

Doing well and doing good

Why Zurich practices responsible investment

To reduce risk and to help communities.

November 2017

These are among Zurich's aims in providing insurance, and in managing its customers' premiums. Responsible investment promises to achieve both, which has led us to adopt it in theory and in practice.

At its core, insurance is an exercise in community. Its fundamental premise is that losses crippling to an individual – say, your house burning down – can be endured by a group. Through insurance, customers pool their reserves to convert risks from crippling to manageable. When misfortune knocks them down, they call on those pooled reserves to get back on their feet.

The insurer's job is to manage that community well. Publicly, this involves the customer-facing tasks of determining the right level of premium to cover a risk, collecting premiums and making payouts. Less publicly, but of equal importance, this means looking after those premiums. At Zurich this is no small task: if our customers' pool of reserves and shareholders' capital of some \$200 billion were a national economy, it would rank about 50th in the world, similar in size to that of the Czech Republic or Peru.

Safety is of course our first priority – we must hold enough reserves to make payouts. But it

would be insufficient to stuff these funds under a mattress or to stash them in a fortress. Experience shows that they can be invested prudently, to generate a return that lowers net premiums. So, our job is to 'do well' in managing our reserves, i.e. to achieve the highest possible returns while making sure that payouts can be made.

Responsible investment is an approach to managing our reserves that improves our ability to 'do well', because it reduces the risk of losing money while offering new opportunities to make it. Moreover, through responsible investment we 'do good', by financing institutions and activities that benefit our community of customers, employees and society at large.

Responsible investment at Zurich

The idea is that investment should be motivated not only by profit, but also by social and environmental goals. One goal does not preclude the other; indeed, they tend to go hand-in-hand.

Doing well and doing good continued

As a serious practitioner, Zurich has studied most if not all methods of responsible investing, and has chosen to pursue it primarily in three ways:

- *ESG integration* – when analyzing individual investments and investment managers, in addition to examining their financial performance, we also assess their environmental, social and governance¹ (ESG) performance. These assessments are considered in our decisions to buy or sell assets.
- *Impact investing* – we aim to fund institutions or projects that, while generating a safe, adequate return on our premiums, also generate targeted and measurable positive environmental or social impacts.
- *Advancing together* – responsible investing is a story still being written. Together with a broad group of stakeholders, we are helping to write it, both in theory and practice.

¹ Governance broadly means ethical conduct and truthful financial reporting. It often touches on compensation, conflicts-of-interest, due process and transparency.

Pursuing these three elements allows us both to do well and to do good, to manage our reserves as well as possible, while also delivering benefits to society.

For more about how we do this, please read on.

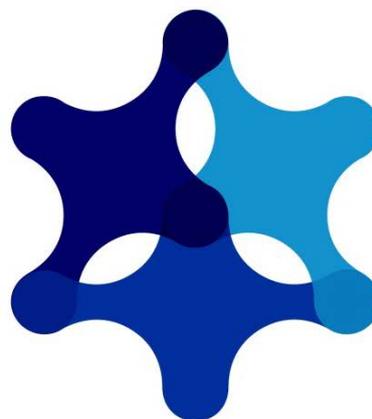
ESG integration

Every investment involves risk and opportunity. Our aim is to generate maximum return within the risk we are willing to take. Zurich has always invested its premiums according to this principle.

Over the years, we have developed a sophisticated framework for managing our portfolio. However, traditional tools to assess risk and returns are based on information that can easily be quantified in dollar and cents, and that can be aggregated from balance sheets or income statements. Unfortunately, this is not always the complete picture. With responsible investment, we have added three non-financial considerations to the way individual investments are assessed, namely those of the environment, society and governance.

ESG integration

- Training
- Information
- Process integration
- Active ownership



Impact investing

- Intentionality
- Measurability
- Profitability

Advancing together

- Innovation
- Collaboration
- Public advocacy

Doing well and doing good continued

All other things being equal, it is riskier to own equity or debt in a company that, say, produces excessive amounts of greenhouse gases, violates child labor norms or is non-transparent in paying its directors, than in a company that does not do such things. Likewise, it is more rewarding to invest in a company that helps society, benefits the environment and is well-governed. Or, to invest in a real-estate owner that attracts progressive tenants by minimizing energy consumption and greenhouse-gas emissions.

Our ongoing challenge is to quantify these non-financial factors. How much riskier is the company that produces excessive greenhouse gases? Can risk increments be assigned, say, per ton of greenhouse gas emitted? What about other pollutants? Admittedly, we are not yet as far in quantifying these ESG factors as we are in quantifying financial ones – but every day we are making progress.

As a result, we are striving to reduce the risk and broaden the opportunity of our portfolio. Simultaneously, we are incentivizing companies seeking investment to ‘do the right thing’ with respect to the environment, society and their stakeholders.

Impact investing

Analyzing ESG risk is Zurich’s way of finding good companies and avoiding bad ones among conventional investments. Impact investing is our way of investing in good causes.

To date, our primary area of impact investing is in green bonds. These are debts issued to fund projects that mitigate the effects of climate change or help communities adapt to them, for example, less-polluting factories, low-carbon power generation or green infrastructure. Initially they were issued mainly by quasi-governmental agencies such as the World Bank. However, green bonds are increasingly used by corporate and even sovereign issuers. In 2017, we reached our goal to invest over \$2 billion in them.

This is a big start in impact investing, yet only a start. We routinely evaluate other types of impact investments, and we hope in time to branch out into some of them. To support this, we have set ourselves

innovative and ambitious targets: We are now targeting up to \$ 5 billion in different types of impact investments around the globe, which will help to avoid 5 million tons of CO2 equivalent and improve the lives of 5 million people per year.

Advancing together

Responsible investment has grown tremendously in the past few decades. From a niche within a niche, the approach in its various forms has come to represent perhaps 10–15% of total securities market value. Still, to become truly mainstream, there is a long way to go. More study is needed of how ESG factors increase or decrease risk. More instruments are needed in impact investing. More investors need to apply those approaches. More public sector support is needed for the sustainable investment agenda.

For all these reasons, Zurich is working steadily to broaden the scope, power and value of responsible investing. Much of this involves in-house work, but clearly, we cannot do this alone. So, we signed the UN-backed Principles for Responsible Investment (PRI) and Principles for Sustainable Investment (PSI) and collaborate with initiatives such as the Global Impact Investing Network (GIIN). We are on the Executive Committee to the Green Bond Principles and Social Bond Principles. We are funding academic research on responsible investment through the Investment Leaders Group (ILG) of the University of Cambridge. And – among other things, through briefs such as this – we are broadening the base of people who understand what responsible investment is and what it can do.

For more information about responsible investment at Zurich, please visit

www.zurich.com

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