Risk management

QBE's Risk Management Strategy (RMS) outlines our approach to managing risk by articulating the fundamental principles which apply to all levels of the organisation. The RMS is reviewed annually to assess compliance and effectiveness. QBE's approach to managing risk effectively is supported by our Enterprise Risk Management Framework.

Strategic planning, risk appetite and capital management

QBE embeds risk management in the strategic and business planning process to allow risks to be managed in an integrated manner and to support QBE's overall strategic objectives. Material risks are identified and assessed as part of this and stress testing is performed to enable QBE to design actions to help achieve our business plan objectives while staying within risk appetite.

Risk Appetite Statements (RAS) define thresholds for our risk appetite with associated actions for clear reporting to management and the Board. Key risk indicators and other financial and non-financial metrics are continually being developed to support our RAS and quantify our risk tolerance, informing timely and appropriate responses.

To maintain balance between our risk appetite and strategic planning, our Internal Capital Adequacy Assessment Process enables us to allocate resources for sustainable growth and optimise risk and return. There has been significant effort in aligning the capital management approach across all divisions and uplifting use of capital models in decision making.

Risk processes and standards

QBE's Group Risk and Control Self-Assessment (RCSA) Standard sets out minimum requirements for how we identify and assess risks and controls in a way that embeds risk management across the business. The standard enables improvement of risk and control effectiveness, where strong embedment of RCSAs has increased the understanding and capability of first line and led to strong ownership of risks, controls and responsibilities.

QBE's Incident and Issue Management Standard sets out minimum requirements for managing incidents and issues which allows us to understand our risk exposure and identify root causes to improve the overall control environment. The standard outlines the identification, escalation, resolution and reporting process for incidents and issues.

The Risk Maturity Self-Assessment (RMSA) is used to annually assess risk maturity across the Group, understand how well risk is being managed and benchmark against our target maturity levels. QBE is on an ongoing journey to uplift risk maturity, and identifying areas for continual improvement of risk management through RMSA enables us to achieve our strategic goals and business objectives.

QBE's risk management processes and standards are underpinned by our internal governance, risk and compliance system Insight which captures data relating to our risks, obligations, controls, incidents and issues. We regularly make improvements to Insight to build this data analysis capability, with report and dashboard functionalities supporting oversight and monitoring activity.

Risk governance

Risk management is governed primarily by the Board Risk & Capital Committee, and by the Executive Risk Committee at a management level.

QBE manages risk through the three lines model which outlines where accountabilities for risk management activities sit across the business. Primary responsibility for risk management lies with the business (first line). The Risk and Compliance team provides review and challenge, oversight, monitoring and reporting on QBE's material risks (second line). Internal Audit provides independent assurance on the compliance with, and effectiveness of, QBE's risk management framework (third line).

Risk culture

QBE recognises the importance of a sound risk culture, and that risk culture is strongly intertwined with our QBE DNA. Our Board, assisted by the Board Risk & Capital Committee, is responsible for overseeing our risk culture, including forming a view on whether it supports QBE to operate consistently within its risk appetite.

QBE regularly monitors and measures the maturity of our risk culture against Board-approved Target Statements, applying a range of tools and indicators. Important components which facilitate our risk culture include developing a strong risk mindset and risk skills in our business, a commitment to safety in speaking up, and recognising risk performance through balanced rewards and incentives.

Our top risks

QBE continues to navigate the uncertain geopolitical and economic environment including unrest from the recent Israel-Palestine conflict, the ongoing Russia-Ukraine conflict and the growing tensions surrounding Taiwan.

Rising inflation and interest rates have dampened economic activity and heightened the risk of recession. Natural catastrophe activity continues globally with multiple storm, flood and wildfire events. QBE is focused on analysing and managing the potential impacts from these external factors. Each year, the top risks inform planning of activities such as stress and scenario analysis, realistic disaster scenarios and Internal Capital Adequacy Assessment Process scenarios. Our analysis of top risks includes impact to QBE, management actions and the risk trend. The management actions taken to address the top risks are closely linked with the work we are doing as part of our strategic priority areas.

Top risks	Management actions
Geopolitical: Potential consequences associated with political shifts, international conflicts, trade disruptions, and regulatory changes, which can influence the insurance landscape. Increased levels of sanctions, including increased differences across major trading economies (US, UK, EU and Australia), pose a risk of operational complexity and an uncompetitive position in international markets.	Our proactive approach to geopolitical risk management involves monitoring rapid changes in the international sanctions' environment, undertaking of appropriate screening and due diligence and continuously assessing the geopolitical environment when making risk selection decisions.
Economic uncertainty: This year we have seen persistent high levels of inflation across the global economy following Russia's invasion of Ukraine, worsening supply chain issues which emerged from COVID-19 and restricting the supply of oil and gas. In response to inflation, central banks from major economies have regularly increased interest rates. A heightened risk of recession arose from weaker growth in nominal economic activity and associated cost of living.	We continue to monitor these economic variables by engaging in comprehensive analysis to understand the potential impact on our business. The risk of inflation and recession have been key considerations for underwriting in 2023. Scenario testing was performed in 2023 to consider the potential impact of a deep recession on gross written premium, reserves and investment income and how it would affect the business plan.
Cyber: The proliferation of technology has brought about unprecedented opportunities and convenience, but it has also exposed businesses to a new realm of threats. Cyberattack, data breaches and privacy violations can disrupt business operations and erode customer trust.	QBE continues to monitor the cyber threat landscape. A program of work to deliver our cyber strategy is in place. Scenario-based risk assessments are ongoing and being utilised to support the determination of the residual ransomware risk and any impacts on our risk appetite position.
Insurance accumulation: This risk arises from the potential concentration of policies or exposure within our portfolio, particularly in regions susceptible to common perils like natural disasters.	Our risk modelling tools and diversification efforts enable us to mitigate the adverse effects of accumulation risk thereby ensuring the continued protection of our policyholders.
Reserves: Inflation continues to drive uncertainty around the adequacy 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.	We undertake planning and reviews of risk appetite, pricing, risk selection, reserve risk, and our reinsurance strategy (both prospective and retrospective) to effectively manage this risk.
Technology: This is the risk of material unplanned, negative business outcome involving the failure, misuse or end of life of IT systems. For instance, obsolescence of IT assets may increase the likelihood of system down time leading to process inefficiencies.	We are progressively transitioning applications to the cloud, with interim steps being taken to address end-of-life systems. A pilot to assess the benefits of more frequent control testing took place throughout 2023 with the aim to provide a regular view of the control environment thereby allowing a more accurate assessment of the residual risk positions.

Top risks	Management actions
Data risk: The risk that business strategic objectives are impeded by a lack of complete, accurate, timely and meaningful data. Data issues may result in poor employee experience, errors in reports to external stakeholders or lead to suboptimal business decisions.	Our Data Governance Framework supports the implementation of our Data Strategy and Roadmap. We also continue to monitor manual processing and data quality largely making sure controls are fully understood, assessed, and recorded.
Attracting and retaining talent: The risk that inadequate management of talent pipeline and focused succession planning results in gaps in skills and capabilities and heightened key person dependencies.	We are proactively building career development opportunities and deeper succession pools. Our Retention Toolkit helps managers understand retention and identify potential issues early. We conduct regular reviews of exit interview data to spot trends and deep dive into known attrition hotspots. Our bi-annual wellbeing dashboard includes key metrics to inform benefit and wellbeing strategic direction.
Growth in regulatory obligations and intervention: The risk that regulators increase their supervision and tighten regulatory obligations, including imposing divergent obligations between the different regulators. A compliance breach would require reporting to regulator and result in regulatory enforcement action.	We conduct proactive and open engagement with regulators in relation to business and regulatory changes. We continuously monitor regulatory changes. We have developed an obligation register for all key compliance obligations with review and oversight applied via RCSAs.
Operational disruption from transformation agenda: The delivery risks present in QBE's transformation portfolio can impact cost, regulatory compliance and benefits realisation.	We continue to focus on underwriting and program operations simplification efforts. This is accompanied by regular reviews and monitoring on the effectiveness of project delivery and its alignment to, and impact on, our strategic pillars.
Failure to meet expectations on ESG: The potential failure to meet evolving government, market, investor, and conduct expectations on sustainability, ESG and climate change (physical and transition).	We aim to understand and manage our exposure to ESG-related risks through a variety of activities, including risk assessments and scenario analysis which considers the potential impact of changes in variables and risks.
Reinsurance risk: The risk that QBE is unable to obtain insurance from a reinsurer at the right time and at an appropriate cost. The inability may emanate from a variety of reasons such as unfavourable market conditions.	By integrating risk management into business planning, QBE aims to monitor and respond to macro changes in the competitive environment. We conduct quarterly governance oversight of performance, quarterly rate and income monitoring, and monthly price adequacy monitoring.
Artificial intelligence: The insurance industry is increasingly adopting AI technologies to streamline operations, improve underwriting processes, and enhance customer experiences. However, there are several risks associated with the use of generative AI in the insurance industry.	As a new top risk for QBE, we are exploring pathways to manage AI related risks via a multi-faceted approach, including robust data governance, rigorous testing and validation of AI models, ongoing monitoring for biases and fairness, transparency in algorithmic decision-making, and adherence to legal and ethical standards.

Emerging risks

Autonomous vehicles

As a result of new developments in mechatronics, speed learning and AI there has been rapid progress in the field of autonomous machines, which is likely to change the risk landscape for various lines of insurance and will have an impact on the sharing economy.

Sustainable procurement

Risk of reputational damage, legal liability or financial loss resulting from suppliers engaging in unethical practices, environmental violations, labour abuses or other non-compliance with growing regulatory and disclosure requirements on sustainable procurement.

Harmful man-made substances

Many chemicals can be harmful to the environment or health if inhaled, ingested or absorbed through the skin, including forever chemicals (e.g. per-and polyfluoroalkyl substances (PFAS), endocrine disruptors) and small particles (fine dust, microplastics or man-made nanoparticles) which may pose risks that are not yet fully revealed. Better awareness and understanding around the effects of these substances may result in potential claims due to environmental pollution, health-related liabilities and be reflected in the evolving regulatory landscape.

Labour force

Risks pertaining to the potential challenges and issues relate to the workforce (e.g. employee-related legal liabilities, labour disputes, diversity and inclusion issues, talent recruitment and retention).

Biodiversity loss

Insurers may face claims related to property damage, business interruption, or liability arising from loss of biodiversity, including species extinction, habitat degradation, and ecosystem disruption.

Health system and pandemics

Insurers face risk during and in the post-effect of pandemics, including managing increased claims volume, challenges in underwriting and pricing policies, operational disruptions, regulatory changes, reputation risk and long-term shifts in health trends. Economic downturns and market volatility associated with pandemics can also impact investment portfolios.

Human rights

Risks related to human rights abuses, labour practices, and social issues within our operations and supply chains.

Data ethics

The risk of violation, discrimination, unfair pricing, data bias or other issues relating to collecting, generating, analysing and disseminating data, both structured and unstructured. Similar to data quality or information reliability, data ethics is a critical consideration in feeding AI algorithms.