Commentary on half year results 2020

Slide 3: Key messages

The Group's half year 2020 results show a solid performance in a challenging period in which the Group faced the unprecedented impact of the COVID-19 pandemic, a global recession and elevated levels of catastrophe losses. Throughout this period, the Group has ensured the safety and wellbeing of the employees, with this reflected in improvements in employee satisfaction. The continued support of the Group's customers has allowed the Group to further improve the trust and confidence that they have in the Zurich organization. This has led to a further improvement in the customer satisfaction scores which will support future growth in the business.

Business operating profit (BOP) of USD 1.7bn included a range of items including USD 686m of overall COVID-19 related charges, approximately USD 140m of higher than average natural catastrophe losses, together with a range of other effects such as slower revenue growth, lower reinvestment rates and foreign exchange movements linked to economic developments following the outbreak of COVID-19.

The continuing nature of the event still entails some degree of uncertainty. Based on experience to date, overall P&C claims related to COVID-19 including secondary liability exposures resulting from the outbreak are expected to remain in-line with the previously indicated USD 750m for the full year.

The Group's strong delivery over 2016-19 created a simpler, more agile and more efficient business and provided a strong foundation to manage the challenges posed by the COVID-19 outbreak. In response to the outbreak and in anticipation of increased demands from consumers for more tailored and digital solutions, the Group has further accelerated the digitalization of the business while also launching innovative new services such as Zurich WellCare, a global platform aimed at providing health and wellbeing services. Further new digital propositions are expected to be rolled out over the coming months.

During the first half, the Group's commercial insurance business showed strong growth with gross written premiums increasing 8% on a like-for-like basis with further improvement in the level of price increases and terms and conditions. During the first half, rate increases continued to accelerate driven by commercial lines with increases also broadening out to other geographies outside North America, while terms and conditions were also strengthened. The reshaping and related profit improvement of the Group's commercial insurance portfolio over 2016-19, together with the trust earned with customers over the crisis, positions the Group well for further growth in commercial insurance as prices continue to harden.

The Group's balance sheet remains very strong, with Zurich's economic capital model (Z-ECM) ratio estimated to be 102% as of June 30. The Group's Swiss Solvency Test (SST) ratio based on standard yield curves allowed by the Swiss Financial Market Supervisory Authority FINMA was estimated at 185% as of June 30, while the Group retains a AA- rating from Standard and Poor's. The Group's liquidity position also remains strong and supported by continued strong cash-flows across the group.

Slide 4: Key highlights – COVID-19: The Group has earned the trust and confidence of customers and employees through the Group's actions with improved satisfaction levels

Post the outbreak of COVID-19 around the world the group's priorities have been to protect employees while supporting customers and the communities in which it operates.

During the first half of the year the group contributed in excess of USD 100m to support of customers through premium refunds, payment holidays and other forms of support, while the Farmers Exchanges provided around USD 300m of premium credits to motor insurance and SME customers with a consequent impact on Farmers management services fee revenues.

The Group has continued to execute on its customer focused strategy during the first half of the year, showing further improvement in the level of customer satisfaction in most of the Group's larger retail markets as measured by the net promoter score (NPS).

In addition to direct financial support given to customers, the Group has supported customers adapt their businesses to the changed situation. In Canada, the Group supported Bauer Hockey, a leading manufacturer of ice hockey equipment to adapt its manufacturing to personal protective equipment, while in the U.S., the Group assisted a hospital in New Jersey to activate a vacant site in order to provide care for patients.

In order to protect employees, the group implemented widespread working from home, with in excess of 90% of employees working remotely. Throughout this significant change the Group continued to operate without interruption. Employees felt highly supported during the COVID-19 crisis which is reflected in the record employee NPS score and highest point increase ever.

In addition to the support of customers, the Z Zurich Foundation has continued to support charities around the world pledging up to CHF 20m to respond to the COVID-19 crisis. Z Zurich Foundation is also supporting local initiatives, in collaboration with Zurich offices and people, to help countries respond to their local situation and needs by matching funds raised by Zurich employees to support local charities. To date, donations have supported over 160 charities and expect to impact over 1 million vulnerable people across the world.

Slide 5: Key highlights – Well positioned for future success

The Group’s balanced, and diverse global business coupled with its strong, conservatively managed balance sheet and high levels of liquidity provide a strong platform from which to drive growth through the Group’s customer focused strategy.

Slide 6: Key highlights – A leading global commercial insurer with strong growth and improved pricing

Zurich ranks among the leading global commercial P&C insurers. The reshaping and improvement in profitability of the Group’s commercial insurance portfolio over 2016-19, positioned the Group well to take advantage of the current significant improvement in global commercial lines pricing.

Throughout the first half of the year, Commercial insurance, which represents 67% of the Group’s P&C gross written premiums, continued to see growth with gross written premiums increasing 8% on a like-for-like basis adjusted for currency movements and acquisitions and disposals.

Throughout the first half of 2020 pricing in commercial lines continued to improve with the second quarter seeing a further acceleration, while rate increases continued to broaden out to other geographies outside of North America.

In North America rate increases in commercial insurance reached 18% up from 12% in the first quarter, with most lines of business seeing significant increases with the principle exception of workers compensation, where rate increases turned positive after several quarters of slight declines. In EMEA price increases also saw an acceleration in the second quarter with rate increases of 12% in commercial insurance as price increases continued to broaden out across region having been led by the UK. In Latin America and Asia Pacific commercial insurance rates also increased further in the first half of the year.

Aside from the broadening out of pricing, the market for commercial insurance has accepted further tightening of terms and conditions across much of the business.

Slide 7: Key highlights – Retail business has been resilient with digital businesses growing but travel business faces a slow recovery

The Group’s retail P&C business remained resilient over the first half of the year with gross written premiums declining 3% on a like-for-like basis adjusted for currency and acquisitions and disposals, however, the group observed significant differences between individual businesses.

Investments in fully digitizing the Group’s agents yielded results with businesses such as the Group’s Swiss retail business seeing modest growth, while more pure digital businesses such as the Group’s Japanese direct motor business saw strong growth driven by customers growing preference for fully digital solutions. In response to these trends the Group is further accelerating its investment in digitalizing the Group's operations.

In contrast Cover-More, the Group's specialist travel and assistance provider, saw a sharp decline in sales starting from March as a result of widespread travel restrictions which were imposed to counter the COVID-19 outbreak. In light of the expected slow recovery in demand for travel insurance, the Group is actively managing costs of the Cover-More business, while positioning the company for longer term recovery by increasing the focus on digital and assistance services.

Slide 8: Key highlights – Life business well positioned with limited exposure to traditional savings; Sales trends improving particularly in the bank channel

The Group's long-term strategy of focusing on protection and capital light savings business, continues to position the Group's life business well for the prevailing low yield environment.

In the first half of 2020, 89% of new business production came from protection, unit-linked or corporate savings business. Only 11% of the Group's new sales related to traditional guaranteed business where the low level of risk-free yields poses significant challenges to profitability.

Over the first half of the year, government lockdowns aimed at reducing the spread of the virus, reduced sales opportunities within face to face distribution channels which accounts for the majority of the Group's life distribution. As these have eased, sales have begun to recover, with distribution through key banking partners such as Banco Santander recovering sharply later in the half.

Slide 9: Key highlights – The Group is accelerating the execution of the customer focused strategy and the digitalization of the business

In support of the customer focused strategy, the Group continued to enhance its digital capabilities, expand customer access and strengthen market positions in areas of focus. Investments made in 2019 and 2020 to fully digitize the end-to-end day of the Group's agents were key to maintain the ability to serve customers during the lockdown and position the Group well to meet changed customer demands for more digital interactions.

During the first half, the Group acquired the accident & health SME portfolio of CSS Versicherung AG, giving access to about 30,000 customers in Switzerland in a highly attractive line of business. The Group also continued to develop its distribution partnerships with the establishment of a long-term strategic alliance with Orange in Spain to sell insurance products to Orange's 20 million customers. In-line with the strategy to strengthen the Group's presence in the North American middle market, Zurich North America created a new position of Head of U.S. Middle Market, while further strengthening the middle market underwriting team.

The Group is creating global capabilities to support the local businesses. For example, Zurich Customer Active Management (ZCAM), a unit which provides analytical support to better interpret customer needs, preferences and expectations, is embedding its technology across the Group, with roll-out to date in Italy, Switzerland, Spain, UK and Indonesia. As shown at the Investor Day last year, ZCAM-s technology is yielding positive results, with agents adopting it able to increase product density, customer engagement and loyalty.

The newly created business Zurich WellCare aims to provide retail, SME and commercial insurance customers globally with unique health and wellness services tailored specifically to their needs. The flexible and modular WellCare offering will give customers the freedom to choose among core and optional elements, so they can personalize their approach to improving their physical and mental health. The aim is to include features enabling customers to track and assess their activities, ideas on how to get healthier, and, depending on the location, coaching and diagnostics tools, facilitating clinical services to assist in managing chronic conditions, as well as insurance solutions. The offering is in line with the Group's customer-focused strategy, expanding the focus towards prevention and innovative services beyond traditional insurance, and meets an increasing demand for health and wellbeing services.

Slide 10: Key highlights – Resilient balance sheet and conservative investments

The Group's balance sheet remains strong, with modest levels of financial leverage, a strong liquidity position and a conservative investment portfolio.

Group solvency improved over the second quarter of the year as a result of improved financial markets, with the Z-ECM ratio, which is calibrated such that 100% is equivalent to a AA level of capital, increasing to 102% at 30 June.

Group leverage remains moderate, with leverage based on the Moody's calculations of 24.9%, well within the AA range.

During the first half there was little change to the Group's overall investment portfolio which remains conservative, with 84% of investments in fixed income securities and cash.

Slide 11: Key highlights – Simple execution, higher ambition

The Group delivered fully on the targets for the 2017-2019 period while making a more efficient, simpler and more agile organization.

In November 2019, the Group announced the following financial targets which it remains focused on achieving;

- A BOPAT ROE in excess of 14%
- Cumulative cash remittances over 2020-2022 of at least USD 11.5bn
- Earnings per share growth in excess of 5% per annum
- The Group's Z-ECM capital ratio to remain in a range of 100-120%.

Slide 13: Group – COVID-19 impact

As announced with the first quarter results in May, the Group expects the overall impact of the COVID-19 outbreak to remain an earnings event.

The continuing nature of the event still entails some degree of uncertainty. The overall level of P&C claims related directly to COVID-19 and second order liability claims related to the outbreak are expected to remain in-line with the previously indicated USD 750m for the full year, with this fully booked within the first half results.

The overall net impact on P&C underwriting result is USD 444m after considering claims and offsetting frequency benefits as well as premium returns and voluntary actions to support customers during the outbreak and USD 14m related to expenses from Cover-More, the group's specialist travel and assistance provider.

In addition, COVID-19 led to the following additional impacts outside of P&C underwriting;

- P&C: USD 22m of losses related to Cover-More in addition to the USD 14m included within underwriting result, due to the sharp reduction in sales as a result of widespread travel restrictions imposed to counter the COVID-19 outbreak.
- Life: Life mortality and disability claims relating to the outbreak were the main part of the USD 52m impact in the first half of the year. Financial market volatility led to an overall impact of USD 71m from accelerated amortization of deferred acquisition costs and lower unit-linked fees, with the accelerated amortization making up roughly 60% of the overall impact. In addition, financial market movements resulted in a USD 36m impact recognized within the Non-core segment in relation to a book of legacy life liabilities.
- Farmers: FMS recorded a USD 40m impact as a result of reduced fees related to the granting of approximately USD 300m of premium refunds to personal auto and SME customers of the Farmers Exchanges, with no offsetting benefit in terms of costs within Farmers Management Services. business operating profit of Farmers Life includes USD 3m of items relating to a combination of mortality and accelerated amortization of deferred acquisition costs.

In addition to these items, the outbreak has had an adverse impact on top-line growth across all businesses and geographies, while also leading to other second order impacts such as adverse currency movements particularly in Latin America and generally lower reinvestment yields. Given the difficulties of attributing the specific movements in these items directly to COVID-19, these have not been included within the estimated impact on the Group's earnings from COVID-19.

Slide 14: Group – Business operating profit

Overall Group business operating profit declined 40% on a reported basis due to the impact of COVID-19 and associated financial market impacts as well as higher levels of other catastrophe events.

EMEA which saw the greatest net impact from COVID-19 declined 44%, while the Group's operations in North America saw a decline of 18%, with both the Farmers business and the Group's P&C business contributing to the decline, largely due to the impacts of COVID-19 but also in the case of the P&C business resulting from claims related to civil unrest in the second quarter.

The Group's Asia Pacific business saw a 56% decline in earnings, in part driven by losses incurred at Cover-More following the sharp decline in sales on the back of reduced demand for travel insurance but also driven by weaker results in the Group's Australian life insurance operations due to adverse disability claims.

In contrast to the other regions, Latin America saw an increase in earnings of 9% in the first half year, with the impact of COVID-19 largely seen in reduced sales across both Life and P&C which will only impact earnings over time.

By business, P&C earnings declined 55% due to COVID-19 and higher levels of catastrophe losses, while Life and Farmers declined 20% and 10% respectively largely as a result of COVID-19 related items.

Slide 15: Group – NIAS

Net income attributable to shareholders (NIAS) fell 42% in the year, driven by the decline in BOP and the recognition of net realized capital losses on investments instead of net realized gains in the prior year as well as a higher effective tax rate.

The effective tax rate for the first half of 2020 was 27.5% up from 24.9% in the prior year. The increase was principally driven by a less favorable geographic mix of earnings together with the absence of a one-time favorable benefit in the prior year relating to Swiss tax reforms.

Slide 16: Group – Outlook

P&C: The Group expects further hardening of pricing over 2020 with price increases expected to remain ahead of loss cost inflation. The benefit of increased price levels is expected to be largely offset by a range of factors including lower demand as a result of declines in economic activity and restrictions placed on travel, premium rebates in motor, the return of premiums to reflect lower than anticipated levels of exposure and adverse FX movements particularly in Latin America. As a result, net earned premiums for the full year as reported in US dollars are expected to be around the same level as in 2019.

P&C investment income excluding fair value gains on hedge-funds in the second half of the year is expected to decline at a slightly higher rate than in the first half.

P&C net non-technical loss for the second half of the year is expected to be at a slightly lower level than in the first half of the year.

Life: Subject to market developments, life BOP in the second half of the year is expected to be around USD 700m.

Farmers: Gross written premium development at the Farmers Exchanges is expected to be similar for the full year as for the first half year. The FMS Managed Gross Earned Premium margin is expected to be around 6.7% for the full year before returning to more normal levels in 2021.

Group Functions and Operations: The Group functions are expected to show a run rate loss of around USD 750 – 800m per annum.

Restructuring charges: For 2020, restructuring charges and other costs recognized outside of BOP are expected to be around USD 250m.

Tax: The Group effective tax rate for 2020 is expected to be in the range of 27 – 28%.

Slide 17: P&C – Top line

Gross written premiums in Property & Casualty (P&C) for the first half of 2020 increased 4% on a like-for-like basis, after adjusting for currency movements and closed acquisitions and disposals. Growth was driven by Europe, Middle East and Africa (EMEA) and North America. In U.S. dollars, gross written premiums grew 2%.

Growth was supported by higher premium rates, with increases achieved in most regions compared to the previous year. Notably, North America experienced a further acceleration of recent trends, with overall rate increases of 18% in the second quarter, and 16% on a half year basis.

Net earned premiums in the first half were up 4% on a like-for-like basis and 2% in U.S. dollars, in line with gross written premiums.

In EMEA, gross written premiums increased 7% on a like-for-like basis. Growth was driven by commercial insurance, most notably in the UK and Germany, while retail insurance was up modestly year on year, with growth dampened by the impact of the COVID-19 outbreak. Commercial insurance saw significant rate hardening in the first half and is expected to harden further in the second half.

North America grew 4% compared to the previous year on a like-for-like basis, driven by rate increases but also by higher retention and new business.

In Asia Pacific, gross written premiums decreased 13% on a like-for-like basis, with growth in Japan offset by a drop of travel insurance sales as a result of the COVID-19 outbreak.

Gross written premiums declined 8% on a like-for-like basis in Latin America, with lockdown measures and reduced economic activity impacting sales in the extended warranty business.

Slide 18: P&C – BOP components

HY-20 P&C BOP was USD 751m, 55% lower than in the previous year. The decline was driven primarily by the impact of the COVID-19 outbreak and associated financial market developments, as well as higher catastrophe losses than in the previous year.

The overall impact of the COVID-19 outbreak on P&C was USD 484m of which USD 444m was recognized within the underwriting result and a further USD 39m in the net non-technical result.

The first half of 2020 also saw an elevated level of catastrophe losses in contrast with the relatively benign first half in 2019, due largely to a series of European winter storms and weather related events in North America in the first quarter and USD 123m of claims resulting from civil unrest in the United States.

Investment income was USD 66m below prior year, with reductions primarily in EMEA and North America, driven by lower investment yields. Realized capital gains of USD 42m were USD 120m below the very strong prior year result.

Slide 19: P&C – Combined ratio details

The combined ratio of 99.8% in the first half was 4.8 percentage points higher than in the prior year period. The deterioration was entirely driven by COVID-19 claims and higher catastrophes, while underlying performance improved by 0.7 percentage points on a very strong HY-19 comparative.

The accident year loss ratio excluding catastrophes improved by 3.3 percentage points compared to HY-19, with the reduction due to continued underlying improvement and the temporary impact of lower claims frequency, especially in motor, associated with the COVID-19 outbreak and related restrictions implemented by governments.

Catastrophe and weather-related losses for the first half totaled 10.1%, or 4.1% excluding the USD 750m of COVID-19 claims, compared to a normal expectation of around 3%.

Prior year development of 1.5% remained in line with prior year level. Overall, the Group's reserve strength remained stable over the year.

The expense ratio of 32.8% in the first half was 0.1 percentage points above prior year, reflecting the volume impact of premium refunds related to the COVID-19 outbreak. On an underlying basis, expense ratio improved by 0.2 percentage points driven by other underwriting expenses.

Slide 20: P&C – Combined ratio by segment and customer unit

In EMEA, the accident year combined ratio ex-catastrophes remained in line with the previous year after removing the impact of COVID-19 related frequency benefits and voluntary actions to support customers during the outbreak.

In North America, the accident year combined ratio ex-catastrophes, excluding the above mentioned COVID-19 impacts, improved strongly to 88.6% driven by a lower loss ratio benefiting from the earn through of rate increases.

The Asia Pacific accident year combined ratio ex-catastrophes and excluding COVID-19 impacts was 94.7%, 0.1 percentage points above prior year. This was driven by a higher expense ratio largely due to the inclusion of Adira Insurance, whose business runs at a higher expense ratio than the regional average, offset by a lower accident year loss ratio ex-catastrophes.

In Latin America, the accident year combined ratio ex-catastrophes and excluding COVID-19 impacts was 99.1%, 1.5 percentage points higher than in the previous year, with the deterioration largely driven by higher expense ratio as a result of lower volumes.

Starting from HY-20 the Group's Commercial insurance customer unit includes the North American alternative markets business, which was previously reported within Retail and other, with this unit renamed as Retail and SME. North American alternative markets include businesses such as captives, programs, crop, and direct markets which by nature are closer to commercial.

Commercial insurance delivered a strong performance with the accident year combined ratio excluding catastrophes and COVID-19 impacts improving primarily due to North America.

For the retail and SME business, the accident year combined ratio excluding catastrophes and COVID-19 impacts was 94.1% for HY-20, 0.2 percentage points higher than in the previous year, primarily driven by a higher accident year loss ratio in Asia Pacific.

Slide 21: P&C – Investment result

Investment income was USD 66 million below 2019, with reductions primarily in EMEA and North America, due to lower investment yields. Realized capital gains of USD 42 million were USD 120 million below the very strong result of the first six months of 2019.

The book yield for debt securities reduced by 16bps to 2.7% during the first half of 2020. Reinvestment yields on debt securities were around 1.9% over the first half year. The gap between book yield and reinvestment rate for debt securities increased from 41bps to 74bps during the first half of 2020 mainly as a result of reductions in yields across the Group's major geographies.

Slide 22: Life – Business operating profit

Life BOP for HY-20 was USD 559m, 20% below the prior year on a reported basis and 3% below excluding the COVID-19 impact for Life of USD 123m. On an underlying basis Life performance has been stable, also considering movements in exchange rates and a USD 13m lower contribution from one-off items, mainly in EMEA and North America. The contribution to BOP from Life is expected to increase in the second half of the year.

In EMEA, HY-20 BOP was impacted by the COVID-19 outbreak, mainly in the UK and to a lesser extent in Switzerland. On a reported basis BOP decreased by 28% compared to the prior year. Adjusted for COVID-19, BOP was down 1%. Additionally, prior year results were supported by some favorable one-offs which did not repeat in HY-20.

In Latin America, BOP increased 12% on a reported basis and 44% in local currency, mainly driven by favorable results from the unit-linked business in Argentina.

Asia Pacific BOP of USD 35m declined significantly compared to prior year mainly driven by weaker results in Australia and some strengthening of assumptions in Japan, coupled with an unfavorable economic impact in Hong Kong.

In North America, which excludes Farmers Life, which is reported separately under Farmers, business operating earnings increased by USD 18m due to favorable claims experience more than off-setting the absence of a favorable one-off item in the prior year.

Slide 23: Life – Business operating profit by source of earnings

The Group's life business continued to be driven by stable income streams on a sources of earnings view, with 87% of income coming from loadings and fees together with technical margins.

Viewed by margin and excluding the impact from COVID-19, loadings and fees increased 3% in the first six months compared to the prior year mainly driven by the inclusion of OnePath Life in Australia. Growth in Latin America and EMEA was offset by adverse exchange rate movements.

The investment margin increased 9% mainly driven by a methodology refinement regarding policyholder bonus allocations in Germany.

The technical margin declined 9% on a reported basis driven by higher mortality claims mainly in the UK and Switzerland. Excluding the COVID-19 impact the technical margin increased 2% mainly driven by favorable results in Latin America and North America.

On the expense side, operating costs excluding the COVID-19 impact increased by 5%, reflecting mainly the inclusion of OnePath Life in Australia. Excluding the COVID-19 impact, acquisition costs net of deferrals worsened by 7%. Lower underlying acquisition costs were more than off-set by lower deferrals.

Slide 24: Life – Premiums, net inflows and assets under management

In the Group's Life business, gross written premiums and deposits were down 28% in HY-20 compared to HY-19 on a reported basis, and down 3% on a like-for-like basis, adjusting for currency movements, acquisitions and disposals. Growth in most regions was compensated by reductions in EMEA driven by Bansabadell in Spain, Italy and Ireland.

Net inflows of USD 2.1bn in the first six months of the year are lower than in the prior year driven mainly by EMEA. On a like-for-like basis EMEA saw USD 1.5bn lower inflows than in the prior year with roughly half of this driven by one-time inflows in Switzerland in the prior year.

Assets under management (AuM) decreased 3% mainly due to currency movements, with net inflows offset by unfavorable market movements.

Slide 25: Life – New business and new business mix

In the first six months, Life new business annual premium equivalent (APE) sales decreased 15% on a like-for-like basis, adjusting for currency movements, acquisitions and disposals. The decline reflects the COVID-19 related impact of government lockdowns across the world on face-to-face distribution channels. The HY-20 development also reflected expected reductions in several markets from exceptional levels in the first half of 2019. On a reported basis APE was 25% lower.

In EMEA APE sales decreased by 20% on a like-for-like basis compared to the same period in 2019, mainly driven by a reduction in corporate pension business in Switzerland from the exceptional levels of the first half in 2019, and by lower retail saving business in Spain and lower sales levels in Italy as a result of COVID-19 lockdowns.

APE sales in Latin America were flat on a like-for-like basis. Higher unit-linked sales mainly at Zurich Santander were offset by lower individual saving business in Chile and lower protection volumes across the region.

In Asia Pacific APE sales decreased 24% on a like-for-like basis, reflecting lower sales volumes in Japan, Malaysia and Indonesia, mainly driven by the outbreak of the COVID-19 virus.

In North America APE sales were 28% lower than in the prior year due to reduced sales of corporate protection business mainly in the first quarter ahead of the sale of the Group life business to Aflac Incorporated, announced on March 19.

The new business margin remained on a good level at 23.9% as reported or 24.5% on a like-for-like basis. New business value (NBV) decreased 25% on a like-for-like basis, driven by lower new business volumes, unfavorable economic variances due to the drop in yields and operating assumption changes impacting EMEA and key countries in Asia Pacific. On a reported basis NBV declined 31%.

The Group continues to focus on protection, unit-linked and corporate pension business, with these products accounting for 89% of APE sales. Protection business contributed 84% of the overall NBV.

Slide 26: Life – Investment result

Life investment result, which is gross of policyholder sharing, decreased by 27% to USD 1.4bn in U.S. dollars, driven mainly by lower realized capital gains compared to prior year.

Slide 27: Farmers Exchanges – Key metrics

Gross written premiums of the Farmers Exchanges decreased 3%. Underlying growth of 0.2% was offset by approximately USD 300m in COVID-19 premium credits as well as an adjustment to previously booked gross premiums relating to lower expected volumes of commercial rideshare business following the issuance of shelter-in-place orders by U.S. state governments in response to the COVID-19 outbreak.

Key customer metrics remained strong as a result of the Farmers Exchanges' customer focused strategy, with a further increase in Net Promoter Score and stable retention levels compared to prior year.

The combined ratio increased 1.6ppts to 101.6% mainly driven by a 1.8ppts increase in catastrophe losses.

The surplus ratio declined 0.4ppts to 41.1% due to the reduction of the all lines quota share reinsurance treaty from 29 percent to 26 percent effective December 31, 2019.

Slide 28: FMS – Overview

Farmers Management Services (FMS) BOP decreased 10% compared to the prior year. This was mainly driven by reduced fee revenues as a result of the premium credits to customers at the Farmers Exchanges, higher operating expenses mainly due to timing differences and a one-time write-off of certain capitalized expenses. As a result, the managed gross earned premium margin decreased 0.4ppt to 6.6%. The managed gross earned premium margin is expected to return to more normal levels in the second half of the year.

The first half was also impacted by less favorable mark to market of a deferred compensation plan compared to the prior year.

Slide 29: Farmers Life and Farmers Re – Overview

Farmers Life BOP of USD 106m was USD 14m lower than in the prior year. The result was mainly driven by lower claims in the prior year.

Farmers Life new business APE was 8% lower than in the prior-year period, while new business value increased 17% mainly driven by lower swap rates.

Farmers Re BOP of USD 10m was USD 1m higher than in the prior year driven by an improved loss ratio which was partially offset by lower investment and other income. Farmers Re BOP is expected to gradually decline in the coming years, reflecting lower net earned premiums and lower investment income as asset balances reduce in line with the reduction in the all lines quota share participation, which was reduced to 0.25% effective December 31, 2019.

Slide 30: Group Functions and Operations & Non-Core Businesses – BOP

The business operating loss reported under Group Functions and Operations improved by USD 22m to USD 348m. This was driven by a USD 64m reduction in Holding and Financing costs due to lower interest expenses, partially offset by an increase in headquarter expenses compared to prior year as a result of increased investments in innovative new business propositions.

The Group’s Non-Core Businesses, which comprises run-off portfolios that are managed with the intention of proactively reducing risk and releasing capital, reported an operating loss of USD 39m driven by adverse developments in a legacy portfolio of life liabilities as a result of declining financial markets following the outbreak of COVID-19.

Slide 31: Group – Solvency ratios

The Group’s balance sheet remains very strong, with Zurich’s economic capital model (Z-ECM) ratio estimated to be 102% as of June 30, within the Group’s target range. The Group’s Swiss Solvency Test (SST) ratio based on standard yield curves allowed by the Swiss Financial Market Supervisory Authority FINMA was estimated to be 185% at June 30, including EUR 750m of subordinated debt issued in June but only approved as eligible risk-bearing capital by FINMA in July.

For Z-ECM the operational capital generation from the businesses in the first half of the year of 3 percentage points was impacted by the various charges linked to COVID-19 as identified within the Group’s first half results. This was offset by 4 percentage points of dividend accrual. Market movements over the first half reduced the ratio by 33 percentage points, driven primarily by the fall in interest rates but also by widening of corporate credit spreads and higher assumed volatility. Other items added 8 percentage points, with debt issuance being the largest contributor.

Slide 32: Group – Balance sheet and capital structure

Shareholders’ equity decreased by USD 1.8bn mainly driven by the payment of the Group dividend in the second quarter partly offset by the net income of USD 1.2bn.

Over the first half of the year the Group issued around USD 800m of commercial paper, with this subsequently being refinanced through longer term debt as credit spreads normalized later in the second quarter. At the balance sheet date, this has the effect of increasing the overall proportion of senior debt shown in the Group’s capital structure. Since the end of the first half the amount of commercial paper has already reduced by around USD 300m with the balance expected to run-off over the remainder of the year.

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