

# PRINCIPLES FOR SUSTAINABLE INSURANCE

## REPORT ON PROGRESS

OCTOBER 2015



## Purpose of document

This document outlines our commitment and progress towards implementing the Principles for Sustainable Insurance, and highlights issues of importance to our business and our future aspirations. This disclosure should be read in conjunction with IAG's annual non-financial reporting, included in the IAG Annual Review at <http://IAG.com.au/results-and-reports/FY2015/index.html>.

## Introduction

IAG is a general insurance company whose purpose is *we help make your world a safer place*, whether you are a customer, employee, partner, shareholder or part of the communities we serve across Australia, New Zealand and Asia.

We employ over 15,000 people in Australia, New Zealand, Thailand, Vietnam and Indonesia, providing insurance under many leading brands including NRMA Insurance, CGU, SGIO, SGIC, Swann, WFI and Lumley Insurance (Australia); NZI, State, AMI and Lumley Insurance (New Zealand); Safety and NZI (Thailand); AAA Assurance (Vietnam) and Asurani Parolamas (Indonesia). IAG also has interest in general insurance joint ventures in Malaysia, India and China<sup>1</sup>.



IAG is a longstanding member of the FTSE4GOOD and Dow Jones Sustainability Indices, and has been included in the CDP ASX 200 Climate Disclosure Leadership index for eight consecutive years.

<sup>1</sup> RACV is via a distribution relationship and underwriting joint venture with RACV where IAG owns 70%. IAG owns 100% of WFI Insurance limited, underwriter for Coles Insurance. 98.6% beneficial interest in Safety Insurance, based in Thailand, which trades under the Safety and NZI brands. 49% ownership of the general insurance arm of Malaysian-based AmBank Group, AmGeneral Holdings Berhad, whose wholly owned subsidiary trades under the AmAssurance and Kurnia brands. 26% ownership of SBI General Insurance Company, a joint venture with the State Bank of India. 63.17% ownership of AAA Assurance Corporation, based in Vietnam. 20% ownership of Bohai Property Insurance Company Ltd, based in China. 80% of PT Asuransi Parolamas based in Indonesia.

## UNEP FI and PSI membership clearly aligns to our Purpose

We are a purpose led organisation and the Principles for Sustainable Insurance align with our commitment *we help make your world a safer place*. Our strategic framework is outlined below.

### PURPOSE, VISION AND STRATEGY

## OUR STRATEGIC FRAMEWORK



### PURPOSE

We help make your world a safer place



### VISION

To create Asia Pacific's most loved, most inventive and most successful insurer



### STRATEGY

To deliver great customer experiences by leveraging our market leadership to create value for our customers, people, partners, shareholders and the community.

To ensure we maintain our focus on delivering our strategy, we have strategic priorities to guide our actions.

For the 2016 financial year, our strategic priorities are to:

- Maintain our market-leading position in personal and commercial insurance in Australia and New Zealand
- Grow our Asian footprint and its earnings contribution
- Accelerate our digital transformation
- Create deeper customer insights and an agile response

Our work to deliver our strategy in the 2015 financial year is described in more detail in the Chairman's Review on page 3, in the Chief Executive Officer's Review on pages 4 – 5, and in the Operating Review on pages 8 – 11.



### SPIRIT

Just as important as our Purpose and Vision is how we work together, what we stand for and what makes us unique.

This is the Spirit of IAG – the essence of who we are and what it means to work here. Our Spirit can be captured in three words: **Closer**, **Braver**, **Faster**. **Closer** in the way we create real connections with everyone. **Braver** in the way we shape the future. And **Faster** in the way we make things happen. Our Spirit also explains our commitment to the ways in which we serve our customers, people, partners, shareholders and communities.



### KEY MATERIAL ASPECTS

In addition to focusing on our strategic priorities, we also identify material aspects which could have an impact on our ability to help make your world a safer place, whether you are a customer, employee, partner, shareholder, or someone who lives in the communities in which we operate.

These help inform our shared value strategy and the efforts we are making to create safer, stronger and more confident communities. Our work to address them is captured in this annual review and described in more detail in our shared value reporting on pages 12 – 15.

The material aspects we identified for our 2015 financial year were:

Customer-centred

Access and affordability

Community resilience

Empowered employees

Financial performance

## Shared value approach

IAG has a long track record of helping people recover from natural disasters, accidents and loss. However our role extends beyond creating insurance policies and paying claims, to helping communities understand and manage risk, reduce it and build resilience. This is why, over the last two years, we have broadened our focus beyond sustainability and community partnerships to embed a shared value approach within our strategy and business.

Creating shared value means finding the intersection between a social problem and a business opportunity. Helping solve the problem creates value for the community and aligns to our strategy to use our scale to create long term value for our customers, partners, employees, shareholders and the community. We have put stakeholders at the core of our business strategy and recognise we need to work in partnership to meet their ever-increasing expectations.

Our vision at IAG is to create Asia Pacific's most loved, most inventive and most successful insurer. We will only achieve this if we transfer our deep understanding of risk to the communities in which we operate. By improving risk awareness and supporting behavioural change we can reduce loss; this reduces our cost of claims and increases profitability. We can pass that back to our shareholders or reinvest it to reduce the cost of insurance or build more resilient communities. The virtuous circle continues.

To deliver shared value we focus on the value we are seeking to create in the community through three pillars – Safer, Stronger and More Confident – supported by eight focus areas where we believe IAG is best positioned to have a positive influence. For more information on our shared value approach visit [www.IAG.com.au/shared-value](http://www.IAG.com.au/shared-value).



## **UNEP PSI**

The PSI were launched in Rio De Janeiro in 2012 at the UN Conference on Sustainable Development (Rio+20 Conference). Developed by the UN Environment Program Finance Initiative in collaboration with leading insurance and reinsurance companies, the PSI provide a framework for the global insurance industry to address environmental, social and governance risks and opportunities.

IAG is a founding, and the only Australian-based general insurer, signatory to the United Nations Principles for Sustainable Insurance (PSI), and we co-chair its governing Board. The PSI has a vision of a risk-aware world where the insurance industry is trusted and plays its full role in enabling a healthy, safe, resilient and sustainable society. The PSI principles clearly underpin IAG's approach to being a sustainable business and to working with government and community stakeholders, and we continue to work on embedding the principles in our business.

### *How does the PSI work?*

The PSI is not legally binding, instead the principles provide a voluntary and aspirational framework. Signatory companies are free to decide what actions they deem appropriate to implement the principles. All signatories are required to participate in the annual public disclosure process - transparency is an integral form of accountability, particularly in a voluntary and aspirational framework.

See the following pages for an update of progress against the principles.

## 2015 update on principles

### Aspirations and plan to achieve them:

While the management of key ESG risks underpins our approach, over the past two years we have focussed on how we can play a role in tackling key social issues in a way that creates value for the community and our business. Our commitments and activities aligned to the PSI are outlined below.

### Actions taken to date:

Principles			
<p><b>Principle 1</b></p> <p>We will embed in our decision-making environmental, social and governance issues relevant to our insurance business.</p>	<p><b>Principle 2</b></p> <p>We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.</p>	<p><b>Principle 3</b></p> <p>We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.</p>	<p><b>Principle 4</b></p> <p>We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the principles.</p>
Commitments			
<p><b>Commitment 1:</b></p> <p>IAG seeks to embed environmental, social and governance issues across all dimensions of our business.</p>	<p><b>Commitment 2:</b></p> <p>IAG is committed to ongoing dialogue with all of our value chain on environmental, social and governance issues to drive action and develop solutions.</p>	<p><b>Commitment 3:</b></p> <p>IAG is committed to working with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.</p>	<p><b>Commitment 4:</b></p> <p>We will measure our progress in managing ESG issues and be accountable to our stakeholders by regularly disclosing our progress in implementing the principles.</p>

**Key actions and examples**

<p><b>Strategy:</b> IAG’s short and long term strategy explicitly includes objectives and goals regarding the management of social and natural environment issues and opportunities. This includes, but is not limited to, the potential impacts of a changing climate and social challenges such as affordability and accessibility of insurance.</p> <p>IAG has developed a shared value framework for decision making. This framework recognises the unique capability and skills we have as a general insurance organisation and ensures our activity is focussed on transferring our deep understanding of risk to the communities where we operate.</p>	<p><b>Research:</b> IAG is the only insurance group in Australia that invests in its own Research Centre. We conduct vehicle testing and research on cars, motor vehicles and building materials with a focus on safety and security. We share this information with our customers and partners to help them manage the risks that they face.</p> <p>IAG has also introduced the Venturing team whose role is to research and develop new and innovative product solutions for key issues that society and our business faces, such as access and affordability of insurance.</p>	<p><b>Australian business roundtable on disaster resilience and safer communities:</b> IAG launched the <i>Roundtable</i> in June 2013 along with Westpac, the Australian Red Cross, Investa property group, Munich re, and Optus. The roundtable believes it is of national importance to make communities safer and more resilient to extreme weather events. It is working collaboratively with government to effect change in public policy and increase investment in safer and more resilient infrastructure and communities, and by improving the capacity of people and businesses to better withstand future natural disasters.</p>	<p><b>Disclosure:</b> We disclose our progress on implementing the principles annually, and discuss ESG issues more broadly within IAG’s annual reporting suite. We actively participate in indices requiring detailed information about environment and social strategy and performance such as the FTSE4GOOD, DJSI AND CDP.</p>
<p><b>Shared value:</b> As noted above, IAG has committed to shared value in its corporate strategy and sees corporate responsibility / sustainability / shared value playing a critical role in our organisations success.</p> <p>A group shared value team was established and integrated into</p>	<p><b>Products:</b> We have developed specific products to help our customers manage the risks that they face. For example, we have developed products that cover the risk of flood and renters insurance for those customers wanting lower sums insured. We also provide discounts to insurance premiums for customers that make smart</p>	<p><b>Research:</b> IAG funds the cyclone testing station in Queensland located at James Cook University in Townsville. We also sponsor risk frontiers, an independent research centre co-sponsored by the insurance industry to aid better understanding and pricing of natural hazards risks in the Asia-</p>	<p><b>Material aspects:</b> Each year IAG identifies the key material aspects to its business and discloses in detail how we are addressing/managing these. The material aspects we identified in FY15 were:</p> <p><i>Customer-centred</i></p> <p>We are focused on building trust and confidence to earn and retain customers’</p>

<p>group strategy in FY15, with the responsibility to work across IAG divisions to embed shared value. All divisions have shared value activity included in their business plans. The group balanced score card that support fixed and incentive based remuneration also includes a requirement to help make communities safer, stronger and more confident.</p>	<p>purchasing decisions – for example a discount in insurance for cars that have autonomous emergency braking.</p> <p>IAG is committed to ensuring insurance cover remains accessible and affordable, so individuals and communities can be confident of recovering quickly from adverse events. In cyclone-prone far north Queensland, our strata affordability project has delivered improved risk management and cost savings to strata property owners. We also continue to explore ways to tailor products to meet customers’ needs at different life stages. We have engaged extensively with consumers and community groups and conducted our own research to identify segments where affordability is creating the most pressure. In response, we are developing and piloting a suite of products. Insurelite, the first of these pilot products, was launched in Queensland in June 2015 to give households struggling with affordability.</p>	<p>Pacific region.</p> <p>We are also using insights from our knowledge and experience of risk to better understand customer and community need, and inform initiatives that encourage action and behaviour change. For example, insights from motor claims data in Australia is contributing to our efforts to improve road safety.</p> <p>We are also conducting research with farmers and SME owner/operators to better understand their risk profiles and appetites and ultimately facilitate action.</p>	<p>loyalty by increasing engagement, empathy, and our response with the right products and services.</p> <p><i>Access and affordability</i></p> <p>We are working on new products and services to address the issues of access to and affordability of insurance.</p> <p><i>Community resilience</i></p> <p>We are focussed on building communities that are better prepared, recover more quickly and are more resilient through our many partnerships and programs.</p> <p><i>Empowered employees</i></p> <p>Our people are our best assets and advocates. We are focussed on attraction and retention, leadership development, building diversity of thought and a culture of safety and well-being and strong performance of our people.</p> <p><i>Financial performance</i></p> <p>The insurance industry goes through cycles of profitability that are affected by changing competitor landscapes, macroeconomic conditions and major insurance events. Managing our financial performance sustainably through the cycle is critical to our long term success and our ability to deliver value to our shareholders and other key stakeholders.</p>
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<p><b>Risk management and research:</b> Environmental and social risks and opportunities are identified and managed through our integrated company-wide risk management strategy and process.</p> <p>IAG's Natural Perils Research team is an internal team with backgrounds in meteorology and engineering. This team reviews and undertakes research to understand how the climate and weather-related events affect insurance risk.</p>	<p><b>Supply chain:</b> EcoSmash, IAG's environmental accreditation program for the smash repair industry, has been designed to help repairers understand and comply with environmental legislation and regulations that relate to their business. The program provides tools and support for smash repairers to better manage their environmental and health and safety impacts. In 2015 we mandated that all of our exclusive smash repairers are required to be EcoSmash accredited by 30 June 2016.</p>	<p><b>Public policy:</b> IAG actively participates and responds to government inquiries and calls for submissions.</p> <p><a href="http://www.IAG.com.au">www.IAG.com.au</a></p>	<p><b>Recognition for reporting and performance:</b> IAG was included on the DJSI World, Asia Pacific and Australian indices. IAG was also recognised through:</p> <ul style="list-style-type: none"> <li>• RobecoSAM: received the Bronze Class distinction (2015)</li> <li>• RobecoSAM: recognised as a Industry Mover (2015)</li> <li>• The Australian Council of Superannuation Investors as Leader for reporting practices and disclosure of sustainability risk</li> <li>• Australian Centre for Corporate Social Responsibility's State of CSR Report: ranked in the top 10</li> </ul> <p>And included in:</p> <ul style="list-style-type: none"> <li>• The FTSE4GOOD index series</li> <li>• CDP's Climate Disclosure leadership index for the ninth consecutive year and the Climate Performance Leadership index</li> <li>• MSCI Global Sustainability Index series (2015)</li> </ul> <p>And awarded:</p> <ul style="list-style-type: none"> <li>• Best Insurance Company in Socially Responsible Performance (ESG) by the Australian Business and Finance Insurance Awards 2014</li> <li>• Careertrackers 2015 Business Co-ordinator Award</li> <li>• Women's Employer of the Year, Australian and New Zealand Institute</li> </ul>
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			of Insurance and Finance 2015 Annual Australian Insurance Industry Awards
<p><b>Management of carbon emissions and carbon neutral status:</b> IAG is focused on managing its carbon emissions and climate change impacts. We maintained our carbon neutrality in FY15. While our overall emissions increased due to the acquisition of the former Wesfarmers Insurance business, our emissions intensity remained consistent with FY14.</p>	<p><b>Education:</b> we continue to invest in educational initiatives to help manage risk. For example, through our partnerships with the SES we deliver the StormSafe program to raise awareness of storm-related risks and encourage people to take simple steps to protect lives and property.</p>	<p><b>Partnerships:</b> IAG has partnerships with various community organisations such as the SES, Kidsafe, Queensland Fire &amp; Emergency service, Neighbourly NZ and the Australian Red Cross. Through these partnerships information is shared with governments and communities to help them manage the risks (both environmental and social) that they face.</p>	
<p><b>Infrastructure:</b> A number of key IAG office locations are 5*green star rated. Environmental and social considerations are explicitly taken account in all property and facility management decisions including office relocations in the future.</p>	<p><b>Reconciliation action plan (RAP):</b> IAG has established a RAP to help address the issue of indigenous inclusion both within IAG and in the broader Australian community.</p>	<p><b>Business and industry associations:</b> IAG has an ongoing dialogue with business and industry associations to better understand and manage ESG issues across industries and geographies.</p>	