QBE resolutions and statements

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."

Supporting Statement 1
Shareholder resolutions are a healthy part of corporate democracy in many jurisdictions. 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 do not enjoy the same rights as their UK, US, New Zealand or Canadian counterparts 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 some situations the appropriate course of action for shareholders dissatisfied with the conduct or performance of the board is to seek to remove directors individually. However in many situations a better course of action is to formally and publicly allow shareholders the opportunity at shareholder meetings 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 advisory resolutions on the agenda of a shareholder meeting.

This is contrary to the long-term interests of QBE, its board and shareholders.

Passage of this resolution – to amend the QBE constitution – will simply put QBE in a similar position in regard to shareholder resolutions as listed companies in the UK, US, Canada or New Zealand.

We encourage shareholders to vote in favour of this resolution.

Resolution 2 – Climate Risk Management
Shareholders request the company disclose, in subsequent annual reporting, short, medium and long-term targets and plans to reduce investment and underwriting exposure to oil and gas assets, along with progress against the targets set. The targets should be consistent with the climate goals of the Paris Agreement.

Supporting Statement 2
In 2021, QBE released its first targets related to oil and gas exposure as part of its Environmental and Social Risk Framework.[1] Those targets are entirely inadequate, allowing QBE to continue insuring new oil and gas projects and companies pursuing unfettered expansion of the sector (apart from oil sands and some Arctic drilling) until at least 2030. QBE will not even assess those companies for alignment with the Paris Agreement's climate goals until 2030.

Even after 2030, QBE's actions remain undefined. From 2030, QBE will "assess" if companies with ≥60% revenue from oil and gas extraction are "on a pathway consistent with achieving the Paris Agreement, and decline to provide insurance where this is not the case".[2] QBE has not disclosed which activities it considers to be consistent with Paris. Market Forces asked QBE in March 2020 to provide the scenario(s) it would use to assess Paris-alignment and has not had this question answered.

QBE's inadequate approach to oil and gas exposure undermines the company's stated support for the Paris Agreement's goals.[3] This inconsistency exposes shareholders to unacceptable legal, regulatory and reputation risks, adding to the company's already significant and costly physical climate risk exposure.

Undermining support for Paris
The International Energy Agency's (IEA) seminal Net Zero Emissions by 2050 Scenario (NZE) – modelled to provide a 50% chance of limiting global warming to the Paris Agreement's 1.5°C goal – concluded in 2021, "The rapid drop in oil and natural gas demand in the NZE means… no new oil and natural gas fields are required beyond those that have already been approved for development."[4]

Leading research organisations and the United Nations have found global oil and gas production must decline annually by 4% and 3%, respectively, between 2020 and 2030 to be consistent with the Paris Agreement's 1.5°C goal.[5]

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1 https://www.qbe.com/-/media/group/sustainability/environmental%20and%20social%20risk%20framework%20-%20external%20-%20final.pdf
2 Ibid
3 https://www.qbe.com/sustainability/climate-change
4 https://www.iea.org/reports/net-zero-by-2050 51
5 https://productiongap.org/2021report/ 15

Yet QBE's current oil and gas policy does nothing to stop the company underwriting new oil and gas projects, nor to ensure QBE reduces exposure to these sectors in line with the Paris climate goals over short (~5 year), medium (~10 year), and long-term (~20 year) timeframes.

Physical risks

The oil and gas sectors are major contributors to global warming. Combined, they produce more greenhouse gas emissions than coal.[6] These sectors are therefore major contributors to QBE's significant, costly and growing physical climate risk exposure.

QBE's 2021 results show the net cost of catastrophe claims was US$905m, 6.6% of net earned premium, up from 5.8% in 2020 and 3.7% in 2019.[7] The company has yet again increased its catastrophe provision, rising from US$550m in 2020 to US$685m in 2021 (+24%) and now US$962m in 2022 (+40%).[8]

The losses incurred by QBE as a result of 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]

Without significant and urgent action in both climate change mitigation and adaptation, QBE faces shrinking markets and growing, less predictable natural catastrophe claims. Both of these outcomes threaten the stability of shareholder capital. To play its part in – and to be a credible public proponent for – this necessary climate action, QBE must get its own house in order by setting clear targets to phase out oil and gas exposure in line with the Paris Agreement.

Legal, regulatory and reputation risks

QBE's failure to align its oil and gas exposure with its stated support for the Paris Agreement raises regulatory, legal and reputation risks.

In April 2021, barristers Noel Hutley (SC) and Sebastian Hartford Davis found companies could be engaging in misleading or deceptive conduct if they fail to have reasonable grounds to support their climate commitments.[10] As discussed, QBE claims to support the Paris Agreement, but is undermining the Paris goals with its inadequate oil and gas policy.

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[6] https://ourworldindata.org/emissions-by-fuel

[7] QBE 2021 Results Presentation 14

[8] Ibid; https://www.smh.com.au/business/banking-and-finance/qbe-hikes-catastrophe-allowance-by-24-percent-after-extreme-weather-20210111-p56t70.html

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

[10] https://cpd.org.au/2021/04/directors-duties-2021/

Australian finance sector regulator APRA's Prudential Practice Guide on Climate Change Financial Risks advises institutions to "establish and implement plans to mitigate these [material climate] risks and manage its exposures, as well as regularly review and assess the effectiveness of those plans" and in some cases consider applying limits on exposure to – or ending relationships with – climate risk-exposed entities or sectors.[11]

In order to comply with APRA's guidance and avoid accusations of greenwashing, QBE should disclose targets to manage down exposure to oil and gas in line with the Paris Agreement's goals, as this resolution calls for.

QBE's oil and gas approach also falls well short of the steps taken by its two major competitors, Suncorp and IAG. Suncorp will phase-out underwriting exposure to oil and gas exploration and production by 2025, and already refuses to insure new projects of this kind. It has also set clear targets for the gradual divestment of oil and gas company stocks by 2040 based on carbon intensity.[12] IAG will phase-out underwriting exposure to fossil fuel extraction and coal-fired power by 2023.[13]

These approaches, while still not a comprehensive climate response, at least acknowledge that the exploration and production of all fossil fuels cannot expand if we're to meet the Paris climate goals. QBE however, makes no such acknowledgement.

By failing to adopt meaningful, Paris-aligned targets to reduce exposure to the oil and gas sectors, QBE is lagging its peers and undermining its own climate commitments. The company's lacklustre approach to oil and gas over this critical decade exposes shareholders to unacceptable risks. We therefore encourage all shareholders to **vote in favour**.

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11 https://www.apra.gov.au/consultation-on-draft-prudential-practice-guide-on-climate-change-financial-risks 14-15

12 https://www.suncorpgroup.com.au/corporate-responsibility/sustainable-growth/responsible-banking-insurance-investing

13 https://www.iag.com.au/sites/default/files/Documents/Safer%20Communities/FY20-Climate-related-disclosure.pdf