

Strategic Report – For the year ended 31 December 2020

Duty to Promote the Success of the Company in accordance with s172(1) Companies Act 2006

Section 172 of the Companies Act 2006 requires the Board of Directors (the 'Board') to promote the success of the Company for the benefit of its members as a whole and, in doing so to have regard to the interests of stakeholders including shareholders, customers, employees, suppliers, regulators and the wider society in which the Company operates.

The Company is a wholly owned subsidiary of Zurich Insurance Group Limited (the "Group") and is subject to policies and governance arrangements set by the Group as well as local statutory and regulatory requirements. The Board derives its collective authority by direct delegation from its shareholder. Its key purpose is to ensure the Company's prosperity by collectively directing the Company's affairs whilst meeting the appropriate interests of its shareholder and relevant stakeholders.

The Board's principal aim is to ensure the fair treatment of the Company's customers whilst enhancing the Company's long-term value to its shareholder through the sustainable and compliant delivery of financial performance targets and the fair treatment of its customers within a framework of prudent and effective controls.

When making decisions to further the Company's strategic purpose, the Board has a duty to promote the success of the Company under s172 of the Companies Act 2006. During the course of the financial year, the Board has given consideration to this duty when making decisions, including the:

- Likely consequences of any decision in the long term;
- Interests of employees;
- Company's business relationships with suppliers, customers and others;
- Impact of the Company's operations on the community and the environment; and
- maintaining the Company's reputation for high standards of business conduct.

As a wholly owned subsidiary of the Zurich Insurance Group Limited the Company only has one member and therefore the Board do not need to consider the fairness between members.

Long term decisions

The Board considers the interests of stakeholders as part of its overall long-term business objectives and continues to align the Company's strategic direction with the shareholder's aspirations for growth and sustainability. For each matter that is considered by the Board, stakeholders who may be impacted are identified and their interests considered as part of the Board's decision-making process.

An example of this is in connection with the Board's approach to declaring an interim dividend. When making the decision, the Board considered the impact on the customer, the shareholder, the regulatory capital requirements, capital management considerations, the Company's Dividend Assessment Framework as well as the future market outlook and potential risks. Following due and careful consideration and taking into account the need to act fairly between the relevant stakeholders, the Board decided to proceed with the proposed interim dividend.

Policies around anti-bribery and corruption

In accordance with companies act 414CB, the Company is covered by the UK Financial Crime policy, including Anti-Bribery and Corruption. The content for both guidance documents and local standards are driven by the content of the Group Policies with the inclusion of UK specific legislation and regulations. Each document is reviewed annually by the Audit Committee as well as when the legal and regulatory landscape changes.

Stakeholder Engagement

The following table sets out details of key stakeholder engagement undertaken by the Company during the course of 2020.

Employees	<p>As the Company does not have any direct employees, a management charge is made to the Company from the UK employing entity, ZES, in respect of employees who work on behalf of the UK Life business. The principal disclosures in respect of these staff, including the approach to employee engagement, appear in the annual report and accounts of Zurich Employment Services Limited, The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8XX.</p> <p>However, the following summarises how the Board considered employees in its deliberations:</p> <ul style="list-style-type: none"> • The Company's employee engagement mechanisms include receiving regular updates on the results of employee surveys to keep fully apprised of employee engagement levels and the quality of leadership across the workforce, as well as a broad range of subjects including collaboration, working conditions, wellbeing, reputation, benefits and rewards, diversity and inclusion and responsible business. • The Chair of the Board has the role of 'Whistleblowing Champion' ensuring the integrity and effectiveness of the Company's whistleblowing policies and procedures. The Board receives regular reports on 'Speaking Up' incidents. • The Board's annual calendar includes a two day strategy event where a cross-section of employees are invited to present and provide updates on current matters or areas of focus to the Board. • The Nomination & Remuneration Committee is responsible for succession planning and focuses on the performance of executives as well as key employees outside of the executive. It ensures that a talent pipeline is in place and engagement is encouraged with those individuals through presenting at Board and Committee meetings, the strategy event and deep dives on the Board's areas of focus. • The Company recognised the challenges faced by employees throughout the COVID-19 pandemic and was committed to supporting employees through its Flex Work scheme and Emergency Leave policy and regularly sought feedback and updates from senior management on morale and wellbeing. • All employees have continued in their roles in 2020 and furlough has not been used. • The Wellbeing hub provides a range of resources and tools to help employees keep active, health and safe.
Customers	<p>The Company ensures that it is well informed about good customer outcomes and customer sentiment about its propositions. This includes making sure mechanisms are adequate in respect of vulnerable customers. Customer service levels were maintained during 2020, despite moving to remote processing.</p> <p>The following summarises how the Board considered customers in its deliberations:</p> <ul style="list-style-type: none"> • All customer propositions are reviewed regularly, to ensure they continue to support the delivery of good customer outcomes, and that proposed changes do not cause harm to customers. • Existing propositions for long-term insurance products are being enhanced and new propositions are being developed and offered from time to time to customers. • A comprehensive customer Net Promoter Score (NPS) programme is in place across all major product lines which encompasses both transactional (tNPS) and relationship (rNPS) touchpoints. The NPS programme obtains feedback from customers on their experiences with the Company throughout the customer lifecycle and is actively used to drive improvements in the customer experience.

Customers (continued)	<ul style="list-style-type: none"> • An executive management customer committee oversees the delivery of good customer outcomes and reports to the Board. <p>During 2020, this committee met regularly to coordinate a systematic approach to addressing customer issues arising from the COVtD-19 pandemic and the associated regulatory guidance which has been published by the Financial Conduct Authority — particularly with regards to:</p> <ul style="list-style-type: none"> (i) support for customers in temporary financial difficulty and (ii) in the assessment of product value. • As a result, a number of areas have been considered by the Customer Committee including offering premium payment flexibility for three months or ceasing payment for a period of time and then commencement of repayment of the outstanding premiums over an agreed period, allowing policyholders to change the payment frequency from annual to monthly, waiver of the requirement for policies to be in force for twelve months before the break option can be exercised and the strengthening of pensions claims risk warnings to take account of the COVID-19 crisis impacts. • The Board and the Risk Committee receive regular reports on arrangements put in place for vulnerable customers. As a result of ongoing monitoring of customer outcomes and customer feedback, the Company identified and delivered several improvements to products which have enhanced the overall customer experience and benefitted vulnerable customers. An example of this is the improved Value for Money offering on a whole of life assurance product whereby customers aged 90 or above will no longer have to pay into their plan but will retain their plan benefits. • Access for non-advised pension customers has been enhanced by setting up a 'hub', which provides the support and guidance that customers need to ensure drawdown arrangements are right for them.
Suppliers	<p>We expect all of our business partners to embrace high standards of ethical and business conduct which is why we value positive interaction with our suppliers.</p> <p>The following summarises how the Board considered suppliers in its deliberations:</p> <ul style="list-style-type: none"> • The Group operates in a global sourcing environment, endeavouring to work with third parties and suppliers who operate responsibly, share the Group's values and adhere to the spirit of the Group's Code of Conduct. The Group's commitment to respect human rights is part of the Group's Code of Conduct, which all Zurich employees are committed to following. • Our recruitment process has inbuilt robust checks completed throughout the onboarding journey, to ensure we do not employ individuals that are facing or involved in, enforced servitude. Our annual Code of Conduct training is completed by all Zurich staff and includes content around fair and compliant conduct, including the protection of human rights. • Employees directly involved with onboarding and management of our suppliers receive additional UK Supplier Management training and are made aware of how to report any concerns. • Oversight of suppliers is the responsibility of the UK Chief Operating Officer and a governance framework is in place to support the supply management lifecycle to ensure effective and efficient management of our suppliers. The framework ensures that a rigorous and diligent process is followed during the procurement process, whereby the third party's structure, operations, culture, human resources, supplier and customer relationships and future outlook are assessed. • The Company publishes its annual Modern Slavery Act statement outlining how it mitigates the risk of slavery and human trafficking within its business and its supply chains. As part of this process, the Company has in place a Modern Slavery and Human Trafficking Policy, which seeks to identify and manage such risks.
Communities	<p>The Company believes in contributing positively to society in order to have a positive impact on the communities in which it operates.</p>

	<p>The following summarises how the Board considered communities in its deliberations:</p> <ul style="list-style-type: none"> • The UK Public Affairs team strives to make Zurich an influential and prominent voice in all aspects of the public policy process. Its primary focus is the identification and monitoring of key regulatory and legislative developments, and the communication of these to the wider business to determine whether to lead, drive, or support, on any external engagement activity. • The Company holds membership of, and the Public Affairs Team works closely with, industry bodies such as the Association of British Insurers (ABI), Confederation of British Industry (CBI), and TheCityUK to ensure that it is coordinated and effective in influencing the public policy agenda. • The UK Public Affairs team provide a weekly internal update on stakeholder engagement across the UK together with details of government consultations and inquiries of relevance to the Company. • The Company has an impressive record of supporting charitable activities of Zurich Community Trust (ZCT) and in 2020, the Company donated f1m to ZCT (2019: Elm). • The Company is committed to diversity and inclusion and Zurich UK has signed up to the Race At Work Charter, an initiative designed to improve outcomes for Black, Asian and Minority Ethnic (BAME) employees in the UK.
Regulators	<p>Positive engagement with regulators ensures high business standards are maintained and customers are protected.</p> <p>The following summarises how the Board considered regulators in its deliberations:</p> <ul style="list-style-type: none"> • The Company maintains an open relationship with the PRA and the Financial Conduct Authority FCA " which includes regular dialogue and complying with all regulatory reporting requirements in addition to providing regular management information to the PRA. • The Board receives regular updates on the Company's interactions with regulators including forthcoming changes to regulatory requirements. • The Company routinely provides copies of the Board, Risk and Audit Committee meeting papers to the PRA and responds to any ad hoc requests for information from regulatory bodies when required.
Sustainability	<p>The Head of Public Affairs is responsible for the Company's approach to sustainability, which is at the centre of the Group and Company's ambition to be known as one of the most responsible and impactful businesses in the world.</p> <p>The following summarises how the Board considered sustainability in its deliberations:</p> <ul style="list-style-type: none"> • The Group aims to be a responsible and sustainable business supporting customers and communities and managing its own environmental, social and governance risks. • The Board Risk Committee has oversight of the financial risks of climate change, with accountability being documented within the Terms of Reference and climate change occurring as a standing agenda item at each quarterly meeting. The Board Risk Committee assists the Board in carrying out its responsibilities in relation to the oversight of risk management in accordance with law and regulations. • A senior management function is responsible for the identification and management of the financial risks from climate change under the Senior Managers and Certification Regime; Zurich's UK Chief Risk Officer was approved for this role in November 2019.

Climate Change

The Company, as part of the Group, considers climate change and other environmental issues as being at the foundation of the business. The Group aims to be a responsible and sustainable business helping customers and communities with the effects of climate change. Details on the Group position are reported on the global website (www.zurich.com). The UK business has been a member of ClimateWise, an initiative set up to encourage the insurance industry to take collective action on climate change, since 2007. Zurich's position on ClimateWise's six principles is reported on the UK website (www.zurich.co.uk).

The main climate change risks are those arising on the Company's or policyholder's investment portfolios, impacting for example real estate investments, shares and fixed income. The Company views environmental, social and governance ("ESG") factors as a key consideration to be included when assessing individual investments and will continue to work with external asset managers on incorporating these factors into their investment decision making process, as well as to monitor research in this emerging area.

The Group joined the UN Net-Zero Asset Owner Alliance as a founding member. Joining the Alliance commits the Group to reduce the carbon emissions of our investment portfolios to net-zero by 2050, whilst it continues to apply ESG factors to our investments. In doing this, the Group aims to do its share in limiting global warming to 1.5°C compared to pre-industrial times — a pledge that it signed up for in the year.

Energy and Carbon reporting

Following changes to Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ('SI 2018/1155'), UK energy use and associated greenhouse gas ('GHG') emissions are required to be reported for the first time in 2020.

Whilst ideally the Company would present this information for the Company specifically, UK sustainability is managed across all entities with reporting metrics and targets based on UK-wide actions. Extracting this data to an entity level would not provide a clear picture of the emissions or actions. Similar disclosures are included within UKISA, the Parent Company.

This data represents the 2019 position as environmental data becomes available later in the reporting year. This is representative across the industry. In line with requirements, no comparative data is required during the first year of reporting.

Our Greenhouse gas emissions

2019	
Emissions (metric tons CO ₂ e)	
Facilities emissions [t CO ₂ e]	3,088
Travel emissions [t CO ₂ e]	6,172
Scope 1 emissions (305-1) [t CO ₂ e]	5,415
Scope 2 market based emissions (305-2) [t CO ₂ e]	1,306
Scope 3 emissions (305-3) [t CO ₂ e]	2,539
Total emissions [t CO ₂ e]	9,260
Emission intensity [t CO ₂ e per FTE] (Scopes 1 and 2)	2.16

Streamlined energy and carbon reporting

2	
Energy [kWh]	
Energy consumed [kWh]	
Total Scope 1 and 2 emissions [t CO ₂ e]	6,721

Methodology

Zurich's environmental reporting methodology follows the Greenhouse Gas (GHG) protocol Corporate Accounting and Reporting Standard. This standard covers the accounting and reporting of seven greenhouse gases covered by the Kyoto Protocol — carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PCFs), sulphur hexafluoride (SF₆) and nitrogen trifluoride (NF₃).

The principles set out in the standard are intended to underpin reporting, to ensure that the information represents a faithful, true and fair account of the company's GHG emissions. Reporting should be relevant, complete, consistent, transparent and accurate.

In calculating energy and carbon usage the following has been included:

Scope 1 - onsite heating and car fleet emissions (direct emissions).

Scope 2 — purchased electricity, heat, steam and cooling (indirect emissions).

Electricity is extrapolated where no actual kWh figures can be obtained. An average kWh per square meter factor is applied to these office locations.

Air, car rental and rail, as well as other fuel and energy related emissions not included in scope 1 or 2.

Actions taken during the year being presented (2019)

During 2019 significant actions have been undertaken to support the UK Sustainability goals with ongoing plans to achieve 2025 targets across both the UK and worldwide. A summary of these is provided below.

Management of Climate related risks:

Completed an Own Risk and Solvency Assessment (ORSA) as part of regulatory requirements, providing the Company with a holistic view of our risk profile and potential future solvency impacts. The risks posed by climate change form a significant part of the recent work on emerging risks documented in the 2019 and 2020 ORSA. The process of identification and assessment of emerging risks alongside the consideration of actions to mitigate the risks is used to assist with decision-making. The ORSA will be updated annually.

Encouraging suppliers to improve their environmental sustainability:

As part of onboarding new suppliers our due diligence includes corporate responsibility and environmental criteria. All third-party contracts must include a section relating to conducting periodic business reviews to monitor that the supplier is operating to our standards, including Corporate Responsibility. Any gaps in these reviews are identified and captured in an action plan with the supplier to drive continuous improvement. In addition, key third parties are reviewed on a quarterly basis using a performance management framework and onsite assessment as appropriate. Environmental performance and credentials are a key consideration when assessing the suitability of third-party arrangements and, increasingly, we are working with third parties that can enhance our corporate responsibility profile.

Reduced travel emissions:

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

Waste minimisation:

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

Reduced facilities emissions:

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

- Introducing more efficient lighting, utilising intelligent controls, movement detectors and replacing lighting with more efficient lamps where possible
- Replacing old air conditioning equipment and boilers with newer, more efficient systems
- Reviewing the lighting controls and heating and cooling plants at each building so that they only operate during office hours
- Pre-determining the heating controls to maintain a building temperature of 22%, $\pm 2^{\circ}\text{C}$
- Requiring all building and engineering projects to include a sustainability case

- Purchasing certified renewable electricity
- Introducing 'Dynamic Working' in many of our offices, which aims to promote a more effective working environment focused on better teamwork and sharing of resource and equipment. It allows our employees to work in an 'agile' way, allowing them to work from a variety of locations, including their home (which is further reinforced by Zurich's FlexWork program). The introduction of dynamic working and FlexWork has allowed us to reduce our office space and also reduces the commuting miles travelled by our employees.

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

Water minimisation:

Since 2008, analysis of water consumption at larger sites has been facilitated showing figures based on accurate consumption and occupancy figures for the location. Waterless urinal systems have been installed to those locations that are suitable. In other locations, movement detectors have been installed that trigger the flushing. A programme of works to install tank bags to all WC cisterns that are not dual flush has been successfully completed and flow restrictors have been fitted in all washroom facilities.

Paper reduction:

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

New office locations:

New office buildings acquired in Glasgow (2018) and Birmingham (2019) have been designed as sustainable and dynamic workspaces, to maximise efficiency and to minimise running costs achieving both a Building Research Establishment Environmental Assessment Method (BREEAM) 'Excellent' rating as well as an Energy Performance Certificate (EPC) 'A' rating. The construction of our new purpose-built facility in Swindon is also aiming for an 'Excellent' BREEAM rating.

It is worth noting that while the data presented relates to 2019, we expect the 2020 equivalents to be significantly different due to the impact of COVID-19 and the majority of staff home-working and travelling less than usual.