

# Letter to Shareholders

Results for the six months to June 30, 2020



Michel M. Liès



Mario Greco

Dear Shareholder,

Zurich Insurance Group (Zurich) reported a solid performance in the first half of 2020 amid the widespread social, economic and financial impacts of COVID-19. Our commercial business achieved strong growth. Through our rapid and extensive response to the COVID-19 pandemic we strengthened customer and employee satisfaction. And we expanded digitalization and introduced innovative services, while continuing to execute on the next phase of our strategy.

The first half of 2020 was an unprecedented period with unforeseeable events ranging from a global pandemic and recession, to civil unrest and a higher rate of natural catastrophes. In this context, our priority has been to focus on our customers, colleagues and the communities in which we operate. We delivered on our commitments to our customers and provided a wide range of additional support and financial relief, such as premium rebates and payment holidays. We moved quickly to protect our colleagues, switching early to home office and providing hospitalization benefits to them and their families. We are pleased that our actions have increased trust and confidence in Zurich among customers and colleagues alike.

Business operating profit<sup>1</sup> (BOP) in the first six months of 2020 was USD 1.7 billion, a decline of 40 percent compared with USD 2.8 billion in the first half of 2019. The underlying business performance was broadly in line with the previous year. The decline was largely due to an overall COVID-19 related impact of USD 686 million,<sup>2</sup> and the pandemic's impact on financial markets leading to less favorable performance of the Group's investments, in particular in hedge funds. In addition, the first-half result was affected by higher catastrophe-related claims mainly related to weather events and civil unrest. Net income attributable to shareholders was USD 1.2 billion, a decline of 42 percent from USD 2 billion. Our capital position remained strong, with the Zurich Economic Capital Model (Z-ECM) ratio estimated at 102 percent,<sup>3</sup> within our target as of June 30, 2020, and the Swiss Solvency Test ratio at 185 percent.<sup>4</sup>

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**USD 1.7 bn**

Business operating profit<sup>1</sup>  
(June 30, 2019: USD 2.8bn)

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**USD 1.2 bn**

Net income attributable  
to shareholders  
(June 30, 2019: USD 2.0bn)

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**102%**

Zurich Economic Capital  
Model ratio<sup>3</sup>  
(December 31, 2019: 129%)

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**8.5%**

Business operating profit  
after tax return on common  
shareholders' equity  
(June 30, 2019: 15.0%)

## Property & Casualty

Within the Group's Property & Casualty (P&C) insurance business, claims related to the COVID-19 outbreak are expected to be USD 750 million<sup>5</sup> for 2020, as indicated in May 2020, subject to some uncertainty given the continuing nature of the event. The Group recorded this amount fully within the first half 2020 results. Partially offsetting the P&C claims was a net favorable USD 64 million of other items related to the COVID-19 outbreak and its impact on financial markets. These include reductions in property and casualty claims resulting from restrictions on activity implemented across many countries.<sup>2</sup>

P&C BOP of USD 751 million was USD 905 million lower than the first half of 2019, due primarily to COVID-19 related impacts, together with higher catastrophe claims resulting from European and North American weather events, the civil unrest in the U.S., and lower capital gains on hedge funds. P&C results demonstrated a strong underlying performance with growth in gross written premiums, improved customer retention and higher pricing. The Group achieved price increases overall, with the level of increases improved across most regions compared with the previous year, particularly in commercial insurance. Commercial insurance gross written premiums, which make up around 70 percent of the Group's P&C premiums, grew on a like-for-like basis, supported by significant rate increases in North America and Europe. The Group is well positioned to grow the commercial insurance business after its portfolio was reshaped and profit improved over the period 2016 to 2019.

## Life

Life results demonstrated a stable underlying performance. BOP was USD 559 million, USD 143 million lower than in the first half of 2019. Excluding COVID-19 related items, BOP was 3 percent lower, due entirely to movements in exchange rates and a lower contribution from one-off items. Life's focus on protection and capital-light savings business position it well for the prevailing low-yield environment. In the first six months, 89 percent of new business came from the protection, unit-linked and corporate savings business. Life new business annual premium equivalent (APE) sales decreased on a like-for-like basis, adjusting for currency movements, acquisitions and disposals. The decline reflected the COVID-19 related impact of government lockdowns across the world. The development also reflected expected reductions in several markets from exceptional levels in the first quarter of 2019. As the government lockdowns have eased, sales have begun to recover, with distribution through key banking partners such as Banco Santander recovering sharply later in the period.

## Farmers

Farmers BOP of USD 779 million was USD 87 million lower than in the first half of 2019, mainly due to reduced fee revenues as a result of premium credits to customers at the Farmers Exchanges.<sup>6</sup> The Farmers Exchanges<sup>6</sup> provided premium credits to their customers worth approximately USD 300 million. Gross written premiums of Farmers Exchanges<sup>6</sup> grew at an underlying level, before the impact of COVID-19 premium credits, and an adjustment to previously booked gross premiums related to lower expected volumes of commercial rideshare business following shelter-in-place orders by U.S. state governments. Key customer metrics remained strong as a result of the Farmers Exchanges<sup>6</sup> customer-focused strategy, with a further increase in net promoter score and stable retention levels.

Farmers Management Services management fees and other related revenues decreased, mainly as a result of the reduced fee revenues due to the premium credits to customers at the Farmers Exchanges.

## A rapid, flexible response

During the first half of 2020, the Group continued to execute on the next phase of its customer-focused strategy outlined in November 2019, adapting to new circumstances as they evolved. Customer satisfaction, as measured by net promoter scores, increased across most major retail markets following Zurich's rapid and flexible response to the pandemic. This included the prompt payment of claims, as well as a wide range of financial relief measures and risk management advice. In Canada, for example, Zurich provided the risk assessments to enable Bauer Hockey to switch production from ice-hockey equipment to personal protection equipment for medical staff and first responders.

## Accelerating digital innovation

The Group also accelerated the implementation of its digital strategy, including a range of measures to support customers, such as video-based claims reporting, electronic signatures and remote risk assessments for businesses by the Group's risk engineers. The Group also set up Zurich WellCare, a technology-based business focused on health and wellbeing services aimed at prevention alongside traditional insurance protection. In line with our broader collaboration strategy, Zurich also entered a distribution agreement with telecommunications group Orange. The companies will collaborate to offer insurance products to Orange's 20 million Spanish customers.

## Committed to our plan

Since the start of the COVID-19 crisis we have focused on understanding the steps needed to drive the business forward and deliver on our plan presented in November 2019. We are well placed to adapt quickly in a very dynamic and uncertain scenario, and therefore remain fully committed to our three-year plan. While our operating environment changes, our goals are the same – we remain confident in the strength of our business, our strategy, and our ability to adapt to changing needs.

Yours sincerely,



**Michel M. Liès**  
Chairman of the  
Board of Directors



**Mario Greco**  
Group Chief  
Executive Officer

## Financial calendar

### Update for the nine months ended

**September 30, 2020**

November 12, 2020

### Annual results 2020

February 11, 2021

### Annual General Meeting 2021

April 7, 2021

Note: all dates are subject to change

<sup>1</sup> Business operating profit indicates the underlying performance of the Group's business units by eliminating the impact of financial market volatility and other non-operational variables.

<sup>2</sup> Includes items related to the COVID-19 outbreak and subsequent financial market volatility that are reasonably attributable and quantifiable. For further details see slide 13 of the Group's HY-20 investor presentation.

<sup>3</sup> Reflects midpoint estimate as of June 30, 2020, with an error margin of +/- 5pts for Z-ECM.

<sup>4</sup> Estimated Swiss Solvency Test (SST) ratio as of June 30, 2020. The SST ratio accounts for EUR 750 million subordinated debt issued on June 9, 2020 and approved as eligible risk-bearing capital by Swiss Financial Market Supervisory Authority FINMA on July 22, 2020.

<sup>5</sup> Based on current assessments, subject to some degree of uncertainty considering the continuing nature of the event.

<sup>6</sup> Zurich Insurance Group has no ownership interest in the Farmers Exchanges. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides certain non-claims services and ancillary services to the Farmers Exchanges as its attorney-in-fact and receives fees for its services.

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Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predictions of or indicate future events, trends, plans or objectives of Zurich Insurance Group Ltd or the Zurich Insurance Group (the Group). Forward-looking statements include statements regarding the Group's targeted profit, return on equity targets, expenses, pricing conditions, dividend policy and underwriting and claims results, as well as statements regarding the Group's understanding of general economic, financial and insurance market conditions and expected developments. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and plans and objectives of Zurich Insurance Group Ltd or the Group to differ materially from those expressed or implied in the forward-looking statements (or from past results). Factors such as (i) general economic conditions and competitive factors, particularly in key markets; (ii) the risk of a global economic downturn, in the financial services industries in particular; (iii) performance of financial markets; (iv) levels of interest rates and currency exchange rates; (v) frequency, severity and development of insured claims events; (vi) mortality and morbidity experience; (vii) policy renewal and lapse rates; (viii) increased litigation activity and regulatory actions; and (ix) changes in laws and regulations and in the policies of regulators may have a direct bearing on the results of operations of Zurich Insurance Group Ltd and its Group and on whether the targets will be achieved. Specifically in relation with the COVID-19 related statements, such statements were made on the basis of circumstances prevailing at a certain time and on the basis of specific terms and conditions (in particular applicable exclusions) of insurance policies as written and interpreted by the Group and may be subject to regulatory, legislative, governmental and litigation-related developments affecting the extent of potential losses covered by a member of the Group or potentially exposing the Group to additional losses if terms or conditions are retroactively amended by way of legislative or regulatory action. Zurich Insurance Group Ltd undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

All references to "Farmers Exchanges" mean Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange and their subsidiaries and affiliates. The three Exchanges are California domiciled inter-insurance exchanges owned by their policyholders with governance oversight by their Boards of Governors. Farmers Group, Inc. and its subsidiaries are appointed as the attorneys-in-fact for the Farmers Exchanges and in that capacity provide certain non-claims services and ancillary services to the Farmers Exchanges. Neither Farmers Group, Inc., nor its parent companies, Zurich Insurance Company Ltd and Zurich Insurance Group Ltd, have any ownership interest in the Farmers Exchanges. Financial information about the Farmers Exchanges is proprietary to the Farmers Exchanges, but is provided to support an understanding of the performance of Farmers Group, Inc. and Farmers Reinsurance Company.

It should be noted that past performance is not a guide to future performance. Please also note that interim results are not necessarily indicative of full year results.

Persons requiring advice should consult an independent adviser.

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The Letter to Shareholders is published in English and German. In the event of inconsistencies in the German translation, the English original version shall prevail.

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