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Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
Department of the Senate
Parliament House
Canberra ACT 2600

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Insurance Australia Group Limited (IAG) welcomes the Parliamentary Joint Committee on Corporations and Financial Services Inquiry into corporate responsibility and triple bottom line reporting for incorporated entities in Australia.

I enclose a copy of our submission. IAG would be happy to discuss with the Committee any of the issues raised in our submission or to make a formal presentation to the Committee.

Should you require further information on any of the issues raised in this submission please do not hesitate to contact Pauline Gregg, Senior Manager, Corporate Social Responsibility, Corporate Sustainability Team on (02) 9292 9413 or Dr Barbara Carney, Group Head, Government Relations & Policy on (02) 9292 9744.

Yours sincerely

Sam Mostyn
Group Executive Culture & Reputation
Insurance Australia Group

EXECUTIVE SUMMARY

Perhaps the simplest and most effective articulation of the business case for corporate responsibility comes from the World Business Council for Sustainable Development, which simply states, "Business cannot survive in a society that fails"[1].

Insurance Australia Group's (IAG) approach to corporate responsibility lies in the fundamental recognition that our business has impacts on the community, the environment and the wider economy; and that it is good business to operate in a way that recognises these impacts and responds to them effectively.

Michael Hawker, CEO of IAG, has articulated IAG's position in simple terms: "Strong companies are sustained because they understand, and respond to changing customer and community priorities".[2]

The core of IAG's sustainability work is that we seek to deliver shareholder value by excellent management of our group of companies - for the long term. We actively make sustainability central to our core business by embracing opportunities and managing risks deriving from the full range of economic, environmental and social factors that interact with, and impact on, our operations every day.

IAG has taken considerable time and collective thought to interrogate and define it's purpose, namely the role we play in the society in which we operate. Inherent in this debate has been our deep consideration of the extent to which our business decisions must have regard for our customers, our people, our shareholders and the broader community.

We acknowledge that our thinking in this area is continuing to develop and mature, as our understanding of our social licence to operate deepens and is informed and enriched by dialogue with our key stakeholders.

In essence, as an insurer with one in three households in Australia and New Zealand relying on IAG to protect them and their assets, we believe our purpose is to deliver value in four ways:

- *Paying Claims* – the very reason our customers pay premiums is peace of mind that comes with knowing that in times of loss, IAG will cover legitimate claims;
- *Understanding and Pricing Risk*- we do not underprice risk, putting our ability to pay claims into question, nor overprice risk, putting the affordability of insurance into question;

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[1] *Sustainability Through the Market: Seven Keys to Success*, World Business Council for Sustainable Development, 2001

[2] *The Fewer The Risks The Better – For Everyone*, IAG Sustainability Report 2004 http://www.iag.com.au/pub/iag/sustainability/publications/report/2004/index.shtml

- *Managing our costs* - being as efficient as possible helps to reduce the costs of insuring risk; and
- *Reducing risk in the Community* – one of the greatest benefits IAG can provide to our customers and the broader community is to identify the very risks being insured and help to reduce them. Risks in this context covers road safety, crime, the environment (and climate change in particular), emergency services and workplace health and safety.

IAG initially spent over two years exploring and interrogating our corporate responsibility/sustainability approach before we decided to produce a sustainability report. We believe that we have developed some leading edge thinking in relation to the role of an insurer in society and we are receiving feedback in global forums that our work in relation to our supply chain and on climate change advocacy is new and inspiring and business focused.

IAG was the joint winner of an award by the Australian and NZ Association of Certified Chartered Accountants (ACCA) for Best First Time Reporter, Sustainability Reporting 2004. ACCA indicated that one of the key strengths of the report was the strong articulation of the business case for sustainability.

IAG continues to rate well in local and global corporate responsibility and sustainability indices, including the Corporate Responsibility Index and RepuTex Social Responsibility Rating, and we are included in the FTSE4Good Index.

Had we pursued our sustainability agenda from a compliance driven perspective, the outcome would have been very different.

IAG maintains that the essence of success in achieving full integration of stakeholder considerations into business decision making lies in the understanding that there is no "one size fits all" approach.

Success in owning and driving a corporate responsibility agenda lies in the effort that the company makes in exploring, debating and deciding how best it can integrate these considerations into its purpose and operations.

In pursuing such an approach, corporations have a very real opportunity to develop and implement agendas that are not only new and innovative, but which are relevant to their operations and which resonate with their employees. More importantly, it provides the opportunity for companies to understand the approach that will take account of stakeholder interests in a way that adds value to their business.

IAG believes that attempting to regulate corporations in this regard has the following potential problems:

- The practical difficulty in prescribing directors duties that can apply across a range of sectors and markets (one size does not fit all);
- How to define the actual desired outcomes of a regulatory framework and the means for achieving them;
- The risk of creating compliance driven cultures within organizations, which inevitably leads to a failure of integrating responsible behaviour into the business.

IAG considers that corporate responsibility within Australia is still an emerging practice and introducing some form of obligation on companies to consider or report on corporate responsibility activity could artificially speed up or terminate new and emerging approaches before they have an opportunity to prove successful or otherwise.

Further, IAG believes that consideration of appropriate mechanisms to drive integration of corporate responsibility principles in companies should not underestimate the power of markets in influencing and shaping corporate behaviour.

Increasing numbers of institutional investors are requesting and requiring disclosure and transparency on the broad range of social and environmental issues related to a company's operations.

IAG believes that investor activity and market demands, combined with complementary government policies and frameworks provides enormous potential to encourage companies to adopt a corporate responsibility approach. There is therefore a pivotal role for government in corporate responsibility, and it need not involve mechanisms regulating corporate activity. In particular, government has two major roles:

- To demonstrate leadership in its own activity to encourage corporate responsibility and sustainability across all sectors; and

- Providing an environment where companies are encouraged to create innovative corporate responsibility and sustainability approaches by providing for flexibility, competitive and market-led developments.

IAG believes that meaningful dialogue on the desired outcomes of all sectors in pursuing a mutually acceptable corporate responsibility agenda will achieve strong outcomes. Most importantly, it presents an opportunity to create a flexible operating framework that encourages companies to explore, debate and decide how best to integrate these considerations into their operations.

Adoption of such an approach in Australia could build on the lessons already learnt in the European Union and has the potential to establish Australia's credentials as a leading force in corporate responsibility.

In the 2004 Dow Jones Global Sustainability Index, Australia ranked top in the category of corporate governance[3]. This presents a strong platform from which Australian business could develop a leading corporate responsibility strategy where corporate governance and practices are aligned with stakeholders' expectations on environmental protection and social process, as well as economic performance.

Clearly there are strong opportunities for government and business to develop a policy framework that will encourage companies to build long-term shareholder value and grow social capital for Australia.

INTRODUCTION

Insurance Australia Group Limited (IAG) welcomes the Parliamentary Joint Committee on Corporations and Financial Services Inquiry into corporate responsibility and triple bottom line reporting for incorporated entities in Australia.

Who is Insurance Australia Group?

IAG, a publicly listed and Australian owned company, is the parent company of the largest general insurance group in Australia and New Zealand. It provides personal and commercial insurance products under some of the most respected and trusted retail brands including NRMA Insurance, SGIO, SGIC, CGU and Swann Insurance in Australia, and State and NZI in New Zealand.

IAG's core lines of business include:

- Home insurance
- Motor vehicle insurance
- Business insurance
- Consumer credit insurance
- Product liability insurance
- Compulsory third party (CTP) insurance
- Workers' compensation insurance
- Professional risk insurance

[3] www.sustainability-indexes.com

IAG has a crucial interest in the long-term viability of insurance as a product valued by the Australian community. IAG believes that there are four principal ways in which the insurance industry can best meet these objectives. These are:

- Investing in robust risk control frameworks and mechanisms that protect policyholders and provide certainty to shareholders;
- Pricing products realistically;
- Ensuring that customers understand what they are buying when they purchase a policy, and that products do not arbitrarily advantage or penalise particular individuals or groups; and
- Committing to, and supporting, on a continuing basis, a comprehensive and clearly defined regulatory framework that facilitates more affordable premiums and more predictable claims costs.

Corporate Responsibility - definition

In making this submission to the Inquiry, it is important at the outset to deal with the issue of definitions and terminology used to explain corporate responsibility and to define the rationale that underpins IAG's approach. This is particularly important given the lack of a broadly accepted definition in Australia and indeed globally. This is also reflected in the absence of a definition of "corporate responsibility" in the Inquiry's Terms of Reference.

Corporations across the globe use a variety of terms and definitions to describe their business approach to corporate responsibility. The myriad of terms includes Corporate Social Responsibility, Corporate Sustainable Development, Corporate Responsibility, Triple Bottom Line and Corporate Sustainability. The lack of a globally defined term continues to cause some confusion for corporations in considering pursuit of such an agenda, especially those in the initial stages of formulating a corporate responsibility approach.

Many corporations globally have chosen to articulate acknowledgement of their responsibilities to a broad range of stakeholders throughout society including employees, customers, business partners, communities and the environment. Insurance Australia Group is one of those companies. We define our stakeholders as those who have the greatest "value impact" relationship with IAG – in other words, those who impact on our activities and those who are impacted by our activities, either directly or indirectly.

IAG believes that use of the term "responsibility" carries a connotation of compliance that potentially limits the range of innovation and opportunities that companies can embrace and harness in a sustainable business approach.

IAG prefers instead to use the term “sustainability” because it better reflects our fundamental belief that strong companies are sustained and will continue to operate and grow into the future because they understand, and respond to, changing customer and community priorities.

IAG seeks to deliver shareholder value by excellent management of our group of companies for the long term. We are a publicly listed company on the Australian Stock Exchange with almost 1 million shareholders, many of who are retail investors. We consider sustainability to be central to the way in which our core business is delivered and that we can create *enhanced long-term shareholder value* by embracing opportunities and managing risks deriving from the full range of economic, environmental and social factors that interact with, and impact on, our business every day.

Because of our view of sustainability, IAG has a corporate objective of competitive differentiation and market advantage based upon being an organisation aligned around social, environmental and ethical responsibilities. This objective is explicitly acknowledged by the IAG Board.
For the purposes of this submission, the term ”corporate responsibility” (CR) will be applied to ensure consistency across the Inquiry’s deliberations.

Terms of Reference

The extent to which organisational decision makers have an existing regard for the interests of stakeholders other than shareholders, and the broader community.

The extent to which organisational decision makers should have regard for the interests of stakeholders other than shareholders, and the broader community

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IAG's Approach

Perhaps the simplest and most effective articulation of the business case for corporate responsibility comes from the World Business Council for Sustainable Development, which simply states, "Business cannot survive in a society that fails"[4].

IAG recognises that our business has impacts on the community, the environment and the wider economy. If fact, we believe that it is good business to operate in a way that recognises these impacts and responds to them effectively.

We have made publicly available on the IAG website (www.iag.com.au) a series of Statements of Commitment that articulate our ***business commitment to our stakeholders***. There are three central Statements:

- Statement of Commitment to Sustainability
- Statement of Commitment to the Environment
- Charter for Health, Safety and Security

Copies of these Statements are provided in Attachments A-C for the Parliamentary Committee's information. IAG's position in those Statements can be summarised as follows:

- We acknowledge that the sustainability of our business is directly tied to the sustainability of the communities in which we operate;
- We consider that returns to our shareholders, and the company's own stability and growth potential, will be enhanced by us conducting our business in a way that creates value for society on numerous fronts, across environmental, social and economic dimensions;

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[4] *Sustainability Through the Market: Seven Keys to Success*, World Business Council for Sustainable Development, 2001

- We believe this because running a successful business, including having access to the capital and community support that we need to grow, is the best way for us to meet our commitments to our shareholders, our customers and our people;
- We have identified our key stakeholder groups and IAG has publicly acknowledged our belief that ongoing stakeholder dialogue is essential for us to respond to the expectations of the community in which we operate; and
- We welcome dialogue with our stakeholders and consider it is an essential component of our commitment to continually improve our practices and operations. We strive to build meaningful relationships with our stakeholders primarily thorough engagement and partnerships.

IAG's commitment to sustainable business practice originates at the Board level. The Board's Nomination, Remuneration & Sustainability Committee holds responsibility for providing oversight on how IAG ensures it acts with a high standard of social, environmental and ethical responsibility in all its areas of operation (the Committee's Terms of Reference are provided in Attachment D)

Other specific responsibilities of the Board's Committee include:

- Consideration and review of the social, environmental and ethical impacts of IAG's business practices and review the appropriateness of the standards set by management for social, environmental and ethical practices;
- Consideration and endorsement of management initiatives to achieve IAG's corporate objective of competitive differentiation and market advantage based upon being an organisation aligned around social, environmental and ethical responsibilities;
- Monitoring how effectively the views of IAG's key stakeholder groups (people, customers, community and shareholders) are considered; and
- Monitoring compliance with IAG's published social, environmental and ethical responsibility policies and practices and the level of their integration into the business.

The Role of IAG in Society

Integrating stakeholder interests in our values, purpose and business operations

IAG has taken considerable time and collective thought across the organisation to interrogate and define its purpose, namely the role we play in the communities in which we operate. Inherent in this debate has been our deep consideration of the extent to which our business decisions must have regard for our customers, our people, our shareholders and the broader community.

We acknowledge that our thinking in this area is continuing to develop and mature, as our understanding of our social licence to operate deepens and is informed and enriched by dialogue with our key stakeholders.

Our initial thinking centred on the role of insurance as a community product. The origins of the insurance business lie in meeting a societal need that individuals and small groups cannot address on their own. In IAG's view, insurance is based on the community value that it is more economic and fulfilling to pool effort, resources and interdependencies to lead a life that is long, enjoyable and less risky than it would be otherwise.

To best manage risk, communities all over the world use some type of insurance.

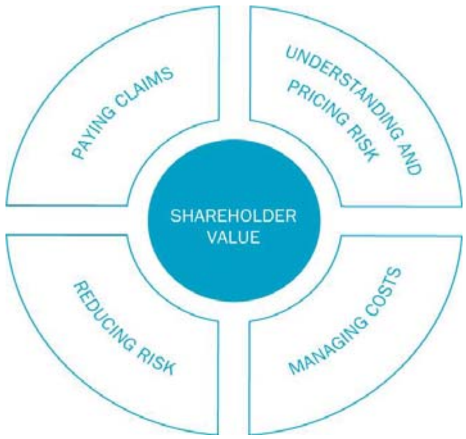
The community generally reduces those risks by insuring against personal accidents and mishaps or natural phenomena, such as fires or storms. Individuals and communities set aside money and pool it. If a personal accident or natural disaster occurs, the pool of funds is used to help them recover, repair or rebuild.

As IAG has further considered the value proposition of insurance as a community product, we have deepened our understanding of what the community expects of us. As an insurer with one in three households in Australia and New Zealand relying on IAG to protect them and their assets, we believe our purpose is to deliver value in four ways:

- Paying Claims
- Understanding and Pricing Risk
- Managing our costs and
- Reducing risk in the Community

These are the four central elements of activity that IAG must deliver well to fulfil our role in society.

IAG recognises that our purpose involves a complex interconnection and linking of IAG's role and responsibilities to all our stakeholders, with specific emphasis on customers, shareholders, our staff, our business partners, the environment and the community generally.



Paying Claims

Customers expect their claims will be paid. That is the point of insurance. However, IAG believes we must also ensure there is no misalignment between what we pay our customers when they claim and what they perceived we would pay when they initially entered into the policy.

While this aspect of our purpose has greatest relationship to customers as a key stakeholder, there are broader impacts on a range of stakeholders. In managing claims, IAG's work also lies in quickly getting customers back to their normal way of life so they do not suffer hardship and in turn do not negatively impact on others. This in turn supports a society that collectively suffers minimal loss from events that have the potential to destroy societal value.

For example, in the case of workers' compensation, getting people back to work as quickly as possible assists them to resume their normal working life and the income and lifestyle that they expect and have worked hard to achieve. In doing so, the community benefits from less dependence on supporting social services, the employer reduces operating costs and governments are able to maintain and improve workers' compensation schemes within their jurisdictions.

During 2004-05, IAG paid out around $4.2 billion in claims, equating to approximately $11 million per day.

Understanding and Pricing Risk

Insurers price products before their full cost is known. It is therefore imperative that they are expert in assessing and pricing risk accurately and fairly.

The challenge for insurers is to price the risk, ensuring it is neither overpriced nor underpriced. The collapse of HIH Insurance clearly demonstrated that underpricing risk seriously jeopardises the long-term viability of an insurance company and its capacity to always be around to pay claims.

In support of this purpose, IAG employs a range of specialists such as industry researchers, atmospheric scientists, underwriters and actuaries, who collect and analyse data relating to risks.

While this plank of IAG's purpose may initially be considered to relate primarily to customers, the broader community and societal impacts of inappropriately priced insurance are significant.

If risk is priced too highly, people will not take out insurance and in the instance of catastrophe; the loss to the individual and the consequent demand on community resources will be significant. The 2003 Canberra bushfires provide a strong example of the potential economic and social impacts of non-insurance. In cases where those who did not insurance suffered property loss, there was significant personal hardship. There was a strong community impact in that local neighbourhoods and communities took longer to rebuild and there was an additional cost to government in providing assistance to those victims (Government support was $10,000 for insureds and $5,000 for non-insureds).

Conversely, the underpricing of risk has consequences. It was not just the customers of HIH Insurance that were impacted by the company's collapse. Its employees, supply chain, and customers of HIH's policyholders (for example Builder's Warranty insurance) all suffered loss. Not only were governments called upon to financially assist those suffering most loss, government resources were required to investigate the collapse and set in train regulatory regimes to prevent recurrences. IAG maintains that this would not have been necessary had the company in question acted responsibly. Indeed, Parliamentary Library Paper (2001) *HIH Insurance Group Collapse* provides details of the action taken by various jurisdictions to address the HIH issue. Details are outlined below.

HIH Insurance Collapse & Government Assistance Packages

	Rescue package funded by	HIH collapse exposure
NSW	Insurance protection tax	$600 million
VIC	Building industry levy & Government	$70-$80 million
QLD	$5 levy a year for compulsory third party	$400 million
WA	**5% levy on workers' compensation premiums**	**More than $93 million**
SA	No rescue package	No figure given
TAS	Levy on workers' compensation premiums	More than $50 million
ACT	3% levy on workers' compensation premiums	$30 million
NT	Government provided $3 million for workers compensation to last 3 months	$40 million
FEDERAL	Federal Government package	$640 million

Source: Parliamentary Library, (June 2001), HIH Insurance Group Collapse, Current Issues.

Managing our Costs

An insurer's operating costs are included in the price of a premium. IAG considers it must be efficient as possible to keep costs down so as to minimise this component in premium prices. The economics of IAG's business are based on scale, which allows access to volume across the supply chain, without sacrificing quality. IAG is responsibly using our scale to keep our costs per policy down.

IAG is now exploring how we might take this further – how our scale could best be utilised to influence and benefit the broader range of IAG's stakeholders. This requires understanding of long-term shareholder value that can be derived from integrating such an approach into short-term financial imperatives (such as costs).

For example, IAG understands that its long term business will be impacted by human induced climate change, typified by an increase in the frequency and ferocity of weather events that will result in increased insurance claims and payouts. IAG is addressing how it might best leverage its scale with its supply chain to address the primary cause of climate change, greenhouse gas emissions. The use of IAG's scale could assist in leveraging outcomes that both increase awareness of the impacts of climate change and assist in reducing greenhouse gas emissions.

Reducing Risk in the Community

Insurers and the community alike benefit from reducing the likelihood of a claim from occurring in the first place. None of us wants to experience the hardship that leads to making a claim, so IAG uses its data and knowledge to help reduce the likelihood of a claim occurring in the first place. IAG concentrates on reducing environmental risks, crime and workplace injury.

IAG understands that there is mutual benefit for all our stakeholders in working to reduce risk in a fashion that does not discriminate against non customers.

Examples of IAG's work which best demonstrate this principle are:

- Simple advice to the general community (by way of a media release) at the commencement of a holiday period on steps to protect property while people are on holiday – we do not discriminate with this advice to customers only as we believe the societal benefits to all are strong;

- IAG's Technical Research Centre collaborates with leading motor vehicle manufacturers and provides advice and feedback on their design, particularly safety features. The resultant change not only reduces IAG's claims costs, it provides for the manufacture and design of safer vehicles, benefiting the community generally;

- IAG has shared its motor vehicle research through the launch of the Greensafe Car Profiler – a web based tool on all IAG's retail brand websites – which rates motor vehicles on safety and environmental performance; and

- Use of IAG's claims data to identify high-risk areas for accident and safety within the home and integration of that information into Help House, an interactive web based portal on all IAG's retail brand websites to assist people to make their homes safer.

For further information on IAG's work to share our knowledge to reduce risk, please see pages 10 and 11 in the IAG 2004 Sustainability Report.

The extent to which the current legal framework governing directors' duties encourages or discourages them from having regard for the interests of stakeholders other than shareholders, and the broader community

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As a listed company, IAG believes that the current legal framework, the function of investment markets and media/stakeholder interest, combine to provide an appropriate incentive for our directors (and directors of the companies which we insure and in which we invest) to have regard for a wide range of stakeholder interests, while ensuring that the interests of investors are protected.

We believe that directors have the freedom, and often even the mandate, to take the interests of stakeholders into account, provided that there is a commercial justification for doing so. The range and nature of stakeholder interests to be taken into account will vary widely from company to company, and from time to time for a particular company.

While the promotion of the interests of the company as a whole must still be the primary focus of directors, there appears to us to be nothing in the relevant legislation or case law which operates to discourage directors from having regard to the interests of other stakeholders. IAG argues that the integration of the interests of stakeholders in fact improves the quality of director's deliberations and can indeed be a source of competitive differentiation and market advantage.

Directors do not, in our experience, generally define their obligations narrowly, or focus on shareholder returns at the expense of all other stakeholders. Having regard to stakeholders' broader interests is vital for the long-term interests of the company and its sustainability. The exclusive pursuit of short-term returns for shareholders may turn out to be counter-productive in the longer term, thus circumstances may warrant incurring a short-term cost that benefits some stakeholders provided the directors are satisfied that this is outweighed by the long-term sustainable benefits what will ultimately flow to shareholders as a result of incurring that cost.

In IAG's view, each company is best placed to identify which interests should be taken into account, and how best to do so. As we have seen recently, companies that fail to take relevant stakeholder interests into account potentially risk negative reaction from stakeholders, community groups, the media and government. They also have the potential to destroy shareholder value. These are powerful factors, and it is arguable that directors would already risk breaching their duties if they failed to give due regard to such interests or to give regard to the interests of shareholders to the exclusion of such interests.

Each company's stakeholders are so diverse and prone to change that it would be extremely difficult to prescribe new directors' duties, even if high level principles were adopted. For the same reasons, we believe that prescribing a particular form of disclosure would also be unworkable, and could encourage companies to adopt a "tick the box" approach, rather than address the underlying issues.

There is a body of existing legislation, regulations, guidelines and recommendations that sit alongside the basic directors' duties (as set out in the Corporations Act and in relevant case law) and operate to safeguard a wide range of stakeholders' interests. These include the "if not, why not", disclosures required of its ASX listed companies by the ASX Principles of Good Corporate Governance and Best Practice Recommendations (in particular Principle 10, which says that companies should establish and disclose a Code of Conduct to guide compliance with its obligations to "legitimate stakeholders"). Directors must also ensure compliance with a broad range of legislation covering, among other things, environmental protection, OH&S, trade practices and consumer protection.

We believe that the challenge now is to keep such legislation and regulation relevant to meet the ever-changing interests of stakeholders, and for directors to ensure compliance with it, while appreciating fully the impact that their actions may have on the interests of stakeholders and the sustainability of their companies.

Whether revisions to the legal framework, particularly to the Corporations Act, are required to enable or encourage incorporated entities or directors to have regard for the interests of stakeholders other than shareholders, and the broader community. In considering the matter, the Committee will also have regard to obligations that exist in laws other than the Corporations Act.

For the reasons set out above, IAG believes that there is currently no need to amend the existing legal framework to enable or encourage directors to have regard to broader interests.

Although IAG notes that the question relates to "enable or encourage" companies and directors to have regard for the interests of non-shareholder stakeholders and the broader community, it is worth commenting briefly on the downsides of implementing change that made it mandatory to give such consideration.

Directors are currently, through the operation of case law and the *Corporations Act*, bound to their duties to the company, and to the shareholders as a whole. This test provides an adequate and judicially well-tested statutory framework, originating under the common law, within which to make decisions. Some case law and commentators have recently hinted at an erosion of such a test such that other stakeholders may be factoring into this consideration.

There are also significant laws imposing direct or derivative liability on directors in such areas as workplace safety and the environment.

Beyond those laws currently in place, we believe that the Government should not consider implementing legislation that *requires* directors or companies to take into account matters beyond those already established. To do so would have the real potential to throw directors' duties into chaos, as they would frequently be unable to effectively balance the needs of the company with those of a stakeholder, or even balance an interest amongst multiple stakeholders where those interests are irreconcilable or otherwise would give rise to inconsistent outcomes.

Effectively, if the company and its shareholders as a whole are the primary stakeholders whose interests are preferred, the cumulative effect of current expectations and power of stakeholders such as consumers, regulators, the media, courts and others will likely be properly factored into key decisions.

Maintaining the status quo would thus avoid higher risks of litigation against companies and their directors, and ensure that many highly experienced competent directors did not withdraw from the available pool due to potential expectations and liability being too high. It would also ensure that Directors' & Officers liability insurance has the best chance of being both attainable and affordable.

Any alternative mechanisms, including voluntary measures, that may enhance consideration of stakeholder interests by incorporated entities and/or their directors.

There are a number of global standards and mechanisms that apply to corporate responsibility. The application and relevance of these standards to corporate operations varies significantly.

The major international standards applying to companies have been identified by KPMG in its 2005 International Survey of Corporate Responsibility Reporting[5] and are listed as follows*:

Global Compact
UN Declaration of Human Rights
Equator Principles
Other UN Declarations
AA1000
Sullivan Principles

ILO
OECD Guidelines for Multinational Enterprises
SA8000
ICC Business Charter
Responsible Care

The Global Reporting Initiative was not identified in this list as it is regarded as a specific standard for Corporate Responsibility* reporting. Specific discussion on the GRI follows in detail in Reference (f) in this submission.*

The application and relevance of these standards varies significantly. Some standards encompass a very broad range of stakeholder interests, for example the OECD Guidelines for Multinational Enterprises cover a broad spectrum of stakeholder interests and concerns ranging from human rights to environmental management, competition, consumer interests and corporate disclosure. Other standards are specifically aimed at the interests of particular stakeholder groups – for example the core labour standards of the International Labour Organisation, apply to employees only.

Some are sector specific, such as the Equator Principles that apply to the finance sector. Some require active commitment and promotion from those with "signatory status" whereas others serve to provide a reference point for corporations to identify, consider and possibly benchmark local or global stakeholder interests.

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[5] http://www.kpmg.com/Rut2000_prod/Documents/9/Survey2005.pdf

It is worth noting that the majority of these standards have been formulated for global application and this is in keeping with the KPMG observation that "…the CR movement as indicated by reporting is led primarily by multinational (G250) corporations rather than by other national influences".[6] This also supports the finding that of the global CR reports examined; most refer to the standards established by the United Nations System followed by the OECD Guidelines. Management frameworks such as SA8000 or AA1000 were found to play a relatively marginal role in CR reporting.

It is clear that the challenge arising from the variety of standards currently available lies in the view that "one size fits all" is not an appropriate approach to guide companies undertaking a corporate responsibility agenda. Some companies operate globally, some nationally, others locally. In each case and across sectors and industries, the stakeholders are different and their levels of impact differ significantly across operations. Accordingly, IAG accepts that there is a need for a range of standards that apply to differing aspects of corporate operations on corporate responsibility.

IAG considers the greatest strength of these standards lies in the fact that they are voluntary. Companies that choose to apply, sign up to, support and comply with these standards and mechanisms do so because they recognise their value; and they are relevant to their business, rather than being required to comply with them. Commitment by companies to the standards promotes a "centre of excellence" where the benchmark for corporate responsibility and the consideration of the wide range of stakeholder interests continues to improve and mature as companies adopt innovative approaches.

The standards and mechanisms also serve as a useful point of reference for those companies contemplating a corporate responsibility approach – they allow companies to benchmark, explore, understand what is important to stakeholders and translate how they might engage and respond to their local and key stakeholders if those issues are relevant to both their business and their sphere of operation.

Given that IAG's operations have in the past largely been in Australia and New Zealand, our adoption of the range of global standards has been limited. We have not yet dealt with the corporate responsibility issues and standards that provide greater levels of guidance for global organisations, particularly those operating in developing countries and emerging economies.

However, given IAG's commitment to growth in Asia and as we move to become a truly global organisation with interests outside Oceania, we are building capacity around the corporate responsibility issues that we will face as a multinational organisation and investigation of those mechanisms and standards is part of our work in building our capability. We will strive to participate in, and strongly support, standards and voluntary mechanisms that will enable IAG to better understand the interests of stakeholders in our potential global operations.

[6] http://www.kpmg.com/Rut2000_prod/Documents/9/Survey2005.pdf

One of the first actions IAG has taken in this regard was to become a signatory to the United Nations Environment Program Finance Initiative (UNEP FI) a partnership between global finance sector organisations and UNEP to promote sustainable business in the finance sector. IAG is active in the Initiative, holding an elected position on the global Steering Committee of UNEP FI.

The appropriateness of reporting requirements associated with these issues.

In terms of corporate responsibility reporting, the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) are now well established and recognised as the International standard for reporting on corporate responsibility performance. According to the GRI, 707 companies currently report on the basis of the Guidelines [7]. In contrast to the standards and mechanisms that guide management of Corporate Responsibility issues, the GRI Guidelines are largely applicable to organisations across all sectors, whether they are national or multinational operations.

However, at the same time, the GRI is also working to progressively ensure the guidelines are appropriate to sectors with the development of sector supplements.

In reporting for the first time in 2004, IAG chose to measure and report our activities against the GRI framework for sustainability reporting. The GRI indicators which IAG reported can be found at Page 32 of the 2004 Sustainability Report “The Fewer the Risks the Better – For Everyone”.

IAG is a strong supporter of the GRI framework and considers it is an appropriate standard for corporate responsibility reporting. Its wide acceptance amongst corporations globally is warranted; and IAG considers it should be accepted as the international standard for CR reporting.

IAG is an organisational stakeholder of the GRI and is an active participant in its global work program. Since 2003, a senior member of IAG’s Sustainability Team has been a member of a joint working group established by UNEP FI and the GRI to develop a Finance Sector Supplement to the GRI for environmental indicators.

IAG considers that there are strong benefits in using the GRI Guidelines. From our Group’s perspective, the most important aspect is that the Guidelines were developed through a global multi-stakeholder consultative process. The environmental, social and economic performance indicators (that have become the main staple of the Guidelines) were agreed by stakeholders to be the most important and relevant measures that companies should report their performance against.

[7] www.globalreporting.org

This provides IAG with a level of confidence that the indicators within the guidelines are at the very least, a viable starting point for engagement with our own key stakeholders on sustainability reporting for IAG's operations.

Further, the work of the GRI involves active participation of representatives from a broad range of stakeholder groups – including representatives from business, investment, human rights, research and labour organisations from around the world[8]. Accordingly, the ongoing multi-stakeholder process has ensured that GRI indicators contained in sector supplements are current, relevant and important issues for stakeholders.

IAG considers that the standardisation of indicators in the GRI assists organisations to benchmark performance within and across sectors.

One of the central features of the GRI Guidelines is the fact that participation is voluntary and organisations are permitted to report against any or all of the indicators. The flexibility in the number of indicators to be reported allows an organisation to build capability over time. In a practical sense, companies that have not previously measured social and environmental performance need time and resources to build and manage the systems that will enable them to measure, benchmark and improve performance across non-financial dimensions.

In our first report, IAG chose to measure and report performance against 26 GRI Indicators. We consider that over time, as the issues of importance to our stakeholders continue to inform our work, we will build capacity to improve our reporting and to increase our internal recognition of the importance of non-financial data in the organisation's overall performance.

[8] www.globalreporting.org

Whether regulatory, legislative or any other policy approaches in other countries could be adopted and adapted for Australia

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IAG does not currently operate in any overseas markets where there are regulatory or other policy approaches in respect of corporate responsibility. Accordingly, commentary in this section is based on IAG's research, observations and collaboration with global peers in the corporate responsibility field.

International Precedents

Companies in the European Union and the UK are generally considered to be the most advanced in terms of Corporate Responsibility practice and reporting. Companies from these markets consistently continue to dominate top rankings in the Dow Jones Global Sustainability Index.

There has been activity in the European Union and its separate national Governments to advance the CSR agenda over the last five years and in the United Kingdom, there have been a series of initiatives to promote a CR framework for business, including the creation of the Minister for Corporate Social Responsibility.

It is interesting to note that while these markets all promote corporate responsibility, the extent to which it should be regulated remains subject to debate. The European Multi-Stakeholder Forum on CSR, chaired by the European Commission failed to reach agreement on the extent to which CSR should be incorporated into the regulatory environment and fell short of recommending mandatory reporting, calling instead for "ensuring an enabling environment for CSR".[9] There are apparently no plans by the EU to further pursue the issue of mandatory Corporate Responsibility reporting.

In terms of those member countries that have introduced mandatory reporting requirements, it seems that the "jury is still out" on the effectiveness of those reforms in that most of the legislative changes have only been implemented recently, with Germany and Finland being examples.

Perhaps the most established legislation in this regard is the French NRE Law, which has been in operation since 2001. IAG's research on this legislation reveals conflicting views on its success. Criticisms of the law relate to the difficulty in securing agreed indicators, the question of external certification or auditing, and the cost of reporting.

In the UK, the proposal to include social and environmental considerations in the Operating and Financial Review remains subject to consultation.

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[9] European Multistakeholder Forum on CSR – Final Results & Recommendations 2004, linked from http://www.euractiv.com/Article?tcmuri=tcm:29-128631-16&type=News

While there are no current proposals to require companies in Australia to report on their environmental and social performance, IAG does not believe that regulatory approaches will necessarily produce the desired outcomes for governments and society.

IAG maintains that the essence of success in achieving full integration of stakeholder considerations into business decision making lies in the understanding that there is no "one size fits all" approach.

Success in owning and driving a corporate responsibility agenda lies in the effort that the company makes in exploring, debating and deciding how best it can integrate these considerations into its operations.

In pursuing such an approach, corporations have a very real opportunity to develop and implement agendas that are not only new and innovative, but which are relevant to their operations and which resonate with their employees. More importantly, it provides the opportunity for companies to understand the approach that will take account of stakeholder interests in a way that adds value to their business.

IAG initially spent over two years exploring and interrogating our corporate responsibility/sustainability approach before we decided to produce a sustainability report. We believe that we have developed some leading edge thinking in relation to the role of an insurer in society and we are receiving feedback in global forums that our work in relation to the supply chain and on climate change advocacy is new and inspiring.

IAG was the joint winner of an award by the Australian and NZ Association of Certified Chartered Accountants (ACCA) for Best First Time Reporter, Sustainability Reporting 2004. ACCA indicated that one of the key strengths of the report was the strong articulation of the business case for sustainability.

IAG continues to rate well in local and global corporate responsibility and sustainability indices, including the Corporate Responsibility Index and RepuTex Social Responsibility Rating, and we are included in the 2005 FTSE4Good Index.

Had IAG pursued this agenda from a compliance perspective, the result may have been different. IAG considers that corporate responsibility within Australia is still an emerging practice and introducing some form of obligation on companies to consider or report on CR activity could artificially speed up new and emerging approaches before they have an opportunity to prove successful or otherwise.

It is interesting to note that the KPMG survey on CR reporting[10] indicates that there reporting of CR performance is quickly moving away from compliance related disclosure of quantitative data to the reporting of relevant information that is material to the organization's key stakeholders and decision makers.

[10] http://www.kpmg.com/Rut2000_prod/Documents/9/Survey2005.pdf

The Influence of Markets

Discussion about appropriate drivers of CR performance in companies should not underestimate the power of markets in influencing and shaping corporate behaviour.

Increasing numbers of institutional investors are requesting and in some cases, requiring, disclosure and transparency on the broad range of social and environmental issues related to a company's operations.

The underpinning of this approach lies in the acceptance by investors that integration of CR issues in a company can reduce operational costs, minimise unexpected losses and enable companies to foresee and more effectively manage long-term global trends. Two notable examples are:

- The Carbon Disclosure Project which globally represents over 140 institutional investors with assets of $20 trillion (US dollars) who consider potential risks and opportunities stemming from climate change should be assessed in portfolio selection. The investors collectively approach the world's 500 largest quoted companies by market capitalisaton, requesting information about the extent the company has integrated carbon risk into their operations.

- The US based Investor Network on Climate Risk, formed in November 2003, comprising over 40 members representing $2.7 trillion of assets mainly representing public pension funds, state treasurers and religious institutional investors. The Network seeks to promote investor and corporate engagement and understanding of the range of risks posed by climate change.

According to a recent Portfolio Strategy report released by Goldman Sachs, while environmental issues have previously been confined to Socially Responsible Investing (SRI), they now pose potential risks and opportunities for almost every company and they come with financial implications as well. The report "*The interest in environmental issues is important to both socially responsible and fundamental investors*"[11] indicates that environmentally related issues are now an important theme for fundamentally based investors and should not be confined to the SRI industry.

IAG considers that market forces serve as a powerful and healthy driver of corporate behaviour. Investor demands can influence a company to consider and integrate corporate responsibility; while at the same time those demands can be flexible enough to enable a company to tailor its approach in a way that meets the demand yet suits the company's operation and culture. The implications of not responding to investor requirements resonate strongly with companies in a manner that has the potential to drive company performance more effectively than a compliance-based approach.

[11] www.gs.com/research/hedge.html

The Role of Government

IAG believes the combination of investor activity and market demands with complementary government policies and frameworks provides enormous potential to encourage companies to adopt a CR approach. There is therefore a pivotal role for government in corporate responsibility, and it need not involve mechanisms regulating corporate activity. In particular, government has two major roles:

- To demonstrate leadership in its own activity to encourage CR and sustainability across all sectors; and

- Providing an environment where companies are encouraged to create innovative Corporate Responsibility approaches by providing for flexibility, competition and market-led developments.

In practical terms, there is significant potential for a whole of government approach to drive CR activity. Currently, a limited number of government agencies have specific agendas to drive some CR and related activities. In the Commonwealth, examples include the Department of Environment and Heritage, the Department of Family and Community Services and the Australian Greenhouse Office, which all deliver a variety of programs aimed at providing incentives for corporate responsibility activity. Many of those programs have been successful, due to the commitment and leadership from those agencies. However, one of the problems for the private sector in the past has been that in many cases, government programs rarely have a long life and industry often faces new programs every few years

IAG considers there is significant opportunity for activity across government to be better coordinated. For example, the power of influence of government agencies in implementing social and environmental considerations into procurement policy presents an opportunity for government to lead.

Further, taxation reform remains a vital opportunity for government to implement taxes and pricing as incentives for sustainability and corporate responsibility action by business. As one example, the current FBT rules encourage increased road usage instead of providing incentives to reduce motor vehicle usage.

In terms of providing an environment that encourages corporate responsibility by companies, actions that government could undertake are broad ranging, including:

- Educating companies and the public about corporate responsibility issues
- Assistant for research and development of new tools to assist companies to embrace corporate responsibility initiatives;
- Provision of incentives which encourage improved social and environmental performance;

There is no doubt that the private sector has much to offer government and vice versa. IAG believes that meaningful dialogue on the desired outcomes of both sectors in pursuing a mutually acceptable corporate responsibility agenda will achieve strong outcomes. Most importantly, it presents an opportunity to create a flexible operating framework that encourages companies to explore, debate and decide how best to integrate these considerations into their operations.

Conversely, it provides an opportunity for the private sector to raise issues where leadership is required from government.

Adoption of such an approach in Australia could build on the lessons already learnt in the European Union and has the potential to establish Australia's credentials as a leading force in corporate responsibility. It is interesting to note that in reporting the results of the 2004 Dow Jones Global Sustainability Index, Australia ranked top in the category of corporate governance[12]. This presents a strong platform from which Australian business could develop a leading CR strategy where corporate governance and practices are aligned with stakeholders' expectations on environmental protection and social process, as well as economic performance.

Clearly there are strong opportunities for government and business to develop a policy framework that will encourage companies to build long-term shareholder value.

Australia is not unique in debating the merits of regulation and government involvement in corporate responsibility and the debate continues across international markets.

An appropriate concluding comment is provided in the current article in *Ethical Corporation***,** examining why mandatory CR reporting has fallen from the EU agenda:

"Whether regulation is a good or a bad thing, one thing that most corporate reporters agree on is that corporate social responsibility reporting has been useful in enabling organisations to step back and assess how their actions affect their reputation, their labour environment and consumer perceptions. This in itself has conferred on these companies a competitive edge. With this in mind, companies and politicians might do well to remember that business introspection, however, stimulated, can spur rather than hinder growth"[13].

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[12] www.sustainability-indexes.com

[13] *Europe: Why mandatory reporting has fallen from the EU agenda*, Ethical Corporation, 30 August 2005. www.ethicalcorp.com

Attachments

A. IAG Statement of Commitment to Sustainability - http://www.iag.com.au/pub/iag/sustainability/media/IAGcommitmentDec03.pdf

B. IAG Statement of Commitment to the Environment - http://www.iag.com.au/pub/iag/sustainability/media/environmentDec03.pdf

C. IAG Charter for Health, Safety and Security http://www.iag.com.au/pub/iag/sustainability/media/IAG-OHS-Charter.pdf

D. Terms of Reference, IAG Nomination, Remuneration and Sustainability Committee of the Board http://www.iag.com.au/pub/iag/CorpGov/media/NRSCC20050307.pdf

E. IAG Sustainability Report 2004 "The Fewer the Risks, the Better – For Everybody http://www.iag.com.au/pub/iag/sustainability/publications/report/2004/index.shtml