

ClimateWise

Addressing the risks we and our customers face from climate change



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Foreword

In our last report, we reported on the launch of the Zurich Group's Climate Initiative in January 2008. Since that time, the Climate Office has launched nine new products and services worldwide that address climate risk; completed an in-depth carbon footprint measurement exercise; set clear reduction targets across the Group; and introduced a clear framework enabling the sharing of best practice.

Zurich's UK business is an integral part of the Climate Initiative 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 an active member of its managing committee, we have made a good start in developing solutions to some of 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 the topic of climate change.

World leaders will face some tough decision-making at the UN Climate Change negotiations in Copenhagen later this year on how to develop innovative and meaningful solutions in these challenging times. Whatever consensus is reached, it is sure to have a lasting impact on us and our customers.

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.

David Sims - CEO, UK Life

Guy Munnoch - CEO, UK General Insurance
& Shared Services

David Hall - CEO, Global Corporate UK

Mike Quinton - Managing Director, UK Direct

ClimateWise: Year two highlights

This is our second year producing the ClimateWise report – 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 is, amongst other things, society's ultimate bearer of risk. 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 include:

Flood management

In response to the River Wansbeck flood, we implemented a new approach to managing flooded properties. Rapid drying systems were employed, which avoided the need to replace plaster and left the electronics and plumbing in place. Our new approach also enables customers to consider newer, more resilient building materials and techniques.

Environmental forecasting

To maintain the most up-to-date and accurate forecasting, our UK geographical risk analysis incorporates three primary Zurich tools; NEPTUNE, the Upfront Tool, and ATLAS exposure.

Zurich Inspection Portal

Our Zurich Inspection Portal encourages developers to meet the requirements of the Code for Sustainable Homes by providing a site to upload images that verify compliance with the Code, thus encouraging developers to reduce their carbon footprint. Developers' energy-conserving features are often covered in later stages of construction, thereby preventing the code assessor from taking them into consideration. Our portal allows developers to take full credit for these 'hidden' energy conservation measures.

Employee environmental programme

In 2008, we introduced environmental awards to recognise efforts made by Zurich UK employees. This year, Manchester and Cardiff won by demonstrating real commitment to the environment through limited parking, a broad range of recycling initiatives and creating a garden area.

Community awareness

Earlier this year, we launched our publicly-accessible microsite, www.fightingfloods.co.uk, which 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. We are currently looking into how we can take this UK initiative to other Zurich jurisdictions.

Carbon footprint

In 2008, Zurich UK business reduced its carbon emissions by 11 percent where Zurich has control over the energy services. Total emissions were 15,789 CO₂ tonnes. Carbon per employee was reduced by 4 percent since 2007, to 1.96 tonnes CO₂/employee. If we include legacy property (non-operational buildings and buildings where we do not control energy services) total CO₂ emissions were 19,062 tonnes, a 10 percent reduction overall, with emissions on a per employee basis of 2.89 tonnes (a reduction of 4 percent over the previous year).

Green funds

As part of our March 2009 funds refresh, we have added two 'green' funds which will be available to both our investment and retail pension customers: The Jupiter Ecology Fund and RCM Global EcoTrends.

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 has put its research and analytical skills to work in understanding changing climate patterns and their implications:

Adaptation

The Modern Methods of Construction (MMC) working group (including representatives from Claims, Underwriting and Risk Engineering) is currently investigating various construction technologies in order to determine their acceptability from an underwriting point of view. We visit leading manufacturers in each of the main areas of MMC to provide answers to determine how their products behave in fire, flood, storm and business interruption scenarios.

Zurich continues to work closely with the Association of British Insurers (ABI) to build on the original analysis developed in 2005 that focused on the financial risk of climate change. The emphasis is predominantly on modelling the impact of climate change on property risks such as flood and natural catastrophe models. We continue to share our findings and experience with the market.

We have worked in collaboration with actuaries, natural catastrophe modellers and various experts to research the possible link between climate change and the 2007 UK floods.

To maintain the most up-to-date and accurate forecasting, our UK geographical risk analysis incorporates three primary Zurich tools: ATLAS exposure (which, developed in 2004, provides accuracy of exposure locations linked to geographical overlays such as flood), NEPTUNE (a tactical underwriting tool delivered in 2009, increases awareness amongst underwriters on how to analyse flood risk) and Upfront (which is still in development, but will provide the ability to adjust our technical price and reserves based on the volatility and probability of storms). Furthermore, we have begun to revise flood and storm technical pricing based on changed assumptions about the increased frequency or severity of natural catastrophes.

Part of our ongoing UK climate change work has been a review of aggregates, deductibles

and pricing, something which has already been build into our new Weather Underwriting Guide. Additionally, to improve underwriting pricing for customers with high flood/low resilience profiles, we have introduced a resilience assessment tool which allows us to suggest improvement measures.

Mitigation and new technology development

We have redefined our underwriting strategy based on Adaptation, Resilience and Knowledge (ARK).

Carbon capture technology is a key plank of government activity on reducing emissions, with the UK government announcing the development of at least two new carbon capture-ready coal-fired power stations. Zurich has been putting in a significant amount of effort to become the first company to offer coverage that addresses the liability risks associated with carbon reducing technologies such as Carbon Capture and Sequestration (CCS), including Directors & Officers' risk.

Industry collaboration

Another important aspect of ClimateWise is to encourage knowledge-sharing amongst industry players. In that spirit, we have participated in the International Energy Agency (IEA) delegate panel on 'Meeting the Challenge of Climate Change', the ABI ClimateWise 'Steering Committee for Financial Impact of Climate Change', and we also took part in the joint 'Changing Climate Risks' research-sharing event hosted by ClimateWise and the Lighthill Risk Network. At the event, our Head of Property and Strategic Accumulation Management shared Zurich's experience with resilience, particularly in terms of flooding, from an underwriter's perspective. He demonstrated how Zurich uses geographical tools to measure risk in a given area, and showed how those tools help increase our understanding of flood risks in relation.

Principle 2: Informing public policy making

The insurance industry can play an important role in shaping public policy by sharing our knowledge about risk. Through our work with industry organisations, we have demonstrated our ability to work with policymakers and make constructive contributions to public discussions. Some of our accomplishments over the past year include:

Promoting industry interaction

Zurich experts have been invited to present their views on climate risk mitigation strategies, not only with the UK Department of Energy and Climate Change (DECC), but for other governments and international forums such as the International Energy Association (IEA) and the Ninth International Conference on Greenhouse Gas Control Technologies (GHGT9) meetings. Topics have ranged from consultation on the proposed Carbon Reduction Commitment (CRC) to the emerging technologies of Carbon Capture and Storage (CCS). On the latter topic, Zurich has taken the lead in developing products and recommendations for policymakers on managing the long-term risk of sequestering carbon dioxide deep underground.

Zurich has recently joined 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 is also chairing a CCSA risk group looking at options for CCS risk management, including liability risks and financial responsibility.

As a key public sector insurer, it is important for us to keep abreast of the efforts local authorities are making in tackling climate change. We currently have a representative on the Hampshire County Council Climate Change Commission which provides useful insight and knowledge-sharing opportunities.

At Group level, Zurich's Climate Office has published a number of policy-influencing papers in international policy journals, such as the European Business Review and World Climate Report. These create a framework for much of our activity and engagement with policymakers.

Policy development

We have worked proactively on tracking the development of the 2009 Flood and Water Bill and, in advance of the publication of the draft

Bill, have spoken to key stakeholders to discuss local authority preparedness for floods and other severe weather events. We will be submitting our response to the draft Bill in due course.

We regularly submit responses to government consultations on flooding such as the Scottish Future of Flood Risk Management consultation, and the Audit Commission Flooding Study.

Through its membership on the ABI Property Committee, Zurich was heavily involved in the re-draft of the Statement of Principles on flood. The Statement of Principles are 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. For domestic properties and small businesses, flood insurance will continue to be a feature of standard household and small business policies if the flood risk is not significant.

As a member of the ClimateWise managing committee, we have also been involved in developing the ClimateWise objectives and promoting key events aimed at sharing knowledge and raising awareness.

Emergency services

In terms of our work with emergency and response services, in September 2008, the River Wansbeck broke its bank and widespread flood damage seriously affected the Morpeth town centre. Various municipal buildings and community facilities were affected in the worst floods since 1963. Zurich has worked continuously with local authorities and their partners to assist in coordinating claims submissions from a variety of affected departments, including highways, libraries and schools in order to keep vital services functioning.

Principle 3: Supporting climate awareness among customers

A growing number of Zurich customers are interested in green 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 capitalise on new market opportunities. Some key areas for our UK business have included:

Informing & adapting

In our 2008 ClimateWise Report, we described how the work we did with Gloucestershire County Council developed into 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 floods microsite, www.fightingfloods.co.uk, 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. We plan to roll out this local initiative to other parts of the Group.

Our Zurich Inspection Portal encourages developers to meet the requirements of the Code for Sustainable Homes by providing a place for them to upload images that verify compliance. Developers' energy-conserving features are often covered in later stages of construction, thereby preventing the code assessor from taking them into consideration. Our portal allows developers to take full credit for these 'hidden' energy conservation measures.

Zurich Building Guarantee, a Chartered Building Consultancy and Approved Inspector, as well as a provider of risk management services for our warranty scheme, has developed a website which aims to reduce the number of construction site inspection visits by enabling developers to upload photographs of works under construction.

Our Risk Engineering unit works with customers through new build design meetings to ensure proposed buildings are protected to the highest possible standard in relation to their potential vulnerability to fire, storm and flood damage.

We have held initial discussions with the RNLI on building and business resilience in extreme weather conditions. We are also in the process of developing a pilot with engineers and surveyors Rider Levett Bucknell on how to improve building resilience in a high flood risk area.

Natural catastrophes & waste management

As discussed in Principle 2, Zurich played a major role in coordinating a response to the River Wansbeck disaster in September 2008. The resulting floods caused £5m worth of damage to 158 housing association properties. Zurich was on site rapidly and worked alongside appointed loss adjusters and existing project management teams that were overseeing improvement work. A new approach to managing flooded properties 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 electronics and plumbing in place. Our new approach also enables customers to consider newer, more resilient building materials and techniques.

In response to recent catastrophic flooding in the UK, pleasure craft insurer Navigators & General (part of the Zurich Group) is offering a free extension of coverage which will allow policyholders to use their boats for residential use, and extend contents coverage up to £5,000 for up to 6 months while their homes are uninhabitable.

Products & services

Later in 2009, we are preparing to introduce a new range of covers for commercial customers to improve resilience in rebuilding, and to offer new alternatives of indemnity covers. The covers will include the ability for building adaptation for heat conservation, flood resilience and waste recycling.

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 recently launched a new 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 will now be 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.

As part of our March 2009 funds refresh, we have added two "green" funds which will be 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 complement our stance on supporting positive climate change

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

- Targeting our salvage agents to reuse at least 85 percent of all parts and oil following the total loss of a vehicle
- Underwriting tools that provide preferential rates for customers who drive fewer miles
- Energy-saving solar panels and wind turbines 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

At Zurich we're committed to working through our broker and agency business to encourage efforts to tackle the risks associated with climate change. As such, we have teamed up with Budget (BISL Limited) as the lead underwriter on its panel, offering a new type of car insurance product branded 'ibuyeco.' This product allows policyholders to elect to donate funds to various environmental projects worldwide and the option to offset their car's CO₂ emissions through a range of carbon offsetting projects.

Principle 4: Incorporating climate change into investment strategies

We invest money to make an appropriate return for our company, our customers and our shareholders. Our overall investment strategy at Zurich is laid down by the parent company in Switzerland. Although much of the investment-related discussions over the last year have been dominated by the economic crisis, the Investment Management team has also initiated high-level discussions with external asset managers regarding their approaches to climate change.

Being part of ClimateWise means that we are learning more about the debates surrounding climate change as they relate to investment policy and the investment community.

Representatives from Zurich attended the Rainforest Bond working group (in conjunction with The Prince's Rainforest Project) and the ClimateWise Investment Workshop in April.

While Zurich's UK business does not take investment decisions, we can share with the Group's Investment Management office the

insights gleaned from external debate. It was particularly useful to learn about the impact of carbon schemes such as the Emissions Trading Scheme on asset valuations. In-depth discussions with asset managers will continue going forward.

In terms of our pension fund trustees, again, we can only act in an advisory capacity as the Zurich Pensions Trust is an independent body. However, as Zurich directors have positions on their Board of Trustees, they can and do ensure that climate change is kept on the agenda.

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

Since 1999, our Environmental Strategy Group has been working to define and reduce our carbon footprint and, following our 2010 Carbon Reduction Commitment, we are proactively seeking measures to further reduce it.

Through our Climate Office, we announced a Group-wide CO₂ emission reductions target of 10 percent by 2013 against a 2007 baseline. The baseline for this target was established through the Climate Office's partnership with the University of California at Santa Barbara's Bren School of Environmental Science and Management, which contributed to the Group carbon footprint quantification exercise that took place last year.

In 2008, Zurich UK reduced its carbon emissions by 11 percent where Zurich has control over the energy services. Total emissions were 15,789 CO₂ tonnes. Carbon per employee was reduced by 4 percent since 2007, to 1.96 tonnes CO₂/employee. If we include legacy property (non-operational buildings and buildings where we do not control energy services), total CO₂ emissions were 19,062 tonnes, a 10 percent reduction overall, with emissions on a per employee basis of 2.89 tonnes (a reduction of 4 percent over the previous year).

To help meet our company energy consumption goals, our use of green electricity (generated by wind, water, waves and biomass) has dramatically increased since 2005, with most of our properties now being supplied with 100 percent 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.

From a transport perspective, we have continued to reduce solitary car use since 2002. Recently we refreshed "Jambusters", a scheme which

encourages car sharing through the Zurich UK intranet. We now have good levels of car sharing with a peak at our Whiteley offices of 30 percent of employees participating.

Through a more detailed examination of how we use documents, and by making better use of PDF format items, we have reduced print literature items we produce for key distributors by 37 percent.

Zurich's Whiteley office was awarded the British Standard BS8555 Phases 1-3 accreditation by the Institute of Environmental Management and Assessments in recognition of the work Zurich has done to implement its environmental system for office administration and related business activities.

Electricity, gas, energy & water

We have set targets for improving local office performance in energy efficiency and our senior management is responsible for continuous improvement.

Since 1999, our carbon dioxide emissions from electricity and gas have dropped by over 86 percent at year-end 2008 (81 percent on a square footage basis).

Over the next year, Corporate Real Estate & Facilities Management (CRE&FM) will continue to develop arrangements for local energy targeting and monitoring. Consideration is being given to the European Union Energy Performance of Building Directive, 2003, which requires buildings to have certificates showing their environmental rating. The biggest impact is likely to be on buildings constructed after 2015, although Energy Performance Certificates are now required for properties that we are marketing. CRE&FM will continue to take advice from specialist energy consultants to help support our drive to reduce consumption. Smaller locations are being supplied with green electricity starting in the fourth quarter of 2009.

Since 2002, CRE&FM has also been developing a process for measuring and monitoring water consumption using specialist consultants and site readings. By the end of 2008, water consumption has been reduced to 106,414 cubic meters, a reduction of 6,198 cubic meters since 2007.

Commuting

We have continued to implement travel plans for core locations and update local travel plans.

In 2009, we are promoting cycling across all locations, placing a special focus on travel plans for Birmingham following a major reorganisation there, and we will continue monitoring performance against targets for model shifts.

Business travel

Our employees logged 80,000 fewer road miles in 2008-09 than they did in the previous year. Rail miles stayed the same, while air miles increased by 2.3 million miles. We have a strong focus on reducing these numbers, with a roughly 25 percent reduction in air travel during the first quarter of 2009. In addition, we have made significant investments in web, telepresence and video-conferencing equipment, all of which will help reduce carbon emissions and generate significant efficiency gains.

In support of the UK Government's Green Travel Plan, we have introduced "GreenTravel2Work," to Zurich's comprehensive flexible benefits package which gives incentives to employees to use public transport through reduced rates.

Supply chain

We use online questionnaires to assess suppliers and consultants in terms of environment and broader corporate responsibility issues.

Zurich has continued to work as part of a cross-industry body, the Financial Services Purchasing Forum, to look at standardising the questions with respect to environmental and other corporate responsibility issues. Our UK Procurement CR Guidelines are seen as industry best practice.

As discussed in Principle 3, Zurich uses a single company for salvage of motor vehicles across the UK and follows the End-of-Life Vehicle Directive, which requires a minimum of 85 percent of vehicles to be reused or recovered. Zurich's supplier has been taking measures to ensure full compliance with this directive.

Employee awareness

Our UK intranet maintains regular environmental features including quick polls, business travel tips and updates on activities related to the environment and climate change.

In 2008, we introduced environmental awards as a way to recognise efforts made by those working in our UK offices. The two winning locations demonstrated an ongoing commitment to the environment by developing local travel plans, and implementing a broad range of recycling initiatives.

We have also recruited Environmental Champions amongst our staff to encourage environmentally-friendly behaviours and monitor performance in their local locations. In May 2008, we held an all-day training workshop for these Environmental Champions and have followed this up with a number of web conferences. These events have helped develop our Champions' understanding of our objectives and initiatives and provided an opportunity for them to contribute their ideas and tackle local issues. Such events include a paper cup recycling initiative, encouraging staff to reduce business travel and making better use of our teleconferencing facilities.

Principle 6: Reporting and being accountable

The UK Executive teams recognise the importance of UK Executive level sponsorship of climate-related activity in order to deliver progress. We have worked to incorporate this into our strategy through many different platforms.

Zurich's UKGI and Shared Services CEO has signalled his clear commitment to climate initiatives and has assigned responsibility to two members of his Executive team, the Chief Marketing Officer (CMO) and the Chief Operations Officer (COO), to drive initiatives forward.

The CMO, who is also Chair of the Corporate Social Responsibility Council, has developed a clear framework for including climate change and environmental action into marketplace and operational activity.

The COO has re-affirmed her commitment to the Environmental Strategy Group (ESG), which submits an annual statement of work; sets local objectives and highlights activities undertaken to implement those principles. The primary

focus has been on three priorities: reducing consumption of electrical energy, reducing consumption of materials and commuter travel plans, and reducing business travel. The ESG continues to submit data 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 a big 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.



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.

Zurich Financial Services Group (Zurich) is an insurance-based financial services provider with a global network of subsidiaries and offices in North America and Europe as well as in Asia Pacific, Latin America and other markets. Founded in 1872, the Group is headquartered in Zurich, Switzerland. It employs approximately 58,000 people serving customers in more than 170 countries.



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