Commentary on annual results 2020

Slide 3: Key messages

The Group's results demonstrated a strong performance against a challenging backdrop of the global pandemic, recession and elevated natural catastrophes, with growth in business operating profit returning in the second half of the year. Business operating profit (BOP) of USD 4.2 billion compared with USD 5.3 billion in 2019. The decline in earnings was largely due to COVID-19 related impacts of USD 852 million and USD 588 million of higher catastrophe losses than in the prior year, which were only partially offset by continued improvement in the underlying performance and a strong investment performance from the Group's hedge fund portfolio. Net income after tax attributable to shareholders of USD 3.8 billion declined 8% compared to the prior year with higher levels of capital gains offsetting much of the decline in business operating profit.

The Group has continued to execute on all strategic priorities underlying the Group's customer focused strategy, while adapting to the steadily evolving circumstances.

The Group grew its customer base in 2020 and customer satisfaction, as measured by net promoter scores (NPS), increased across the Group's major retail markets reflecting the Group's rapid and flexible response to the pandemic. This included the prompt payment of claims as well as a wide range of financial relief measures and the provision of risk-management advice. The Group's proactive response to protect employees throughout the pandemic also led to record levels of employee satisfaction.

The Group continued to implement its digital strategy which aims to meet customer expectations for improved convenience and flexible solutions, while also improving efficiency. This included the roll out of additional digital tools and offerings for agents and customers, while also launching the first product offering of the newly established Global Business Platforms unit. The Group also continued to develop its successful distribution partnership strategy with the extension of the distribution agreement with Deutsche Bank in Germany as well as concluding several other agreements with distribution partners. The strength of the Group's balance sheet allowed the Group to take advantage of acquisition opportunities to further strengthen the Farmers business through the acquisition of MetLife's U.S. P&C business which will add further stable fee-based earnings to the Group through Farmers Management Services over the coming years.

The impact of the COVID-19 outbreak has remained an earnings event. P&C claims net of reinsurance and related frequency reductions were USD 450m for the full year, in-line with the level indicated with the first half results. Including the impact on Life, Farmers and other parts of the Group, the overall impact from COVID-19 was USD 852m for the year. The Group's results were also impacted by a range of other effects including reduced revenue growth, lower reinvestment rates and foreign exchange movements linked to economic developments following the outbreak which have not been included.

Property & casualty (P&C) saw further strong improvement over 2020. Gross written premiums grew 4% on a like-for-like basis driven by growth in commercial insurance of 7%, while retail business remained broadly stable. Prices increased over the year, with all regions showing an improvement driven by commercial insurance. The accident year combined ratio excluding catastrophes improved by 2.6 percentage points after adjusting for the distorting effects of COVID-19. Following the improvements to the commercial portfolio during 2016-2019, the group is well placed to benefit further from the continuation of the strong pricing trends which are expected to continue into 2021.

The Group's life business returned to growth in the second half of the year with full year BOP adjusted for COVID-19 related impacts up 7% following the recovery in financial markets over the second half and improved performance within the Australian life business. The second half also saw an improved performance at Farmers Management Services, with BOP on a similar level to the second half of 2019, while higher mortality led to a reduction in earnings at Farmers Life.

The Group's balance sheet is strong. The Group's Swiss Solvency Test (SST) ratio based on standard yield curves as allowed by the Swiss Financial Market Supervisory Authority FINMA was estimated at 182% as of December 31, in-line with the Group's revised target for capital management. The Z-ECM is estimated to be in the upper half of the 100-120% range. The Group retains an AA- rating with positive outlook from Standard and Poor's. Cash remittances of USD 3.4bn for the year were in-line with prior year.

For 2020, the Group proposes to pay a stable dividend of CHF 20 per share.

Slide 4: Key highlights – Actions during the crisis have earned the trust and confidence of our stakeholders, while our ESG approach is well recognized

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 year the Group contributed in excess of USD 100m to support customers through premium refunds, payment holidays and other forms of support, while the Farmers Exchanges provided in excess of USD 300m of premium credits to motor insurance and SME customers. In addition to direct financial support given to customers, the Group has supported customers adapt their businesses to the changed situation, while the Group's Z Zurich Foundation continued to support local initiatives and charities around the world.

Together with the continued execution of the Group's customer focused strategy this led to further improvement in the level of customer satisfaction in the Group's larger retail markets as measured by the net promoter score.

In order to protect employees, the Group implemented widespread working from home through much of 2020. Throughout this significant change the Group continued to operate without interruption. The support provided was reflected in record employee net promoter scores.

In line with the Group's stated ambition to be known as one of the most responsible and impactful businesses in the world, the Group continued to progress its environmental, social and governance (ESG) strategy with a range of initiatives including new services to support customers with the transition to a low carbon economy as well as initiatives to provide employees with the skills to manage a changing work environment.

The Group also launched the Zurich Forest, a program sponsoring the not for profit organization Instituto Terra to plant one million seedlings on 1,730 acres in Brazils Atlantic Forest to restore biodiversity in an area that had seen deforestation. In recognition of the delivery of the Group's ESG strategy, Zurich was recognized as the number one insurer in the Dow Jones Sustainability Indices, while retaining leading ratings from a range of other ESG focused organizations.

Slide 5: Key highlights – We are executing on our customer focused strategy and have continued executing on strategic priorities

During the year, the Group continued to develop its successful bancassurance and distribution partnership strategy. The long-standing agreement with Deutsche Bank was extended until 2032 and broadened to cover customers of Deutsche's subsidiary PostBank as well as concluding several other agreements with distribution partners.

The Group continued to digitalize the business to meet the expectations of customers for improved convenience and flexible digital solutions while increasing efficiency. Initiatives during the year included the further enhancement of digital tools for agents across the Group, the rollout in additional markets of digital claims solutions such as virtual claims assessments via smartphone and remote risk assessments by the Group's risk engineers. In order to support the further development of digital services the Group announced the establishment of Global Business Platforms, while appointing Ericson Chan to the Group Executive Committee as Group Chief Information and Digital Officer. 2020 also saw the Group launch a range of new innovative propositions including Climate Change Resilience Services, which aims to support customers' climate transition; and LiveWell, a global platform providing health and wellbeing services.

Through the strength of the Group's balance sheet, the Group was also able to take advantage of market opportunities to further strengthen key businesses. In December, the Group announced the acquisition by Farmers of MetLife's U.S. P&C business. This transaction will further strengthen the Farmers Exchanges footprint and distribution capabilities and is expected to lead to a further increase in stable fee-based earnings for the Group.

Slide 6: Key highlights – Significant improvement in second half of the year

The second half of the year saw a recovery across the Group's business with business operating profits returning to growth despite continued elevated catastrophe losses and ongoing effects from the COVID-19 outbreak with the improvement driven by the P&C and life businesses which grew 9% and 10% in the second half of the year.

The development was supported by a recovery in top-line growth with P&C GWP growing 6% in the second half of the year, while life APE sales were only slightly below the prior year level compared to a 25% decline in the first half of the year. At Farmers the Managed Gross Earned Premium Margin returned to a more normal level of 7% from the first half's 6.6% which was impacted by customer rebates for which expenses had already been incurred with a reduced decline in gross written premiums.

The Group's accident year combined ratio ex-catastrophes and adjusting for the distorting impact of COVID-19 improved by 4.4 percentage points in the second half of the year compared to the prior year period, reflecting the earn through of recent price increases into results. The first half year showed a reduction of 0.7 percentage points. Compared to the first half of the year the ratio of the second half was 1.7 percentage points lower.

Slide 7: Key highlights – We have adapted plans to the changed environment and expect to meet our 2020 – 2022 targets

The Group reacted quickly to adapt its plans to reflect the changed macro-economic conditions brought on by the global pandemic and continues to expect to meet the targets for the 2020-2022 period as outlined at the 2019 investor day.

The more favorable commercial insurance pricing environment over 2020 and the anticipated continuation of this through 2021 is expected to have a more positive impact on the development of the business operating profit after tax ROE than previously indicated.

Offsetting this favorable development are a reduced benefit from growth in the business and associated productivity together with an increase in the headwind from the fall in investment yields.

Slide 8: Key highlights – A leading global commercial insurer with strong growth, improved pricing and terms and conditions

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.

In FY-20, Commercial Insurance, which represents 66% of the Group's P&C gross written premiums, continued to see growth. Gross written premiums increased 7% on a like-for-like basis adjusted for currency movements and acquisitions and disposals. Growth was driven by strong rate increases which were partially offset by reduced exposures and non-renewed business as the Group continued focus on portfolio quality and customers actively managed their insurance spend.

In North America rate increases in commercial insurance were up 17% in the full year, with most lines of business seeing significant increases with the principal exception of workers compensation, where rate increases turned moderately positive after several years of slight declines. In Europe, Middle East and Africa (EMEA) price increases also saw an acceleration during the year in commercial insurance as price increases continued to broaden out across the region having been led by the UK. In Asia Pacific and Latin America commercial insurance rates also accelerated throughout the year, with rate increases of 12% and 8% respectively in 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 9: Key highlights – Retail business has been resilient with GWP recovering in the second half but travel business faces a slow recovery

The Group's retail and SME business, which represents 34% of P&C gross written premiums, remained resilient throughout the year, with gross written premiums down 2% on a like-for-like basis adjusted for currency movements and acquisitions and disposals, with growth recovering in the second half of the year. The decline was entirely driven by the travel insurance business in Asia-Pacific and extended warranty in Latin America. Excluding these, retail and SME gross written premiums were up 2% year on year. Within the Group's retail and SME business rates saw a 1% increase.

Investments in fully digitizing the Group's agents yielded results with businesses such as the Group's Swiss retail business seeing growth throughout the year, 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 10: Key highlights – Life business well positioned with limited exposure to traditional saving business

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 2020, the protection, unit-linked or corporate savings business accounted for 88% of the new business. Only 12% of the Group's new sales related to traditional guaranteed business where the low level of risk-free yields poses significant challenges to profitability.

Slide 11: Key highlights – Stable dividend proposal and on track to meet 2022 targets

2020 was an unprecedented year with high market volatility and uncertainty, the impact of the COVID-19 pandemic, a global recession, and elevated levels of catastrophe losses. Against this backdrop, the Group showed a resilient performance with the Group's balance sheet remaining strong, underlying earnings improvement and continued high conversion of earnings into distributable cash.

Considering all these aspects, the Board proposal to the annual general meeting in 2021 is to pay a dividend of CHF 20 for the year 2020. This translates into a payout ratio of 88%.

The Group is on track to meet the 2020-2022 financial targets. As previously announced with the 9M-20 results, these were updated to reflect the change from Z-ECM to the Swiss Solvency Test for defining the Group's target capital levels. All other targets remain unchanged, with these being;

- 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 SST target capital ratio of 160% or above. From Q4 2020 the basis for the Group's target capital has been changed to the Swiss Solvency Test from previously the Group's internal Z-ECM basis.

Slide 12: 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, while adhering to the Group's goal to be one of the most responsible and impactful businesses.

Slide 14: Group – COVID-19 impact

As indicated previously the overall impact of the COVID-19 outbreak has remained an earnings event for the Group.

The overall net impact on the P&C underwriting result is USD 450m after considering claims and offsetting frequency benefits as well as premium returns and voluntary actions to support customers during the outbreak.

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

- P&C: USD 94 million of losses related to mainly Cover-More and some other P&C impacts. Cover-More is impacted by the sharp reduction in sales as a result of widespread travel restrictions imposed to counter the COVID-19 outbreak. The majority of which is included in the net non-technical result, with a small portion within the underwriting result of APAC.

- Life: USD 117 million of life mortality and disability claims and voluntary actions. Financial market volatility led to an overall impact of USD 57 million, split equally between accelerated amortization of deferred acquisition costs and lower unit-linked fees.

- Farmers: Farmers Management Services recorded a USD 39m impact as a result of reduced fees related to the granting of premium refunds to personal auto and SME customers of the Farmers Exchanges, with no offsetting benefit in terms of costs within FMS. Business operating profit of Farmers Life includes USD 45m of higher mortality related to COVID-19 in the second half of the year and USD 6m relating to an accelerated amortization of deferred acquisition costs.

- Non-core: Financial market movements resulted in a USD 45m impact recognized within the Non-core segment in relation to a book of legacy life liabilities.

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 15: Group – Business operating profit

Overall Group business operating profit recovered strongly over the second half of the year, with BOP in the second half of the year growing 2.1% to leave full year business operating profit 20% below the prior year level as a result of the impact of COVID-19, higher claims from natural catastrophes and adverse FX developments.

EMEA, which saw the greatest net impact from COVID-19, declined 21%. BOP in North America saw a decline of 11%, with both Zurich North America and Farmers contributing to the decline, with this due in part to COVID-19 effects but also as a result of elevated levels of catastrophe losses.

The Group's Asia Pacific business saw a 28% decline in earnings, in part due to losses incurred at Cover-More following the cessation of international travel which impacted demand for travel insurance, weaker underwriting within the Australian P&C business and assumption changes in the Japanese life business, which were only partially compensated by improved performance in the Australian life business.

Earnings in Latin America were less impacted by COVID-19, with the 10% decline in earnings primarily driven by adverse FX movements. At constant exchange rates, the Latin American business grew 16% with growth in both P&C and life.

By business, P&C earnings declined 28% reflecting mainly the impact of COVID-19 net of frequency benefits and higher levels of catastrophe losses, while Life and Farmers declined 4% and 12% respectively largely due to items related to COVID-19.

Slide 16: Group – NIAS

Net income attributable to shareholders (NIAS) fell 8% in the year, driven by the decline in BOP which was compensated primarily by higher realized capital gains on equities and real estate, a positive gain on disposal compared to a loss in the prior year, and lower restructuring and exceptional charges.

The effective tax rate was 23.9% up from 22.5% in the prior year. The increase was driven by a less favorable geographic mix of earnings together with the absence of a one-time favorable benefit in the prior year from Swiss tax reforms.

Slide 17: Group – 2021 outlook

P&C: The Group expects further hardening of pricing over 2021 with price increases expected to remain ahead of loss cost inflation over the year. Based on FX rates as at the end of January 2021 this is expected to lead to mid-single digit growth in net earned premium over the year.

Continued low reinvestment rates are expected to lead to further erosion of P&C investment income excluding fair value gains on hedge-funds, with the decline in 2021 expected to be in the region of USD 50-100m.

The P&C net non-technical loss, which also includes around two thirds of Cover-More's earnings, is expected to remain elevated in 2021 at around USD 250m.

Life: Mortality related to COVID-19 expected to remain elevated in first half of the year across both the Zurich and Farmers life businesses. Subject to market developments and based on FX rates as at the end of January 2021, life BOP excluding Farmers is expected to grow in a mid to high single digit range in 2021.

Farmers: Gross written premium development at the Farmers Exchanges before the inclusion of MetLife's US P&C business is expected to be in the mid-single digits, while on the same basis the Managed Gross Earned Premium margin of Farmers Management Services (FMS) is expected to recover to around 7%.

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 2021, restructuring charges and other costs recognized outside of BOP are expected to be around USD 300 million including restructuring charges related to the acquisition of MetLife's U.S. P&C business as outlined at the time of the announcement of the acquisition.

Tax: Based on current global tax rates, the Group effective tax rate for 2021 is expected to be in the range of 24-25%.

Slide 18: P&C – Top line

Gross written premiums in Property & Casualty (P&C) for 2020 increased 4% in U.S. dollars and on a like-for-like basis, after adjusting for currency movements and closed acquisitions and disposals. Growth was driven by EMEA and North America.

Growth was supported by higher premium rates in commercial insurance, which accelerated during the year across all regions and are expected to remain strong over 2021.

Net earned premiums for the year were up 2% on a like-for-like basis and 3% in U.S. dollars, with growth lagging gross premiums due to the earn through of premium rates.

In EMEA, gross written premiums increased 6% on a like-for-like basis. Growth was primarily driven by commercial insurance with growth across all major markets and benefiting from rate increases as well as improved retention. Retail gross written premiums increased modestly year on year, benefiting from a recovery of sales in the second half.

North America grew 5% compared to the previous year on a like-for-like basis, with growth driven mainly by rate increases. Growth was driven by strong rate increases which were partially offset by reduced exposures and non-renewed business as the Group continued focus on portfolio quality and customers actively managed their insurance spend.

In Asia Pacific, gross written premiums decreased 11% on a like-for-like basis, with growth in Japan offset by the reduction in travel insurance sales as a result of the COVID-19 outbreak.

Gross written premiums declined 2% on a like-for-like basis in Latin America, with lockdown measures and reduced economic activity impacting sales in the extended warranty business.

Slide 19: P&C – BOP components

FY-20 P&C BOP was USD 2,080 million, 28% lower than in the previous year. The decline was mainly driven by the impact of the COVID-19 outbreak, higher catastrophe losses than in the previous year, as well as a lower investment result.

The overall impact of the COVID-19 outbreak on P&C was USD 544 million. This includes USD 450 million of claims, net of frequency benefits and premium refunds, as well as USD 79 million of operating loss incurred by Cover-More, the majority of which is booked in the net non-technical result, and USD 15 million of additional impacts such as voluntary contributions to solidarity funds.

The year also saw an elevated level of catastrophe losses. This was due to an active Atlantic storm season with hurricanes Hanna, Isaias, Laura and Sally making landfall in the United States, a series of other weather events in both North America and Europe, as well as claims resulting from civil unrest in the United States.

Overall catastrophe losses were USD 491 million above normal levels based on an assumed 3.5 percentage points of catastrophes within the loss ratio.

Investment income was USD 220 million below prior year, with reductions primarily in EMEA and North America, driven by lower investment yields and adverse currency movements in Latin America. The Group's hedge fund portfolio performed strongly leading to realized capital gains of USD 305 million which were USD 94 million higher than in the previous year.

The net non-technical loss of USD 302 million was USD 171 million worse than in the previous year. The deterioration was driven by USD 46 million of non-technical loss in Cover-More, USD 17 million of contributions to solidarity funds, USD 35 million of non-recurring charges in EMEA, and lower income from cash and cash equivalents.

Slide 20: P&C – Combined ratio details

The FY-20 combined ratio of 98.4% was 2 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 2.6 percentage points.

The accident year loss ratio excluding catastrophes improved by 3.8 percentage points compared to FY-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 totaled 8.5% in the full year, or 5.3% excluding the USD 821 million of COVID-19 claims. This compares to a normal expectation of around 3.5% on an annual basis.

Prior year development of 1.6% was in the middle of the indicated 1-2% range. Overall, the Group's reserve strength remained stable over the year.

The expense ratio of 32.0% was in line with the previous year, with underlying improvement dampened by the volume impact of premium refunds related to the COVID-19 outbreak.

Slide 21: P&C – Combined ratio by segment and customer unit

In EMEA, the accident year combined ratio ex-catastrophes improved by 1.5 percentage points 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 89.0% driven by a lower loss ratio benefitting from the earn through of rate increases. Crop insurance accident year ex-catastrophes combined ratio improved compared to FY-19 to 100.0%, however remained above the normal expectation of around 95% due to a combination of prevented planting in North Dakota and South Dakota, wildfires, hurricanes and other weather events. Normalizing for crop performance in both years, North America accident year combined ratio ex-catastrophes improved by 4.8 percentage points in FY-20, after removing COVID-19 impacts.

The Asia Pacific accident year combined ratio ex-catastrophes and excluding COVID-19 impacts was 94.4%, 0.4 percentage points below prior year, with the improvement driven by commission ratio reflecting reduced travel insurance volumes.

In Latin America, the accident year combined ratio ex-catastrophes and excluding COVID-19 impacts was 98.2%, broadly in line with the previous year.

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 by 4.6 percentage points, primarily due to North America.

For the Retail and SME business, the accident year combined ratio excluding catastrophes and COVID-19 impacts was 93.7% for FY-20, broadly in line with the previous year.

Slide 22: P&C – Investment result

Investment income was USD 220 million below prior year primarily due to lower investment yields. Realized capital gains of USD 305 million were USD 94 million above the 2019 result mainly driven by a strong hedge funds performance in the second half of the year.

The book yield for debt securities reduced by 27bps to 2.5% while reinvestment rates on debt securities further decreased to 1.6% in 2020. The gap between book yield and reinvestment rate for debt securities increased from 41bps to 91bps throughout the year mainly as a result of reductions in yields across the Group's major geographies.

Slide 23: Life – Business operating profit

Life BOP for FY-20 was USD 1,423m, 4% below the prior year. Excluding COVID-19 effects of USD 173m life BOP grew 7% despite adverse movements in exchange rates and lower contributions from favorable one-off items mainly in EMEA. As anticipated at the time of the half year results, Life BOP saw a recovery in the second half of the year driven mainly by APAC and EMEA.

In EMEA, FY-20 BOP was impacted by the COVID-19 outbreak, mainly in the UK and to a lesser extent in Switzerland and Zurich International. On a reported basis BOP decreased by 9% compared to the prior year.

Adjusted for COVID-19, BOP was up 6% mainly driven by Switzerland and the joint venture with Banco Sabadell in Spain.

In Latin America, BOP decreased 19% on a reported basis and was up 4% in local currency, mainly driven by favorable results in Chile and Argentina partially offset by higher COVID-19 claims in Zurich Santander.

Asia Pacific contributed a BOP of USD 269m, up 32% vs the prior year. The performance in the second half improved significantly with BOP up USD 101m in the second half of the year compared to the prior year, mainly driven by improved performance within the Australian life business.

In North America, which excludes Farmers Life, business operating earnings increased by USD 17m due to favorable claims experience more than offsetting the absence of a favorable one-off item in the prior year.

Slide 24: 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 89% 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 1% in 2020 compared to the prior year mainly driven by the inclusion of a full year contribution of OnePath Life in Australia. Growth in the other regions was offset by adverse exchange rate movements especially in Latin America.

The investment margin decreased 17% mainly driven by higher policyholder sharing and lower investment income in Germany compared to the prior year.

The technical margin declined 5% on a reported basis driven by higher mortality claims mainly in the UK. Excluding the COVID-19 impact the technical margin increased 6% mainly driven by favorable results among various countries in EMEA and Latin America.

On the expense side, operating costs excluding the COVID-19 impact increased by 4%, reflecting mainly the inclusion of OnePath Life in Australia. Excluding the COVID-19 impact, acquisition costs net of deferrals improved by 8%, mainly driven by a lower level of acquisition costs.

Slide 25: Life – Premiums, net inflows and assets under management

In the Group's Life business, gross written premiums and deposits were down 18% in FY-20 compared to FY-19 on a reported basis, and down 4% on a like-for-like basis, adjusting for currency movements, acquisitions and disposals. All regions saw growth on a like-for-like basis with the exception of EMEA.

Net inflows of USD 4.3bn were USD 2.0bn lower than in the prior year. On a like-for-like basis net inflows were down USD 1.3bn, mainly driven by EMEA, which benefitted from one-time inflows in Switzerland in 2019.

Assets under management (AuM) increased 10%. Net inflows contributed around 2% to this growth, with currency and market movements contributing the balance.

Slide 26: Life – New business and new business mix

In 2020, Life new business annual premium equivalent (APE) sales decreased 7% on a like-for-like basis, adjusting for currency movements, acquisitions and disposals. The decline in sales was largely driven by government-imposed restrictions related to the COVID-19 outbreak and expected reductions in several markets from exceptional levels in 2019. On a reported basis APE was 16% lower.

In EMEA APE sales in 2020 decreased by 12% on a like-for-like basis compared with 2019. The decline was mainly driven by a reduction in corporate pensions business in Switzerland following exceptional sales in the previous year, and by lower savings business in Italy, Portugal and for the joint venture with Banco Sabadell in Spain, partly as a result of the COVID-19 lockdowns throughout the year. APE sales saw a recovery over the second half of the year.

APE sales in Latin America increased 8% on a like-for-like basis, following a strong second half performance with APE growth of 16%. Higher sales of unit-linked and individual protection business at Zurich Santander were partly offset by lower sales volumes in Chile and corporate protection business across the region.

In Asia Pacific APE sales decreased 21% on a like-for-like basis, reflecting lower sales volumes in Japan, Malaysia and Indonesia, mainly driven by the outbreak of COVID-19.

In North America APE sales were 8% lower than in the prior year due to reduced sales of corporate protection business in the first quarter and lower individual protection sales in the fourth quarter.

The new business margin remained on an attractive level at 25.1% as reported or 24.9% on a like-for-like basis. New business value (NBV) decreased 16% on a like-for-like basis, driven by lower new business volumes, unfavorable economic assumption changes due to lower yields in EMEA and operating assumption changes impacting mainly Australia and Japan. On a reported basis NBV declined 19%.

The Group continues to focus on protection, unit-linked and corporate savings business, with these products accounting for 88% of APE sales. Protection business contributed 80% of the overall NBV.

Slide 27: Life – Investment result

Life investment result, which is gross of policyholder sharing, decreased by 15% to USD 3.2bn in U.S. dollars, driven mainly by lower realized capital gains in the first half of the year compared with 2019.

Slide 28: Farmers Exchanges – Overview

Gross written premiums at the Farmers Exchanges decreased 3%. Excluding USD 311m of COVID-19 related premium credits and lower volumes of commercial rideshare business following measures initiated by U.S. states in response to the COVID-19 outbreak, gross written premiums were broadly flat.

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

The combined ratio of the Farmers Exchanges increased 0.7 percentage points to 100.7% mainly driven by a 3.7 percentage points increase in catastrophe losses partially offset by higher frequency benefits.

The strong performance of financial markets over the second half of the year led to an increase in surplus of the Farmers Exchanges to a modern-day record high of USD 6.2bn with the surplus ratio increasing 1.8 percentage points to 43.3%.

Slide 29: FMS – Overview

Farmers Management Services (FMS) BOP decreased 6% compared to the prior year. This was mainly driven by reduced fee revenues as a result of USD 311m of premium credits to customers at the Farmers Exchanges in the first half of the year. As a result, the managed gross earned premium margin for the year was 6.8%, with the second half having returned to the usual level of 7%.

The result was also impacted by lower investment income as a result of decreasing investment yields and an unfavorable mark to market impact on a deferred compensation plan compared with a favorable impact in the prior year.

Slide 30: Farmers Life and Farmers Re – Overview

Farmers Life BOP of USD 100m was 58% lower than in the prior year. The result was mainly driven by higher mortality compared with a favorable experience in the prior year and annual assumption updates. This includes USD 45m of claims related to COVID-19 and USD 6m relating to an accelerated amortization of deferred acquisition costs. Mortality experience saw a sharp deterioration over December 2020 which has continued into the first weeks of 2021.

Farmers Life new business APE was 9% lower than in the prior-year period, while new business value increased 31% mainly driven by lower swap rates.

Farmers Re BOP of USD 26m was USD 11m higher than in the prior year driven by an improved loss ratio.

Slide 31: Group Functions and Operations & Non-Core Businesses – BOP

The business operating loss reported under Group Functions and Operations improved by USD 7 million to USD 709 million. This was driven by a USD 96 million reduction in Holding and Financing costs due to lower interest expenses, partially offset by an increase in headquarter expenses compared to the prior year as a result of increased investments in innovative new business propositions, and cyber security.

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 54m driven by adverse developments in a legacy life portfolio as a result of the COVID-19 outbreak.

Slide 32: Group – Solvency

Following improvements to the quarterly estimation process for the SST ratio, the Group revised its Q3 estimate of the SST ratio from 193% to 185%. Other capital metrics were not impacted by this change. Z-ECM at December 31 is estimated at 115%, an increase from the Q3-20 figure of 110%.

As of December 31, the Group's Swiss Solvency Test (SST) ratio based on standard yield curves as allowed by the Swiss Financial Market Supervisory Authority FINMA was estimated at 182%, in-line with the Group's revised target for capital management.

During the fourth quarter, the ratio benefited from operational capital generation of 6 percentage points and 7 percentage points from favorable financial markets primarily as a result of tightening credit spreads and positive equity market development. These positive impacts were more than offset by increased capital consumption in anticipation of higher expected growth over 2021 of 3 points, experience variances and assumption changes of 6 points, and 3 points related to capital actions including the accrual of the Group's dividend and some other items.

Slide 41 shows the development of the SST for the full year 2020. Over the year, the Group's SST ratio reduced by 40 percentage points. Underlying operating capital generation net of incremental capital for growth equated to 20 points in the year was partially offset by 4 points of COVID impact and higher than normal levels of natural catastrophes. Market movements led to a 45 points reduction in the ratio reflecting 24 points from lower yield curves, and 16 points from higher interest rate and equity volatility. Capital actions including hybrid issuances and the accrual of the FY-20 dividend further reduced the SST ratio by 12 points in the year.

Slide 33: Group – Solvency target

As indicated with the nine-month results, the Group will report solely on SST going forward and has introduced a new target capital on this basis.

Over time the relationship between the Group's Swiss Solvency Test ratio and the previously reported Z-ECM ratio has varied in a range of 1.6x to 1.8x. As a result, the previous Z-ECM based target of 100-120% is replaced by a revised target of "160% or above" based on the SST.

The SST is in general more conservative than Solvency II as used by peers in the European Union. For the Group's business in the European union it is estimated that the Solvency II ratio would be around 90 percentage points higher than the SST ratio for the same units.

Slide 34: Group – Balance sheet and capital structure

Shareholders' equity increased by USD 3.3bn mainly driven by an increase of USD 1.8bn in net unrealized gains and net income of USD 3.8bn partly offset by the payment of the Group dividend of USD 3.1bn in the second quarter. Other items including foreign currency translation adjustments contributed a further USD 0.7bn to shareholders' equity for FY-20.

The structure of the Group's capital remained stable over 2020.

Slide 35: Group – Cash Remittances and dividend proposal

During 2020, the Group continued to successfully convert earnings into distributable cash with overall Group remittances of USD 3.4bn on the same level as in the prior year level and equivalent to 90% of net income attributable to shareholders, slightly above the Group guidance of 85%.

During the year the level of remittances was driven both by operational earnings and remittances of excess capital that had built up over time from previously retained earnings in certain business units. Cash remittances from P&C were at a similar level to the previous year reflecting the remittance of excess capital from North America which offset impacts from COVID-19. Smaller variances in other businesses offset each other.

In line with the stated dividend policy to pay a dividend of ~75% of net income subject to a floor of the prior year level, the Board proposal to the AGM is to pay a stable dividend of CHF 20 per share, with the dividend paid fully out of available earnings.

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