

Environmental and Social Risk Framework

Effective date: 1 January 2022

As a general insurance and reinsurance company, QBE's purpose is to give people the confidence to achieve their ambitions. We are focused on integrating sustainability into every facet of our business, which is an integral part of achieving our purpose. This is reflected in our commitment to investing in business opportunities with positive environmental and social impacts, actively mitigating environmental and social risks, reducing our operational footprint, and setting similar expectations for our suppliers.

As a company that helps people and businesses protect themselves from risk, an understanding of environment, social and governance (ESG) issues enables QBE to manage risks and identify opportunities in underwriting and investment.

It is important that current and emerging ESG issues are built into our decision-making processes. By integrating ESG considerations into our underwriting and investments, we take a holistic approach to risk management.

The Environmental and Social (E&S) Risk Framework outlines our approach to addressing key environmental and social risks across our underwriting and investment activities.

To help guide our approach to sustainability and ESG risk management, we are participants in, supporters of, or signatories to the following global initiatives:

- CDP
- ClimateWise
- RE100
- Sustainable Marine Insurance Initiative
- Task Force on Climate-related Financial Disclosures
- United Nations (UN) Environment Programme Finance Initiative
- UN Framework Convention on Climate Change Paris Agreement
- UN Global Compact
- UN Principles for Responsible Investment (PRI)
- UN Principles for Sustainable Insurance (PSI)
- UN Sustainable Development Goals
- Women's Empowerment Principles.

Our participation in each of these bodies provides us access to global best practice, emerging trends, and risk and opportunity management approaches on ESG issues relevant to the insurance and investment sectors and broader industry. We are also members of a range of more local initiatives as outlined in our [Sustainability Report](#).

Guiding principles

Based on our external sustainability commitments and memberships, QBE aims to play an active role in managing environmental and social risks by pursuing the following objectives:

- Ensuring our decision-making and actions are guided by the Group Code of Ethics and Conduct;
- Embedding environmental and social issues into our insurance and investment decision-making;
- Maintaining awareness of the regulatory landscape and best practice approaches and updating our approach as necessary;
- Working with our customers, asset managers and business partners to raise awareness of environmental and social issues, manage risks and develop solutions;
- Working with government, industry and other stakeholders to advocate for awareness and action on environmental and social issues; and
- Being accountable and transparent in our progress and performance on environmental and social issues through regular and balanced disclosure.

Our commitments

QBE recognises that organisations have an obligation to respect human rights and protect the environment. We are committed to avoid causing or contributing to adverse human rights and negative environmental impacts arising from our activities and business relationships.

The E&S Risk Framework outlines the minimum criteria that we are committed to adhering to as a business in respect to human rights and the environment for our investment and underwriting business. We also encourage our customers to adhere to these criteria in their business activities. Based on these overarching commitments on human rights and the environment, the E&S Risk Framework specifies detailed commitments for a range of sectors that we have identified as higher risk. The E&S Risk Framework operationalises our commitments and guides our due diligence across our underwriting and investment activities.

Human rights

The QBE Code of Ethics and Conduct reflects our commitment to internationally recognised human rights and labour standards to provide dignity and equality for all our employees, customers, communities and suppliers.

Respect for human rights reflects the belief that all people are entitled to basic rights and freedoms, regardless of their nationality, gender, religion, race or any other status. We comply with all national laws and regulations relating to human rights and seek to mitigate adverse human rights impacts in all areas in which we operate.

Wherever we operate, we respect human rights and are committed to avoiding human rights harm. We seek to encourage entities in which we invest or insure to avoid causing or contributing to adverse human rights or labour rights impacts as described by the International Bill of Human Rights and International Labour Organisation's (ILO) eight fundamental Conventions.

Environment

Wherever we operate, we try to minimise our impact and avoid severe and irreversible damage to the environment. We are committed to understanding, managing and continually improving the direct and indirect environmental impacts, risks and opportunities of our operations.

We are committed to supporting activities which comply with, or exceed, the requirements of environmental legislation relevant in all areas in which we operate.

Our direct environmental commitments are outlined in the **QBE Environmental Policy**.

Sensitive sectors

Biodiversity and protected areas

Protected areas, such as World Heritage Sites, are recognised for their unparalleled beauty, global environmental and cultural significance and/or biological diversity, and for the important economic, social and environmental benefits they provide to people. These sites deliver critical environmental services such as stabilising soils, preventing floods and capturing carbon, all of which increase our resilience to the most harmful impacts of a warming climate. QBE also recognises the importance of cultural heritage for current and future generations and seeks to protect areas of significant cultural heritage and value from the adverse impacts of project activities. QBE recognises that customer activities may have material impacts on protected areas that could substantially harm the biodiversity and cultural value of these sites.

QBE is committed to protecting World Heritage Sites. We encourage companies to adopt and adhere to industry standards and practices to protect these places.

QBE will not knowingly directly insure or directly invest in projects in severe risk sectors (oil and gas, mining and large-scale hydropower) located in World Heritage Sites or their buffer zone, unless there is a prior consensus with both Government and UNESCO that such projects will not adversely affect the outstanding universal value of the site.

Projects in high risk sectors (logging, commercial fishing, agriculture, plantations and large-scale infrastructure such as pipelines, roads and mega-ports) located in World Heritage Sites or their buffer zone will be assessed in line with the World Heritage Site risk assessment checklist.

Forestry

The forestry sector is considered to be high risk, particularly in areas with weak social and environmental regulation. The forestry sector includes growing and harvesting forests, and timber processing e.g. manufacturing wooden furniture, pulp and paper mills and trading in forestry (related) products. Social risks include adverse human rights conditions such as poor, unsafe working conditions, child and forced labour and forced relocation. Environmental risks are related to deforestation and biodiversity loss.

We encourage companies who are growers, producers, and/or processors of palm oil and timber to gain industry-relevant sustainability certification (e.g. Roundtable on Sustainable Palm Oil, Forest Stewardship Council), or equivalent standards, to demonstrate chain of custody.

Fishing

Pirate, or illegal, unreported and unregulated fishing is a significant environmental risk as it contributes to overfishing and the destruction of vital marine habitats and ecosystems. Such activity may also be linked to increased claims, fraud and other crimes.

Consistent with our commitments as a signatory to the Oceana and UN's Sustainable Marine Insurance Initiative, we will not knowingly insure or facilitate the insurance of vessels that are blacklisted for pirate fishing.

Defence

Firearms

QBE is concerned with the societal impacts of the proliferation and illegitimate use of firearms. The E&S Risk Framework applies to all transactions, corporate and commercial product and investment activities involving firearms.

We will not knowingly insure or directly invest in:

- Any existing or new insurance client or company which sells and/or manufactures firearms or ammunition, where turnover from the manufacture and/or sales of firearms or ammunition represents more than 30% of turnover of the client; or
- Any corporate entity or political organisation which has as its principal activity or purpose any of the following:
 - the provision of permits to own, purchase, carry or use firearms;
 - advocacy of gun rights;
 - espousing the right to bear firearms; or
 - conducting or in any way promoting activities involving the use of firearms to harm or kill people, or to carry out other intentional acts of wrongdoing.

Exceptions:

Companies that meet one or several of the below criteria are exempt:

- Sold and/or manufactured for the exclusive use of the military or security forces of a country not prohibited by the QBE Group Sanctions List;
- Used by the military or security forces, or a legitimate national or state law enforcement agency, of a country not prohibited by the QBE Group Sanctions List;
- Used by a legitimate bodyguarding or security operation that has received enhanced underwriting scrutiny in accordance with QBE internal procedures; or
- Used in connection with the rescue of individuals in any territory covered by a valid Kidnap and Ransom policy issued by QBE.*

Controversial weapons

QBE is concerned with the indiscriminate and disproportionate harm caused by specific weapons and weapon systems on humans and the environment. The E&S Risk Framework applies to the production, distribution or transportation of controversial weapons. Controversial weapons are considered:

- Cluster weapons;
- Anti-personnel mines (landmines);
- Biological weapons;
- Chemical weapons;
- Weapons carrying depleted uranium; and
- Nuclear weapons.

QBE will not knowingly directly insure or directly invest in companies:

- Involved in the development, production, selling and/or distribution of (parts of) controversial weapons and this involvement concerns the core weapon system, or key components/services of the core weapon system;
- Involved in the development, production, selling and/or distribution of (parts of) nuclear weapons, unless they are produced in, and for the benefit of the armed forces of a nuclear-weapon state according to the Treaty on Non-Proliferation of Nuclear Weapons of 1 July 1968; or
- Involved in the production of arms in, or transport to, countries on the QBE Group Sanctions List.

Energy

Coal

Due to the thermal coal industry's high emissions intensity, the availability of renewable energy and gas as substitutes, and in the absence to date of large-scale deployment of economically viable carbon capture and storage technology, we are committed to no longer directly investing in and phasing out insurance for the thermal coal industry. Thermal coal companies are those with more than 30% of revenue or 30% of power generation from thermal coal. QBE will:

- Not invest directly in thermal coal companies. However, we will maintain a margin of up to 0.5% of total funds under management in order to allow for exposures in our indirectly managed investments, such as through equity index funds;
- Not provide any new direct insurance services for new construction projects for thermal coal mines or power stations or thermal coal transport infrastructure; and
- Continue to provide statutory or compulsory insurance such as workers' compensation and compulsory third-party motor insurance for such projects. We will phase out all direct insurance services for thermal coal companies, except for statutory or compulsory insurance, by 1 January 2030.

*requires the prior approval of the relevant business unit head.

QBE will continue to invest in and provide insurance for metallurgical (or coking) coal companies. There are currently no industrial-scale alternatives to metallurgical coal for the manufacture of steel, which is vital for future economic development and for the construction of renewable energy assets.

Oil sands and Arctic drilling

- As of 1 January 2022, QBE will not provide insurance to new construction for oil sands projects
- As of 1 January 2022, for existing companies with 30% or more revenue from oil sands and Arctic drilling, QBE will only provide insurance where the company is on a pathway consistent with achieving the Paris Agreement
- QBE has no direct investments in oil sands and Arctic drilling projects.

Oil and gas

- QBE recognises that the oil and gas industry is responding to the challenge of achieving the Paris Agreement. We will continue to work closely with our clients to support their transition to a net-zero global economy through developing risk management and insurance solutions for new technologies needed for transition.
- As of 1 January 2030, for companies with 60% or more revenue from oil and gas extraction, QBE will assess whether the company is on a pathway consistent with achieving the Paris Agreement, and decline to provide insurance where this is not the case. This threshold will be reduced to 30% from 1 January 2040.
- QBE has a small existing exposure to oil and gas companies in its direct investments and will seek to reduce this exposure and the associated emissions in line with its commitment to net-zero emissions from its investment portfolio by 2050.

The above policies apply for direct insurance and facultative reinsurance but exclude treaty reinsurance or any statutory or compulsory insurance such as workers compensation insurance.

Mining

The metals and mining sector faces an increasing challenge in meeting expanding needs for mining products while safeguarding human welfare and minimising negative impacts on the environment.

QBE is concerned about repeated violations of labour rights as expressed in the ILO Conventions, violations of human rights, violations of rights of local and Indigenous communities, such as forced resettlements and severe environmental degradation.

For direct insurance lines, our due diligence approach considers the following:

- Environmental and social impact assessments;
- Health, safety and environment plans; and
- Any significant local opposition or controversies.

We encourage companies who are in the metals and mining sector to participate in relevant industry initiatives (e.g. International Council on Metals and Mining (ICMM) Extractive Industries Transparency Initiative).

Large-scale hydropower dams

Large-scale hydropower dams are projects that generate greater than 20 MW of electricity.

QBE recognises that the construction of dams to control water flow can bring much needed economic opportunity and development to certain regions of the world. It can also have negative environmental impacts on the ecological systems in which it is constructed and connected to, as well as social impacts on the surrounding communities.

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For direct insurance lines our due diligence approach considers the following:

- Environmental and social impact assessments;
- Health, safety and environment plans; and
- Any significant local opposition or controversies.

We encourage companies involved in the construction and operation of large-scale hydropower dams to apply the recommendations of the World Commission on Dams.

Performance and reporting

QBE publishes an annual Sustainability Report, which includes a discussion of our ESG risk management efforts. We also respond to sustainability ratings and industry benchmarks which provide an opportunity for us to improve our sustainability performance over time.