

Zurich ClimateWise Report 2020

August 2020



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1. Be accountable

1.1 Ensure that the organisation's Board is working to incorporate the Principles into business strategy and has oversight of climate risks and opportunities.

Global Governance

Zurich firmly recognises the importance and value of Executive level support and endorsement of climate-related activity in order to drive initiatives forward. As a global insurance group, operating in the UK, the Zurich Insurance Group board and its sub-committees have clear responsibilities for managing the financial risks from climate change to ensure clear accountability and responsibility.

The ultimate responsibility for the climate risk policy resides with the Board who approve the Group sustainability business strategy to safeguard the future of the company and society. The Board delegates various aspects of the policy monitoring to various committees:

- The Governance Nominations and Sustainability Committee (GNSC) supports the Board with regard to sustainability and meets at least twice a year.
- The Risk and Investment Committees support the Board with the risk relevant aspects and with the Responsible Investment policy and meets at least four times a year.
- The Remuneration Risk Committee ensures the remuneration architecture entails the management targets and meets at least twice a year.
- The Audit Committee reviews the reporting on sustainability and Climate risk and accumulation with risk committee and meets at least four times a year.

UK Governance

The PRA Supervisory note on the Climate Change Senior manager (3/19) requires that Boards embed and understand the Climate Change Financial Risk exposures and have clear accountabilities delegated. Within the UK, under the Senior Managers and Certification Regime (SMCR), the UK Chief Risk Officer holds the Senior Management Function for identifying and managing the financial risks of climate change. Given the diversity of business lines within Zurich UK and where the first line management of climate change risk predominantly is, support is provided by the Chief Financial Officer (CFO) and the Chief Underwriting Officer (CUO), whose Statements of Responsibilities have been updated accordingly.

Incorporation of Climate Change into Business Strategy and Planning

The Zurich Group has designed a sustainability strategy, which identifies three areas of focus, one of which is climate resilience. Within the UK, the UK Executive Committee are transposing this strategy into a specific UK sustainability strategy and are leading the design of specific, ambitious targets across business areas to ensure tangible results, expanding on the actions already underway. Progress on these targets will be reported from across the business to the UK's Sustainability Risk Committee, which will oversee the delivery of the strategy and escalate to the Board as required. Work is also underway to embed climate risk into Zurich UK's risk management framework, as referenced under sub-principle 5.1.

UK Board Oversight and Monitoring

For Zurich Assurance Ltd. (ZAL), the UK regulated primary risk carrier for the UK market providing Life insurance products including protection and pensions, the Board Risk Committee has oversight of the financial risks of climate change, with accountability being documented within the Terms of Reference

and climate change occurring as a standing agenda item at each quarterly meeting. The Board Risk Committee is authorised by the ZAL Board and exists to assist the Board in carrying out its responsibilities in relation to the oversight of risk management in accordance with law and regulations. The Board Risk Committee's remit includes understanding and assessing the financial risks from climate change that affect the firm. To assist the Board Risk Committee in effectively being able to address and oversee these risks within the firm's overall business strategy and risk appetite, training is being planned to ensure ongoing development of expertise. For Zurich Insurance plc. (ZIP), the Irish regulated primary risk carrier for the Zurich EMEA market providing P&C

insurance products and services, the UK Branch Management Committee has similar oversight via the UK Branch Risk and Controls Committee.

The ZAL Board Risk Committee and Zurich Insurance plc. (ZIP) UK Branch Risk and Controls Committee have approved a formal governance framework, which introduces a pan-UK Sustainability Risk Committee, to ensure reporting and oversight of relevant management information (MI) in line with Zurich's Sustainability Strategy. Within this governance framework, clear escalation routes have been formalised to ensure the effective oversight of sustainability risks. The following diagram shows the governance framework for managing and overseeing climate risks within the UK.

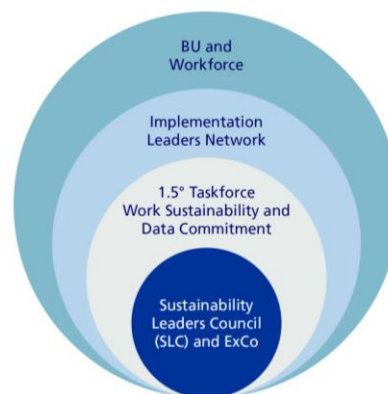
1.2 Describe management's (below board-level responsibility) role in assessing and managing climate-related issues.

Global Engagement Model

As referenced in sub-principle 1.1, the Zurich Group has designed a sustainability strategy, which identifies three areas of focus: climate resilience and limiting the global temperature rise to 1.5°C above pre-industrial levels; work sustainability; and our data commitment.

Sustainability Leaders Council

The Sustainability Leadership Council (SLC) is responsible for communicating Zurich's global commitment and ownership across all targets. the delivery of the agreed commitments in functions and business units as well as determining prioritisation, indicators, and implementation plans in countries and functions. The SLC meets quarterly to review progress, remove roadblocks, discuss collaboration opportunities and updates ExCo and leadership teams regularly. The SLC also approves 1.5°C reporting updates that are shared with ExCo quarterly.



Taskforces

The 1.5°C Taskforce supports and enables local implementation. This includes setting reporting frameworks and ensuring local participation as well as feeding a progress status into Business Reviews, E-Board and the SLC. This taskforce also develops core strategic messaging, flags resource challenges, and provides re-usable toolkits, planning templates, and engagement materials to maximise the effectiveness of local support activities.

Implementation Leaders Network

The leaders network ensures collaboration with PA&S team, taskforces, whilst supporting teams to drive local implementation. As such, the network coordinate regional / Business Unit governance and progress tracking; enable best practice sharing and gather success stories; establish ownership of targets locally to sustain long-term success; and interacts with Group Sustainability and includes necessary stakeholders.

UK Engagement Model

Responsibility and accountability for sustainability is assigned to Zurich UK's General Counsel, a member of the Executive Team, who works to ensure Zurich in the UK is delivering on all its commitments towards sustainable business practices. In addition, our Head of UK Public Affairs & Sustainability chairs a meeting of the Corporate Responsibility & Sustainability Council every six weeks, which brings together senior representatives from across the business to ensure that Zurich's Corporate Responsibility and Sustainability strategy is effectively integrated in the way Zurich does business and, thereby, enabling Zurich to live up to the UN Global Compact 1.5 Degree Business

Ambition Pact, the Principles for Responsible Investment, the UNEP FI Principles for Sustainable Insurance, the Paris Pledge for Action, the Geneva Association Climate Risk Statement, and other similar commitments to which Zurich is a signatory. The Corporate Responsibility & Sustainability Council also provides a forum to discuss and agree environmental priorities as part of the overall Corporate Responsibility programme. In addition to the main function to galvanise commitment to and delivery of Zurich's Sustainability Strategy and reporting progress to the Sustainability Risk Committee, the Council's main priorities continue to be:

- Reducing Zurich's consumption of electrical energy and increasing its use of energy from renewable sources
- Reducing Zurich's consumption of materials, including single use plastics and paper
- Reducing business travel
- Exploring customer proposition potential in collaboration with a separate Climate Change Working Group amongst our retail, commercial, and municipal underwriting teams.

Monitoring and Disclosure

Zurich in the UK submits data as required for the Zurich Group's submission to the Carbon Disclosure Project and the Dow Jones Sustainability Index. Zurich places significant emphasis on its risk management culture and, therefore, requires the ESG to complete a total risk profile and submit a quarterly risk report to the UK Risk function. The Zurich Group's Environmental Policy and Commitments are summarised here: <https://www.zurich.com/en/sustainability/climate-change/minimizing-our-environmental-footprint>.

Dow Jones Sustainability Index

Zurich has been participating in RobecoSAM's Corporate Sustainability Assessment since 2007. Companies are evaluated on economic, environmental and social factors. In the 2019 assessment Zurich outperformed **99%** of other companies (up from 93% in 2018) in the insurance industry group and is a member of DJSI World and DJSI Europe. This score has a high visibility with our executive management, board and investors.

CDP

We are also members of CDP. CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Through CDP we provide information on our greenhouse gas emissions, energy use, and the risks and opportunities from climate change. Zurich has submitted a response since 2004. In 2019 Zurich achieved a score of

A (Leadership level) an increase from B (Management level) in 2018. Our 2019 report is available here:

<https://www.zurich.com/en/sustainability/our-strategic-priorities/external-commitments>

Principle 1: Demonstrating Planned Activities

- ZAL Board Risk Committee Terms of Reference to be updated to document responsibilities and to ensure sustainability is a standing agenda item from August 2020. Board engagement to continue to increase expertise through planned training and regular reporting of MI to ensure effective oversight.
- UK Executive Committee designing the UK sustainability strategy, in line with the Group sustainability strategy. This will be progressed with clear targets defined by year end 2020.
- Implement the Sustainability Risk Committee, as approved in the UK governance framework in May 2020, to bring together MI from across the business and ensure progression in line with the UK sustainability strategy. Escalation to the Boards or equivalent, as formally agreed.

2. Incorporate climate related issues into business strategies

2.1 Evaluate the implications of climate change for business performance (including investments) and key stakeholders.

Responsible investment at Zurich – Overview

Responsible investment forms a key element of Zurich's investment philosophy and comprises three elements:

1. **ESG integration:** Proactively integrating ESG factors, including climate change, into the investment process – across asset classes, and alongside traditional financial metrics and state-of-the-art risk management practices – supports us in 'doing well' and in achieving our mission to generate superior risk-adjusted long-term financial returns. Successful ESG integration is based on:
 - a) adequate training to help investment decision makers understand the relevance of ESG factors
 - b) access to data, research and analysis pertaining to ESG issues to inform investment decision making
 - c) formal integration of ESG factors into the security and asset selection process
 - d) active ownership practices.
2. **Impact investing:** Through impact investing, Zurich can help fund solutions to some of the pressing social or environmental issues of our time. Zurich is directly exposed to challenges such as climate change, resource depletion, and more. We have a direct interest in sustainable global economic growth and supporting communities in becoming more resilient to environmental and social challenges. Impact investments can help address these issues through their targeted, positive impact, and also offer a financial return commensurate with risks.
3. **Advancing together:** We believe that responsible investment will only truly have an impact if financial market participants are advancing together, making responsible investment mainstream. Only by acting collectively can ESG risk be priced efficiently, provide the right incentives to those seeking to raise capital in the

market, and allow impact investments to provide capital on the scale needed to tackle the pressing social and environmental issues of our time. Supporting collaborative initiatives and working together with other industry participants to advance responsible investment practices thus forms an integral part of our approach.

Navigating the complexity of insurance investment management and practising responsible investment at the same time can only be achieved by fully integrating these responsible investment practices into the overall investment approach and making them part and parcel of everyday investment decision-making. Strategies and policies alone are not sufficient. Responsible investment must become part of the organisation's DNA – its culture. This will take time, leadership and 'learning by doing'. To accelerate and support this process, we are providing incentives to investment professionals to practice responsible investing by reflecting responsible investment in individual objectives across the Investment Management organisation; we have incorporated responsible investment into Zurich's technical competency framework used to determine job profiles and training requirements; we have established a global group of 'responsible investment champions' representing individual teams; and we have built a small but dedicated responsible investment team that acts as a catalyst and engages with the rest of the organisation on an ongoing basis.

Please see the following resources for further details about Zurich's responsible investment approach:

- Doing well and doing good – Why Zurich practices responsible investments. Available at: <https://www.zurich.com/en/corporate-responsibility/responsible-investment>
- Responsible Investment at Zurich – What we want to achieve, and how we do it. Detailed white paper describing Zurich's responsible investment approach in detail. Available at: <https://www.zurich.com/-/media/project/zurich/dotcom/sustainability/docs/responsible-investment-at-zurich.pdf?la=en>
- In our PRI transparency report (which included climate-change related questions in the 2018 edition), available at (note: the 2019 report is scheduled to be published on www.unpri.org and later Zurich.com in July): <https://www.zurich.com/-/media/project/zurich/dotcom/sustainability/docs/pri-transparency-report-2018-2019.pdf?la=en>

Every business and asset will be affected by climate change and the collective action taken to mitigate or adapt to it. This will be the case even if society successfully transitions toward a low-carbon economy, and, as envisaged by the Paris Accord succeeds in keeping future global temperature increases in this century 'well below' two degrees Celsius. The impacts of climate change run through all the elements of our responsible investment strategy and can mainly be viewed in the categories of 'transition risk' and 'physical risk'.

In 2017, Zurich's Macroeconomic and Market Strategy team developed a climate-change scorecard to monitor the probabilities of transition and physical risks, which is updated annually. The 2019 update indicated that the likelihood of missing the Paris Agreement's target of limiting global warming to 2°C or below was higher than achieving it. Zurich has subsequently done further analysis of mid (3-5-year) and long-term (5-10-year) effects under high transition risk and high physical risk scenarios, which have informed further action points for 2019, resulting in our updated position on climate change. We are helping our customers and communities become more resilient to natural disasters and extreme weather; we make a difference through our responsible investment approach; and we are swiftly reducing our own carbon footprint. As part of this, we were the first insurer to commit to the UN Global Compact's Business Ambition for 1.5°C.

Zurich has defined a clear strategy to reflect climate change in its investment approach and we are committed to action in eight areas:

1. **Scenarios:** it is hard to take action without context. Zurich's Market Strategy and Macroeconomics team has defined high-level scenarios and is monitoring developments with the help of a scorecard that is updated regularly. The analysis is available on Zurich.com.
2. **Strengthen ESG integration:** given its complexity and long-term nature, climate change represents a particular challenge for ESG integration. Additional data and tools are required to raise awareness among investment professionals and to support integration in investment strategies.
3. **Benchmarks:** ESG integration practices might fail to effectively capture all climate change-related risks and opportunities. We are testing in selected asset classes the use of bespoke benchmarks that incorporate a climate risk assessment and will evaluate the application of such benchmarks for new and existing portfolios on a case-by-case basis.
4. **Finance the transition to a low-carbon economy:** as part of our ongoing commitment to impact investing and our target to help avoid the emission of five million tons of CO₂ per year, we will evaluate green investments across different asset classes on an ongoing basis.
5. **Drive change through advocacy:** public and private sectors need to take decisive action. Zurich has defined clear positions on topics such as transparent risk disclosure, carbon pricing, etc.
6. **Engagement:** as part of engaging with the companies in which we invest, climate change should be reflected on the agenda and considered in voting practices.
7. **Selective exclusions:** recognising the particularly harmful impact of coal on climate Zurich has developed a [Group approach](#) on selectively excluding companies related to the mining of or electricity generation from thermal coal from its underwriting and investing activities
8. **Net Zero portfolios by 2050:** working on transitioning our investment portfolios to net-zero GHG emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial levels, taking into account the best available scientific knowledge.

Further information on Zurich's adaptation of the FSB TCFD's recommendations can be found here: <https://www.zurich.com/en/sustainability/our-role-in-society/climate-change/tcfd>

In addition to our focus on the PRI, Zurich has also developed approaches to manage environmental risks in our underwriting, establishing in 2012 goals and plans for 7 CR focus areas and developing an approach, implemented in 2013, to manage sensitive business risks, including environmental risks through the CR in business transactions process. This included positions on oil & gas and mining activities in sensitive environmental areas such as wetlands and polar regions, as well as positions on oil sands and fracking. In 2017 Zurich became a signatory of UNEP FI Principles for Sustainable Insurance 2017 and established our first thermal coal position, which was enhanced and expanded in 2019 with more stringent limits on the most carbon intensive fossil fuels including thermal coal, oil sands and oil shales.

UK Specific Activity

An Own Risk and Solvency Assessment (ORSA) is a regulatory requirement for firms under Solvency II. It helps firms obtain a holistic view of their risk profile and understand how risks affect the future solvency situation. It is a key part of the supervisory review process and is therefore submitted to the Bank of England regulator annually. The risks posed by climate change form a significant part of ZAL's recent work on emerging risks, documented in ZAL's 2019 ORSA. The process of identification and assessment of emerging risks alongside the consideration of actions to mitigate the risks assists ZAL in preparing for future events and supports informed strategic decision making. For the 2019 ZAL ORSA, climate change risk has been divided into two types of risk, physical risks and transitional risks, which were each considered separately.

For transitional risks, ZAL calibrated and ran a scenario aimed at exploring the economic impacts of the UK moving to a carbon neutral and more climate change responsible economy. As part of the qualitative review of this scenario, ZAL discussed additional risks such as regulatory or reputational impacts and well as considering the investment risks associated with climate change.

ZAL completed a qualitative assessment of the risks involved in a physical climate change scenario, focussed on the impacts associated with risks such as extreme weather, global temperature increases and increased migration. The qualitative assessment explored how these physical risks could impact on ZAL, particularly through mortality, longevity and morbidity risk as well as considering the possible timeframes involved.

For life businesses, consideration must be given to how managed fund decisions can impact risk and returns for customers. Insurers need to ensure that the decisions they take with regard to investing in ethical funds are in line with the promises they've made to customers and that they are not exposing customers to unnecessary volatility. Communications, for example fund factsheets, need to provide customers with the ability to clearly understand ESG information related to funds to enable them to make informed decisions. Clear frameworks are required for both IGCs and Boards to ensure each are able to make educated decisions on this topic and are clear where there may be gaps between requirements and reality. Balance sheet investment decisions should be made with due consideration to ESG topics, including climate change, ensuring that decisions made are in line with company values and akin to what customers would expect.

2.2 Measure and disclose the implications of climate-related issues for business performance (including investments) and key stakeholders.

Zurich's Group-wide approach to managing climate risk is embedded within its multi-disciplinary risk management processes. Zurich conducts a climate risk assessment annually using Zurich's proprietary Total Risk Profiling (TRP) methodology to identify relevant risks and mitigating actions.

Investments

As outlined, Zurich has defined a clear strategy to reflect climate change in its investment approach and we are committed to action in eight areas:

1. **Scenarios:** it is hard to act without context. Zurich's Market Strategy and Macroeconomics team has defined high-level scenarios and is monitoring developments with the help of a scorecard that is updated regularly. (See below)
2. **Strengthen ESG integration:** given its complexity and long-term nature, climate change represents a particular challenge for ESG integration. Additional data and tools are required to raise awareness among investment professionals and to support integration in investment strategies.
3. **Benchmarks:** ESG integration practices might fail to effectively capture all climate change-related risks and opportunities. We are testing the use of special benchmarks that incorporate a climate risk assessment and will evaluate the application of such benchmarks for new and existing portfolios on a case-by-case basis.
4. **Finance the transition to a low-carbon economy:** as part of our ongoing commitment to impact investing and our target to help avoid the emission of five million tons of CO₂ per year, we will evaluate green investments across different asset classes on an ongoing basis.
5. **Drive change through advocacy:** public and private sectors need to take decisive action. Zurich has defined clear positions on topics such as transparent risk disclosure, carbon pricing, etc. See section IV for more details.
6. **Engagement:** as part of engaging with the companies in which we invest, climate change

should be reflected on the agenda and considered in voting practices.

7. **Selective exclusions:** recognising the particularly harmful impact of coal on climate Zurich has developed a Group approach on selectively excluding companies related to the mining of or electricity generation from thermal coal from its underwriting and investing activities.
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Further information on Zurich's adaptation of the FSB TCFD's recommendations can be found here: <https://www.zurich.com/en/sustainability/our-role-in-society/climate-change/tcfd>

In 2017, Zurich's Macroeconomic and Market Strategy team developed a climate change scorecard to monitor the probabilities of transition and physical risks, which is updated annually.

Scenario 1 – Failure to act: Business as usual. In the failure to act scenario, governments and businesses do too little too late to tackle climate change, with temperature rising steadily to well above 2°C. Climate change models show that this leads to rising physical risk, with increased likelihood of extreme weather events, flooding, storms and draught, and an indirect impact on health and resources such as water and crop yield (IPCC's RCP 8.5 scenario, forecasting a mean temperature and a sea increase of 3.7°C and 0.63 meters, respectively, can serve as a reference point). The risk of unpredictable and potentially catastrophic events also rises if tipping points for abrupt and irreversible climate changes are reached, for example due to the melting of permafrost or the ice cap. The presence of these tipping points adds an additional layer of uncertainty around the long-term impact of climate change, both on the physical and the economic environment.

Scenario 2 – A 2-degree world: Change ahead. At the other end of the spectrum is a 2°C compliant world, where measures are taken to make progress towards a low carbon economy, with the temperature rise from preindustrial levels kept at or below 2°C by 2100 (IPCC's RCP 4.5 scenario, forecasting mean temperature and sea level rise of 1.8°C and 0.47 meters, is a reference point). Physical risk is contained relative to the failure to act scenario, though not eliminated, and some regions will be more exposed

than others. In the near to medium term, this scenario is dominated by transition risk, as far-reaching changes to the global energy system are needed to reduce the carbon footprint, and every part of the economy will be affected. Independently of the precise pathway to reach a 2°C compliant world, the transition will be disruptive, as significant asset price moves are required to shift resources to the renewable sector on a global scale. The transition will be particularly costly if action is initially delayed, so timing is critical when assessing transition risk. Zurich has developed a score card approach to assess the likelihood of the two scenarios described above, judging the 'failure to act' scenario as the most likely outcome at present.

That assessment, along with the scenario narratives, are used as the basis for Zurich's 8-point climate change investment strategy, as described above, and have directly informed the impact assessment described there. The time horizons considered were chosen so as to capture relevant internal strategic and financial planning cycles ("near and medium term") as well as more extended periods over which physical impacts of climate change might accentuate ("long-term"). More details on the scenario narrative and score card assessment can be found at <https://www.zurich.com/-/media/project/zurich/dotcom/industry-knowledge/global-risks/docs/zurich-climate-change-whitepaper.pdf?la=en> and is updated annually for internal use.

The 2019 update indicated that the likelihood of missing the Paris Agreement's target of limiting global warming to 2°C or below was higher than achieving it. Zurich has subsequently done further analysis of mid (3-5-year) and long-term (5-10-year) effects under high transition risk and high physical risk scenarios, which have informed further action points for 2019, resulting in our updated position on climate change and our commitment to the Business Ambition for 1.5°C Pledge aiming at limiting average global temperature increases to 1.5°C above pre-industrial levels by 2030.

The overall takeaway from the most recent score card is that, while legislation, sentiment and social trends have shifted in favour of tackling climate change, actions are still falling short of what is needed to sustainably transition the global economy and societies to a 2°C scenario. The scorecard takes the view that far-reaching change to the global energy system is needed to achieve a 'two-degree compliant world'. To accomplish this, fundamental changes to policy and technology are required; sentiment and behaviours have to move strongly in favour of tackling climate change. To achieve the

2°C scenario, sufficient progress needs to be made in three key areas:

1. Policy measures
2. Technology and emissions
3. Sentiment and behaviour.

On policy measures, Zurich believes that a global price on carbon; national and regional legislation to enforce binding climate change commitments; a phasing-out of fossil fuels, including subsidies, are required. Zurich advocates for a global price on carbon, established at a level that over time becomes consistent with transitioning to a 2°C trajectory. Such a price would mean that negative externalities of fossil fuels and other sources of GHG emissions are properly accounted for and reflected in the price. Furthermore, the business sector will be critical in driving developments towards a 2°C scenario. We use indicators to track corporate actions – as well as positioning – on climate change-related topics. In order to support those actions, we became in 2019 a founding member of the [Net Zero Asset Owner Alliance](#). This is an important milestone on its journey to becoming a 1.5-degree compliant business.

Zurich analysed physical and transition risks for selected parts of its investment portfolio. While Zurich is exposed to both near-term transition and long-term physical risk, initial analysis suggests that very significant impairments would be required for the Zurich portfolio to be materially impacted. The Group does not consider such impairments currently likely, and exposure is expected to be further mitigated with ongoing implementation of Zurich's responsible investment and climate change investment strategies, which focus on a whole bandwidth of measures from scenario planning, ESG integration and impact investing to engaging with both companies and policy makers and implementing selective exclusion screens (e.g. coal).

In 2019, Zurich onboarded a new data provider, providing additional information on transition risk on a company level. As part of our ESG-integration, this additional information forms part of a more holistic price/risk analysis, but also helps us to understand where the climate-related risk and opportunities lie in the investment portfolio. The transition score analysis feeds into the company's overall climate change total risk profile.

In 2018, we developed an impact measurement framework to track the success of our impact portfolio. The update of the report revealed that Zurich, through its impact investment portfolio, helped to avoid 2.8 million tons of CO₂-equivalent emissions and, separately, improves the lives of 4.2 million people annually, as of December 2019.

The impact measurement framework we developed allows us to aggregate the impact across Zurich's impact portfolio in terms of two defined impact metrics: 'CO₂-equivalent emissions avoided' and 'the number of people who benefited.' Data on emissions of greenhouse gases (generally quoted in tons of CO₂-equivalent emissions) is a commonly used indicator to assess the climate impact of an asset as established by the IFI harmonised framework. 'Avoided' CO₂ emissions are calculated against a baseline scenario that reflects the most likely project outcomes or level of service achieved in the higher-carbon status quo of the economy. <https://www.zurich.com/en/sustainability/responsible-investment/impact-investment>

Underwriting

One of the most important climate-related risks that Zurich measures and monitors is the accumulation risk in the key P&C insurance lines of business that are most impacted by natural and man-made catastrophes, especially severe weather events related to climate. Zurich has a sophisticated natural catastrophe modelling approach that incorporates outputs of several commercial models in a proprietary modelling platform.

This in turn helps Zurich identify important climate-related natural catastrophe limits for exposure and RBC (risk-based capital) measures.

Evolution of modelling capabilities – quantification of climate change's physical risks.

The insurance industry has a very specific set of capabilities that are used to understand and model natural catastrophes such as earthquakes, windstorms and floods. There are currently three options (described here) which link climate change models to natural catastrophe models, each offering a different level of sophistication and application suitable for different industries and companies.

1. In this first approach, the natural catastrophe model output is modified by including the summary of climate change effects, as outlined in recent IPCC reports. This is achieved by adapting the natural catastrophe model outputs, known as "event sets" to reflect the "average" climate change effects.
2. The second option modifies the hazard module in the natural catastrophe models to include climate change effects by incorporating the research-based climate change global circulation model (GCM) output. This science-based approach is much more resource-intensive to develop, but creates a more detailed model of climate change risks for a company's physical assets. This approach is suitable to quantify the impact of climate change on companies' physical assets – over different time scales and in different geographic regions. Different climate change scenarios, reflected in the Greenhouse Gas concentration pathways (RCP) climate scenarios, allow the identification of the most affected regions, 'critical' perils and impact on specific portfolios of physical assets. The results of such a scenario-based analysis can support companies in the planning of future physical infrastructure expansion (e.g., factories, offices and their associated supply chains). It can also go beyond the current physical climate risks to include climate change effects, as part of a wider strategic planning exercise that includes consideration of physical and transition risks. This approach can support companies in their investment strategies for climate change-related risk reduction and adaptation measures ranging from building protection measures to optimising insurance policies for existing assets, assessment of potential future sites for new facilities, and assessing the impact on value chains (supply chains, infrastructure and utilities).
3. This is the most sophisticated (but also most resource-intensive) methodology and involves building an in-house, proprietary natural catastrophe model, faithfully reflecting all aspects of climate change. Building a bespoke in-house natural catastrophe model incorporating all climate-relevant parameters would allow a company to reflect all aspects of the physical consequences of climate change on their business model.

Green Bonds

Zurich Insurance Group had, as of Dec 2019, Zurich held USD 160 million of European Investment Bank (EIB) green bonds, the largest supranational issuer of such bonds. Zurich helped to avoid 22,500 tons of CO2 emissions through EIB green bonds. That's equal to the CO2 emissions released by 915,500 propane cylinders used for home barbecues, or the carbon sequestered by 370,000 tree seedlings grown over a 10-year period.*

*Source: <https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator>

2.3 Incorporate the material outcomes of climate risk scenarios into business (and investment) decision making.

Climate change is perhaps the most complex risk facing society today: it is inter-generational, international and interdependent. As a global insurer, Zurich faces risks from climate change. In 2017, Zurich conducted its first Group-wide analysis of climate change-related risks and identified a set of actions to address them. Zurich uses the framework of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) to distinguish between two types of climate-related risks:

- Transition risk – risks associated with the transition to a low-carbon economy.
- Physical risks – risks associated with physical manifestations of excessive warming.

Zurich based its analysis on two scenarios (see above) to represent an archetypical transition pathway and a physical risk pathway, and applied a scorecard approach to assess the relative likelihood of the two scenarios, and their progression along pathways over time. The two scenarios are not mutually exclusive as transition risks and physical risks coexist, but Zurich's initial assessment shows that a physical risk pathway currently is significantly more likely than a transition pathway. Overall the Group considers its near-term (less than five years) climate change-related risks to be manageable and foreseeable, whereas long-term (more than 10-15 years) risks to be elevated and highly uncertain. The Group analysed the effect of climate-change risk on its major risk types:

Underwriting Risks

Physical Risks

Generally, annual policy renewals provide a degree of insulation against increasing physical risks for short-tail business. Initial analysis suggests that property, motor and crop lines of business are potentially most at risk from climate change, with rainfall, cyclone and hail as the driving perils. While standard industry natural catastrophe models are regularly updated and designed to reflect today's risk, including climate change, potential gaps are addressed as part of Zurich's model validation process and the 'Zurich View' approach, leveraging both internal and external expertise. For long-tail business, legal liability represents the most significant potential risk from climate change. However, based on Zurich's current assessment, this and related risks are not material at this time, although climate change-related legal action could become more frequent going forward. Indeed, Zurich's potential exposure to climate related litigation relates to both Zurich's potential exposure under insurance policies (especially liability policies) and as a legal entity. Zurich, therefore, has a Working Group at Group level, of which the UK is a key member, that deals with the likely exposure from current law and regulation as well as possible future emerging law and regulation. A UK specific sub-group comprising of colleagues from Legal, Claims, Underwriting and Corporate Affairs has also been implemented.

Transition Risks

Specific lines of business may be at risk from transition effects. Initial assessment suggests that this risk is contained. Zurich has considerable expertise in providing insurance solutions for green assets but not all types of 'green' assets represent, to date, profitable business opportunities.

Investment Risks

Zurich analysed physical and transition risks for selected parts of its investment portfolio. While Zurich is exposed to both near-term transition and long-term physical risk, initial analysis suggests that very significant impairments would be required for the Zurich portfolio to be materially impacted. The Group does not consider such impairments currently likely, and exposure is expected to be further mitigated with ongoing implementation of Zurich's responsible investment and climate change investment strategies, which focus on a whole bandwidth of measures from scenario planning, ESG integration and impact investing to engaging with both companies and policy makers and implementing selective exclusion screens (e.g. coal).

Operational Risks:

Given the low-carbon nature of Zurich's business, continuous progress on energy and carbon reduction targets, Zurich's voluntary carbon offsetting scheme, and strong local disaster and recovery planning in place for all facilities, Zurich does not consider operational risks related to climate change to be material.

Principle 2: Demonstrating Planned Activities

Group Activity

Whilst legislation, sentiment, and social trends have shifted in favour of tackling climate change, actions are still falling short of what is needed to sustainably transition the global economy and societies to a 2°C scenario. Far-reaching change to the global energy system is needed to achieve a 'two-degree compliant world'. To accomplish this, fundamental changes to policy and technology are required; sentiment and behaviours have to move strongly in favour of tackling climate change. To achieve the 2°C scenario, sufficient progress needs to be made in three key areas:

1. Policy measures
2. Technology and emissions,
3. Sentiment and behaviour

On policy measures, Zurich believes that a global price on carbon; national and regional legislation to enforce binding climate change commitments; a phasing-out of fossil fuels, including subsidies, are required. Zurich advocates for a global price on carbon, established at a level that over time becomes consistent with transitioning to a 2°C trajectory. Such a price would mean that negative externalities of fossil fuels and other sources of GHG emissions are properly accounted for and reflected in the price.

As part of our 1.5°C Business Ambition Pledge and as a founding member of the UN Net-Zero Asset Owner Alliance, Zurich is committing to a zero-emission portfolio of investments by 2050. We are working on transitioning our investment portfolios to net-zero GHG emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial levels, taking into account the best available scientific knowledge. Currently, in the insurance sector, science-based targets do not exist for either insurance or investment portfolios. As part of the Business Ambition for 1.5°C, we have committed to play an active role in changing that and to set our own targets.

We further implement our fossil fuel policy and hence further engage with the companies focusing on thermal coal, oil sands and oil shale. We will disengage and divest from those whose activities are predominantly focused on thermal coal, oil sands and oil shale if these companies have no plan to realign their business over time towards a low-carbon future.

In addition, the Group is integrating climate and sustainability risk assessments into its standard enterprise risk management framework and tools to consistently identify risks and create mitigating actions over time. For more information about Zurich's assessment of climate risk, see

<https://www.zurich.com/knowledge/topics/global-risks/managing-impacts-climate-change-risk-management-responses-second-edition>

UK Activity

- Development of 2020 ZAL ORSA.
- Participation in the Bank of England's planned Biennial Exploratory Scenario (BES) testing on climate change – to be launched 2021.

3. Lead in understanding risk identification and analysis

3.1 Ensure processes for identifying, assessing and managing climate-related risks and opportunities are integrated within the organisation (including investments).

Zurich Group recognises sustainability as a risk in its overarching risk taxonomy, which provides the risk categorisation framework to support the identification, assessment, and monitoring of risks. Risk assessment activity is undertaken throughout the business, though strategic risk assessments at country, business line, and market facing levels, as well as risk assessments to support material change activity. This provides the opportunity to identify more specific sustainability and climate risks as they arise in our business.

The work to develop a greater understanding of the potential financial impact of ZAL's climate risks, including the work in the 2019 ZAL ORSA, further strengthened the assessment process for these risks. The allocation of senior management responsibility for climate risks supports further development of governance and oversight of these risks as the different facets of climate risk are drawn together for cohesive management.

In working to progress our work on the PRA's requirements (documented in supervisory statement 3/19), Zurich UK is an active member of the PRA and FCA's joint Climate Financial Risk Forum (CFRF), formed in March 2019, which brings together senior representatives from across the financial sector and aims to build capacity and share best practice across financial regulators and the industry to advance our sector's responses to the financial risks from climate change. The CFRF set up four technical working groups on disclosure, scenario analysis, risk management and innovation. These working groups have produced handbooks containing guidance to help firms execute their responsibilities in terms of meeting the regulatory requirements.

Zurich UK's CRO sits on the Forum and is also a member of the Disclosures working group. We will work with the CFRF to develop a programme of activity for the coming year following publication of the guidance and the culmination of the first year of the Forum.

In addition, the PRA has announced that they will issue follow-on guidance on supervisory statement 3/19 this summer, to support firms' enhancements of their climate risk capabilities.

Once shared, these publications will aid the relevant business areas ensure adherence to the PRA's risk management, scenario analysis and disclosure requirements, helping to ensure Zurich's full adherence to supervisory statement 3/19.

Cat-Stress Testing

Zurich maintains a sophisticated mathematical Natural Catastrophe Model to understand the aggregate risk at the Group level. It includes climate-related perils, such as tropical cyclones, extra-tropical cyclones, floods and severe convective storms. The model is not purely reliant on a single model vendor (e.g. Risk Management Solutions Inc.) but has the flexibility to use any vendor model's output and implement proprietary adjustments to both the severity and frequency of events to reflect the 'Zurich View' of risk. Zurich aims to understand the assumptions in the models, gain a multi-model view, compare to claims experience and use internal and external insight.

The assessment and management of the impact of extreme weather events is part of our core business competency. We have a state-of-the-art Cat modelling capacity addressing climate-induced perils such as windstorm, flood, tornado and hail including any potential change of the climate to date. We also include loading factors for modelled storm surge losses above what leading cat models to our current capital model (Z-ECM). Moreover, our cat models are continuously updated with new data reflecting the current risk and implicitly adapting for a change of the climate over time.

To ensure that all climate-related events are considered we have started investigating if scientific/meteorological trends can be observed and need to be integrated to current models. We immediately integrate developing changes in experience driven by climate change through pricing analytics and cat models.

The time scale of the changes projected is typically over a period of several decades. In the catastrophe accumulation processes Zurich is continuously adjusting to actual developments over time in a manner appropriate for the instruments modelled. Catastrophe models typically are updated every five years. Zurich considers the impact of climate change on a five-year time horizon to be smaller than the impact of the natural climate variability (e.g. ENSO, AMO) and the general variability of catastrophe events.

Zurich monitors emerging climate research through internal expertise and gains external insight through the Advisory Committee for Catastrophes, which is made up of world-class scientists, including an author from the Intergovernmental Panel on Climate Change.

Pricing and Risk Management

We immediately integrate developing changes in experience driven by climate change through pricing analytics and cat models. Moreover, our economic capital model additionally includes loading factors for modelled storm surge, based on claim data. We have also strengthened our resources allocated to climate risk within the risk function and started using Zurich's risk management tools in order to assess the climate risk for Zurich's operation and determine mitigation strategies (TRP started in 2018).

Climate Change Litigation

Climate litigation is increasing worldwide, reflecting advances in attribution science, evolving legal attacks and changing public sentiment. Investors are being increasingly vocal about holding board members accountable where companies and their boards are not producing effective sustainability disclosures or implementing risk management frameworks for managing sustainability issues. We have, therefore, developed a working group comprising of Legal, Public Affairs, Claims, Underwriting and Risk to better understand the potential risks.

Emerging Risk Group

Climate change is a key focus of the Zurich's internal Current and Emerging Risk Groups. The strategies developed by these groups are integrated in the underwriting pricing and risk management processes from the Group level and cascaded down. Indeed, we have started using Zurich's risk management tools in order to assess the climate risk for Zurich's operation and determine mitigation strategies.

3.2 Support and undertake research and development to inform current business strategies on adapting and mitigating to climate-related issues.

Zurich is beginning to work with carbon intensity information to understand the proxy carbon intensity of our underwriting portfolio – we will use this to identify the most carbon intense customers and as a first step review their transition plans, open discussions etc. to understand how their business will be changing to address the move to low carbon future and how we can support them as their insurer or provide additional risk engineering assessments on installations and facilities needed to achieve lower or net-zero emissions.

We are also reviewing our renewable energy solutions in light of supporting the global transition to low carbon alternatives, bridging the energy transitions through insurance products to cover carbon capture and sequestration facilities (leveraging significant energy experience that is relevant for such operations).

Addressing climate change adaptation through development of Zurich Climate Change Resilience Services (referenced in Principle 6).

We are also working with data from external providers and leveraging internal know how to analyse potential risks associated with both transition and litigation related issues around climate change. Developing and modelling climate change related scenarios to understand potential impact on short term and long-term strategy with a view to identifying mitigating actions.

Leveraging external data to flag customers and companies that exceed our thermal coal and oil sands policy in order to make an informed decision on whether to write any business or renew business with them.



4. Reduce the environmental impact of our business

4.1 Encourage our suppliers to improve the environmental sustainability of their products and services, and understand the implications these has on our business.

Global Activity

Globally, Zurich buys many products and services for our business, ranging from IT services and office furniture to toiletry products and stationery.

This purchasing power provides us with considerable leverage and influence; and we use this to do good.

At Zurich, we help to create positive social, environmental, and ethical outcomes simply by changing our buying behaviour. This is called sustainable sourcing. It is where we embed our purpose and values into our supply chain.

We have launched a global vision supported by our principles and framework so that sustainability is at the centre of all sourcing decisions and throughout the lifecycle of that relationship. Our sustainable sourcing vision covers three workstreams:

- **Social** – create better procurement practices to build a sustainable and better future for our children
- **Environmental** – minimising our environmental footprint supported by sustainable sourcing
- **Ethical** – enabling us to confidently stand behind our corporate responsibility statements.

The framework gives our teams the minimum standards, tools and support to ensure sustainability is considered at every stage whether that is due diligence and supplier governance, supplier selection criteria, or the ongoing management of suppliers.

We have also built a community of practise across the Zurich group to drive sustainable sourcing in each business unit. This will drive best practice across the group to ensure consistency.

CDP Supply Chain Programme

During 2020, Zurich joined the CDP Supply Chain program, enabling access to full CDP responses from suppliers included in our request for submission. This gives Zurich a view into detailed environmental performance metrics within our supply chain. We are currently piloting the program and have requested

approximately 40 of our Tier 1 suppliers (at the global level) to submit to CDP. To gain an initial view, we have requested access to the 2019 results for any of these 40 suppliers, that publicly disclosed their CDP response in 2019. We are working to understand how we can leverage response data to support proactive engagement with our suppliers on their environmental performance, including best practice sharing, collaboration opportunities, and opportunities to further improve environmental results.

UK Activity

As part of our 'Request for Proposal' process all UK suppliers must complete a due diligence questionnaire that includes corporate responsibility and environmental criteria. All third-party contracts must include a section relating to conducting periodic business reviews to monitor that the supplier is operating to our standards, including Corporate Responsibility. Any gaps in these reviews are identified and captured in an action plan with the supplier to drive continuous improvement. In addition, key third parties are reviewed on a quarterly basis using a performance management framework and onsite assessment as appropriate. Environmental performance and credentials are a key consideration when assessing the suitability of third-party arrangements and, increasingly, we are working with third parties that can enhance our corporate responsibility profile. Zurich were one of the founding members of Social Enterprise UK's Corporate Challenge, which commits a group of companies to spend £1 billion with social enterprises by 2020. An example of such an arrangement is the provision of Belu Water (who give all their profits to WaterAid) in all our canteens and Ninety, who provide consultation services and profits go to providing healthcare to developing countries.

Claims

We actively encourage our Claims suppliers to adopt environmentally friendly methods of working. This includes adopting a repair versus replace philosophy wherever possible and encouraging the use of recycling. Examples of these principles include incentivising our approved motor repair network to repair body damage rather than fit new panels and where new panels have to be fitted, the old ones are sent for recycling. Our approved glazing contractor recycles damaged glass and strips down UPVC items removed from a customer's home to their component parts for refurbishing and re-using. Where possible our Building Repair Network will salvage (bricks, roof tiles) rather than replace.

Claims involving the replacement of white goods are replaced by our approved suppliers with Band A energy efficient appliances. Any white goods removed for disposal from a customer's property by our approved suppliers comply with the relevant Waste Electrical and Electronic Equipment (WEEE) recycling directives for safe disposal.

With major property losses, the number of different experts who need to attend site remains high. Anything that can provide a permanent record of the damage and thus prevent the need for further visits, assists in our efforts to reduce the impact of these losses. Since the beginning of 2019, Zurich has regularly used drone surveys to assist in the capture and sharing of information relating to the extent of damage in major losses. This system reduces the need for all parties to attend the site of the damage, or the number of times that they may need to reattend. By sharing the information obtained, the additional visits can be avoided, and quicker decisions made. Similarly, later in the lifecycle of the claim, the ability to review the Drone surveys reduces the need to return to site. This reduction in the number of visits required has a direct effect on the carbon footprint generated each and every time an interested party does not need to attend the site. These parties include a wide variety of different entities, but include loss adjusters, brokers, solicitors, surveyors, architects, project managers and forensics to name but a few

Within Motor Claims, we have adopted 'Easy Claim' which allows the customer to upload images that are looked at by an engineer with a potential decision made within hours and cash in lieu can be offered or vehicle dealt with on a total loss basis, reducing the need for bodyshop involvement. Our reserving tool also allows us to correctly identify a total loss at the point of FNOL, reducing the need for the vehicle to be picked up by a bodyshop, estimate created, submitted, then dealt with as a Total Loss.

Our Loss Adjusting firms have adopted a virtual way of working and where practical undertake virtual visits to reduce our carbon footprint as well as utilising technology where possible to validate and reduce the amount of visits that may be required. During lockdown, all of our loss adjusting firms have completely minimised physical visits (apart from where urgency or severity dictates) and have all been able to adopt virtual working for all employees.

Our Jewellery provider have a socially responsible approach to sourcing diamonds and gemstones and adopt a certification process to prevent conflict diamonds entering the mainstream.

4.2 Disclose our Scope 1 and Scope 2 GHG emissions and Scope 3 GHG emissions using a globally recognised standard.

Group Emission Targets

Zurich reports emissions in line with the Greenhouse Gas Protocol. Our data is assured by an independent third-party auditor. We publicly disclose our Group environmental performance data here:

<https://www.zurich.com/en/sustainability/our-role-in-society/climate-change/environmental-key-performance-indicators>

Environmental reporting is supported by our global network of environmental managers, as well as our suppliers. We have a central reporting software to support data collection and reporting. Our global environmental management system is based on ISO14001.

Following the success in reducing our carbon footprint per employee by 10% across the Group between 2007 and 2013, Zurich set itself a new target to reduce carbon emissions by 50% by 2020. This target was achieved four years early in 2016. In 2017 a new Group target was set to reduce carbon emissions per employee by 20% by 2025, compared to a 2015 baseline. Sub-targets for facilities and business travel emissions per employee were also agreed (20% reduction by 2025 compared to a 2015 baseline). In 2018, Zurich confirmed achievement of these targets for all three emissions targets. This reduction was achieved by ensuring our new offices were built to the highest environmental specification, increasing the use of 'green' energy, increasing energy efficiency standards in owned buildings, improving the fuel efficiency of the vehicle fleet, and raising employee awareness for environmental matters. In addition, effective utilisation of video and telephone conferencing capabilities has reduced air travel, contributing to the reductions in carbon emissions.

Detailed environmental performance results can be found on Zurich.com, including a breakdown of emissions according to scope 1, 2, and 3, from years 2015-2019.

In June 2019, as the first insurance company, Zurich committed to set targets in the framework of the UN Global Compact Business Ambition Pledge that aims at limiting global temperature rise to 1.5°C above pre-industrial levels. We are in the process of setting science-based targets both for our operations, and for the investment management portfolio. In 2019, Zurich also joined RE100, a leadership initiative committed to advancing renewable power markets globally. Zurich has publicly committed to source 100% of renewable power by end 2022.

2025 Targets

Total Carbon Emissions: Achieve and maintain an at least 20 percent reduction in total carbon emissions per employee compared to 2015 until 2025.

Facilities Emissions: Achieve and maintain an at least 20 percent reduction in total facilities emissions per employee compared to 2015 until 2025

Business Travel Emissions: Achieve and maintain an at least 20 percent reduction in total business travel emissions per employee compared to 2015 until 2025.

Energy Consumption: Achieve and maintain an at least 20 percent reduction in total energy consumption per employee compared to 2015 until 2025.

UK Facilities Emissions

To help reduce our energy consumption and facilities emissions, we continue to implement a number of initiatives including:

- Introducing more efficient lighting, utilising intelligent controls, movement detectors and replacing lighting with more efficient lamps where possible
- Replacing old air conditioning equipment and boilers with newer, more efficient systems
- Reviewing the lighting controls and heating and cooling plants at each building so that they only operate during office hours
- Pre-determining the heating controls to maintain a building temperature of 22°C, $\pm 2^\circ\text{C}$
- Requiring all building and engineering projects to include a sustainability case
- Purchasing certified renewable electricity
- Introducing 'Dynamic Working' in many of our offices, which aims to promote a more effective working environment focused on better teamwork and sharing of resource and equipment. It allows our employees to work in an 'agile' way, allowing them to work from a variety of locations, including

their home (which is further reinforced by Zurich's FlexWork program). The introduction of dynamic working and FlexWork has allowed us to reduce our office space and also reduces the commuting miles travelled by our employees.

In the UK, we are delighted that in 2019 our absolute facilities emissions were down by 71% compared to 2015.

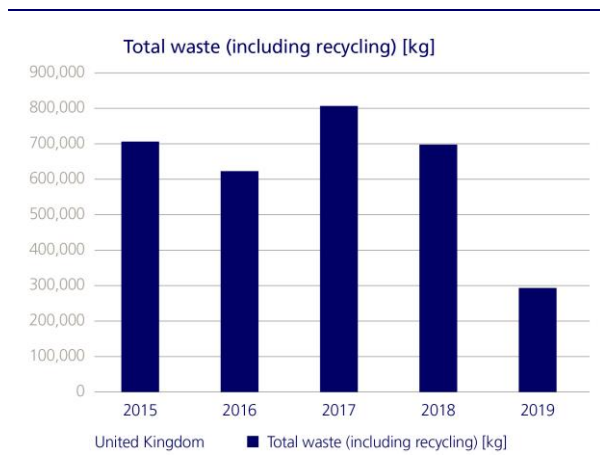
UK Travel emissions

Since 2015, Zurich UK has reduced absolute travel emissions by 34% through use of technology by encouraging telephone and video conferencing in place of travel, and stricter travel planning practices. We have also recently installed electric vehicle charging points at our office sites in Fareham and Wolverhampton to encourage hybrid/electric vehicle use whilst there is also work within fleet to investigate how hybrid/electric vehicles can be more attractive to company car users.

Zurich is carbon neutral, reaching the milestone at the end of 2014 through our internal carbon emissions reduction efforts and by using a forestry project in Indonesia to offset emissions that cannot be eliminated.

UK Waste Minimisation

Given significant reductions in office space, enabled through our Dynamic Working program and FlexWork, waste figures have significantly reduced in the UK. However, we acknowledge by shifting more work to home office environments, we are no longer able to have a comparable measure to historic years. Another contributor to waste reduction was the move to eliminate single-use plastics from all operations. In 2019, the UK eliminated 93% of single-use plastics from operations.



Recycling Progress

Zurich's UK locations continue to implement their local environmental action plans, with environmental champions along with continued education developing a more proactive support for environmental initiatives. Our waste contractor has also maintained an integrated approach to managing our various waste streams as well as the provision of reliable information. Our Management Information quality continues to improve enabling us to be more accurate in reporting and more aware of areas where we are performing well and showing areas for improvement.

UK Water Minimisation

Since 2008, analysis of water consumption at larger sites has been facilitated using a detailed spreadsheet, showing figures based on accurate consumption and occupancy figures for the location.

Waterless urinal systems have been installed to those locations that are suitable. In other locations, movement detectors have been installed that trigger the flushing. A programme of works to install tank bags to all WC cisterns that are not dual flush has been successfully completed and flow restrictors have been fitted in all washroom facilities.

UK Paper Reduction

Across the business we have optimised our customer journeys to enhance the information and capabilities available through our websites, reducing the need to apply for many products by paper and we are also able to send more correspondence digitally, further reducing paper use. Indeed, all customer journeys are now designed from a 'mobile first' point of view to react to changing customer demands. This has been accompanied by making many documents which were previously provided in physical format to be digital only once again reducing paper, storage and distribution.

A prime example is for our Zurich Municipal customers where we have actively designed our policy documentation to ensure it now uses 20% less paper, with signposting and digital information where appropriate. Similarly, Zurich's direct motor and home products enable customer self-serving with the ability to manage policy adjustments and obtain policy documentation electronically. This model has been designed in response to market and customer feedback where it was emphasised that customers are eager to reduce their impact on

the environment with increased ease of access to necessary documentation.

Moreover, within our Retail business we have the Zurich Investment Platform which enables customers to review and research their investments and pensions online with documentation and correspondence able to be stored online, reducing paperwork for both customers and advisers. The Pension Dashboard will have a similar impact we anticipate. For our retail intermediaries we have launched a pipeline tracking app, allowing them to track the status of pending protection cases, thereby reducing the level of correspondence sent both to and from advisers.

Zurich has also developed a protection platform enabling advisers to apply for multiple policies (up to five) in one application. Called 'ZHub', the platform provides advisers with a personalised dashboard where they can keep track of their entire protection business with Zurich. Electronic signatures are now also used in many processes which would have traditionally required a 'wet' signature.

We want to offer choice of communication channels to our customers, in increasingly digital formats. We have, therefore, recently appointed a new communications supplier who are going to help us do that. Our external print requirements currently include policy documentation such as letters, booklets, claims correspondence and marketing material. For customers who prefer printed communications, our new communications supplier will be using paper that comes from sustainable forests and is made out of recycled fibre. The paper has been approved by the Forest Stewardship Council and the Programme for the Endorsement of Forest Certification.

In 2019, Zurich announced the commitment to reduce internal paper by 80% (compared to a 2015 baseline). By the end of 2019, the UK has reduced internal paper by 75%. This was achieved through actions such as no print days and promoting digital processes and tools to replace the need for paper.

UK Office Locations

Our physical working environment and the positive impact that our office buildings can have on both the environment as well as the health and well-being of employees have formed a key part of our sustainability agenda. Key to this is how we integrate both sustainability and well-being principles into the design and day-to-day operations of our offices. This enables a holistic effort to support employees in feeling good and functioning well.

New Office Locations

Glasgow

In July 2018, Zurich opened its new office in Glasgow's business district, expanding its presence in Scotland by establishing a sustainable and dynamic workspace for 240 people. The new building has been designed to maximise efficiency and to minimise running costs achieving both a Building Research Establishment Environmental Assessment Method (BREEAM) 'Excellent' rating as well as an Energy Performance Certificate (EPC) 'A' rating.

The state-of-the-art environment has been designed to reflect Zurich's commitment to employee wellbeing, with onsite facilities including a lounge area, games room and wellbeing room. As part of our ongoing commitment to the environment, we also recycled over 38,000 items of furniture during the office move, with a saving of over forty thousand kilograms of carbon dioxide. Moreover, we recycled over twenty tonnes of waste throughout the build of the new workspace and has establishing on site recycling facilities.

Birmingham

In April 2019 we relocated our Birmingham office into a new state of the art workplace in The Colmore Building in the heart of Birmingham city centre. The Colmore Building has a platinum Wired Certification, which is best in class for connectivity. The Colmore Building also boasts a an 'Excellent' rating under BREEAM, which means it has been designed to maximise efficiency and to minimise running costs.

Swindon

Zurich recently began construction on our new purpose-built facility in Swindon. We will be aiming for a BREEAM rating of 'Excellent' for the new site.

4.3 Measure and seek to reduce the environmental impacts of the internal operations and physical assets under our control.

Emissions

Zurich reports the following emissions categories:

Facilities:

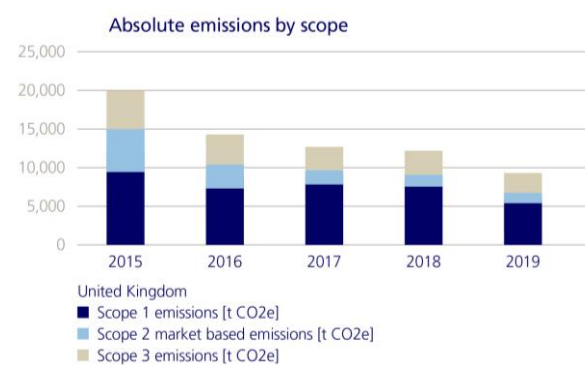
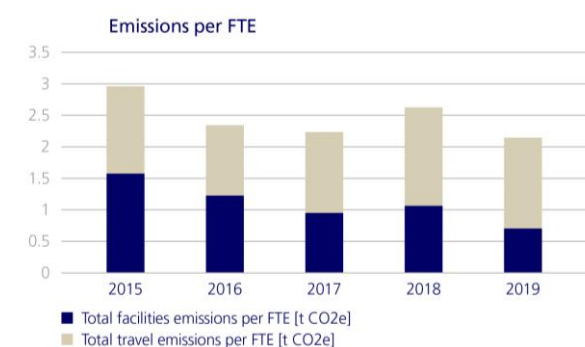
- Onsite heating – scope 1
- Electricity – scope 2
- District heating – scope 2
- Fuel and energy related activities – scope 3

Business travel:

- Car fleet – scope 1
- Air travel – scope 3
- Rail travel – scope 3
- Rental car travel – scope 3

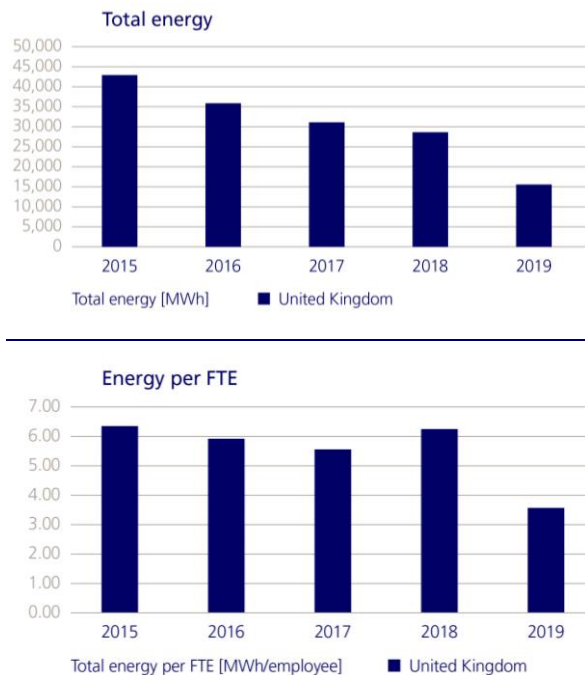
In 2019, the UK business' total absolute emissions were 9,260 tonnes CO₂e which is 2.2 tonnes per employee. This is a 54% reduction in absolute terms, and 27% reduction in normalised terms (per FTE), as compared to 2015. Emissions reductions in 2019 were primarily driven by environmental performance improvements from our facilities:

- Continuing to source renewable power (60% renewable power in 2019)
- Implementing Dynamic Working and FlexWork, to support more flexible and effective work behaviours



Energy

Total energy use has decreased from 43,020 MWh, to 15,313 MWh since 2015, a 64% reduction. In normalised terms (per FTE) this is a 44% reduction.



We will continue to measure the size and shape of the UK's carbon footprint as well as leading various initiatives seeking to shrink the footprint still further. In particular we will be focusing on our registration and compliance with the CRC Energy Efficiency Scheme and ensuring on-going compliance with the EPB Directive, both of which will help further improve our energy performance.

4.4 Engage our employees on our commitment to address climate change, helping them to play their role in meeting this commitment in the workplace and encouraging them to make climate-informed choices outside work.

Global Activity

With the recent internal launch of Zurich's new climate strategy – called 'Our 1.5°C Future Plan', wide scale implementation is the focus for 2020 including continually strengthening our employee engagement around climate topics inside and outside of the workplace. Our 2020 sustainability priorities are focused on engaging our employees on better understanding climate risks, customer innovation for more sustainable solutions, and spreading awareness on what climate-friendly solutions our employees can adopt in their personal lives.

In addition to continuing our 2019 communication campaigns, we are investing significantly in coordinating and catalysing employee engagement towards realising both our short-term and long-term Operational Sustainability targets:

Short term

- Eliminate all single-use plastics in our global managed facilities and catering services
- Achieve 80% reduction in internal copy paper consumption (versus 2015 baseline)
- 100% Renewable Power in global operations by 2023

Long term

- 100% Electric cars in fleet by 2024
- 100% renewable powered Datacenters by 2025
- 70% reduction of CO2 emissions by 2030

Since the above ambitious targets require significant behaviour change and mindset shift amongst our employees' daily-work, we have added an additional Sustainability Communications Manager to support employee engagement and catalyse behaviour change at a global scale, focused on engaging, communicating the 'why', improving 'climate literacy' and spreading best practices showcasing the required new work behaviours:

- NEW (Additional) Sustainability Communications Manager – responsible for supporting Senior Manager with internal communications to support achievement our targets, employee engagement, and behaviour change.
- Throughout 2020, we have continued to significantly strengthen our approach Employee Engagement on Climate Change that go beyond awareness building to actually helping all of our employees be better prepared to 'walk-the-talk' when it comes to mitigating climate change and support achieving our updated sustainability targets, including:
 - Workplace by Facebook group for Sustainability with over 2300 active members (+20% YoY increase) contributing to lively discussions around climate policy, climate change science, Zurich's contribution to Climate Action, and identifying solutions for home and at work.
 - Internal communication campaigns focused on engaging employees on improving their 'climate literacy', launching the "Our 1.5C Future Plan", and 'creating a more sustainable life at work and home'.
 - Strengthening our Community of Practice (CoP) for Operational Sustainability that build off of our previous Green Champions network – a specialised CoP for colleagues working within operations and facilities management to come together to learn and share best practices around more eco-friendly office practices like limiting printing and eliminating single-use plastic and switching to 100% renewable power in our global operations.
- Strengthening our Global Learning Program focused on Climate Risk:
 - Basic Awareness module available on our global digital learning platform (Zurich MyDevelopment) and supplemented with local 'lunch&learns' that provide an easy to understand overview of climate risk and the implications for the insurance sector. (Engagement target: 10'000+ employees by end of 2020 and 40'000+ by end of 2021).
 - Technical Skills Training for underwriters, investment managers, risk managers, and global relationship leads that upskills some of the relevant key roles to be proficient applying the latest assessment and analytics techniques for managing Climate Risk. (Engagement target: 500+ relevant technical roles trained by end of 2020 -> 325 already achieved via a 3-day Climate Risk Virtual Summit learning event)
- Climate Change is now officially included as a key pillar of the new 5-year strategy for our Z Zurich Foundation, which focuses on enabling employees to get involved in volunteering projects directly related to Climate Change in their communities.
- Green Week 2019 was very successful and will again be launched later in 2020 across the majority of Zurich's business units, providing our employees with opportunities to make more sustainable choices in their personal lives and connect with local NGO partners that are focused on addressing climate change and environmental degradation in our communities.
- Carbon-Offsetting available for all Employee's to compensate their personal carbon footprint – in Q4 2019, we launched an internal digital webshop that enables employees to easily offset their personal carbon emissions by connecting them with high-impact 'blue carbon' offsetting projects that also support flood resilience (e.g. mangrove reforestation). Since offsetting is something Zurich does already at a corporate level to maintain our carbon neutral status, we also want to make this easy for our employees to do as well as build broader awareness around the topic of carbon budgets and the importance of reforestation as a natural climate solution.

Make the difference

Make the Difference brings Zurich employees together to work with our top leaders on projects addressing some of the biggest challenges we face today. As part of this, the 2020 Make the Difference programme has worked to engage employees on the best ideas related to how we can deliver more sustainable solutions to our customers – especially in relation to climate.

Extreme Weather Events Campaign

With this year's extreme weather season starting against the backdrop of COVID-19, it is more important than ever that we use our insights to not only help customers and the communities to protect themselves from these events and take action ahead of time but also provide employees with a toolkit to educate themselves on Zurich's activity and then share and discuss with their own professional network through social media.

Learning from past events in a systematic and deep manner is highly relevant. For our new report, [Keeping an Eye on Natural Hazards](#), a medley of the most recent Post-Event Review Capability (PERC) studies conducted by the Zurich Flood Resilience Alliance, an employee activation tool kit was shared on 22nd June 2020 which included links and infographics to be shared across a range of channels.

UK activity

In October 2019 our UK CEO, Tulsi Naidu, wrote to all UK employees to share her passion and to equip everyone with the information they need to confidently articulate our commitment and actions on climate change, with the aim of bringing us all together to work to drive real change. She segmented her note into four key areas, covering Zurich's responsibilities as an insurer, as an investor, as an employer and in our communities.

We made three transformational commitments to our customers, employees and wider society:

1. Work sustainability – we committed to a set of principles to make our workplace fit for the future by reskilling and upskilling our workforce.
2. 1.5°C Future – by signing the Business Ambition for 1.5°C Pledge, we committed to leading the way to a 1.5°C Future. We now have a framework across operations, investment management, customer and risk to progress this.
3. Data Commitment – honouring our customers' long-standing trust in sharing their data with us. There's been activity throughout the year to deliver on the Data Commitment.



This year's extreme weather season has opened with Cyclone Amphan, the most powerful cyclone in nearly two decades. 🌀 Is your business prepared for what might come next? Read more on how to prepare for extreme weather events here ➡ <https://bit.ly/ExtWeathSeason> #ExtremeWeather #ClimateRisks



Preparedness is key when considering the significance of extreme weather on business operations ➡ <https://bit.ly/ExtWeathSeason> #ExtremeWeather #ClimateRisks



COVID-19's impact on this year's extreme weather season requires businesses to re-evaluate their plans. Discover how to weather the storm with Zurich's five-step management strategy ➡ <https://bit.ly/ExtWeathSeason> #ExtremeWeather #ClimateRisks



Business as usual is not an option as the world prepares for a surge in extreme weather events. Here's why ➡ <https://bit.ly/ExtWeathSeason> #ExtremeWeather #ClimateRisks

These commitments were shared with UK employees during employee roadshows held at each of our office sites in January 2020. We followed this up with a series of UK-wide internal communications that explained each commitment in more detail and signposted how employees could get involved.

Focussing on climate change, we've continued to reduce our paper, plastic and power use in a number of ways:

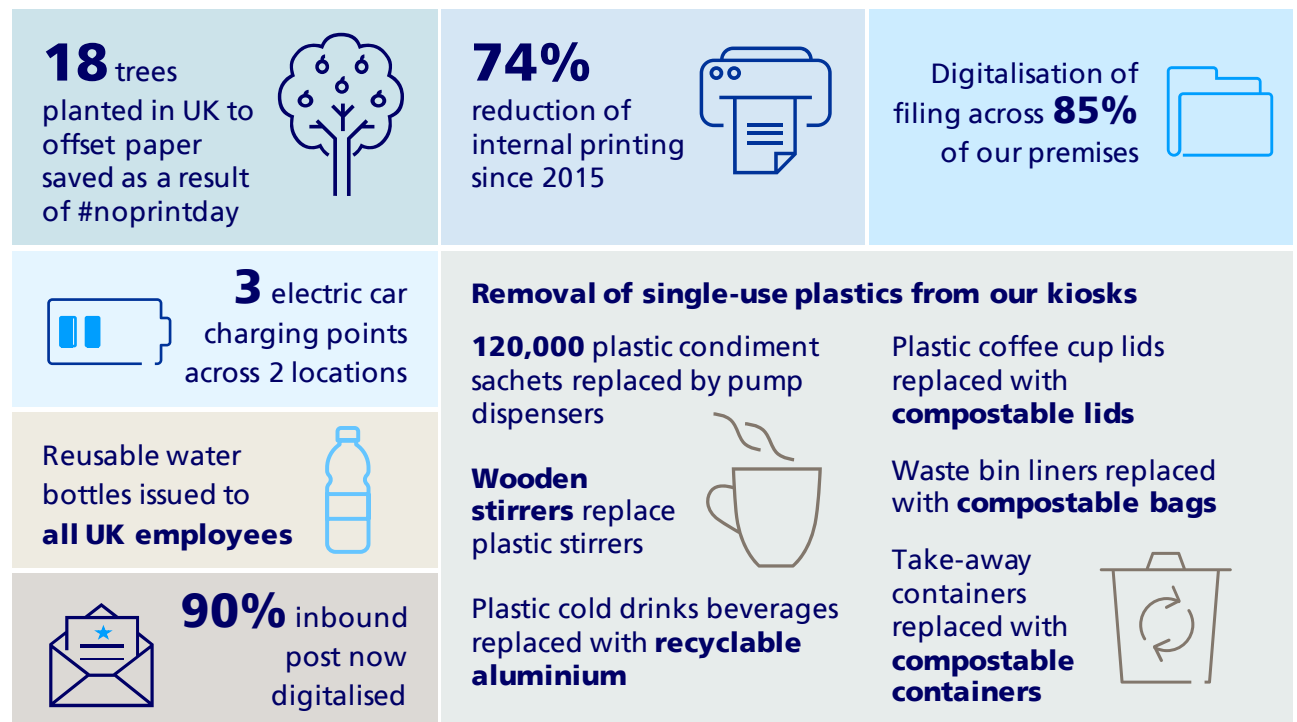
- We held a "No Print Day" on 11th July 2019 to encourage less printing and more use of digital tools. This resulted in a 78% reduction in the amount of paper being used for printing, when compared with the same day in 2018.
- We have partnered with Tree-Nation, which has seen 18,000 trees planted in the UK. The initiative saw Direct Life and Travel customers being given the opportunity to plant their own tree in the Zurich forest when they took out a policy with us. It was so well received that we widened the initiative to include customers from other areas of the business and business that was being renewed.

- We've made Ecosia available to all employees. Ecosia is a search engine that uses advertising revenue to plant trees – the more searches are our employees make, the more trees are planted.
- Signage around the offices (recycling, print reduction, single use plastic changes, etc.).

This builds on a number of initiatives highlighted in 2019's report:

- Providing all UK employees with a reusable, steel water bottle to help reduce plastic in our organisation.
- Removing all plastic cutlery in our on-site kiosks and replaced with cutlery that is produced from plant matter, making it environmentally safe and entirely compostable.
- Continuing to offer re-usable cups for use in our on-site kiosks (either after 10 purchased drinks or paying £2 that then goes to the Zurich Community Trust).

You can see more information on our paper, power and plastic reductions in this infographic.



Principle 4: Demonstrating Planned Activities

Communication

From a Global perspective, we are developing a community of practice for Retail Sustainable Solutions Development focused on connecting colleagues across the world in a peer to peer setting where best practices can be developed and share for delivering more sustainable solutions for customers. Moreover, building off of the success of Zurich's first of its kind Climate Risk Virtual Summit, additional webinar series and additional virtual summits will be delivered later in the year to continually upskill our employees' climate-related competencies, especially for critical target groups like underwriting and distribution.

From a UK perspective, we are in the process of agreeing our UK targets for sustainability. Once these have been agreed we'll be sharing them with UK employees and letting them know how they can help us reach them. This will involve initiatives, volunteering opportunities and more 'days' including another "No Print Day" as we begin our return to office locations following Covid-19.

Emission Targets

During 2020, Zurich UK is working on setting science-based emissions reductions targets for both the operational footprint, and the investment portfolio. We are also launching a project to verify if we can move 100% of our car fleet to electric / hybrid (globally). Zurich is also working on steps to meet our RE100 commitment by end 2022.

Carbon Footprinting Working Group

In 2020 Zurich is chairing the Carbon Footprinting Working Group of the CRO Forum. The purpose of the working group is to recommend an industry standard for a carbon footprint methodology to quantify carbon emissions in the re/insurance underwriting portfolio. The resulting public report will detail the methodology and recommend its implementation, including options to quantify the exposure of re/insurers to the carbon emissions of the underwritten risks, which can serve as an industry wide standard. The methodology will be practical and implementable and result in robust and comparable metrics which can also be reported externally.

As insurers are supporting international efforts on carbon reduction in line with the Paris agreement (COP 21), many companies have announced decarbonisation measures, such as divestment or withdrawal from insurance for thermal coal. Currently, most insurance companies disclose carbon emissions of their own operations (Scope 1 and 2 as well as partially scope 3 emissions). However, the emissions related to the insurance portfolio remain undisclosed. To manage carbon risks in insurance portfolios in a meaningful way, an industry standard for a carbon footprint methodology to quantify carbon emissions in the insurance portfolio is a requirement. There is increasing regulatory focus on appropriate disclosure around climate change risks and we believe that a methodology developed by the industry itself, leveraging existing tools and methods, is an important contribution to understanding climate change risks.

Procurement

Now we have a global policy and framework we are looking to benchmark our current position against the objectives across our BU's. Once complete we will define targets per BU around environmental impact from their supply chain with a view to driving continuous improvement and reducing the environmental impact across the group.

In addition, we aim to roll out a global accreditation scheme awarding our suppliers three levels of accreditation depending on their own approach on sustainability and environmental impact.

New Office Locations

Zurich recently began construction on our new purpose-built facility in Swindon. We will be aiming for a BREEAM rating of 'Excellent' for the new site which will put the building in the top 10% of UK new non-domestic buildings.

5. Inform public policy making

5.1 Promote and actively engage in public debate on climate-related issues and the need for action. Work with policy makers nationally and internationally to help them develop and maintain an economy that is resilient to climate risk.

Nationally

Climate Financial Risk Forum (CFRF)

The Financial Conduct Authority (FCA) and the Prudential Regulatory Authority (PRA) of the Bank of England established the Climate Financial Risk Forum (CFRF) in early March 2019. It brings together senior representatives from across the financial sector, including banks, insurers, and asset managers with Zurich a key stakeholder on the Forum. The objective of the CFRF is to build capacity and share best practice across financial regulators and industry to advance financial sector responses to the financial risks from climate change.

Since its inception in March 2019, the CFRF has set up four technical working groups on disclosure, scenario analysis, risk management and innovation. Each working group is chaired by a CFRF member and supported by an external secretariat. Zurich sits on the Disclosure Working Group and is represented by its Chief Risk Officer. The Working Group has developed practical guidance for financial services firms on making effective climate-related financial disclosures, with an aim to improve transparency, thereby helping the market appropriately assess the true future value of assets.

Flood Resilience

The Zurich Flood Resilience Alliance, through its alliance member LSE (London School of Economics)'s Grantham Research Institute (GRI), is working to implement the FRMC also in coastal communities through local councils in the East and Northeast of England, which will include the baseline measurement to assess strengths and weaknesses using our 5C-4R model and to identify options to build community resilience, with the idea of supporting existing mechanisms and endeavours to identify and prioritise implementation projects. The effectiveness of these

projects can be assessed doing a repeat, or endline, measurement using the FRMC.

The UK government has committed to changed funding for the UK national level managed flood defences, <https://www.gov.uk/government/news/building-flood-defences-fit-for-the-future>, including more spending and more targeted spending for projects with additional benefits, taking into account the system-thinking and the triple-resilience dividend thinking that the Alliance has been promoting, in the UK in collaboration with LSE and the Zurich local business units.

Beyond the Flood Resilience Alliance, Zurich now has regularly quarterly engagement with Jonathan Day, Deputy Director, Risk Assessment and Investment, Flood and Coastal Risk Management, Environment Agency, as well as colleagues from Defra to discuss collaboration and coordination on key flood resilience topics. Moreover, Zurich has supported the Government's Flood Insurance Review which is being led by Amanda Blanc, participating in two research evidence sessions with BMG Research where we highlighted that there is no indication of a market-wide failure for businesses in securing insurance against flood risk; whilst suggesting a review and reform of the Government resilience grant and the call for the mandatory implementation of sustainable drainage systems (SuDS) in all new developments.

Sustainable Housing

The construction industry is uniquely placed to drive the national economic recovery from the coronavirus pandemic. Indeed, a major programme of investment in housebuilding will be key in helping the UK economy build back better whilst also accelerating action on the UK's long-term challenges of climate change and net-zero carbon goals. This will inevitably include an increased role for modern methods of construction (MMC), particularly light-weight timber frame, and it is essential that the industry is continued to be held to account as it seeks to innovate.

However, as MMC become more prevalent, trends are emerging around serious problems that can be experienced when implementing these methods of construction, particularly issues relating to the durability of the development, as well as the increased risk of larger scale flood and fire damage. However, there is also a sustainability issue, particularly relating to modular construction, as there is the potential for the obsolescence of parts of modular developments whilst the inability to repair a modular home may require properties to be written off in their entirety in extreme cases. This raises serious questions over the carbon footprint of such developments, and we have

enjoyed sustained dialogue with the Government's MMC Champion, Mark Farmer, to discuss how to address sustainability concerns with MMC.

Liaison with Emergency Services

Over the last few years, the UK has experienced a number of flood events. These types of events require us to work closely with the emergency services and other local planning and response bodies and this is coordinated between our claims experts and through our public sector insurance business, Zurich Municipal. We liaise very closely with the Insurance Manager, Emergency Planning Officer and other relevant officers as required. This is all very much part of our standard approach to managing disasters.

In response to any flood event, Zurich's UK Major Loss Team, in conjunction with the Claims Service Managers and UK Major Incident Manager, all work with the affected authorities. Where there is a danger to local residents from damaged infrastructure, such as bridges or highways, we will work in partnership with the local authorities' Highways agencies, Police and Fire departments. Moreover, our Major Loss Team assist in finding temporary transport solutions and our appointed engineers work with the emergency services to assess the safety of the structures in the short term and also with a longer-term view to determine repair/reconstruction solutions to provide the most suitable and safe outcome for the community.

Internationally

Zurich has been actively engaged with the EU and across Europe through the European Financial Roundtable (EFR), the Pan-European Insurance Forum (PEIF), Pensions Europe and Insurance Europe to influence policy thinking on climate change. Zurich is an active member of the Sustainability and Long-Term Sustainable Investments Working Groups of Insurance Europe and monitors, discusses and promotes regulatory developments in the sector.

Zurich engages with EU policymakers on the sustainability agenda (sustainability risks and sustainable investment), Member States, Members of the European Parliament, the European Commission and EIOPA.

For the latter, Zurich presented to EIOPA in a bilateral meeting its internal Sustainable Finance Strategy and how it could help invest in EU green infrastructures to tackle climate change. Zurich participated in EIOPA Annual Conference 2019 Insurance & Pensions: Leading the Future. We explained how sustainability risk positions are implemented and operationalised in the business and translated into underwriting

practices, recommended business actions and along the product development process. In addition, Zurich responded to EIOPA's call for evidence on sustainability risk in March 2019.

Zurich participated in meetings and panels to highlight the role of insurers in developing models and dealing with the creation of common understanding of the issues related to physical and transition risks.

Zurich took part to a European Policy Centre Issue Paper on the EU climate adaptation policy. Launched in 2019, the European Policy Centre (EPC) project "Building a climate-resilient Europe" provided a platform for an assessment of the state of play in adaptation in Europe and a discussion on the needed measures to improve Europe's resilience to climate change. The Issue Paper builds on the findings of two EPC workshops organised in 2019 and paves the way for a revision of the EU's Adaptation Strategy. The project has been supported by Zurich Insurance. The Issue Paper aimed to provide building blocks for a renewed EU adaptation strategy and climate-resilient EU that places climate risk management at its core. It makes a call for the EU to shift its focus from reacting to disasters to a more proactive approach that prioritises prevention, risk reduction and resilience building.

Zurich also sits on the stakeholder dialogue board of the ECO2 – a multi-agency European Commission funded project to investigate the impact on marine ecosystems of sub-seabed CO2 storage. Zurich has also worked with various European Governments and intergovernmental agencies such as the European Commission DG Energy and the IEA (International Energy Agency), to better understand the risks associated with CCS

Flood Resilience

Zurich is active at a European level, participating in discussions with peers and policymakers on the potential review of the flood directive. Zurich engages with the European Commission, DG CLIMA and ENVI and Member States to elaborate on the potential review of the Flood directive and to help them implement the current directive and has both submitted its own position on the public consultation for the floods directive as well as collaborated with the sustainability working group member of Insurance Europe to participate in the public consultation, including specific expert stakeholder interviews that we have been requested to participate in given Zurich's extensive expertise in flood resilience. Zurich engaged in an applied research and policy program with the European Policy Center EPC to assess the state of play on adaptation in the EU and how its resilience to

climate change could be improved. A series of policy dialogues discussed the main findings of the EPC study and the upcoming EU adaptation strategy, including innovative and smart approaches to adaptation, how to ensure that adaptation efforts support mitigation and the role of green infrastructure and insurance. The final study was produced by EPC at the end of 2019 and presented in a workshop in Brussels in early 2020

(https://wms.flexious.be/editor/plugins/imagemanager/content/2140/PDF/2020/Climate_resilience_11_03_20.pdf).

The full paper puts the following language into the European Union's policy environment, which originates in the Zurich Flood Resilience Alliance's advocacy efforts:

- on enhanced role of insurance beyond the insurance product only ("the need to close the protection gap through better risk management and risk sharing")
- shifting still more to pre-event finance ("Establish clear tracking methodologies and effective ex ante conditionalities for climate-related EU spending"),
- ensuring there is a climate change adaptation focus in addition to mitigation ("adaptation should take a prominent role alongside mitigation in the EU's political climate agenda."; "mainstream adaptation goals into some of the relevant legislation and instruments"),
- tackling multiple benefits in cost-benefit calculation ("Consider green infrastructure's co-benefits when assessing adaptation options") as well as
- improved application of green and combine green-and-grey protection ("the necessity to adopt nature-based infrastructural solutions widely and tackle the grey infrastructure bias")

Zurich is an active member of Insurance Europe's Sustainability Working Group in charge of natural hazards and flood related events, where it has taken a leading role to support the industry's position on the EU Fitness Check of the Floods Directive and participated in the public consultation call from the European Commission in 2019, welcoming the role the Floods Directive has played in making communities more flood resilience, but at the same time suggesting areas of improvement

([https://ec.europa.eu/environment/water/fitness_check_of_the_eu_water_legislation/documents/Water%20Fitness%20Check%20-%20SWD\(2019\)439%20-%20web.pdf](https://ec.europa.eu/environment/water/fitness_check_of_the_eu_water_legislation/documents/Water%20Fitness%20Check%20-%20SWD(2019)439%20-%20web.pdf)).

5.2 Support and undertake research on climate change to inform our business strategies and help to protect our customers' and other stakeholders' interests. Where appropriate, share this research with scientists, society, business, governments and NGOs in order to advance a common interest.

Global Risks Report

Zurich continues to be one of two 'strategic partners' to WEF's Global Risk Report (GRR), providing editorial input, guidance and advice into the report's overall strategy, scope and structure. Severe threats to our climate account for all of the Global Risks Report's top long-term risks, with "economic confrontations" and "domestic political polarisation" recognised as significant short-term risks in 2020. Indeed, for the first time in the survey's 10-year outlook, the top five global risks in terms of likelihood are all environmental. The report sounds the alarm on:

- Extreme weather events with major damage to property, infrastructure and loss of human life
- Failure of climate-change mitigation and adaptation by governments and businesses.
- Human-made environmental damage and disasters, including environmental crime, such as oil spills, and radioactive contamination.
- Major biodiversity loss and ecosystem collapse (terrestrial or marine) with irreversible consequences for the environment, resulting in severely depleted resources for humankind as well as industries.
- Major natural disasters such as earthquakes, tsunamis, volcanic eruptions, and geomagnetic storms.

It adds that unless stakeholders adapt to "today's epochal power-shift" and geopolitical turbulence – while still preparing for the future – time will run out to address some of the most pressing economic, environmental and technological challenges. This signals where action by business and policymakers is most needed.

The Zurich Flood Resilience Alliance 2.0

The successes and lessons learnt in the phase 1 of the Flood Resilience Alliance demonstrated that whilst we are on the right track more can and needs to be done to build community flood resilience. Following our approach of long-term and flexible funding to focus on problem analysis and innovative solutions to build community flood resilience, the next phase that started in July 2018 is another five-year commitment that we are increasingly excited about, and which sees an additional CHF 20.3 million in funding secured from the Z Zurich Foundation. This provides us the opportunity to investigate the topic even more deeply. The objectives for the next five-year period are

- Generating USD 1 billion in additional funding for flood resilience
- Encouraging effective public policy in support of flood resilience
- Developing sound practices and policy support for flood resilience
- Measurably enhancing flood resilience in vulnerable communities across the world.

In 2019, we further raised the ambitions with our commitments in view of the significant United Nations Climate Summit convened by UN Secretary General in September (<https://www.zurich.com/en/media/news-releases/2019/2019-0924-01>). As part of the flood resilience program, the Alliance committed to scaling up its work in climate action, to help make 2 million people more resilient to flooding, and will elevate community voices and research findings with international donors and all levels of government.

Floods affect more people globally than any other type of natural hazard and cause some of the largest economic, social and humanitarian losses. Almost 730 million people were affected by floods between 2008 and 2017. Our own research has highlighted the benefit of investing in resilience and that more needs to be done in this space. We find that USD 1 invested in prevention saves, on average, USD 5 in future losses, but only 13% of humanitarian aid spending goes into pre-event resilience and risk reduction while 87% still goes into post-event relief. Additionally, the biggest humanitarian losses and their economic impact rarely make the headlines as evidenced by the lack of attention given to Cyclone Idai which destroyed up to 10% of the GDP in Malawi, Mozambique, and Zimbabwe. In this context, Zurich is also advocating for more attention not only to the economic losses (that occur in more developed economies) but also to the humanitarian

losses that hit the most vulnerable and also those most at risk from climate change effects now and in future.

By using Zurich's risk expertise as a global insurer, we can help customers and communities reduce the devastating impacts of floods—even before a flood hits—and build resilience to this disaster. We have developed and stood by our very specific definition to create additional meaning around the term "resilience". By building flood resilience, we understand how a community, system or society can pursue its development and growth objectives while managing flood risk in a way that benefits them all. We therefore create a unique understanding that risk management and development progress are not isolated, individual processes but connected in a meaningful way.

The members of the Zurich Flood Resilience Alliance provide a credible critical mass of expertise across sectors and geographies to demonstrate, inform and inspire global stakeholders and decision-makers to invest in flood resilience. We are very proud to continue working with the NGOs and humanitarian sector representatives Concern Worldwide, the International Federation of the Red Cross and Red Crescent Societies (IFRC), Mercy Corps, Plan International and Practical Action as well as research partners International Institute for Applied Systems and Analysis (IIASA), the London School of Economics, and the Institute for Social and Environmental Transition-International (ISET).

We are also keen to emphasise that the phase 2 of the Alliance is a truly shared responsibility, where every partner can bring their core interests, both internal and external, can bring their core interests and skills to the fore. Indeed, this is not about every member of the alliance playing a bit-part role or Zurich driving this top-down. Instead, we have created our jointly developed and implemented Theory of Change and set up individual workstreams led by individual organisations who volunteered to do so, supported by select partners working as a cross-organisational team. These teams operationally are divided into five workstreams — advocacy, community programming, knowledge, research, and Flood Resilience Measurement for Communities — and two governance bodies — the Team Leaders Forum and the Alliance Management Team. Work stream leads are empowered to deliver their part to the overall Alliance vision. The team leads come together and discuss progress and operational success. This ensures work streams communicate effectively with each other and avoids silos. The Alliance management team also looks at overall progress against the vision and revises the strategy

of the next steps accordingly in a continuous learning and revision cycle. This is an exciting new way of working flexibly in a non-profit program in the whole Disaster Risk Reduction space and creates the environment for innovative ideas and decisions moving forward. One key element that has been confirmed by our alliance partners is the different role that Zurich through its business and foundation is willing to play. A key enabler for setting up the structures, systems, and processes to function as a collective has been Zurich's willingness to yield to Alliance partner organisations and to challenge traditional donor-recipient dynamics and roles, actively participating and leading the program, providing financial and operational long-term vision and flexibility, and enabling open collaboration and shared learning.

In 2019, we have scaled the Alliance operations and now have programs running in 18 countries around the globe. A large focus of these programs is on scaling and partnering with other civil society, NGO and private sector organisations, and on sharing learning. The alliance is open source and sharing its knowledge through its dedicated flood resilience portal at <https://floodresilience.net/> that now features three spin-off versions for the Latin America region in Spanish and for Nepal and Bangladesh. Knowledge success for 2019 further included the completion and dissemination of 119 knowledge products, largely focusing on sharing Alliance best practice.

Our unique flood resilience measurement framework is now also in its second generation with a simplified and updated end-to-end mobile App and online software. We have started to scale this framework with external non-profit organisations in both developing and developed countries, including Nepal and India but also Germany and the United Kingdom and have developed the corresponding local language versions.

The advocacy strand of our program is continuing to be very active. We have produced a set of advocacy and policy briefs that helped us engage in the three main global dialogues around climate change (UNFCCC and the Paris Accord), the development arena (the 2030 SDGs) and disaster risk reduction (Sendai Framework for DRR and the UNDRR office), and how our approach to resilience and development helps ensure these three agendas work collectively together. In this context, we have produced advocacy products around our ambition to implement ourselves and advocate for "climate-smart, risk-informed development". We have had a significant presence at the UNDRR Global Platform 2019 in Geneva, where our policy content positively contributed to the Swiss government's official statement for the

2019 Global Platform for Disaster Risk Reduction and our wording on climate-smart, risk-informed development were picked up by international media.

The Swiss Agency for Development and Cooperation (SDC) is in progress of updating their strategy for the 2021-2024 cycle and has conducted a voluntary public consultation in which Zurich has participated in August 2019. The statistics on the consultation published by the federal department shows Zurich has been alongside many public and non-governmental institutions and private people participating to advocate for more ODI funding in line with the UN target, for more targeted climate-resilient funding, and making suggestions on how to improve the impact of the funding through better and more climate-risk informed implementation practices.

As an Alliance, we have also been able to come together and develop a joint advocacy strategy for the 2019 UN Climate Summit, engaging through our key networks including UN HELP, the collaboration on the Global Adaptation Commission Report, the Resilience and Adaptation Track of the UN in collaboration with both our NGO partners and our business relationships incl. the World Economic Forum, the Global Commission on Adaptation's flagship report, the Risk Informed Early Action Partnership (REAP), and others. UN HELP's paper, "Principles on Investment and Financing for Water Related DRR included Alliance recommendations on prioritising ex ante DRR for water related disasters, non-structural DRR interventions, and blue and green infrastructure. Having these policy recommendations taken up opens the door for potential increases in spending on flood resilience.

Understanding where our program is impactful and measuring change is one of our key ambitions. We have built a rigorous process that leads us from our vision of flood resilience and the three main objectives mentioned earlier to a theory of change jointly developed with all our partners to pathways how this theory of change can be implemented. Built on the back of these pathways are a set of innovative indicators that are currently developed into a measurement, reporting and learning (MRL) system. The MRL is a new way of integrated reporting of impact and change that we use to measure progress against our objectives. In 2019, we have been able to use this new MRL approach to report progress on the first full year of operation of the Alliance and produced a publically available learning report available here: <https://www.i-s-e-t.org/zfra-ii-lessons-from-year-1>

Highlights of achievements for 2019 include the influencing of additional external financial commitments of nearly 24 million CHF and the disbursement of over one million CHF for flood resilience through our advocacy and community activities, including in Nepal to enhance their early warning systems, in investments by others into the PERC methodology, to continue work on the resilience bonds including funding from the InsuResilience Global Partnership Secretariat, enhancing the Montenegro Program through support by the GIZ and the Municipality of Cetinje, and enhanced funding of the Peruvian National Disaster Fund to improve rainfall monitoring.

PERC

Part of Zurich's commitment to Community Flood Resilience is the Post Event Review Capability (PERC) function which is aimed at understanding flood events and causes of related catastrophes or losses. Key questions of our independent forensic research are:

- 'What has worked well (best practices)?'
- 'What has gone wrong and why (highlighting reasons for losses and assessing root causes)?'

PERC has developed a thorough understanding of best practices in flood mitigation and flood resilience and is providing a platform for knowledge exchange and recommendations. The Zurich Flood Resilience Alliance and wider partners have further refined the PERC concept and conducted further studies on major flooding events and for the first time expanded to other climate-related perils. The expansion of PERC studies also saw a surge in collaboration beyond Zurich and its core Alliance partners to include private sector (DuPont), Canadian researchers (ICLR) and more Zurich business units at national level (Zurich North America – US and Canada), and resulted in feedback that PERC is scaleable across perils and organisations. ICLR confirmed that PERC can be now successfully applied to wildfires, and the Australian AIDR Lessons Management Handbook, a key document for emergency management, explicitly mentioned PERC as a valid methodology.

A total of 16 studies have been published until the end of 2019. These include the Central European floods of 2013, the December 2013 storm surge flood in the UK (aka 'Xaver'), the 2014 Central Switzerland mountain flash floods, the 2014 Balkan region floods, the 2014 Morocco floods; the 2014 Karnali river, Nepal floods; the 2015 UK Cumbria floods; the 2015 South Carolina floods; as well as one on flash flooding in Germany and two on separate lessons from events that happened in the coastal areas of Peru in 2016 and 2017. Additional major events in the U.S. were covered in PERC reports with Hurricane Harvey in Texas in 2017 and Hurricane Florence in North Carolina in 2018, which was published in 2019.

All completed PERC reports are available for download here: <https://www.zurich.com/en/sustainability/our-role-in-society/flood-resilience/learning-from-post-flood-events>

Since so many PERC studies have now been conducted, we have made a series of compilations available that highlight the key lessons learnt from these event analyses around the globe for particular target audiences, including the public as well as those recommendations aimed at our customers and risk managers. We find that natural hazards events all teach some of the same hard lessons, whether the destruction comes from floods, fires, windstorms or other events. To make this more directly tangible for risk managers in business and industry, we have published two summary reports highlighting the joint lessons learnt and how they are relevant for risk managers globally, which have won Zurich Insurance Group an Outstanding Achievement Award from the National Hurricane Conference in the US in 2019 and the Insurance Business Innovation Award for our PERC reports and the associated methodology. We are continuing to expand and scale the PERC approach and have turned them into a professional continued education (CE) course. See more at <https://www.zurich.com/en/knowledge/articles/2018/06/how-hard-lessons-strengthen-resilience-against-disasters> and <https://www.zurich.com/en/knowledge/articles/2019/05/events-are-natural-disasters-are-not>

Principle 5: Demonstrating Planned Activities

Internationally

We continue to develop external messages around sustainability risks, physical and transitional risks and mitigation and adaptation measures. Considering the Covid-19 crisis, the economic recovery must align with long term sustainability goals. We have established policy asks and plan on promoting a green recovery and mitigation and adaption measures aligned with the future low carbon emissions economy.

Flood Resilience

We have widened our European-level policy focus from looking mostly at flood resilience instruments like at the Floods Directive fitness check to wider European Union instruments, incl. the New Green Deal under the new Commission from von der Leyen, the Climate Risk financing instruments, and other mechanisms such as the tying of green considerations into the COVID19 economic stimulus across the EU financing announced EUR 3 trillion of the crisis.

Nationally

Flood Resilience

As part of our policy proposal to reform the UK's flood resilience grant system to encourage pro-active installation of property level flood resilience measures Zurich has scheduled meetings for Q3 with Shadow Floods Minister, Steph Peacock MP, as well as former Shadow Floods Minister, Holly Lynch MP. This sits alongside Zurich's quarterly engagement dialogue with the Environment Agency and Defra.

Sustainable Housing

Following the UK Government's publication of the Building Safety Bill. Zurich will be engaging throughout the passage of the Bill to ensure that the legislation supports sustainable innovation in the construction sector but that buildings are also resilient and fit for purpose. As part of this process Zurich has instigated an engagement programme with a range of parliamentary stakeholders.

Flood Alliance 2.0

To achieve our ambitious commitments, we are planning to further extend our programming operations to more countries and communities. In 2020, we are working with our NGO and humanitarian sector partners to create an expansion package of more flood resilience programs both in existing geographies and locations where we can use existing skills and capacities to scale and enhance reach and in new areas to enhance the Alliance's footprint and leverage DRR programming opportunities where we haven't been present thus far.

To further enhance our knowledge sharing, we plan to extend the flood resilience portal to French aimed at the West African disaster risk reduction segment.

Our advocacy efforts for 2020 are being adopted given the COVID19 focus but revolve around the agreement that while a decisive and adequate response to COVID19 is essential, commitments to combat the climate crisis continue to be crucial to meet the agreed 1.5° targets and a synergistic and well-coordinated approach to COVID19 and compound risks from extreme weather events must be advocated for. Zurich has already engaged to actively participate in the Climate Conference COP, relevant business forums associated with COP including participating in and sponsoring the World Climate Summit (<https://www.worldclimatesummit.org/>).

The response, and additionally taking a longer-term view to the post-COVID19 world, will also be important for Zurich and the Z Zurich Foundation in developing a strategy how to support our partners in the continued implementation of the flood resilience program while adequately responding to the COVID19 crisis. Throughout 2020, we will not only adapt our policy and advocacy efforts and messages to address the climate crisis in light of the "new normal" with the COVID19 pandemic, but also ensuring we provide financial and operational flexibility to our partners on the ground. This includes financial security during any lockdown measures or halted implementation operations as well as operational flexibility to address needs for health and economic development support in addition to building resilience to flood risks. We are further going to evaluate the COVID19 impact is going to have on the Alliance's operations and the achievement of the objectives, but we are taking the view that rather than reducing the ambition of what can be achieved in the originally foreseen program duration we should understand how much extension the program needs on the timeline to ensure the existing ambitions can be reached.

PERC

In 2020, Zurich and the Alliance are planning to release an updated PERC manual to continue inviting other stakeholders and follow the PERC methodology and conduct their own learning analyses on their own. The manual will include lessons learnt from the PERC studies conducted so far, provide additional recommendations how a more diverse range of PERC products can be created, how to disseminate them to a wider range of audiences, and how to ensure PERC is not only a learning methodology but used to actively target programming decisions in disaster risk reduction, i.e. ensuring that recommendations from PERC are taken up and implemented through DRR programs. Further, the manual will provide new chapters on climate change attribution in large disaster events and scenario discussions. We also plan to continue our engagement with PERC in the scientific community on forensic disaster research, including at the two largest geoscience conferences, the European Geophysical Union (EGU) 2020 and the American Geophysical Union (AGU).

The PERC methodology will continue to be actively applied and more studies are planned to be added in 2020, including on the largest humanitarian flood-related disaster of 2019, Hurricanes Idai and Kenneth in Southeast Africa, and another wildfire study on Tasmania. These studies are planned to see further engagement from external stakeholders, including the Swiss Agency for Development and Cooperation (SDC).

Also, the PERC compilation series is planned to be updated in time for the 2020 Hurricane and Monsoon season to include the latest lessons learnt, but to also provide generally applicable lessons on compound risk based on the COVID19 situation and the wildfire PERCs conducted to date

6. Support climate awareness amongst our customers/clients

6.1 Communicate our beliefs and strategy on climate-related issues to our customers/clients.

Climate change is a significant concern to Zurich and to our customers. As an insurer we can have a positive impact by helping existing and prospective customers to better understand their exposure to climate risks. As a business, we need to keep in mind the impact of climate change on our risk profile. We can, and do, educate businesses, policymakers, communities and individuals about the implications of severe weather, drought and flooding related to climate extremes.

Zurich Group announced in June 2019 that it is accelerating actions to progress towards a low-carbon economy amid an increasing climate crisis. As the first insurance company, Zurich has committed to set targets in the framework of the UN Global Compact Business Ambition Pledge that aims at limiting global temperature rise to 1.5°C above pre-industrial levels. Zurich will also expand its existing thermal coal policy aimed at reducing the use of carbon intense fossil fuels.

The recent report by the UN Intergovernmental Panel on Climate Change (IPCC), gives the world only 11 years to successfully transition to a new path or risk planetary warming with unimaginable consequences. This will require an immediate and major transformation across energy, land, industrial, urban and other systems. As one of the world's leading insurers we see first-hand the devastation natural hazards inflict on people and communities. This is why we are accelerating action to reduce climate risks by driving changes in how companies and people behave and support those most impacted.

Zurich recognises the vital role the Science Based Targets (SBT) play to meet the Paris Agreement's targets by specifying how much and how quickly companies need to reduce emissions. Currently, in the insurance sector, SBT do not typically exist for either Underwriting or Investment Portfolios. However, as part of Zurich's Pledge, we are playing an active role in developing industry methodology for measuring the carbon footprint of liabilities to enable setting such targets. Zurich has also joined the Stakeholder Advisory Group of the Science Based Target initiative, a project to help financial institutions align their lending and investment portfolios with the Paris Agreement ambition. In addition, Zurich led a working-group with the CRO

forum to develop the first guide on how to perform carbon footprinting for insurance portfolios.

We also see us having a strong role in raising general awareness and educating our customers on sustainability topics and climate change in particular:

- In September 2018, we issued a whitepaper on Managing the Impact of Climate Change – Risk Management Response to help raise awareness with our customers on the impact of climate change and how to mitigate these from a risk management perspective. Among the key recommendations made was to urge companies to adopt a climate resilience adaptation strategy, a 3-step holistic approach from strategy down to operation. More details here: <https://www.zurich.com/en/knowledge/articles/2018/09/managing-the-impacts-of-climate-change-risk-management-responses>

This whitepaper was the base of a 5 weeks global communication campaign in Q3 2018 using paid and not paid media, multi-channels targeting customers, distributors and key stakeholders. Additional content materials leverage during this campaign can be found here: <https://www.zurich.com/en/knowledge/topics/environmental-risks>. This campaign also included dedicated workshops with some of our largest customers worldwide to dig into these climate issues in a deep and profound way. Those workshops helped us to raise awareness with our clients on what they should do to address this topic in their own organisations, but it also helped us to gain valuable insights on what they would need the most from us in this journey.

In January 2019, together with the World Economic Forum (WEF), we launched the Global Risks Report 2019 with a large emphasis on environmental risks and climate change dominating the global risk landscape and actively promoted the notion that the world is sleepwalking into a crisis with climate change and there was a vibrant necessity for all stakeholders to act now. Since January 16, and until the end of June, we have entered in a multi-million-dollar global communication campaign on this topic, actively promoting businesses to act on climate and do it so now. We are raising awareness on the latest trends, issues and also solutions that business can look for vis-à-vis climate change. We are speaking to thousands of corporate customers on this issue to multiple events, conferences and forums around the world. All in all, dozens of millions of people worldwide are reached with such a campaign. Example of content and messages: <https://www.zurich.com/en/knowledge/articles/2019/>

[05/climate-change-and-the-bottom-line-risk-strategies-create-opportunities-for-businesses](#).

We are contributing to leading research and positioning paper from think tank and other international organisations. An example of that is our contribution to – and promotion of – a “Climate Governance Principles/White Paper” issued by WEF on January 17, 2019. We are in addition to that actively contributing to key initiatives such as the WEF resilience efforts that are also linked to the UN Summit in September and the Resilience track under the auspices of the UK government, actively promoting our expertise and insights to help business and communities preparing for current impacts of climate change, in particular physical risks such as flooding. These efforts will culminate in September 2019 with yet another major global communication campaign around the topic from end September throughout October.

Specifically, on our investment beliefs and strategy on climate change we have communicated in:

- Our Responsible Investment White Paper (https://www.zurich.com/_media/dbe/corporate/docs/corporate-responsibility/responsible-investment-at-zurich.pdf?la=en&hash=72A35940F6FEF2914231845A4A14F7FD46F24966). Page 11 of The Responsible Investment White Paper lists how we incorporate climate change in our investment strategy.
- Our PRI transparency report (which included climate-change related questions in the 2017 and 2018 edition, (note: the 2018 report is scheduled to be published on www.unpri.org and later Zurich.com in July/August 2019).
- We also advocated and championed our Responsible Investment beliefs in a number of interview and media comments (in the last nine months in the Financial Times, Global Capital, Insurance Asset Risk, Environmental Finance, Responsible Investor, Le Temps, A.M. Best's Review, SRF, Funds Global Asia, CNN Money Switzerland, Risk Magazine, The Environment, Euractiv)
- Zurich is also one of the founding signatories of the IFC's Operating Principles for Impact Management https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Impact-Investing

Results and achievements derived from our climate change position are communicated continuously:

- On page 125 of our PRI Transparency report 2018/2019, we highlight that “Top down

engagement activities in 2018 focused on growing the green bond market, supporting the transition to a low-carbon economy and asking for the implementation of the Paris Agreement, as well as the establishment of an economically viable carbon price. A priority for 2018 was to drive a top-down engagement campaign, which Zurich did in connection with divesting from companies that generated more than 50 percent of their revenues from mining thermal coal or had more than 50 percent of coal in their power generation mix. All in-house teams conducted bottom-up engagement activities, which are monitored through an annual internal questionnaire including a follow-up discussion.”

- In 2018, we developed an impact measurement framework to track the success of our impact portfolio along the metrics of ‘CO2e emissions avoided’. Through this process we engaged with fund managers and use-of-proceed issuers to ensure a common understanding of the impact numbers reported. These findings and learnings of impact measuring has been shared over social media. Further reading on the outcome: <https://www.zurich.com/en/sustainability/responsible-investment/impact-investment>
- Zurich was awarded as the Investor of the Year by the Environmental Finance magazine: <https://www.environmental-finance.com/content/awards/green-social-and-sustainability-bond-awards-2019/winners/award-for-investor-of-the-year-zurich-insurance-group.htm>

Eric Usher, United Nations Environment Programme Finance Initiative (UNEP FI)

“We are excited to see UNEP FI member, Zurich, working to embed sustainability in their core business activities. In their dual capacity as investors and underwriters, insurers have an essential role in ensuring a healthy planet, and helping the finance industry play its part in achieving both the Paris Climate Agreement targets and the UN Sustainable Development Goals.”

Amit Bouri, Chief Executive Officer, Global Impact Investing Network (GIIN), added: “The GIIN welcomes Zurich’s focus on impact performance to drive better-informed investment decisions, and their commitment to sharing their learnings with other investors. Increasingly, investors are moving toward integrating financial and impact performance to drive decision-making and paint a clearer picture of the effects their investment decisions have on society and the planet. This is important because the

challenges the world is facing are too urgent for impact capital to underperform.”

Zurich’s customer engagement regarding climate risks and impacts spans three key areas:

1. Advancing wide-scale customer awareness

Advancing wide-scale customer awareness takes two main forms of engagement depending on the type of customer, either large commercial customers or retail individuals.

Commercial Customers

For commercial customers, we significantly invest in developing world-class Thought Leadership content related to the risk management response to climate change through an ongoing series of detailed whitepapers, aimed at helping our customers’ risk managers be more informed and prepared to manage the risks posed by climate change. Such insights are continuously integrated into regional customer forums, key account stewardship meetings, and within larger publications like the WEF Global Risks Report, which all have received significant amounts of positive customer feedback to date.

Retail Customers

For building wide-scale awareness within the slightly harder to reach individual retail customers, we have successfully globally-scaled Zurich’s One Policy One Tree initiative where for each digital policy that is purchased by a customer, we plant a tree to honour their purchase. Beyond integrating positive environmental benefits within our products, the aim was also to build broader public awareness around the importance of reforestation and nature-based solutions at address climate change – something that is explicitly communicated to all customers who purchase insurance products within the scope of our ever expanding One Policy One Tree initiative.

Zurich also uses the media to through interviews and media comment to advocate and champion sustainability and communicate our beliefs and strategies to customers as well as clients. Recent examples include:

<https://fortune.com/2020/01/17/world-economic-forum-climate-change-zurich-insurance/>

<https://www.euromoney.com/article/b1kg3swwgxfr1/pandemics-another-reason-to-stop-financing-deforestation-and-climate-change>

<https://www.nytimes.com/2020/01/23/business/corporate-climate-davos.html>

<https://www.bloomberg.com/news/articles/2020-01-15/world-s-biggest-long-term-risks-are-all-environmental-wef-says>

<https://www.cnbc.com/2020/01/15/webs-top-5-global-risks-for-2020-are-all-about-the-environment.html>

<https://www.ft.com/content/73765d6c-5402-11ea-90ad-25e377c0ee1f>

<https://www.insuranceerm.com/analysis/the-insurance-industrys-climate-change-leaders.html>

2. Integrating sustainability risk assessment and climate transition engagement into customer account management

The second pillar of our customer engagement approach focuses on integrating sustainability risk assessment and climate transition engagement into customer account management. These approaches build on the foundation of our sustainability risk screening approach that has been in place for a number of years called Corporate Responsibility in Business Transactions (CRiBT). The CRiBT process was implemented within our underwriting guidelines as a management approach to monitoring and managing sustainability risks within the customer projects we were asked to underwrite that may pose a reputational risk to Zurich or amplify potential losses. This now standard CRiBT process has been expanded to also implement Zurich’s newly revamped Fossil Fuel Policy, that states we will only do business with firms with limited exposure to high-carbon intensity business practices and deeply engage with those affected customers over the coming two years to encourage them to adopt a sufficient transition plan and remain a Zurich customer.

Engagements with customers who fall in the more restrictive policy for thermal coal and Oil Sands are ongoing, and we are continuously screening for changes versus our thresholds in new and existing customers.

3. Developing new climate risk services based on customer demands.

The final pillar of our current plans for engaging customers on climate change, is the development of new climate risk services based on customer demands. As a customer-centric organisation, we take listening to our key customers very seriously. Via our Key Account Stewardship meetings and customer forums, we have learned that many of our key customers are very eager to receive additional support from Zurich in order to better understand their climate-related risks:

6.2 Inform our customers/clients of climate-related risk and provide support and tools so that they can assess their own levels of risk.

Risk Engineering

Zurich was the first insurer to add a dedicated natural-hazard assessment to its standard property risk engineering assessment services. We also help customers with practical implementation of risk mitigation and adaptation measures into planning for business continuity, emergency response, supply chain management, and infrastructure sourcing. Our involvement triggers a profound rethink of the overall sustainability and business resilience at the customer.

The Risk Engineering function also has a dedicated team advising customers on physical and organisational resilience to natural hazards and climate change. Such assessments consider supply chain and infrastructure reliability. Their advice covers existing assets and future investments (e.g. support to customers on natural hazard-related risks for new projects, from the land acquisition to engineering design phases).

Environmental Liability Insurance

Our Environmental Damage and Pollution Legal Liability insurance, coupled with risk management strategies, can help protect businesses against unforeseen environmental risks. It covers clean-up costs and environmental damage costs to protected species or natural habitats, surface water or ground water and land.

Commercial Insurance Products and Services

Energy

Our Commercial Insurance business has a product range offering broad insurance coverage for both the construction and operational exposures of renewable energy projects (including solar, hydropower, biomass, and waste). Companies involved in the construction and operation of renewable energy projects are able to obtain protection to meet diverse risk management needs during the construction and operational phases under one programme, ensuring gaps in cover do not occur as projects are completed.

We also offer a bespoke product to cover Decommissioning projects, covering both first-

and third-party exposures. Decommissioning projects involve the removal and safe disposal of Offshore Oil & Gas infrastructure, including platforms and subsea pipelines, to return the site to its original natural state.

We recognise that climate change is one of the greatest and most complex challenges facing the world today and as part of our continuing commitment to shaping a more resilient tomorrow we are taking actions to reflect the risks in our commercial underwriting and investment practices related to thermal coal. We are proud of our leadership in this area and now see an opportunity to apply our existing ESG review mechanisms and risk expertise to facilitate – if not accelerate – the generational shift to a low-carbon economy. We will do so primarily by developing risk management solutions for the new technologies, business models and approaches that will be needed to achieve this unprecedented transition. However, we will also leverage our role as a leading commercial insurer to foster dialogue around the impact of coal on climate and the steps needed to transition to a low-carbon economy. In addition, we will engage our customers and brokers in discussions regarding the mechanisms available to drive that transition, particularly for companies with heavy exposures to coal.

In practice, such a proactive risk-based approach would blend quantitative measures with customer engagement. For example:

1. We will not provide insurance or risk management services for new thermal coal mines or for potential new clients that derive more than half their revenue from mining thermal coal, or utility companies that generate more than half of their energy from coal except for offering coverage protecting employees from harm;
2. We will assume responsible risk management if a new or existing client, or an investee company, derives less than 30 percent of its revenues from mining thermal coal or, for utility companies, generates less than 30 percent of energy from coal. In such circumstances we would underwrite its risks, or invest in it, using standard processes and procedures;
3. We will apply enhanced risk screening for new or existing clients, and enhanced risk integration for investee companies, that derive 30 percent to 50 percent of their revenues from mining thermal coal, or utility companies that generate 30 percent to 50 percent of their energy from coal, seeking additional assurances that the firm is responsibly managing its ESG risk exposures;

4. We will engage in a risk-based dialogue – not to exceed 24 months – with all existing clients that derive more than 50 percent of their revenues from mining thermal coal, or utility companies that generate more than half of their energy from coal. The aim of this dialogue will be to facilitate a transition to an alternative insurer, or to explore whether an exception should be granted based on the client's strategy and position on climate risk.
5. We will divest from equity holdings in companies that derive more than half of their revenues from mining thermal coal, or utility companies that generate more than half of their energy from coal. We will not invest in new debt issued by such companies and will run off existing holdings.

Moving to the future, we are currently working to ensure that our product offering is fit for the transition to sustainable energy that is already underway. We will work with current and future buyers of insurance to ensure we have fit-for-purpose products to cover the risks of nascent technologies such as hydrogen, carbon capture and storage and battery storage.

Zurich UK's Energy team has also committed to planting 100,000 trees a year on behalf of its customers in a mangrove forest in Madagascar between 2020 and 2021. The project has the obvious benefit of capturing CO₂, as well as helping to alleviate poverty and enrich biodiversity.

Property

Zurich Commercial Insurance Property coverage can include cover for rebuilding in a sustainable way, even if the costs are greater than using standard processes. Our 'green endorsement' covers the additional costs of reinstatement with products or building materials from sustainable material manufacturers such as BREEAM, LEED and Green Globes.

Motor Fleet

Zurich Commercial Insurance also offers a motor fleet proposition which combines telematics and risk management enabling safer, more efficient and more environmentally friendly fleets. Working very closely with our underwriting and risk engineering specialists, and by combining technology with driver development and management, companies can identify higher risk driving behaviour.

The measures put in place can also improve fuel efficiency, vehicle wear-and-tear, and improve vehicle deployment so to reduce unnecessary journeys, which often achieves double digit improvements in fuel efficiency. Zurich has a number of customers either utilising or piloting the initiative across their fleets. For example, Zurich Fleet Intelligence supported one customer's drive to improve fleet safety and reduce fuel consumption.

By implementing a number of risk management initiatives successfully in conjunction with Zurich (including driver assessment, driver training, and the use of a driver behaviour system), they have reduced their incident rate by 65% and their damage self-insured costs by 60% over just three years. In addition to the incident savings, the system reduced fuel usage by 100,000 litres in a 12-month period, an improved MPG of nearly 10%.

Zurich Commercial Insurance are also seeing how they can incorporate more specifically the provision for Electric Vehicles within their fleets as they continue to grow in popularity and, therefore, look to have a customer focused proposition and supporting their uptake to ensure future sustainability.

Digital Content

Flood Guide and Microsite

We continue to focus on areas that can benefit our customers in times of severe weather. We continue to promote our flood guide, designed for use by local authorities and their residents, which can be accessed by anyone for free at:

<http://newsandviews.zurich.co.uk/download/your-flood-guide/>

This guide aims to provide useful, straightforward advice for residents to prepare for a flood, act in the event, and begin recovery. It builds on lessons learned from significant flooding in recent years. There is also guidance on making an insurance claim by recommending actions to take from the outset. The guide has been developed in various versions, which includes a downloadable version allowing access from smartphones in an emergency.

ZM Climate Change Whitepaper

Zurich Municipal's latest whitepaper discusses strategies to help public and voluntary sector organisation manage and mitigate climate change risk. <https://zurins.uk/2Zs0AfT>

Principle 6: Demonstrating Planned Activities

There is growing demand among Zurich's business customers for risk management tools that measure the impact of climate change. In response, Zurich will imminently be launching a new Climate Change Resilience Service. Once fully operational, this service will provide large corporates with bespoke and granular-level analysis and modelling of climate change exposures and their impact. The service has been piloted with a number of Zurich clients and will be expanded and improved over time, in part with advancements in technology.

7. Reporting

7.1 Submission against the ClimateWise Principles.

Zurich is proud to be a member of ClimateWise, supporting the insurance industry to act on climate change and report publicly on our own performance against the ClimateWise sub-principles. Zurich produces a compliance report against the ClimateWise Principles. This report provides the level of detail which cannot realistically be included in other public reports that seek to cover a wider scope of information.

Zurich's ClimateWise submission is published each year alongside our other environmental reporting and commitments on our UK website: <http://www.zurich.co.uk/corporateresponsibility/environment/> and is amplified through our social media channels where relevant.

7.2 Public disclosure of the ClimateWise Principles as part of our annual reporting.

As a global insurer, Zurich faces risks from climate change and provides this disclosure per its commitment to adopt the recommendations of the Financial Stability Board's Task force on Climate Change-related Financial Disclosure (FSB-TCFD). Our TCFD aligned disclosure is part of the risk review of our annual report, see pages 158 to 160 here:

<https://www.zurich.com/-/media/project/zurich/dotcom/investor-relations/docs/financial-reports/2019/annual-report-2019.pdf?la=en&hash=7077F1403BC955F9544C2F7065BF8170>

Our ClimateWise Report is also submitted as additional evidence as part of our submission to the Carbon Disclosure Project (CDP) to ensure a consistency in our public disclosure on key climate related issues.

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