



SUBMISSION TO CORPORATIONS AND MARKET ADVISORY COMMITTEE – THE AGM AND SHAREHOLDER ENGAGEMENT



December 2012

SUMMARY

- IAG has more than 808,000 shareholders (as at August 2012). IAG's register is the third largest in Australia.
- IAG believes annual general meetings (AGMs) provide a forum for shareholder participation in the process of director accountability and engagement by shareholders towards scrutiny of company management.
- IAG considers the AGM provides a valuable forum to facilitate effective corporate governance. IAG believes shareholders understanding and exercising their rights compliments the legal obligation on directors and management to promote and encourage accountability and company performance.
- IAG's corporate governance framework is designed to facilitate and protect the exercise of shareholders' rights. It is based on the premise that shareholders have the right to contribute to, and to be sufficiently informed on, decisions impacting significantly on corporate performance.
- IAG supports amendments to the *Corporations Act 2001* to remove the current "100 member rule" which allows as few as 100 members to requisition general meetings and extraordinary general meetings of listed companies.
- IAG is supportive of reform that seeks to maintain a balance between the need to facilitate shareholder participation against the need to manage the associated costs to companies

INTRODUCTION

INSURANCE AUSTRALIA GROUP (IAG)

IAG is the parent company of an international general insurance group, with operations in Australia, New Zealand, the United Kingdom and Asia. Its current businesses underwrite over \$9 billion of premium per annum and pay over \$6 billion in claims per annum. IAG employs more than 13,600 people of whom around 9,000 are in Australia. Across our portfolio of brands IAG insures 7.7 million cars, 2.9 million homes, 103,000 farms, 117,000 employers and nearly 400,000 businesses. IAG had more than 16.1 million policies in force in financial year 2012.

Within Australia, IAG's Direct Insurance business provides personal insurance products as well as business insurance packages targeted at sole operators and smaller businesses in NSW, ACT, Queensland and Tasmania primarily under the NRMA Insurance brand. SGIO is the primary brand in Western Australia, and SGIC in South Australia. In Australia, IAG also has a distribution agreement with RACV (underwritten by Insurance Manufacturers of Australia – owned 70% IAG; 30% RACV) in Victoria. Products are distributed through branches, call centres, the internet and representatives.

Within Australia, IAG's intermediated insurance products are sold nationally, primarily under the CGU Insurance and Swann Insurance brands through a network of more than 1,000 intermediaries, such as brokers, agents, motor dealerships and financial institutions. CGU is also a leading provider of workers' compensation services in Australia.

IAG'S INTEREST

IAG's interest in the Corporations and Market Advisory Committee (CAMAC) *Discussion Paper – The AGM and Shareholder Engagement* (September 2012) is driven by our large, predominantly retail shareholder register. IAG has more than 808,000 shareholders (as at August 2012). IAG's register is the third largest in Australia.

Moreover, IAG's interest is driven by a commitment to achieving sustainable corporate governance that meets the needs of shareholders, customers, as well as the wider community. We remain conscious of our responsibilities as a corporate citizen and to our shareholders.

To ensure we create value for our shareholders in a sustainable way, IAG is committed to the highest standard of corporate governance. Our approach to governance is based on the view that it must be more than just compliance. Whilst we already have the systems to help comply with a multitude of regulations, codes, rules and practices which govern how we operate, we believe the best protection for a company is a healthy risk management culture based on strong values and a commitment to achieving the company's goals.

IAG believes annual general meetings (AGMs) provide a forum for shareholder participation in the process of director accountability and engagement by shareholders towards scrutiny of company management. IAG considers the AGM provides a valuable forum to facilitate effective corporate governance. IAG believes shareholders understanding and exercising their rights compliments the legal obligation on directors and management to promote and encourage accountability and company performance.

IAG'S ENGAGEMENT OF SHAREHOLDERS

IAG's corporate governance framework is designed to facilitate and protect the exercise of shareholders' rights. It is based on the premise that shareholders have the right to contribute to, and to be sufficiently informed on, decisions impacting significantly on corporate performance.

In keeping with IAG's *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 by the company through an email messaging service to shareholders and other users who are registered to receive such emails, as well as being posted on the company's website.

IAG maintains a Shareholder Centre page on its website at www.iag.com.au/shareholder/ which provides shareholders with access to their holdings of IAG securities. This web page is actively promoted to shareholders.

Over 164,000 ordinary shareholders, representing approximately 20.3% of total shareholders at 2 August 2012, have registered their email address, an increase of approximately 3% in the last 12 months following targeted approaches to shareholders. Shareholders who use this service will be advised when communications including the annual and interim reports, annual reviews, dividend advices and holding balance statements are available to be accessed via the internet.

IAG also has an email system to alert investors, beneficial owners, and other interested parties who may not be shareholders to receive important media releases, financial announcements, presentations and annual reports as they are released to the market through the ASX.

Media coverage of key events is also sought as a means of delivering information to shareholders, investors and the market. Formal communication with shareholders and investors is also conducted via the annual and interim reports, annual review and at the AGM which is also webcast for viewing by interested parties including shareholders.

IAG is mindful of the need to adopt best practices in the drafting of notices for AGMs and other communications with shareholders to ensure that they are honest, accurate, informative and not misleading. All AGM material can be found on IAG's website www.iag.com.au/shareholder/agm/.

Online proxy and direct voting are available to IAG shareholders and authorised intermediaries such as custodians and help to facilitate lodgement by shareholders of their votes on resolutions put to AGMs.

Shareholders are encouraged to attend AGMs and ask questions of the Chairman and the Board. For shareholders who are unable to attend the AGM, a question form is included with their notice of meeting. Their questions are collated and during the course of the general meeting the Chairman or CEO will respond where possible to the issues raised.

Shareholders and investors may raise any issues or concerns at any time by contacting the company by email.

The external auditor attends AGMs 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.

IAG'S ENGAGEMENT OF SHAREHOLDERS

IAG believes matters relating to the conduct of meetings, including discussions on resolutions, should properly be left to the Chairman of the meeting. It is neither practical nor appropriate to mandate a minimum discussion time.

IAG is committed to ensuring all investors have access to information on IAG's financial performance. IAG posts on its website all investor and media material released to the ASX, comprising:

- Annual and interim reports;
- Investor and media releases and presentations of half-year and full-year results;
- Notices of general meetings and explanatory material;
- Real-time webcasts of CEO and CFO presentations at half-year and full-year results announcements for those unable to be physically present;
- Archived recordings of the same events for reference after the event;
- The Chairman's and CEO's addresses to the AGM;
- Investor and media releases and presentations regarding divestments and acquisitions;
- Investor and media presentations given at investor strategy sessions and other one off events; and
- All other information released to the market.

IAG reports annually on its social, economic and environmental performance against a series of indicators. The quantitative results of IAG's business sustainability performance are incorporated into the Company's annual review. The results of IAG's business sustainability performance are summarised in the Company's annual review, and full disclosure is shown in the 2012 Sustainability Report. This approach to the reporting of IAG's business sustainability performance demonstrates the ongoing commitment to ensuring business sustainability issues are considered as part of IAG's overall performance.

IAG'S ENGAGEMENT OF SHAREHOLDERS

IAG notes the *Discussion Paper* highlights "In Australia alone, there is also a right for 100 shareholders to requisition a meeting regardless of how much share capital they hold collectively. The issue is whether any shareholder numerical test should remain". (page 27)

The Australian business community has been in ongoing discussion with the Australian Government to amend the *Corporations Act 2001*, to raise the threshold required for shareholders to call special general meetings of a corporation.

Section 249D(b) of the *Corporations Act 2001* requires a corporation to hold a Special General Meeting if it is petitioned to do so by at least 100 members who are entitled to vote at a general meeting.

IAG supports amendments to the *Corporations Act 2001* to remove the current "100 member rule" which allows as few as 100 members to requisition general meetings and extraordinary general meetings of listed companies.

The intention behind the amendment of the 100 member rule is to encourage appropriate shareholder participation in corporate governance, while reducing the associated costs of such participation, especially when meetings are called for frivolous or vexatious reasons.

IAG notes the *Discussion Paper* highlights a CASAC Report recommendation that "...the shareholder numerical test be repealed and that only shareholders who, collectively, hold at least 5% of the votes that may be cast at a general meeting should have the power to requisition a general meeting of a listed public company" (page 27)

We believe raising the threshold required for shareholders to call meetings will ensure that for entities with large and diverse member registers, funds are not wasted by the actions of minority special groups, at the expense of the majority of shareholders.

In our submissions made to both the Parliamentary Secretary and the Joint Parliamentary Committee in April 2005, we stated:

"...IAG is confident that the amending legislation will not have a deleterious effect upon the proper activities and involvement of shareholders and will militate against wasteful use of shareholders' funds that can result in the calling of unscheduled meetings of listed companies..."

However, we do note that the shareholders can continue to raise legitimate issues of concern, via the AGM process and through mechanisms voluntarily introduced by public companies (ie investor feedback emails).

We remain conscious of our responsibilities as a corporate citizen and to our shareholders. We continue to believe that the expense of these meetings is not the most appropriate use of members' funds and that members ought to be encouraged to place motions on notice at scheduled meetings - an option available to them through s.249N *Corporations Act 2001*.

CONCLUSION

IAG is supportive of reform that seeks to maintain a balance between the need to facilitate shareholder participation against the need to manage the associated costs to companies.