

# Zurich Insurance Group

Updated August 2016

**Investor intro pack 2016**



# Our proposition to investors

**1**

We are a leading Corporate and Commercial insurer, with strong Retail positions in select local markets

**2**

We run a highly cash generative business, with focus on enhancing returns and improving capital allocation

**3**

We have a very strong and stable financial position, built on excellent capital security and disciplined approach to ALM

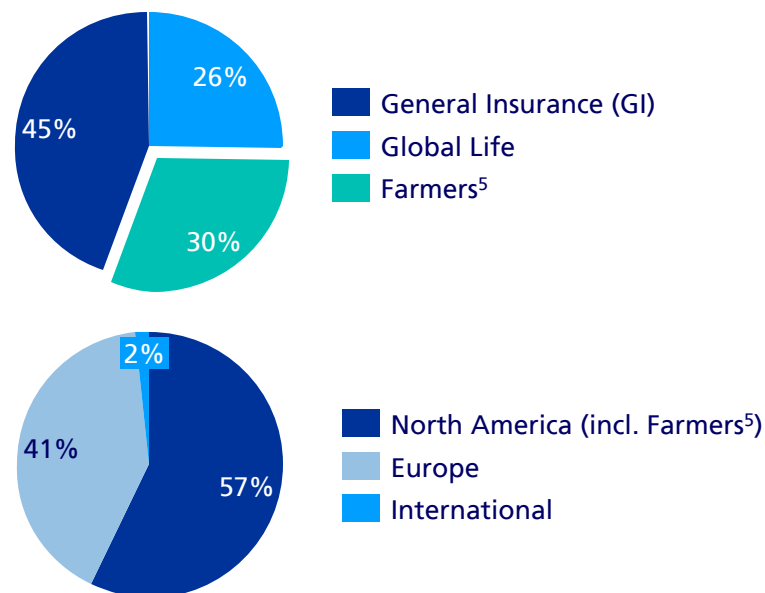
**4**

Focused on improving GI performance after disappointing prior year results

## KEY FACTS<sup>1</sup>

- USD **60bn** total revenues
- USD **382bn** total group and unit linked investments
- USD **2.9bn** business operating profit (BOP)
- USD **1.8bn** net income attributable to shareholders (NIAS)
- **114%** Zurich Economic Capital (Z-ECM) ratio calibrated to 'AA' rating (1 in 2000 year event)<sup>2</sup>
- **203%** SST regulatory solvency ratio<sup>2,3</sup>
- USD **31.2bn** shareholders' equity
- USD **35.8bn** market cap

## BOP BY SEGMENT AND REGION<sup>4</sup>



<sup>1</sup> Values are for the full year 2015 unless otherwise noted. Investments, Shareholders' equity and market cap are as of December 31, 2015.

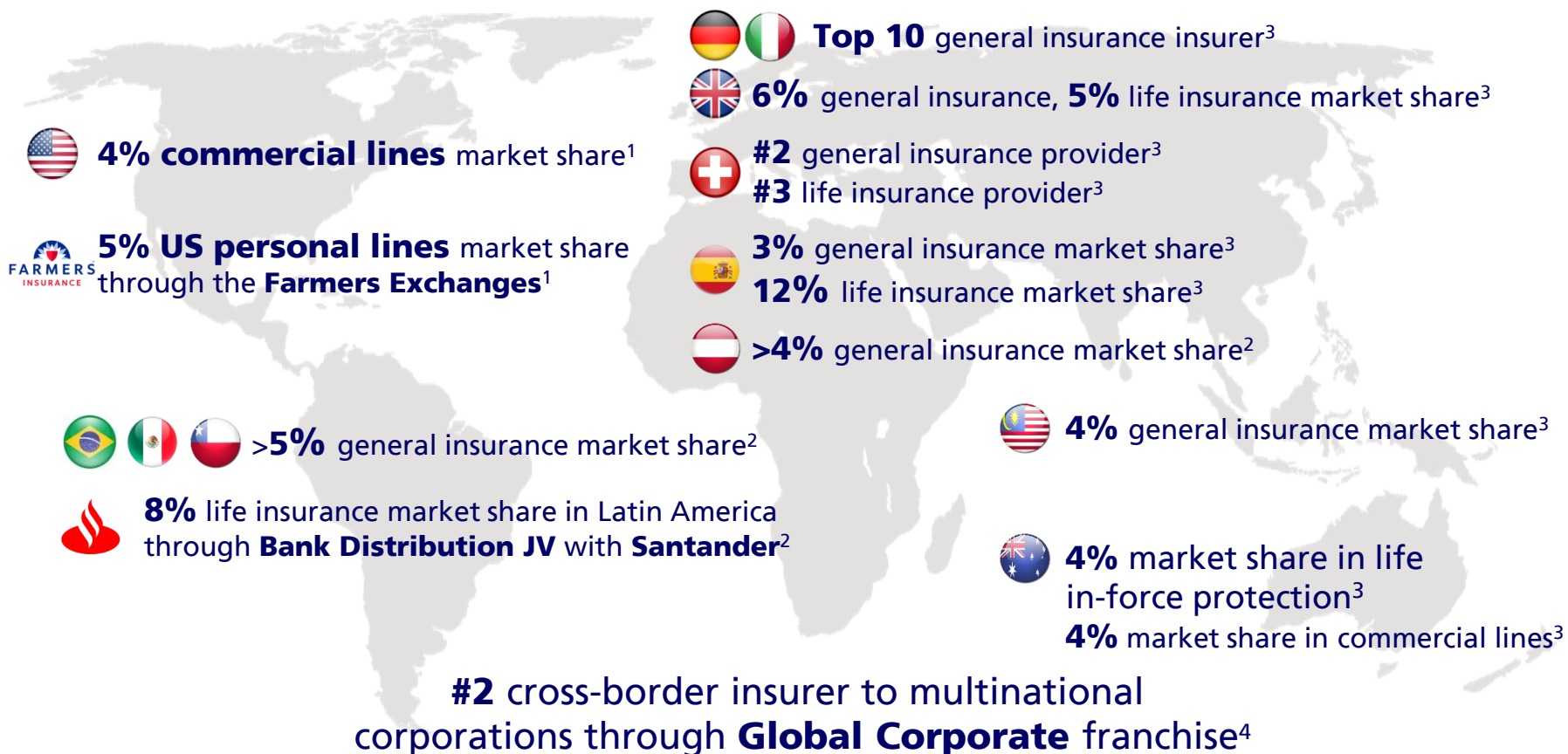
<sup>2</sup> Economic solvency ratio is as of the first 9 months of 2015 while the Swiss solvency Test (SST) is for the half year 2015.

<sup>3</sup> The Swiss Solvency Test (SST) ratio is calculated based on the Group's internal model, which is subject to the review and approval of the Group's regulator, the Swiss Financial Market Supervisory Authority (FINMA). The ratio is filed with FINMA at the full year and is subject to its approval.

<sup>4</sup> BOP splits per segment and region in % are a three year 2013-2015 average and exclude central and financing costs and non-core business.

<sup>5</sup> Zurich Insurance Group has no ownership interest in the Farmers Exchanges. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides administrative and management services to the Farmers Exchanges as its attorney-in-fact and receives fees for its services. Farmers BOP consists of Farmers Management Services and Farmers Re.

# Genuinely global franchise with distinct capabilities



<sup>1</sup> Source: 2015 SNL Data.

<sup>2</sup> Source: 2015 AXCO data, Zurich internal data and estimates.

<sup>3</sup> Source: National Statistics 2015 or latest available, Zurich internal data.

<sup>4</sup> Estimated based on annual reports and investor presentations.

# Strong capital position and cash generation, actions underway to get back on track in 2016



## VERY STRONG FINANCIAL STRENGTH



AA- / outlook 'stable'

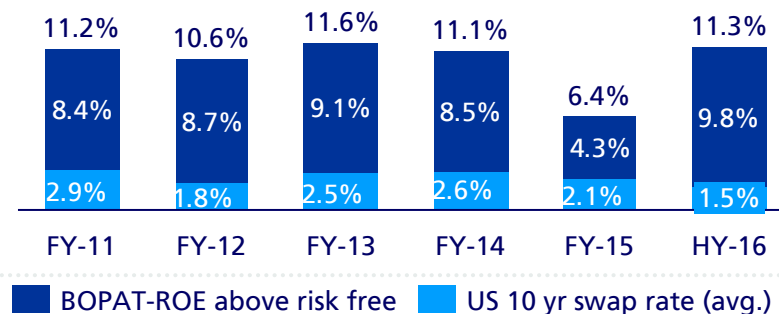


Aa3 / outlook 'stable'

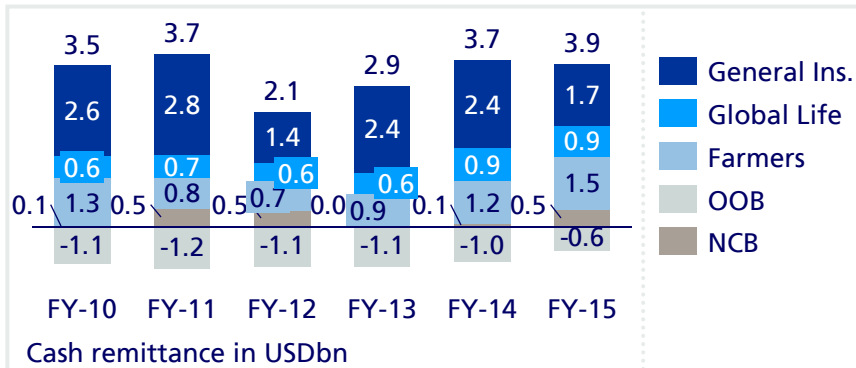


A+ (Superior) / outlook 'negative'

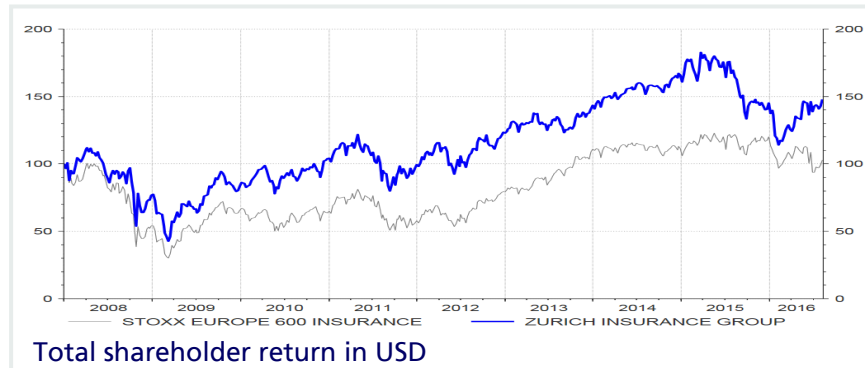
## WEAKER GI RESULTS IN 2015



## HIGHLY CASH GENERATIVE



## DIVIDEND A KEY PART OF TSR



# Resilient Z-ECM ratio and strong cash remittances

## FY-15 KEY RESULTS

### BOP

USD 2.9bn (-37%)

### NIAS

USD 1.8bn (-53%)

## TARGET METRICS OVER STRATEGIC PERIOD

BOPAT ROE <sup>1</sup>	FY-15	Target
	6.4%	12 - 14%
Z-ECM <sup>2</sup>	FY-15	Target
	121%	100 - 120%
Net cash remittances	Cumulative 2014-16 <sup>3</sup>	Cumulative 2014-2016
	> USD 10bn	> USD 9bn

<sup>1</sup> Business operating profit after tax return on equity (annualized), excluding unrealized gains and losses.

<sup>2</sup> Zurich Economic Capital Model (Z-ECM).

<sup>3</sup> Estimate for 2014-16 period.

# Clear and focused priorities for the next 12 months

## GROUP STRATEGY

**1** Prioritizing investment in distinctive positions

**2** Managing other businesses for value

**3** Growing our operating earnings

## FY-15 KEY ACTIONS

- Acquisition of Rural Community Insurance Services
- Stepped up investments in data and analytics capabilities

- GI “turnarounds” progressing
- In-force initiatives in “maximize value” life markets gaining traction, including exit from UK annuity book and sale of 7IM

- Efficiency initiatives launched, with aim of reducing costs by at least USD 1bn by end of 2018
- Accelerated activities in Q4 2015

## 2016 PRIORITIES

- Further investments in technology, including in data and analytics
- Targeted investments in select retail markets, building ‘omni channel’ capabilities

- Next phase of in-force initiatives in manage for value life markets
- Extract capital from some blocks of business
- Footprint actions

- Deliver on USD 300m cost saving target by end of 2016
- Turn around GI profitability

# General Insurance





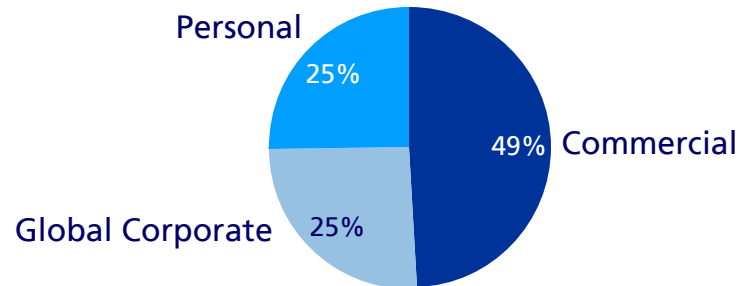
# Leading corporate and commercial insurer, and one of the few genuinely global players



## PROFILE

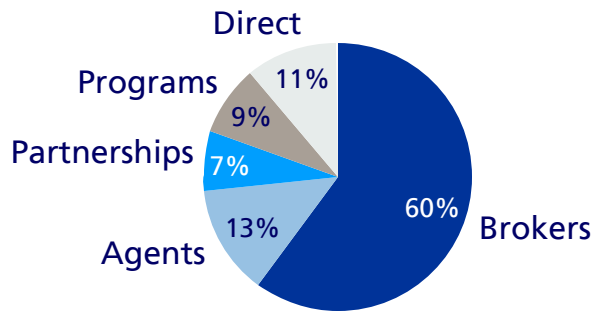
- Top three insurer to multi-nationals, with proven differentiated capabilities and global scale
- Strong positions in many commercial insurance markets, notably US, UK and Switzerland
- Good positions in a number of developed retail markets
- Growing presence in Latin America

## CUSTOMER SEGMENTS



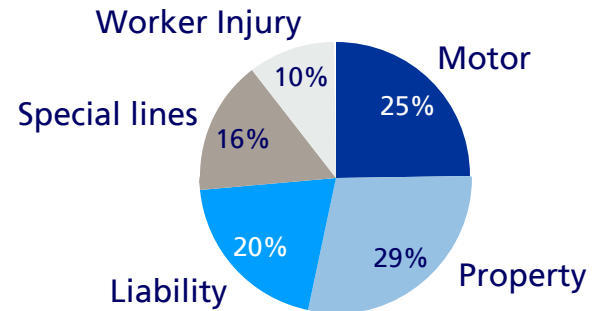
FY-15 Gross Written Premiums, total of USD 34.0 billion

## DISTRIBUTION CHANNELS



FY-15 Gross Written Premiums, total of USD 34.0 billion

## LINES OF BUSINESS

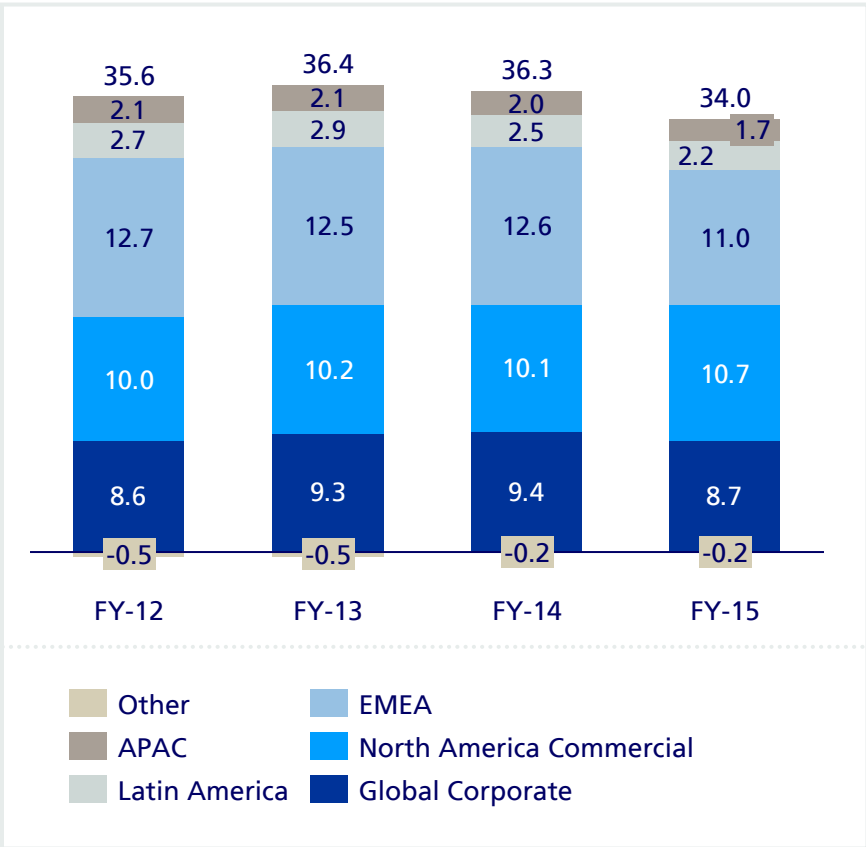


FY-15 Gross Written Premiums, total of USD 34.0 billion

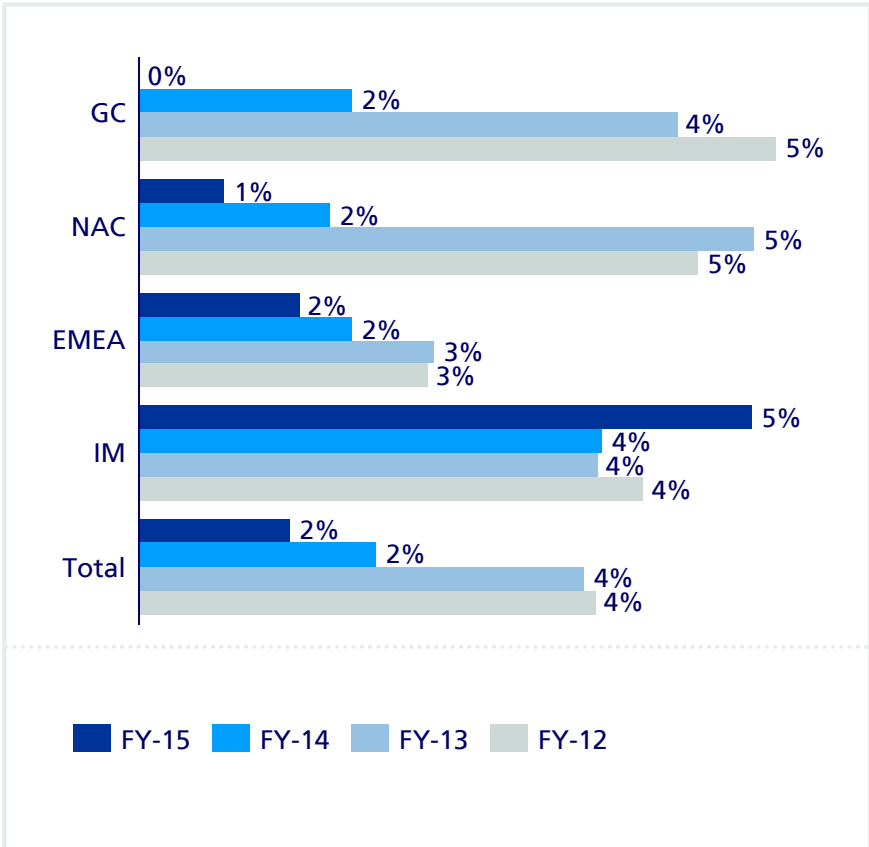
# Steady LC growth in recent years



## GROSS WRITTEN PREMIUM (USDbn)

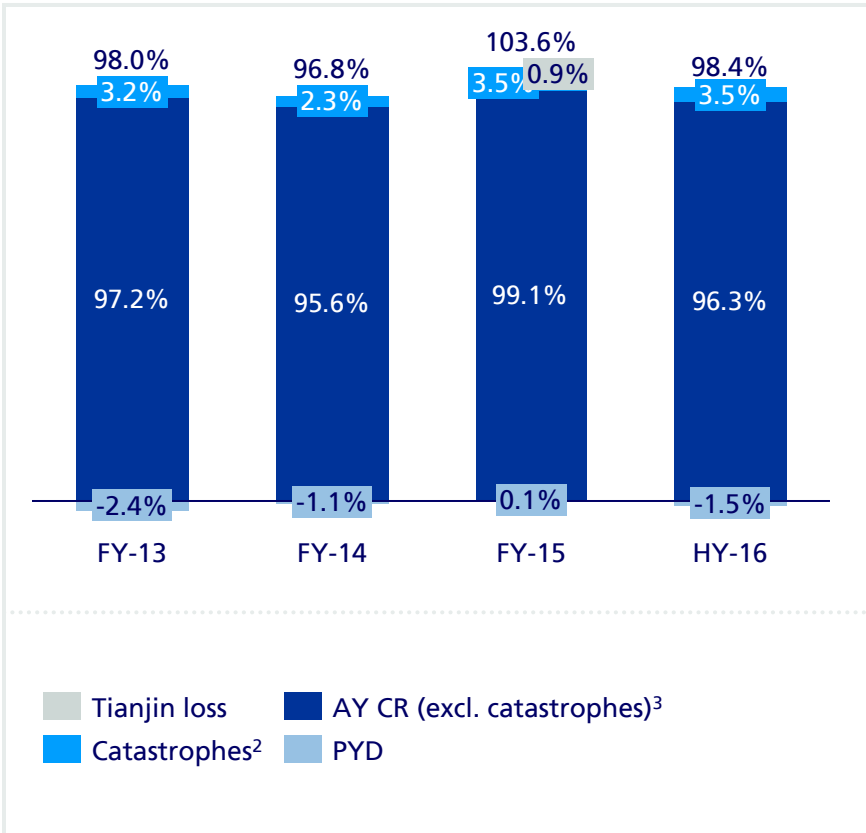


## RATE CHANGE (%)

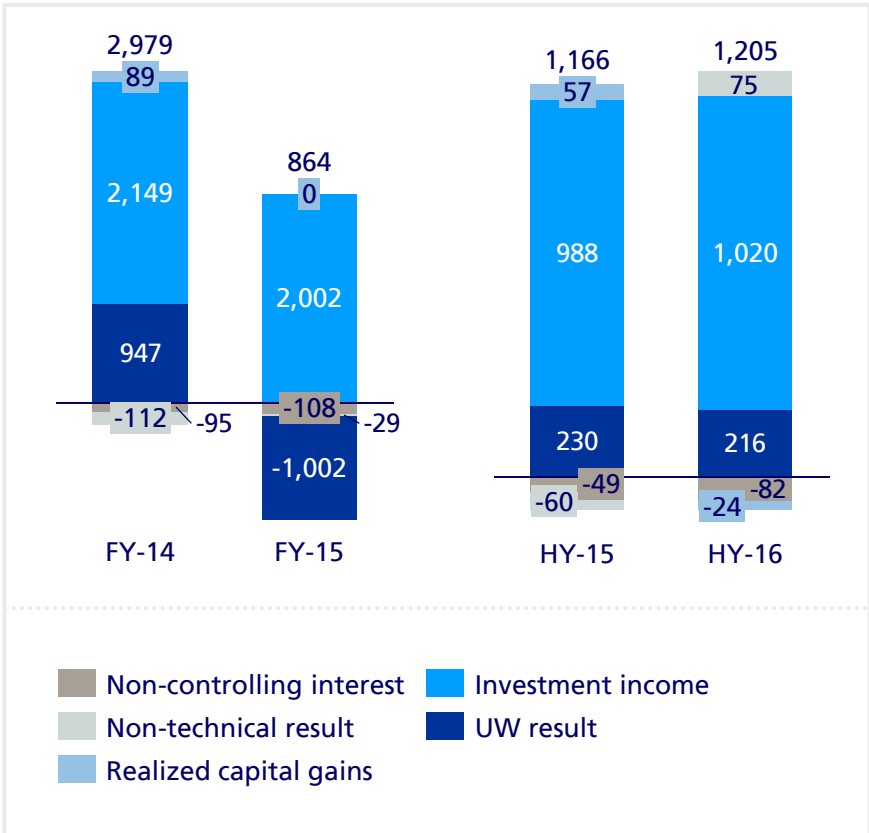


# Reduction in 2015 BOP driven by loss in Q3 and Q4, but recovery already visible in HY-16

## COMBINED RATIO SPLIT (%)<sup>1</sup>



## BOP SPLIT (USDm)



<sup>1</sup> 2014 restated for the transfer of certain General Insurance business to Non-Core Business (NCB) in 2015. 2013 was not restated.

<sup>2</sup> Catastrophes include major and mid-sized catastrophes, including significant weather related events.

<sup>3</sup> Accident year combined ratio (AY CR) excludes prior year reserve development (PYD).

# Global Life



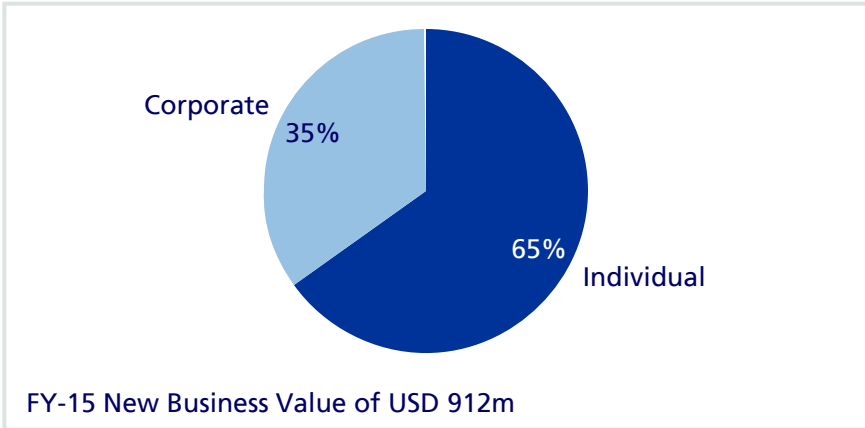
# Lower risk life business, focused on protection and corporate life & pensions



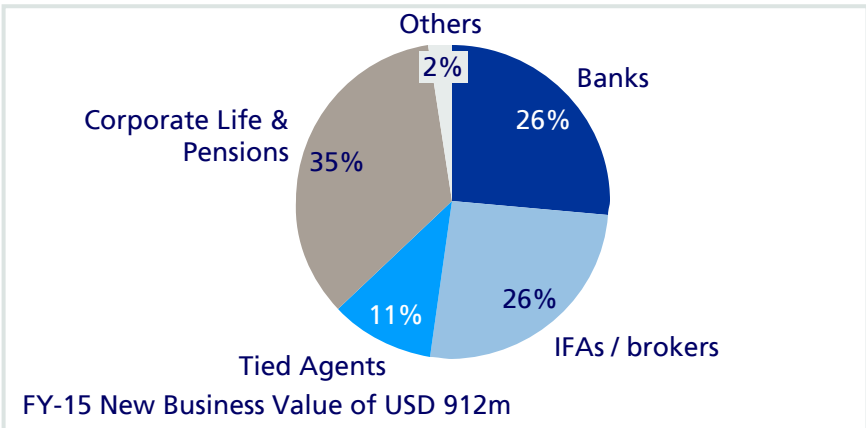
## PROFILE

- Consistent BOP contributor for the Group with focus on capital-light protection and unit-linked products
- Strong partnership capabilities as illustrated by our differentiated and growing bank distribution franchises
- Continued focus on our Corporate Life & Pensions business with leading positions in Corporate Risk
- Leading positions in many retail markets whilst unlocking value from our back books

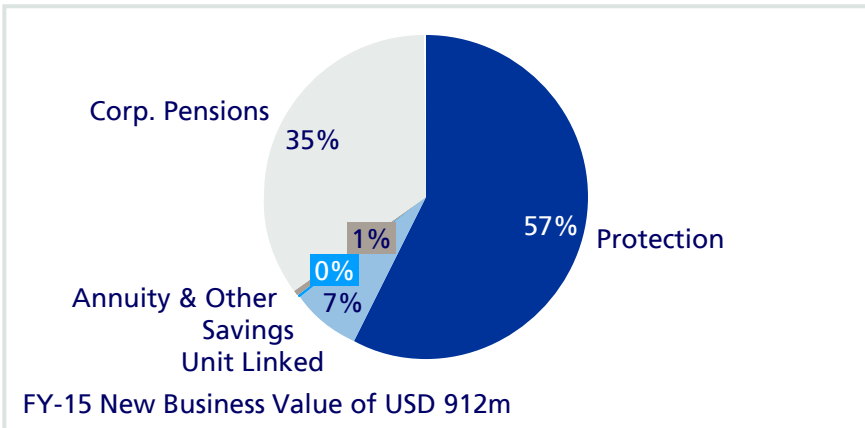
## CUSTOMER SEGMENTS



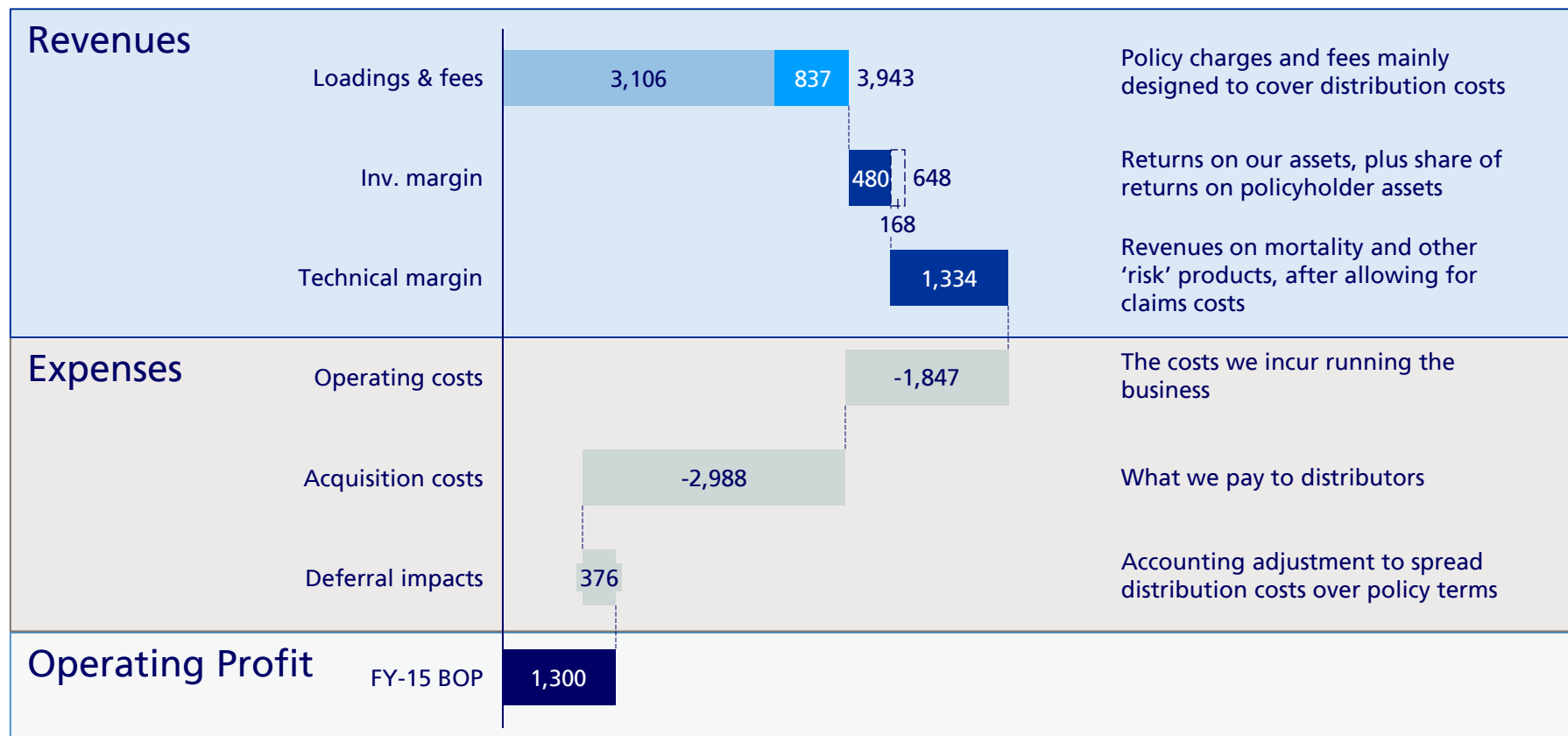
## CHANNELS AND PILLARS



## LINES OF BUSINESS



## DRIVERS OF OUR IFRS PROFITABILITY (USDm)

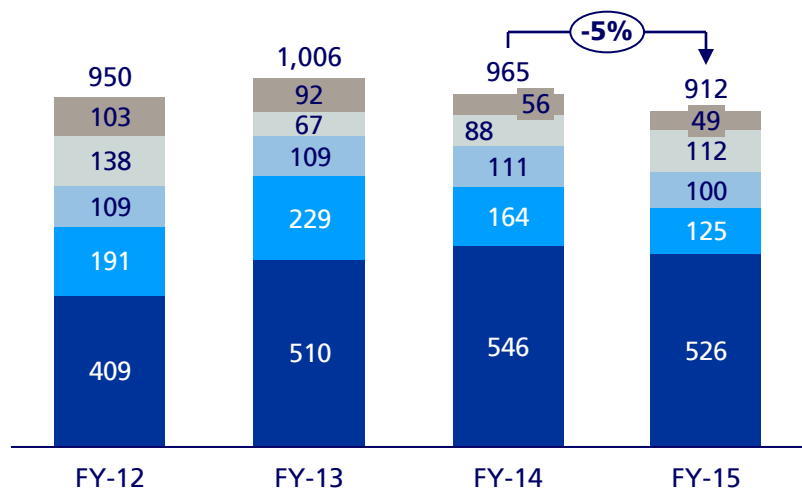


   Germany discretionary dividends<sup>1</sup>
 Premium & other fees
  UL fund based fees

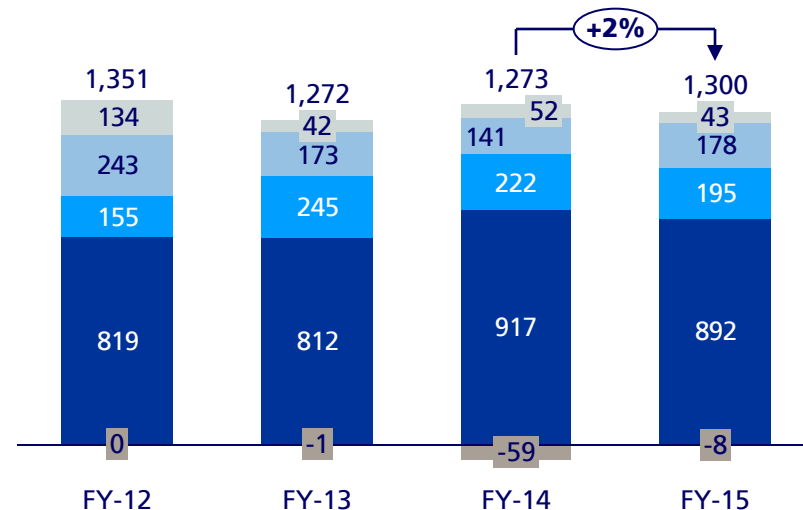
<sup>1</sup> Germany discretionary dividends are paid to policyholders out of the Investment Margin.

# Focus on translating new business growth into tangible measures of value

## NEW BUSINESS VALUE (USDm)<sup>1</sup>



## GLOBAL LIFE BOP (USDm)<sup>1</sup>



Other APAC North America Latin America EMEA

- Strong value creation in recent years in Europe, Middle East and Africa (EMEA) and Asia Pacific (APAC)
- FX headwinds mask local currency growth

- Lower yields and investment in start up businesses has impacted operating profits
- But lower risk profile vs. peers given limited product mix
- Aim to significantly improve profitability through in-force management activities

<sup>1</sup> 2013 and 2014 restated to reflect the change in regional structure from Europe/APME to EMEA/APAC. 2012 is not adjusted.



**Farmers**





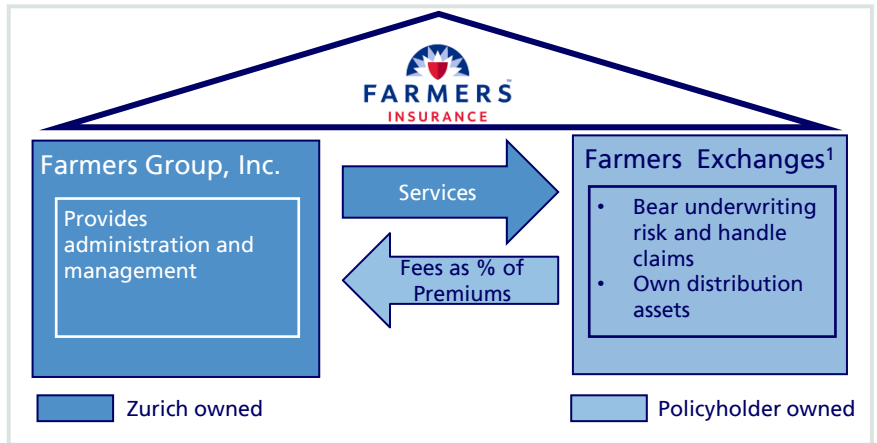
# A unique structure



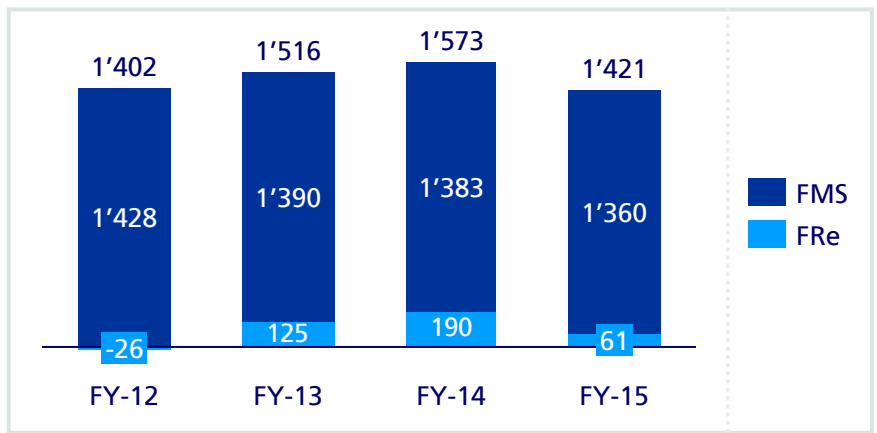
## MAINLY A FEE BUSINESS TO ZURICH

- The Farmers Exchanges are a group of US insurance companies, which are owned by their policyholders
- Zurich owns Farmers Management Services (FMS), which manages the Farmers Exchanges on behalf of the policyholders in an arrangement known as an “attorney-in-fact”
- FMS receives fees from Farmers Exchanges for the services it provides
- The fee based nature of the business model allows FMS to generate stable earnings and high cash remittances.
- Zurich also owns Farmers Re, a reinsurer which provides capital support to Farmers Exchanges

## FARMERS’ UNIQUE STRUCTURE



## FARMERS BOP HISTORY (USDm)



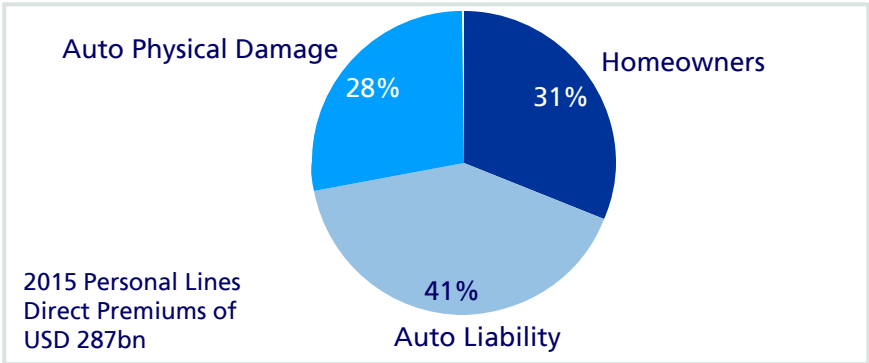
# Leading player in US personal lines insurance



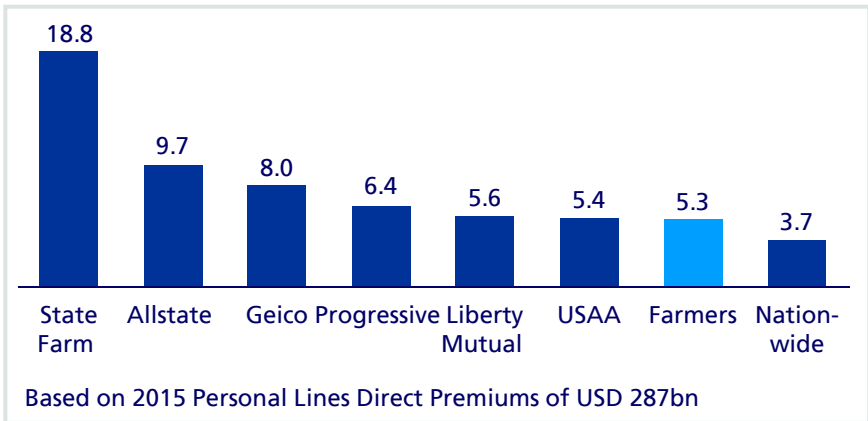
## PROFILE

- Farmers Exchanges is the #3 personal lines insurer in 29 'core' states in the Western US
- Split of business is predominantly personal lines, but also offer commercial lines products for small businesses
- Primary distribution through ~13,500+ Exclusive Agents, under Farmers brand
- Growing business in Eastern US

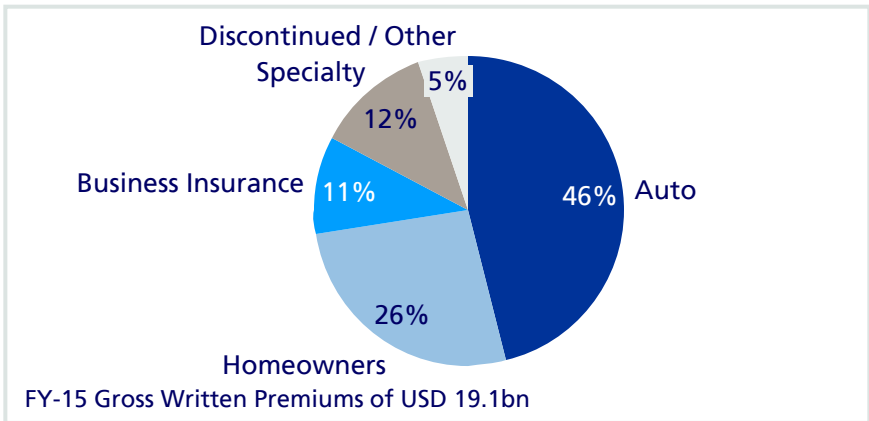
## US PERSONAL LINES MARKET



## PERSONAL LINES MARKET SHARE (%)



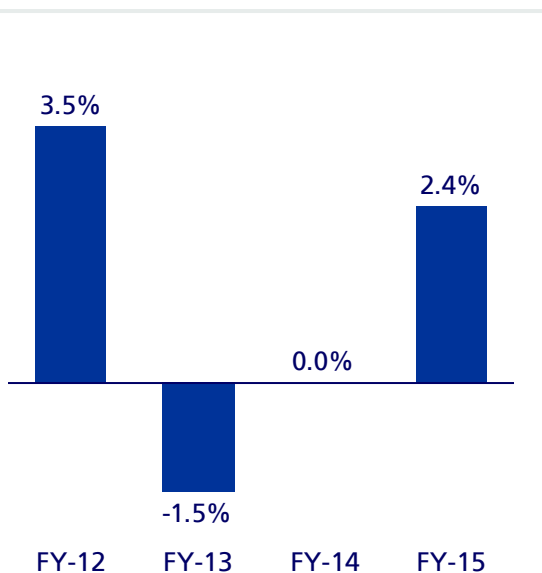
## FARMERS PREMIUM SPLIT



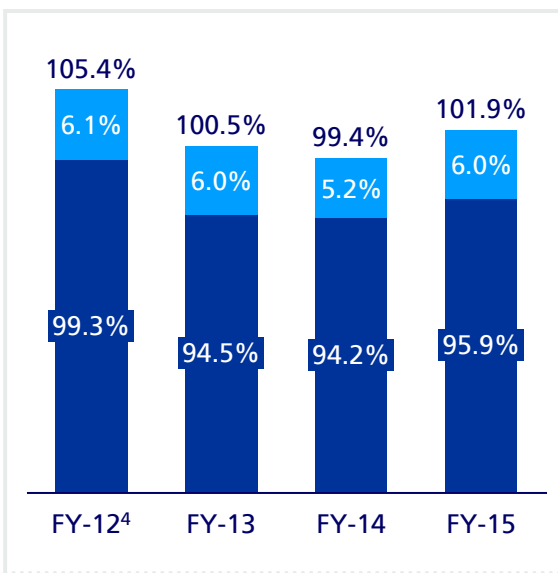
# Back to growth, capital remitted by Farmers Reinsurance Co.<sup>1</sup>



## GWP GROWTH (%)<sup>2</sup>

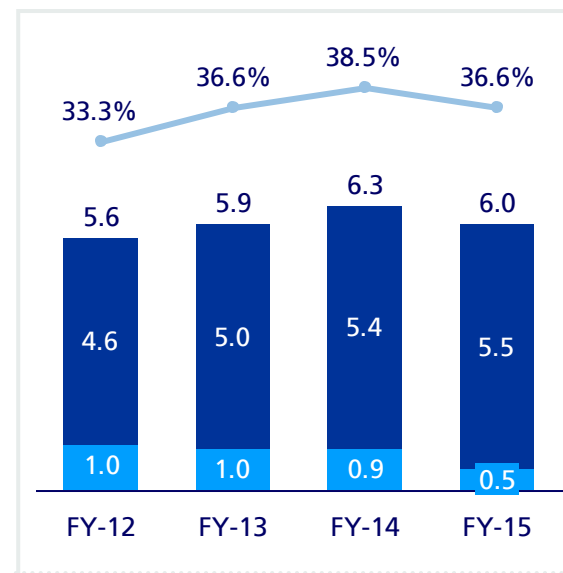


## COMBINED RATIO (%)<sup>2</sup>



■ Catastrophe losses  
■ CR (excl. catastrophe losses)

## SURPLUS<sup>3</sup> (USDbn)



—●— Surplus ratio  
■ Farmers Exchanges surplus  
■ Farmers Reinsurance Co. surplus

<sup>1</sup> Provided for informational purposes only. Zurich Insurance Group has no ownership interest in the Farmers Exchanges. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides administrative and management services to the Farmers Exchanges as its attorney-in-fact and receives fees for its services.

<sup>2</sup> Adjusted for the impact of the Fogel settlement and the Texas Department of Insurance litigation.

<sup>3</sup> Surplus ratio excludes surplus of Farmers Reinsurance Company.

# Investment and Capital Management



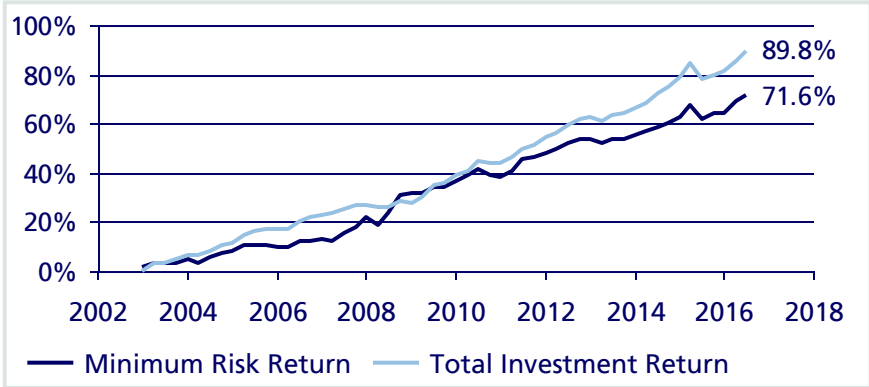
# ALM-focused strategy delivering consistent and sustainable excess returns



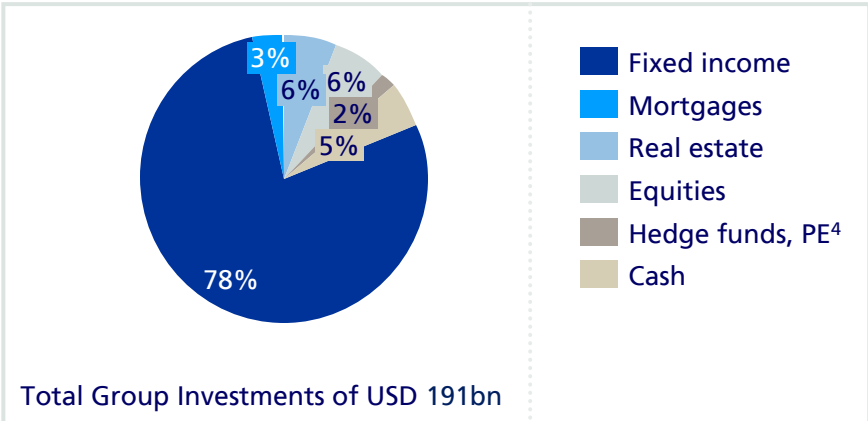
## PROFILE

- ~70% of group investments are managed by third parties
- ALM focused investment strategy
- Generally lower risk investment portfolio than peers, with clear focus on avoiding pro-cyclical actions
- Emerged well from credit crisis

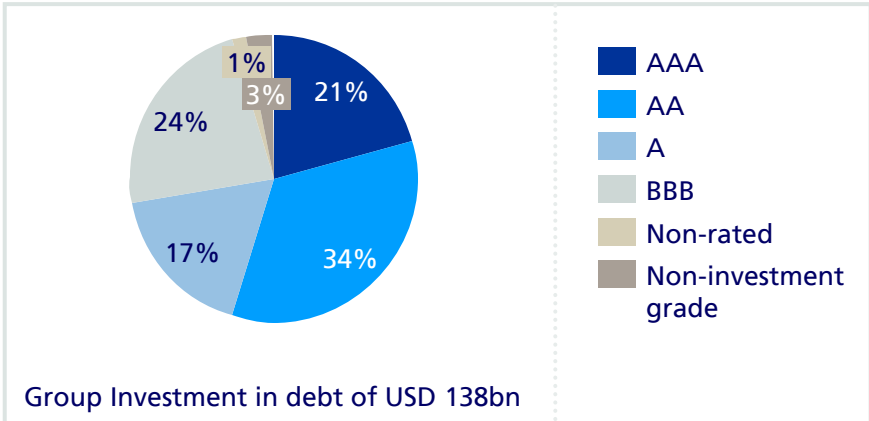
## CONSERVATIVE APPROACH<sup>1</sup>



## ASSET ALLOCATION



## ASSET QUALITY



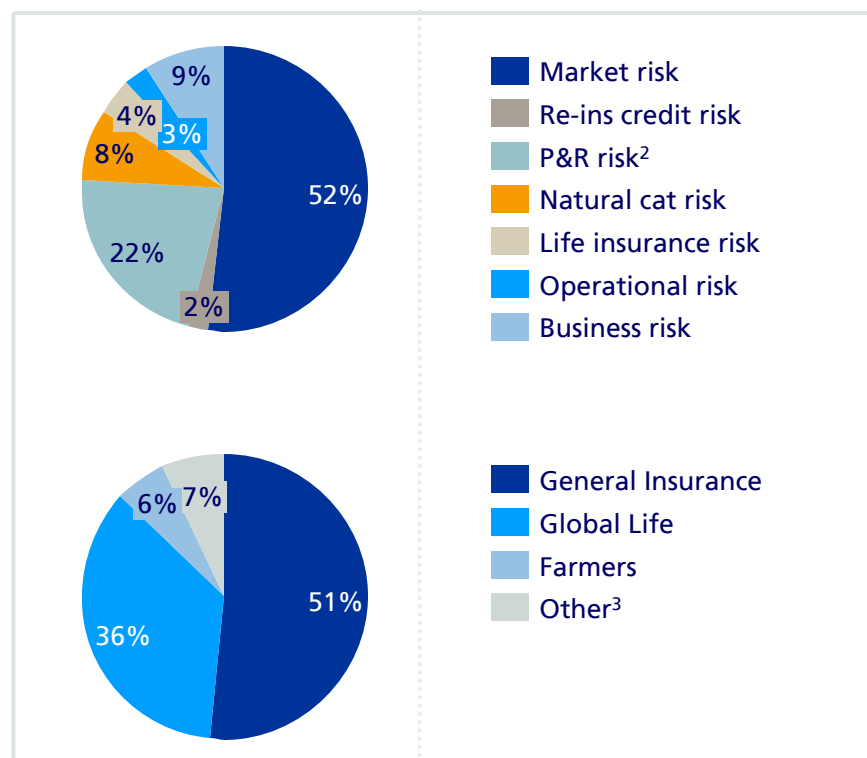
<sup>1</sup> Through June 30, 2016.

# Managing our risks conservatively to AA financial strength

## GROUP SOLVENCY



## RBC BY RISK TYPE AND BUSINESS



<sup>1</sup> The Swiss Solvency Test (SST) ratio is calculated based on the Group's internal model, and both are subject to the review and approval of the Group's regulator, the Swiss Financial Market Supervisory Authority (FINMA). The ratio is filed with FINMA bi-annually.

<sup>2</sup> Premium & reserving risk.

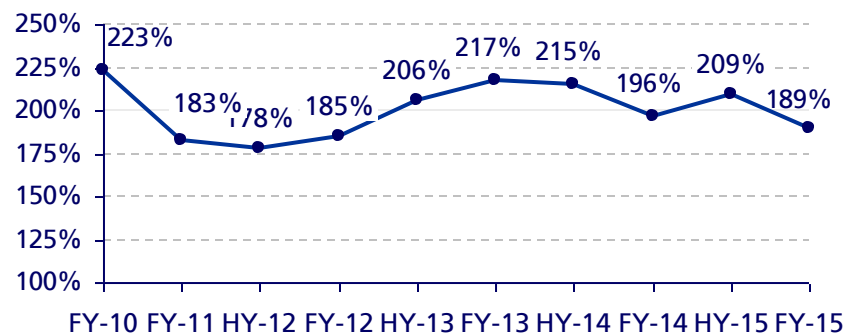
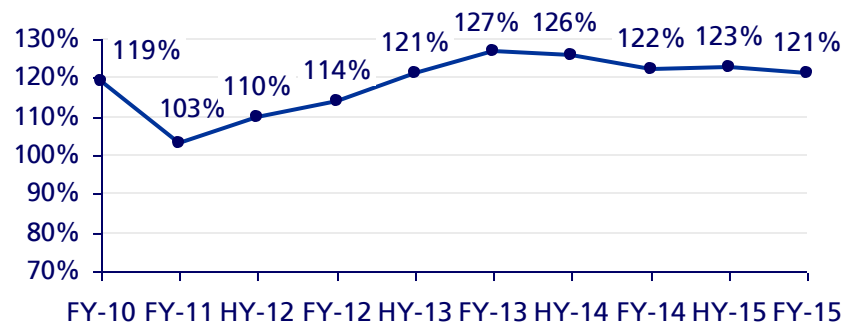
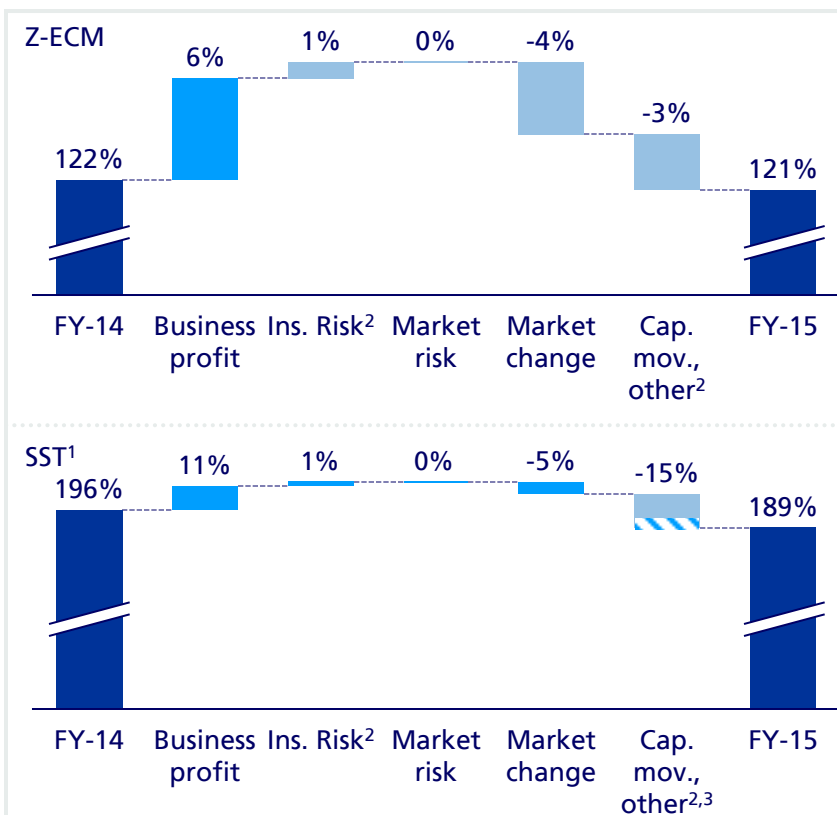
<sup>3</sup> Includes Other Operating Businesses and Non-Core Businesses.

<sup>4</sup> Excluding macro equity hedge.

# Consistently strong solvency position



## FY-15 SOLVENCY RATIO DEVELOPMENT & HISTORICAL VIEW



<sup>1</sup> The Swiss Solvency Test (SST) ratio is calculated based on the Group's internal model, and both are subject to the review and approval of the Group's regulator, the Swiss Financial Market Supervisory Authority (FINMA). The ratio is filed with FINMA bi-annually.

<sup>2</sup> Insurance risk, Capital movements & Other.

<sup>3</sup> Shaded area refers to FINMA yield curve changes contributing a negative 4ppts impact.

# Z-ECM and SST are more conservative than SII

## Primary differences – required capital

	Z-ECM	SST <sup>1</sup>	SII (PILLAR 1)	
Most onerous impact on ratio				
Risk Measure	VaR 99.95% (~AA)	ES 99% (~BBB)	VaR 99.5% (~BBB), usually < ES 99%	
Risk-types covered	<ul style="list-style-type: none"> <li>Market Risk (including investment credit)</li> <li>Premium and Reserve Risk</li> <li>NatCat Risk</li> <li>Life Liability Risk</li> <li>Business Risk</li> <li>Operational Risk</li> <li>Reinsurance Credit Risk</li> </ul>	<ul style="list-style-type: none"> <li>Market Risk</li> <li>Investment Credit Risk</li> <li>Premium, Reserve and UPR Risk</li> <li>NatCat Risk</li> <li>Life Liability Risk</li> <li>Life Business Risk</li> <li>Reinsurance Credit Risk</li> <li>Scenarios</li> <li>Farmers Management Services</li> </ul>	Internal model (ZIP): <ul style="list-style-type: none"> <li>Market Risk (including investment credit)</li> <li>Premium, Reserve and UPR Risk</li> <li>NatCat Risk</li> <li>Business Risk</li> <li>Operational Risk</li> <li>Reinsurance Credit Risk</li> <li>Receivables Credit Risk</li> <li>Scenarios</li> </ul>	Standard Formula (all other entities): <ul style="list-style-type: none"> <li>Market risk</li> <li>Counterparty default risk</li> <li>Life underwriting risk</li> <li>Health underwriting risk</li> <li>Non-life underwriting risk (including premium, reserve and NatCat)</li> <li>Intangible asset risk</li> <li>Operational risk</li> </ul>
Equivalence	No concept of equivalence, ZECM applied to the entire Group	No concept of equivalence, SST applied to the entire Group	Possibility to use local regimes for subsidiaries in equivalent third countries. Not applicable for Zurich	

<sup>1</sup> Regarding Swiss Solvency Test (SST) ratio see footnote on slide 3.



# Z-ECM and SST are more conservative than SII



## Primary differences – yield curves and transitionals

	Z-ECM	SST <sup>1</sup>	SII (PILLAR 1)
Most onerous impact on ratio			
Base risk-free yield-curve	Swaps	Swaps for USD, EUR, GBP Government bonds for CHF, other	Swaps
Entry-point to extrapolation of yield-curve	Use all available market data CHF: 30 years EUR, USD, GBP: 50 years	CHF: 15 years (Zurich uses 30) EUR: 30 years USD, GBP: 50 years	CHF: 25 years EUR: 20 years USD, GBP: 50 years
Ultimate Forward Rate	Flat extrapolation from last observable data point	CHF: 2.7% EUR, USD, GBP: 4.0%	CHF: 3.2% EUR, USD, GBP: 4.2%
Adjustments to yield-curve	None (no liquidity premium)	-30bps for swap based curves (credit)	-10bps (credit) + volatility adjustment (between 9 bps (CHF) and 78bps (USD) at Q4-16) + matching adjustment (currently not used by Zurich)
Transitional requirements	n/a	Transition period from 2006-2011	Various transitional measures, especially for yield-curves and technical provisions, lasting until 2032. Zurich does not make use of these.

<sup>1</sup> Regarding Swiss Solvency Test (SST) ratio see footnote on slide 3.

# Z-ECM and SST are more conservative than SII



## Primary differences – other key elements

	Z-ECM	SST <sup>1</sup>	SII (PILLAR 1)
Most onerous impact on ratio			
Senior debt	Available Capital	Liability	Liability
Tax	Pre-tax	Pre-tax	Post-tax
Granularity	Management view <ul style="list-style-type: none"> <li>Internal reinsurance not relevant</li> <li>Full Group diversification taken into account and allocated back to business units</li> </ul>	Legal entity view <ul style="list-style-type: none"> <li>Internal reinsurance considered</li> <li>Only legal entity diversification taken into account</li> <li>Risk of subsidiaries included (with limited liability)</li> </ul>	Legal entity view <ul style="list-style-type: none"> <li>Internal reinsurance considered</li> <li>Only legal entity diversification taken into account</li> </ul>
Risk Margin	Cost of residual non hedgeable risk (CRNHR) considered in AFR for Life	Market Value Margin added to Target Capital	Risk Margin as part of insurance liabilities

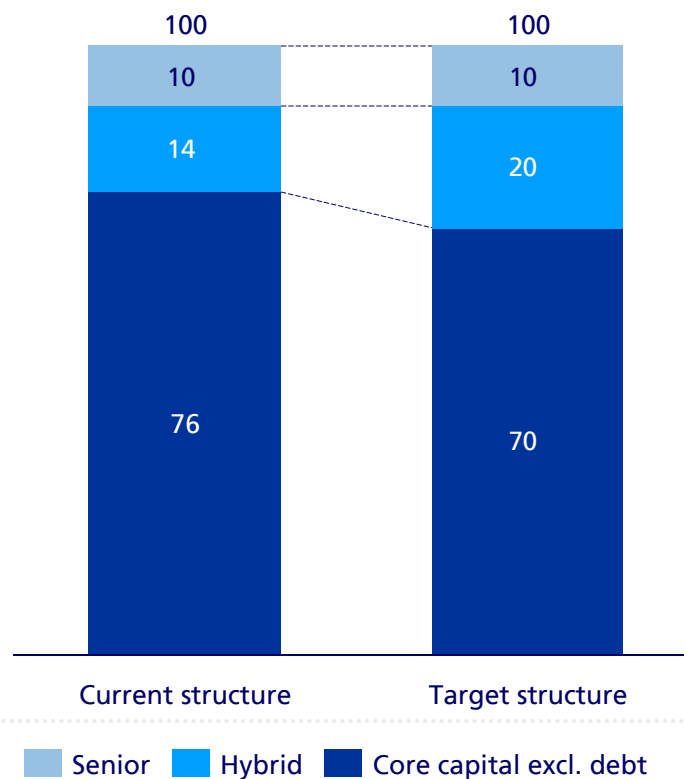
<sup>1</sup> Regarding Swiss Solvency Test (SST) ratio see footnote on slide 3.

# Target capital structure

## OVERVIEW AND RATIONALE

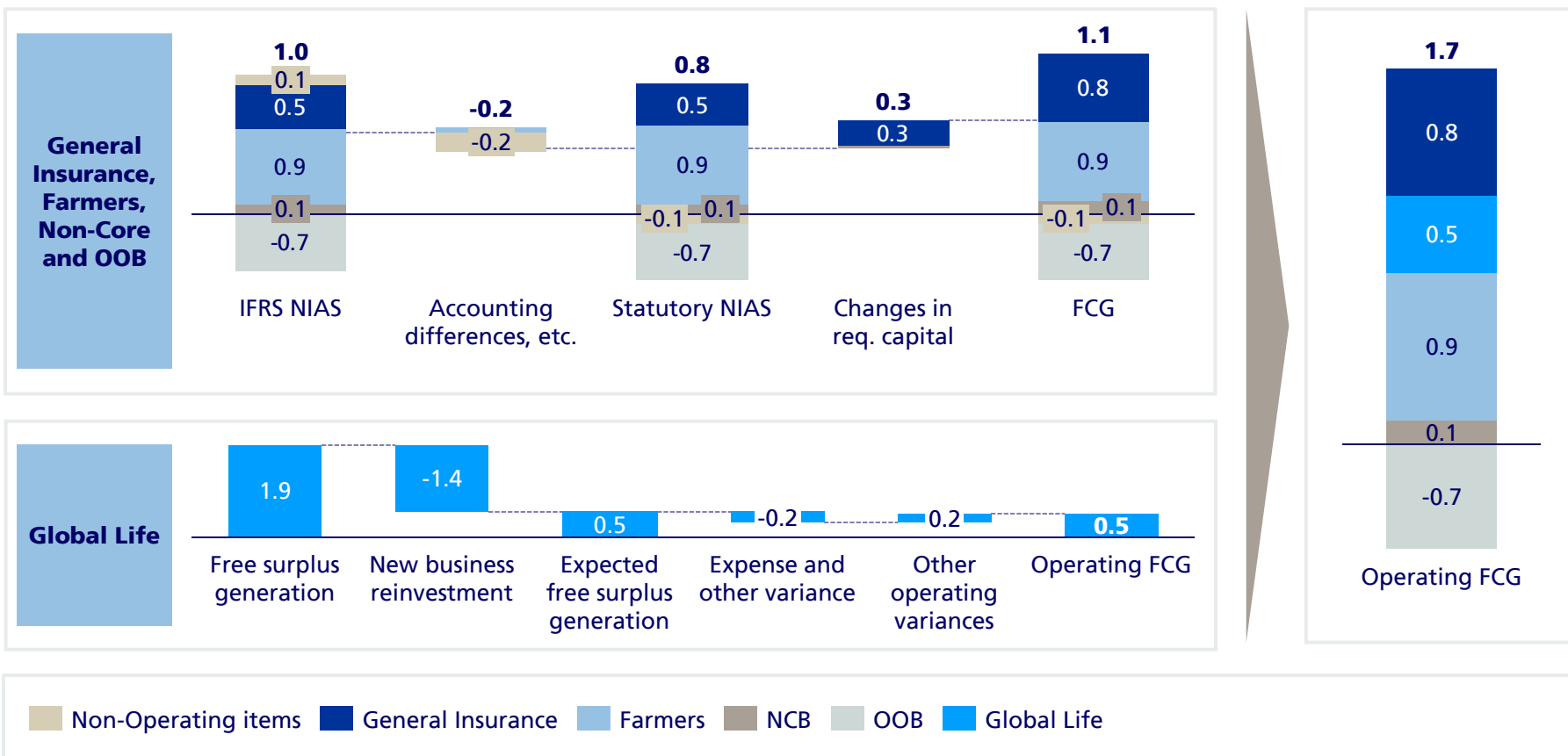
- Target capital structure minimizes total cost of capital subject to maintaining our AA rating and internal liquidity targets
- Capacity to increase leverage according to our capital and rating agency models
- Most likely step is to rebalance the mix of equity and hybrid capital
- Allow for volatility buffer in future target structure (+/-5%)

## CURRENT AND TARGET STRUCTURE OF Z-ECM AFR (%)



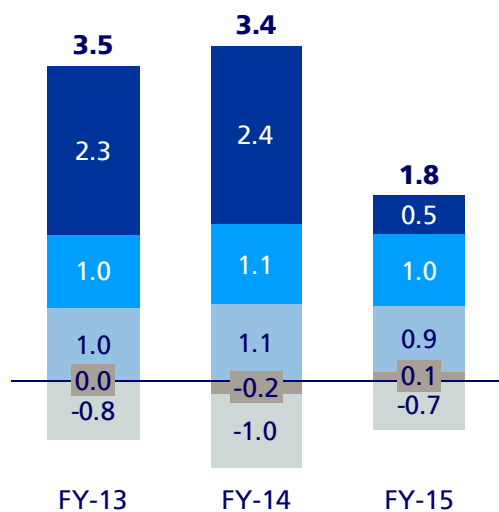
# Low 2015 Free Capital Generation reflects underperformance of General Insurance

## 2015 FREE CAPITAL GENERATION (USDbn)

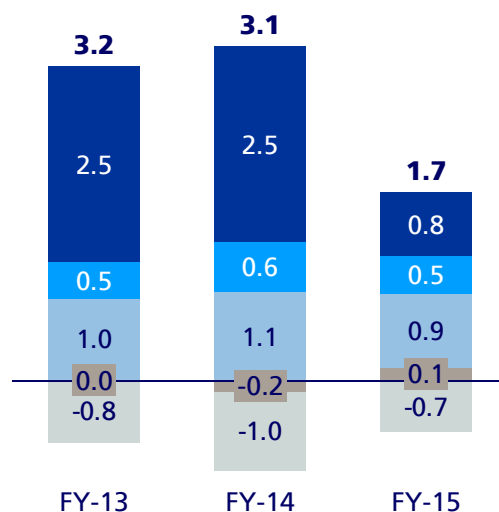


# Expect more than USD 10bn in remittances in the 2014-16 period

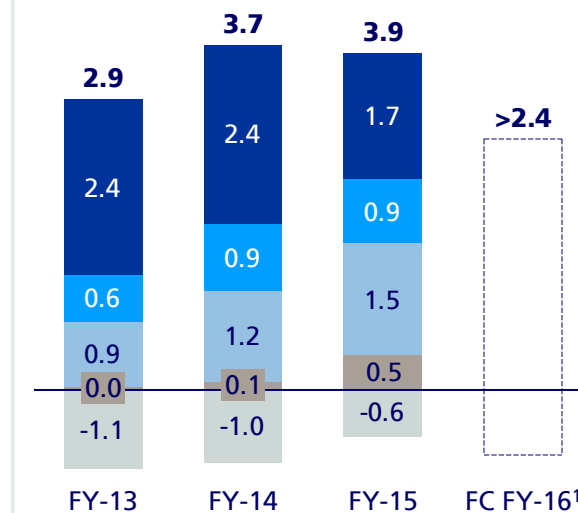
## BOPAT (USDbn)



## OPERATING FCG (USDbn)



## CASH REMITTANCES (USDbn)



■ General Insurance 
 ■ Global Life 
 ■ Farmers 
 ■ NCB 
 ■ OOB

<sup>1</sup> Estimated full year 2016 cash remittances, subject to change.

# 2/3 of current market cap paid out in 8 years

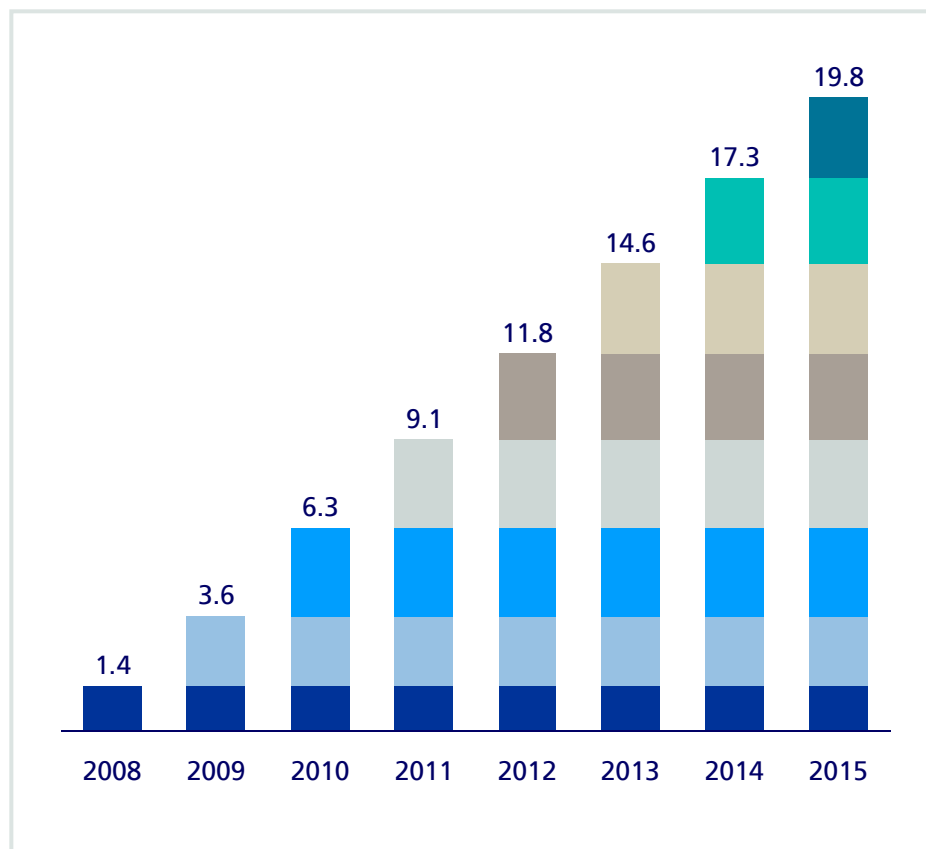
## CASH FOCUS

- Strong balance sheet and solid profitability underpin cash returns

- Strategic Target: Remit > USD 9bn in net cash to the holding company in 2014 - 2016

- Efficient global structure maximizes cash extraction from local entities

## CUMULATIVE PAID DIVIDEND (USDbn)



<sup>1</sup> 2015 dividend estimated based on CHF/USD exchange rate as of February 9, 2016.

# Disclaimer and cautionary statement



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**Calendar:**

- September 27-29, Bank of America Merrill Lynch conference, London
- November 10, 2016, Results for the nine months to September 30, 2016
- November 17, 2016, Investor Day, London
- February 9, 2017, Annual Results 2016

