

ClimateWise report 2011

Addressing the risks we and our customers face from climate change



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Foreword

At Zurich, we believe in being an active member of both global and local communities. In particular, we believe that in order to achieve our strategic aspiration of being the best global insurer as defined by our customers, shareholders and employees, we need to set and maintain high standards of responsibility and integrity. Zurich in the UK's corporate values are contained within a framework called Zurich Basics. This code of conduct applies across the Group and is available in the public domain on the Zurich.com website.

In January 2008, the Zurich Group launched its Climate Initiative which takes a market-based approach to addressing the risks that we and our customers face from climate change. The Climate Initiative has three main elements:

- An internal Climate Office responsible for developing and implementing Zurich's global climate change strategy;
- A Climate Change Advisory Council to advise Zurich's management on strategic and operational issues associated with climate change; and
- An Applied Research Program with organisations and institutions that can bring multi-disciplinary expertise to bear on the issues associated with climate change.

Zurich's Climate Initiative forms an integral part of the UK business model and is focused on meeting the challenges associated with climate change through the insurance and risk management solutions and services we provide to individuals and businesses. We constantly strive to translate our wide and diverse risk analysis and expertise into learning opportunities for the future – for us and our customers – and this is no less true in the area of climate change. Finally, as a responsible employer, we are committed to managing our own carbon footprint and continuously seek opportunities to run our business in an environmentally sustainable way.

As a founding member of ClimateWise and a member of its Managing Committee, we continue to look for ways to develop solutions to the risks associated with climate change and have embedded responsibility for managing our own carbon footprint at the most senior level of the company. However, we cannot afford to be complacent; indeed, no one can afford to be complacent on a topic as complex and important as climate change.

Zurich HelpPoint is a commitment to deliver to our customers when it really matters. Our climate activity is driven by this customer-centric philosophy and we are working hand-in-hand with our customers to respond to their changing needs and demands as climate risks increase. As leaders in our business, we understand the importance of bringing climate change to the forefront of the corporate agenda as demonstrated in this report.



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ClimateWise: 2010-2011 highlights

This is our fourth year of reporting against the ClimateWise principles – just one of the ways we demonstrate our commitment to meeting the six ClimateWise Principles that aim to tackle the challenges associated with climate change. We support ClimateWise because the insurance industry plays a significant role in the area of risk pricing and risk management information. It is also a natural fit with the work the Zurich Climate Initiative is driving forward throughout the Group and the UK is working hard to embed its market-based approach to addressing the risks that we and our customers face from climate change. We have also continued to reduce the environmental impact of our business. Our top achievements from the past year in the UK include:

Weather Risks Group and Weather Network

Zurich's general insurance business has a Property Exposure Management Group which provides strategic oversight in the area indicated by its title, and is informed on weather and climate change issues by a Weather Risks Group which identifies and reports on information about weather-related risks including developments in climate change research.

Weather Risks Group

We have established a Weather Risks Group at management level to initiate projects and make strategic decisions on how we underwrite and risk manage weather risks and climate change in our underwriting and risk management procedures.

Weather Network

The Weather Network is a group of property underwriters and risk analysts that execute projects initiated by the Weather Risks group.

Zurich is also leading work with the ABI to develop a collective response to major events/surge claims that impact the community during catastrophic flood events. This initiative looks to establish a common methodology amongst insurers in repairing flooded/fire damaged properties in order to provide consistency, manage costs down, speed up repairs and minimise waste reducing the environmental impact as well as improving the customer experience.

Community awareness

Our publicly accessible microsite (www.zurich.co.uk/severeweather), provides 'before', 'during' and 'after' guidance to people to cope with floods. The site helps people assess their exposure to flood risks, prepare for

floods and to know what to do in the event of a claim and is continually updated throughout the year. The site has boasted some 20,000 visitors, fluctuating during storms.

Zurich Fleet Intelligence

In 2011, our Global Corporate business launched an innovative motor fleet proposition to help enable safer, more efficient and environmentally friendly fleets. By combining telematics technology with driver development and management, companies can identify risky driving behaviour and put in place appropriate measures to improve fuel efficiency, vehicle wear and tear and improve vehicle deployment to reduce unnecessary journeys, helping to achieve up to 10% fuel efficiency. Zurich has a number of customers piloting the initiative across their fleets. One customer has to date seen 14% reduction in fuel consumption within 12 weeks. This solution is now being made available to customers abroad.

Membership of the Carbon Capture and Storage Association

Zurich joined the CCSA in March of 2009 and is the first insurance company to become a member of this trade association. The CCSA exists to represent the interests of its members in the business of capture and geological storage of carbon dioxide (known as Carbon Capture and Storage, or CCS) as a means of abating atmospheric emissions of carbon. Zurich also chairs the CCSA Risk Workgroup and has been providing leadership in the development of CCS risk management policy with UK and EU regulators and legislators. A key area of work led by Zurich has been around leakage risk and long-term liabilities of storage, in particular possible options (financial instruments, risk transfer solutions and pooling structures) to deal with the requirement for long-term financial security in the EU CCS and ETS Directives.

Employee environmental programme

We have recruited additional Environmental Champions (employee volunteers circa 50 across the UK) who encourage environmentally friendly behaviours and monitor performance in their local locations via local environmental committees.

Carbon footprint

The Group has committed to a Group-wide CO₂ emission reductions target of 10% by 2013. Through 2010, we saw a slight increase over the previous year due to increased fuel usage during the severe winter months. However, our efforts have still made a significant contribution towards reaching our Group goal. Zurich in the UK established a 2010 reduction target of 2% per annum and our total emissions for 2010 were 12,498 CO₂ tonnes* – a small increase from the previous year, with a footprint per employee of 1,764 kg CO₂/employee.**

*UK figure quoted based on:

- 3,482 tonnes emissions from energy consumed in occupied premises, (an increase of 603 tonnes due to extreme winter conditions) and
- 9,016 tonnes emissions from business travel, air, road and rail.

**UK figure based on staff number of 7084 as quoted by the Zurich Climate Office.

Principle 1: Becoming a leader in risk analysis

Risk is the cornerstone of the insurance industry and to fully understand risk, research and analysis are critical. Below are some examples of how Zurich in the UK has put its research and analytical skills to work in understanding changing climate patterns and their implications.

Weather Risks Group and Weather Network

Zurich's general insurance business has a Property Exposure Management Group which provides strategic oversight in the area indicated by its title, and is informed on weather and climate change issues by a Weather Risks Group which identifies and reports on information about weather-related risks including developments in climate change research.

In 2010 a globally managed Catastrophe function was built. The global team includes specialised teams dedicated to Cat Modelling, Underwriting, Pricing, Reporting and also Research & Development with expertise to PhD level. This takes in geophysical, seismological and meteorological research (including climate science) and implemented in a form whereby (re) insurance risk to catastrophe (both man-made and natural) can be quantified. Zurich both uses and seeks to understand available models, adjusting output as necessary and providing feedback to model vendors for incorporation into model updates. Catastrophe model output is a key factor when deciding our strategies and plans; playing a key part in risk based capital assessment, reinsurance & risk tolerance assessment and primary pricing calculations.

Zurich has a 'Natural Catastrophe Advisory Council', including both internal and external experts, which meets once a year to discuss, and obtain the latest insight on natural catastrophe related issues (including climate change).

In 2011 we have so far presented at several conferences (e.g. the Marcus Evans Cat Risk Management conference in London) as well as at other organisations (e.g. International Federation of the Red Cross). In June 2011 Zurich is hosting a meeting with more than 50 natural scientists of the insurance and reinsurance industry in Zurich to discuss topics of interest. Further, we are a member of the Willis Research Network, which brings together members of academia around the world and the (re)insurance industry.

Weather Risks Group

We have established a Weather Risks Group at management level to initiate projects and make strategic decisions on how we underwrite and risk manage weather risks and climate change in our underwriting and risk management procedures.

We have a flood hazard assessment tool, Neptune, which is used by our underwriters and risk analysts to judge the relative likelihood of a flood loss at any location in the UK. This tool combines a range of flood data, including the latest NaFRA modelling from the Environment Agency, and represents a substantial improvement in our understanding of flood risk mechanisms. This tool is also used to recognise accumulations of flood exposure within large client property portfolios.

The comprehensive guide on Modern Methods of Construction (MMC) which we developed and introduced previously continues to be used to embed knowledge of MMC materials, components and processes into our risk engineering practices and rating structures.

In response to the increasing requirement for policyholders to adapt to climate change, and European and UK legislation and regulation on building and construction standards, in 2009 we introduced Adaptation Clause 1 (Energy Performance and Sustainable Buildings). This is a policy extension that funds the use of 'greener' materials when a damaged building is repaired following an insured loss, over and above the usual public authorities' clause. We have also developed additional extensions, Adaptation Clauses 2 and 3, which provide indemnity to policyholders to recycle damaged building materials and rebuild with materials that are resilient to the anticipated effects of climate change, in addition to being sustainable in environmental terms.

Zurich continues to provide input into the discussions both within the ABI and between the ABI and government agencies to ensure flood insurance remains available for the vast majority of property owners when

the current ABI Statement of Principles on the Provision of Flooding Insurance comes to an end in 2013. The ABI has working groups which reflect those set up by DEFRA to address this piece of work, and Zurich is represented on each of them. This participation will continue. Also, Zurich is represented on the ABI General Insurance and Property Committees where the industry's position in relation to the provision of flood insurance cover is routinely considered and discussed.

As part of our global product development efforts, Zurich now offers Carbon Capture and Sequestration Liability Insurance (CCS) as a 'discovery' or 'Claims Made and Reported' coverage. The coverage addresses 'Specified Perils' in the operational CO₂ injection phases of CCS and is a geologic reservoir specific policy comprised of five coverage grants including, pollution event liability, business interruption, control of well, transmission liability and geomechanical liability. We also continue to have regular meetings with the Department of Energy and Climate Change, The Office of Carbon Capture and Sequestration, The Crown Estate and other stakeholders to help define what is the best approach to manage long-term storage risks of Carbon Dioxide. In August 2010

Zurich received a personal invitation from Chris Huhne (Secretary of State DECC) to join the newly formed CCS Development Forum that Charles Hendry, Minister of Energy, launched at the CCS Senior Stakeholder Conference on 8th July 2010. The CCS Development Forum aims to bring together government with a select group of key industry stakeholders to work together to overcome barriers and maximise business opportunities in order to commercially deploy CCS in the UK.

We are continuing to review any new research on the potential impacts of climate change on mortality and morbidity and we are tracking any relevant publications from sources such as the Health Protection Agency, DEFRA and the Faculty of Actuaries. This year has not seen any significant papers published on this topic and previous research indicated that no medium term alterations are needed on underwriting or pricing of mortality and morbidity risks. Over the longer term we may see more risk emerging as a result of both colder, wetter winters and warmer summers but it is unclear as yet whether this will result in an overall increase or decrease in total mortality or morbidity.

Principle 2: Informing public policy-making

The insurance industry can play an important role in shaping public policy by sharing our risk insight. Through our engagement with Government, industry organisations and with other stakeholder groups, we have demonstrated our ability to work with policymakers and make constructive contributions to the public policy debate.

Zurich values its membership of key UK organisations committed to effecting change in terms of climate risks. We remain a member of the ClimateWise Managing Committee and have been closely involved in the thematic 'sustainable claims' work to drive greater use of resilient repair methodologies and material, despite the additional costs of utilising these methods. This will reduce the environmental impact of renewing and replacing the traditional building fabric in the event of flooding, thus reducing the amount of waste generated by these events. In support of this we are also acting as advisors to the University of Cambridge Programme for Sustainability Leadership, looking at how we can actively encourage the usage of materials produced from sustainable sources when repairing our insured properties.

A further commitment to our ClimateWise membership and our efforts to engage with policymakers was demonstrated by our Chief Climate Product Officer representing the industry and ClimateWise at the World Climate Summit in Cancun, Mexico in December 2010.

In addition, the Chief Climate Officer led a discussion entitled 'Climate Change – Should Physical Risk be the only Consideration?' to 200 Zurich customers and brokers at an event in January 2011.

In addition, Zurich is heavily involved in public policy discussions around the increased use of Carbon Capture and Storage and has met Ministers and Officials at the Department of Energy and Climate Change (DECC).

We also engage with key energy providers – who are also customers of our Global Corporate business – that would all need to play a role in implementing this carbon reduction solution. This includes involvement in the UK's first CCS unit at Longannet in Fife.

There have been recent discussions around developing a CCS Insurance Pool similar to the Nuclear Pool that exists internationally which we have been involved in. Indeed, a further meeting on the CCS Pool is due to take place shortly with Lord Marland, Minister at the Department for Energy and Climate Change, which Zurich will attend.

We also play an active role in the Carbon Capture and Storage Association (CCSA), the main trade association in the UK and Europe linking industry with policymakers to

ensure commercial-scale CCS projects can play a part in moving towards a low-carbon global economy. Zurich chairs the CCSA risk group which looks at options for CCS risk management, including liability risks and financial responsibility.

Zurich also supports a number of initiatives through its ABI membership including discussions on the future of the Statement of Principles on flood. The Statement of Principles is an agreement between the insurance industry and the Government whereby insurers agree to make flood insurance available to existing domestic and small business customers at significant flood risk provided that the Environment Agency has announced plans and notified the ABI of its intention to reduce the risk for those customers below significant risk within five years. The current Statement of Principles will expire in 2013 and, currently, the industry is working with other stakeholders to ensure a sustainable solution going forward.

Zurich is also leading work with the ABI to develop a collective response to major events/surge claims that impact the community during catastrophic flood events. Under this initiative, we are researching the most effective methods of disaster restoration and to establish a common methodology of repairing flooded/fire damaged properties in order to provide consistency, manage costs down, speed up repairs and minimise waste reducing the environmental impact as well as improving the customer experience. This will ultimately enable the affected communities to resume normal life far more rapidly with a much more efficient use of resources, materials whilst reducing the amount of waste building materials.

Local Authorities

As a leading public sector insurer and an organisation that specialises in managing risk and uncertainty, we dedicate a significant amount of time and resource to understanding how risk, in all its guises, is changing for our customers, as well as identifying the critical issues and exposures looming on the horizon. As such, in 2010, our public sector insurance business, Zurich Municipal, launched a research paper ("Tough Choices") <http://www.zurich.co.uk/newworldofrisk/toughchoice/toughchoice.htm> to delve even deeper into the many different emerging challenges so that we could help our

customers in this particular sector to prepare for a new risk landscape.

Through talking to sector experts, omnibus research and using our own insight, we were able to produce a 'risk ranking' of the individual risks public services face. 'Climate Change' was ranked at number 10 (of 12) and we provided the view that, although budgetary pressures will force priorities elsewhere, we believe local authorities must maintain a serious focus on business continuity and crisis response. We strongly urge our customers that Climate Change cannot or should not be placed on the "back-burner" over the next few years of austerity, as to do so, risks incurring significant unplanned costs in the immediate future – and even greater costs down the line. Most Local Authorities will be impacted by weather patterns driven by climate change within the immediate time horizon, particularly fluvial and pluvial flooding, extended heat waves and drought, severe snow falls and coastal erosion. The local authority has a critical role to play to ensure community resilience in its role as statutory Category 1 Responders. There is a question over whether outsourced functions will still allow Local Authorities the resource capacity to fulfil their duties, for instance to deal with scenarios similar to Hull or Cumbria floods. We see our role in terms of risk management to continuing to alert public sector customers to this and to work with them to manage their climate risks.

Emergency Services

An example of how we have been working with emergency services, relates to the Cockermouth flooding at the end of 2009.

Zurich Municipal insure several of the bridges that were damaged by the floods. We therefore worked in partnership with the local authorities' Highways agencies, Police and Fire departments to ensure that we were working in harmony to protect local residents from danger. Our Major Loss Team also assisted in finding temporary transport solutions. In addition, our appointed engineers worked 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.

One important learning from the Wansbeck River disaster, which we applied to the above, was the need to take the initiative, being proactive and engaging with the emergency services directly and at the earliest opportunity. This involved liaising with the blue light services explaining that we are there to positively mitigate community impact, rather than just write a cheque when everything is back to normal.

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. The UK Major Loss Team, in conjunction with the Claims Service Managers and UK Major Incident Manager would all have an involvement in working with the authorities affected.

In addition, we are looking at the range of services and cover we offer as a result of these sorts of disasters.

Principle 3: Supporting climate awareness among customers

A growing number of Zurich customers are interested in climate-friendly products. Across the Group, a number of initiatives are underway to develop innovative products and insurance solutions to help our customers deal with the climate change challenge as well as develop new market opportunities. Some key areas for our UK business have included:

Informing and adapting

We continue to focus on areas that can benefit our customers in times of flooding. We have previously worked with Gloucestershire County Council to develop a flood guide offering practical advice on emergency flood situations. The guide proved extremely useful and was modified for use by any local authority or individual. In a continued effort to extend this advice to as many of our customers as possible, we also launched our severe weather microsite (Zurich.co.uk/severeweather), in early 2009. This provides 'before', 'during' and 'after' guidance to people coping with severe weather. It is intended to offer practical support to assist customers and non-customers assess their risk exposure to severe weather, prepare for incidents and what to do in the event of a claim.

This microsite continues to provide flood-related insight to Zurich Municipal customers and is updated on a continuous basis throughout the year. For example, in January 2010, after the heavy snowfalls, Zurich issued a warning regarding the threat of potential flooding due to a rapid thaw. The microsite continues to be a central information resource for customers seeking advice and guidance on the range of issues associated with flooding in the UK. The site has been visited by more than 20,000 visitors. The online flood videos have been viewed over 4000 times between YouTube and the severe weather site.

Our Risk Engineering unit works with customers through site assessment and new build design meetings to ensure existing and proposed buildings are protected to the highest possible standard in relation to their potential vulnerability to fire, storm and flood damage. To support this we have developed award winning design guidance documents for the education sector which outline Zurich's views on new and refurbished building projects. In addition, we have worked closely with the construction industry to understand modern methods of construction and provide training and guidance to our customers and underwriters on the risks presented by sustainable materials. In conjunction with our underwriters we have developed flood risk assessment tools which are supported by on-site assessments by our trained Risk Engineers who can also provide recommendations to customers with the aim of improving both flood resilience and resistance.

Products and services

Zurich Municipal brought the risks associated with climate change to the attention of social housing providers in its "Managing Risk and Uncertainty in Social Housing Guide", which was updated in 2010. It includes two chapters that very much support organisations looking to improve climate change risk management: Climate Change and the Environment and Business Continuity Management. The Climate Change and the Environment section offered further advice on the emerging risk questions and issues surrounding, for instance: sustainable building; Energy Performance Certificates (EPCs); future building design in relation to the increasing frequency of weather related events; the impact of snow and ice.

Additionally, Zurich Municipal carried out research, via conjunction with Ipsos Mori, to publish the report Tough Choices in March 2011 analysing the new risks and challenges facing public sector delivery, now and in the future. This report gathered views from CEOs, expert stakeholders, the general public and Zurich Municipal specialists and highlighted the risks associated with climate change against a backdrop of financial challenge to keep it firmly on the agenda.

In 2009, Zurich began providing strategic risk consultancy services to Local Authorities in regards to National Indicator 188, Planning to adapt to Climate Change. Specifically, Zurich is helping local authorities understand the risks within their plans and strategies to deliver on the NI188 targets.

In 2009, Zurich began offering local government customers the option to receive their policy documentation in electronic format and online. Online policy documentation reduces paper usage, storage space in the office and enhances business continuity arrangements for customers.

Since then, Zurich has looked to drive further into the direction of usage of electronic formats. At the end of 2010, the popular customer publication Court Circular switched from being distributed as hard copies to an interactive pdf format upon customer request. Currently a business review is in place that looks to additionally encourage the use of electronic formats.

Since early 2009, Navigators and General, part of Zurich in the UK, now also offers third party only insurance. This is an online only insurance policy for UK boat owners encouraging a paperless environment and providing boat users with affordable cover in line with requirements for minimum cover from marinas, boatyards and local councils for use of facilities.

Our Green Charters which we continue to have in place for both home and motor customers include:

- Underwriting tools that provide preferential rates for customers who drive fewer miles.
- Energy-saving solar panels are included as standard under our Home Solutions building policy.
- We use the recycle logo on all literature and printed material with the aim of encouraging all our customers to recycle.

Zurich continues to advise key commercial and public sector organisations on school design; of note, key guidance is provided concerning Sustainable Construction and Modern Methods of Construction (MMC). Zurich's award winning school design guide has recently been updated and re launched in May 2011. As a first in the market, Zurich furthermore now offers a Further/ Higher Education version of the design guide. The guides also provide newly-expanded guidance on Modern Methods of Construction and the risks and opportunities of sustainable construction. The guides for the first time are published in an interactive pdf format to reduce paper usage.

In response to the increasing requirement for policyholders to adapt to climate change, and European and UK legislation and regulation on building and construction standards, we introduced Adaptation Clause 1 (Energy Performance and Sustainable Buildings) in 2009. The clause offers commercial policyholders the opportunity to reinstate damaged buildings with improvements already recommended as part of an Energy Performance Certificate assessment, and to use materials that not only improve thermal qualities but also utilise materials with a lower carbon footprint.

In 2011 we have introduced a new range of covers for commercial customers (Adaptation Clauses 2 and 3) to improve climate resilience in rebuilding following an insured loss. The covers include the opportunity for building adaptation to improve thermal qualities, flood resilience and debris recycling.

The Environmental Damage (Prevention and Remediation) Regulations came into force in England on 1st March 2009 to comply with European Law which effectively reinforces the 'polluter pays' principle. These Regulations impose obligations on operators of economic activities to prevent, limit or remediate serious environmental damage and are in addition to those under existing legislation. Zurich has reviewed the pollution cover provided by its Public Liability and Combined Insurance policy. PL and Combined Insurance policies have been extended to include the statutory costs of remediation, including those incurred under the Environmental Damage (Prevention and Remediation) Regulations, up to £1million in any one period of insurance.

All washing machines, dishwashers, refrigerator freezers and upright freezers replaced by our approved suppliers following a claim are replaced with Band A energy efficient appliances.

Our Global Corporate business has a product offering broad insurance coverage for both the construction and operational exposures of new offshore wind farm projects. Companies involved in the construction and operation of offshore wind farms are able to obtain protection to meet diverse risk management needs during the construction and operational phases of wind farm projects under one program, ensuring gaps in cover do not occur as new wind farm projects are completed.

Our Global Corporate business has launched an innovative motor fleet proposition called 'Zurich Fleet Intelligence' to help enable safer, more efficient and environmentally friendly fleets. This integrated solution combines the strength of in-vehicle Telematics data with powerful reporting capabilities to identify key risks, and then help mitigate those risks with driver development and management tools. By measuring operational performance and acting on risky driving behaviour, customers can improve fuel efficiency, vehicle wear and tear (tyres, brakes, engine components) and improve vehicle deployment to reduce unnecessary journeys. Studies by Zurich Risk Engineering and Actuarial teams have found that embracing such a solution can help achieve up to 10% fuel efficiency.

As part of our 2009 funds refresh, we added two 'green' funds which are still available to both our Investment and Retail Pension customers.

- The Jupiter Ecology Fund: aims to achieve long term capital appreciation whilst investing in companies that demonstrate a commitment to the long-term protection of the environment.
- RCM Global EcoTrends: invests in growing and topical areas of the market that complements our stance on supporting positive climate change.

Natural catastrophes and waste management

Zurich has used its experience dealing with natural catastrophes in recent years e.g. River Wansbeck in 2008 and the Cockermouth flooding in 2009 to develop a new approach to managing flooded properties. This approach was used to avoid the use of demolition crews that tend to rip out the building to break the skin before rebuilding. Instead, rapid drying systems were employed, which avoided the need to replace plaster and left the electrics and plumbing systems in place. Our new approach also enables customers to consider newer, more resilient building materials and techniques.

As detailed earlier, an example of how we have been working with emergency services, relates to the Cockermouth flooding at the end of 2009. Zurich Municipal insure several of the bridges that were damaged by the floods. We therefore worked in partnership with the local authority Highways agencies, Police and Fire departments to ensure that we were working in harmony to protect local residents from danger. Our Major Loss Team also assisted in finding temporary transport solutions. In addition, our appointed engineers worked 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.

One important learning from the Wansbeck River disaster, which we applied to the above, was the need to take the initiative and engage with the emergency services directly and at the earliest opportunity. This involved liaising with the blue light services explaining that we are there to assist the community, rather than just write a cheque when everything is back to normal.

We liaise very closely with the Insurance Manager, Emergency Planning Officer and other officers as required. This is all very much part of our standard approach to managing disasters. The Major Loss Team, in conjunction with the Claims Service Managers and UK Major Incident Manager would all have an involvement in working with the authorities affected.

In addition, we are looking at the range of services and cover we offer as a result of these sorts of disasters.

We are actively encouraging our Claims suppliers to adopt environmentally friendly methods of working and one of the two building repair companies that we utilise for claims fulfilment have introduced electric powered vans into their fleet.

If damaged electrical goods are not repairable they are dismantled and the undamaged components are thoroughly tested and reused or recycled. Thus reducing the need for new items or components to be manufactured and reducing the need for these valuable resources and heavy metals going to landfill.

All our claims suppliers are contracted to comply with the relevant environment standards for waste disposal. Compliance with the standards and the relevant legislation is audited by Zurich. A failure by a supplier to comply or to rectify the issue within a short time frame will result in our contract being withdrawn.

The introduction of Ecase file into Zurich Claims across the UK has enabled us to have most of claims files in an electronic format on screen as opposed to paper files. The reduction in the amount of paper used runs into many hundreds of tonnes on an annual basis. In addition, the files can be accessed on screen from any of our sites without the need to ship files by road from one location to another, thus reducing CO₂ emissions significantly.

Principle 4: Incorporating climate change into investment strategies

Our overall investment strategy at Zurich is laid down by the parent company in Switzerland. This strategy commits Zurich to striving to create long-term value for all its stakeholders. We believe that it is critical to our long-term business success, and of benefit to society, to integrate material environmental, social and governance (ESG) factors into our business decisions and processes. Climate Change – along with a number of other drivers such as corporate governance, use of natural resources, health and safety, labour relations, and human rights – can all be important drivers of investment risk and reward. As a long-term investor focused on managing assets relative to liabilities, we believe that investors taking both financial and non-financial considerations into account when making investment decisions will be the most successful in the long term.

Zurich's Group investments are primarily managed by third-party asset managers and it is at this level that security selection decisions are made. These asset managers operate within agreed portfolio guidelines set by Zurich and take all aspects into account, both financial and non-financial, when managing Zurich's individual portfolios to ensure maximum long-term value creation. While our investment mandates are not explicitly structured to reflect ESG criteria, our regular and ongoing dialogue with our largest external asset managers leads us to conclude that ESG factors are considered in their investment strategy and process.

The dialogue with our major external asset managers revealed that all of them have made significant steps towards fully integrating ESG factors into their fundamental research processes and make relevant information accessible to their portfolio managers. Of our four largest external asset managers, responsible for managing roughly 60% of Zurich's Group investments, three are signatories of the UNPRI and one is in the final stages of the process of becoming a signatory. Specific actions implemented by our major asset managers include the training of analysts and portfolio managers, the use of proprietary in-house as well as third-party ESG databases, and active engagement with the management of portfolio companies on ESG issues. All of our major equity asset managers in addition also actively manage proxy voting rights on our behalf and have integrated ESG aspects (especially, but not exclusively, governance aspects) into their proxy voting guidelines. We are thus confident that extra-financial aspects are considered by our external asset managers in managing assets for Zurich.

In addition, 'sustainability' is an explicit objective of Zurich's real estate investment strategy. Zurich's in-house managed portfolio of real estate is spread around the world and is very heterogeneous in nature and, as a result, no consistent framework has so far been applied to ensure sustainability is integrated into the investment process. Investment Management has also started to engage with leading global real estate asset managers and experts to learn about best-practice approaches for sustainable real estate investment and metrics for measuring sustainability.

Investment Management's approach with respect to responsible investment is currently under review with the objective of integrating ESG factors more explicitly into Investment Management's investment philosophy, investment strategy, and investment process. The resulting framework is expected to address:

- 1) inclusion of impact and other explicitly sustainable investment opportunities in the overall investment strategy
- 2) operationalisation of 'sustainability' in real estate investments
- 3) guidelines and monitoring of our external asset managers
- 4) guidelines and monitoring of our internal asset managers.

Principle 5: Reducing the environmental impact of our business

Through a diverse range of products and programmes in the UK and abroad, Zurich is working hard to create a more environmentally friendly workplace for our employees and customers, improving the environmental impact of our business.

Carbon footprint

We have actively undertaken a number of campaigns and communications activities to promote green behaviours and demonstrate our commitment as a company to reduce our CO₂ emissions and carbon footprint, as well as improving our recycling and waste management. These include:

- Supporting the annual 'Bike to Work' and 'Walk to Work' weeks, where we hold a prize draw for everyone who cycles or walks to work during those weeks.
- Supporting the 'Team Green Britain Day', where we promoted a number of articles and hints and tips on how employees can make a difference.

The Carbon Disclosure Project (CDP) first asked Zurich to participate in their survey in 2005. This was referred to the Group Climate Office which has aligned our data collection methodology and units of measurement with that of the CDP.

Zurich's Group Environmental Policy drives the UK business's initiatives on pollution prevention and waste minimisation and states, "Zurich recognizes that environmental protection is integral to sustainable value creation for both Zurich and society. Zurich's policy is to manage environmental risks and opportunities as effectively as possible through the progressive integration of environmental considerations throughout its business and to minimise its direct and indirect environmental impact through continuous improvement in environmental performance".

We aim to achieve this policy through strong environmental management processes and procedures documented in our responses in this report including use of green energy, reduction in water consumption, recycling etc.

Zurich in the UK issues a Corporate Responsibility (CR) and Environmental questionnaire as an appendix to the Prequalifying Questionnaire (PQQ) that all UK suppliers must complete as part of our tendering process. Within this PQQ, suppliers are also asked, "Do you issue similar CR/Environmental questionnaires to your suppliers?" Where appropriate environmental criteria feature in more detail in tendering exercises e.g. tender for vending machine services.

A good example of this involved the procurement of vending services for our staff. Zurich in the UK's employees consume around 5 million cups of beverage a year and criteria for selection of any new contracts would include:

- Environmental values
- Fairtrade
- Sustainability of products
- Assessment of biodegradable ability versus recycling of cups.

Since 1999, our Environmental Strategy Group has been working to define and reduce the size and shape of our carbon footprint and as part of our 2011 Carbon Reduction Commitment, additional reductions to our carbon footprint will be required. Through our climate office, our Group announced a Group-wide CO₂ emission reductions target by 10% by 2013 and to help achieve this we have established a 2011 reduction target of 1% per annum.

For the UK business, our total emissions for 2010 were 12,498 CO₂ tonnes* – a slight increase over the previous year due to increased energy usage during the severe winter weather, while our carbon footprint per employee reduced by 10% from 2007, to 1,764 kg CO₂/employee.**

In the UK our use of green electricity (generated by wind, water, waves and biomass) has dramatically increased since 2005, with most of our occupied properties now being supplied with 100% renewable electricity. Accordingly, all Zurich's self-occupied properties in the UK have continued to benefit from renewable electricity and Combined Heat and Power (CHP) generation.

*UK figure quoted based on

- 3,482 tonnes emissions from energy consumed in occupied premises and
- 9,016 tonnes emissions from business travel, air, road and rail

**UK figure based on staff number of 7,084 as quoted by the Zurich Climate Office.

Electricity, gas energy and water

We have set targets for improving the local office performance in energy efficiency and our Senior Management is responsible for continuous improvement based on each floor's energy use.

From our baseline in 1999 our carbon dioxide emissions from electricity and gas energy have dropped by over 80% at year-end 2010 (78% when normalised by floor area) for Zurich occupied locations.

Over the next year, Corporate Real Estate and Facilities Management (CRE&FM) will continue to develop the arrangements for local energy targeting and monitoring.

Zurich is complying with the European Union Energy Performance of Building Directive, 2003, which requires buildings to have certificates showing their environmental rating. Although Zurich has no premises which require certificates to be displayed, we have Energy Performance Certificates in place for properties that we are marketing.

Zurich is also complying with the Energy Performance of Buildings Directive, which requires periodic inspection on the efficiency of cooling systems.

Zurich is aware of its responsibilities under the CRC Energy Efficiency Scheme, and has prepared a robust framework for reporting energy consumption and CO₂ emissions. Our consumption is being recorded across all locations and our first report will be submitted in June 2011. We have also carried out consultation with our tenants to inform them of the financial implications that will be borne by them as a result of the scheme.

CRE&FM continue to take advice from specialist energy consultants to help support our drive to reduce consumption and are currently progressing a number of efficiency initiatives.

All but one of our major locations continue to be supplied with electricity from renewable sources, and all of our smaller locations have been so supplied since October 2009.

Since 2002, CRE&FM have been developing a process for measuring and monitoring water consumption using specialist consultants and site readings. At year end 2010, water consumption has reduced by 51,768 cubic meters to 60,844 since 2007.

Business travel and commuting

We continue to monitor the level of business miles travelled whether by air, road or rail in an effort to manage down our activity and reduce the environmental impacts. In October 2005, the first car with a 'petrol/electric hybrid engine' joined the Zurich car fleet of over

3,000 cars, and we continue increasing the number of 'green' cars into our fleet.

Our online car share facility 'Jambusters', continues to encourage car sharing through the UK intranet and we have continued to implement and refresh our travel plans for core locations.

Strong cost saving initiatives coupled with the introduction and promotion of improved telephone and video conferencing facilities has supported our strategy to reduce the amount of business travel. Miles travelled by air and road in 2010 were reduced further and delivered a CO₂ emissions reduction of some 8% over 2009.

Zurich has continued to support the 'Green Travel to Work' initiative, an incentive offered to UK employees to use public transportation through reduced rates.

The Cycle2Work scheme is offered to employees as part of their flexible benefits package. This scheme offers the use of a bicycles and/or bicycle related safety equipment as part of an employee's commute to work.

The figures quoted in the paragraphs above are not externally verified although Group Audit have previously reviewed and agreed the process now adopted. We currently adopt the Zurich Climate Office process which does follow the GHG protocol. However, as we report our UK road mileage by miles claimed, we have had to adopt the DEFRA conversion factor,* which we believe provides a more accurate picture for us in the UK.

*miles in average car (unknown fuel)
multiplied by 0.33 = "x" kgCO₂/mile
(2008 DEFRA conversion factor)

Supply chain

UK outsourced arrangements are managed by key business owners and supported/governed by a wider Outsource Steering Group which ensures the consistency of decision making and adherence to internal standards. These include: exploring in detail the potential partner's reputation, ethical behaviours, financial position etc.

Zurich in the UK has a comprehensive and detailed UK Procurement and Outsourcing process which uses a risk and controls framework, including a section on reputational risks that explicitly refers to environment, supply chain and human rights. For all outsourcing activity, wide ranging cross functional teams are required to be set up. All contracts must include a section relating to conducting periodic business reviews including monitoring that the supplier is operating in an ethical way. In addition to this, outsource contracts are reviewed on a quarterly basis using a performance management framework and have an onsite assessment every 12 to 18 months.

As explained previously, Zurich in the UK issues a Corporate Responsibility (CR) and Environmental questionnaire as an appendix to the Pre-qualifying Questionnaire (PQQ) and all UK suppliers must complete this as part of our tendering process. Within this PQQ, suppliers are also asked, "Do you issue similar CR/ Environmental questionnaires to your suppliers?"

Environmental performance and credentials are a key consideration when assessing the suitability of potential outsourcing partners. A recent example of one such review was completed by Zurich when outsourcing our File Management and Postal Services. Not only were potential parties asked to confirm compliance with the Zurich policy but their own arrangements were considered in detail.

Zurich uses a single company for salvage of motor vehicles across the UK. The End-of-Life Vehicle Directive currently requires a minimum of 85% of vehicles to be reused or recovered.

Zurich's supplier has been taking measures to ensure full compliance.

Employee engagement

In order to continue engaging with our employees on environmental topics, our UK intranet maintains regular environmental features including; quick polls, business travel tips and updates on activities and reporting.

We have recruited Environmental Champions (employee volunteers totalling circa 50 across the UK) who encourage environmentally friendly behaviours and monitor performance in their locations via local environmental committees that meet regularly.

Zurich's office in Whiteley retained the British Standard BS8555 Phases 1 – 3 accreditation by the Institute of Environmental Management. The accreditation will be refreshed during 2011.

Principle 6: Reporting and being accountable

Zurich's UK CEOs continue to recognise the importance of Executive level support and endorsement of climate-related activity in order to drive initiatives forward.

Zurich's UKGI and Shared Services CEO recently met HRH the Prince of Wales and reaffirmed his and Zurich's commitment to the Principles and the future vision and strategy of ClimateWise. As such, there has been clear commitment and ownership for climate initiatives by Executive members through the embedding of environment as one of the four cornerstones of our CR framework. Responsibility has been assigned to the HR Director, Chief Marketing Officer and the Chief Operating Officer (COO) to drive forward these initiatives.

The Chief Marketing Officer also chairs the Corporate Responsibility Council which works with the various business areas to include climate change and environmental action into marketplace and operational activity.

The COO has again reaffirmed his commitment to the Environmental Strategy Group (ESG) which, each year,

submits an annual statement of work setting objectives and highlighting activities undertaken to implement these principles.

Our main priorities continue to be: reducing our consumption of electrical energy, reducing our consumption of materials, reducing business travel and implementing commuter travel plans. The ESG continues to submit data as required for the Zurich Group's submission to the Carbon Disclosure Project, the Business in the Community Index and the Big Tick Climate Awards.

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 ClimateWise report is published each year on www.zurich.co.uk



For further information

At Zurich we are constantly looking to improve our service to our customers, partners and intermediaries. Any feedback, both positive and negative, will be gratefully received and given careful consideration so we can adapt to your needs. The climate change challenge is no exception, so please email us at:

uk.webmaster@uk.zurich.com

or phone: 08000 966 233

We are looking forward to hearing your views.

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