

13 September 2007

Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
Department of the Senate
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Introduction

Insurance Australia Group (IAG) welcomes the opportunity to make a submission to the Parliamentary Joint Committee on Corporations and Financial Services in relation to the Inquiry into shareholder engagement and participation in the corporate governance of the companies, in which they are part-owners.

Who is Insurance Australia Group?

IAG is the leading general insurance group in Australia and New Zealand, and has a growing presence in Asia and the UK. The Group generates annual gross written premium of more than \$7.5 billion.

The Group insures more than \$1,000 billion worth of property. In Australia, it insures more than five million cars, two million homes, 250,000 businesses and 75,000 farms, and provides workers' compensation services to more than 200,000 employers. In New Zealand, it insures around 950,000 cars, 575,000 homes, 185,000 businesses and 235,000 rural risks.

IAG distributes its products through some of the leading brands in Australia and New Zealand: CGU nationally; NRMA Insurance in New South Wales, Queensland, ACT and Tasmania; SGIC in South Australia; SGIO in Western Australia; RACV in Victoria; and State and NZI in New Zealand. We also have interests in China, Malaysia, Singapore, Thailand and UK represented by China Automobile Association (CAA), AmAssurance, Alba, NZI Thailand, Safety Insurance, Equity Insurance Group and Hastings Group.

Customers are served in Australia through a network of 320 branches, franchises and country service centres throughout metropolitan, regional and rural areas, as well as more than 1,000 intermediaries (brokers and authorised representatives) and, in New Zealand, through more than 40 sales centres, branches and district offices. More than 16,000 people are employed across the Group.

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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
- 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.

What is IAG's Interest in the Inquiry?

IAG's interest in the Inquiry is driven by our large, predominantly retail shareholder registry. IAG have more than 930,000 shareholders. IAG's registry is the second largest in Australia.

Moreover, IAG's interest is driven by a commitment to achieving sustainable corporate governance that meet 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.

Please find attached IAG's submission to the current Inquiry.

IAG appreciates the opportunity to raise these matters with you. If you wish to discuss this submission or make further inquiries of us please contact Nola Watson, Head Government and International Relations on (02) 9292 9024.

Yours sincerely
George Venardos
Group Chief Financial Officer

Insurance Australia Group's comments in relation to Inquiry into shareholder engagement and participation in the corporate governance

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.

There are approximately 54,000 shareholders who have registered their email addresses. They are advised when shareholder communications, including the annual and interim reports, dividend advices and holding balance statements, are available electronically.

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 conducted via the annual report, concise annual report and interim report, and at general meetings of shareholders.

IAG also undertakes specific research with our shareholders in order to understand shareholder expectations and the effectiveness of various shareholder communication channels.

Best Practice in Corporate Governance Mechanisms

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 is mindful of the need to ensure communications with shareholders are accurate, informative and not misleading.

Electronic proxy voting helps to facilitate ease and timeliness of lodgement by shareholders 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 issues or concerns at any time by contacting the company.

Importantly, IAG will be seeking shareholder approval at the 2007 annual general meeting to allow shareholders the ability to cast direct votes from 2008 as a simple convenient voting alternative for shareholders appointing proxies and representatives.

IAG contends that effective and robust corporate governance depends in the long term on corporate culture which values and rewards accountability and transparency and has in place strong and well understood checks and balances.

Regulators can and should prescribe minimum standards but they cannot mandate culture or behaviour. Ultimately, Boards and management are responsible for their own cultures and behaviour, and for openness in company governance.

Indeed, Alan Greenspan, former Chairman of the US Federal Reserve Board (26 March, 2002) noted, "Companies run by people with high ethical standards arguably do not need detailed rules to act in the long-run interests of shareholders and, presumably, themselves".

<http://www.federalreserve.gov/boarddocs/speeches/2002/200203262/default.htm>

Rules for Shareholder Meetings

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 large 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.

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..."

These comments are confirmed by the Regulation Impact Statement (RIS) released with the Corporations Amendment Bill, and in particular the following statement:

"...there is less potential for abuse or vexatious use, which protects public companies and their members from incurring the costs of holding general meetings except where there is sufficient support from a company's members..."

However, we do note that the shareholders can continue to raise legitimate issues of concern, via the annual general meeting 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*.

Unsolicited Share Offers

IAG takes an active role in public policy debate, through a variety of forums, on a variety of issues ranging from health and welfare issues to those affecting the orderly operations of Australian financial markets.

For example, one issue affecting the orderly operation of financial markets and Australia's reputation as a centre for financial excellence is the ongoing problem of unsolicited share offers and "low ball" share offers. We define a 'low-ball' share offer as one where the offer is significantly less than the share's market value and investors risk losing money by selling their shares for less than they could get on the open market.

IAG takes the process of warning shareholders about "low-ball" offers seriously and regards this as an important part of the financial literacy education process and has taken a number of steps to try to ensure more unsophisticated shareholders are aware of the value of their shares and less prone to accept for such offers. This has included:

- writing to all Australian shareholders individually on two occasions to warn them of potential offers that were going to be issued to them;
- writing to Australian shareholders to advise them of alternative methods for disposal of their ordinary shares at market value;
- inserting the market value of each individual's holding on their six-monthly dividend notices; and
- issuing media releases and liaising with the media extensively whenever new offers are issued. We have also posted warnings on our website and on the ASX announcements platform.

We note that the Australian Consumers' Association in its submission to the Federal Government's Regulation Taskforce, stated that a possible solution to the issue of 'low-balling' is:

"...regulation to strengthen the unconscionable conduct provisions to protect consumers from predatory behaviour – for example, where someone seeks out shareholders from demutualisations and offers to buy their shares well below market value..."

It is of note under past offers for IAG shares, shareholders have foregone in excess of \$13.8 million by accepting the undervalued offers rather than selling their shares on the ASX. More than 12,000 IAG shareholders have accepted these offers, which means they have missed out on average more than \$1,100 each.

IAG will continue to work closely with the regulator to ensure IAG shareholders' interests are protected to the extent permitted currently under law.

Rights to Inspect and Copy Members' Register

We wish to highlight the burden on companies with large shareholder registers in providing access to members register in hard copy which may then be copied by the member using whatever technology is available and without any right of companies to recoup the cost of producing the hard copy register or the provision of the facilities to enable that register to be copied or extracted by the individual.

We do not consider the interests of the other members of companies are served by bearing these costs nor do we think that the objects of the *Corporations Act 2001* in providing access to the public are well served and that, as currently drafted, those relevant sections of the *Corporations Act 2001* are clearly open to abuse.

In our view, where a register is maintained on computer, access should be in the medium in which it is maintained. There should be no right for a person or organisation to insist on the production of a hard copy. Instead, it is contended that both the company and the party requesting a hardcopy of the register *must both agree* to the provision of a hard copy of that computer based register at a prescribed fee.

The anomaly arising through the operations of sections 173 and 1300 of the Act regarding the rights to inspect and copy the register imposes a heavy burden on companies with very large members registers and is clearly open to abuse by persons who wish to frustrate the company for their own purposes including to obtain a copy of that register without paying a prescribed fee.

The aim of financial sector regulation is to reduce the impact of systemic risk and information asymmetry on the stability and efficiency of the financial system. However, an appropriate balance needs to be maintained between the efficiency costs and the benefits to financial safety. It is clearly not in the interests of members that company time and expense is put to meeting repeated and/or frequent requests to inspect the register particularly a hard copy of the register maintained on computer.