# Insurer Climate Risk Disclosure Survey for Reporting Year 2019

**Section A**

Group Name: Zurich American Insurance Company and Affiliates

Group No. 0212

**Section B**

| NAIC Number | Company Name | Mailing Address |
|---|---|---|
| 26247 | American Guarantee and Liability Insurance Company<br>Domicile: NY | 1299 Zurich Way<br>Schaumburg, IL 60196 |
| 40142 | American Zurich Insurance Company<br>Domicile: IL | 1299 Zurich Way<br>Schaumburg, IL 60196 |
| 34347 | Colonial American Casualty and Surety Company<br>Domicile: IL | 1299 Zurich Way<br>Schaumburg, IL 60196 |
| 21326 | Empire Fire and Marine Insurance Company<br>Domicile: IL | 1299 Zurich Way<br>Schaumburg, IL 60196 |
| 21334 | Empire Indemnity Insurance Company<br>Domicile: OK | 1299 Zurich Way<br>Schaumburg, IL 60196 |
| 39306 | Fidelity and Deposit Company of Maryland<br>Domicile: IL | 1299 Zurich Way<br>Schaumburg, IL 60196 |
| 26387 | Steadfast Insurance Company<br>Domicile: IL | 1299 Zurich Way<br>Schaumburg, IL 60196 |
| 16535 | Zurich American Insurance Company<br>Domicile: NY | 1299 Zurich Way<br>Schaumburg, IL 60196 |
| 39039 | Rural Community Insurance Company<br>Domicile: MN | 3501 Thurston Avenue<br>Anoka, MN 55303 |
| 90557 | Zurich American Life Insurance Company<br>Domicile: IL | 150 Greenwich Street<br>4 World Trade Center<br>54th Floor<br>New York, NY 10007 |
| 27855 | Zurich American Insurance Company of Illinois<br>Domicile: IL | 1299 Zurich Way<br>Schaumburg, IL 60196 |

| NAIC Number | Company Name | Mailing Address |
|---|---|---|
| 41181 | Universal Underwriters Insurance Company<br>Domicile: IL | 1299 Zurich Way<br>Schaumburg, IL 60196 |
| 40843 | Universal Underwriters of Texas Insurance Company<br>Domicile: IL | 1299 Zurich Way<br>Schaumburg, IL 60196 |

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**Climate-Change Risk**
Climate change is perhaps the most complex risk facing society today: it is intergenerational, international and interdependent. As a global insurer, Zurich faces risks from climate change and provides this disclosure per its commitment to adopt the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

**Climate Strategy**
Zurich's climate strategy is guided by its commitment to the business ambition for 1.5°C pledge aimed at limiting average global temperature increases to 1.5°C. A comprehensive climate road map to transform Zurich into a 1.5°C compatible company is under development, with the goal to protect the Group's balance sheet, capture climate related service and product revenues by supporting our customers and society to build resilience to climate impacts and transition to a zero-carbon economy.

**Climate-Related Physical Risks**
Changes are expected in the frequency, severity and geographical distribution of extreme weather events such as tropical cyclones and extreme rainfall and associated flooding or heat waves in the event that society fails to limit climate change to well below an increase of two degrees Celsius. Scientific consensus suggests society is likely to experience devastating impacts as a result of these changes. Current climate models, such as the International Panel on Climate Change (IPCC) model upon which Zurich bases its internal climate scenarios, indicate that physical climate-change risk will begin to rise more materially after the next two decades if left unmitigated.

Over the short term, natural climate variability will have a greater impact on natural catastrophe losses than long-term climate-change trends. Regional variations will be large, however, areas that are particularly exposed are likely to experience such changes earlier. To accommodate the evolving nature of climate risk, Zurich considers both near-term (three to five year) and long-term (five to 10 year) time horizons, with the long-term view used as a basis to develop mitigating actions. Overall the Group considers its near-term (less than five years) climate-change-related risks to be manageable and foreseeable, whereas long-term risks to be elevated and highly uncertain.

Zurich is exposed to physical risk of climate change through the underwriting and real estate investment portfolios. While assessing and managing the impact of extreme weather events is part of Zurich's core business competency, changes in frequency and severity of events caused by climate change add to the challenges in accurately measuring expected impacts. As commercial catastrophe models are typically based on historical data and hence backwardlooking, they might not sufficiently account for climate risks already materializing. Potential model gaps are addressed as part of Zurich's model validation process and the Zurich view approach provides further review for impacts that Zurich considers under-represented in the standard models. Generally, annual policy renewals provide a degree of insulation against increasing physical risks for short-tail business. However, the ability to isolate gradual changes to the risk (e.g., a change in frequency, severity or correlations), and therefore capture the

impacts of a changing climate, become more pressing over a longer time-frame, especially for long-tail lines of business.

There is also a risk that physical events reduce the profitability of investments across asset classes (e.g., equities, real estate, sovereign or corporate bonds), though analysis suggests that very significant impairments would be required for Zurich's portfolio to be materially impacted.

Zurich considers the risk to its own operations from climate risk as less material, as they are generally not located in highly exposed areas and business continuity plans are in place to react to relevant extreme weather events.

**Climate-Related Transition Risk**

Each major economy is likely to respond to transition risks in specific ways, and within different time periods. Shifts toward a low-carbon economy carried out in specific sectors are likely to affect not only those individual sectors, but other parts of the economy as well. There are at least three aspects to consider within this transition process; its affect on technologies, economies, and society. The insurable risks related to these transitions could develop in many different ways.

Achieving a transition to a low-carbon economy requires fundamental changes to all parts of the economy. While limiting climate change to 2°C or below will lower physical climate risk, the technological and policy changes required to achieve this create their own sets of risks. Independent of the precise pathway, the transition could be disruptive, as significant asset price moves are required to shift resources to low-carbon technology on a global scale. Changes in public perception and the regulatory landscape could reshape legal and reputational risks. Transition risks are considered to be more uncertain than physical risks. Zurich uses a climate scorecard to measure transition-risk-related indicators, with Zurich's assessment indicating that a physical risk path currently is significantly more likely than a transition path. However, transition risks and physical risks are not mutually exclusive and can potentially co-exist, depending on the timing, speed and effectiveness of the path followed.

Zurich could be exposed to transition risks if it fails to manage changing market conditions and customer needs as part of the transition to a low-carbon economy, resulting in asset impairment, opportunity cost and lost market share. In a transition scenario, industries unable to de-carbonize could experience declining profitability and lack of re-financing, which could lead to a lack of maintenance with increasing rates of outages and equipment break-downs that translate into higher insurance losses. Failure to manage transition risk could also lead to reputational impacts, both internal and external, resulting from a failure to deliver on publicly stated commitments. Although not considered material in the near-term, the increasing frequency of climate-related legal action suggests climate-related litigation could represent a significant potential risk in the long term.

While transition risks are not considered material in the short term, strategic responses to these risks are underway. These include the definition of an overall differentiated market position on climate change that is tied to the Group's purpose and values, and the development of an underpinning suite of products and services that complement its existing responsible investment

strategy. Zurich recently signed-up to the United Nations global compact business ambition for 1.5°C pledge limiting average global temperature increases to 1.5°C. The implementation of this will further reduce the Group's exposure to transition risk.

**Climate-Related Opportunities**

Zurich sees business opportunities both in helping its customers manage physical risk and transition risk, as well as benefiting from the changes required to move towards a low-carbon economy. As an innovative insurer, Zurich is positioned to take advantage through its climate-change-related products and services which enable existing and prospective customers to better understand and manage their exposure to climate risks and to enhance their resilience to both physical and transition risk.

Climate-related regulations aimed at incentivizing a low-carbon economy result in an increased demand for alternative low-carbon solutions and provide opportunities for new markets. The impact which is currently expected to be low in the short to medium-term, will increase over time. Zurich has considerable expertise in providing insurance solutions for green assets and takes advantage of environmentally oriented opportunities through products and services for electric vehicles, renewable energy, etc., around the world. For example, electric vehicles (EV) are expected to be a significant and growing segment in the new vehicle market with Zurich leading the way in developing customized motor insurance solutions that meet the needs of EV customers.

As an investor, Zurich has established responsible investment and climate-change investment strategies, including impact investments, green bonds, and a comprehensive approach to ESG integration. Impact investments can help mitigate climate change through their targeted, positive impact, and also offer a financial return commensurate with risks. Zurich will consider impact investments that help increase energy efficiency, generate renewable energy or mitigate climate change or protect the environment in other ways. Through its commitment to the green bonds market, Zurich is seeking to capture opportunities across the universe of environmental oriented, social and sustainable bonds.

**Risk Management**

Zurich's approach to managing climate risk is embedded within its multi-disciplinary Group-wide risk management processes. As such, climate risk is managed in a manner consistent with how other risks to the Group are managed. Under the sponsorship of the Group CRO, Zurich conducts an annual Group-wide assessment of climate-change-related risks using the Total Risk Profile (TRPTM) approach. This assessment, involving subject matter experts from relevant business areas, includes identifying management actions appropriate to the risks identified.

Internal scenarios representing an archetypical-transition path and a physical-risk path provide the assumptions underlying the assessment. Zurich developed a climate-change scorecard, which aims to measure developments in a range of climate-transition-related areas. It uses quantitative data and draws on various climate-change scenarios constructed by the Intergovernmental Panel

on Climate Change (IPCC) and the International Energy Agency (IEA). To assess financial impacts of potential climate scenarios, climate risks are also assessed as part of its Own Risk and Solvency Assessment (ORSA) and this year it included a scenario based on the rapid implementation of economic and other policies to stress-test potential transition risk exposure.

**Metrics**

Key performance indicators (KPIs) for sustainability focus areas were defined to ensure continuous improvement in performance on responsible business practices. The metrics in place are designed to track the mitigation of operational and investment related risks. Latest data for these metrics, along with historical data to facilitate trend analysis, can be found on the webpage. https://www.zurich.com/sustainability/being-a-responsible-business/measuring-our-progress