

Non-Life Reserve Disclosure 2015

August 11, 2016

Zurich Insurance Group



Key messages

The Zurich Way

Established over a decade ago and proven track record

Technical excellence

Finely segmented data, full range of methods and business insight

Using the data

This published data can be used for high level assessment

Reserve strength

We are confident in our approach and the adequacy of our reserves

THIS DOCUMENT

- Overview of the disclosure
- The Zurich Way of Reserving
- Using the data

- Supplementary information
 - Non-Core Business
 - Using Schedule P

Overview of the disclosure: premium and claims data by line of business for major regions

DATA PROVIDED

- Gross data for Accident Years 2006 to 2015:

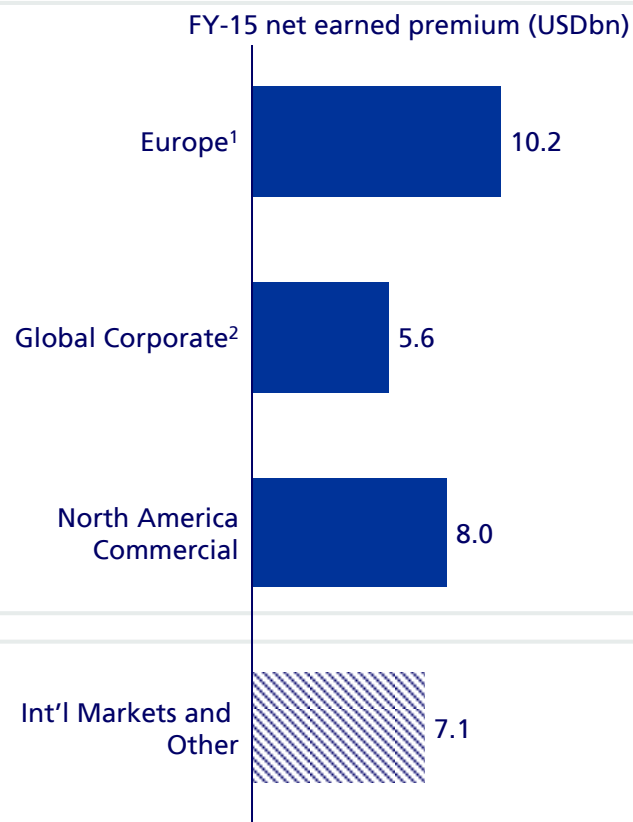
- Paid Loss
- Case Incurred Loss
- Ultimate Loss
- IBNR Reserves
- Earned Premium

- Lines of business:

- Auto
- Liability
- Property
- Specialty
- Workers Compensation

- Not provided:

- International Markets incl. GC, FRe, GRe and MEA
- Accident Years 2005 and prior
- Assumptions for our projection methods



¹ Excludes Middle East and Africa.

² Global Corporate in North America and Europe.

HIGHLIGHTS

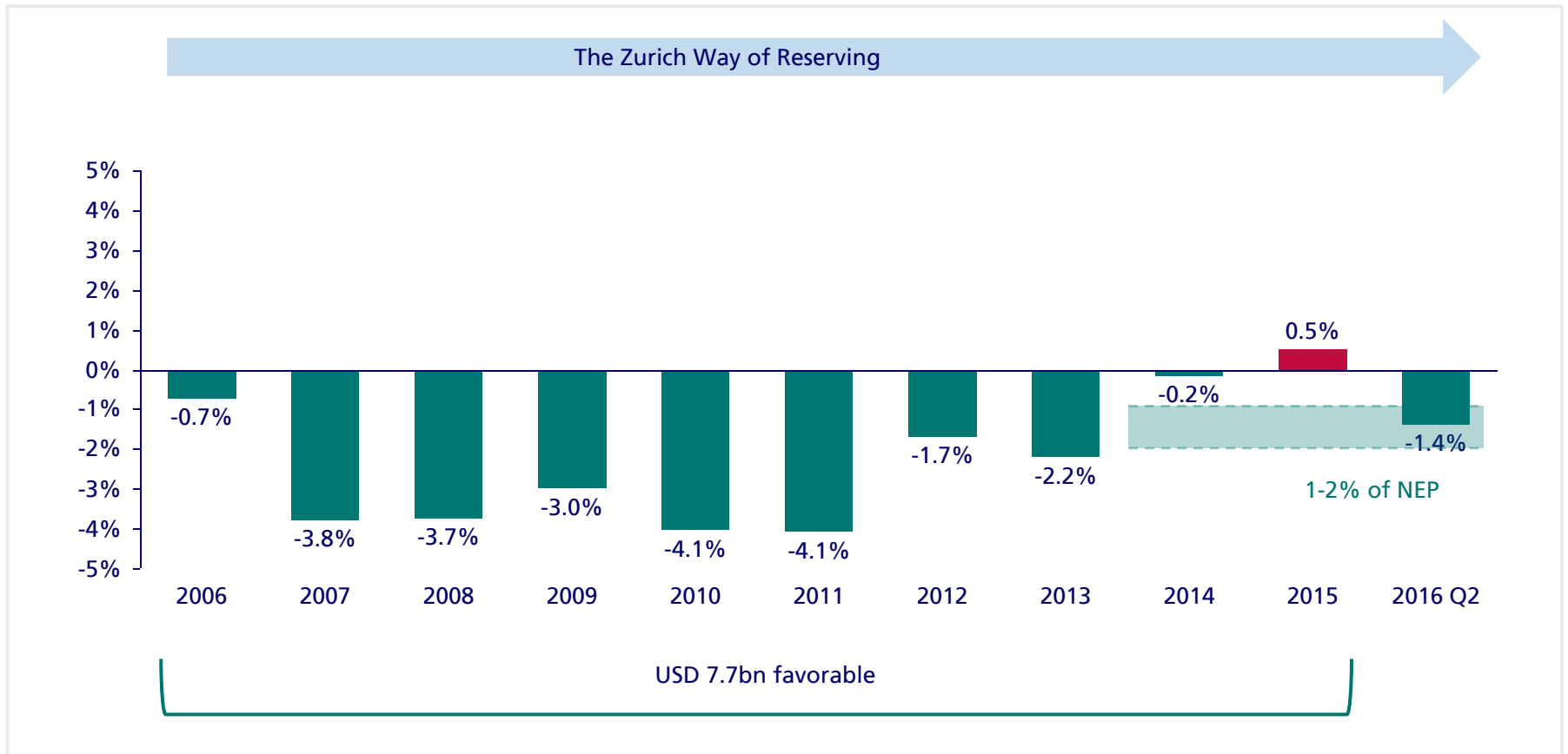
- Established over a decade ago
- Global consistency
 - One group-wide policy with well defined standards
 - Accredited actuaries in all regions
- Technical excellence
 - Finely segmented data
 - Full range of actuarial methods and techniques
 - Quarterly analysis and diagnostics at portfolio level
- Business insight
 - Virtuous Circle: information flows between Underwriting, Claims and Pricing
 - Embedded in the business

HIGHLIGHTS

- Conservative initial reserves
 - Favorable development recognized over time
 - Reacts quickly to adverse trends
- Risk-based approach to Reserve Strength
 - Overall reserve strength modeled statistically
 - Specific risks and trends quantified and monitored
- Strong governance
 - Extensive peer review process
 - External reviews
 - Transparency to Group Board Audit Committee
- Proven track record

The Zurich Way of Reserving has a proven track record

NET PRIOR YEAR DEVELOPMENT (% NEP)



We finely segment the data, use a full range of methods and reflect business insight

THE ZURICH WAY OF RESERVING

Data

- **Data:** paid amounts, case incurred amounts, claim counts, earned premium, etc.
- **Segmentation dimensions:**
 - **Customer segment:** Personal, SME, Commercial, Global
 - **Line of business**
 - **Distribution channel**
 - **Time cohort (largely accident year)**
 - **Claim & policy characteristics:** size, peril, event status, currency, deductibles, etc.

Analysis

- Full range of methods applied to attritional and large, including:
 - Chain-ladders on paid, incurred, counts, averages, etc.
 - Bornhuetter-Ferguson
 - Average cost per claim methods
- Cat specific projections
- Diagnostics: frequency, paid to incurred ratios, average cost, average outstanding, etc.
- Monitoring and back-testing

Business Insight

- Virtuous Circle
- Business knowledge used to reflect:
 - Market conditions
 - Legal and regulatory changes
 - Underwriting and Pricing actions
 - Changes in claims process
 - etc.

We use the full range of actuarial methods

THE ZURICH WAY OF RESERVING

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- **Monitoring and back-testing**

Business Insight

- Virtuous Circle
- Business knowledge used to reflect:
 - Market conditions
 - Legal and regulatory changes
 - Underwriting and Pricing actions
 - Changes in claims process
 - etc.

Business insight flows between Underwriting, Claims, Actuarial Pricing and Reserving

THE ZURICH WAY OF RESERVING

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Business Insight

- **Virtuous Circle**
- **Business knowledge used to reflect:**
 - **Market conditions**
 - **Legal and regulatory changes**
 - **Underwriting and Pricing actions**
 - **Changes in claims process**
 - **etc.**

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CLAIMS TRIANGLES

- Reserving basics
- Key features in the data

Reserving basics – chain-ladder example

EUROPEAN PROPERTY PAID LOSSES (USDm)

Paid at end of year:		1	2	3	4	5	6	Ultimate
Accident Year	2010	606	1,103	1,197	1,220	1,230	1,235	?
	2011	560	972	1,055	1,091	1,098		?
	2012	568	1,008	1,082	1,106			?
	2013	515	939	1,062				?
	2014	504	853					?
	2015	498						?

Development Factors		1 - 2	2 - 3	3 - 4	4 - 5	5 - 6	6 - Ultimate
Accident Year	2010	1.821	1.085	1.019	1.008	1.005	
	2011	1.737	1.086	1.034	1.006		
	2012	1.773	1.074	1.022			
	2013	1.822	1.132				
	2014	1.693					
Weighted Average		1.771	1.093	1.024	1.007	1.005	1.000

$$1,062 \div 939 = 1.132$$

CALCULATION STEPS

1. Calculate loss development factors
2. Calculate averages for each period
3. Select factors to give future development

Reserving basics – chain-ladder example

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Accident Year	2010	606	1,103	1,197	1,220	1,230	1,235	1,235
	2011	560	972	1,055	1,091	1,098	1,103	1,103
	2012	568	1,008	1,082	1,106	1,114	1,119	1,119
	2013	515	939	1,062	1,088	1,096	1,101	1,101
	2014	504	853	933	955	962	967	967
	2015	498	881	964	987	994	999	999

Development Factors		1 - 2	2 - 3	3 - 4	4 - 5	5 - 6	6 - Ultimate
Accident Year	2010	1.821	1.085	1.019	1.008	1.005	
	2011	1.737	1.086	1.034	1.006		
	2012	1.773	1.074	1.022			
	2013	1.822	1.132				
	2014	1.693					
Selected		1.771	1.093	1.024	1.007	1.005	1.000

$$498 \times 1.771 = 881$$

CALCULATION STEPS

- For each cell multiply paid amount by selected factor to calculate value in next cell
- Hence, the triangle can be "squared"
- IBNR equals ultimate minus latest incurred

Key features in the data

Auto

- North America Commercial fifth diagonal
- Europe case estimate strength

General Liability

- Current Accident Year volatility

Workers Compensation

- Tail factors

Claims system conversion in 2011 distorts one diagonal

NAC AUTO PAID LOSS DEVELOPMENT FACTORS

Development Interval		1 - 2	2 - 3	3 - 4	4 - 5	5 - 6	6 - 7	7 - 8	8 - 9	9 - 10	10 - Ultimate
Accident Year	2006	1.597	1.317	1.160	1.094	1.384	1.026	1.013	1.008	1.008	
	2007	1.722	1.291	1.141	1.528	1.042	1.033	1.015	1.011		
	2008	1.521	1.246	1.621	1.107	1.046	1.025	1.017			
	2009	1.462	1.699	1.188	1.091	1.046	1.025				
	2010	1.788	1.317	1.206	1.124	1.054					
	2011	1.492	1.276	1.206	1.102						
	2012	1.512	1.256	1.160							
	2013	1.527	1.279								
	2014	1.440									

- Diagonals can be distorted by calendar year effects such as M&A, portfolio transfers, etc.
- This can be addressed by excluding the relevant loss development factors
- This effect is in both the paid and incurred triangles

Experience of older years is not always a good indicator of future development

EUROPE AUTO INCURRED LOSS DEVELOPMENT FACTORS

Development Interval		1 - 2	2 - 3	3 - 4	4 - 5	5 - 6	6 - 7	7 - 8	8 - 9	9 - 10	10 - Ultimate
Accident Year	2006	1.044	0.974	0.980	0.984	0.986	0.994	0.997	0.990	0.999	
	2007	1.083	0.977	0.984	0.983	0.995	0.998	0.990	1.002		
	2008	1.105	0.982	0.985	0.996	1.003	1.000	0.996			
	2009	1.085	0.970	0.991	0.992	0.991	0.998				
	2010	1.055	0.988	0.997	0.984	0.998					
	2011	1.091	0.992	0.983	1.001						
	2012	1.068	0.958	0.997							
	2013	1.069	1.002								
	2014	1.101									
Wtd. Average all years		1.078	0.980	0.988	0.990	0.995	0.998	0.994	0.996	0.999	
Wtd. Average 4 years		1.082	0.985	0.992	0.993	0.997	0.998	0.994	0.996	0.999	

- Internal and external changes over time results in older years becoming less credible
- Business insight is key to understanding how these changes should be allowed for

Key features in the data

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- North America Commercial fifth diagonal
- Europe case estimate strength

General Liability

- **Current Accident Year volatility**

Workers Compensation

- Tail factors

Large losses in 2015 will not develop like prior years - chain-ladder can overstate reserves

NAC LIABILITY INCURRED LOSSES (USDm)

Development Year		1	2	3	4	5	6	7	8	9	10
Accident Year	2006	323	773	1,243	1,567	1,671	1,837	1,894	2,041	2,117	2,170
	2007	291	831	1,306	1,512	1,715	1,819	1,905	2,035	2,067	
	2008	336	803	1,245	1,590	1,857	1,988	2,105	2,167		
	2009	303	734	1,211	1,650	1,877	2,044	2,123			
	2010	407	767	1,225	1,602	1,821	1,970				
	2011	264	586	1,050	1,453	1,692					
	2012	219	579	1,065	1,346						
	2013	230	716	1,207							
	2014	284	691								
	2015	352									

Large losses already at/near to policy limits – future development is capped.

- Volatility in first development period is hugely magnified by chain-ladder
- The solution is to use methods other than chain-ladder, e.g. Bornhuetter-Ferguson
- Paid chain-ladder should not be applied to current year since cumulative dev't factor too high

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Workers Compensation

- **Tail factors**

Tail factors need extrapolation of the triangle or external data

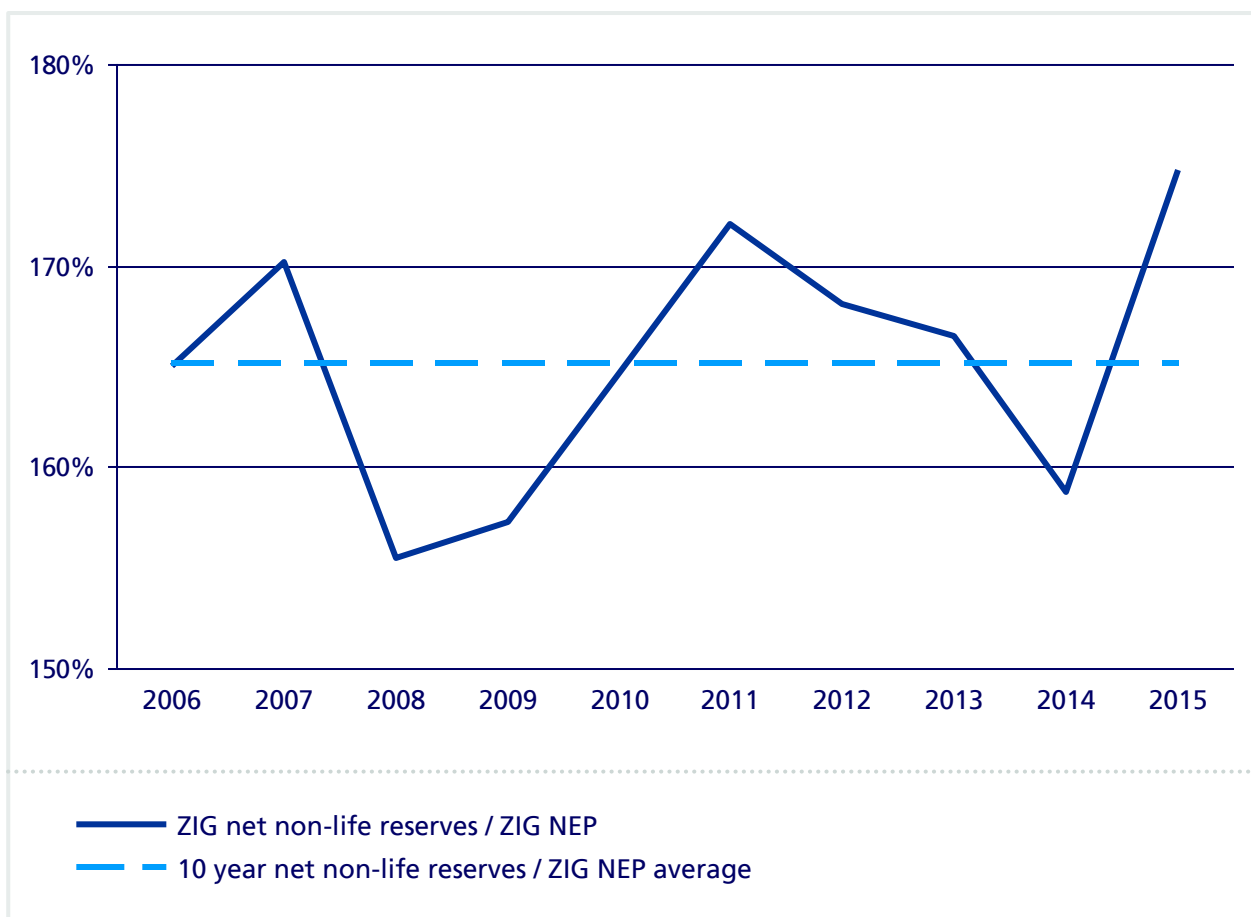
NAC WORKERS COMPENSATION INCURRED DEVELOPMENT FACTORS

Development Interval		1 - 2	2 - 3	3 - 4	4 - 5	5 - 6	6 - 7	7 - 8	8 - 9	9 - 10	10 - Ultimate
Accident Year	2006	1.520	1.182	1.097	1.069	1.037	1.023	1.024	1.014	1.009	?
	2007	1.567	1.181	1.096	1.039	1.037	1.020	1.014	1.018		
	2008	1.592	1.169	1.105	1.051	1.046	1.029	1.020			
	2009	1.584	1.195	1.101	1.068	1.042	1.034				
	2010	1.570	1.189	1.111	1.067	1.035					
	2011	1.551	1.191	1.096	1.063						
	2012	1.583	1.180	1.102							
	2013	1.487	1.184								
	2014	1.551									
Weighted Average		1.555	1.184	1.101	1.060	1.039	1.027	1.019	1.016	1.009	1.xxx

- Long-tail lines can develop further than 10 years
- This is most relevant for US Workers Compensation – i.e. in NAC and Global Corporate
- We have not provided tail factors – options include extrapolation or industry statistics

Simple metrics can be misleading

RESERVE TO PREMIUM RATIOS BY CALENDAR YEAR (%)



- Comparing all AY reserves by the current premium produces a volatile measure
- Timing effects, such as growth and portfolio exits, or catastrophes can be significant
- FX fluctuations add further volatility

Key messages

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Finely segmented data, full range of methods and business insight

Using the data

This published data can be used for high level assessment

Reserve strength

We are confident in our approach and the adequacy of our reserves

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Supplementary Exhibits



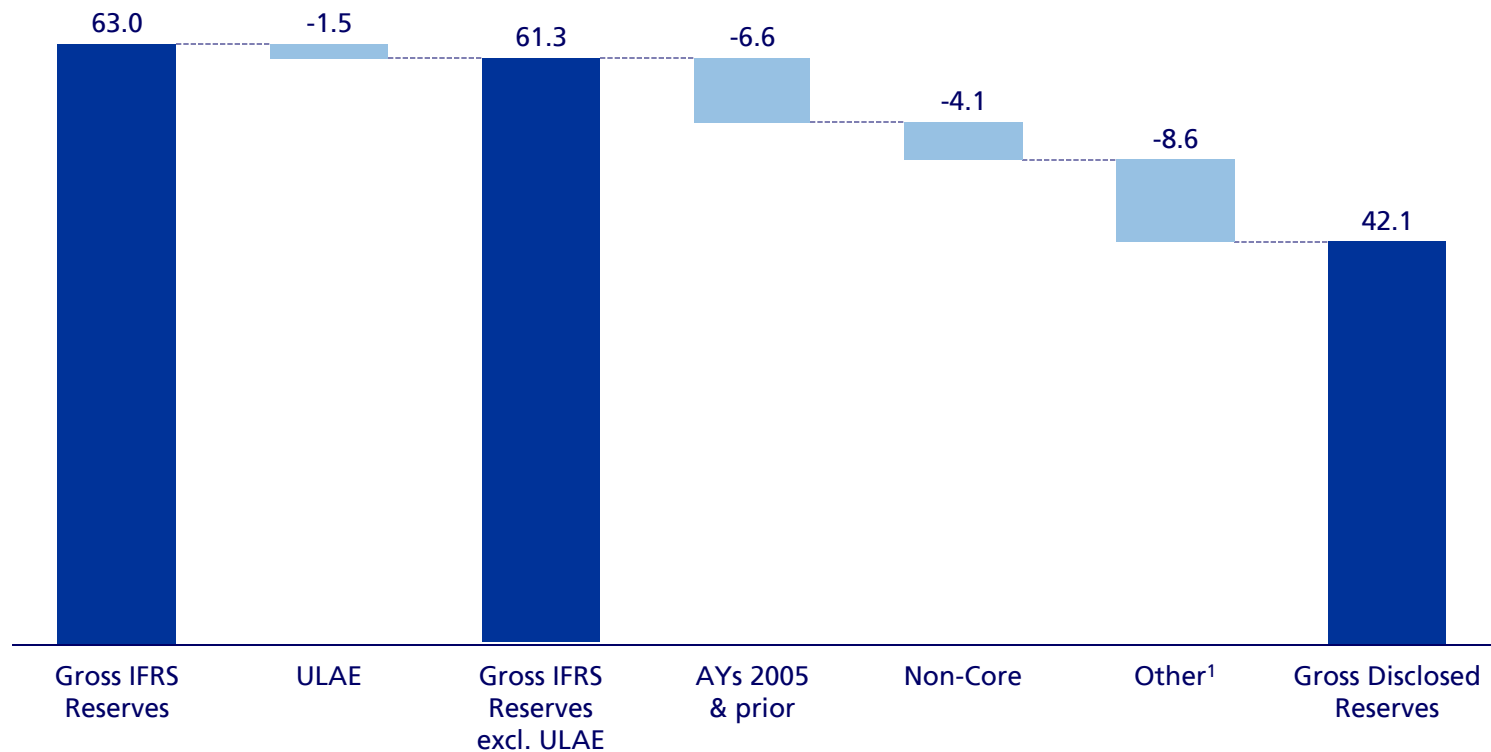
INDEX OF TRIANGLES INCLUDED IN SEPARATE EXCEL FILE

- Business sub-division:
 - Europe
 - Global Corporate
 - North America Commercial
- Lines of business:
 - Auto
 - Liability
 - Property
 - Specialty
 - Workers Compensation
- Data, gross of reinsurance¹:
 - Paid losses
 - Case incurred losses
 - Ultimate losses
 - Incurred but not reported (IBNR)
 - Earned premium
- **Triangles available in excel format at:**
 - **<https://www.zurich.com/en/investor-relations/results-and-reports>**

¹ Losses and IBNR include allocated loss adjustment expenses (ALAE) and exclude unallocated loss adjustment expenses (ULAE).

Disclosed data covers ~70% gross non-life reserves excluding ULAE

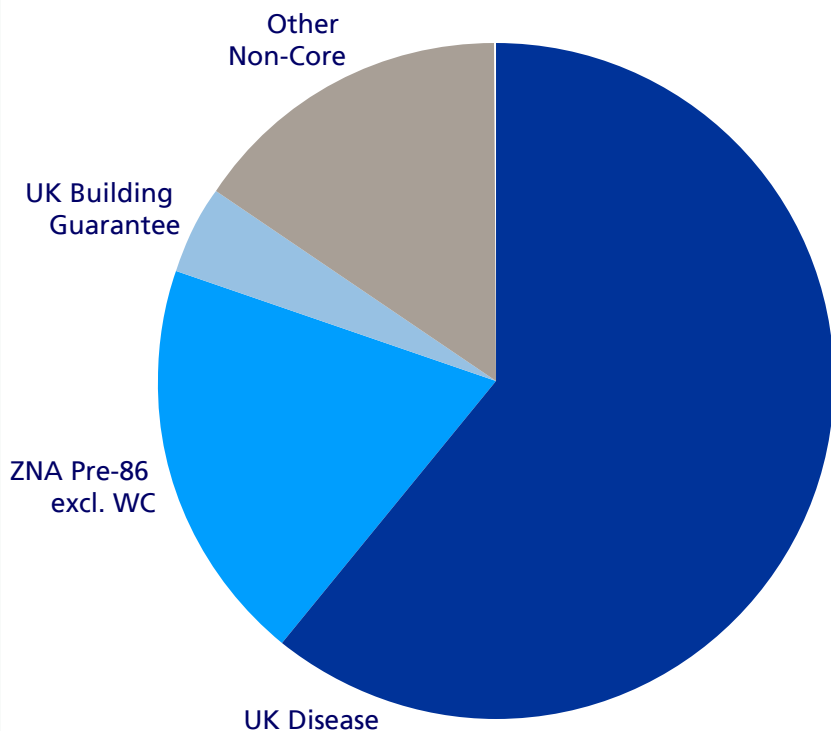
RECONCILIATION OF DISCLOSED RESERVES TO IFRS RESERVES, FY-15 (USDbn)



¹ Includes International Markets (incl. GC segments), MEA, Farmers Re, Group Re, consolidation elimination and other exclusions.

SPLIT OF GROSS NON-LIFE NON-CORE RESERVES

FY-15 gross reserves of USD 4.1bn



Non-Core consists of the following portfolios:

- UK Disease
 - Majority of reserves relate to long tailed disease, including asbestos
- ZNA Pre-1986 excluding Workers Compensation
 - Predominantly Asbestos and Environmental and Pre-1982 Reserves
- UK Building Guarantee
- Other Non-Core
 - Predominantly finite risk, funds withheld for divested units (net de minimus)

Using Schedule P for Zurich American Insurance Company (ZAIC)



Schedule P excludes Canada and includes some Non-Core business

ZURICH INSURANCE GROUP

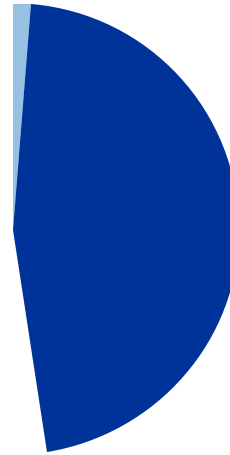
FY-15 total gross reserves: USD 63.0bn



- US (NAC, GC and Other)
- Canada (NAC and GC)
- Zurich Insurance Group excl. NA

ZURICH AMERICAN¹ GROSS VIEW

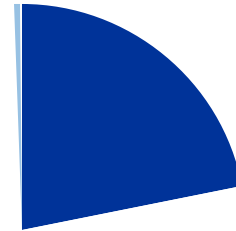
FY-15 total gross reserves: USD 30.3bn



- US Non-Core
- US (NAC and GC)

ZURICH AMERICAN¹ NET VIEW²

FY-15 total net reserves: USD 14.2bn



- US Non-Core
- US (NAC and GC)

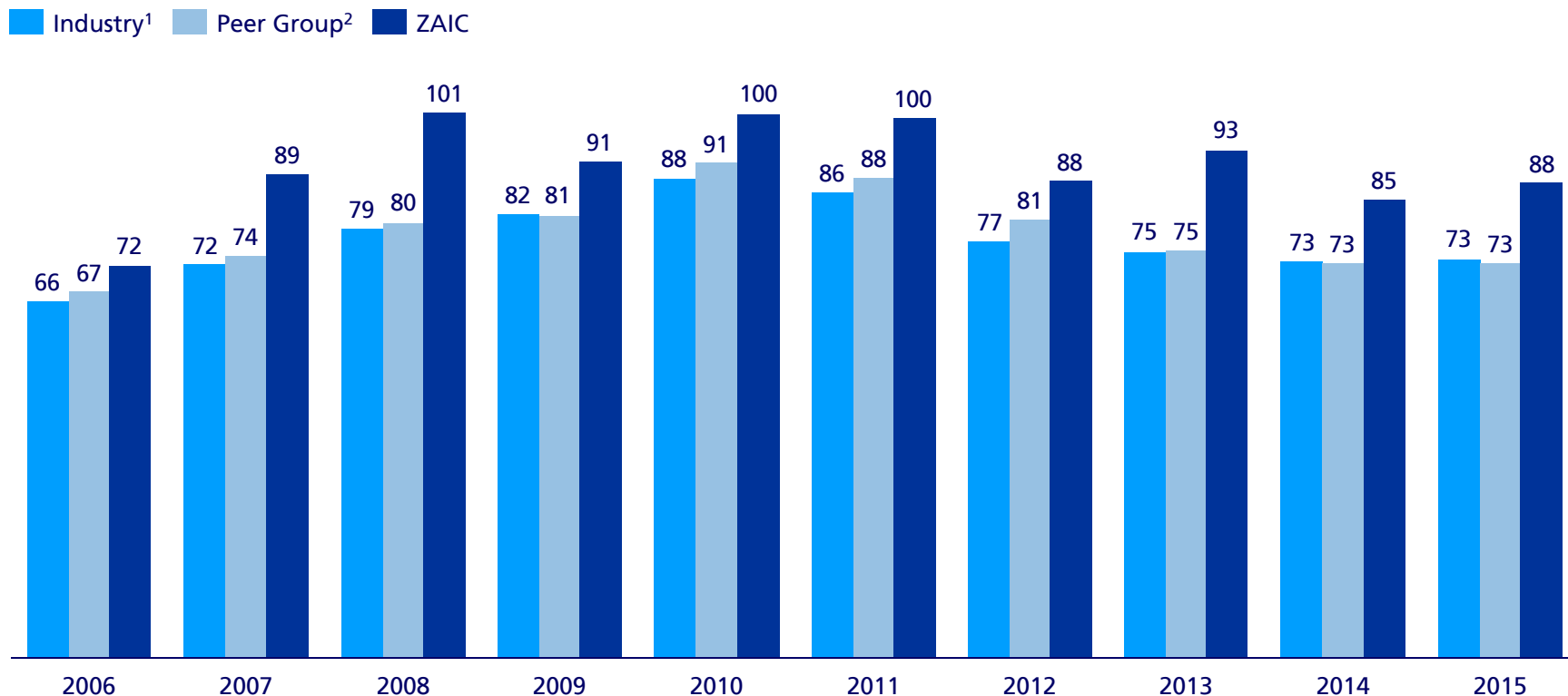
¹ Zurich American Insurance Company (ZAIC and the U.S. Pooled Companies, Schedule P view).

² After Whole Account Quota Share, other internal and external reinsurance.

Zurich's Schedule P net loss ratios are distorted by internal reinsurance over all lines



Featured: Workers Compensation Net AY LR, %

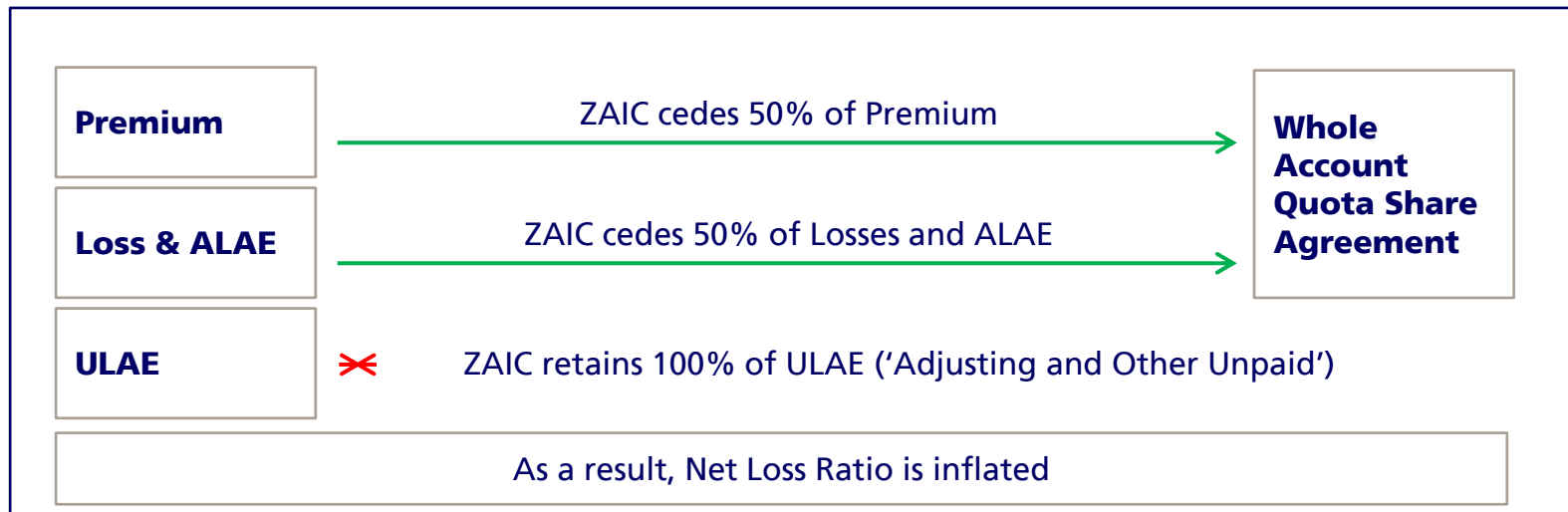


Source: U.S. Industry Statutory Financial Statements for the full year 2015.

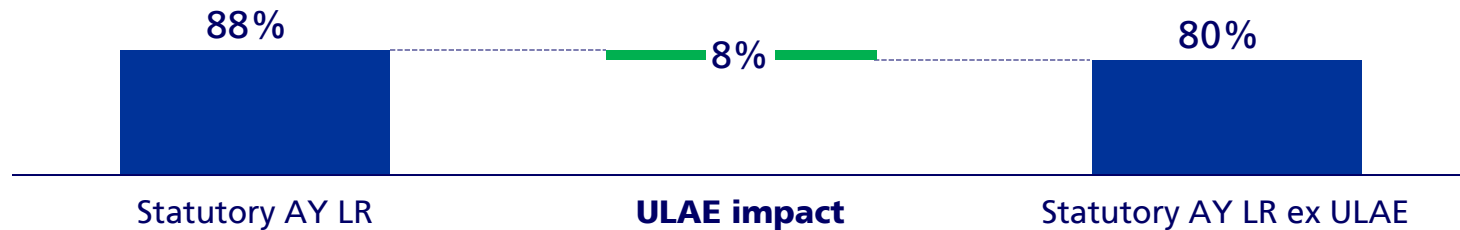
¹ Industry is comprised of entire US commercial lines insurance business (excludes personal lines).

² Peer group is comprised of seven major U.S. Commercial Insurers.

Zurich's internal reinsurance treaty inflates net loss ratio as ULAE is not ceded



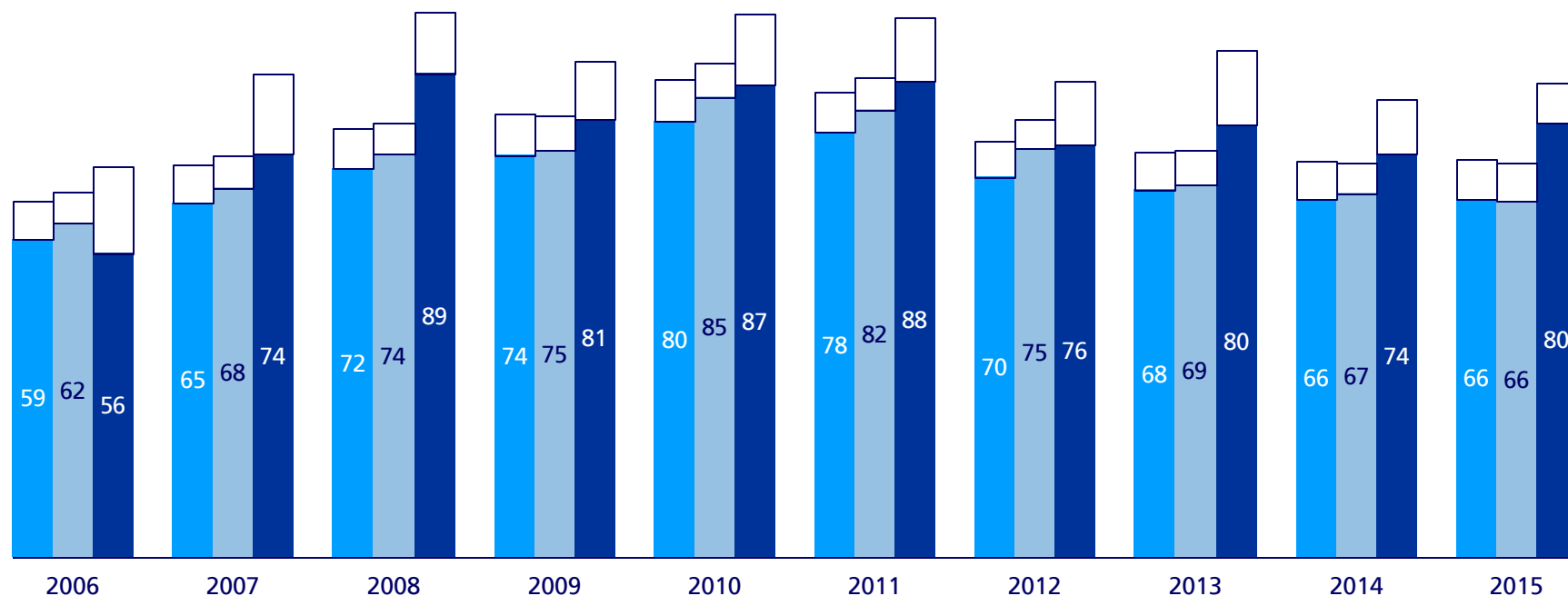
e.g. Workers Compensation Net AY LR ex ULAE, 2015



Excluding ULAE closes loss ratio gap but does not eliminate it

Featured: Workers Compensation Net AY LR ex ULAE, %

Industry¹ Peer Group² ZAIC ULAE



Source: U.S. Industry Statutory Financial Statements for the full year 2015.

¹ Industry is comprised of entire US commercial lines insurance business (excludes personal lines).

² Peer group is comprised of seven major U.S. Commercial Insurers.

Remaining gap is the result of higher reserves for claims incurred but not yet reported

Featured: Workers Compensation breakdown of Net AY LR ex ULAE, %

▨ Share of IBNR □ Share of Reported losses



Source: U.S. Industry Statutory Financial Statements for the full year 2015.

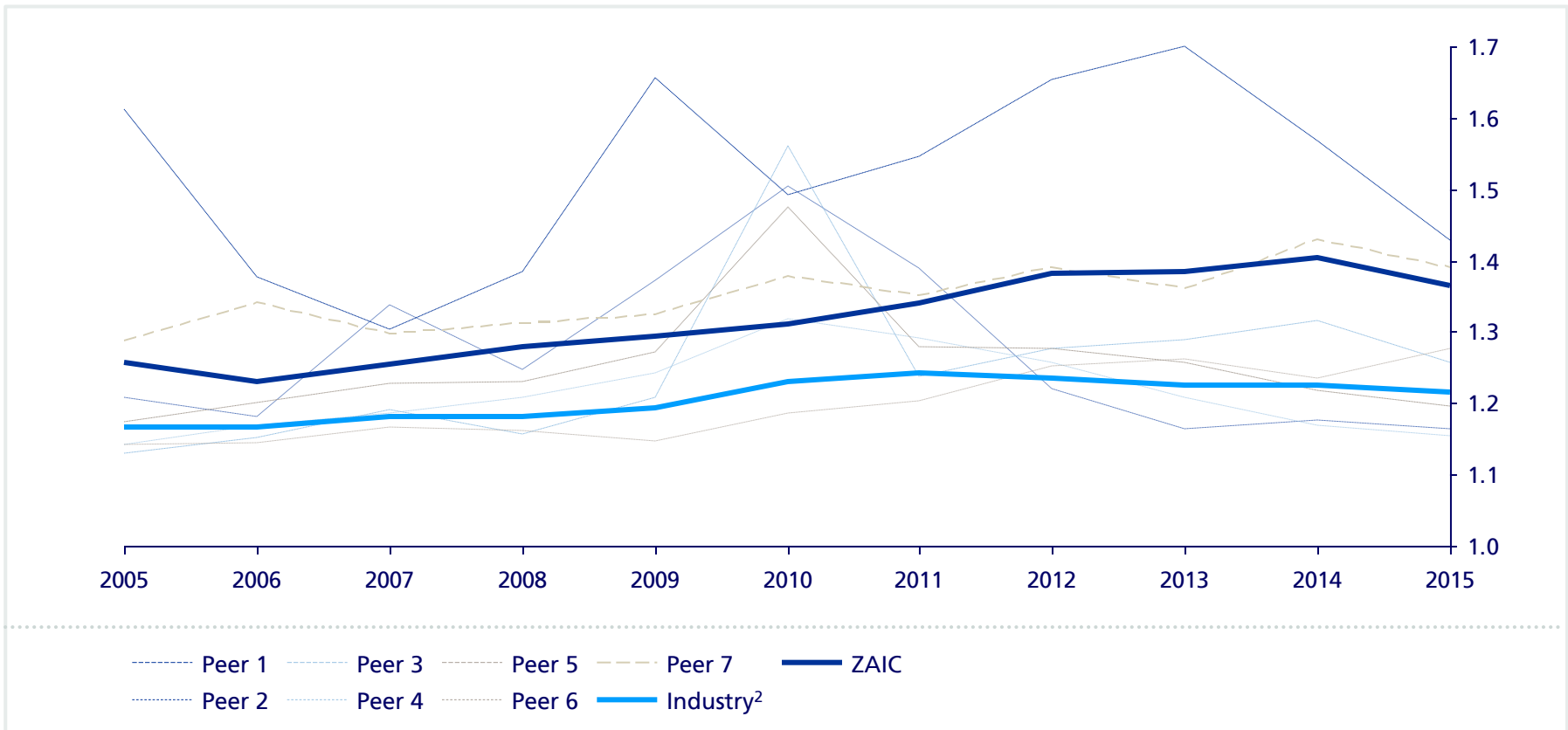
¹ Industry is comprised of entire US commercial lines insurance business (excludes personal lines).

² Peer group is comprised of seven major U.S. Commercial Insurers.

Our tail factors are consistent with this view on both on a paid ...



ZAIC WORKERS COMPENSATION PAID AT 10 YEARS TO ULTIMATE RATIOS¹



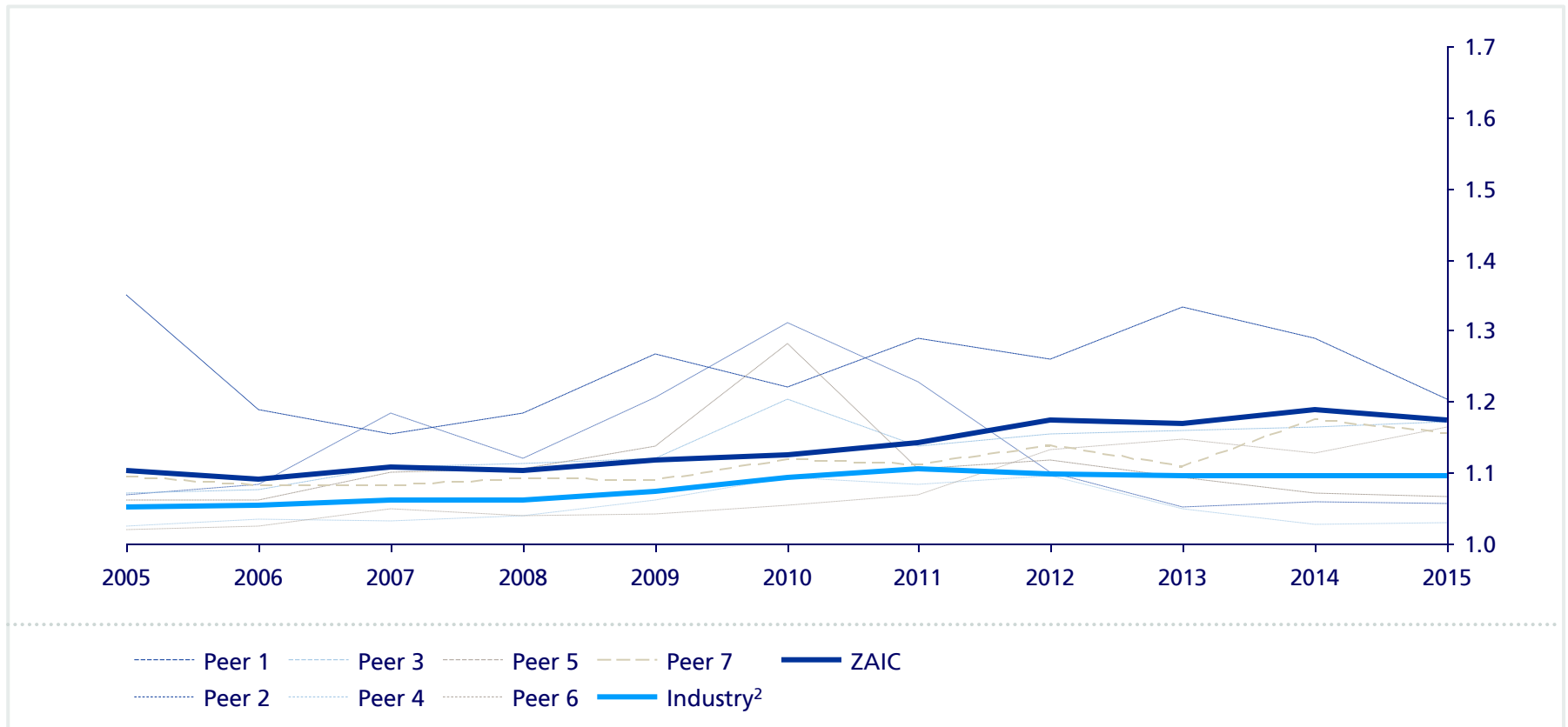
Source: U.S. Industry Statutory Financial Statements for the full year 2015.

¹ 10-to-Ultimate implied Paid loss development factors for the respective Calendar Year Schedule P submission.

² Industry is comprised of entire US commercial lines insurance business (excludes personal lines).

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ZAIC WORKERS COMPENSATION INCURRED AT 10 YEARS TO ULTIMATE RATIOS¹



Source: U.S. Industry Statutory Financial Statements for the full year 2015.

¹ 10-to-Ultimate implied Incurred loss development factors for the respective Calendar Year Schedule P submission.

² Industry is comprised of entire US commercial lines insurance business (excludes personal lines).

For further information

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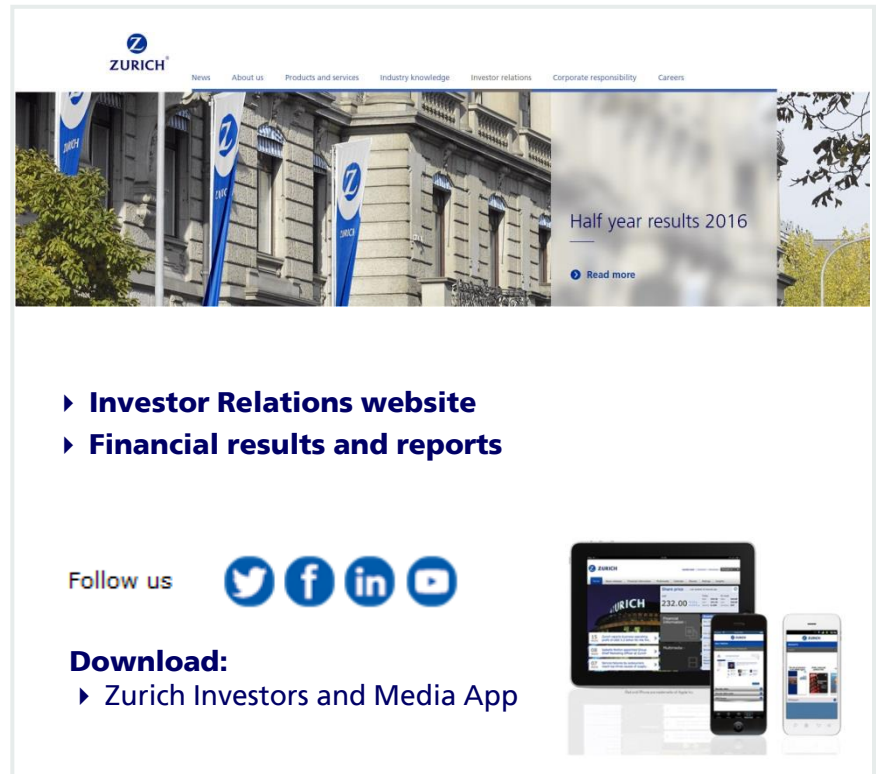
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Calendar:

- September 27-29, Bank of America Merrill Lynch conference, London
- November 10, 2016, Results for the nine months to September 30, 2016
- November 17, 2016, Investor Day, London
- February 9, 2017, Annual Results 2016

