



## Continuing Improvement and Stability Returning

<b>Company/ASX Code</b>	QBE Insurance Group/QBE
<b>AGM date</b>	Friday 12 May 2023
<b>Time and location</b>	10am Wesley Conference Centre, 200 Pitt St, Sydney
<b>Registry</b>	Computershare
<b>Type of meeting</b>	Hybrid
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Peter Aird assisted by Peter Rae
<b>Pre AGM Meeting?</b>	Yes with Chair Mike Wilkins, Tan Le, (NED & Chair, People & Rem Committee), Amanda Hughes, (Group Chief People Officer), Kate Lyons (Head Sustainability), Ash Dalziell (Head Investor Relations), Rebecca Skill (Head Perf & Review), Carolyn Scobie (Company Secretary)

Monitor Shareholding: One of the individuals involved in the preparation of this voting intention has a shareholding in this company.

### Summary of issues for meeting

ASA has voted its open proxies against the Remuneration report for the past 3 years, making issues around a revised reward structure key to discussion. In addition, the way the company communicates to its large number of retail investors was addressed.

### Proposed Voting Summary

No.	Resolution description	
2	Adoption of Remuneration Report	For
3	Approve grant of Conditional Rights under LTI plan for 2023 to the Group CEO Andrew Horton	For
4 (a)	Re-election of Mr M Wilkins, who retires by rotation, as a Director of the Board.	For
4 (b)	Re-election of Ms K Lisson, who retires by rotation, as a Director of the Board.	For

### Summary of ASA Position

#### Consideration of accounts and reports - No vote required

In spite of the continued volatility in its markets, with increased catastrophe claims, inflationary pressures, the war in Ukraine and supply chain disruption, QBE has maintained its focus and produced a Net Profit after Tax (NPAT) of \$US770m, described as “pleasing” by the Chair.

## **Governance and culture**

The Annual Report provides extensive information on the Governance and culture of the company. It includes the Corporate Governance Statement (including Board and Management functions, definition of business culture, diversity measures and corporate reporting) and reports from the Chief Underwriting, Financial and Risk Officers, the latter including extensive analysis, metrics and targets relating to the impact of Climate Change. The Board “Skills Matrix” (included) continues to be well below the expected standard.

## **Financial performance**

With Gross Written Premiums<sup>1</sup> up 13% (\$US20,001m) but Catastrophe claims also up 15% (\$US1,060m) and the combined Operating Ratio<sup>2</sup> increased slightly (94.2%), the NPAT of \$US770m (up from \$US750m) is a satisfactory result. Of particular note is the turnaround in the North American division, with GWP up 16%, COR below 100% at 98.9% and significant improvement in the Underwriting outcome.

Dividend per share is up again to 39 cents (30 cents in 2021) and the simple TSR is 15.8%. The share price increased by over 10% on release of the FY2022 results.

## **Key events**

The company disposed of US based Westwood Insurance Agency as a result of its strategic review of geographical spread, yielding a small gain of \$US38m after reducing goodwill on the balance sheet by \$328m.

Of more significance is the update of strategic priorities under new CEO, Andrew Horton. It was interesting that Customer Focus was removed (from the previous strategies), with the Chair indicating that QBE’s prime focus is commercial, with financial measures in place to assess customer retention for Board reporting. The six priorities are now primarily internally focussed, with a strong emphasis on improving performance across the business. Customer focus is part of QBE’s DNA (see Corporate Governance statement).

## **Key Board or senior management changes**

Key Management Personnel did not change during 2022, which was a significant improvement, especially with the new CEO starting late in 2021.

Ms Yasmin Allen joined the Board in July 2022 after being elected at the 2022 AGM. Mr Eric Smith has resigned from the Board as of 10 March 2023, following his appointment “to a US based NED role”. The Chair has indicated that QBE are now actively searching for a NED with US insurance exposure. Although there was no plan to appoint an additional Director to replace one of those who retired in 2022 (Mr Fitzgerald & Mr Green), a further appointment would be considered if the current search identified an attractive candidate.

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<sup>1</sup> GWP – the total premium on insurance underwritten by an insurer ... during an accounting period, before deduction of reinsurance premium.

<sup>2</sup> COR – the sum of the net claims ratio, commission ratio and expenses ratio - above 100% indicates an underwriting loss, below 100% indicates an underwriting profit.

## **ASA focus issues**

### Treatment of Shareholders:

QBE now runs its AGM's using the "Macquarie format", where the Agenda items are presented in a group, followed by shareholders questions. This results in random and haphazard questions and answers and does not enhance communication. Questioned on this, the Chair indicated that he thought that the process was superior to that where questions followed the Agenda and pointed out that ASA is the only group to raise this issue.

### ESG:

QBE provide comprehensive information about their response to ESG issues, both in their Annual Report and in the separate annual sustainability report. The issue of their membership of two UN groups (Net Zero Insurance Alliance and Net Zero Asset Ownership alliance) was raised with Ms Lyons responding that QBE believed that there was value in their involvement in setting objectives, collaborating with others and collective action. This was clear in the difficult process of measuring emissions.

On the impact of their investment target for net zero by 2050, the Chair indicated that as much of their investment was short-term using Bonds, he was confident that they could achieve the target without significant impact, although the last 0.5% might prove problematic.

### **Summary**

(As at FYE)	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
NPAT (\$USm)	770	750	(1517)	550	390
UPAT (\$USm)	845	805	(1517)	601	420
Share price (\$A)	13.43	11.94	8.53	12.88	10.10
Dividend (A cents)	39	30.9	4	52	50
Simple TSR (%)	15.8	43.6	(24.0)	29.2	(0.90)
EPS (US cents)	48.6	47.5	(108.5)	41.8	29.0
CEO total remuneration, actual (\$A m)	4.35 [2]	1.7 [1]	2.08	3.44	2.92

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking by the share price at the start of the year).

Note 1: CEO Andrew Horton appointed in March 2021 and took up position on 1 Sep 2021. 2021 remuneration includes substantial relocation and other expenses (\$A619,000)

Note 2: Based on realised remuneration \$US3.021, including \$US186'k "Other" expenses.

## **Election or re-election of directors**

Two Directors are up for re-election by rotation at the FY2022 AGM. QBE currently has 8 Directors, with 4 women and a distribution of geographical locations.

Mr Michael Wilkins became a Director in 2016 and was appointed Chair in 2020. He also sits on the Audit, People and Risk committees and is Chair of the Governance and Nomination committee. He has over 30 years' experience in financial services including as CEO of Insurance Australia Group. Whilst he has a significant workload as Chair of Medibank and as an NED of Scentre Group, this is not above ASA guidelines. His performance and experience would indicate that his re-election can be supported.

Ms Kathryn Lisson became a Director in 2016 and is Deputy Chair of the People and Remuneration committee and a member of the Risk and Capital committee. She has over 30 years' experience in the insurance and banking industries in technology, operations and management roles. She has worked in companies in the UK and Canada. Her business and geographical location experience would indicate that her re-election can be supported.

## **Adoption of Remuneration Report and approval of equity grants to Managing Director/CEO**

ASA has not supported the Remuneration report or Grant of Conditional Rights under the LTI for the past 3 years, primarily on the basis that it emphasises short term performance and the STI Target amount exceeds the Fixed remuneration.

The Remuneration structure for the CEO and KMP's has been revised in 2022. This has not removed ASA's objections that the Target STI not exceed the Fixed and that the maximum STI (225% Fixed) still exceeds the maximum LTI (200% Fixed). However, the use of deferral of 50% of the STI award, now over four years for the STI and the following three years for the LTI, places a unique emphasis on long term performance which mitigates the significance of the relationship between STI and LTI. Clearly, executives will see the value of their rewards diminish if the share price falls after an award.

The Chair made it clear that QBE's Remuneration framework "needs to be globally competitive ...and ...reflect global remuneration standards", particularly in the US where there is "strong competition for talented executives". They are shifting away from STI's to longer term incentives as reflected in the current framework.

Whilst the Target STI still significantly exceeds Fixed remuneration, the use of deferrals in the STI and LTI rewards provides executives with significant incentive to ensure the long-term performance of the business and ameliorates against ASA's concerns to some extent. In view of the changes implemented and the need to meet international standards, ASA can support the Remuneration report.

In regard to the Grant of Conditional Rights to the CEO, the framework meets much of ASA's guidelines and can also be supported.

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## Appendix 1

### Remuneration framework detail

The Remuneration report is comprehensive and not difficult to understand. It includes details of KMP's actual remuneration, how that was achieved and of the structure of the STI and LTI.

The remuneration structure was changed significantly in 2022, with much more emphasis on Group performance, both financial and strategic. Asked how this would incentivise Divisional CEOs, the response was that this was consistent with their Strategic priorities and that Divisional CEOs would be expected to assist across the Group to improve performance.

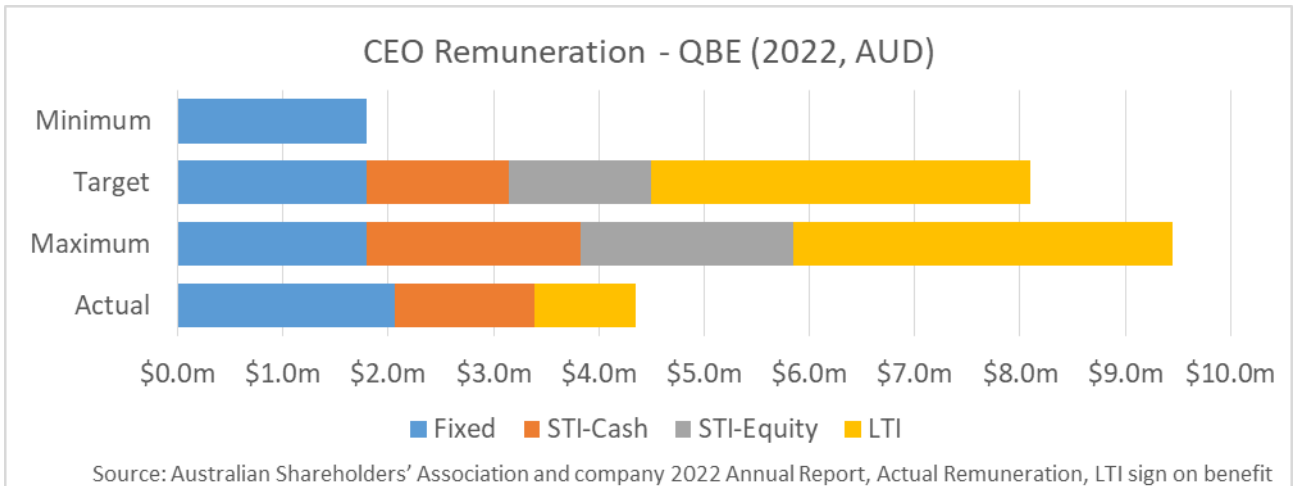
The breakdown of the Group CEO's remuneration scheme is shown in the graph below, with target Fixed 22%, STI 34% and maximum LTI 44%. Half the CEO's STI and all the LTI is paid as equity over 3-4 years following the completion of the performance period. Other KMP's target remuneration has a higher Fixed component (31%) and lower LTI (34%), again with components of the STI and all the LTI paid as equity over 3-4 years.

The STI is assessed on financial (70%) and non-financial measures. The financial measures are Group COR and Group Cash ROE with non-financial, Risk, People and Culture and Strategic Priorities. The STI Threshold is 45%, Target 150% and Maximum 225% of Fixed. It is noted that the Target multiple is well above ASA's guidelines (100% of Fixed) but that the CEO's Fixed remuneration in 2022 (\$A1.800m) is significantly below the 50 percentile of CEO's in financial services companies with Market Capitalisation >\$10 billion (2022 GRG report). Also, 50% of the CEO's STI achieved is paid in equity over the 4 years following the relevant reward year (ie on the first, second, third and fourth anniversaries of the award). There is no Gateway on the non-financial measures vesting. The Chair was quite firm that the structure of the STI reflects international competition for top executives.

The LTI is more traditional, with a maximum reward of 200% of Fixed remuneration provided as Conditional Rights, costed at face value of the shares after release of the previous year's results, and subject to shareholder approval. Performance measures are over 3 years Group Cash ROE (70%) and Relative Total Shareholder Return (30%) with the peer group now being global insurance businesses. The Equity vests over the following 3 years from the completion of the period.

There are no financial gateways in the STI or LTI frameworks. In 2020, when the NPAT was negative, as was the TSR, the STI financial rewards were not achieved but, given the Covid circumstances, the STI non-financial rewards were allowed. However, no cash rewards were made, with rewards as equity over the following 2 years.

All KMP's and Non-Executive Directors are required to build a shareholding in the company, which is reported and tracked against company policy.



The amounts in the graph above are the amounts that are envisaged in the design of the remuneration plan. 2022 Fixed Actual includes \$268,000 "Other" income.

\*Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.