



# Q1-20 Interim management statement

May 14, 2020

# Key messages



Solid Q1-20 performance

Solid top-line performance in the first quarter with further increase in rate changes in P&C

Immediate response to COVID-19

Our operations have proven resilient and we have continued to support our customers and the communities in which we operate, while ensuring the safety of our staff

Strong foundation and strategy unchanged

Our delivery over 2016-19 created a simpler, more agile and efficient company with a customer-focused strategy, providing a strong foundation to manage current challenges

Resilient balance sheet and conservative investments

Z-ECM ratio of 101%<sup>1</sup> and regulatory SST ratio of 186%<sup>2</sup> as of March 31; strong liquidity position and conservative investment portfolio

Preparing for a changed world

We have a range of levers to support profitability and are accelerating actions around customer focus, digitalization and protection offering

Manageable earnings impact from COVID-19

COVID-19 claims expected to be within risk tolerance, with potential Property & Casualty claims in the region of USD 750m<sup>3</sup>; financial market impacts dependent on full year development

<sup>1</sup> Q1-20 Z-ECM reflects midpoint estimate with an error margin of +/- 5ppts.

<sup>2</sup> Estimated Swiss Solvency Test ratio, after application of standard yield curves as allowed by the Swiss Financial Market Supervisory Authority FINMA as from March 31, 2020 and going forward.

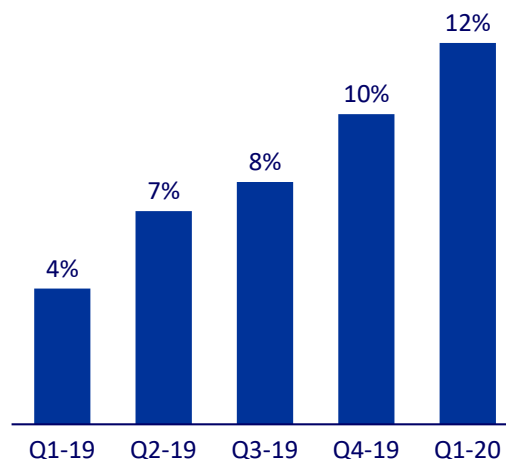
<sup>3</sup> The continuing nature of the event means that it is subject to significant uncertainty. This estimate relates solely to claims related to COVID-19 and does not include any broader positive or negative impacts resulting from lower economic activity.

# In P&C solid top-line performance in the first quarter with further increase in rate changes, strong Q1-19 comparative in life

## P&C

Q1-20 highlights	GWP like-for-like growth (%) <sup>1</sup>	Rate change (%) <sup>2</sup>
EMEA	8%	3%
North America	7%	12%
APAC	0%	2%
Latin America	2%	2%
Total	7%	5%

North America rate change (%)<sup>2</sup>



## LIFE

Q1-20 highlights	
APE like-for-like growth (%) <sup>1</sup>	-10%
New business margin (%)	23.7%

## FARMERS

Q1-20 highlights	
Farmers Exchanges <sup>3</sup> GWP growth (%)	-1%
Farmers Life APE growth (%)	+8%

<sup>1</sup> In local currency and after adjusting for closed acquisitions and disposals.

<sup>2</sup> GWP development due to premium rate change as a percentage of the renewed portfolio (excl. the crop business) against the comparable prior year period.

<sup>3</sup> For all references to Farmers Exchanges see the disclaimer and cautionary statements.

# Our operations have proven resilient and we have continued to support our customers, employees and the communities

## CUSTOMERS



>USD 70m

Various forms of support for customers including refunds, payment holidays and other



~USD 300m<sup>1</sup>

Farmers Exchanges<sup>2</sup> premium reductions and credits (Auto and SMEs)

## EMPLOYEES



>90% of employees shifting to remote working across all geographies

Facilitation of working from home through provision of additional IT equipment

Increased offer of educational material with focus on wellbeing

Hospitalization benefit for employees and their families

## COMMUNITIES



Z Zurich Foundation donating CHF 20m to >60 charities around the world, offering full matching on employee fundraising efforts, and supporting a range of local initiatives, including:

- funding for hospitals, intensive care units and testing stations
- delivery of food supplies and medicines
- laptops and internet connectivity for online schooling
- access to mental health support

<sup>1</sup> Farmers Exchanges GWP impact of premium adjustments announced on April 30. ~USD 21m impact on Farmers Management Services management BOP.

<sup>2</sup> For all references to Farmers Exchanges see the disclaimer and cautionary statements.

# Well positioned for future success

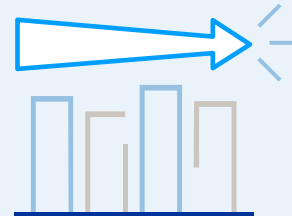
A balanced and diverse global business



Industry leading capital levels with strong liquidity



Stable, consistent and conservatively managed balance sheet



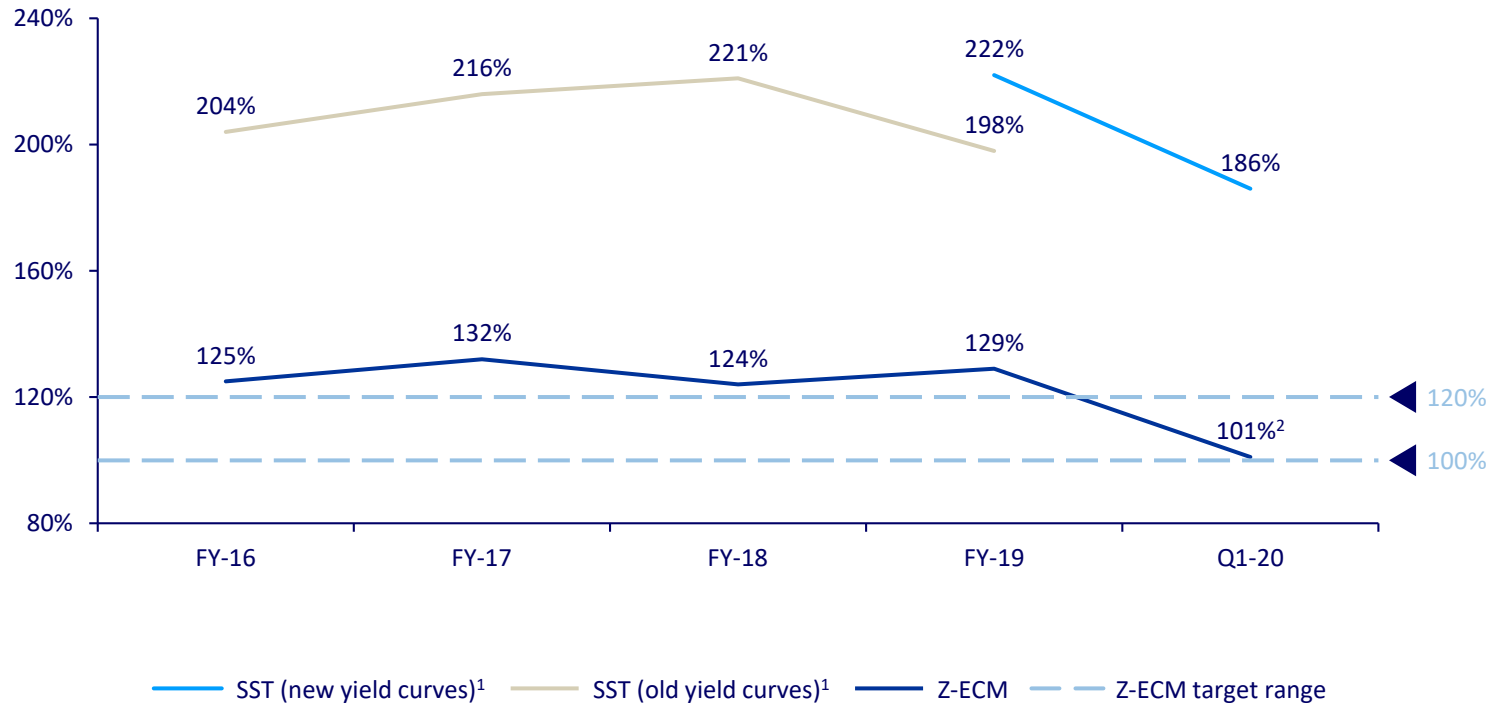
+

Focus on customers and underwriting discipline

-  Focus on the customer
-  Simplify
-  Innovate

# Resilient capital position and strong liquidity

## GROUP SOLVENCY (%)



### Capital

- 100% Z-ECM is calibrated to an ‘AA’ financial strength

### Cash remittances and liquidity

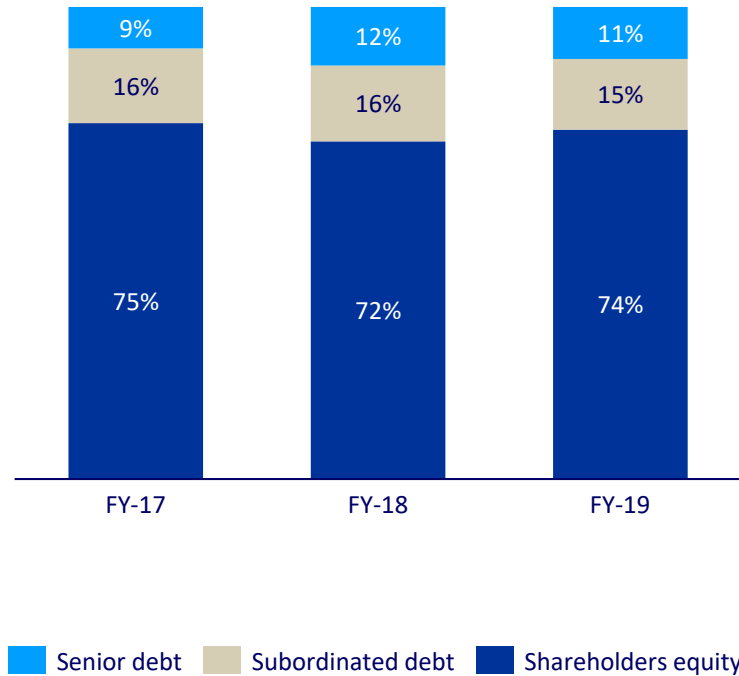
- Very cash generative business with ~94% of net income remitted to the Group in the last 8 years
- ~30% of cash remittances from Farmers’ fee business
- Significant central liquidity position with buffer in place to absorb short-term disruption to remittances

<sup>1</sup> The Swiss Solvency Test (SST) ratio as of January 1, 2020, is calculated based on the Group’s internal model approved by the Swiss Financial Market Supervisory Authority FINMA. Going forward the Group will apply standard yield curves as allowed by FINMA for the calculation of the SST. See appendix for further details on yield curves used in SST calculation.

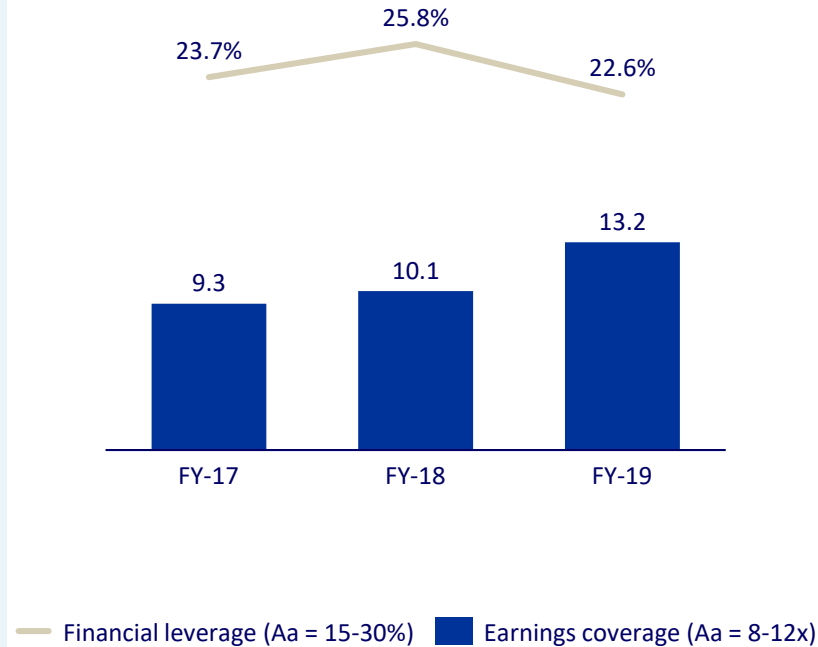
<sup>2</sup> Q1-20 Z-ECM reflects midpoint estimate with an error margin of +/- 5ppts.

# Stable capital structure with moderate leverage; 2020 debt refinancing already completed in February 2020

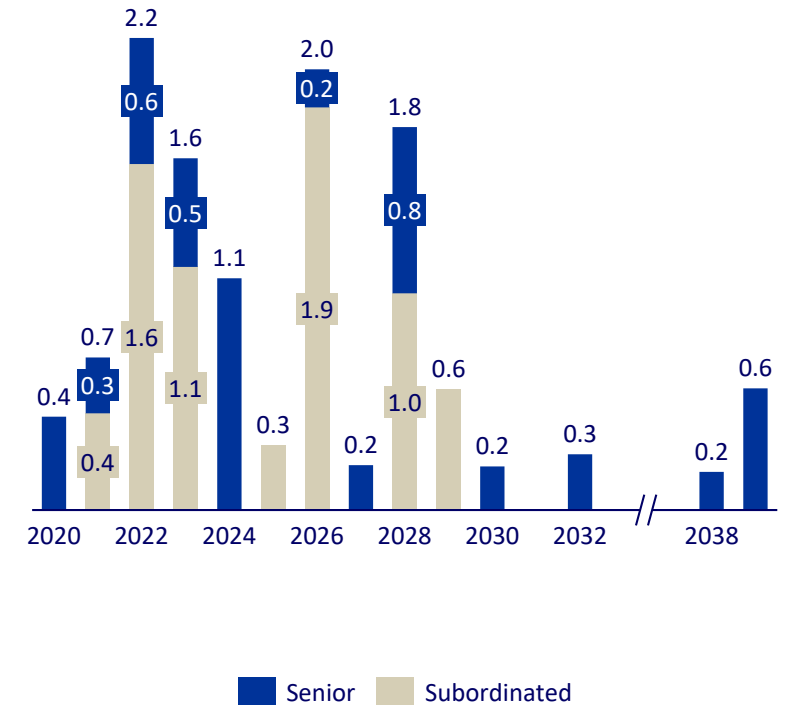
GROUP CAPITAL STRUCTURE (%)<sup>1</sup>



MOODY'S LEVERAGE (%) & COVERAGE (x)



BALANCED REFINANCING NEEDS (USDbn)<sup>2</sup>

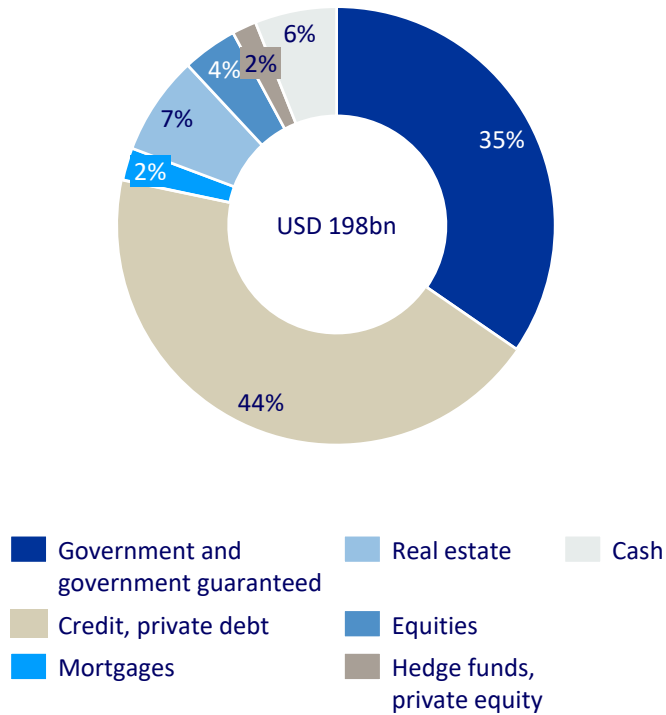


<sup>1</sup> Based on IFRS balance sheet.

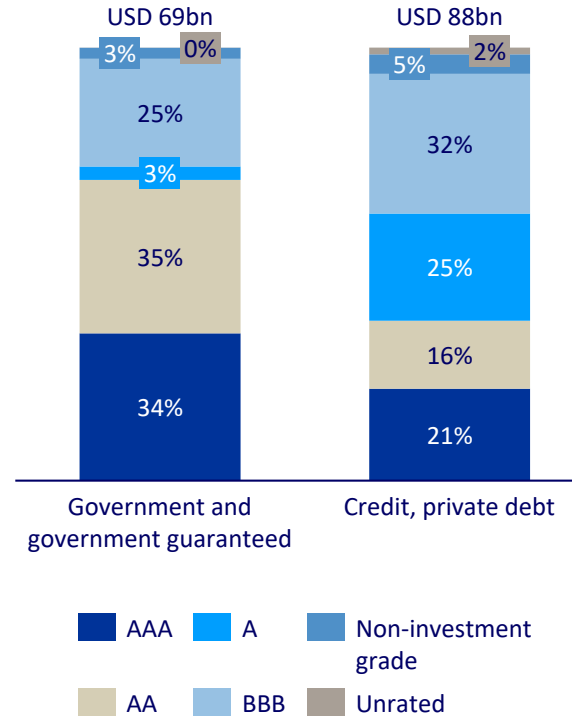
<sup>2</sup> Maturity profile based on first call date for subordinated debt and maturity date for senior debt.

# Conservative investment portfolio with low exposure to energy and transportation

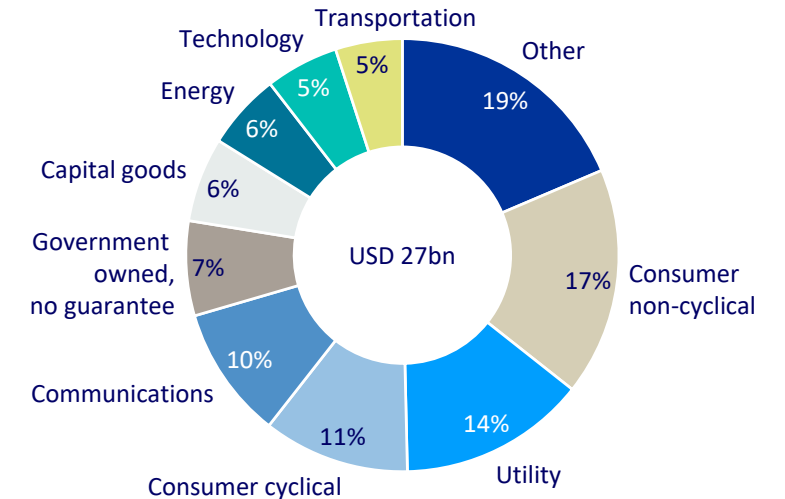
Q1-20 GROUP INVESTMENTS (%)<sup>1</sup>



Q1-20 ASSET QUALITY (%)



Q1-20 NON-FINANCIAL CREDIT BY SECTOR (%)



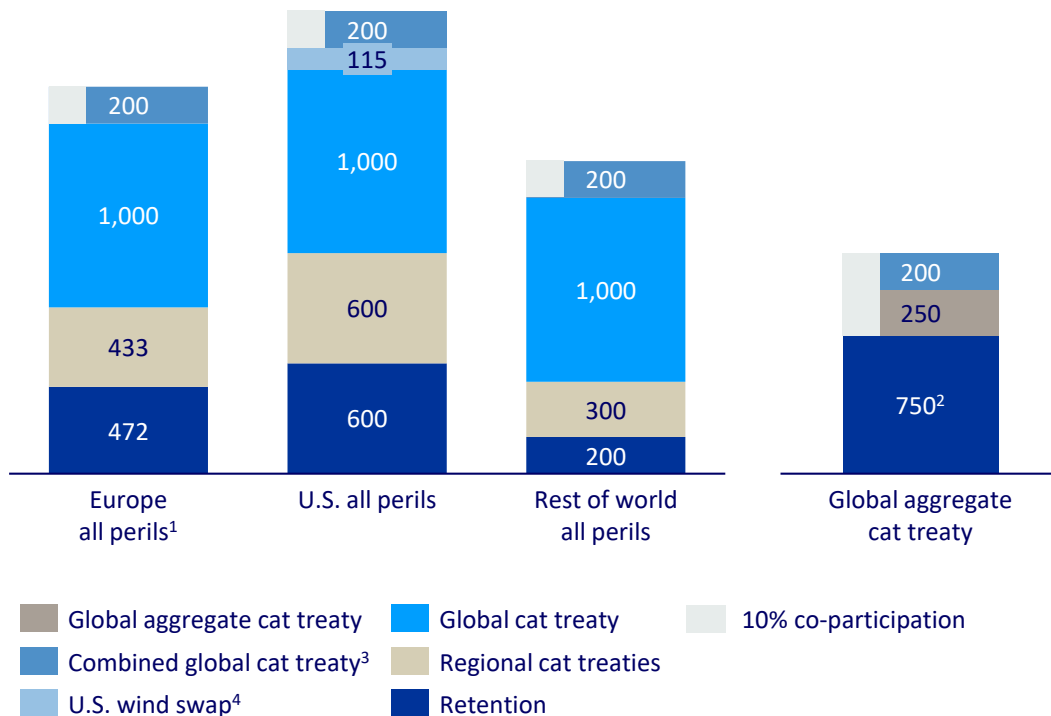
Note:  
 Within "Consumer cyclical": Leisure, restaurants, lodging – 0.8%  
 Within "Transportation": Airline – 0.3%

<sup>1</sup> Gross exposure before hedging activities.



# Balance sheet and large loss volatility well managed through reinsurance

## GROUP CATASTROPHE REINSURANCE PROTECTION (USDm)



## GLOBAL SURETY EXCESS OF LOSS

- Designed to manage earnings volatility
- North America: USD 350m coverage per customer in excess of USD 50m retention
- Other regions: USD 375m coverage per customer in excess of USD 25m retention
- Aggregate limit: USD 1,100m

## MAIN ADDITIONAL TREATIES

- Global property per risk aggregate
- U.S. property quota share
- U.S. liability quota share

<sup>1</sup> Europe cat treaty calculated with EUR/USD exchange rate as of January 31, 2020.

<sup>2</sup> Franchise deductible of USD 25m, i.e. losses greater than USD 25m count towards erosion of the retention (annual aggregate deductible).

<sup>3</sup> This USD 200m cover can be used only once, either for aggregated losses or for an individual occurrence or event.

<sup>4</sup> Only relevant for U.S. windstorm.

# We have a range of levers to support profitability

## Productivity

Expense plans adapted to reflect new economic reality

## Portfolio quality

Continue recent actions aimed at improving terms & conditions and overall portfolio quality

## Rate adequacy

Unchanged focus on achieving rate adequacy

## Capital allocation

Proactively manage capital allocation across the business and continue to review potential to extract capital from non-core businesses

# We are taking actions to prepare for a changed future

## ACCELERATING ACTIONS AROUND CUSTOMER FOCUS, DIGITALIZATION AND PROTECTION OFFERING



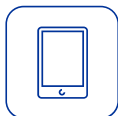
Adapt products and distribution models to meet changed customer demands



Further expand protection and wellbeing offerings



Develop a public-private partnership solution to provide suitable protection against future pandemic events



Full digitalization of all aspects of the business



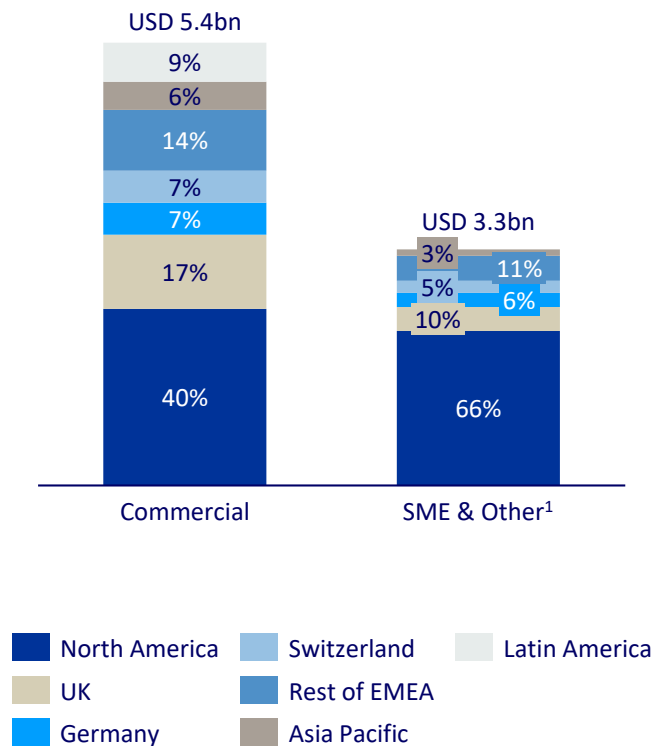
Maintain high focus on social responsibility

# COVID-19 impact



# Business interruption claims expected to be contained to a few specific portfolios

## FY-19 PROPERTY GWP BY REGION (%)



## KEY FEATURES

- Limited event cancellation exposure
- Standard commercial wording requires physical damage
- >99% of property policies do not provide cover for COVID-19, with the vast majority of business having virus or similar exclusions
- Small percentage of policies with non-damage coverage extension with lower sub-limits and requiring multiple triggers for claims
- Net exposure reduced by significant North America quota share reinsurance and captive business

## POTENTIAL IMPACT BY REGION

Region	Expected FY-20 impact
EMEA	Moderate exposure (i.e. coverage of specific Swiss SME loss of earnings, German/Austrian industry agreements)
North America	Moderate exposure (Small number of policies providing coverage)
Asia Pacific & Latin America	Minimal exposure
Overall	In the range of low to mid triple digit USDm <sup>2</sup>

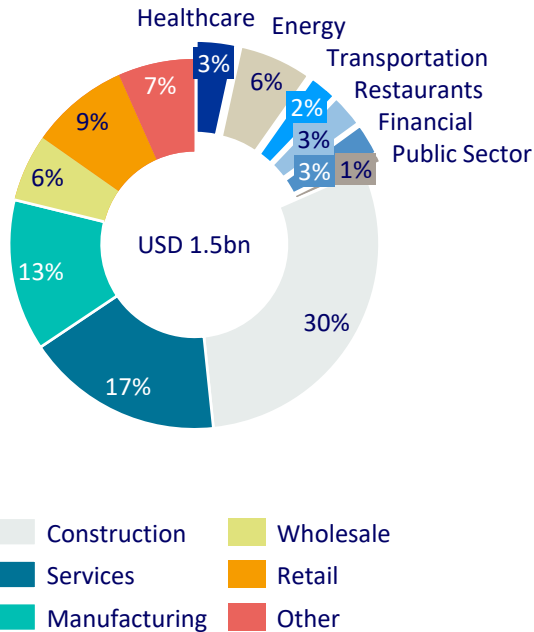
<sup>1</sup> Includes Alternative Markets for North America.

<sup>2</sup> The continuing nature of the event means that it is subject to significant uncertainty. This range relates solely to claims related to COVID-19 and does not include any broader positive or negative impacts resulting from lower economic activity.

# U.S. Workers compensation presumption of coverage not expected to have a material impact

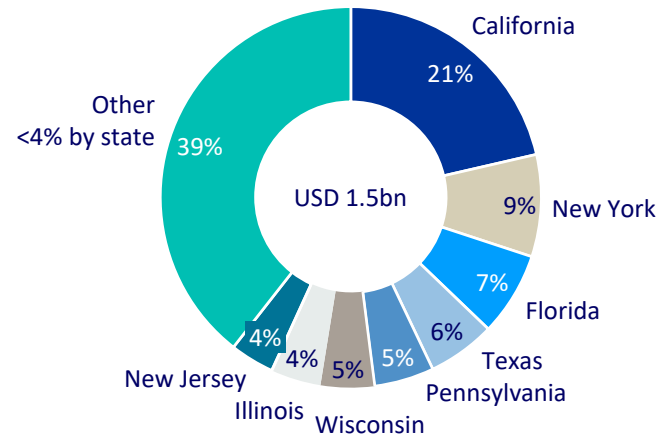
## EXPOSURE TO CRITICAL WORKERS

FY-19 Net written premium by customer type (%)



## EXPOSURE BY STATE

FY-19 Net written premium by state (%)



## MITIGATING FACTORS

- Definition of critical workers varies widely by state
- Only 3% of portfolio relates to healthcare
- ~15% of portfolio relates to other industries with employees potentially defined as ECI<sup>1</sup> workers
- High share of high deductible products
- Potential frequency reductions in other industry segments

## WCIRB<sup>2</sup> SCENARIO APPLIED TO ALL U.S.

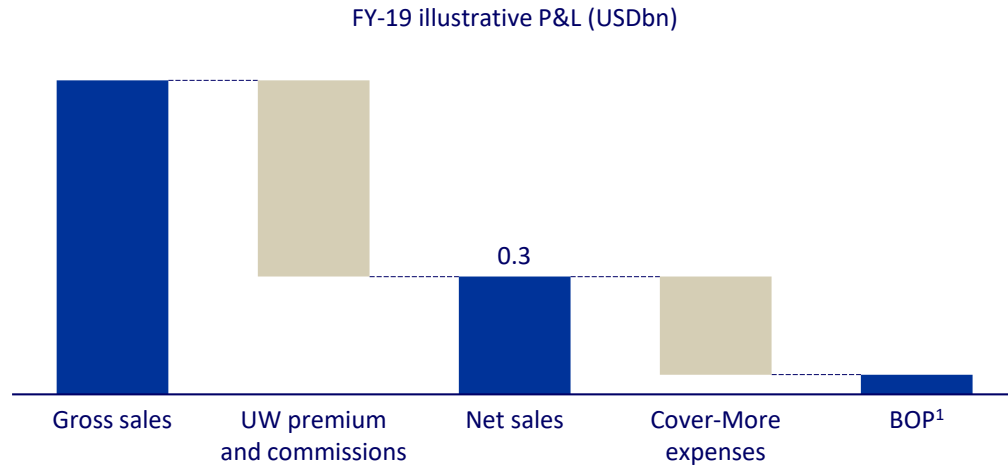
- Estimated net loss range of USD 30-150m
- Estimate based on low and mid-point scenarios as modelled by WCIRB, applied to entire U.S. workers compensation book

<sup>1</sup> Essential critical infrastructure workers. As definition varies widely by state, most broad definition proposed by any state was used.

<sup>2</sup> Scenario issued by the Workers' Compensation Insurance Rating Bureau (WCIRB) of California on April 20, 2020.

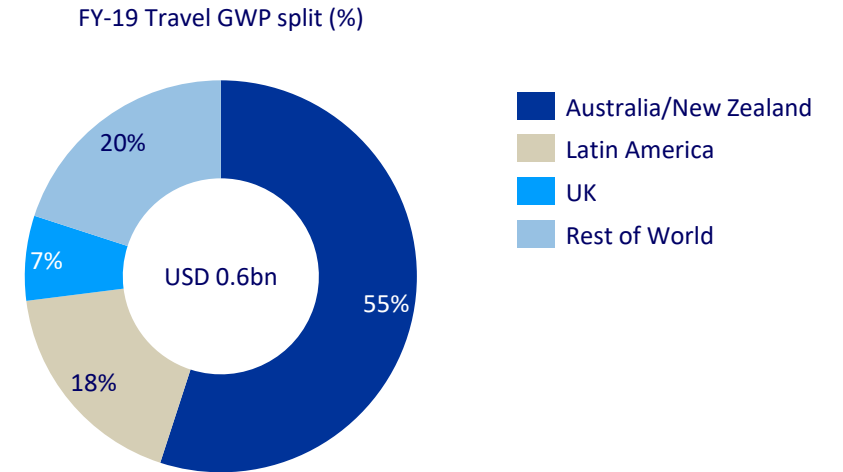
# Travel business impacted by lower sales and increased claims

## COVER-MORE PERSPECTIVE



- Primary focus on leisure travel; >80% of sales from single-trip policies
- Cost-income ratio of ~90%; fixed cost ratio of ~75%<sup>2</sup>
- Significant drop in sales expected in FY-20

## ZURICH'S UNDERWRITING PERSPECTIVE



- Known events and pandemics not covered in majority of policies, exception “Cancel for any reason” policies
- Significant premium reduction expected in FY-20
- FY-20 claims expected to be in a low triple digit USDm range<sup>3</sup>

<sup>1</sup> Majority of which is included in Zurich’s P&C non-technical result.

<sup>2</sup> Cost-income defined as Cover-More expenses divided by net sales. Fixed cost ratio defined as fixed costs in percentage of net sales. Both ratios based on FY-19.

<sup>3</sup> The continuing nature of the event means that it is subject to significant uncertainty. This range relates solely to claims related to COVID-19 and does not include any broader positive or negative impacts resulting from lower economic activity.

# Impact of financial markets will depend on development over the year



## IMPAIRMENT RULES

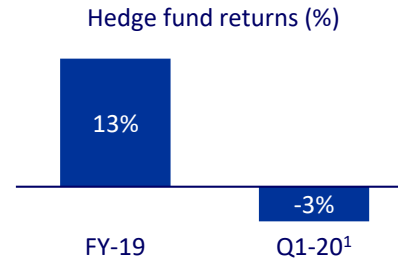
### Equities

- Significant decline of ~30-45% below cost value depending on region
- Prolonged decline below cost value for a period of 24 months or longer

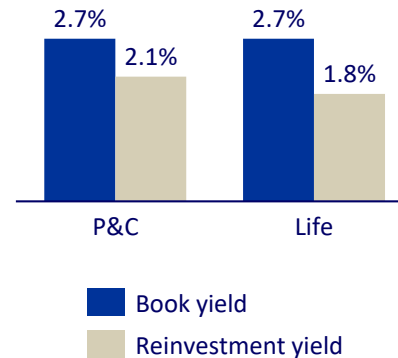
### Fixed income

- Loss event(s) with detrimental impact on estimated future cash flows

## INVESTMENT PERFORMANCE

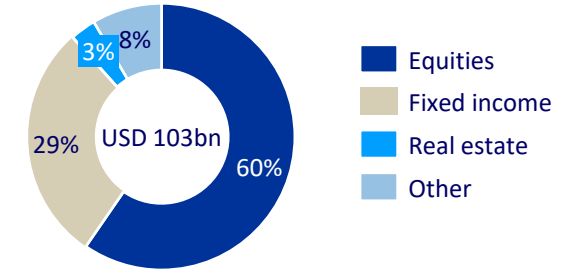


Q1-20 Book and reinvestment yields of debt securities (%)

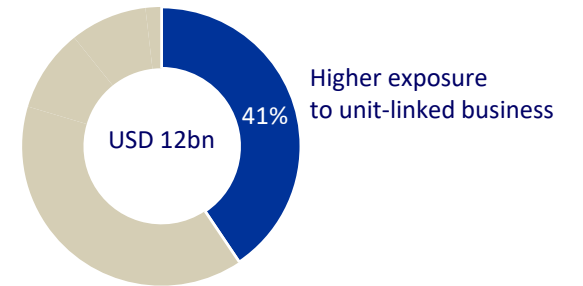


## LIFE BUSINESS

Q1-20 Unit-linked investments by asset class (%)



Q1-20 DAC balance (%)<sup>2</sup>



<sup>1</sup> Q1-20 actual quarterly return.

<sup>2</sup> Includes deferred acquisition costs (DAC) and deferred origination costs (DOC). UK, Isle of Man, and Ireland used as proxy to determine higher unit-linked exposure.



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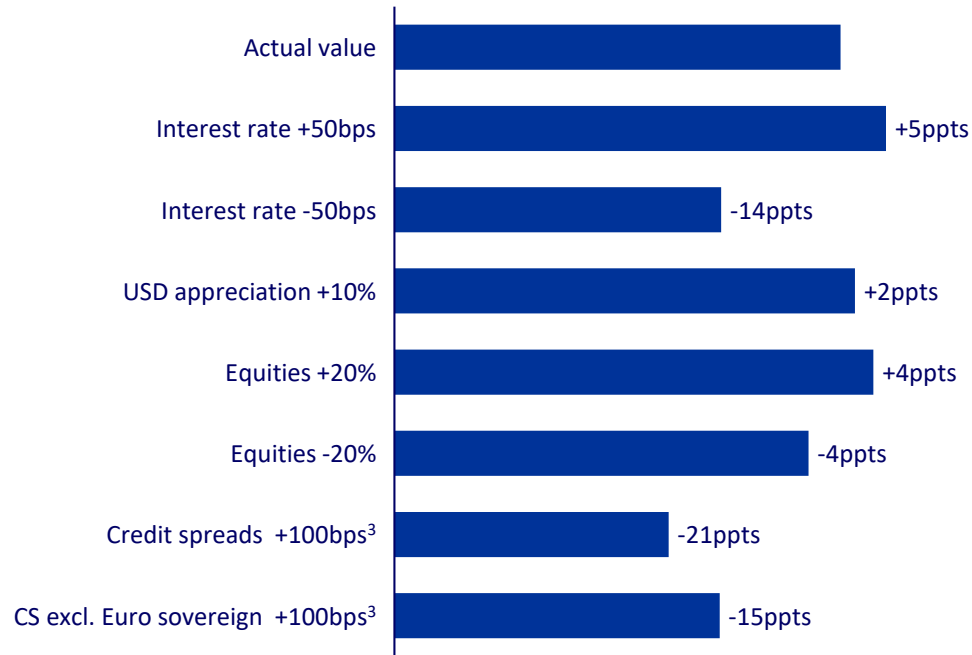
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# Appendix

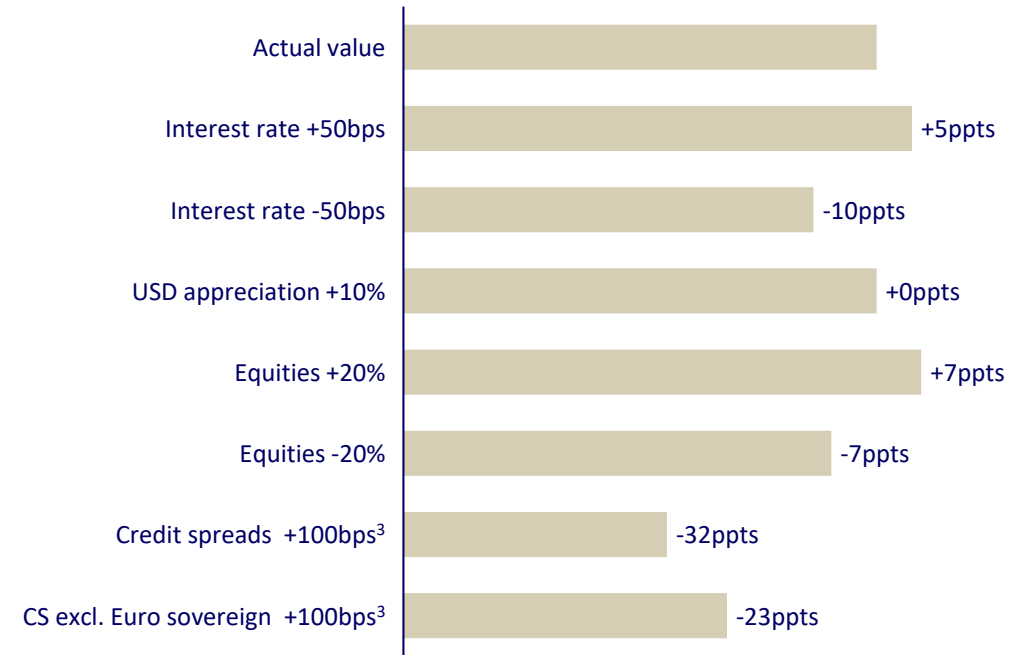


# Solvency ratios resilient to market movements

FY-19 Z-ECM SENSITIVITY IMPACT (ppts)<sup>1,2</sup>



FY-19 SST SENSITIVITY IMPACT (ppts)<sup>1,2</sup>



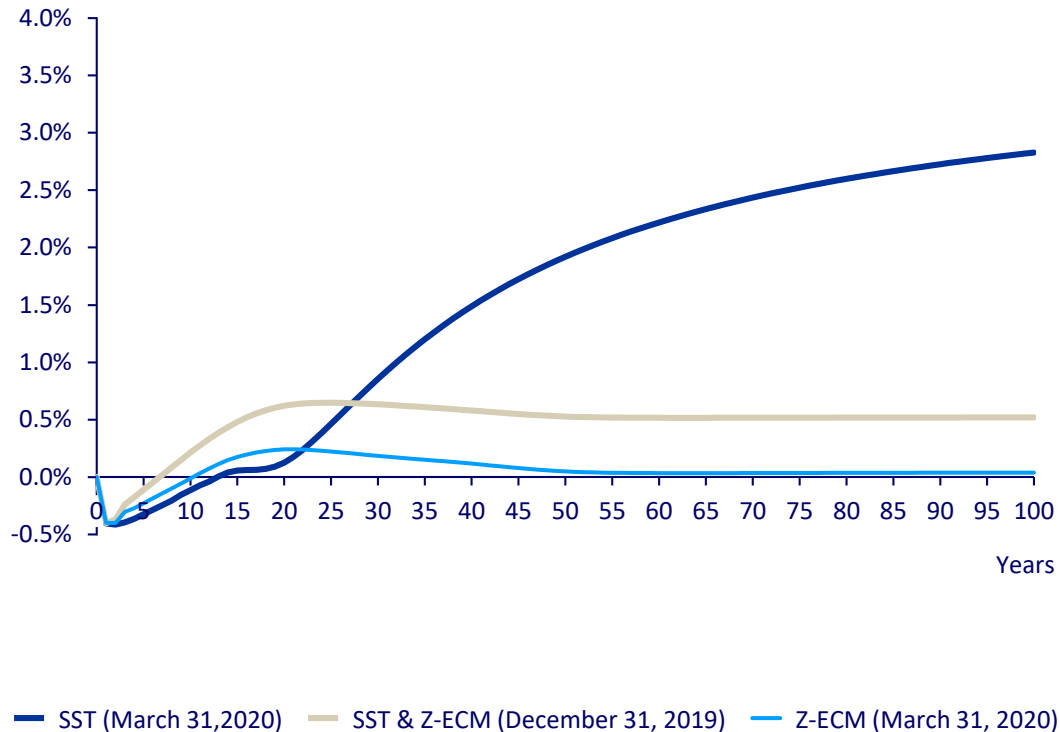
<sup>1</sup> Sensitivities are best estimate and linear, i.e. will vary depending on prevailing market conditions at the time.

<sup>2</sup> The impact of the changes to the required capital is approximated and takes into account market and insurance risks.

<sup>3</sup> Credit Spreads (CS) include mortgages and including/excluding Euro sovereign spreads. Z-ECM sensitivity is net of profit sharing with policyholders.

# Going forward FINMA standard yield curves are applied to SST calculation

EUR RISK-FREE YIELD CURVES<sup>1</sup> USED FOR SST AND Z-ECM (%)



DETAILS RISK-FREE YIELD CURVES

Currency	Risk-free yield curve	Last liquid point (years)	Ultimate forward rate (%)
EUR	EIOPA risk-free curve	20	3.75%
GBP	EIOPA risk-free curve	50	3.75%
USD	Swap (-30bps <sup>2</sup> )	50	3.45%
CHF	Government bond	15	2.25%

- Going forward the Group will apply standard yield curves as allowed by the Swiss Financial Market Supervisory Authority FINMA for the calculation of the SST
- As of December 31, 2019 the change in yield curves had a positive impact of 24ppts to the SST ratio
- Z-ECM yield curves are based on swap curves (unchanged)

<sup>1</sup> For EUR the forward rate curve reaches the ultimate forward rate (UFR) at year 60; the spot rate curve shown on the graph converges to the UFR at a significantly larger timescale.

<sup>2</sup> For USD swap curves are used as risk-free yield curves and reduced by 30bps for the credit risk adjustment (as required by FINMA).

# Additional commentary

## SLIDE 2

- The first quarter showed solid growth in P&C top-line with little impact from the COVID-19 outbreak, life and the Farmers Exchanges saw first quarter development impacted by the initial impacts of the outbreak.
- 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. Throughout the current crisis the group has continued to operate without issue and despite the switch to working from home for the majority of staff.
- Following the strong delivery over 2016-19 the Group has become simpler, more agile and more efficient. Combined with the Group's customer focused strategy this provides the Group with a strong foundation to manage the challenges posed by the COVID-19 outbreak.
- The Group's capital remains strong. The Group's internal Z-ECM ratio of 101%, remained within the Group's 100-120% target range as of March 31. The Group's Swiss Solvency Test (SST) ratio based on standard yield curves allowed by the Swiss Financial Market Supervisory Authority FINMA was 186% at March 31, while the Group retains a AA- rating from Standard and Poor's.
- Following the COVID-19 outbreak the Group expects a weaker macro economic backdrop to its global businesses. In reaction to the changed outlook, management remain focused on achieving adequate pricing for risk across the business while expense plans have been adapted to reflect expected weaker revenue growth. In-line with the strategy of recent years, management continues to examine opportunities to further improve capital allocation across the business and to extract capital from non-core operations.
- During the first quarter of the year, the Group recognized USD 280m of COVID-19 related claims including allowance for claims that are expected to be incurred but have not yet been reported.
- The Group expects to incur additional claims over the second and subsequent quarters of the year. Property and Casualty claims are expected to remain within the Group's earnings risk tolerance. Experience to-date and the Group's scenario analysis suggest a potential for P&C claims to be in the region of USD 750m for the full year 2020. The continuing nature of the event means that it is subject to significant uncertainty. This scenario does not include any broader positive or negative impacts resulting from lower economic activity.
- Following the sharp falls in financial markets, the group expects to incur a range of financial impacts within reported earnings. The level of these will be dependent on the development of financial markets over the remainder of the year.

# Additional commentary



## SLIDE 3

### P&C

- P&C GWP rose 7% in Q1-20 on a like-for-like basis.
- Growth came primarily from EMEA and North America.
- Growth was supported by higher premium rates, with increases achieved in most regions compared to the previous year. Rate increases continued to accelerate in North America.

### Life

- Life new business annual premium equivalent (APE) decreased 10% on a like-for-like basis.
- The decline reflects the first impacts of COVID-19, particularly in the Asia Pacific region and Brazil, and an expected reduction in Switzerland from exceptional levels in the first quarter of 2019.
- On a reported basis APE was 19% lower, with foreign exchange movements also impacting reported sales.
- The new business margin remained on an attractive level at 23.7% as reported.

### Farmers

- Gross written premiums of the Farmers Exchanges were down 1% in the first quarter.
- Underlying growth of 0.4% was offset by an adjustment to previously booked premiums relating to lower expected volumes of commercial rideshare business in light of the COVID-19 outbreak.
- Farmers Life APE sales were up 8% year-on-year driven by increased agent engagement.

# Additional commentary

## SLIDE 6

- The Group's capital remains strong.
- The Group's internal Z-ECM ratio of 101%, remained within the Group's 100-120% target range as of March 31. The Z-ECM is calibrated such that 100% is approximately equivalent to an 'AA' financial strength.
- The Group's Swiss Solvency Test (SST) ratio based on standard yield curves allowed by the Swiss Financial Market Supervisory Authority FINMA was 186% at March 31, while the Group retains a AA- rating from Standard and Poor's.
- The Group's liquidity management framework is designed to maximize central liquidity and fungibility of capital, while remaining resilient during periods of significant stress.
- Whilst COVID-19 was not envisaged specifically in the Group's scenarios, its observable impact on financial markets, Group capital and liquidity to date are well within the range of scenarios assumed by the Group.
- As of today, the Group would expect the Solvency II ratio of the European Union entities to be roughly 90 percentage points higher than the respective SST for the same businesses.

## SLIDE 15

- The Group exposure to travel insurance consists of a fee-based part through Cover-more, and an underwriting part
- Cover-More provides travel insurance and assistance services leveraging a selection of insurance carriers, including Zurich. Key drivers of profit are sales volumes and costs, with fixed costs accounting for ~75% of net sales as of FY-19.
- Travel insurance sales are expected to drop significantly in FY-20 due to the COVID-19 outbreak and related travel restrictions. Combined with the level of fixed costs within the business, this is expected to lead to a loss at Cover-More during 2020.
- Travel insurance underwritten by Zurich will be affected by lower sales and an increased number of claims resulting from the COVID-19 outbreak. These are expected to be in a low triple digit USDm range for FY-20. The continuing nature of the event means that it is subject to significant uncertainty. This estimate relates solely to claims related to COVID-19 and does not include any broader positive or negative impacts resulting from lower economic activity.

# Additional commentary

## SLIDE 16

- The Group determines that there is objective evidence of impairment of an available-for-sale- equity security, if at the reporting date
  - its fair value is below the weighted-average cost by an amount significantly exceeding the volatility threshold determined quarterly for the respective equity market, or
  - its fair value has been below the weighted-average cost for a prolonged period of 24 consecutive months or longer.
- Declines in financial markets are expected to have an impact on average asset balances within the Group's unit-linked life insurance business with a resulting adverse impact on levels of fee income.
- Lower expected revenues, in particular in relation to unit-linked life business, also have the potential to lead to accelerated amortization of deferred acquisition costs.



# For further information

## CALL US

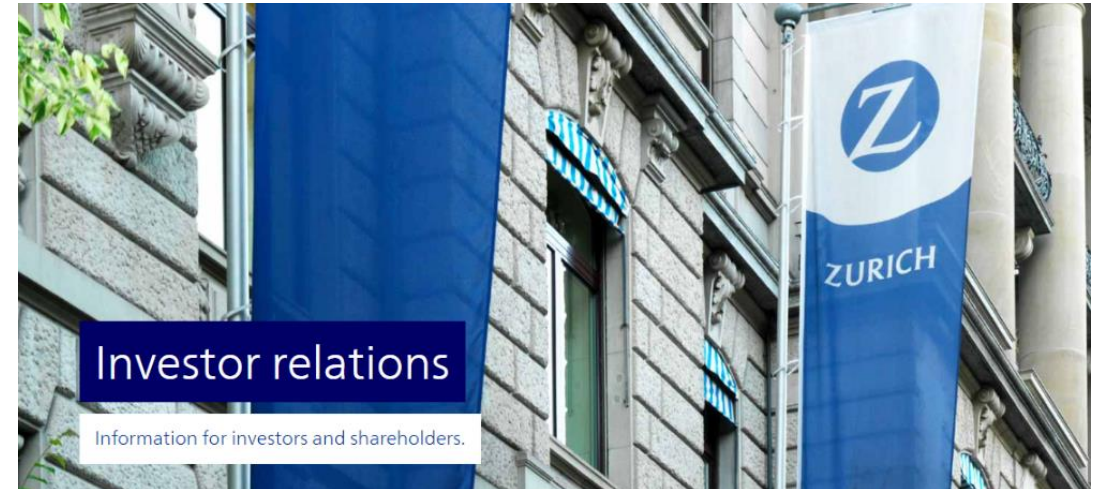
### Investor Relations and Rating Agency Management

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## CALENDAR

- August 13, Half year results 2020
- November 12, Update for the nine months ended September 30, 2020
- February 11, 2021, Annual Results 2020

