, Melbourne, Adelaide and Sydney and to a repair partner in Marrickville, Sydney (below).



We believe our Education and Engagement Program supports our efforts to achieve good governance by keeping our Directors up to date with the latest knowledge and information relevant to our business and strategy and ensuring they have regular contact with customers and our people beyond Board and shareholder meetings.

5. We connect remuneration, culture and performance to reward outcomes that benefit our customers and other stakeholders

We believe our remuneration policies provide a mechanism for encouraging, and enforcing, good governance.

5.1 Group remuneration and culture

During 2019, we conducted an extensive review of our Remuneration Policy to ensure it is effective and meets relevant regulatory requirements, including APRA CPS 510 – Governance. The key principles underpinning our Remuneration Policy and our approach are that remuneration should:

- Support our purpose by focusing employees' behaviour and performance on:
 - delivering positive outcomes for customers and the community;
 - building the desired culture within IAG; and
 - generating value for our shareholders.
- Support the attraction and retention of talent with the capabilities and skills needed to drive business performance and deliver our strategy;
- Promote accountability and encourage behaviours that support effective risk management and IAG's long-term financial soundness;
- Reduce the risks of misconduct, regulatory and compliance breaches and other non-financial risks;
- Be simple to understand, delivering pay parity and outcomes that are fair and equitable; and
- Provide flexibility for different business requirements now and in the future.

Building strong connections with each other is key to creating a purpose-led corporate culture. We monitor changes in our employee advocacy scores and agility performance bi-monthly, and annual performance on these measures contributes to senior executives' variable remuneration outcomes. Our short term incentive plans also have a behavioural gateway, so that individuals who do not behave in line with our purpose and Spirit do not receive any short term incentive that year, regardless of their performance.

The Board retains overriding discretion to adjust all forms of variable pay (upwards, downwards and to zero). This discretion applies to both variable pay awards made in the current year and unvested awards from prior years. The Board's ability to apply discretion in this way serves to ensure reward outcomes appropriately reflect performance, including as it relates to risk management.

Risk is an important factor in the way we assess senior executives' performance. Our risk lens considers how the executives discharge their accountabilities, their performance against individual goals, and how effectively they manage risk in achieving outcomes. Independently, the Board's Risk Committee and People and Remuneration Committee assess how we have delivered on our risk management objectives over the current and prior performance years. The Board and the People and Remuneration Committee also receive input from the Executive General Manager, Group Internal Audit. The combination of perspectives provides a highly effective view on risk management and performance and informs any remuneration adjustments and management of consequences.

Senior executives receive a significant component of their remuneration in the form of IAG securities. Executives are prohibited from entering into transactions or arrangements which operate to limit or hedge the economic risk of their unvested entitlements to these IAG securities and Directors, the CEO and the Group Leadership Team are prohibited from entering into transactions or arrangements which operate to limit or hedge the economic risk of vested entitlements of shares that are subject to a holding lock.

Full details of our approach to executive and Director remuneration, and remuneration outcomes for the 2019 financial year, are set out in the remuneration report which is contained in the Directors' report on pages 1-41 of our 2019 annual report.

5.2 Executive employment arrangements

All our senior executives have written employment agreements, and we undertake background checks before employment offers are finalised.

5.3 Performance assessment – CEO and Group Leadership Team

The CEO's performance is assessed against a Group Balanced Scorecard. Group Leadership Team members have their performance assessed against the Group Balanced Scorecard objectives and individual goals. The Chief Risk Officer has a higher weighting of fixed remuneration than other executives to ensure the independence of the risk function. Performance assessments were undertaken for the CEO and Group Leadership Team during the year.

Before determining final incentive payments, the Board assesses each executive's risk management performance, to ensure that incentives provided are appropriate.

6. We manage risk to safeguard our business, so we can support our customers and stakeholders

Understanding and managing risk is at the heart of our purpose and delivering our strategy.

We are focused on improving the way we manage risk and on ensuring our risk management framework remains appropriate given our evolving size, business mix and complexity, and that it is fully embedded in the business. We are adapting our risk management processes to align with rising community and stakeholder expectations, heightened regulatory focus and our future strategy.

Superior risk culture and behaviours are the foundation for appropriate risk management, governance and business sustainability. Our core goal is to conduct our business in a way that is aligned with our purpose. We manage conduct related matters and risks through an enterprise-wide approach to risk and associated practices.

6.1 Our Risk Management Framework

The Board is responsible for setting our Risk Management Strategy. It is assisted by the Risk Committee, which recommends the Risk Management Strategy and other key risk documents (eg the Reinsurance Management Strategy, the risk appetite statement and selected IAG policies) to the Board for approval.

The Risk Committee also satisfies itself on the contents of the annual APRA Risk Management Declaration, including the disclosure of matters 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 Chief Risk Officer and risk function provide regular reports to the Risk Committee on the operation of the Risk Management Strategy, the status of key risks, risk and compliance incidents, and risk framework changes. The Risk Committee considers our enterprise risk profile, risk appetite and core risk documents annually, and during the reporting period reviewed the risk management framework to satisfy itself that it continues to be sound. In addition, members of the Group Leadership Team report to the Risk Committee on the operation of the risk management frameworks embedded in their respective business divisions.

Our approach to risk management has Three Lines of Defence:

- the first line is our operational managers (risk owners), who own and manage their risks;
- the second line (risk advisers and risk specialists) is typically our risk management and compliance teams; and
- the third line is our independent audit team.

Members of the Group Leadership Team are responsible for managing risks faced by their business divisions and embedding risk management processes and culture by:

- setting the risk management tone and commitment at the top;
- ensuring their division complies with the requirements of the Risk Management Strategy, Board approved policies and all applicable regulatory and legal requirements;
- embedding divisional risk owner responsibilities;
- ensuring there are divisional and regional risk teams that have resources appropriate to the nature, scale and diversity of the division, and the necessary standing and support;
- using risk management processes as part of key decision making;
- ensuring the business operates within our risk appetite;
- regularly receiving and considering risk management reports; and
- promoting and reinforcing our proactive risk management culture.

6.2 Internal Audit Function

Our Board-established Group Internal Audit function is a key component of our governance framework and our Third Line of Defence.

Group Internal Audit evaluates and improves the effectiveness of internal controls, governance processes and overall risk management. Its role is to:

- assure the Board that the financial and operational controls designed to manage our risks and achieve our objectives are operating in an efficient, effective and ethical manner; and
- assist management to improve our business performance.

For our Group Internal Audit function to be effective, it must be independent. The Executive General Manager, Internal Audit, reports functionally to the Audit Committee and administratively to the Chief Financial Officer, and has direct access to the CEO and the rest of the Group Leadership Team.

6.3 Assurances

The CEO and CFO have assured the Board that the annual declaration provided in accordance with section 295A of the *Corporations Act 2001 (Cth)* and the equivalent declaration provided at half year are founded on a sound system of risk management and internal controls, and that the system is operating effectively.

6.4 Economic, environmental and social sustainability risks

We identify and manage economic, environmental and social sustainability risks as part of our enterprise-wide risk management framework. These risks are overseen by the Board. We use risk profiling and ongoing trend analysis to collect information on these risks and report back to the Group Leadership Team and the Board. We also use this information to update our strategy as appropriate.

The Safer Communities Steering Committee fulfils the role of a sustainability committee for IAG. This Committee is an internal governance body that supports the Group Leadership Team to make decisions on how we respond to sustainability risks. It meets at least quarterly, is chaired by the Group Executive, People, Performance and Reputation, and has as its members senior leaders from across the business, including the Group Executive Strategy and Corporate Development and the Chief Customer Officer.

We have identified climate change as a key enterprise risk and have begun work to implement and monitor business controls and their effectiveness. We also have an enterprise-wide Climate Action Plan, against which we report every six months.

Each year, we conduct a materiality assessment to help guide our safer communities and sustainability approach and ensure our reporting addresses the risks and opportunities that have the greatest importance to our stakeholders and business.

Details of our material environmental and social sustainability risks, how we manage these risks, and information about our other safer communities and sustainability activities are set out in the 2019 annual review and safer communities report and in the Safer Communities section of our website (www.iag.com.au). Further information on our economic and social risk is set out in Section C of the Strategy and Risk Management section of the 2019 annual report.

Our Social & Environmental Policy and Public Policy Position on Climate Change are also available in the About Us section of our website (www.iag.com.au) under Codes and policies.

7. We are committed to best practice disclosure and improving our shareholder engagement

7.1 Continuous Disclosure

Our ASX disclosure policy reflects our continuous disclosure obligations under the ASX Listing Rules, including the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, and specifically Principles 5 (make timely and balanced disclosure) and 6 (respect the rights of security holders).

All results and other items that we release to the ASX are posted to our website (www.iag.com.au). The website also includes:

- information about IAG's operations and Corporate Governance policies;
- a Shareholder Centre that has share price and dividend payment histories, and a link to our share registry where shareholders can manage their shareholdings; and
- details of our safer communities activities, including our Climate Action Plan and performance against our ESG commitments.

7.2 Other Shareholder Communications

We communicate with all our shareholders at least three times a year:

- our half year results announcement and any accompanying dividend payment;
- our full year results announcement and any accompanying dividend payment; and
- notice of our annual general meeting (AGM).

We actively encourage our shareholders to embrace the benefits of electronic communication. As at 8 July 2019, approximately 32% of shareholders were registered to receive notices electronically that communications (including AGM materials, dividend advices and holding balance statements) are available on our website.

We also maintain an email alert system that advises investors, beneficial owners and any other interested parties when important media releases, financial announcements, presentations and annual reports are released to the ASX.

We actively promote these features to all our shareholders on dividend payment statements and in AGM materials.

7.3 Investor Relations Program

We have an active investor relations program that includes:

- post-results meetings with domestic and offshore institutional investors, every six months;
- pre-AGM meetings with our largest shareholders and the major governance advisory bodies; and
- periodic presentations on our strategy or specific aspects of our business, as appropriate.

We are increasing our efforts to engage more actively with our substantial retail shareholder base. One recent initiative was a webcast Q&A session with IAG's Chief Financial Officer.

7.4 Annual General Meeting

We encourage shareholders to attend the AGM and ask questions of the Chairman and the Board. We draft clear and informative meeting notices and other communications, and all our AGM materials are available in the Shareholder Centre area of our website.

Shareholder voting is conducted by a poll, consistent with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

The external auditor attends the AGM.

We offer shareholders and their authorised intermediaries (such as custodians) online proxy and direct voting to make it easy for them to vote on resolutions put to general meetings. We also webcast the AGM live so it can be viewed by shareholders and other interested parties. An archived video of the meeting is available shortly after it finishes and we also provide a transcript of the complete meeting.



8. We review our approach to governance to continuously improve

Aiming for the highest standards across all elements of our governance enables us to sharpen our focus on delivering world leading customer experiences and our strategy. To do this, we make sure our policies are consistent with existing governance rules and we embrace opportunities to examine our own approach to governance in the context of a changing socio-political environment.

During the year, we strengthened our approach to governance, responding to the changing social and regulatory environment. Key examples are listed below.

Royal Commission

We regarded the 2018 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry as an opportunity to learn and become even more customer focused.

The sixth round of the Royal Commission's public hearings, held in September 2018, considered issues associated with the sale and design of life insurance and general insurance products, the handling of claims under life insurance and general insurance policies, and the administration of life insurance by superannuation trustees. The hearings also considered the appropriateness of the current regulatory regime for the insurance industry.

During these hearings, the Royal Commission considered case studies from four general insurance companies, including IAG. It also examined add on insurance, including the sale of add on insurance through our Swann Insurance business. Swann Insurance no longer sells add on insurance. After a review of its add on insurance policies, it agreed to offer a full or partial refund of policy premiums where customers may have paid for more cover than they needed.

The Royal Commission submitted an interim report on 28 September 2018, and a final report on 1 February 2019.

We publicly announced our in-principle support for each of the recommendations outlined in the final report of the Royal Commission and have carefully considered each of the reform recommendations in the final report to see how these can assist us to continue to improve our governance.

For example, we have already made important changes to our remuneration processes and will continue to revise these, as appropriate, by consistently questioning and assessing our actions to ensure we are doing the right thing by all our stakeholders.

We comply with the 3rd Edition ASX Principles and Recommendations

For the financial year ended 30 June 2019, we have complied with the Australian Securities Exchange Corporate Governance Council Principles and Recommendations (3rd Edition). Details of our compliance are set out in this Corporate Governance Statement and in the Appendix 4G available at the Results and reports area of our website (www.iag.com.au). This Corporate Governance Statement is current as at 8 August 2019 and has been approved by our Board. While we have reported against the 3rd Edition, many of our practices align with the recently released 4th Edition of the Principles and Recommendations (4th Edition) which come into force for financial years commencing on or after 1 January 2020. We expect to fully comply with the 4th Edition by then.