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## Will we see the dawn?

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| Company/ASX Code | QBE Insurance Group/QBE |
| AGM date | Wednesday 5 May 2021 |
| Time and location | 10am Wesley Conference Centre 220 Pitt St Sydney |
| Registry | Computershare |
| Webcast | Yes |
| Poll or show of hands | Poll on all items |
| Monitor | Ian Graves assisted by Sue Howes |
| Pre AGM-Meeting? | Yes, with Chair Mike Wilkins, Janette O'Neill, Head of sustainability, Carolyn Scobie, Company Secretary, Tony Jackson, Investor Relations and Amanda Hughes, Group Head of Culture, Performance & Reward |

Please note any potential conflict as follows: One of the individuals involved in the preparation of this voting intention has a shareholding in this company.

**Summary of issues for meeting**

**The main issues for QBE are:**

**Financial**

- Average TSR over the past five years is -2%
- For FY21 TSR is -24%
- Share price is now 30% lower than it was at the end of 2016.
- Large losses for two years running for the North American Crop business and catastrophe cover while the annual report identifies the risk modelling and management as performing well.
- The company has indicated that they think their results are satisfactory given that these two key loss-making areas of the business have performed well on average over a number of years and attritional claim rates are above 95%.
- The most volatile business is the North American, as it experiences regular catastrophe losses, mainly through Multi-Peril Crop Insurance (MPCI). MPCI covers excessive moisture, rain, drought, decline in price, frost, hail, extreme heat, flood, wildlife & wind. In 2019, in the total US Multi-Peril Crop statistics from AM Best research, QBE was the 3rd largest crop insurer, with 13.6% of the total premiums. Over the period 2009 -2019 the combined ratio for this business was 92.5%, however this was subject to substantial fluctuations from a low of 73.8% to a high in 2019 of 108.6% with 5 years being in excess of 100%.

**Cultural**

- 200% turnover in senior management team over the last 5 years while the annual report indicates that participation in their employee survey is high.
- Lack of promotional opportunities with senior appointments mainly being external.
- CEO dismissed for conduct unbecoming.
- Short-term senior executive Vivek Bahtia employed in 2018 and resigned 2020 while attending a parliamentary inquiry into issues relating to his former role at iCare along with allegations of CV embellishment.

The monitors shared their concerns with the company that these issues may all be linked and indicative of a broad management issue around culture and risk management that was showing in ongoing poor economic performance. The company was quick to refute that there were serious cultural issues driving company performance.

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| **Item 1** | **Consideration of accounts and reports** |
| **ASA Vote** | **No vote required** |

**Summary of ASA Position**

**Governance and culture**

There are two new Board members standing for election. Without this new blood the Board is made up of 1 member on their 4th term, 3 on their 3rd terms (and up for re-election) and two on their 2nd terms. During this time company results have been less than stellar, significant senior staff turnover has occurred, poor hiring practices seem apparent and economic results do not seem to be in line with commentary on risk management practices.

Financial performance

It can be seen from the table on page 5 that the results for the last four years have been less than stellar. Gross written premium has increased 10%, largely due to premium rate increases of 9.8%, however catastrophe claims have increased 62%, which together with COVID-19 and another poor crop insurance result has resulted in a significant loss for the year, following the significant poor results in these two lines of business in the previous year.

While attritional claims ratios continue to reduce, the experience in the catastrophe and crop insurance continue to adversely affect results. Despite last year's bad outturn, crop written premium increased 14% from growth in policies. The reinsurance program has been renewed on better premiums but the same terms.

When quizzed about these results the company response was that the reinsurance program is operating as anticipated, and the crop result defended on the basis of overall good attritional claims rates over a number of years as well as the effects of a series of unfortunate events including storm and fire seasons as well as COVID-19. The company has indicated there are no selection problems, just averages working against them.

The 3-year restructuring program commences in FY19 was due to provide additional (to FY19) expense savings during implementation (FY20 and FY21) of US$60m, cost US$52m in FY20 and deliver ongoing annual expense spend reduction of US$200m by completion by 2021. Actual results indicate that expenses actually increased US$62m for FY20, cost US$104m for FY20 and have so far achieved recurring cost savings of US$125m. While some of this is likely related to COVID-19, results do not seem to be progressing according to plan.

**Key events**

During the year the company has raised the following lines of capital:

- April/May 2020 share placement and SPP resulting in the issue of a total of 157m shares and providing contributed equity of US$ 1,699m.
- May 2020 issue of capital notes of A$ 500m.
- August 2020 issue of A$ 500m subordinated debt.

**Key Board or senior management changes**

The two new Board members standing for election bring skills and experience that should be of benefit to the company. We are heartened to see this development along with the diversity and the up-to-date experience in relevant markets which they bring to the Board.

The Board has 9 Directors, with the majority having been there longer than QBE's Executive team, while results have been extremely disappointing. Therefore, ASA would welcome more urgent action in the refreshing of the Board.

Significant senior management changes have occurred:

With the sudden departure of Pat Regan in September 2020, director Mike Wilkins stepped in as interim Group CEO/Executive Chair until October 2020 when Richard Pryce, who had already announced retirement plans, agreed to stay on to act as interim CEO until the new incumbent (Andrew Horton) was announced. With the retirement of Mr Pryce, the entire management team has a start date of 2015 or later. Of the 5 executives hired in 2018 or later, 3 have already left the organisation, including Pat Regan and Vivek Bahtia (as discussed above).

**ASA focus issue**

**ESG**

The Annual report sets out a comprehensive Governance framework for the Group with the Board Risk & Capital Committees and Executive Non-Financial Risk Committees receiving quarterly reports on environmental, social and governance issues. There are three working groups under the Climate change steering committee. These committees work across three areas: physical, transition & liability risk, with priorities are set each year.

The short- term incentive measures the performance of these for the incentive outcome. As an insurance company QBE his focussing on the physical impact to changes in material risk over the longer term, anticipating the increased frequency and/or severity of these events. The company is working with the CIRSO and Bureau of Meteorology through the Climate Standard Initiative to identify the perils by region, representing over 80% of QBE's extreme weather exposure, as well as supporting the transition to a low carbon economy. This involves both their own emissions as well as investment.

The Targets they have set from 2018 levels are:

- Energy 15% by 2021
- Scope 1 and 2 emissions 30% by 2025
- Renewable energy use 100% by 2025
- Air travel 20% from 2017
- Impact investing $2 Billion by 2025
- Investment emissions net zero emissions in investment portfolio by 2050.

**Directors and Boards**

The Directors skills matrix as disclosed on page 43 of the Annual report is derisory, providing only a list of skills that Board members have on a broad and general basis. It is left to the shareholders to identify from the short biographies provided available which skills each member likely has, and the relevance of that relative skill based on proximity to work experience compared to industry developments.

ASA's previous request for a more meaningful skills matrix has not been acted upon and we again request that our concerns be considered.

**Fairness in capital raisings**

There were several Capital Management initiatives during FY2020 designed to bolster the group capital & reduce gearing:

-April 2020 US$750   Institutional placement @A$8.25 share

- May 2020 SPP (Australia only) @A$7.51 per share (2% Discount to market) accepted all valid applications raised A$91.5m.

- On market buy back of $766.7m shares.

-A$500m Subordinated Notes due 2036.Eligible as Tier 2 Capital.

-Settlement of A$200m subordinated notes due 2040.

Although the share raising was not based on ASA's preferred pro-rata renounceable rights offer, the selective placement was accompanied by a share purchase plan (SPP) of sufficient size to prevent dilution. The original SPP was to raise US$75m.However, in response to the applications received (7,400) QBE accepted all valid applications and issued 12.2 million shares at $7.51 per share (a discount of 2% to the market) raising A$91.5m.

(Note: QBE was not entitled to payment under JobKeeper.)

**Summary**

| (As at FYE) | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| NPAT (US$m) | (1,517) | 550 | 390 | (1,249) | 844 |
| UPAT (US$m) | (1,517) | 601 | 420 | (228) | 833 |
| Share price (A$) | 8.53 | 12.88 | 10.10 | 10.68 | 12.42 |
| Dividend (A cents) | 4 | 52 | 50 | 26 | 0.4 |
| TSR (%) | (24.0) | 29.20 | (0.90) | (8.90) | 5.30 |
| EPS (A cents) | (108.5) | 41.8 | 29.0 | (91.5) | 61.0 |
| CEO total remuneration, actual (US$m) | 2.08 | 3.442 | 2.919 | 2.733 | 4.199 |
| CEO total remuneration, actual (A$m) | 2.697 | 4.903 | 3.905 | 3.604 | 5.277 |

For 2020 the CEO's total actual remuneration was 29.30 times the Australian Full time Adult Average Weekly Total Earnings (based on November 2020 data from the Australian Bureau of Statistics.

Note - For November 2020, the Full-time adult average weekly total earnings (annualised) was $92,034.80 (http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0, "Full-time adult average weekly total earnings".

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| **Item 2** | **Adoption of Remuneration Report** |
| **ASA Vote** | **Against** |

**Summary of ASA Position**

A new CEO commenced October 2020, interim CEO (Mr Pryce). This resolution relates to the approval of the 2020 remuneration report as set out in the annual report, which relates to the remuneration for the previous CEO (Mr Regan) and interim CEO. While fixed remuneration (FR) remains the same for both, there is a greater proportion of STI and a lower proportion of LTI. LTI is achieved by issue of performance rights to Mr Pryce with performance measures out to 2024.

**For the new CEO, Andrew Horton**

| Group CEO Remuneration Framework | Target A$m | % of Total | Max. Opportunity A$m | % of Total |
|---|---|---|---|---|
| **FR** | 1.800 | 22% | 1.800 | 19% |
| **STI - Cash** | 1.350 | 17% | 2.025 | 21.5% |
| **STI - Equity** | 1.350 | 17% | 2.025 | 21.5% |
| **LTI** | 3.600 | 44% | 3.600 | 38% |
| **Total** | 8.100 | 100% | 9.450 | 100% |

A new CEO appointment was announced 3 March 2021 along with his remuneration details. He will commence on 1 September 2021. The remuneration package as announced has a slightly smaller fixed remuneration than the previous CEO, although it will have a similar structure with an over-emphasis on short term remuneration as well as a sign on bonus of $500,000 cash and $4m conditional rights vesting over four years.

Last year ASA voted against the Remuneration plan on the basis that the short-term proportion was higher than the long-term at the maximum opportunity, as well as the lack of a financial gateway for the non-financial portion of the STI, and three-year vesting on the LTI. This has remained the case for 2020.

The poor result this year provides a good test of the remuneration plan and its alignment to shareholder results.

The financial portions of the STI failed, however the non-financial resulted in a 35% award of STI, the full non-financial proportion, based on fulfilling the strategic goals set out on pages 58 and 59 of the annual report. There seem to be no definitive measures related to the issue of this award. However, the Board has determined that the full amount awarded will be deferred and issued as condition rights, which we applaud.

50% of the LTI is awarded based on average group ROE performance, however, this is adjusted by placing both a floor and a ceiling on the inclusion of catastrophe claims in the calculation because "managing catastrophe risk is a core part of our business". This effectively means that in the current and previous years where significant catastrophe claims have resulted in a very poor overall result for the business that this portion of the LTI allocation will vest in full.

The remaining 50% of LTI is based on a relative TSR measure and working backwards through the figures it appears that 54% of this award has vested.

The structural issues outlined above have not changed and the result this year highlights the issues related to the lack of financial gateway for the STI as well as the proportion of remuneration paid as STI as the CEO has earned 150% of fixed remuneration as well as having partial vesting of LTI's at around 77% combined.

As a result of these concerns ASA is not able to support the 2020 Remuneration Plan and will vote all undirected proxies against this resolution.

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| **Item 3(a)** | **Re-election of Stephen Fitzgerald as a Director** |
| **ASA Vote** | **Against** |

**Summary of ASA Position**

Mr Fitzgerald joined the Board in 2014 having retired from Goldman Sachs in 2012. During his tenure the company has generally performed poorly financially, seen a 200% turnover in senior personnel, suffered the reputational damage of the recent staffing issues. Given the lack of promotion from within at senior levels for some time it would seem that there are cultural and hiring issues within the organisation. Mr Fitzgerald is Chair of the Investment Committee, Deputy Chair of the People and Remuneration Committee as well as a member of the Risk and Capital and Governance and Nomination Committees. During his membership of the People & Remuneration Committee, ASA has voted against the Remuneration report several times and QBE sustained a first strike against its 2018 plan. In ASA's opinion the current committee of which he is a member, is failing to take into account retail shareholders concerns that the remuneration practices are not aligned with shareholder outcomes.

Therefore, ASA is unable to support this candidate for another term given the poor results over a number of years and a range of issues the company is dealing with.

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| **Item 3(b)** | **Re-election of Sir Brian Pomeroy as a Director** |
| **ASA Vote** | **Against** |

**Summary of ASA Position**

Sir Brian is Deputy Chair of the Audit a member of the Investment, Risk Capital and Governance & Nomination Committees. Joined the Board in 2014 having held a range of Board, Trustee and commission positions. As stated above, results have been poor for some time with the last two years being particularly noteworthy. While Sir Brian has insurance industry experience, it does not seem to be being brought to bear in positive results for this insurer. We believe a fourth term is not in the best interests of the company.

ASA is unable to support this candidate for another term given the poor results over a number of years and a range of issues the company is dealing with.

| Item 3(c) | Re-election of Jann Skinner as a Director |
|---|---|
| ASA Vote | Against |

**Summary of ASA Position**

Ms Skinner is Chair of the Audit Committee, Deputy Chair of the Risk & Capital and Governance & Nomination Committees Joined the Board in 2014 having previously been (until retirement in 2004) the audit partner responsible for QBE's audits while at PWC. While Ms Skinner brings good financial experience to the Board, her tenure has seen a considerable deterioration in results as well as cultural issues being suffered by the company. We believe a fourth term is not in the interests of the company.

ASA is unable to support this candidate's re-election for another term as she has been on the Board since 2014.given the poor results over a number of years and a range of issues the company is dealing with.

Therefore, ASA will vote all undirected proxies against this resolution.

| Item 3(d) | Election of Tan Le as a Director |
|---|---|
| ASA Vote | For |

**Summary of ASA Position**

Ms Le has both commerce and law degrees and hails from Silicon Valley, where she has developed and scaled two innovative technology start-ups. While Ms Le does not have a background within the insurance industry, she has demonstrated the ability to apply technology to business problems and that she knows how to run a business from the ground up. We are happy to support her appointment to the Board and are pleased to see that the company is diversifying its Board across a range of skill sets.

ASA supports the election of Ms Le and will vote all undirected proxies in favour of this resolution.

| Item 3(e) | Election of Eric Smith as a Director |
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| ASA Vote | For |

**Summary of ASA Position**

Mr Smith has a long and recent career covering a range of insurance products in North American jurisdictions. We believe that his recent experience in markets that have not performed well in recent years in QBE will assist in supporting ongoing future profitability as well as reducing risk exposure to classes of business that have not been performing well.

ASA supports the election of Mr Smith and will vote all undirected proxies in favour of this resolution.

| Item 4 (a) | To amend the Constitution |
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| ASA Vote | Against |

**Summary of ASA Position**

That this resolution, and resolution 4(b) is again being put to shareholders at an AGM would indicate that it the constitution as it stands allows this to occur without the need to change the constitution. The provisions of the Companies Act are sufficient to allow shareholders the right to question We find it difficult to contemplate the need to allow non-binding resolutions to exist and as it is not supported by the Board.

ASA is unable to support this resolution and will vote all undirected proxies against this resolution.

| Item 4 (b) | Exposure reduction targets |
|---|---|
| ASA Vote | Against |

**Summary of ASA Position**

QBE publish and measure against a climate change action plan and have received an A- CDP climate change disclosure score, up from B in FY19. The ASA considers the current reporting in this area quite sufficient.

Accordingly, ASA is unable to support this resolution and will be voting all undirected proxies against it.