8 April 2022

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QBE Insurance Group Limited (ASX:QBE)

Resolution 6(b) on the 2022 Notice of Annual General Meeting

AGM date: 5 May 2022

Executive Summary

Next month the following resolution will be put to QBE shareholders:

> *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.*

In 2021, 21.4% of QBE's shareholders voted for a near-identical resolution. Since then we've seen:

- The IPCC's latest report revealing the dire state of our climate and the drastic changes to the global energy system required to avoid catastrophic global warming impacts;
- The International Energy Agency's (IEA) seminal net zero by 2050 report confirming there is no room to expand oil and gas production, and both must decline rapidly;
- More record-breaking and costly extreme weather events both in Australia and internationally, which are increasing in severity due to climate change; and
- Further oil and gas underwriting restrictions announced by QBE's peers.

These developments have all strengthened the case for QBE to adopt the requests set out in the resolution. However, QBE has failed to respond to this reality with any improvement in policy.

Therefore, the resolution is proposed in order to protect the long-term interests of the company, noting:

- As recognised by the QBE Board, **climate change is already impacting QBE's profitability** – with the company's net cost of catastrophe claims and catastrophe provisioning both increasing significantly in recent years – **and presents a material risk to the company**. Every fraction of a degree of further global warming increases these risks;

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- The oil and gas industry, which QBE is exposed to through investments and underwriting, is a primary driver of global warming, and must rapidly decline if we are to meet the Paris Agreement's climate goals;
- **QBE's current approach proposes no action on the company's oil and gas underwriting exposure until 2030**, apart from some restrictions on oil sands and Arctic oil;
- **QBE's continued support for oil and gas expansion puts it out of line with the Paris Agreement and any plausible pathway to net zero emissions by 2050**;
- 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; and
- **QBE's current oil and gas policies leave it far behind key competitors Suncorp and IAG, and other major re/insurers such as Swiss Re, Hannover Re and Axa**.

Investors are therefore urged to vote in favour of Resolution 6(b).

Inadequate approach to oil and gas

Under the shadow of the escalating impact of climate change, QBE released its first targets related to oil and gas exposure as part of its Environmental and Social Risk Framework in 2021.

The Framework commits QBE, **from 1 January 2030** onwards, to **assess** whether 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". The threshold is reduced to ≥30% from 1 January 2040 onwards. **These targets are entirely inadequate as:**

1. They allow **QBE to continue insuring companies pursuing unfettered expansion of oil and gas production until at least 2030** (apart from oil sands and Arctic drilling).

2. **Even after 2030, QBE's actions remain undefined** as the Framework states QBE will "assess" if oil and gas companies are consistent with the Paris Agreement goals, without explaining what QBE views as (in)consistent with the Paris Agreement.

3. The targets apply only to oil and gas production and **don't address exposure to other oil and gas sub-sectors** including gas-fired power and pipelines.

QBE's inadequate approach sits in stark contrast with the more responsible, clear and accountable policies adopted by QBE's major Australian competitors Suncorp and IAG, and also falls well short of the oil and gas underwriting restrictions adopted by a number of major re/insurers.

Paris climate goals and net zero mean no new oil and gas

Combined, oil and gas produce more greenhouse gas emissions than coal. Production of these fossil fuels must rapidly decline if the world is to meet its climate commitments under the Paris Agreement. **QBE's unrestricted exposure to oil and gas underwriting** (apart from oil sands and Arctic drilling) **therefore represents significant regulatory, legal, reputation and transitional climate risks, while further global warming caused by oil and gas use increases QBE's physical risk exposure.**

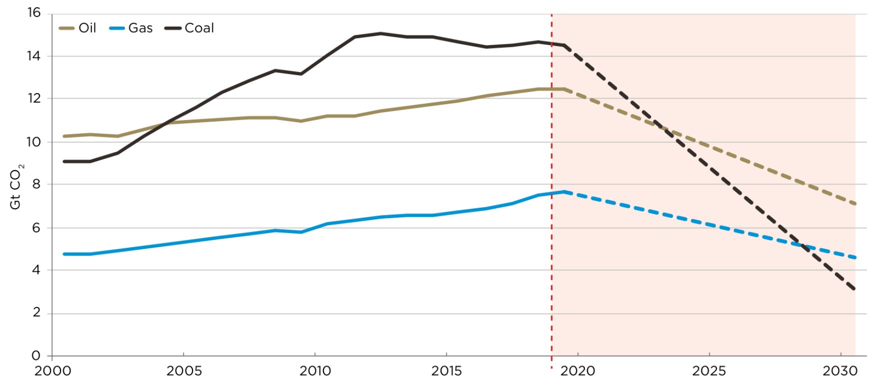
The IEA's seminal Net Zero Emissions by 2050 Scenario (NZE2050) – which should be regarded as bullish on future fossil fuel demand as it relies heavily on unproven negative emissions technology and aims for a 50% chance of limiting global warming to 1.5°C – concludes:

> ***The rapid drop in oil and natural gas demand in the [Net Zero Emissions by 2050 Scenario] means… no new oil and natural gas fields are required beyond those that have already been approved for development."*** International Energy Agency, Net Zero by 2050

Other scenarios with less reliance on unproven negative emissions technologies and a higher chance of achieving the Paris Agreement's 1.5°C goal project demand to fall even faster. The IPCC's Special Report on Global Warming of 1.5°C demonstrates that, without relying on assumptions that carbon capture and storage technology will play a significant future role (in its "P1 pathway"), the role of gas for primary energy must decline globally (from a 2010 baseline) by 25% by 2030 and 74% by 2050, with oil's share of primary energy falling 37% and 87% over the same time frames.

Leading research organisations and the UN have found that between 2020 and 2030, global oil and gas production must decline annually by 4% and 3%, respectively, to be consistent with the Paris Agreement's 1.5°C warming goal. The IPCC recently confirmed the lifetime emissions of existing and currently planned fossil fuel infrastructure would take us well beyond 1.5°C of warming.

Projected decline of oil, gas and coal emissions this decade to limit warming to 1.5°C (P1 pathway)



Source: Carbon Brief analysis of data from IPCC SR15 and Global Carbon Project, as cited by Oil Change International

QBE's current policy does not align with this scientific imperative and instead puts no limit on the company's overall oil and gas underwriting exposure between now and 2030, allowing it to increase this exposure even while the Paris Agreement and the IEA's NZE2050 requires production to fall. In its 2022 Notice of Meeting, QBE claims to support a "smooth transition pathway" for getting off fossil fuels. That is exactly what the NZE2050 scenario represents, as it is designed to be "the most technically feasible, cost-effective and socially acceptable" pathway to net zero emissions by 2050. By undermining the IEA's NZE2050 scenario via supporting new oil and gas projects, QBE is contributing to a far less orderly transition.

QBE's Notice of Meeting also misrepresents the requests of this resolution, implying it calls for 'an exclusionary approach to fossil fuels'. To be clear, the resolution does not request an immediate and categorical exclusion of all fossil fuel exposure. Rather, it seeks targets and plans to reduce exposure in line with an orderly pathway to meeting the goals of the Paris Agreement. For QBE to imply otherwise is disingenuous but not surprising.

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 Paris climate goals. This exposes QBE to transition risk in a Paris-aligned decarbonisation scenario. And by undermining efforts to limit global warming to 1.5°C, QBE's exposure to physical climate risk increases, as detailed in the following section.

In a meeting with Market Forces on 12 March 2020, QBE informed Market Forces that the company foresees gas use increasing until 2030, stating this view was based on IPCC 1.7°C warming scenarios. This is concerning as it goes against the clearly stated Paris Agreement goal of "pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels". **In the meeting, QBE's then Head of ESG Risk promised to provide Market Forces with the specific scenarios which form the basis for its oil and gas targets. However, despite a follow-up request from Market Forces, these were never provided.**

With the evidence available, the logical conclusion is that QBE is knowingly misaligning its business with the Paris Agreement's 1.5°C goal and is prepared to undermine efforts to limit global warming through its support for oil and gas expansion. Support for this resolution is required to ensure QBE understands its investors do not support this inadequate and self-destructive approach.

Earlier this year QBE announced it had joined the Net Zero Insurance Alliance, committing to net zero emissions by 2050 in its underwriting portfolio, with interim targets to be set at some unknown point in the future. Investors must not allow QBE to use its membership of this alliance as a delay or greenwashing tactic. The IEA is clear that net zero emissions by 2050 means no new oil and gas production projects from today. If QBE is serious about net zero then aligning with this key finding of the IEA is a basic first step it must immediately take.

More warming means more catastrophe costs for QBE

Every fraction of a degree of warming means more physical risk exposure for QBE and, therefore, increased likelihood of expensive catastrophe claims. The science shows that failure to meet the 1.5°C warming goal will cause significant climate change impacts.

To illustrate, compared with 1.5°C, 2°C of warming will expose 200 million more people to water and heat stress, cause around 6 cm more sea level rise exposing millions more people to coastal flooding by 2100, and increase the proportion of the human population exposed to flooding to 30%, up from 24% in a 1.5°C scenario.

To be aiming for anything other than 1.5°C of warming means QBE will be contributing to more severe profitability-destroying extreme weather, and increasing the risk that the world hits tipping points that set in motion runaway climate change. It is irresponsible to be linking corporate policy to scenarios that lock in more dangerous warming.

QBE's catastrophe claims and catastrophe provisions have been trending upward for years. 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. The company has yet again increased its catastrophe provision, rising from US$550m in 2020 to US$685m in 2021 (+24% year on year) and now US$962m in 2022 (+40% year on year). The losses incurred by QBE on catastrophes, exacerbated by global warming, are a direct hit to shareholder returns, and present fundamental risks to the insurance industry's ability to operate.

In 2020 and 2021 catastrophe claims exceeded QBE's catastrophe provision. This year's record-breaking floods in eastern Australia will undoubtedly impact QBE, and increase the likelihood that it will have under-provisioned for catastrophe claims once again.

The climate crisis is increasing the frequency, severity and unpredictability of extreme weather, increasing insurance claims and making it harder to predict risk. As premiums are driven up, more customers are dropping out of the insurance market, insurers' customer bases are shrinking and government intervention becomes more likely.

Over the last 10 years, the average home insurance premium in northern Australia has risen by 178%, according to the Australian Competition and Consumer Commission (ACCC). The commission also found increasing insurance premiums are forcing 20% of people in cyclone-hit northern Australia to go without home insurance (compared with 11% elsewhere). This was caused by "industry losses rather than price gouging".

Even more concerning, a study of climate risk to property in Australia found that "uninsurable red zones" (places where insurers either refuse underwriting or charge more than 1% of the property price in annual premiums) are spreading as global warming worsens. This is happening across Australia, with insurance for 445,000 addresses expected to become unaffordable or unavailable within 30 years, three-quarters of which are in the most populated urban centres.

This trend is not confined to Australia. For three years in a row, California has issued moratoria prohibiting insurance companies from cancelling or refusing to renew insurance policies for millions of households in or near areas hit by wildfires.

Without significant and urgent action in both climate change mitigation and adaptation, QBE faces shrinking markets as well as growing and less predictable catastrophe claims. Delaying assessment of its oil and gas exposure against climate goals allows QBE to continue facilitating projects and activities that contribute to further global warming and increase physical climate risks, while also failing to manage down its exposure to transitional climate risk. These risks and regulatory guidance for insurers to reduce exposure to them have been clearly detailed by Australian financial sector regulator APRA, as outlined below.

Major investors are beginning to act on increasing climate risks to the insurance sector. In January 2021 UniSuper's Chief Investment Officer admitted that it was "very light" with regards to investment in the general insurance sector due to climate risk caused by worsening extreme weather.

QBE being left behind by its competitors

Not only are QBE's oil and gas exposure targets inconsistent with limiting warming to 1.5°C, they also leave it lagging behind its two main competitors in the Australian insurance market, Suncorp and IAG, as well as an increasing number of other major insurers. We are also seeing major reinsurers restricting oil and gas underwriting (Swiss Re, Hannover Re - see below), and it is possible that some remaining reinsurers like Munich Re and SCOR, which were among the first-movers to restrict coal, will join them this year. These moves suggest QBE's access to the relatively concentrated reinsurance market could become increasingly limited if it continues to underwrite new oil and gas projects, a scenario likely to further increase the cost of doing business with the fossil fuel sector.

Suncorp is refusing to underwrite new oil and gas exploration and production and will phase out underwriting exposure to oil and gas exploration and production by 2025. It has also set clear targets for the gradual divestment of oil and gas company stocks to zero exposure by 2040, based on carbon intensity.

IAG will phase out underwriting exposure to fossil fuel extraction and coal-fired power by 2023.

These approaches, while still containing gaps and loopholes, at least acknowledge that fossil fuel exploration and production cannot expand if we're to meet the Paris climate goals.

Other major re/insurers with oil and gas underwriting restrictions beyond tar sands and Arctic oil include:

- Swiss Re (see pg 34), has ruled out underwriting and investment for all new oil and gas production projects with a final investment decision approved after 2022, and the 10% most carbon intensive oil and gas companies will be refused underwriting from July 2023. By 2030, Swiss Re's oil and gas re/insurance portfolios are to contain only companies that are aligned with net zero by 2050.
- MAPFRE (pg 56) "will not insure [or invest in] coal, gas and oil companies that do not commit to an energy transition plan that allows global warming to be maintained at around 1.5°C". This is effective in 2022.
- AXA "will cease investments in and underwriting of new upstream oil greenfield exploration projects unless they are carried out by the Oil and Gas companies with the most far-reaching and credible transition plans" (1.5°C alignment).
- Hannover Re (pg 74), from mid-2022, "will no longer take on any new covers for project policies associated with the exploration and/or development of new oil and gas reserves (upstream) or for project policies that exclusively support the transportation and storage (midstream) of new oil and gas reserves".

Unlike the insurers listed above, QBE's targets allow it to continue supporting the vast majority of oil and gas projects and companies, including new projects and the companies pursuing them, without restriction or even an assessment of Paris-alignment until 2030.

Only in eight years time does QBE intend to assess whether 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".

What QBE considers a “pathway consistent with achieving the Paris Agreement” is not defined. Considering QBE’s own current misalignment with the Paris Agreement’s 1.5°C goal, investors should not have any confidence that QBE has the ability to make this assessment of others.

Announcements by insurers on oil and gas underwriting and investment restrictions are accelerating. QBE’s current position is untenable and its inadequacies are becoming increasingly evident.

Legal and regulatory risks

> *Gaining an understanding of the risks [from climate change] is an important first step for entities, but APRA wants to see continuous improvement in how organisations disclose and manage these risks over coming years.”* Former APRA Executive Board Member Geoff Summerhayes

QBE’s failure to align its oil and gas exposure and underwriting with its stated support for the Paris Agreement, in addition to the exacerbation of direct financial risk, also 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. As discussed, QBE claims to support the Paris Agreement and net zero emissions by 2050, but is undermining both with its inadequate oil and gas policy.

APRA’s Prudential Practice Guide on Climate Change Financial Risks (pg 14-15) 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.

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.

Investor support required

Without significant and urgent action in both climate change mitigation and adaptation, QBE faces shrinking markets, growing and less predictable natural catastrophe claims, and the risk of falling foul of regulatory expectations.

To play its part in the global effort to tackle climate change, and align with its own commitments to the Paris Agreement and net zero emissions by 2050, QBE must have clear targets and plans for its own oil and gas phase-out in line with the Paris climate goals.

QBE has done this for thermal coal, but has failed to do the same for oil and gas. QBE's existing oil and gas targets must be replaced with ones consistent with credible and robust 1.5°C scenarios.

The proposed resolution will provide the framework to ensure QBE appropriately manages its climate risk exposure while continuing its work disclosing that risk.

We encourage shareholders to vote **in favour**.