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Mixed Results - is this the heralding of a new beginning or another false dawn

Company/ASX Code	QBE Insurance Group Limited. (QBE)
AGM date	**Thursday 7 May 2020**
Time and location	10am Participation by either webcast or dial in
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Ian Graves assisted by Sue Howes
Pre AGM-Meeting	With Chairman Mike Wilkins, Carolyn Scobie, Group General Counsel & Company Secretary, Peter Smiles, Deputy Company Secretary, Rebecca Skill, Head of Executive Reward and Governance Human Resources, Tony Jackson, Head of Investor Relations

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

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

Summary of ASA Position

2019 was the second full year of QBE's restructure and product rationalisation and is still being impacted by them, although showing a number of positive signs. As well as the finalisation of disposals during 2019 of the remaining Latin American operations in Columbia and Puerto Rico, insurance operations in Indonesia and Philippines and Travel, Wool & Livestock in transit businesses in Australia and the Unigard Indemnity entity and remaining personal lines in North America completes the refocus & simplification of QBE. Although there is still some product repositioning to be completed.

Since the release of the 2019 results, because of Corvid 19 the 2020 forward estimates have been withdrawn.

<u>Governance and culture</u>

There has been significant movement at the senior levels with the change in CEO and his reshaping of the group executive. This seems to have met with approval of the wider staffing body given the increase in results from the employee surveys conducted.

A number of internal people have been promoted into the Group Executive Committee as well as some external appointments required to move the organisation to the current structure.

With the Board is in the process of recruiting for vacancies. The Chairman has indicated support for the 30% gender quota, but this is subject to key skills required, such as North American Insurance experience, being acquired.

The Company has been strengthening its risk management and has implemented a companywide RISK insight program which involves reviewing the company in smaller sections, cells, which is driving improved performance.

The organisation has responded to APRA's self-assessment and has built a Governance, Risk and Compliance system which has increased focus on non-financial risks.

Five emerging risk themes have been identified as part of this new focus:

- Environment and climate;
- Urbanisation and social change;
- Political and economic instability;
- Technological development; and
- Changing consumer behaviour.

The advent of COVID-19 has led to the staggering of staff that need to attend the workplace and the implementation of working from home for the majority of staff. The Board and Group Executive Committee, having international members, are using digital technology for meetings and finding this effective.

Financial performance including dividends and shareholder returns

Both earnings and dividends have shown improvement after several years of lacklustre results. This coincides with the changes made in key management personnel and the efficiency programs showing results. Total Shareholder return has shown a marked improvement with an increase in share price as well as dividends.

However, there is a note of caution with the gross written premium falling by 2% while premium renewal rates have increased by 6.3%, indicating a contraction in volume of business written. While premium rates have increased the company continues to have its results adversely affected by large one-off losses and catastrophes, mainly the North US crop insurance business.

During 2019 QBE purchased an additional A$295 million in QBE shares as part of its 3-year share buyback, which has now ceased. Also, QBE has bought back $195m of senior unsecured Debt. As a result, its borrowings have now been reduced by A$521m and the Debt to equity ratio has moved from 40.8% at December 2017 to 38%.

Key events

Restructuring costs of $42m 2019 and [projected] $52m in 2020 are expected to provide:

- Underlying cost savings for FY19 of $70m;
- A total cost saving over the 3-year implementation period of $130m;

- An overall reduction in annual expense spend of $200m by 2021.

Most of the projected savings are expected to be being achieved through the rationalisation of a number of legacy and duplicated systems and versions resulting from previous acquisitions and mergers.

On 14th April 2020 QBE announced a capital raising of $750m of capital at a price of A$8.25. The funds raised are to be used to bolster regulatory capital, reduce gearing and capitalise on growth opportunities.

As part of this exercise the company seems to be reducing its risk exposure by increasing reinsurance cover in the North American market and removing North American excess and surplus lines. Riskier assets have been divested in the investment portfolio, which will likely lead to a one off hit from rationalising the investment portfolio at an inopportune time.

While the de-risking and regulatory capital increase are both seen as beneficial in the troubled times of COVID-19, these will come at a cost to shareholders given (all figures in AUD and relate to FY19):

- Net profit of $791m
- Dividend paid and payable relating to FY19 of $976m
- Shares bought back (@$12.29 average) of $295m
- Debt reduction of $281m (D/E ratio remained at 38% - outside target range)
- Interest cost of $288m

Keyboard or senior management changes

The Chairman, Marty Becker is not standing for re-election and retired from the Board with effect from 30 April 2020. Mike Wilkins was elected to succeed Marty Becker as Chairman of QBE Group Board and commenced his role on 1 March 2020.

Fred Eppinger: was appointed as an independent non-executive director of QBE from January 2019, and served until his retirement on 6 December 2019

Group Executive:

CEO Pat Regan originally joined the company in 2014 and was appointed into the CEO role in 2018. FY19 has seen a reorganisation of the Group Executive Committee accordingly

Vivek Bhatia: joined QBE in February 2018 as CEO ANZ operations in January 2019 resulting from a re-allocation of roles within ANZ title was changed to CEO Australia Pacific.

Vivienne Bower: joined QBE is 2017 and was appointed Group Executive Corporate affairs and Sustainability.

Todd Jones: joined QBE in October 2019 as CEO North America.

ASA focus issue

Board is supportive of objectives of the Royal Commission and BEAR. Also supports gender equality on the Board.

Auditor rotation was discussed. PWC have internal audit partner rotation and Board is supportive of this but is not looking to put audit out to tender in near future due to level of disruption this would cause.

Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (USD m)	550	390	(1,249)	844	693
UPAT (USD m)	480	420	(288)	833	807
Share price (AUD)	12.88	10.10	10.68	12.42	12.59
Dividend (cents)	52	50	26	4	50
TSR (%)	29.2	(0.9)	(8.9)	5.3	15.2
EPS (cents)	41.8	29	(91.5)	61	50.3
CEO total remuneration, actual (USD m)	3,442	2,919	2,773	4,199	3,169
CEO total remuneration, actual (AUD m)	4.953	3.905	3.604	5.277	N/A

For 2019 the CEO's total actual remuneration was **55 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

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

Summary of ASA Position

In recent years QBE has had a number of changes to its Executive Remuneration Reports and, after receiving a first strike in 2018, QBE made substantial changes to it. Last year the remuneration plan for the Group Executive was backdated to commence from 1 January 2019 with all other staff from 1 January 2020.

Although we are Voting on the 2019 Report it should be noted Fixed Remuneration for the CEO increased by A$100,000 from A$ 2,100,000 to A $2,200,000 on 1 January 2020.

CEO Remuneration Mix	Target A$ m	% of Total	Max. Opportunity A$ m	% of Total
Fixed Remuneration	2.10	24%	2.10	20%
STI - Cash	1.30	15.%	2.10	20%
STI - Equity	1.30	15.%	2.10	20%
LTI[1]	4.3	46%	4.3	40%
Total	9.00	100.%	10.6	100.%

Summary of ASA Position

Last year ASA voted in favour of the Remuneration package although with some concerns about the remuneration mix of 30% Fixed remuneration with 40% short Term incentive and 30% Long term Incentive.

This year, as shown in the above table, the CEO's Target Remuneration mix becomes:

Fixed Remuneration has reduced to 24%, Short-term Incentive reduced to 30% with Long -term Incentive increasing to 46%. This maintains the position of the short term being more than the Fixed remuneration. Although the 76% of the pay mix is now deferred with longer deferral periods.

Maximum Opportunity Remuneration mix the Short-Term Incentive portion becomes more pronounced. With Fixed remuneration reducing to 20%, Short-term incentives increasing to 40%, and Long-term incentive reducing to 40%

Thereby becoming even more heavily weighted towards the short-term remuneration which ASA does not support.

The revised Package because of the increased focus on short term rewards will most likely lead to a focus on short term outcomes which will be to the detriment of the business and interests of long-term investors.

STI Performance Measures

- 35% based on the Strategic performance measures. along with a formal assessment of risk & behaviours. Using inputs from Board Committee Chairs & The Chief Risk Officer.
- 25% on Group cash ROE and 40% on Group Combined Operating Ratio. Both of these measures can be cascaded to the smallest business units.
- Equity Deferral 2 years from **end** of performance period.

LTI Performance Measures.

[1] No Target LTI assumes LTI @ Face Value.

- Group average Cash ROE 50%
- Relative TSR 50%, using 2 Peer Groups.
  - ASX 50
  - Global Insurance Peer Group

The vesting period is in 3 tranches over 3 years being 33% each year for years 3,4 and 5.

Although there are many positive features of this plan, namely the amount of at-risk equity is more,51% at Target and 60% at Maximum, the deferral period being delivered over 3 to 5 years, and performance measures having rigor, there is too great an emphasis on Short Term Incentives.

One major lesson to come out of the Hayne Royal commission was that short term incentives drive bizarre short-term behaviours. This was why the matter was raised in the Banking Executives Accountability regime, now renamed FAR (Financial sector Accountability Regime) and will apply to all APRA reporting companies. This regime requires a greater emphasis on long -term remuneration

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.

Item 3	**Approval of LTI grant of Conditional Rights under the 2020 LTI Plan to the Group Chief Executive Officer (CEO)**
ASA Vote	**Against**

Summary of ASA Position

This grant is for 295,147 Conditional Rights under QBE's long-term Incentive plan under the 2020 plan. The grant has an initial value of A$4,400,000, at a market value of A14.91 per share being the volume weighted average of QBE shares over the last 5 trading days from 17 February, and for the acquisition of company shares upon vesting of these rights.

ASA doesn't support the 2019 Remuneration Plan from which these rights will accrue.

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

Item 4(a)	**Re-election of M/s Kathryn (Kathy) Lisson as a Director**
ASA Vote	**For**

Summary of ASA Position

Ms Lisson was appointed to the Board in September 2016 so is one of the more recent Board appointments. She is considered to be independent and holds a range of skills and abilities suitable for the role, coming from a background of high-level work in banking and insurance.

She has attended all meetings of both the Board and the three committees she serves on – including chairing the Operations and Technology Committee.

At the time of the annual report she held no other directorships and held 28,293 shares in QBE – giving a total holding at EOFY price of AUD$364,414 compared to annual fees of US$254,000 (AUD$413,000)

Having been on the Board for 3 years as at the end of the Financial year M's Lisson's shareholding is in line with QBE's shareholding minimum requirement of 100% of base fees after 5years. Even though ASA would prefer the minimum requirement to be achieved after 3years.

ASA supports Ms Lisson's re-election and will vote all undirected proxies in favour of this resolution.

Item 4(b)	**Re-election of Mr Michael (Mike) Wilkins as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Wilkins joined the Board in November 2016 and has now been appointed Chairman to take over from Mr Becker on 1 March 2020.

Mr Wilkins is an experienced insurance senior executive and director with suitable skills and abilities for this role and is considered to be independent.

He has attended all meetings of the Board and Committees he serves on.

At the time of the annual report he held only one other NED role with Medibank and held 28,514 shares giving a total holding at EOFY price of AUD$367,260 compared to annual fees in FY19 of US$252,000 (AUD$410,845) which will now move to AUD$663,000 with the role of Chairman.

As Chairman he will be ensuring that he leads by example and adhere to the QBE minimum shareholding requirement.

ASA supports Mr Wilkins re-election and will vote all undirected proxies in favour of this resolution.

Item 5a	**Resolution to amend the Constitution promoted by Market Forces and Australian Ethical and requisitioned by a group of shareholders.**
ASA Vote	**Against**

Summary of ASA Position

This small group of activist shareholders submitted a similar resolution at last year's AGM which was soundly defeated.

The Board considers that the proposed resolution is not in the best interests of all shareholders and recommends that shareholders vote against this resolution.

ASA support the Board's recommendations and will be voting all undirected proxies against this resolution.

Item 5b	**Resolution To publish exposure reduction targets promoted by Market Forces and Australian Ethical and requisitioned by a group of shareholders.**
ASA Vote	**Against**

This resolution is “advisory resolution” and can only considered if item 5a is passed

Like Resolution 5a this resolution was also on last year’s agenda, but was not put to the meeting because it was contingent upon 5a being passed.

This resolution demonstrates the dangers of supporting the previous motion as it seeks to limit the Board’s ability to discharge its duties in the best interests of all stakeholders and would restrict the Board in discharging its duties.

The Board considers that the proposed resolution is not in the best interests of all shareholders and recommends that shareholders vote against this resolution.

ASA support the Boards recommendations and will be voting all undirected proxies against this resolution.

Item 6a	**Resolutions by Colong Foundation for Wilderness Ltd to amend constitution**
ASA Vote	**Against**

Summary of ASA Position

This small group of activist shareholders submitted a resolution at last year’s AGM. Which was soundly defeated.

The Board considers that the proposed resolution is not in the best interests of all shareholders and recommends that shareholders vote against this resolution.

ASA support the Board's recommendations and will be voting all undirected proxies against this resolution.

Item 6b	**Resolutions by Colong Foundation for Wilderness Ltd to amend constitution**
ASA Vote	**Against**

Summary of ASA Position

This resolution is “advisory resolution” and can only considered if item 6a is passed

This resolution demonstrates the dangers of supporting the previous motion as it seeks to limit the Board’s ability to discharge its duties in the best interests of all stakeholders and would restrict the Board in discharging its duties.

The Board considers that the proposed resolution does not provide an appropriate forum for all shareholders to have input into the discussion about the business of the company. Therefore, it is not in the best interests of all shareholders and recommends that shareholders vote against this resolution.

ASA support the Board's recommendations and will be voting all undirected proxies against this resolution.