ZURICH

Risk review

Annual results 2023

Zurich Insurance Group

Message from our Group Chief Risk Officer

Proactive risk management has been central in enabling the Group to become accustomed to operating in today's highly uncertain and volatile environment.

Dear Shareholder

The uncertainty of recent years persisted in 2023, with the year dominated by a continued rise in geopolitical tensions and the ongoing challenge of bringing inflation under control in major economies.

The Group has become accustomed to operating within this volatile and uncertain external environment as it continued to deliver on its strategic objectives and remained financially robust in 2023. Managing risks has been at the center of this success, enabling the Group to adapt quickly to identify, assess and manage the threats arising from today's uncertain and rapidly changing world.

This foundational role has been attained by firstly providing all our employees with the right level of information to continue to take risks within the Group's appetite and tolerance, and secondly embedding a culture, driven by a deep understanding of risks, where risk-reward trade-offs are transparent, understood and appropriately managed.

Message from our Group Chief Risk Officer (continued)

Effective risk identification and assessment to help protect our capital, liquidity, earnings and reputation remains more critical than ever in such a volatile operating environment. Our integrated Enterprise Risk Management framework, and in particular, the ongoing application of our Total Risk Profiling™ methodology preserves our focus on the risks that matter.

While there are, and will continue to be, significant and unexpected external challenges, our proactive risk management is a solid foundation upon which the Group can continue to build on its success in the years to come.

Responding to uncertainty

The recent turmoil in the Middle East adds to an increasingly fraught geopolitical landscape already complicated by the ongoing war in Ukraine, rising tensions between the U.S. and China and the reawakening of frozen conflicts.

These deteriorations are interlinked with, and are exacerbating, existing problems such as social polarization and cyber warfare, as well as driving further uncertainty in the global economy.

While central bank actions have helped to tame inflation somewhat, the impact of the unwind of expansionary monetary policy since the financial crisis on key economies remains unclear. Despite these policy reversals, inadequate preparation, competing interests and historic policymaking mean underlying challenges around high public debt and social imbalances remain largely unchanged.

The current uncertain and volatile environment means our expertise and tools, such as dynamic scenario and sensitivity analyses, to assess and proactively manage potential impacts, are more important than ever. We continue to use the output of scenario assessments, to develop, implement and monitor actions for the benefit of our customers, shareholders and other stakeholders.

Sustainability

The interlinkages between the challenges highlighted thus far also feed through to the main long-term threat facing the world: climate change. Despite the current geopolitical, economic and social upheaval, the Group continues to maintain its focus on its sustainability ambitions, with management of risks posed by climate change remaining a central part of Zurich's risk management approach.

The scale of the challenge we face means a cross-society approach is required. Zurich is playing its part in responding but also aims to adapt and grow with its customers and investees by continuing to promote best practices in managing the interconnectivity of sustainability risks.

Strong financial position

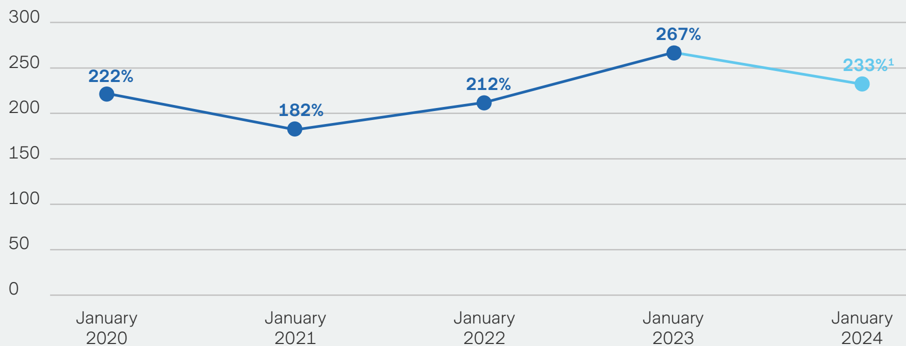
Our financial strength remained at historically strong levels during 2023 (see page 9 for Swiss Solvency Test results), reaffirming our resilience and ability to continue to support our customers through these volatile and uncertain times.

Peter Giger
Group Chief Risk Officer

Development of Swiss Solvency Test ratio

The Group Swiss Solvency Test (SST) ratio decreased to 233 percent[1] as of January 1, 2024 from 267 percent as of January 1, 2023. The development of the SST ratio in 2023 reflects strong underlying capital generation offset by portfolio management and capital actions including share buy back.

SST ratio
in %



1 The SST results as of January 1, 2024 are estimated and may differ from the final SST results, which will be presented in the Financial Condition Report at the end of April 2024.

Analysis of Group total risk capital
in %, as of January 1, 2023

Insurance risk	44%
Market risk, including investment credit risk	54%
Other credit risk	2%

Highlights by risk type

Insurance risk

The Group's insurance risk is diversified by geography, line of business, product and customer, supported by our centralized purchase of reinsurance which led to continued sound insurance outcomes in 2023 in the face of natural catastrophes and the inflationary environment.

Read more:
▶ Pages 13–19

Market risk

Required capital held by the Group for investment risk taking rose during 2023. This was largely driven by changed market conditions, including higher equity markets and a weaker USD against major currencies. Model changes contributed to the increase in risk. Market volatilities have remained relatively stable against the prior year. The Group's investment portfolio remains well diversified across risk drivers and geographies.

Read more:
▶ Pages 20–25

Other credit risk

Credit quality remained stable despite challenging macroeconomic and geopolitical conditions.

Read more:
▶ Pages 25–26

Operational risk

Zurich's operational risk management approach enables the Group to focus on high-priority matters under demanding circumstances.

Read more:
▶ Pages 27–28

Risk review

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The risk review information marked 'audited' is an integral part of the consolidated financial statements.

Risk management

Audited

The risk review information marked 'audited' is an integral part of the consolidated financial statements.

Audited

Objectives of risk management

Taking and managing risk is an integral part of the insurance business. Zurich takes risks in order to support the achievement of its strategy and serve its customers in global and local markets. Risk management contributes to enhancing the value of Zurich by embedding disciplined and conscious risk taking, where risk-reward trade-offs are transparent and understood, and risks are appropriately rewarded.

The Group's objectives in managing risks are to:

- Support achievement of its business strategy and objectives, protect capital, liquidity, earnings and reputation by identifying, assessing, responding to, monitoring and reporting risks in line with the Group's risk appetite and tolerance.
- Enable the Board of Directors (the 'Board'), senior management and other stakeholders charged with governance and oversight, to discharge their risk management responsibilities, including risk reporting and external disclosures.
- Support transparency in decision-making processes by providing consistent, reliable and timely risk information.
- Embed a culture of risk awareness and disciplined and informed risk-taking.

Enterprise Risk Management framework

To achieve its risk management objectives, the Group manages risk according to an established Enterprise Risk Management (ERM) framework. The Group's ERM framework is the structure to manage risks within the organization. It is comprised of six components: risk governance and risk culture, risk appetite and tolerance, risk identification and risk assessment, risk response, risk monitoring, and risk reporting. The Group's ERM framework is documented by both policy and non-policy documents, including the Zurich Risk Policy (ZRP) and related risk policy manuals, and is complemented by training and guidance materials.

The Group's risk appetite and tolerance statement reflects Zurich's willingness and capacity to take risks in pursuit of value creation and sets boundaries within which the businesses act. Zurich protects its capital, liquidity, earnings, and reputation by monitoring that risks are taken within agreed risk appetite levels and tolerance limits. The Group regularly assesses and, as far as possible, quantifies material risks to which it is exposed.

The ZRP is a Group policy that articulates Zurich's approach to risks and sets mandatory requirements for risk management throughout the Group. The policy describes the Group's ERM framework and provides a standardized set of risk types. Risk-specific policy manuals provide requirements and procedures to implement the principles in the ZRP.

The Group identifies, assesses, manages, monitors and reports risks that have an impact on the achievement of its business strategy and objectives by applying its proprietary Total Risk Profiling™ methodology. The methodology allows Zurich to assess risks in terms of severity and likelihood, and supports the definition and implementation of mitigating actions. At Group level, this is an annual process, followed by regular reviews and updates by management.

To foster transparency about risk, the Group regularly reports on its risk profile at business, Group, and Board levels. The Group has procedures to refer risk topics to senior management and the Board of Directors in a timely manner.

The Group's solvency position is disclosed on the basis of the Swiss Solvency Test (SST) ratio. The Group's SST internal model is approved by the Swiss Financial Supervisory Authority (FINMA). Zurich's goal is to maintain capital consistent with a 'AA' financial strength rating for the Group, which translates into an SST ratio target of 160 percent or above.

The Group applies the Zurich Economic Capital Model (Z-ECM) as an internal metric. Z-ECM provides a key input into the Group's planning process as an assessment of the Group's economic risk profile.

Risk-based remuneration

Based on the Group's remuneration rules, the Board of Directors approves the design and structure of remuneration arrangements that support the achievement of strategic and financial objectives, without encouraging inappropriate risk-taking.

Group Risk Management's role in respect of remuneration and its interaction with Board committees is described in the remuneration report.

Risk management (continued)

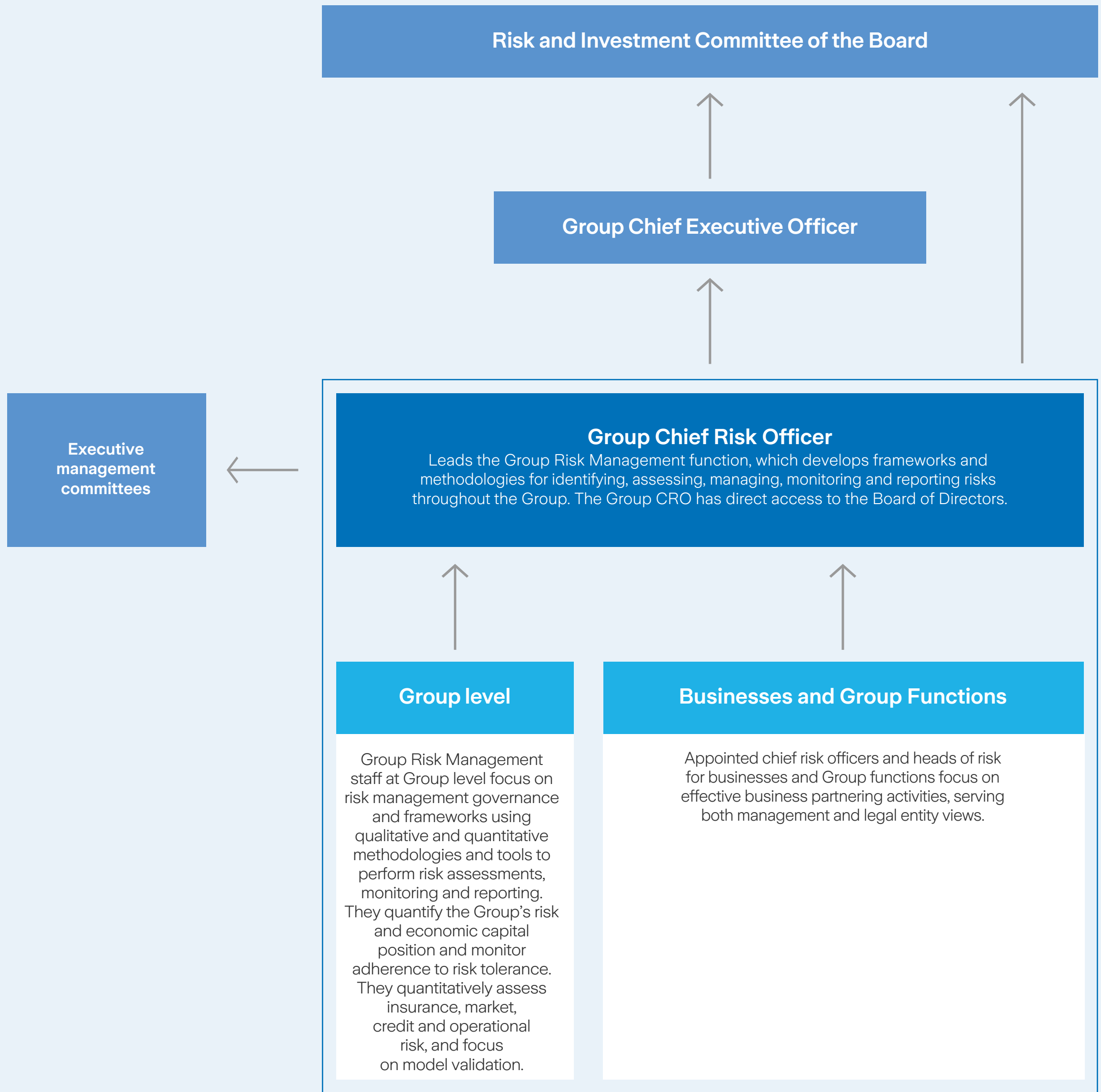
Audited

Risk governance and risk management organization

For information on the Group's overall governance, including the Board of Directors and Group executive level, see the corporate governance report (unaudited).

Risk management organization

The Group Risk Management function is a global function, led by the Group Chief Risk Officer (CRO).



The Group has committees covering oversight activities that encompass major business areas. The committees review certain risk management matters for their respective areas. At Regional and Country level, these oversight activities are conducted through risk and control committees.

The risk function is independent of the business by being a vertically integrated function. Unless otherwise required by local laws or regulations, chief risk officers and heads of risk report into the Group CRO, except for the Farmers Chief Risk Officer, who has a matrix reporting line to the Group CRO. They independently challenge, support and advise management on business decisions from a risk perspective.

Capital management

Audited

Objectives of capital management

The Group manages capital to maximize long-term value while maintaining financial strength within its 'AA' target range, and meeting regulatory, solvency and rating agency requirements.

As of December 31, 2023, shareholders' equity based on IFRS Accounting Standards of USD 24.9 billion and subordinated debt of USD 8.6 billion were part of the capital available in the Group's SST available financial resources (AFR). Further adjustments to derive SST AFR typically include deductions for proposed dividends and share buyback, goodwill and intangible assets, deferred tax assets and liabilities, as well as the market-consistent valuation of insurance liabilities, which includes market value margin (MVM) and the value of in-force business. The MVM, also known as risk margin, is the cost of future regulatory risk capital stemming from the present portfolio of assets and liabilities.

Zurich strives to simplify the Group's legal entity structure to reduce complexity and increase fungibility of capital.

From January 1, 2023 the Group applies IFRS 17 'Insurance contracts' and IFRS 9 'Financial Instruments'. For more information including the transitional effects on shareholders' equity from the transition to IFRS 9, refer to note 2 of the Group's consolidated financial statements.

Capital management framework

The Group's capital management framework forms the basis for actively managing capital within Zurich. The Group uses a number of different capital models, taking into account economic, regulatory, and rating agency constraints. The Group's capital and solvency position is monitored and regularly reported to the Executive Committee (ExCo) and Board of Directors.

Zurich's policy is to allocate capital to businesses earning the highest risk-adjusted returns, and to pool risks and capital as much as possible to operationalize its risk diversification.

The Group's executive management determines the capital management strategy and sets the principles, standards and policies to execute the strategy. Group Treasury and Capital Management executes the strategy.

Capital management program

The Group's capital management program comprises various actions to optimize shareholders' total return and to meet capital needs, while enabling Zurich to take advantage of growth opportunities. Such actions include paying and receiving dividends, capital repayments, share buybacks, issuance of shares, issuance of senior and hybrid debt, securitization and purchase of reinsurance.

The Group seeks to maintain a balance between returns for shareholders and the security that a sound capital position provides, also for our customers. Dividends, share buybacks, and issuances and redemption of debt have a significant influence on capital levels. During 2023, the Group:

- paid a dividend out of retained earnings,
- bought own shares, and
- repaid senior and hybrid debt to reduce financial leverage.

The Swiss Code of Obligations stipulates that dividends may only be paid out of freely distributable reserves or retained earnings. Apart from what is specified by the Swiss Code of Obligations, Zurich Insurance Group Ltd faces no legal restrictions on dividends it may pay to its shareholders. As of December 31, 2023, the amount of the statutory general legal reserve was more than 60 times the paid-in share capital. The ability of the Group's subsidiaries to pay dividends may be restricted or indirectly influenced by minimum capital and solvency requirements imposed by insurance and other regulators in the countries in which the subsidiaries operate. Other limitations or considerations include foreign exchange control restrictions in some countries, and rating agencies' methodologies.

For more information on issuances and redemptions of debt, see note 17 of the consolidated financial statements. For more information on acquisitions and divestments, see note 4 of the consolidated financial statements.

Risk and solvency assessment

Audited

Regulatory capital adequacy

The Group endeavors to manage its capital so that its regulated entities meet local regulatory capital requirements. In each country in which the Group operates, the local regulator specifies the minimum amount and type of capital that each of the regulated entities must hold in addition to their liabilities. In addition to the minimum capital required to comply with the solvency requirements, the Group aims to hold an adequate buffer under local solvency requirements to ensure regulated subsidiaries can absorb a level of volatility and meet local capital requirements.

Regulatory solvency regimes

Regulatory requirements in Switzerland

The Swiss Solvency Test (SST) adopts a risk-based and total balance sheet approach. Insurance companies are required to provide a market-consistent assessment of the value of their assets and liabilities. Possible changes to these balance sheet positions are modelled over a one-year period to arrive at the total required capital.

Under the SST, insurance companies and insurance groups can apply to use company-specific internal models to calculate risk-bearing and target capital, as well as the SST ratio. The SST ratio must be calculated as per January 1 and submitted to the Swiss Financial Market Supervisory Authority (FINMA). Zurich filed with FINMA an SST ratio of 267 percent (unaudited) as of January 1, 2023. Zurich met the regulatory solvency requirements in Switzerland throughout 2023.

The estimated SST ratio as of January 1, 2024 stands at 233 percent (unaudited). The final SST ratio as of January 1, 2024 will be filed with FINMA by the end of April 2024 and is subject to review by FINMA.

Regulatory requirements in the European Economic Area (EEA)

The main regulatory framework governing the Group's subsidiaries in the EEA is Solvency II. This is a risk-based capital framework which covers capital requirements (pillar 1), governance and risk management (pillar 2) and reporting (pillar 3). All EEA-based legal entities of the Group use the Solvency II standard formula for their pillar 1 requirements with the exception of Zurich Insurance plc (Ireland) that applies an approved internal model.

Effective January 2, 2024, Zurich Insurance plc moved to Germany, by means of a cross-border conversion under the European Directive on cross-border conversions, mergers, and divisions. In Germany, the company operates as Zurich Insurance Europe AG. The head office move had no material impact on ZIE's organization, customer facing and business activities in the local markets ZIE operates in.

A scheduled review of the Solvency II framework is currently being conducted by the European Insurance and Occupational Pensions Authority (EIOPA) and will entail changes to the standard formula, reporting and introduces new rules around macro-prudential supervision and sustainability. The revised framework is expected to become effective in 2026.

Regulatory requirements in the UK

The United Kingdom left the EU and the EEA on January 31, 2020 and the transition period ended on December 31, 2020, meaning UK regulations can diverge from Solvency II regulatory requirements. As of December 31, 2023 the UK regulations have not materially diverged. However, a review of the regulations (now called Solvency UK) was completed by the UK government in 2022, and this identified a number of areas where the regulations should be amended to better reflect the UK market. In 2023, the PRA and UK HM Treasury have worked to enable some of the UK government's proposals, with the rest of the implementation work expected in 2024.

Regulatory requirements in the U.S.

In the U.S., required capital is determined to be 'company action level risk-based capital' calculated using the National Association of Insurance Commissioners' risk-based capital model. This method, which builds on statutory accounts, measures the minimum amount of capital for an insurance company to support its overall business operations by taking into account its size and risk profile.

Regulatory requirements in other jurisdictions

Every country has a capital standard for insurance companies. Several jurisdictions (e.g., Brazil and Mexico) have implemented approaches similar to Solvency II.

Risk and solvency assessment (continued)

Swiss Solvency Test (SST)

SST ratio

The SST ratio is calculated as the Group's SST available financial resources (AFR) divided by the SST target capital (TC). Following the revision of the Swiss Insurance Supervision Ordinance in 2023, MVM is now part of the market-consistent valuation of insurance liabilities and thus SST AFR. Market value margin, also known as risk margin, is the cost of future regulatory risk capital stemming from the present portfolio of assets and liabilities.

The SST ratio of 233 percent as of January 1, 2024, is well above the Group's SST target of 160 percent. The development of the SST ratio in 2023 reflects strong underlying capital generation offset by portfolio management and capital actions including share buyback. Market movements had a small adverse impact on the SST ratio.

In the SST ratio calculations as of January 1, 2024, no allowance has been made for the planned sale of the German traditional life insurance back book. For more information about the status of this transaction, see notes 4 and 28 of the consolidated financial statements.

SST available financial resources (AFR)

The Group's AFR are derived from the SST net assets. The net assets represent the difference between the value of assets and liabilities according to the market-consistent valuation methodology under SST.

During 2023, the Group's AFR reduced by USD 3.7 billion to USD 34.3 billion as of January 1, 2024, compared to USD 38.0 billion as of January 1, 2023. The main drivers of the AFR decrease in 2023 were capital actions related to the announced share buy back and reduction of subordinated debt, as well as impacts from portfolio management actions and M&A activities.

SST target capital

The Group uses an internal risk model to determine the required target capital (TC).

The Group's TC as of January 1, 2024 amounted to USD 14.7 billion, an increase of USD 0.5 billion compared to USD 14.2 billion as of January 1, 2023, driven by an increase in market risk and insurance risks following unfavorable market movements, and impact from a model change in market risk. Portfolio management actions reduced target capital.

Table 1

Group Swiss Solvency Test (SST) ratio and underlying components

in USD billions	**January 1, 2024[1]**	January 1, 2023
Total risk capital	20.1	19.1
Other effects on target capital (TC)[2]	(5.4)	(4.9)
Target Capital	**14.7**	**14.2**
Available financial resources (AFR)	**34.3**	**38.0**
Of which Market value margin (MVM)	(4.1)	(4.5)
Group SST ratio	**233%**	**267%**

1 The SST results as of January 1, 2024 are estimated and may differ from the final SST results, which will be presented in the Financial Condition Report at the end of April 2024.
2 Other effects are expected business development over the forecasting horizon, additional business costs and FINMA requirements.

Risk and solvency assessment (continued)

Total risk capital by risk type and business segment

The chart below shows the total risk capital, split by risk type and business segment, as of January 1, 2024 and as of January 1, 2023. As of January 1, 2024, the largest components of total risk are market risk and premium and reserve risk, comprising 54 percent and 26 percent of the total risk capital, respectively.

The increase in total risk capital as of January 1, 2024 compared to January 1, 2023 is driven by an increase in market risk and insurance risks following unfavorable market movements and impact from a model change in market risk. Portfolio management actions partially offset the increase in total risk capital.

The contribution of market risk has increased to 54 percent as of January 1, 2024 compared with 50 percent as of January 1, 2023, following an increase in risk. Premium and reserve risk increased, reflecting underlying business growth and foreign exchange rate movements, leading to a slight increase in contribution to the total risk capital.

The reinsurance agreement entered by Farmers New World Life to reinsure the in-force individual life insurance book is the primary driver of the decrease in contribution of Business risk and the reduction in total risk capital in other segments.

Total risk capital, split by risk type and business segment

January 1, 2024
in %

Business segments	
P&C segment	55%
Life segment	42%
Other segments	3%

Risk types	
Market risk	54%
Premium & reserve risk	26%
Business risk	7%
Life insurance risk	5%
Natural catastrophe risk	6%
Other credit risk	2%

January 1, 2023
in %

Business segments	
P&C segment	52%
Life segment	40%
Other segments	8%

Risk types	
Market risk	50%
Premium & reserve risk	25%
Business risk	10%
Life insurance risk	6%
Natural catastrophe risk	7%
Other credit risk	2%

Audited

Methods and assumptions used in the SST sensitivity analysis

The use of SST sensitivities for assessing the nature and extent of risks arising from insurance contracts is deemed appropriate as SST represents a comprehensive framework that takes into account the interdependencies between risks and is used by the Group to assess and manage risks.

The sensitivity analysis provides information on how the Group's SST AFR and solvency ratio are affected by changes in risk variables. The SST AFR and solvency ratio sensitivities are presented before tax and net of external reinsurance.

SST AFR and related sensitivities are evaluated as instantaneous market or insurance shocks. All elements of the economic balance sheet and the required capital sensitive to a market or insurance parameter shock are recalculated. For example, values of all balance sheet and risk components change when foreign exchange moves by 10 percent, however, in a shock to equity markets the P&C net insurance liabilities and risks remain constant.

To assess the SST AFR and ratio sensitivities, SST balance sheet positions are fully revalued under the given shock scenarios. Each instrument is revalued separately, taking relevant product features into account. Non-linear valuation effects, where they exist, are reflected in the calculations. Valuation of the insurance liabilities under the shock scenarios is based on the replicating portfolios representing the insurance liabilities in the SST Marker Risk model. The Life business replicating portfolios are portfolios of assets that replicate the cash flows or present values of the life insurance liabilities under stochastic scenarios from the local life valuation models, according to the methodology approved by FINMA. The replicating portfolios are calibrated to match dependencies of life insurance liabilities on financial market developments in respect of interest rates, equity and property. The options and guarantees of the underlying life insurance liabilities are captured through inclusion of options in the replicating portfolios. The P&C replicating portfolios are represented by zero coupon bonds and are sensitive to interest rate shocks.

Risk and solvency assessment (continued)

Audited

The SST required capital and market value margin are fully recalculated using parameters of a market shock as input to the risk calculations and taking into account impact of the market parameters on the base exposure, e.g., impact of the interest rate shocks on the insurance risk is reflected via revaluation of the risk exposure due to discounting effect.

In calculating the impact of a shock on the SST AFR and ratio, insurance liabilities' replicating portfolios, risk exposure (where not dependent on market parameters), and model parameters remain unchanged from the base case.

The SST AFR and related sensitivities aim to provide Zurich's investors with guidance on how its AFR and solvency ratio would move in a different economic environment. It should be noted that the shocks are linear, and they are a simplified representation of reality as the various market parameters never move in isolation or in sync within the same market class (e.g., equites).

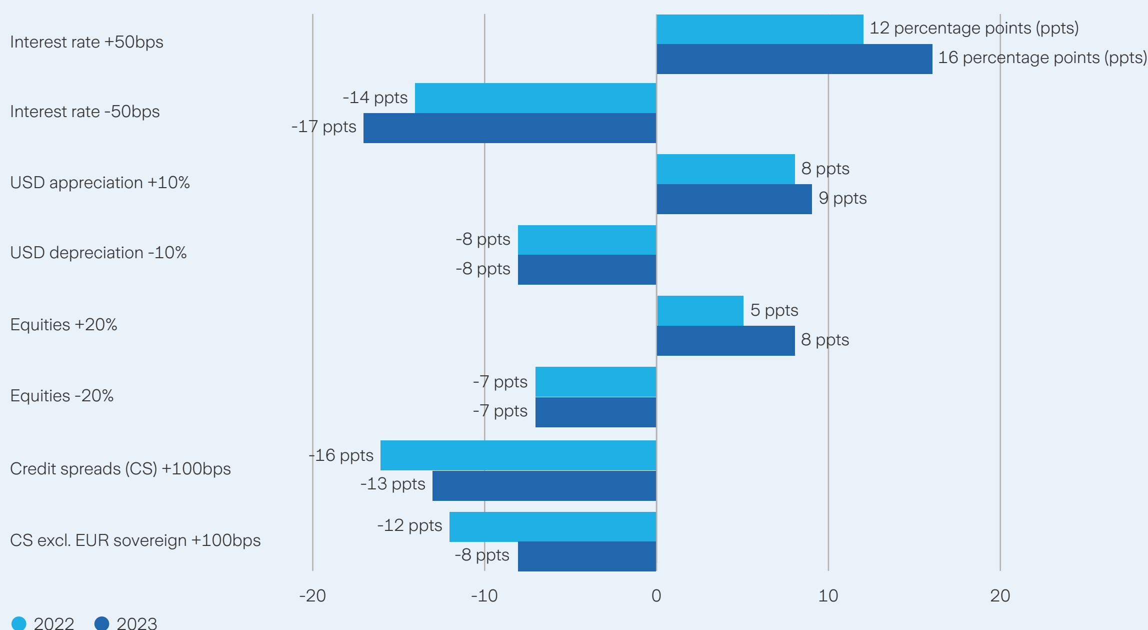
Sensitivity and scenario analysis

The Group evaluates sensitivities to, and stress scenarios on, the SST ratio, and assesses results relative to Zurich's risk appetite and tolerance. The sensitivities in the chart below capture impact on the Group SST ratio due to sensitivities to financial market movements.

Market risk sensitivities show the estimated impact on the Group's SST ratio of a half percentage-point (50 basis points, or bps) increase or decrease in yield curves, a 10 percent appreciation or depreciation in the U.S. dollar, a 20 percent rise or decline in all stock markets, and a 100 bps increase in credit spreads, with and without euro-denominated sovereign bonds. The sensitivities are considered as separate but instantaneous shocks. They are a best estimate and non-linear, for example, a change to the size of the market movement could result in disproportionally higher (or lower) impact on the SST ratio depending on the prevailing market conditions at the time.

SST sensitivities
as of October 1[1]

Impact on the SST ratio due to sensitivities to financial market conditions:[2]



1 Base ratio and sensitivities as of October 1, 2023 are calculated reflecting the separation of the legacy traditional life back book in Germany. Base ratio and sensitivities as of October 1, 2022 are calculated reflecting the Italian back book transaction completed in the fourth quarter of 2022.
2 Sensitivities are best estimate and reflect the impact on the pension plans in the UK. For the interest rate sensitivities, shocks are applied to the liquid part of the yield curve. Credit spreads (CS) include mortgages, including and excluding euro sovereign spreads. CS sensitivities of available capital include changes to the volatility adjustment applied to interest rate curves.

Risk and solvency assessment (continued)

Audited

Insurance financial strength rating

The Group has interactive relationships with three global rating agencies: S&P Global Ratings, Moody's, and AM Best. The insurance financial strength rating (IFSR) of the Group's main operating entity, Zurich Insurance Company Ltd (ZIC), is an important element of Zurich's competitive position, while the Group's credit ratings also affect the cost of debt capital.

On January 13, 2023, ZIC's Moody's rating of 'Aa3' changed to a positive outlook. The appropriateness of this rating was reassessed on January 22, 2024, as a reflection of "the Group's very strong market position and highly diversified business model, as well as its strong and resilient financial profile, including robust capital adequacy, earnings and financial flexibility."

Since October 2021, ZIC's AM Best Long Term Issuer Credit Rating has been 'aa–' with a positive outlook, reflecting "Zurich's consolidated balance sheet strength, which AM Best assesses as very strong, as well as its strong operating performance, very favourable business profile and appropriate Enterprise Risk Management (ERM)." The AM Best Financial Strength Rating, which is less granular, is 'A+ (Superior)'.

ZIC's S&P Global Ratings IFSR rating remains at the top of the league table of European peers, in recognition of its continuing strong operating performance with low volatility and very strong capital position. As of January 2024, the IFSR is rated 'AA/Stable' by S&P Global Ratings, 'Aa3/positive' by Moody's, and 'A+ (Superior)/Stable' by AM Best. The Issuer Credit Rating is rated 'aa–/positive' by AM Best.

Analysis by risk type

Audited

Insurance risk

Insurance risk is the risk of deviations in the timing, frequency or severity of insured events from that expected, leading to loss, including adverse change in the value of insurance liabilities (Life and Property & Casualty (P&C)). This may result from inherent uncertainty of insured events or losses, inadequate or ineffective underwriting or accumulation management, inappropriate product development, pricing, claims management, reserving or reinsurance. The profitability of insurance business is also susceptible to business risk in the form of unexpected changes in expenses, policyholders' behavior, and fluctuations in new business volumes. Zurich manages insurance risk through:

- Specific underwriting and claims standards and controls.
- Robust reserving processes.
- External reinsurance.

Property & Casualty (P&C) insurance risk

P&C insurance risk arises from coverage provided for motor, property, liability, special lines and worker injury. It comprises premium and reserve risk, catastrophe risk, and business risk. Premium and reserve risk covers uncertainties in the frequency of the occurrence of the insured events as well as in the severity of the resulting claims. Catastrophe risk predominantly relates to uncertainty around natural catastrophes. Business risk for P&C predominantly relates to unexpected increases in the expenses relating to claims handling, underwriting, and administration.

Management of Property & Casualty (P&C) insurance risk

The Group's underwriting strategy takes advantage of the diversification of P&C risks across lines of business, customers and geographic regions. Zurich defines Group-wide governance for insurance risk including for new products. Underwriting discipline is a fundamental part of managing insurance risk. The Group sets limits on underwriting capacity and delegates authority to individuals based on their specific expertise and sets appropriate underwriting and pricing guidelines. Technical reviews assure that underwriters perform within authorities and adhere to underwriting policies.

P&C insurance reserves are regularly estimated, reviewed and monitored by qualified and experienced actuaries at local, regional and Group levels. To arrive at their reserve estimates, the actuaries take into consideration, among other things, the latest available facts, trends and patterns of loss payments.

Inflation levels remained elevated in 2023 after peaking in 2022 and continue to pose challenges globally, with various factors including supply chain constraints, components and labor costs, as well as social inflation having an impact on insurance losses, particularly on motor and property portfolios. Inflation is monitored with insights feeding into actuarial reserving models, and Zurich's underwriting processes and pricing, and the implications of a continuing high inflation environment and mitigating actions are a key focus area. The Group's existing risk management and governance processes continue to monitor and respond to the developing environment. Several actions related to inflation have also been included in the Group's Total Risk Profiling™ and measures are being taken beyond rate changes, such as in claims and portfolio management.

Additionally, there is a concerted effort to foster communication between functions that extends beyond inflation challenges. To ensure a common understanding of business insights and new trends for reserve analysis, financial plans, underwriting and pricing decisions, the Group has established a culture of continuous cross-functional collaboration. For this, underwriting, actuarial (pricing and reserving), claims, finance, sales and distribution, risk engineering and risk management contribute to quarterly meetings at local and Group level.

Zurich's Emerging and Sustainability Risk Committee – with cross-functional expertise from core insurance functions such as underwriting, claims and risk management – identifies, assesses and recommends actions for emerging risks.

Governance is in place to ensure appropriate focus on top-line targets and profitability. Reinsurance is deployed to help manage insurance risk. Group Risk Management also provides independent assurance through risk reviews.

The Group is exposed to losses that could arise from natural and man-made catastrophes. The main concentrations of risks arising from such potential catastrophes are regularly reported to executive management.

Analysis by risk type (continued)

Audited

Natural catastrophes

The Group uses third-party models, adjusted to Zurich's view, to manage its underwriting, ensure accumulations stay within intended exposure limits and assess the capital requirement due to natural catastrophes. Consistent with this view on natural catastrophes, Zurich performs profitability assessments and strategic capacity allocations, and chooses the type and quantity of reinsurance it buys.

To ensure global consistency, exposures to natural catastrophes are modeled by a dedicated Group function. Potential losses from property, motor and marine policies with material exposure in hazard-prone geographical areas are probabilistically modeled, as well as worker injury policies with material exposure in U.S. seismic zones. Losses for other lines of business are estimated based on adjustments to these modeled results. Risk modeling mainly addresses weather-induced perils such as wind, flood, tornado, and hail, and geologically-induced perils such as earthquake. The most important peril regions for natural catastrophes are North-Atlantic hurricane, California earthquake and European windstorm. The Group has internal modelling capabilities for pandemics.

Zurich regularly reviews and expands the scope and sophistication of its modeling and strives to improve data quality. Zurich continues to invest in a diversified, multi-vendor-based catastrophe modeling ecosystem and in expanding its catastrophe research and development capabilities to complement existing expertise in natural catastrophe risk management (e.g., risks relating to climate change).

Zurich supplements internal know-how with external knowledge (e.g., the Advisory Council for Catastrophes) and is a shareholder of PERILS AG, Switzerland, a catastrophe exposure and loss data aggregation and estimation firm. Zurich is a governor sponsor of the Global Earthquake Model (GEM) Foundation and is also a member of the open-source initiative, Oasis Loss Modelling Framework.

Man-made catastrophes

Man-made catastrophes include events such as industrial accidents, terrorism and cyber attacks. For terrorism, worker injury and property risk exposures are analyzed to identify areas with significant risk concentration. Other lines of business are assessed, although the potential exposure is not as significant. A vendor-provided catastrophe model is used to evaluate potential exposures in every major U.S. city. The Group's analysis for the P&C business has shown that its exposures outside of North America are lower, in a large part due to government-provided pools. Outside the modeled areas, exposure concentrations are identified in Zurich's Risk Exposure Data Store (REDS). Exposure concentrations for location-based man-made scenarios, other than terrorism, are also identified in REDS, for example, industrial explosions at global ports.

The Group uses third-party models through a dedicated Group function to manage its underwriting and accumulations for cyber and casualty catastrophe risks. The Group actively monitors and manages its cyber exposure to ensure accumulations stay within intended limits and continues to refine products to ensure their appropriateness. Improving modeling capabilities and data quality for cyber and casualty catastrophe risks are key focus areas.

Concentration of Property & Casualty (P&C) insurance risk

The Group defines concentration risk in the P&C business as the risk of exposure to increased losses associated with inadequately diversified portfolios. Concentration risk for a P&C insurer may arise due to a concentration of business written within a geographical area or of underlying risks covered.

The P&C business segment represents the largest concentration of risk, in terms of risk capital, with U.S. and Caribbean hurricane representing the largest concentration of risk in terms of SST ratio sensitivity.

The relative significance of premium and reserve risk (P&R) (unaudited) has increased slightly from 25 percent to 26 percent of the total SST risk capital as of January 1, 2023 and 2024, respectively, due to growth in net exposures primarily and foreign currency exchange rates.

The relative significance of natural catastrophe risk (unaudited) has decreased slightly from 7 percent to 6 percent of total SST risk capital as of January 1, 2023 and 2024, respectively, which has been driven by an increase in the contribution of market risk. Natural catastrophe risk itself saw continued increases in net exposures and small risk increases due to foreign currency exchange rates and changes in the Group's catastrophe reinsurance program, while a model update has led to a more favorable view on U.S.Hurricane.

For more information about the Group's concentration of risk within the P&C business by geographic region, using IFRS Accounting Standards as a basis, see the segment information in note 26 of the Group's consolidated financial statements as of December 31, 2023.

Analysis by risk type (continued)

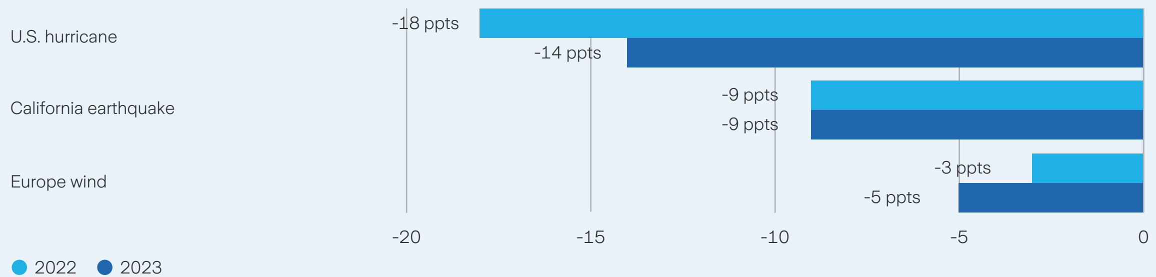
Audited

Analysis of sensitivities for Property & Casualty (P&C) risks

The chart below shows the three largest natural catastrophe events to which the Group is exposed. Insurance risk scenarios are defined as events that have a small probability of occurring but could, if realized, negatively affect the Group's SST ratio. The impact of insurance-specific scenarios on the target capital is not taken into account.

SST property and casualty-specific scenarios
as of October 1

Impact on the SST ratio due to property and casualty risk-specific scenarios:[1]



1 Scenario impact comparable to the modeled 250-year net occurrence loss for the respective peril (equivalent to a 99.6 percent probability of non-exceedance.)

Tables 2.a and 2.b show the sensitivity of net income before tax and net assets based on IFRS Accounting Standards, using the Group effective income tax rate, as a result of adverse development in the net loss ratio by one percentage point. The sensitivities do not indicate the probability of such an event and do not consider any non-linear effects of reinsurance. Based on the assumptions applied in the sensitivity analysis in tables 2.a and 2.b, each additional percentage-point increase in the loss ratio would have a linear impact on net income before tax and net assets.

The Group also monitors insurance risk by evaluating extreme scenarios, taking into account the non-linear effects of reinsurance contracts.

For further information about the development of net insurance losses by financial year, see note 7 of the Group's consolidated financial statements.

Table 2.a

Insurance risk sensitivity for the Property & Casualty business – current period

in USD millions, for the year ended December 31, 2023	Europe, Middle East & Africa	North America	Asia Pacific	Latin America	Reinsurance	Total[2]
+1% in net loss ratio[1]						
Net income before tax	(172)	(206)	(34)	(28)	(8)	(423)
Net assets	(129)	(155)	(26)	(21)	(6)	(317)

Table 2.b

Insurance risk sensitivity for the Property & Casualty business – prior period

in USD millions, for the year ended December 31, 2022	Europe, Middle East & Africa	North America	Asia Pacific	Latin America	Reinsurance	Total[2]
+1% in net loss ratio[1]						
Net income before tax	(156)	(194)	(32)	(26)	(6)	(392)
Net assets	(120)	(148)	(24)	(20)	(5)	(300)

1 the 1% change in net loss ratio is defined as a 1% change in the insurance revenue.
2 total is inclusive of consolidation eliminations.

Analysis by risk type (continued)

Audited

Life insurance risk

The risks associated with life insurance include:

Life liability risk

- Mortality risk – when, on average, the death incidence among policyholders is higher than expected.
- Longevity risk – when, on average, annuitants live longer than expected.
- Morbidity risk – when, on average, the incidence of disability due to sickness or accident among policyholders is higher than expected, or recovery from disability is lower than expected.

Life business risk

- Policyholder behavior risk – when, on average, policyholders discontinue or reduce contributions, or withdraw benefits prior to the maturity of contracts at a rate that is different from expected.
- Expense risk – when expenses incurred in acquiring and administering policies are higher than expected.
- New business risk – when volumes of new business are insufficient to cover fixed acquisition expenses.

Market risk

- Market risk – the risk associated with the Group's balance sheet positions where the value or cash flow depends on financial markets, which is analyzed in the 'market risk, including investment credit risk' section.

Credit risk

- Credit risk – the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations, which is analyzed in the 'market risk, including investment credit risk' and 'other credit risk' sections.

Management of Life insurance risk

The Group's Life underwriting results are based on the assumptions relating to life insurance risks. The actual experience may differ to that expected at the time of writing the business. For example, mortality could be either higher or lower than expected due to an unexpectedly harsh or benign flu season.

To understand the potential impact of experience differing from expectations, Zurich uses models to perform sensitivity analyses. The impact of changing the assumptions is considered under different scenarios across the risk types and products. Changes relating to absolute level and trend development in assumptions are considered by product category. For example, Zurich looks at the impact of an increase in morbidity rates for protection products or changes in the level and trend of longevity for annuity products. These analyses assist in understanding how sensitive the business is to changes in various assumptions and where there are benefits of having a diversified portfolio of risks and products. Changes in the same assumption can have a positive impact on one product and a negative impact on another. For example, people living longer than expected may have a positive impact on products that offer life cover, as claims are then paid later than expected, but could have a negative impact on annuity products as payments are made for longer than expected. At Zurich, the Life liability risks are managed through established processes with requirements described in the Zurich Risk Policy.

The Group has local product development and approval committees and a Group-level committee to review potential new life products that could significantly increase or change the nature of the risks or introduce new risks. The Group also regularly reviews the continued suitability and the potential risks of existing life products open to new business to ensure sustainability of the business.

Product pricing involves setting assumptions relating to life insurance risks. Local teams have responsibility for the pricing of the products in line with the experience and emerging trends observed in each market. The emerging experience is regularly monitored and compared against expectations. Where permitted, premiums are adjusted for factors such as age, gender, and smoker status to reflect the corresponding risks. Policy terms and conditions and disclosure requirements are designed to mitigate the risk arising from non-standard and unpredictable risks that could result in a severe financial loss.

The underwriting process forms an important part of risk management and risk selection for life insurance risks. This process is supported through setting standards in the Zurich Risk Policy and providing support through additional underwriting guidelines.

Where required and appropriate, life insurance risks are also managed using reinsurance.

Analysis by risk type (continued)

Audited

Unit-linked products are designed to reduce much of the market and credit risk associated with the Group's traditional business offerings. Risks that are inherent in these products are largely passed on to the policyholder, although a portion of the Group's management fees is linked to the value of funds under management, and hence is at risk if fund values decrease. Contracts may have minimum guaranteed death benefits where the sum at risk depends on the fair value of the underlying investments. Other life insurance liabilities include traditional life insurance products, such as protection and life annuity products.

Protection products (including disability products) provide benefits linked to policyholders' life and health and mainly carry mortality and morbidity risks. Changes in, and availability of, medical treatments and lifestyle changes are among the most significant factors that could result in earlier or more claims than expected or customers claiming for longer than expected. The risk selection process is informed by medical, lifestyle and financial parameters of applicants. Access to health information can potentially be restricted through regulation or undocumented health results. Advancements in biological and genetic testing may give individuals health information inaccessible to insurers. This in turn could lead to an inability to reflect the true risk profile in pricing products, adverse claims experience and a reduced product offering. Disability, when defined in terms of the ability to perform an occupation, could also be affected by adverse economic conditions. This impact could come through, for example, an increase in claims relating to mental health conditions triggered by an economic downturn.

Life annuity products provide benefits that are paid to the customer either for a selected number of years, or until they die. Therefore, these products carry longevity risk as people living longer than expected can have a material impact on these products. Medical advances and improved social conditions that lead to increased longevity are significant risk drivers for these products. Annuitant (beneficiary) mortality assumptions include allowance for future mortality improvements. The trends in mortality improvements are monitored to ensure that changes in experience are considered. The exposure to longevity risk at a Group level is measured regularly and compared against the limit set by the Group.

The Group is exposed to risks posed by policyholder behavior and fluctuating expenses. These are mitigated by designing products that, as closely as possible, match revenue and expenses associated with the contract.

The Group is also exposed to investment and surrender risks related to bank-owned life insurance contracts sold in the U.S. These risks have reduced significantly in recent years as several significant policies have switched into less risky investment divisions. See heading 'Other assets at amortized cost' in note 5 of the consolidated financial statements for more information.

In the past, low interest rates have led to an increase in both Life business risks and Life liability risks (especially longevity risk). While interest rates have recently risen, the level of interest rates remains an important factor in the evaluation of insurance risks.

Furthermore, interest rate guarantees (with concentration in traditional guaranteed business in Germany and Switzerland) expose Zurich to financial losses that may arise as a result of adverse movements in interest rates combined with potential increases in policyholders surrendering their policies. These guarantees are managed through a combination of asset-liability management and hedging.

The Group has a dynamic hedging strategy to reduce the investment risk associated with the closed book of variable annuities written by its U.S. subsidiary, Zurich American Life Insurance Company. This exposure has fallen substantially as a result of several policy buyback programs since 2015.

Higher than expected inflation could affect Life insurance business through, for example, customer affordability issues and reduced demand. The expenses to administer Life insurance business could be higher than expected, leading to higher product expense loads. This could result in a combination of higher customer premiums and reduced profitability. Potential actions to manage the effects of higher-than-expected inflation include assumption updates, customer behavior monitoring, product reviews and design and customer retention initiatives.

Diversification across regions and businesses, as further described, contributes to reducing the impacts of the risks associated with the Life business described above.

Concentration of Life insurance risk

The Group defines concentration risk in the Life business as the risk of exposure to increased losses associated with inadequately diversified portfolios of assets or obligations. Concentration risk for a life insurer may arise with respect to investments in a geographical area, economic sector, or individual issuers, or due to a concentration of business written within a geographical area, of a product type, or of underlying risks covered. The Group's exposure to life insurance risks varies significantly by geographic region and line of business and may change over time.

Analysis by risk type (continued)

Audited

In respect of the life liability risk profile, on a non-diversified basis, morbidity risk accounts for over half, concentrated predominantly in the APAC region, mortality risk accounts for under one third, with concentration predominantly in the EMEA region and longevity risk accounts for approximately a sixth, concentrated predominantly in the EMEA region.

In respect of the life business risk profile, on a non-diversified basis, lapse up risk accounts for almost two thirds concentrated predominantly in the EMEA region, expense risk accounts for approximately one quarter concentrated predominantly in the EMEA region and lapse down risk accounts for a tenth with roughly equal concentrations in EMEA and APAC regions.

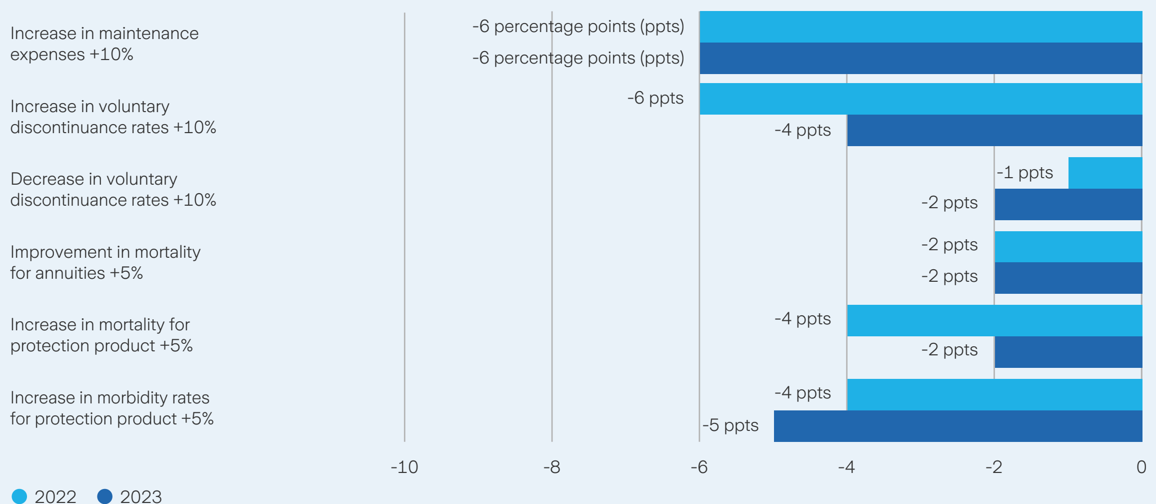
For more information about the Group's concentration of risk within the Life business by geographic region, on an IFRS Accounting Standards basis, see the segment information in note 26 of the consolidated financial statements as of December 31, 2023.

Analysis of sensitivities for Life insurance risks

The chart below shows the sensitivity of the SST ratio to changes in the key risk drivers. The reduced sensitivity to increased discontinuance and mortality rates is largely due to an external reinsurance arrangement effected on a portfolio of North American mortality business.

SST life-specific scenarios
as of October 1[1]

Impact on the SST ratio due to life risk-specific scenarios:[2]



1 Base ratio and sensitivities as of October 1, 2023 are calculated reflecting the separation of the legacy traditional life back book in Germany. Base ratio and sensitivities as of October 1, 2022 are calculated reflecting the Italian back book transaction completed in the fourth quarter of 2022.
2 The sensitivities are approximate and reflect only the change in AFR whereas TC and MVM have not been recalculated.

Reinsurance for Property & Casualty (P&C) and Life businesses

The Group's objective in purchasing reinsurance is to provide market-leading capacity for customers while protecting the balance sheet, supporting management of earnings volatility, and achieving capital efficiency. In addition, it supports the Group Underwriting strategy and risk appetite. The Group follows a centralized reinsurance purchasing strategy for both P&C and Life, and bundles programs, where appropriate, to benefit from diversification and economies of scale. In support of the Group's empowerment-based management model and to align risk-bearing capacities between the Group and individual country operations, internal reinsurance applies to all externally reinsured lines of business. The Group has specific facultative property and casualty reinsurance facilities to actively manage and reduce potential claims-recovery risks on facultative cessions and to support the strategy on operational excellence.

The Group structures and aligns its external reinsurance protection to its capital position to achieve an optimal risk-return ratio. This includes participation in the underlying risks through self-retentions in line with the risk appetite of each line of business. The cession rate for P&C was 17.0 percent as of December 31, 2023 (12.3 percent excluding captives, unaudited) and 17.5 percent as of December 31, 2022 (12.5 percent excluding captives, unaudited). The cession rate for Life was 14.4 percent as of December 31, 2023 and 13.1 percent as of December 31, 2022.

The Group uses traditional and collateralized reinsurance markets to protect itself against extreme single events, multiple event occurrences across regions, and increased frequency of events.

Analysis by risk type (continued)

Audited

The Group participates in the underlying risks through its retention and through its co-participation in excess layers. The Group reviews its reinsurance programs on an annual basis to reflect its risk appetite and market conditions. A global property catastrophe treaty was renewed on April 1, 2022, for a further three years.

In 2023, the Group purchased:

- Several regional catastrophe treaties.
- A new top layer catastrophe treaty for U.S. Hurricane and North American Earthquake.

All natural catastrophe reinsurance treaties are on a loss-occurrence basis.

In addition to these covers, the Group has two bilateral risk swaps, and various line of business-specific risk treaties. These covers are reviewed continuously and are subject to change in the future. To complement existing treaties, the Group purchases catastrophe reinsurance specific to life insurance for its exposure to natural and man-made catastrophes.

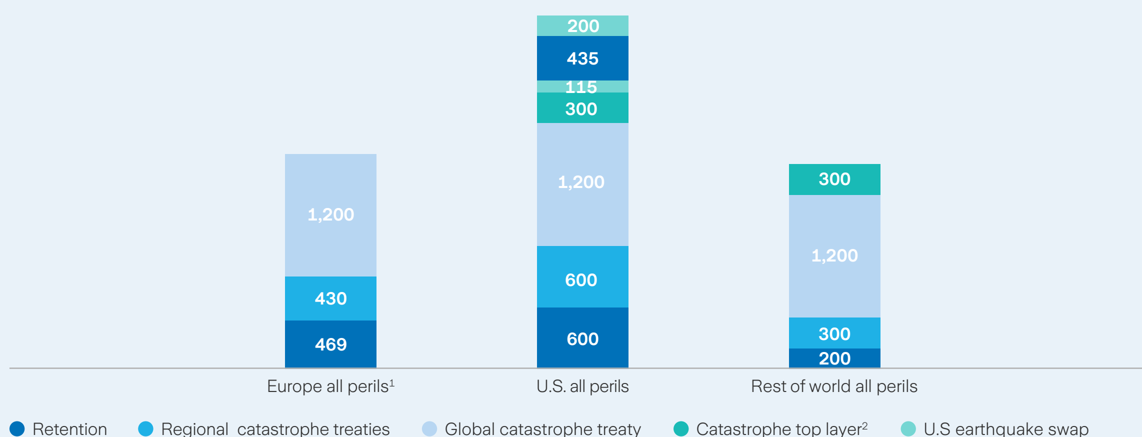
The reinsurance market continues to be challenging with reinsurers pursuing an increase in rates across most regions and lines of business. While property catastrophe and property per risk treaties are still facing pricing pressure, this has eased somewhat for property catastrophe treaties.

Terms and conditions for Casualty, especially U.S. Casualty will be put to the test. While reinsurance capacity has broadly been available, reinsurers are actively differentiating the best and most sophisticated insurance companies through their deployment of capacity.

Strategic partnerships and long-term relationships continue to provide an effective path for Zurich to execute on its reinsurance strategy.

The Group follows a strategy of diversification of reinsurance placements in order to manage its counterparty exposure. The Group's reinsurance counterparty exposure as of December 31, 2023 was within the Group's risk tolerance.

Group catastrophe reinsurance protection
as of 1 April, 2023 (in USD millions)



1 Calculated with EUR/USD exchange rate of 1.10265 as of July 31, 2023
2 Relevant for U.S. named windstorms, U.S. and Canada earthquake

Analysis by risk type (continued)

Audited

Market risk, including investment credit risk

Market risk relates to the possibility of loss of value due to changes in financial market conditions. Risk factors include:

- Equity market price changes.
- Real estate market price changes.
- Interest rate changes.
- Credit and swap spread changes.
- Defaults of issuers.
- Changes in currency exchange rates.

The Group manages the market risk of assets relative to liabilities on an economic total balance sheet basis. This is done to achieve the maximum risk-adjusted excess return on assets relative to the liability benchmark, while also taking into account the Group's risk tolerance and local regulatory constraints.

The Group has policies and limits to manage market risk and keep its strategic asset allocation in line with its risk capacity. Zurich centrally manages certain asset classes to control aggregation of risk and provides a consistent approach to constructing portfolios and selecting external asset managers. It diversifies portfolios, investments and asset managers, and regularly measures and manages market risk exposure. The Group defines limits on concentration of investments in single issuers and certain asset classes, as well as the degree to which asset interest rate sensitivities may deviate from liability interest rate sensitivities. The Group regularly reviews its capacity to hold illiquid investments.

The Asset/Liability Management Investment Committee reviews and monitors the Group strategic asset allocation and tactical boundaries, and monitors Group asset/liability exposure. The Group oversees the activities of local asset/liability management investment committees and regularly assesses market risks at both Group and local business levels. The economic effect of potential extreme market moves is regularly examined and considered when setting the asset allocation.

Risk assessment reviews include the analysis of the management of interest rate risk for each major maturity bucket and adherence to the aggregate positions with risk limits. The Group follows processes to manage market risks and to analyze market risk hotspots. Actions to mitigate risks are taken, if necessary, to manage fluctuations affecting asset/liability mismatch and risk-based capital.

The Group may use derivative financial instruments to mitigate market risks arising from changes in currency exchange rates, interest rates and equity prices, from credit quality of assets, and from commitments to third parties. The Group enters into derivative financial instruments mostly for economic hedging purposes and, in limited circumstances, the instruments may also meet the definition of an effective hedge for accounting purposes.

In compliance with Swiss insurance regulation, the Group's policy prohibits speculative trading in derivatives, meaning a pattern of so-called 'in-and-out trading' activity without any reference to an underlying position. The Group addresses the risks arising from derivatives through a stringent policy that requires approval of a derivative program before transactions are initiated, and by subsequent regular monitoring by Group Risk Management of open positions and annual reviews of derivative programs.

For more information on the Group's investment result, including the treatment of selected financial instruments, see note 5 of the consolidated financial statements. For more information on derivative financial instruments and hedge accounting, see note 6 of the consolidated financial statements. For more information on the development of expected credit loss allowance by type of financial asset, see note 23 of the consolidated financial statements.

Analysis by risk type (continued)

Audited

Risk from equity securities and real estate

The Group is exposed to risks from price fluctuations on equity securities and real estate. These could affect the Group's liquidity, reported income, economic surplus and regulatory capital position. Equity risk exposure includes common stocks (including equity unit trusts), private equity, common stock portfolios backing participating-with-profit policyholder contracts, and equities held for employee benefit plans. Exposure to real estate risk includes direct holdings in property and property company shares and funds. Returns on unit-linked contracts, whether classified as insurance or investment contracts, may be exposed to risks from equity and real estate, but these risks are borne by policyholders. The Group is however indirectly exposed to market movements from unit-linked contracts with respect to both earnings and economic capital; market movements affect the amount of fee income earned when the fee income level is dependent on the valuation of the asset base. Therefore, the value of in-force business for unit-linked business can be negatively affected by adverse movements in equity and real estate markets.

The Group manages its risks related to equity securities and real estate as part of the overall investment risk management process and applies limits as expressed in policies and guidelines. Specifically, Zurich limits holdings in equities, real estate and alternative investments. To realize an optimal level of risk diversification, the strategy for equities is defined through a composite of market benchmark indices. The Group has the capability and processes in place to change the exposure to key equity markets via the use of derivatives or purchase or sale of securities within a short time frame.

For additional information on equity securities and investment property, see note 5 of the consolidated financial statements.

Risk from interest rates and credit spreads

Interest rate risk is the risk of an adverse economic impact resulting from changes in interest rates, including changes in the shape of yield curves. Yield curve changes affect the value of interest rate-sensitive investments and derivatives as well as the fair value of insurance liabilities. Other balance sheet items, such as liability investment contracts, debt issued by the Group, commercial and residential mortgages, employee benefit plans, loans and receivables, are also affected.

The Group manages credit spread risk, which is the variation in economic value due to changes in the level or the volatility of credit spreads over the risk-free interest rate. Movements of credit spreads are driven by several factors including changes in expected default probability, default losses, risk premium, liquidity and other effects.

Returns on unit-linked contracts, whether classified as insurance or investment contracts, are at the risk of the policyholder; however, the Group is exposed to fluctuations in interest rates and credit spreads insofar as they affect the amount of fee income earned if the fee income level is dependent on the valuation of the asset base.

Analysis by risk type (continued)

Audited

Analysis of market risk sensitivities for interest rate, equity and credit spread risks
Group SST available financial resources sensitivities

The following section presents the sensitivities of Group available financial resources (AFR) under Swiss Solvency Test (SST) assumptions with respect to certain standard financial market scenarios.

The SST AFR impact – the difference between the impact on Group SST assets and liabilities – represents the economic risk related to changes in market risk factors to which the Group is exposed. Positive values represent an increase in the SST AFR, and values in parentheses represent a decrease.

SST AFR sensitivities are shown split by segment. The heading 'Rest of the business' includes Farmers, Group Finance and Operations and Non-Core Businesses. No allowance has been made in the economic sensitivities for the planned sale of the German traditional life insurance back book. For more information about the status of this transaction, see notes 4 and 28 of the consolidated financial statements.

Analysis of economic sensitivities for interest rate risk

Table 3 shows the estimated impact on SST AFR of a 50 basis point (bps) increase or decrease in yield curves after consideration of hedges in place.

Economic interest rate sensitivities on SST AFR

Table 3

in USD millions, as of October 1	**2023**	2022
50 bps increase in the interest rate yield curves		
Property & Casualty	(88)	(115)
Life	260	151
Rest of the business	61	(8)
50 bps decrease in the interest rate yield curves		
Property & Casualty	109	92
Life	(410)	(323)
Rest of the business	(62)	(31)

Analysis by risk type (continued)

Audited

Analysis of economic sensitivities for equity risk

Table 4 shows the estimated impact on SST AFR from a 20 percent decline in stock markets, after consideration of hedges in place.

Economic equity price sensitivities on SST AFR

Table 4

in USD millions, as of October 1	2023	2022
20% decline in stock markets		
Property & Casualty	(1,183)	(1,132)
Life	(1,168)	(878)
Rest of the business	(81)	(171)

Analysis of economic sensitivities for credit spread risk

Table 5 shows the estimated impact on SST AFR from a 100 basis point increase in corporate credit spreads. The sensitivities apply to all fixed-income instruments, excluding government, supranational and similar debt securities.

Economic credit spread sensitivities on SST AFR

Table 5

in USD millions, as of October 1	2023	2022
100 bps increase in credit spreads		
Property & Casualty	(1,404)	(1,449)
Life	(1,449)	(1,739)
Rest of the business	(169)	(395)

Risks from defaults of counterparties

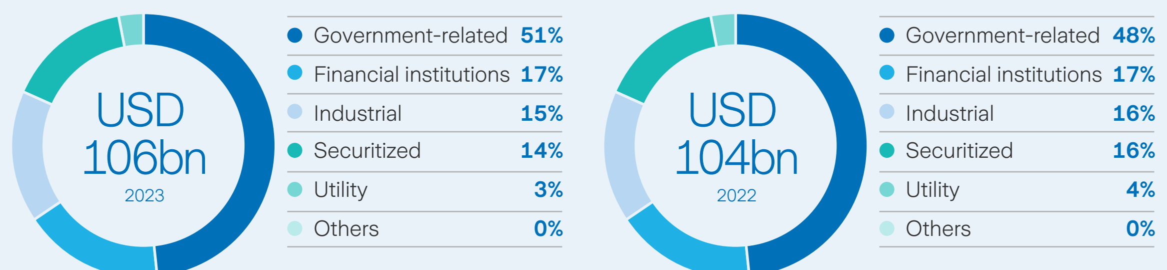
Debt securities

The Group is exposed to credit risk from third-party counterparties where the Group holds securities issued by those entities. Default risk is controlled by Group counterparty concentration risk limits which aim to keep the size of potential losses to an acceptable level.

Exposure level limits are in place and are based on default and recovery rates. Limits tighten progressively for lower-rated exposures. Where the Group identifies investments that are expected to trigger limit breaches, appropriate mitigating actions are implemented.

For information on the Group's debt securities by rating of issuer and the corresponding allowance for expected credit losses, see note 23 of the consolidated financial statements.

Debt securities – credit risk concentration by industry
in %, as of December 31



As of December 31, 2023, the largest concentration in the Group's debt securities portfolio was government related at 51 percent of all debt securities. In all other categories, a total of USD 19.7 billion (38 percent) was secured. As of December 31, 2022, 48 percent of the Group's debt portfolio was invested in government-related securities. In all other categories, a total of USD 21.6 billion (40 percent) was secured.

The second-largest concentration in the Group's debt securities portfolio is financial institutions, comprising investments mainly in banking, finance companies and insurance.

Analysis by risk type (continued)

Audited

Cash and cash equivalents

To reduce credit concentration, settlement and operational risks, the Group limits the amount of cash that can be deposited with a single counterparty. The Group also maintains an authorized list of acceptable cash counterparties.

Cash and cash equivalents amounted to USD 7.3 billion as of December 31, 2023 and USD 7.6 billion as of December 31, 2022. The risk-weighted average rating of the overall cash portfolio was 'A–' as of December 31, 2023 and 'A–' as of December 31, 2022. The ten largest bank exposures represent 50 percent of the total cash and cash equivalents amount, of which the risk-weighted average rating was 'A–' as of December 31, 2023 and 'A' as of December 31, 2022.

Mortgage loans and other loans

Mortgage loans amounted to USD 4.3 billion as of December 31, 2023 and USD 5.5 billion as of December 31, 2022. The Group's largest mortgage loan portfolios are held in Switzerland (USD 3.0 billion), in Italy (USD 0.5 billion) and in Germany (USD 0.5 billion); these are predominantly secured against residential property but also include mortgages secured by commercial property.

Derivatives

The replacement value of outstanding derivatives represents a credit risk to the Group. These instruments include interest rate and cross-currency swaps, forward contracts and purchased options. A potential exposure could also arise from possible changes in replacement values. The Group regularly monitors credit risk exposures arising from derivative transactions. Outstanding positions with external counterparties are managed through an approval process embedded in derivative programs.

To limit credit risk, derivative financial instruments are executed with counterparties rated 'BBB' or higher as per Zurich Risk Policy requirements. The Group's standard practice is to only transact derivatives with those counterparties for which the Group has in place an ISDA Master Agreement, with a Credit Support Annex. This mitigates credit exposures from over-the-counter transactions due to close-out netting and requires the counterparty to post collateral when the derivative position exceeds an agreed threshold. The Group further mitigates credit exposures from derivative transactions by using exchange-traded or centrally cleared instruments whenever possible.

Risk from currency exchange rates

Currency risk is the risk of loss resulting from changes in exchange rates. The Group operates internationally and therefore is exposed to the financial impact of changes in the exchange rates of various currencies. The Group's presentation currency is the U.S. dollar, but its assets, liabilities, income and expenses are denominated in many currencies, with significant amounts in euro, Swiss franc, British pound and U.S. dollar. On entity balance sheets a currency mismatch may cause a balance sheet's net asset value to fluctuate, either through income or directly through equity. The Group manages this risk by matching foreign currency positions on entity balance sheets within prescribed limits. Residual entity mismatches are reported centrally to make use of the netting effect across the Group. Zurich hedges these residual entity mismatches within an established limit through a central balance sheet. For information on net gains/losses on foreign currency transactions included in the consolidated income statements, see note 1 of the consolidated financial statements. The monetary currency risk exposure on entity balance sheets is considered immaterial.

Differences arise when functional currencies are translated into the Group's presentation currency, the U.S. dollar. The Group applies net investment hedge accounting to protect against the impact that changes in certain exchange rates might have on selected net investments.

Table 6 shows the sensitivity of total equity based on IFRS Accounting Standards to changes in exchange rates for the main functional currencies to which the Group is exposed. Positive values represent an increase in the value of the Group's total equity.

Analysis by risk type (continued)

Audited

Sensitivity of the Group's total equity to exchange rate fluctuations

Table 6

in USD millions, as of December 31	**2023**	2022
10% increase in		
EUR/USD rate	313	171
GBP/USD rate	17	51
CHF/USD rate	591	198
BRL/USD rate	128	110
AUD/USD rate	311	287
JPY/USD rate	104	110
Other currencies/USD rates	472	445

The sensitivities show only the effects of a change in the exchange rates, while other assumptions remain unchanged. The sensitivity analysis does not consider management actions that might be taken to mitigate such changes. The sensitivities do not indicate a probability of such events occurring in the future. They do not necessarily represent Zurich's view of expected future market changes. While table 6 shows the effect of a 10 percent increase in currency exchange rates, a decrease of 10 percent would have the converse effect.

For additional information about foreign currency translation and transactions, see notes 1, 3 and 6 of the consolidated financial statements.

Other credit risk

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations. See section 'risks from defaults of counterparties' for more information. The Group's exposure to other credit risk is derived from the following main categories of assets:

- Reinsurance assets.
- Receivables.

The Group's objective in managing credit risk exposures is to maintain them within parameters that reflect the Group's strategic objectives, and its risk appetite and tolerance. Sources of credit risk are assessed and monitored, and the Group has policies to manage specific risks within various subcategories of credit risk. To assess counterparty credit risk, the Group uses ratings assigned by external rating agencies, qualified third parties, such as asset managers, and internal rating assessments. If the ratings of external rating agencies differ, the Group generally applies the lowest, unless other indicators justify an alternative, which may be an internal credit rating.

The Group actively uses collateral to mitigate credit risks. Underlying credit risks are managed independently from the collateral. The Group has limits and quality criteria to identify acceptable letter of credit providers. Letters of credit enable Zurich to limit the risks embedded in reinsurance, captives, deductible programs, trade credit and surety.

The Group has counterparty limits which are regularly monitored. Exposure to counterparties' parent companies and subsidiaries is aggregated to include reinsurance assets, investments, derivatives, and certain insurance products. Group aggregate concentration limits and relevant exception approvals are monitored in line with risk policy requirements.

On-balance sheet exposures are the main source of credit risk. Off-balance sheet credit exposures are related primarily to certain insurance products, reinsurance and collateral used to protect underlying credit exposures on the balance sheet. The Group has no material amount of off-balance sheet exposures related to undrawn loan commitments as of December 31, 2023. See note 21 of the consolidated financial statements for undrawn loan commitments.

Analysis by risk type (continued)

Audited

Credit risk related to reinsurance assets

The Group's Corporate Reinsurance Security Committee oversees the credit quality of cessions and reinsurance assets. The Group typically only cedes new business to authorized reinsurers with a minimum rating of 'A–.' Of the exposure ceded to reinsurers that are rated below 'A–' or are not rated, 60 percent was collateralized as of December 31, 2023 and 46 percent as of December 31, 2022. Of the exposure ceded to reinsurers that are rated below 'A–' or are not rated, 62 percent was ceded to captive insurance companies in 2023, and 57 percent in 2022.

Reinsurance assets included reinsurance recoverables (the reinsurers' share of reserves for insurance contracts) of USD 27.1 billion and USD 28.1 billion, and receivables arising from ceded reinsurance of USD 2.1 billion and USD 1.8 billion as of December 31, 2023 and 2022, respectively, gross of allowance for impairment. Reserves for potentially uncollectible reinsurance assets amounted to USD 117 million as of December 31, 2023 and USD 130 million as of December 31, 2022. The Group's policy on impairment charges takes into account both specific charges for known situations (e.g., financial distress or litigation) and a general, prudent provision for unanticipated impairments.

Reinsurance recoverables in table 7 are shown before taking into account collateral such as cash or bank letters of credit and deposits received under ceded reinsurance contracts. Unsecured reinsurance recoverables shown are after deducting collateral. Bank issuing letters of credit for the benefit of Zurich are, on average, 'A' rated. The value of the collateral received amounts to USD 17.2 billion and USD 11.6 billion as of December 31, 2023 and 2022, respectively.

Table 7 shows reinsurance recoverables and unsecured reinsurance recoverables split by rating.

Table 7

Reinsurance recoverable and unsecured reinsurance recoverable by rating of reinsurer and captive

as of December 31				**2023**				2022
	Reinsurance recoverable		**Unsecured reinsurance recoverable**		Reinsurance recoverable		Unsecured reinsurance recoverable	
	USD millions	**% of total**	**USD millions**	**% of total**	USD millions	% of total	USD millions	% of total
Rating								
AAA	5	0.0%	–	0.0%	22	0.1%	1	0.0%
AA	4,969	18.4%	4,493	29.4%	7,278	26.0%	6,610	35.2%
A	14,669	54.2%	7,804	51.1%	13,342	47.6%	8,101	43.1%
BBB	2,563	9.5%	586	3.8%	3,912	14.0%	2,566	13.7%
BB	822	3.0%	419	2.7%	528	1.9%	226	1.2%
B and below	172	0.6%	70	0.5%	184	0.6%	75	0.4%
Unrated	3,873	14.3%	1,915	12.5%	2,764	9.8%	1,207	6.4%
Total	**27,073**	**100.0%**	**15,287**	**100.0%**	**28,030**	**100.0%**	**18,786**	**100.0%**

Credit risk related to receivables

The largest amount of the Group's credit risk exposure to receivables is related to third-party agents, brokers and other intermediaries.

Receivables are diversified across a large number of counterparties and do not pose significant single name concentration risk. The biggest individual exposures are related to the large global insurance brokers; however, exposure to these brokers is small if compared to total receivables, and these brokers are not among the top individual counterparties where the Group has significant concentration of credit risk.

The Group has policies and standards to manage and monitor credit risk related to intermediaries.

The Group strives to keep the balance of past-due positions as low as possible.

Receivables from ceded reinsurance are part of reinsurance assets and managed accordingly. For more information about receivables see note 14 of the Group's consolidated financial statements and for more information about the calculation of expected credit losses see notes 3 and 23 of the Group's consolidated financial statements.

Analysis by risk type (continued)

Audited

Operational risk

Operational risk is the risk of financial loss, adverse reputational, legal or regulatory impact, resulting from inadequate or failed processes, people, systems or from external events, including external fraud, catastrophes, or failure in outsourcing arrangements. Zurich has a framework to identify, assess, manage, monitor, and report operational risk within the Group. Within this framework, the Group:

- Uses a scenario-based approach to assess, model and quantify the capital required for operational risk for business units under extreme circumstances. This approach allows information to be compared across the Group and highlights the main scenarios contributing to the capital required under Zurich Economic Capital Model (Z-ECM).
- Documents and reviews operational events exceeding a threshold determined by the Zurich Risk Policy. Remedial action is taken to avoid the recurrence of such operational events.
- Conducts risk assessments where operational risks are identified for key business areas. Risks identified and assessed to be above a certain threshold must have a risk response. Risk mitigation plans are documented and tracked on an ongoing basis. In the assessments, the Group uses sources of information such as the Total Risk Profiling™ process, internal control assessments, and audit findings, as well as scenario modeling and operational event data.

The Group has specific processes and systems in place to focus on high-priority operational matters such as managing information security and business resilience, as well as combating fraud.

Preventing, detecting and responding to fraud are embedded in Zurich's business processes. Both claims and non-claims fraud are included in the common framework for assessing and managing operational risks. For Zurich's internal model calculations, claims fraud is part of insurance risk and non-claims fraud is part of operational risk.

Group own insurance

Zurich sets up and maintains insurance programs to protect the Group from the risk of adverse financial consequences of insurable events. They comprise Global Insurance Programs and Local Insurance Policies.

Zurich Global Insurance Programs are managed centrally and cover risk exposures such as:

- Property damage and business interruption/terrorism and political violence.
- Commercial general liabilities including risks related to environmental accidents.
- Professional indemnity and commercial crime.
- Directors and officers liability.
- Cyber-network security and privacy insurance.

Local Insurance Policies are managed locally and include coverage to meet mandatory local requirements or for country-specific risks that are not part of the Global Insurance Programs.

Data risk

The strategic relevance of data as a business asset is rising at a rapid pace and the risks associated with data management are becoming more and more prominent. Preventing risks such as data losses and privacy breaches and assessing and monitoring the potential misuse of data and losses triggered by failures in data management remain in focus. Specifically, appropriate governance of data for business purposes and decision-making processes, including automation, machine-learning techniques and other advanced technologies, remains a priority. As Zurich strives to inspire confidence in a digital society with its data commitment, assurance on the ethical use of advanced technologies is provided from a risk management perspective for the protection and privacy of data of our customers and other stakeholders.

The relevance of technological risks, such as cyber risk, is rapidly increasing across all data-driven industries. Exposure to these risks has grown in lockstep with the significant rise in digital services provided directly to customers and the increasing prevalence of digital ecosystems and cloud solutions in today's interconnected world.

Third-party risk

Outsourcing and engagement with third parties introduces risks relevant to the delivery of our strategy, such as data loss or disclosure, disruption to critical customer services and regulatory compliance. Digitalization has accelerated the complexity and changes to the Group's third-party ecosystem. The Group addresses risks associated with third-party engagements along its supply and value chain. Applying a consistent Group-wide approach to third-party governance is among Zurich's key priorities.

Analysis by risk type (continued)

Business resilience risk

Zurich, along with the rest of the insurance industry, is going through a period of transformation in order to meet changing customer and regulatory expectations. In addition, increasing automation of processes, development of advanced analytics capabilities, and fragmented supply chains have contributed to an increasingly complex operating environment. In response to these challenges, and to better protect the interests of stakeholders, the Group continues to evolve its business resilience capability through a number of ongoing initiatives in relation to the protection and recovery of critical services and enhancing transparency around any associated risks such as pandemics, technology failure, and potential supply chain/power interruptions.

Risk management and internal controls

The Group considers internal controls to be essential for managing operational risk. The Board has overall responsibility for the Group's risk management and internal control frameworks. The objectives of the Group's internal control system are to provide reasonable assurance that Zurich's consolidated financial statements and disclosures are materially correct, support reliable operations, and ensure legal and regulatory compliance. The internal control system is designed to mitigate rather than eliminate risks that could impact the achievement of business objectives.

The Group promotes risk awareness and understanding of controls through communication and training. Risk management and internal control systems are designed at Group level and implemented across the Group. Management, as the first line of defense, is responsible for identifying, evaluating and managing risk, and designing, implementing and maintaining internal controls. Testing of the relevant internal controls also forms part of the control life cycle.

Key processes and controls in the organization are subject to review and challenge by the second and third lines of defense. The second and third lines of defense regularly report on observations, conclusions and recommendations that arise from their independent examination of internal controls. Control issues of Group-level significance and associated mitigation actions are reported regularly to the Audit Committee of the Board. The Risk and Investment Committee of the Board reviews the effectiveness of the Group's risk management system, including the Group's risk tolerance and enterprise-wide risk governance framework, in accordance with the charter for each committee.

The Group's Disclosure Committee, chaired by the Head of Group Financial Accounting and Reporting, reviews the accuracy, completeness and timeliness and compliance with legal and regulatory requirements of external disclosures and the effectiveness of the respective internal controls. The conclusions result in a recommendation to the Group Chief Financial Officer to release the disclosures to the Audit Committee of the Board, who may then challenge the disclosures further. The Board reviews and approves the announcement of the results and the annual report before they are made public.

Analysis by risk type (continued)

Audited

Liquidity risk

Liquidity risk is the risk that an entity within the Group may not have sufficient liquid financial resources to meet its obligations when they fall due or would have to incur excessive costs to do so. Zurich's policy is to maintain adequate liquidity and contingent liquidity to meet its liquidity needs under normal conditions and in times of stress. To achieve this, the Group assesses, monitors and manages its liquidity needs on an ongoing basis.

Group-wide liquidity management policies and specific guidelines govern how entities plan, manage and report their entity liquidity and include regular stress tests for all major legal entities and branches within the Group. The stress tests use a standardized set of internally defined stress events, and are designed to provide an overview of the potential drain on liquidity should the Group have to recapitalize entity balance sheets. Similar guidelines apply at the Group level, and detailed liquidity forecasts are regularly conducted, based on entities' input and the Group's forecasts. As part of its liquidity management, the Group maintains sufficient cash and cash equivalents and high-quality, liquid investment portfolios to meet outflows under expected and stressed conditions.

The Group also maintains internal liquidity sources that cover the potential liquidity needs within the Group, including those that might arise in times of stress. The Group takes into account the amount, availability and speed at which these sources can be accessed. The Group has access to diverse funding sources to cover contingencies, including asset sales, external debt issuance and making use of committed borrowing facilities or letters of credit. The Group maintains a range of maturities for external debt securities. A potential source of liquidity risk is the effect of a downgrade of the credit rating of the Group. This could affect the Group's commitments and guarantees, potentially increasing liquidity needs. This risk – and mitigating actions that might be employed – are assessed on an ongoing basis within the Group's liquidity framework.

The Group regularly analyzes the liquidity of the investment assets and ensures that the liquidity of assets stays in line with liquidity requirements. In 2023, the Group's holdings in illiquid assets were within its capacity.

For more information on debt obligation maturities, see note 17 of the consolidated financial statements, and for information on commitments and guarantees, see note 21 of the consolidated financial statements.

The Group's ongoing liquidity monitoring includes regular reporting to the executive management and quarterly reporting to the Risk and Investment Committee of the Board, covering aspects such as the Group's liquidity, possible adverse scenarios that could affect the Group's liquidity and possible liquidity needs from the Group's main subsidiaries, including under conditions of stress.

For more information on the Group's other financial liabilities, see note 15 of the consolidated financial statements. See note 5 of the consolidated financial statements for information on the maturity of debt securities.

The Group has committed to contribute capital to subsidiaries and third parties that engage in making investments in direct private equity and private equity funds. Commitments may be called by the counterparty during the term of the investment (generally three to five years) and must be funded by the Group on a timely basis. See note 21 of the consolidated financial statements for more information.

Analysis by risk type (continued)

Audited

Strategic risk and risks to the Group's reputation

Strategic risk

Zurich defines strategy as the long-term plan of action designed to allow the Group to achieve its goals and aspirations based on Zurich's purpose and values. Strategic risk is defined as the risk of the strategy, or parts thereof, being rendered sub-optimal or unachievable.

Strategic risks can arise from:

- Internal triggers such as inadequate risk-reward assessment of strategic plans or changes to underlying assumptions.
- External triggers including macroeconomic or geopolitical events or trends, regulatory or legal changes, or developments in the competitor landscape.

The Group works to manage risks associated with strategic business decisions through its risk assessment processes and tools, including the Total Risk Profiling™ process. As part of the annual assessment of strategic risks, the Executive Committee assesses potential risks from both external and internal factors, looking at the current year and beyond. The Executive Committee members define actions to respond as appropriate and review changes to the key risks and their status of actions at least quarterly.

The Group evaluates the risks of merger and acquisition (M&A) transactions both from a quantitative and a qualitative perspective. The Group conducts risk assessments of M&A transactions to evaluate risks specifically related to integrating acquired businesses.

Risks to the Group's reputation

Many factors can affect Zurich's reputation including the Group's market conduct, relationship with customers, brand image, workplace culture, corporate strategy, underwriting practices, marketing efforts, claims handling, corporate responsibility, regulatory compliance, financial performance, communications, and crisis management. Every risk type has potential consequences for Zurich's reputation. Effectively managing each risk type supports preventing adverse reputational outcomes.

The Group aims to preserve its reputation by:

- Adhering to applicable laws and regulations.
- Following the core values and principles of the Group's code of conduct that promote integrity and good business practice.

The Group centrally manages certain aspects of risk to reputation, for example, communications, through functions with the appropriate expertise. Potential risks to Zurich's reputation are included in its risk assessment processes and tools, including the Total Risk Profiling™ process.

Sustainability risk

Zurich defines sustainability risks as those arising from events or conditions related to topics or trends relevant to the Group's Sustainability Framework and which adversely impact the achievement of Zurich's business strategy or targets.

In terms of characteristics, sustainability risks often possess longer time horizons that extend beyond a strategic cycle, which results in a higher degree of uncertainty regarding their potential consequences. In terms of perspective, sustainability risks are managed using the concept of double materiality. Double materiality refers to when risks associated with sustainability issues and topics affect Zurich (so-called 'outside-in' risks) and the risks resulting when Zurich's own activities have an influence on those issues and topics (so-called 'inside-out' risks). The latter typically have reputational consequences. As such, a variety of risk management approaches is used to support identification, assessment and responses to these risks.

The selection of approaches is informed by whether the sustainability risk is:

- An emerging outside-in risk: e.g., risks associated with climate change.
- An emerging inside-out risk: e.g., risks associated with fossil fuels or deforestation.
- A current outside-in risk: e.g., risks associated with severe weather.
- A current inside-out risk: e.g., risks associated with thermal coal, human rights (child labor, forced labor), or banned weapons.

Analysis by risk type (continued)

Sustainability topics are often a driver for other risk types (e.g., sustainability topics with respect to underwriting or investment management risks) and these are managed in accordance with the principles and requirements of the relevant ZRP Chapters. For more information about sustainability risk, refer to the section 'Managing risks and opportunities' of the Group's sustainability report.

Sustainability risk approach

To carry out effective sustainability risk management, we follow Zurich's Enterprise Risk Management (ERM) framework and select different approaches to support e.g., the identification, assessment and response to those risks according to their perspective and time horizon.

Our ERM framework helps to protect our company against natural, societal, economic and financial risks, and supports the identification of potential business opportunities. The framework also helps us to recommend proper response strategies, which can include the development of new products and services that support our customers in managing their sustainability risks.

Risk identification and assessment: emerging sustainability risks are identified and assessed at least annually through the update of the Emerging Risk Radar. For risks that extend beyond the strategic cycle, scenario analysis is performed. For current sustainability risks, the identification and assessment is done in accordance with the process defined by the Emerging and Sustainability Risk Committee (ESRC) and the potential impact to the Group in line with the Total Risk Profiling™ methodology.

Risk response: for emerging risks, risk response can include sustainability risk positions, which describes Zurich's appetite for a sustainability risk, and may also trigger the development of new policies, guidelines, products, processes, projects or other management actions. For current risks, it can entail a new Group strategic sustainability priority in line with the Total Risk Profiling™ methodology.

Examples of sustainability risk positions:

- Zurich will not enter into new business relationships with companies that produce, stockpile, distribute, market, or sell banned cluster munitions or anti-personnel landmines.
- Zurich will not underwrite or invest in companies that generate more than 30 percent of their revenue from thermal coal, oil sand and oil shale unless formally approved science-based targets are in place (and engagement on phase out of OECD and EU 27 by 2030 and rest of world by 2040).

Another example of a risk response is the ESG integration in our investment management activities. We believe that proactively integrating sustainability risks and opportunities – expressed in ESG factors in our investment decisions across asset classes and alongside traditional financial metrics and state-of-the-art risk management practices – will support us in our mission to achieve superior risk-adjusted long-term financial returns.

Risk monitoring: emerging sustainability risks are monitored at least annually through the emerging risk process, while current sustainability risks are monitored through the Group-mandated strategic TRP.

Risk reporting: emerging and current sustainability risks are reported internally and externally as required.

For more information about the sustainability risk approach, refer to the section 'Managing risks and opportunities' of the Group's sustainability report.

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