QBE resolutions statements of support

Resolution 1 – Amendment to the Constitution

To insert into our company's constitution beneath 'Business of Annual and Other General Meetings' the following new sub-clause 32(c): "The company in general meeting may by ordinary resolution express an opinion or request information about the way in which a power of the company partially or exclusively vested in the directors has been or should be exercised. However, such a resolution must relate to an issue of material financial relevance and cannot either advocate action which would violate any law or relate to any personal claim or grievance. Such a resolution is advisory only and does not bind the directors or the company."

Resolution 2 – Exposure Reduction Targets

Shareholders request that the company disclose short, medium and long-term targets to reduce investment and underwriting exposure to oil and gas assets, along with plans and progress to achieve the targets set. The targets should be consistent with the climate goals of the Paris Agreement. This information should be published annually, starting with the 2021 annual report.

(QBE Insurance Group Limited's Notice of 2020 Annual General Meeting is to include Resolutions 1 and 2. Shareholders voting by proxy can vote on both resolutions.)

Supporting Statement 1

Shareholder resolutions are a healthy part of corporate democracy in many jurisdictions other than Australia. For example, in the UK shareholders can consider resolutions seeking to explicitly direct the conduct of the board. In the US, New Zealand and Canada shareholders can consider resolutions seeking to advise their board as to how it should act. As a matter of practice, typically, unless the board permits it, Australian shareholders cannot follow the example of their UK, US, New Zealand or Canadian cousins in this respect.

A board of Directors is a steward for shareholders and accountability for the discharge of that stewardship is essential to long-term corporate prosperity.

In rare situations the appropriate course of action for shareholders dissatisfied with the conduct of board members is to seek to remove them. But in many situations such a personality-focused approach is unproductive and unwarranted. In those situations a better course of action is to formally and publicly allow shareholders the opportunity at shareholder meetings such as the AGM to alert board members that the shareholders seek more information or favour a particular approach to corporate policy.

The Constitution of QBE is not conducive to the right of shareholders to place resolutions on the agenda of a shareholder meeting.

In our view, this is contrary to the long-term interests of QBE, the QBE board and all QBE shareholders.

Passage of this resolution – to amend the QBE constitution – will simply put QBE in a similar position in regard to shareholder resolutions as any listed company in the UK, US, Canada or New Zealand, and in a similar position to other listed Australian companies if shareholders support equivalent resolutions for improved governance at other Australian company AGMs.

We encourage shareholders to vote in favour of this resolution.

Supporting Statement 2

The oil and gas sectors are major contributors to global warming. Combined they produce more greenhouse gas emissions than coal[1]. These sectors are major contributors to QBE's exposure to climate risk and therefore, this resolution is proposed in order to protect the long-term interests of the company, noting that:

- As recognised by the QBE Board, climate change is already impacting QBE's profitability and any rise in global warming increases the risk profile of climate change impacts to its financial health;
- a primary driver of global warming is the oil and gas industry, which QBE is exposed to through investments and underwriting;
- while QBE is working on disclosures of climate risks and opportunities, there are no plans to reduce or restrict oil and gas exposure through investments and underwriting, activities that present a fundamental threat to our bottom line; and
- to be a credible public proponent for action that mitigates and builds resilience to climate change impacts, QBE should have its own house in order. Its current support for oil and gas expansion puts it out of line with the Paris Agreement.

To limit warming to 1.5 degrees oil and gas must not expand

"*If we built no more fossil fuel infrastructure and instead replaced existing infrastructure at the end of its productive life with a zero carbon alternative we could limit peak temperature rise to 1.5°C – as long as we start now.*" - Chris Smith, Research Fellow in Physical Climate Change, University of Leeds[2].

Like coal, expansion of the oil and gas industry will undermine global efforts to limit global warming to 1.5°C.

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1 https://theconversation.com/carbon-emissions-will-reach-37-billion-tonnes-in-2018-a-record-high-108041

2 https://theconversation.com/immediate-phase-out-of-fossil-fuels-could-keep-warming-below-1-5-c-109672

In the 2018 IPCC report on 1.5°C[3], model pathways with no or limited overshoot of 1.5°C of warming showed that global net anthropogenic CO_2 emissions must decline by about 45% from 2010 levels by 2030, reaching net zero around 2050[4].

The IPCC report shows that the use of oil for primary energy must be reduced between 2020 and 2030 in all pathways that do not result in high overshoot of the 1.5°C target. Gas use for both primary energy and electricity generation decreases between 2020 and 2030 in the majority of these scenarios[5]. The scenarios that show an increase in gas use require "widespread deployment of CCS" (carbon capture and storage)[6], a technology that has failed to demonstrate viability[7], as QBE acknowledges in its Energy Policy.

Any support QBE provides, either through underwriting or investment, to an oil or gas expansion project directly or companies expanding the scale of these sectors, is inconsistent with the 1.5°C goal.

More gas is a detour, not a transition

In our Energy Policy QBE describes natural gas as a "transitional fuel" which will "accelerate the curtailment of thermal coal". This claim doesn't stand up to the most basic scrutiny. QBE's Board has failed to explain how this "gas transition" takes effect, given the claim would need to be supported by specific energy and economic modelling.

As coal electricity generation comes to the end of its life, it must be replaced with renewable energy (and storage) rather than polluting natural gas in order to keep warming below 1.5 degrees.

Building new natural gas electricity generation, which locks in carbon emissions for decades to come, when renewable energy technology is not only available, but cheaper[8], does not make climate or economic sense. It is in fact more likely that new gas power capacity is preventing opportunities that would otherwise have been available to renewable energy.

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3 https://www.ipcc.ch/site/assets/uploads/sites/2/2019/02/SR15_Chapter2_Low_Res.pdf
4 Ibid, page 95
5 Ibid, page 132
6 Ibid, page 97
7 https://theconversation.com/its-time-to-accept-carbon-capture-has-failed-heres-what-we-should-do-instead-82929
8 https://www.renewableenergyworld.com/2018/11/19/solar-and-wind-now-the-cheapest-power-source-says-bloombergnef/

Financial impact

QBE announced in February that once again earnings had been hit by climate-related disasters including bushfires, storms, floods and crop damage.

For QBE's Australia Pacific business, the net cost of catastrophe claims increased significantly to US$193 million or 5.4% of net earned premium compared with $106 million or 2.8% in the prior year, mainly due to the Townsville floods and widespread bushfires.

The losses incurred by QBE on catastrophes, exacerbated by global warming, are a direct hit to the shareholder capital invested in this company, and present fundamental risks to the insurance industry's ability to operate. According to Tom Herbstein of Cambridge University, "climate change fundamentally challenges the existing insurance business model because it is rendering actuary analysis in many places obsolete."[9]

QBE CEO Patrick Regan warned in February extreme weather risk was increasing across "swathes of Australia" and customers could be priced out[10]. According to Munich Re, global warming is on track to make insurance unaffordable for low and average income earners in some regions, causing serious economic and social disruption[11].

Energy Policy has not evolved

At the 2019 QBE AGM, QBE's CEO insisted the company's Energy Policy was a "living document". Chairman Marty Becker said "*we'll continue to assess them [QBE's climate and energy policies] for tar sands, for natural gas, for oil, etc.*" and insisted that the policy could change as soon as "tomorrow".

Almost one year later nothing has changed.

In that time, other insurers, namely Swiss Re, AXIS Capital and AXA, have adopted restrictions on some oil and gas underwriting/investments, in particular those with extremely high life-cycle carbon emissions, like tar sands. More insurers are developing similar policies.

Without significant and urgent action in both climate change mitigation and adaptation, QBE faces shrinking markets and growing and less predictable natural catastrophe claims. As part of this global effort, our company must get its house in order by having clear targets and plans

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9 https://www.bloomberg.com/news/articles/2017-11-13/big-insurers-brace-for-perilous-future-as-climate-risks-escalate

10 https://www.smh.com.au/business/banking-and-finance/qbe-warns-of-climate-risk-as-300m-hit-to-revenue-alongside-unusual-weather-20200217-p541e3.html

11 https://www.theguardian.com/environment/2019/mar/21/climate-change-could-make-insurance-too-expensive-for-ordinary-people-report

for its own oil and gas phase out. The proposed resolution will provide the framework to ensure QBE doesn't increase its climate risk exposure while continuing its work disclosing that risk.

We encourage shareholders to vote i**n favour**.