



Group Chief Risk Officer's report

Managing risk - our business

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As QBE emerges into a post-pandemic world, we continue to manage the residual risks from supply chain disruptions, business interruptions and hybrid working. However, given the volatility and rapid evolution of the geopolitical environment, new international challenges arise. The invasion of Ukraine by Russia resulted in a material deterioration in the global security environment and increased macroeconomic uncertainty. QBE is focused on managing the risks and impact to the Group while supporting our customers.

In addition, QBE continues to be exposed to natural disasters, with the 2022 eastern Australia floods recorded as some of the costliest in the nation's history. As the frequency and severity of these weather events continue to increase, QBE is focused on continuously improving understanding and management of climate-related risks. Catastrophe modelling continues to be updated in order to inform underwriting and reserving decisions.

Enterprise risk management framework

The enterprise risk management framework describes QBE's approach to managing risk and is embedded in our Risk Management Strategy which is annually reviewed to assess its effectiveness. To achieve the integration of risk in business planning and supporting our strategic objectives, material risks are identified and assessed, with QBE focused on ensuring there is a globally consistent process for individual risk assessments. Group-wide stress testing is performed to help develop mitigation strategies and actions to achieve our business plans.

Alongside strategic planning, our Capital Management Plan and risk appetite statements ensure a balance between risk and return as we allocate resources for sustainable growth. QBE's risk appetite statements define the

threshold for our risk appetite, and are subject to periodic updates. Monitoring this enables QBE management to be aware of potential earnings volatility risks within the business plan and take action accordingly.

QBE's Group Risk and Control Self-Assessment Standard sets minimum requirements for identifying, documenting, and assessing key risks that QBE faces in delivering our strategic and business objectives, and assessing the effectiveness of those controls in place to manage those risks. The Incident and Issue Management Standard sets the minimum requirements for managing incidents and issues across QBE. This allows QBE to better manage risk and drive continuous improvement by understanding our risk exposure, identifying the root causes and proactively improving the overall control environment.

Risk governance

QBE's approach to managing risk is set out in the Risk Management Strategy, which is implemented through a three lines of defence model with oversight from the Board. The first line is business, responsible for identifying and controlling risks within our risk appetite according to our enterprise risk management framework. The second line is the risk and compliance function which establishes relevant risk frameworks and has an independent

role to support and challenge the first line. The third line is the internal audit function which is the independent review and assurance function. QBE's approach to assurance seeks to integrate assurance-related activities across all three lines of defence to provide assurance that the key risks are being appropriately managed.

During 2022, QBE has sought to improve the effectiveness of risk management through a number of initiatives including strengthening the organisation's risk culture, developing an earnings volatility risk approach and simplifying the risk framework and internal governance documentation. Management expects to continue this program of risk management enhancements in 2023.

Risk culture

QBE recognises the importance of risk culture for supporting risk management and is committed to developing an appropriate level of skills to support a strong risk mindset. The QBE Group Risk Culture Standard outlines our framework through which we assess and manage risk culture.

Our risk culture is a key element of the QBE organisational culture and is strongly intertwined with the QBE DNA. We use a variety of processes and tools to understand and continually evolve our risk culture and risk maturity.



Our top risks

Geopolitical and economic uncertainty

Political instability or conflict resulting in disruption to international trade and economic downturn could result in financial loss to QBE. Heightened risk of conflicts, such as the ongoing geopolitical tensions between the US and China, and Russia's invasion of Ukraine has led to energy concerns and additional disruption to supply chains which were already strained from a global economy emerging from COVID-19. This has contributed to inflation, interest rate increases, heightened risk of recession and volatile foreign exchange rates and stock markets across major developed economies to which QBE's business is exposed, driving potential financial loss.

QBE is focused on understanding the potential impacts of geopolitical and economic uncertainty through scenario analysis and ensuring appropriate action is taken, such as through pricing to manage the impact of future claims costs, setting an appropriate business plan and determining appropriate reserves and capital requirements.

Inflation

Heightened inflation is a key driver of the current global macro-economic environment. Ongoing global political crises impacting energy and commodities pricing also threaten to exacerbate the fragility of the global supply chain. Central bank interest rates are the primary policy response to manage future inflation; however, the economic risk associated is economic slowdown and recession. There is the possibility that central banks choose not to increase interest rates substantially, leading to heightened inflation becoming embedded within Western economies.

As such, the rising cost of insurance claims, wage inflation and materials (both cost and availability), increasing litigation and litigation funding as well as broader definitions of covered liabilities, could impact profitability targets. Inflation assumptions, impact on reserves and pricing adequacy form a key part of the analysis within the inflation and recession stress tests and Group business planning process. Our inflation working group brings together cross-functional leaders to consider predicted inflationary trends and propose actions to be taken across all dimensions of QBE's business.

Climate change

As an international insurer, reinsurer and investor, there are a range of risks and opportunities associated with climate change that will present over the short, medium and long term. The increased frequency and severity of natural disasters due to climate change, as well as the transition to a net-zero economy, drive risks and opportunities. There is the potential for climate change to have significant impacts on certain perils and regions particularly floods in Europe and Australia, and hurricanes in North America, over the longer term. Regulatory pressures continue to grow, as policy action and stakeholder expectations around disclosure become more ambitious over the shorter term.

i Further details on our approach to manage climate risks and opportunities are on [pages 34–43](#).

Insurance accumulations

The influence of climate change, technological advances, increased globalisation and interdependency emphasise the importance of appropriate accumulations management towards large insurance loss events.

To manage this risk, QBE monitors and manages its insurance accumulations. Sophisticated modelling is used to understand both our current and forecast exposures and is viewed against the Board's risk appetite in relation to extreme loss events. We use multiple methodologies to evaluate the concentration risk from exposure to natural and man-made catastrophes, controlling this exposure with the appropriate purchase of reinsurance. QBE maintains an inventory of catastrophe models that cover global perils and regions to match our global portfolio. Scenario analysis focused on underwriting risk elements is employed to understand the potential impact of unexpected events across multiple classes of business. The breadth and depth of scenarios are reviewed and challenged regularly to reinforce new learnings, reflect best practice and to ensure the suite of catastrophes covered are in line with current events and new risks. Reinsurance and broader portfolio management strategies are integral to ensuring that our insurance accumulations remain at acceptable levels.

Reserving, large losses and prior year claims development

Inflation continues to drive uncertainty around the ability of QBE's current reserves to meet future claims with the risk of adverse prior year claims development. Both price and social inflation contribute to the rising claims costs and must be considered in reserving assumptions.

Cyber

QBE continues to adapt and optimise its operations and strategy in response to the ever-evolving threat landscape. To support QBE's innovative and fast-paced business, QBE aims to effectively manage cyber risk to ensure cyber resilience. QBE leverages the breadth of knowledge and expertise globally to deliver consistent and effective services that address our existing and emerging risks.

QBE's Cyber Security Strategy is informed by recommendations from internal and external reviews and takes a risk-based approach to the current and emerging threat environment. The strategic initiatives for 2022 to 2024 relate to ongoing improvements in our security posture, resilience, enhancing governance of partners and suppliers, investing in our people's security awareness and obligations, and further enabling security solutions in keeping pace with the threat landscape. In line with implementing these strategic initiatives, QBE is also focusing on assurance over our retention, management and disposal of data and datasets.