

CORPORATE GOVERNANCE

Insurance Australia Group's corporate governance structure and risk management framework provide a sustainable balance of its core purpose to pay claims, understand and price risk, manage costs and reduce risk with its responsibility to provide fair and stable returns to shareholders.

1. IAG'S APPROACH TO CORPORATE GOVERNANCE

The Group is committed to attaining the highest level of corporate governance to ensure the future sustainability of the organisation and to create value for its shareholders. To achieve this, the company promotes a culture that rewards transparency, honesty, meritocracy, teamwork and social responsibility.

The key corporate governance practices followed by the Group and its people are summarised below. They are not an exhaustive list of all corporate governance practices in place. Copies of IAG's Board and Board Committee Charters and key corporate governance policies can be found on IAG's website at www.iag.com.au.

The regulatory environment in which the Group conducts its business will continue to have a major influence on the Group's corporate governance practices.

During the past year, the Group has strengthened its corporate governance in response to new legislation and regulation relating to audit reform and corporate disclosure following amendments to the Corporations Act 2001 that came into effect on 1 July 2004. Australian listed entities, including IAG, are now required to:

- Provide shareholders with enhanced disclosure of director and executive remuneration;
- Facilitate increased participation by shareholders in general meetings;
- Improve protection for whistleblowers; and
- A declaration to the Board by the entity's CEO and CFO in relation to the entity's financial records and financial statements.

In addition, the Group adopted a new conflicts of interest policy in response to the new statutory obligation for Australian Financial Services Licensees to have adequate arrangements to manage conflicts of interest.

The enhanced disclosures in relation to director and executive remuneration are set out in the Remuneration Report at pages 44 to 56. The Remuneration Report will be put up for adoption by shareholders at the Group's Annual General Meeting to be held on 9 November 2005. The vote on the resolution will be advisory only and non-binding.

The Group also strengthened its corporate governance and risk management frameworks during the year by the creation of two new Executive Committees, the Reputation Committee and the Asia Management Advisory Council, whose roles are described at page 37.

The Group believes that, in order to preserve and enhance the value of the company, it must safeguard its reputation. The Reputation Committee was established to help formulate the Group's broad strategies on reputation issues and to report and make recommendations on these to executive management and the Board.

The Group is seeking overseas investment opportunities, focused on Asia. In order to deliver long term value from these investments, the Group believes that the core competencies and skills that have contributed to its success will need to be introduced and embedded in the newly acquired businesses. The Asia Management Advisory Council has been established to assist management to coordinate and oversee the Group's Asian growth plans and, where considered appropriate, to make recommendations to the Board.

Throughout the reporting period, the Group has complied with the Australian Stock Exchange Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

The Group believes that, through active engagement with governments, regulators, industry and professional groups, we can best work to ensure that the interests of the Group and its stakeholders are properly considered in the formulation of proposals to improve Australia's corporate governance, general insurance prudential regime and insurance industry practices. Appropriate regulation enhances, rather than stifles, competition, protects consumers and promotes and sustains public confidence in insurers and their products.

In the past year, the Group actively participated in the debate to improve Australia's corporate governance regime, making 18 submissions to Federal and State Government committees and enquiries, the Productivity Commission and regulators in relation to new legislation and regulation affecting the insurance industry. In addition, IAG representatives have participated

in forums, working parties and committees of insurance industry associations, accounting and actuarial professional bodies to help formulate responses to proposals to improve corporate governance and prudential standards and practices that have particular application to the general insurance industry.

2. THE BOARD OF DIRECTORS

2a. Roles and responsibilities

The Board

The Board is accountable to shareholders for the performance, operations and affairs of the Group. The Board's principal role is to govern, rather than manage, the Group. The Directors represent and serve the interests of the shareholders and collectively oversee and appraise the strategies, policies and performance of the Group.

In performing its role, the Board is mindful that the obligations of the Directors are primarily set out in the Corporations Act, the Insurance Act and general law.

The Board is responsible for oversight of the Group, and specifically:

- Driving the strategic direction of the Group by setting goals and policies, and approving corporate strategies and risk appetite;
- Monitoring management's performance;
- Selecting, regularly evaluating and, if necessary, replacing the Chief Executive Officer;
- Appointing and, where appropriate, removing the Chief Financial Officer and the Company Secretary;
- Reviewing management succession planning;
- Providing advice and counsel to senior management;
- Selecting and recommending appropriate candidates to the Group's shareholders for election to the Board;
- Evaluating Board processes and performance of the Board as a whole, as well as contributions by individual Directors;
- Monitoring financial performance and reporting;
- Reviewing the adequacy of systems to comply with all laws and regulations which apply to the Group and its businesses;
- Monitoring key risk areas by ensuring the implementation of a suitable risk management and internal controls framework;

- Ensuring that reporting and disclosure processes include all relevant legal and commercial requirements; and
- Ensuring that proper governance practices (including appropriate standards of ethical behaviour, corporate governance and social responsibility) are established and processes exist to ensure they are adhered to at all times.

The Chief Executive Officer

The Board has delegated responsibility for the day-to-day operations and administration of the Group to the Chief Executive Officer, who is responsible for:

- In conjunction with the Board, developing, implementing and monitoring the strategic and financial plans of the Group;
- The efficient and effective operation of the Group;
- Ensuring the ongoing development, implementation and monitoring of the Group's risk management and internal controls framework;
- Ensuring the Board is provided with accurate and clear information in a timely manner to promote effective decision-making by the Board; and
- Ensuring all material matters affecting the Group are brought to the Board's attention.

The Chairman

The Chairman provides leadership to the Board and the Group. The Chairman presides at Board and general meetings of the company. The Chairman is responsible for ensuring the Board discharges its role, and works closely with the Chief Executive Officer in that regard. The roles of the Chairman and the Chief Executive Officer are separate.

The Board does not have a Deputy Chairman. However, Mr Rowan Ross has, on occasions, acted in this capacity.

2b. Structure and composition of the Board

The company's Constitution provides for a minimum of three directors and a maximum of 12 or less directors as determined by the Directors from time to time. The Directors have determined that, for the present, the maximum number of directors is eight. The Board currently comprises seven Non-executive Directors and one Executive Director, whose position as a Director is on an ex-officio basis.

The Board has determined that the Board must be comprised of a majority of independent Non-executive Directors and that the Chairman must be an independent Non-executive Director.

The Board will determine whether each Director is independent, using the principles outlined in its Charter. Independence will be taken to be met when a Director is a Non-executive Director and:

- Is not a substantial shareholder of the company (a shareholder with 5% or more of the issued voting shares), or associated directly with a substantial shareholder of the company;
- Has not within the last three years been employed as an executive of the company or any of its subsidiaries or been a Director after ceasing to hold any such employment;
- Has not within the last three years been associated with, or a principal of, a material professional adviser or material consultant to the Group, or an employee materially associated with the service provided;
- Is not a material supplier or customer of the Group, or an officer of or otherwise directly or indirectly associated with a material supplier or customer and has no material contractual relationship with the Group other than as a Director;
- Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Group (as determined by the Board in the case of each Director); and
- Is otherwise free from any interest and any business or other relationship that could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Group.

The Directors have determined that a relationship is material where the value of goods or services provided to the Group in the past three years accounts for 5% or more of the consolidated gross revenue or consolidated expenses of either the Group or the supplier/customer's corporate group over that three year period.

Non-executive Directors are required to confirm their independence periodically while they remain in office.

Where the Board is required to approve a transaction or arrangement with an organisation in which a Director has an interest, the relevant Director must disclose their interest and abstain from voting. Furthermore, Directors with potential conflicts do not serve on any Board Committees that are appointed to provide oversight of the implementation of transactions or arrangements, in which the other organisation plays a role.

The Board considers its size and composition annually. In considering the size and composition of the Board, Directors will consider, among other things:

- The nature, size and complexity of the Group; and
- The efficiency and effectiveness of the Board, balancing the need to have sufficient skills and expertise to fulfil the needs of the Board and all its Committees, with the need to maintain a Board size where all Directors can effectively participate and contribute.

The names of Directors in office at the date of this report, their year of appointment, their designation as a Non-executive independent or Executive Director and their experience, expertise, and biographical details are set out at pages 30 and 31.

The Board engages reputable recruiting consultants to assist the Board to identify suitable candidates for appointment to the Board.

2c. Induction and training

The Group encourages continuing professional education for each of its Directors. All Directors are expected to remain up to date in relation to issues affecting the Group, the general insurance industry, and their duties as Directors.

New Directors and senior executives have access to an orientation programme to introduce the executive team and detail the Group's businesses. A programme introducing the fundamentals of general insurance entitled "Insurance 101" is also available to Directors and executives.

Executive directors appointed to subsidiary and associated company boards are required to undertake a minimum level of director training and to demonstrate that they have undertaken ongoing development and training to continue to effectively and competently perform their roles as executive directors.

2d. Tenure

It is expected that Directors will continue as Directors only for so long as they have the confidence of their fellow Board members and the confidence of the company's shareholders.

In September 2003, the Board introduced a tenure policy to apply to Non-executive Directors to ensure the Board comprises Non-executive Directors who collectively have the relevant experience required and who maintain their independent status. The policy provides that the standard tenure for a Non-executive Director shall be:

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- Two elected terms each of three years if the Director is first appointed at an Annual General Meeting (AGM) of the company;
- If a Director has been appointed to fill a casual vacancy, the initial pre-AGM period of appointment (not exceeding one year) plus two elected terms each of three years; or
- If a Director's first two elected terms total less than six years' duration, a maximum of seven years, with the expectation that the Director will not stand for re-election at an AGM if the Director's further term, if re-elected, would take the Director's total tenure beyond seven years.

Subject to re-election by the company's shareholders, a Director's expected tenure may be extended for a further period or term at the request of the Board where the majority of the Board has determined that it is in the company's best interests.

Two Non-executive Directors, Ms Dominique Fisher and Ms Anne Keating, retired from the Board at the conclusion of the November 2004 AGM as another completed term of office, had they again stood for re-election, would have taken them beyond the standard tenure of seven years.

2e. Appointment terms

Formal appointment letters have been issued to each Non-executive Director, including the Chairman, to assist individual Directors in understanding the role of the Board and the corporate governance principles adopted by the Board. The letters formally document the basis of each Director's appointment, including the proposed standard term of their appointments and, where applicable, the cessation of further accrual of retirement benefits.

The appointment letters also provide for:

- The right of Non-executive Directors to, upon providing prior notice to the Chairman, obtain independent professional financial and legal advice, at the company's expense, to assist with discharging their duties efficiently;
- Measures used, and the processes to be applied, by the Board to assess the individual performance of Directors, details of which are set out in section 2f below; and
- The expectation that Directors will abide by the company's Code of Conduct and its Continuous Disclosure & Insider Trading policy.

2f. Measuring the performance of Directors

The Nomination, Remuneration & Sustainability Committee conducts a formal review of the Board's performance, composition and size at least every three years.

Each Director's performance is subject to evaluation by the Chairman at least every two years, by discussion between the Chairman and the Director. Individual Directors also evaluate the Chairman's performance at least every two years. Measures of a Director's performance will include:

- Contribution of the Director to Board teamwork;
- Contribution to debates on significant issues and proposals;
- Advice and assistance given to management;
- In the case of the Chairman's performance, the fulfilment of his or her additional role as Chairman; and
- Input regarding regulatory, industry and social developments surrounding the business.

A review of individual Directors' performance was conducted in June 2005, with assistance and input from an independent board performance expert.

2g. Board operations

The Board meets formally at least 10 times during the year.

Supplementing these meetings are bi-annual Board strategy forums with the Group's executive team, which were last held in September 2004 and April 2005. These two-day strategy forums facilitate in-depth education on, and analysis of areas of, the business as well as longer term focus areas and strategic initiatives.

Directors were also involved in a number of meetings for specific Group initiatives which, during the past year, included participation in due diligence meetings preparatory to the issue of \$550 million of Reset Exchangeable Securities by the New Zealand Branch of IAG's wholly-owned subsidiary, IAG Finance (New Zealand) Limited.

Directors are encouraged to bring to Board meetings objective independent judgement in relation to the matters under consideration, to ask incisive, probing questions and require accurate, honest answers.

Directors' attendance at Board and Committee meetings held during the year are shown at page 41 in the Directors' Report.

Directors meet from time to time without the Chief Executive Officer and/or management representatives present in both Board and standing Board Committee meetings. Senior management representatives frequently attend Board meetings at the Board's invitation.

Directors receive agendas, board papers and minutes in hardcopy form or may access and download this information from a secure website established for this purpose.

3. COMPANY SECRETARY

The Company Secretary is responsible to the Board for ensuring Board procedures are complied with and also provides advice and counsel to the Board in relation to corporate governance, investor relations and other matters.

The qualifications and experience of IAG's company secretaries are set out at page 41.

4. STANDING COMMITTEES

The Group has three standing Board Committees, each with charters and established operating procedures. Copies of the Committee charters are available at the Group's website www.iag.com.au.

Each Committee annually reviews fulfilment of its responsibilities under its respective charter.

Copies of all Committees' agendas, papers and minutes are disseminated or made available to all Board members.

4a. Nomination, Remuneration & Sustainability Committee

The Nomination, Remuneration & Sustainability Committee has three members, each of whom is an independent Non-executive Director of the company. Currently, the members of this committee are Mr James Strong (Chairman), Mr John Astbury and Mr Rowan Ross. Committee meetings are held at least four times a year.

The main responsibilities of this Committee include:

- Formally reviewing Board performance, size and composition every three years, and recommending candidates for appointment to the Board;
- Providing assistance to the Chairman on the review of the performance of individual Directors and making recommendations on the operation of the Board;

- Making recommendations to the Board in respect of the remuneration of Non-executive Directors and the Chief Executive Officer as well as approval of the remuneration of the direct reports to the Chief Executive Officer;
- Considering the Chief Executive Officer's performance and plans for succession, as well as reviewing management plans for executive succession;
- Ensuring the Group's overall remuneration policy and approach fit the strategic goals of the Group;
- Monitoring the effectiveness and integrity of, and compliance with, the Group's remuneration and human resource policies and practices;
- Ensuring the issues of corporate reputation, social responsibility, and the Group's commitments around safety, environment, and community, stakeholder views are appropriately considered in the context of the Group's view of its corporate purpose and strategy and the importance of corporate reputation to the delivery of sustainable value for shareholders;
- Considering social, environment and ethical impacts of the Group's business practices and setting standards for social, environmental and ethical practices; and
- Reporting to the Board on all matters relevant to the Committee's responsibilities.

4b. Audit Committee

The Audit Committee has three members, who are all independent Non-executive Directors of IAG. Currently, the members of this Committee are Mr John Astbury (Chairman), Mr Geoffrey Cousins and Mr Brian Schwartz. Committee meetings are held at least four times a year.

The main responsibilities of this Committee include:

- Assisting the Board to discharge their responsibility to exercise due care, diligence and skill in relation to the integrity of the Group's internal and external financial reporting. This includes ensuring that the Group's full and half year financial reporting is consistent with Committee members' information and knowledge and believed to be sufficient for shareholder needs;
- Monitoring the application of accounting and actuarial standards, policies and practices by senior financial management when preparing full and half year financial reports;
- Assessing information from the external auditors and the internal audit function that affects the quality of external and internal financial reports;

- Reviewing external auditor engagement, remuneration, independence and effectiveness;
- Making recommendations to the Board on the appointment, removal and remuneration of the external auditor and monitoring his/her effectiveness;
- Monitoring compliance with an agreed framework for dealing with the external auditor's and consulting actuaries' firm for the provision of other services to ensure that such services and any relevant relationships do not compromise their objective and impartial judgement;
- Meeting with the Approved Auditor, the Approved Actuary, the Head of Group Risk & Compliance and the consulting actuaries on at least an annual basis without management being present; and
- Reporting to the Board on all matters relevant to the Committee's responsibilities.

The Audit Committee is also empowered as the audit committee of IAG's subsidiaries that are authorised general insurers in Australia, except for Insurance Manufacturers of Australia Pty Limited, which has a separate Audit, Risk Management & Compliance Committee. In addition, the Audit Committee acts as the audit committee for IAG Finance (New Zealand) Limited, a company with debt securities listed on the Australian Stock Exchange.

4c. Risk Management & Compliance Committee

The Risk Management & Compliance Committee has three members, who are all independent Non-executive Directors of IAG. Currently, the members of this Committee are Mr Rowan Ross (Chairman), Ms Yasmin Allen and Mr Neil Hamilton. Committee meetings are held at least five times a year.

The main responsibilities of this Committee include:

- Overseeing the Group's risk management systems, practices and procedures to ensure effectiveness of risk identification and management, and compliance with internal guidelines and external requirements;
- Reviewing and monitoring all material risks in the Group's risk management systems: balance sheet, market (including investment, insurance, liquidity, product, pricing, underwriting, liability, claims management and derivatives risks), credit, operational and reinsurance risks to ensure the effective management of all such risks;

- Reviewing and evaluating the effectiveness of the Group's internal control systems;
- Approving the internal annual audit plan proposed by Group Risk Assurance and monitoring progress against the plan;
- Meeting with the Head of Group Risk & Compliance and the Group General Counsel on at least an annual basis without other management being present;
- Making recommendations to the Board on the appointment and removal of the Head of Group Risk & Compliance and monitoring his/her effectiveness; and
- Reporting to the Board on all matters relevant to the Committee's responsibilities.

5. ETHICAL AND RESPONSIBLE DECISION-MAKING

The Group takes ethical and responsible decision-making very seriously. It expects its employees and Directors to do the same, as reflected in its internal policies around conduct, continuous disclosure and insider trading.

The company's Code of Conduct extends to all people employed by the Group including the Board and executive management. The Code is designed to encourage ethical and appropriate behaviour in all avenues of work, based on the following principles:

- Acting honestly and openly in all dealings;
- Complying with all laws and industry codes that regulate our activities;
- Abiding by our rules to prevent insider trading;
- Maintaining confidentiality; and
- Avoiding conflicts of interest.

The company's Continuous Disclosure & Insider Trading policy reinforces its commitment to continuous disclosure, as well as the responsibility of all employees regarding price sensitive information and insider trading. The policy includes a protocol outlining how information is released to the public. The policy also provides examples of what could constitute price sensitive information and how knowledge of such information prohibits share trading. A Share Trading Protocol sets the framework for employee dealings in IAG securities, and aims to prevent employees from inadvertently breaching insider trading laws. The protocol specifies that Directors, Group Executives and designated employees may only buy or sell IAG securities in the four week period commencing two trading days after the Group's half-year and full-year results announcements and the AGM or any other period approved by the Board, subject to not being in possession of inside information as defined by the law. In addition, IAG Directors and

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Group Executives may only trade in IAG securities in these periods after they have received prior consent from the Nomination, Remuneration & Sustainability Committee and complied with any conditions on trading in IAG securities that Committee imposes.

Directors and management are encouraged to assist in the process of the Board identifying, evaluating and reporting on matters to comply with the provisions of the Corporations Act and the ASX Listing Rules in relation to continuous disclosure so as to keep the market fully informed.

6. SHAREHOLDERS

In keeping with the Code of Conduct and the spirit of continuous disclosure, the Group is committed to ensuring shareholders are informed of significant developments for the Group. Regular announcements to the ASX are proactively relayed through an email messaging service to shareholders and other users who are registered to receive such, and are posted on the company's website, www.iag.com.au. Approximately 8,000 shareholders and other registered users currently use the email messaging service.

Major investor briefings are webcast where practical and copies are retained on the website for ease of access. When conducting briefings of investors, care is taken to ensure that price sensitive information is not inadvertently communicated to market participants and is provided to all investors and market participants at the same time in accordance with the ASX Listing Rules.

Media coverage of key events is also sought as a means of delivering information to shareholders and the market. Formal communication with shareholders is also conducted via the annual report, concise annual report, interim report and at the AGM of shareholders.

The Group is mindful of the need to adopt best practices in the drafting of notices for general meetings and other communications with shareholders to ensure that its notices of meetings are honest, accurate, informative and not misleading.

Electronic proxy voting, which was introduced for the 2004 AGM, helps to facilitate ease and timeliness of lodgement by shareholders of their voting on resolutions to be put to general meetings.

Shareholders are encouraged to attend general meetings and ask questions of the Chairman and the Board.

The external auditor attends general meetings and is available to answer shareholders' questions concerning the conduct of the audit, the preparation and content of the auditor's report, the accounting policies adopted and audit independence.

Shareholders may raise any issues or concerns at any time by contacting the company. Shareholders should email their questions

or comments to investor.relations@iag.com.au or write to the Chairman or Company Secretary at Insurance Australia Group Limited, Level 26, 388 George Street, Sydney NSW 2000.

7. RISK MANAGEMENT

Managing risk is at the heart of ensuring IAG's ongoing sustainability and delivery of value to shareholders. The Group's risk management framework is based on the interaction of the oversight structure, internal policies, key risk management processes and culture.

7a. Oversight structure

A number of key forums and executives oversee the Group's management of risk. These are summarised in the diagram below and detailed in approved charters and role descriptions:



The roles and composition of the executive management committees are detailed as follows:

Operational Review Management Committee (ORM)

ORM is responsible for:

- Reviewing of corporate strategies and the performance of the Group and its business units compared to budgets, forecasts and corporate plans;
- Monitoring the Group's operational risk;
- Authorising capital allocation to major projects within financial delegation limits approved by the Board;
- Reviewing health, safety, environment and community performance; and
- Reviewing human resource performance and reward strategies.

Its members include Mr Michael Hawker (Chair) and his Executive team, who are listed at page 22 and 23 of this Annual Report together with their biographical details.

Asset & Liability Committee (ALCo)

The role of ALCo is to allow the Group's senior management to:

- Formulate recommendations for the Board concerning issues related to capital management and risk management, including credit risk and asset allocation;
- Oversee implementation of Board policies concerning risk and capital management;
- Oversee the ongoing implementation of, and compliance with, the Group's Risk Management Strategy (RMS) including the Group's reinsurance management strategy; and
- Report to the Risk Management & Compliance Committee concerning compliance with, and the effectiveness of, the RMS.

Its members include Mr Michael Hawker (Chair) and the Group's executives with operational and financial roles and other key senior management with responsibility for finance, treasury, actuarial, investment and reinsurance functions.

Underwriting & Pricing Policy Committee (UPPCo)

The role of UPPCo is to provide the Group's senior management with a forum in which to:

- Establish or modify the Group's pricing principles and framework;
- Determine and monitor Group underwriting standards; and
- Monitor group insurance risk accumulations and group reinsurance requirements.

Its members include Mr Michael Hawker (Chair) and the Group's executives with operational and financial roles and other key senior management with responsibility for insurance strategy, pricing, underwriting, actuarial and reinsurance functions.

Reputation Committee (RepCo)

The purpose of RepCo is to provide the Group's senior management with a forum in which to:

- Monitor and make recommendations to executive management on the reputation risks facing the Group;
- Establish or modify the Group's reputation risk profile; and
- Report to the IAG Risk Management & Compliance Committee concerning reputation risk mitigation strategies.

Its members include Mr Michael Hawker (Chair), his Group executive team and other key senior management with responsibility for regulator engagement, policy and government relations, sustainability initiatives, investor relations and external communications.

Asia Management Advisory Council (AMAC)

The purpose of AMAC is the coordination and communication of the Group's Asian growth plans to ensure:

- Operations align with agreed corporate and Asian strategies;
- All Group activities in Asia are effectively coordinated and implemented across the business;
- The Group develops internal and external capabilities to operate effectively in the Asian region;
- An effective risk management framework for Asia is in place; and
- Asian operations are consistent with the Group's corporate values and ethical code of conduct.

Its members include Mr Ian Brown (Chair), Mr Michael Hawker and a number of his Group executives and other senior managers resident in Australia and Asia.

7b. Internal policies

Together with the Code of Conduct and Continuous Disclosure and Insider Trading Policy, the RMS details the Group's principles, appetite, key controls and monitoring processes for managing the risks outlined in the diagram "IAG's Risk Categories" at page 38.

The main aim of the RMS is to describe the risk management frameworks within the Group. The RMS is a primary input to, and evolves with, IAG's corporate strategy. It is a statement of minimum acceptable standards for managing the full spectrum of risks associated with pursuing corporate objectives and fulfilling the Group's purpose.

The RMS is reviewed annually by the Board and, if considered appropriate, updated consistent with APRA prudential standards. The RMS was amended during the year to include, among other matters, a new risk category, "corporate & strategic" risk (risks associated with corporate strategy development and execution of corporate transactions) in order to provide a heightened focus for management and the Board on this key risk category.

7c. Key risk management processes

Management employs the following key processes to meet, as well as monitor, the requirements of the Group's RMS.

Management Assurance Framework

This is a framework of self-assessment questions posed to, and answered by, management relating to the effectiveness of risk management processes and internal controls. The answers support the CEO, CFO and Board declarations on risk management, internal control and external financial reporting.

Risk Profiling

Each Business Unit identifies, assesses and designs controls for risks to achieving business objectives.

Risk Reporting

Reporting on risk management initiatives and issues is supplied to:

- The ORM by each Business Unit;
- The key management committees (ie ALCo, UPPCo, RepCo and AMAC) relating to the specific risks that these bodies oversee;
- Each meeting of the IAG Risk Management & Compliance Committee and the IAG Audit Committee; and
- Regulators and industry groups, where relevant and appropriate.

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Internal Audit

Internal independent reviews of key risk areas, processes, projects and management assertions about risk management and internal control are undertaken by the internal audit function (Group Risk Assurance). It reports to the Head of Group Risk & Compliance, who reports to the Chief Risk Officer, the IAG Risk Management & Compliance Committee and the IAG Audit Committee.

Independent Auditor's Reviews

External independent reviews of key financial risk areas, processes and issues are provided by the independent auditor.

7d. Culture

The Board and management actively promote a culture of honesty, transparency, teamwork, meritocracy, and social responsibility and encourage early and open communication of risk. To facilitate this open culture, the Board provides open access to the Chairs of the Board, the Audit Committee and the Risk Management & Compliance Committee. In particular, the Group has established:

- Mechanisms for rapid escalation of important matters to relevant executives and/or Board members; and
- Performance incentives for management aimed at encouraging a proactive risk management culture.

8. COMMUNITY AND ENVIRONMENT

The Group recognises that its business has an impact on the community, the environment and the wider economy, and believes it must operate in a way that responds to these impacts effectively to meet its commitments to shareholders, customers and employees.

As such, the Group acknowledges that the sustainability of its businesses is directly tied to the sustainability of the communities in which it operates. The Group's purpose and values have been built on the premise that returns to shareholders will be enhanced by conducting business in a way that creates value for society across environmental, social and economic dimensions.

Social responsibility is a basic foundation for the way the Group operates. The Group is committed to ensuring it has appropriate policies and agreed practices to guide its actions, including employee practices, conduct in the marketplace, environmental care, governance and ethical conduct, occupational health and safety, human rights and community involvement.

The company released its inaugural Sustainability Report in November 2004, which is available at www.iag.com.au. This report measures the Group's performance against a series of social, economic and environmental indicators. Ongoing monitoring and progress in this area will be reported annually. In addition, the Group's Statement of Commitment to Community, Safety and the Environment is available at www.iag.com.au.

Ongoing stakeholder dialogue is a key element that drives the Group's community-based initiatives. In December 2004, the Group invited key community leaders to participate in a survey about social issues facing the community and the role of insurance in addressing these issues. The information gathered is being used by the Group to ensure it remains focused on issues most critical and valuable to the community. The Group intends to evaluate progress through future surveys.

The Group acknowledges that its impact upon society, the environment and the wider economy also occurs indirectly through its suppliers, vendors and contractors. Accordingly, the contracting of services and the purchase, hire or lease of equipment and materials must be consistent with the Group's Supplier Selection Guidelines, which include relevant standards on a number of these issues.

9. REMUNERATION FRAMEWORK

The Group's approach to compensation arrangements for all employees, including Non-executive Directors and executives, is based on ensuring that the Group can attract and retain the best people to drive corporate performance and deliver fair returns to shareholders.

Details of the Group's remuneration policies for its Non-executive Directors and executives, the relationship of these policies to IAG's performance and details of the remuneration paid to the Non-executive Directors and to relevant executives are disclosed in the Remuneration Report commencing on page 44.



IAG's Risk Categories