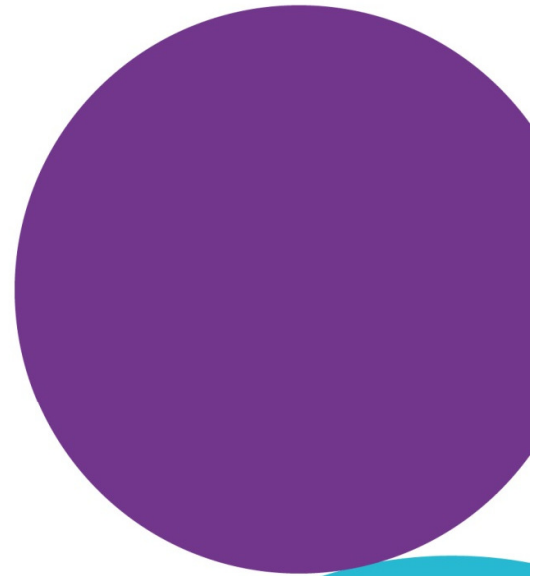
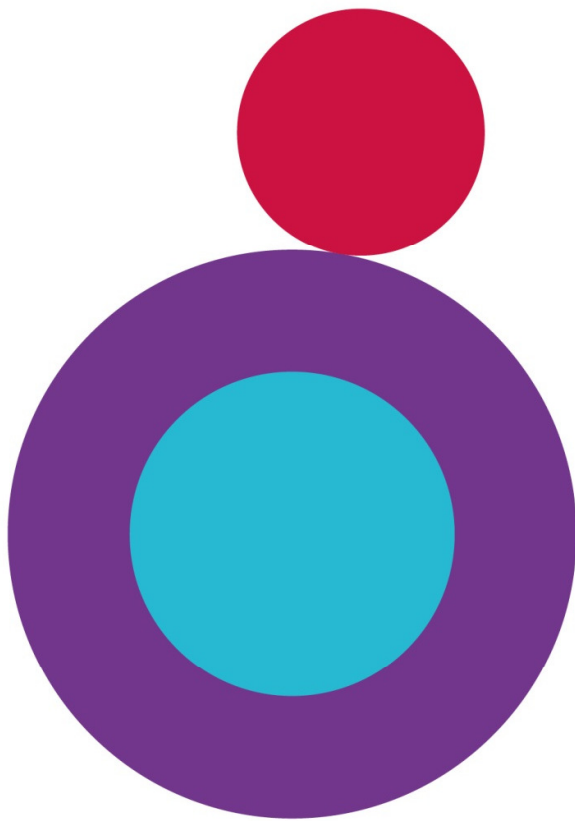

Disclosure 4

2016 Progress Report

Principles for Sustainable Insurance



PSI

Principles for Sustainable Insurance



UNEP Finance Initiative

2016 PSI Progress Report

Introduction

The Principles for Sustainable Insurance (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 (ESG) risks and opportunities.

This document provides an update to IAG's commitments, progress and aspirations for implementing the PSI.¹

IAG on stage: IAG received the following recognition, awards and accolades relating to our performance in implementing the PSI in 2015 and 2016.

Recognition:

- Direct General Insurance Company of the Year (NRMA), ANZIIF (2016)
- RobecoSAM: Received the Bronze Class distinction (2015) (2016)
- The Dow Jones Sustainability Index: ranked in the DJSI World, Asia Pacific and Australia indices (2015) (2016)
- Included in the FTSE4Good Index Series (2015) (2016)
- Included in the Climate Disclosure Leadership Index for the eleventh consecutive year (2016)
- Included the Climate Performance Leadership Index (2015)
- Top 100 Global Most Sustainable Large Corporations, by Corporate Knights (2015)
- The Australian Council of Superannuation Investors as Leader for reporting practices and disclosure of sustainability risk (2015) (2016)
- Australian Centre for Corporate Social Responsibility's State of CSR report: ranked in the Top 10 (2015)
- Included in the MSCI Global Sustainability Index Series (2015)

Awards and accolades:

- Corporate Organisation Leading Through Shared Value Award, Shared Value Awards (2016)
- CDP Australian Climate Leadership Award for Consistently High Quality Climate Change Disclosure 2006-2015 (2015)
- Innovation of the Year, ANZIIF New Zealand Industry Awards (2016), *NZI Safe Driving Programme*
- Large General Insurance Company of the Year (CGU), ANZIIF Australian Insurance Industry Awards (2015)
- Insurer of the Year (CGU), Insurance Business magazine's annual 'Brokers on Insurers Survey' (2015)
- Finalist, Large Business Sustainability Leadership Award, Banksia Sustainability Awards (2015)
- Highly commended, 10 Year Sustainability Award, NSW Government Green Globe Awards (2015)
- Resilient Australia Business Award for 2014/2015 NSW StormSafe campaign (2015)
- Finalist, Best Workplace Diversity & Inclusion Program, 2016 Australian HR Awards (2016)
- Finalist, Women's Employer of the Year, ANZIIF Australia Insurance Industry Awards (2016)
- Finalist, Youth Development Employer of the Year, ANZIIF Australia Insurance Industry Awards (2016)
- Finalist, Women's Employer of the Year, ANZIIF New Zealand Insurance Industry Awards (2016)
- Finalist, Inclusive Workplace Award, Australian HR Institute Awards (2016)
- Finalist, Deloitte NZ Top 200 Diversity Award (2016)
- Winner, Women's Employer of the Year, ANZIIF Australia Insurance Industry Awards (2015)
- CareerTrackers 2015 Business Co-ordinator Award (2015)

¹ Additional information on the activities reported in this document can be found in our [2016 Annual Review and Sustainability Report](#) and on our [website](#).

2016 PSI Progress Report

Principle 1: We will embed in our decision-making environmental, social and governance issues relevant to our insurance business

Our Commitment:

IAG seeks to embed environmental, social and governance issues across all dimensions of our business.

In 2016, better understanding and management of key ESG issues were further embedded across our group. We:

- **identified ESG opportunities through ongoing implementation of our *Shared Value Framework*;**
- **considered key ESG issues in our renewed policy position on climate change, in our renewed procurement policy and in our establishment of a Customer Advisory Board and Ethics Committee;**
- **maintained our carbon neutral status and made improvements in the impacts from our operations; and**
- **rallied behind IAG's purpose to make the world a safer place and a strategy that focused our attention on the customer. To achieve this, we made some changes to our ways of working, promoting empathy and human-centred design in the way we operate and services we provide.**

Our Shared Value Framework has enabled us to better understand and manage commercial risks and opportunities related to our ESG performance, and in line with our overall business strategy. Since October 2015, our Shared Value Framework has enabled us to fine-tune what ESG issues we consider in our insurance business, and how we can best respond. It has supported the development and piloting of a range of innovative insurance products, services, partnerships and business initiatives. In 2016, IAG received the Corporate Organisation Leading through Shared Value award at the Shared Value Awards, reflecting how we have embedded and connected shared value to our purpose and within our governance and commercial strategy.

Looking forward, we are continuing the iterative process of embedding and improving our management of ESG issues in different parts of our insurance business. We aspire to continuously improve our ESG risk management and to further pursue business opportunities identified through our Shared Value Framework.

We are testing opportunities to become more granular and proactive in our consideration of ESG issues in our underwriting and investment processes, as well opportunities from better consideration of ESG issues like diversity and inclusion, climate change, access and affordability, safety and resilience in the design and delivery of our insurance products, services and investments, and in how we manage our workforce, facilities and operations.

Evidence

Our people, processes and facilities:

- A number of our key office locations are top-rated under the Green Star certification scheme and we have started major office consolidations across Australia. We made a range of changes at our facilities which will lead to efficiency improvements in our resource consumption.
- We are beginning to shift our focus to a more positive safety culture through our Safe and Well strategy. In 2016 we launched My Health Portal, an online information hub that gives our people access to health management tools, research, local health-related events and special discounts on related services. We also continued to offer an Employee Assistance Program to make free, confidential and professional counselling available to employees and their immediate family members.
- In 2016, we implemented a target to reduce our absolute carbon emissions by 10% by 2020, based on 2015 levels. We maintained our Group carbon neutrality commitment and through the purchase of offsets, supported a range of projects that offered co-benefits to local communities in our markets, including conservation outcomes, economic and social empowerment of minority groups, and improved management of issues like bushfires.

2016 PSI Progress Report

- We renewed our Procurement Policy, and our Public Policy Position on Climate Change, cementing our support for a low-impact future climate change scenario and reiterating our commitment to work by ourselves and through collaboration with governments, industry and organisations such as the UNEP to pursue this reality. In June 2016, we established the IAG Customer Advisory Board to bring together a number of Australia's leading consumer representatives and IAG management to discuss key customer issues in the insurance industry, with the goal of improving customer service and consumer protection. We established an Ethics Committee to help us maintain our focus on the important role culture plays in how a business operates and performs. Mindful of wider community discussions about corporate culture, we decided to get an external perspective, by appointing renowned ethicist Dr Simon Longstaff AO to lead the Committee. We also developed Product Design Principles to help us guide and evaluate whether our products are meeting customer needs and offering them fair value.
- Environmental and social risks and opportunities continue to be identified and managed through our integrated, company-wide risk management strategy and supporting processes.

Underwriting and insurance products:

- IAG's Natural Perils Research team reviews and undertakes research to understand how the climate and weather-related events affect insurance risk. They have continued to feed critical considerations into our underwriting, strategy and other aspects of our insurance business.
- We reviewed our underwriting portfolio for its exposure to carbon-intensive industries, and are comfortable with our limited exposure to these industries through our workers' compensation insurance.
- We are looking at ways to better integrate consideration of diversity, inclusion and belonging into our products and services.

Investments and asset management:

- As a company, we are becoming clearer and more transparent about the potential ESG issues related to our investment of shareholder and policyholders' funds, and better communicated the constraints and opportunities related to our management of these funds. We are comfortable with our ESG performance related to our insurance business. We reported ESG performance related to our investments to a range of stakeholders in international forums and in our AGM and we maintain our commitment as a signatory to the UNEP PRI.

2016 PSI Progress Report

Principle 2: We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.

Our Commitment:

IAG is committed to ongoing dialogue with all of our value chain on environmental, social and governance issues to drive action and develop solutions.

Our work with clients: 2016 saw us continue to create a range of product and service innovations to create safer, stronger and more confident communities and reduce customers' exposure to ESG risks.

Our work with business partners: In 2016, we continued and expanded our programs with business partners in our procurement, smash repair network, and through our brands.

We intend to continue and expand our efforts to support ESG improvements through products and services identified by our Shared Value Framework, in our own operations, and through our interaction with customers and partners.

Evidence

- We encouraged customers to make purchasing decisions that reduce their impact or exposure to ESG issues by continuing to provide discounts on premiums for cars that have autonomous emergency braking; discounts on premiums for cars that are fuel efficient; and we have made a range of investments and partnerships to support innovation in new technologies that improve safety at home, on the road and in their communities.
- We designed insurance products to better solve the social and financial priorities specific to different customers; Insurance 4 That in Australia provides low-cost single-item insurance and is tailored to the needs of customer groups like renters and millennials. In New Zealand, AMI's Young Drivers Insurance aims to make car insurance more affordable for young drivers.
- In Victoria, our CGU Brand has partnered with Bendigo Bank to improve the safety of driving behaviour by young people in the local community through the Greenlight Driver Safety program.
- We supported the development and testing of new technologies such as the NRMA FireBlanket™ prototype to help detect bushfires; leveraged claims data and community insights to explore new ways improve safety on our roads; and we offered new home safety and security products to customers.
- We continued our partnership with Best Doctors, a company who offer remote access to the top 3–5% of medical specialists in the world and through our business partners, expanded access to this service—particularly in rural areas.
- We continued to extend counselling support to our customers to help them overcome trauma through our partnership with Lifeline.
- IAG is the only insurance group in Australasia 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.
- We supported smash repairers to get accredited with IAG's environmental accreditation program EcoSmash, which has been designed to help repairers understand and comply with environmental legislation and regulations that relate to their business.
- We set public targets to support Indigenous empowerment through a selective procurement policy, with our partner Supply Nation. We are looking to expand our support from 8 to 12 suppliers.
- We establish Industry Practice Groups (IPGs) to better understand the issues faced by industries and to identify opportunities to address them. We have completed work with the wholesaling, transport and warehousing industry and are currently working with partners in a Local Government IPG.

2016 PSI Progress Report

Principle 3: We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.

Our Commitment:

IAG is committed to working with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.

In 2016, we continued our work with government, community, industry and research partners on the international stage and in our local markets to promote better understanding and action on ESG issues. This includes:

- **Continued leadership through our involvement with international organisations and collaborations such as the UNEP; national initiatives such as the Australian Business Roundtable for Disaster Resilience & Safer Communities and Resilient New Zealand; and participation and engagement with a range of organisations and industry groups focusing on local and topical issues.**
- **Developed Confident Communities to support community resilience in our key operating markets, including place-based initiatives in communities facing insurance-related risks**
- **Promoted and shared our knowledge on climate risk through research collaborations and promoted the concept of shared value as a successful and strategic business model.**

Evidence

Research and advocacy

- At the international level, we supported UNEP FI activities through our position on the PSI board, and initiatives such as the Global Resilience Project remained active for use by a range of stakeholders.
- We continued our work to pursue national efforts to make communities safer and more resilient to extreme weather events through Resilient New Zealand and the Australian Business Roundtable for Disaster Resilience and Safer Communities. Through these, we partner with major businesses and community organisations to work collaboratively with national governments 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.
- In 2016, we've collaborated with Sustainable Business Australia as a Working Group member of the Sustainable Mobility Project and we're actively pursuing research on shared value in the insurance industry with the Shared Value Project.
- We signed the Victorian Government's Take 2 Pledge on climate change and we've been actively involved in the 100 Resilient Cities initiative, serving on Steering Committees and Working Groups in Christchurch, Wellington, Melbourne and Sydney. We've also partnered with local councils across New South Wales to begin piloting DipStik, an early flood warning system that relies on flood monitoring devices on roads across rural areas.
- We are using insights from our claims data together with our knowledge and experience in assessing and managing environmental and social risks to better understand customer and community need, and inform initiatives that encourage action and behaviour change. Through our partnership with Suncorp and James Cook University (JCU) Cyclone Testing Centre we are helping to study the impact of tropical cyclones on strata properties in North Queensland by sharing our claims data, expertise and funding. The work is providing designers, builders and insurers with a better understanding of what increases claims costs after cyclones, so we can help build resilience in affected communities. In 2016, we launched a national report and mapping tool, *At What Cost? Mapping where natural perils impact economic growth and communities* to promote better understanding of the full costs and risks associated with natural perils in

2016 PSI Progress Report

Australia. Through this initiative, IAG is using its data and expertise to help governments, businesses and individuals to prioritise actions to become better prepared and resilient to natural perils.

- Across industries and geographies, we have continued our ongoing dialogue with business and industry associations to better understand and manage ESG issues they face. This included our work using with human-centred design techniques with our Local Government IPGs, and research we are conducting with farmers and SME owner/operators to better understand their risk profiles and appetites and ultimately facilitate action.

Community outreach and partnerships

- Through our products and marketing, we have supported knowledge of risk in the community beyond our customers. In 2016, we developed and piloted First Place, a virtual reality experience designed to educate millennials about risks around the home and insurance. In Australia, our brands run Safer Homes, an online mapping tool that communicates bushfire, flood and other key risks in customers' and communities' suburbs. In New Zealand, our Need2Know website helped New Zealanders understand more about home insurance.
- In 2016, we launched Good Hoods, a national campaign in Australia to create "a nation ready for anything", promoting community resilience by helping combat the growing lack of connection between community members. We aim to continue our work to help connect local communities and celebrate the good in every neighbourhood at the national scale and in other key operating markets. To complement this, we are piloting place-based support in several communities tackling societal challenges across Australia and New Zealand and hope to use the findings from this work to support our national efforts.
- We work with various community organisations, sharing our risk management expertise to help communities better manage environmental and social risks. We signed a 10-year collaboration agreement with the Australian Red Cross to continue our partnership supporting community resilience to natural disasters and in New Zealand, we continue to support Neighbourly in order to foster local community connections and improve community safety. We also continue to run campaigns. This includes the StormSafe program with our partners in the New South Wales State Emergency Service, which raises awareness of storm-related risks and encourages people to take simple steps to protect lives and property.

2016 PSI Progress Report

Principle 4: We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the principles.

Our Commitment:

IAG discloses our progress on implementing the principles annually, and we aspire to raise the status of ESG issues through our annual reporting suite.

In 2016, we deepened and expanded our commitment to transparency and accountability by improving our public disclosure on ESG issues relevant to the PSI.

As an organisation that is purpose-led, we recognise the importance of going beyond reporting our progress on implementing these Principles. Three key areas of performance in 2016 were²:

- We actively participated in indices requiring detailed information about ethical, environment, social and governance strategy and performance. In 2016, our disclosure and performance on ESG risks and issues was reflected in our inclusion on key global indices:
 - DJSI World, Asia Pacific and Australian indices
 - FTSE4Good index series
 - CDP's Climate Disclosure Leadership Index (ASX200) and Climate Performance Leadership Index
 - MSCI Global Sustainability Index series (2016)
- We released public commitments on responsible business and ESG performance regarding key topics in our business in our 2016 Annual Review & Sustainability Report.
- We frankly and transparently reported the processes and performance of ESG management in our insurance and investment decisions to shareholders during our Annual General Meeting, and to a broad range of financial, industry and community stakeholders through our work with the UNEP FI.

We are making progress to better integrate reporting on our financial and non-financial performance to effectively communicate the materiality of ESG issues to our shareholders and other stakeholders.

² Detailed information on our commitments, performance and recognition can be found in results reported in our 2016 Annual Review and Sustainability Report and on the IAG website <http://www.iag.com.au/shared-value/our-performance>