

# Risk: Our business

Managing risk is what we do at QBE. As an organisation, we are fully committed to ensuring that we apply a disciplined approach to risk management and that our risk management processes and systems are robust and aligned with global best practice. Our Enterprise Risk Management (ERM) framework, which is applied across the Group, provides a sound foundation for reducing uncertainty and volatility in business performance. QBE's ERM framework incorporates all of our key risk management processes including determination of the risk appetite, governance, risk and control assessments, stress and scenario testing, reporting, risk modelling and capital management, and monitoring of risk culture.

## Risk appetite

Our risk appetite forms the basis of QBE's ERM framework. Risk appetite is the level of risk that the Board and management are prepared to accept in pursuit of QBE's objectives. It is aligned with, and is considered in all, strategic and business planning decisions QBE makes and we monitor our exposures against the risk appetite on an ongoing basis.

## Governance

The Board plays a significant role in the ERM framework. The Board is responsible for ensuring that an effective risk management strategy is implemented and for defining the risk appetite boundaries within which risk must be managed. The Board is supported by the Board Risk and Capital Committee, which meets at least quarterly, and is responsible for overseeing that risks are actively and appropriately managed according to the stated risk appetite, strategy and business plans.

QBE manages risk in accordance with the "three lines of defence" governance model. Line one comprises any risk-taking businesses – these are responsible for managing the risk that arises as a result of the activities they undertake. Line two includes the risk management and compliance functions responsible for the maintenance and monitoring of risk management frameworks, as well as the measurement and reporting of risk performance and compliance. Line three includes internal and external audit, who are responsible for providing independent assurance to the Board and its various audit and risk committees, over controls and risk management practices. Having defined responsibilities across all three lines of defence ensures that QBE adopts a coordinated approach to risk management and that accountabilities are clear for our staff.

## Stress and scenario testing

We also use stress and scenario testing to gain a clearer understanding of the nature and extent of our risk profile under a range of different environments. Assessing the impact of extreme, but plausible, events helps us better prepare for such situations and ensures that our risk exposure is acceptable to the Board.

QBE applies more sophisticated modelling techniques to estimate losses, manage catastrophe exposure and assist in making decisions regarding catastrophe risk management and coverage. This capability is critical to managing our exposure to possible catastrophic events, such as powerful earthquakes and major cyclones and typhoons.

Throughout 2015 we also continued to apply stress and scenario testing to our business plans, incorporating scenario analysis to fully understand the risks inherent within our business plans. This allows us to proactively consider the various risk exposures we may face as an organisation and determine what additional mitigation or remediation activities may be required.

## Emerging risks

We recognise that the risk environment changes and evolves over time. Existing risks develop in novel or unexpected ways and new risks materialise, which are characterised by incomplete but developing knowledge. QBE operates emerging risk forums across the Group to identify and monitor these emerging risks, analyse their potential impact and develop strategies to mitigate or exploit opportunities.

## Capital management

Capital management is another key component of the ERM framework and aims to achieve the appropriate balance between our risk appetite and the amount of capital required to support each of our businesses. QBE uses a number of capital management tools to support the assessment of risk and allocation of capital including:

- QBE's Economic Capital Model (ECM) – QBE's internal model, developed to measure overall exposure to risk as well as exposure to each of our main categories of risk, provides a quantitative base for us to understand, monitor and manage our exposures. We also use the model to make better business decisions, assess economic capital requirements and measure performance on a risk-adjusted basis;
- analysis of regulatory and rating agency capital models – to better understand how the regulatory and rating agencies assess the impact of our strategic decisions on our risk profile and capital requirements, we conduct various financial modelling analysis which examines the various capital environments in which QBE operates; and
- a number of bespoke risk assessment tools – we use catastrophe models, scenario analysis, reverse stress testing and stress tests to evaluate business plans and support our capital plan.

Another key capital management tool is QBE's Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP is supported by the ECM and is used to manage the capital held by QBE, monitor risk profile against appetite, ensure the risks taken by QBE are commensurate with required returns, allocate capital to operating entities for planning and performance monitoring purposes, and analyse alternative reinsurance options and regulatory and rating agency submissions.

In line with the broader strategic direction of QBE, several actions were initiated during 2014/2015 to reduce the risk profile of the Group. These included reinsurance of the claims reserves relating to the European medical malpractice business, sale of non-core assets, implementation of comprehensive new aggregate and bespoke reinsurance arrangements, and capital raising and debt restructure. Completing these activities improved QBE's regulatory and rating agency capital metrics, reduced gearing, converted intangibles to tangible capital and strengthened the balance sheet.

## Risk culture

QBE defines risk culture as observable patterns of behaviour in the way employees perform their work and the judgements they take, as it relates to risk. Risk culture is an integral component of QBE's ERM framework. We are committed to developing and maintaining a strong risk culture through various initiatives, including global risk training programmes, reflecting risk objectives in the employee performance process, data analytics and setting the right tone from the top.

## Regulatory risk

As a global insurance group, QBE is subject to over 30 regulatory regimes around the world. Our approach is to combine local expertise with a globally consistent framework to manage regulatory change and provide effective compliance with the varied and evolving requirements.