

**Pillar Three: Governance and Dependability**

**1. Have you received a Financial Rating from a major rating agency in the past 12 months?**

Yes

Standard and Poor	Moody's	Fitch
AA/stable	Aa3/stable	AA-
Rating in 2020	Rating in 2020	Rating in 2020
AA-/stable	Aa3/stable	AA-

**2. Does the firm have a committee responsible for risk?**

Yes

**3. What is the Business of the Risk Committee? Please select all that apply:**

- Proactively identify risk issues
- Assessment of risks
- Mitigate and Manage risks
- Risk controls policies and implementation
- Regulatory risks monitoring
- We do more than the above – please explain below:

**Please specify how liquidity targets are better**

Zurich Insurance Group Ltd has an effective structure for cooperation between the Board of Directors, management and internal control functions. Zurich uses the three-lines-of-defense model in its approach to governance and enterprise risk management. Zurich’s three-lines-of-defense approach runs through Zurich’s governance structure, so that risks are clearly identified, assessed, owned, managed and monitored.

1st line: Business Management:

The first line of defense consists of business management and all functions except Group Risk Management, Group Compliance and Group Audit. The first line takes risks and is responsible for day-to-day risk management (i.e. risks are identified and monitored, mitigation actions are implemented and internal controls are in place and operating effectively).

2nd line: Group Risk Management and Group Compliance

The second line of defense consists of the two control functions, Group Risk Management and Group Compliance. Group Risk Management is responsible for Zurich's enterprise risk management framework. The Group CRO regularly reports risk matters to the Group CEO, senior management committees and the Risk and Investment Committee of the Board.

Group Compliance is responsible for providing assurance to management that compliance risks within its mandate are appropriately identified and managed. The Group Chief Compliance Officer regularly provides reports to the Audit Committee and has an additional reporting line to the Chairman of the Audit Committee and appropriate access to the Chairman of the Board.

3rd line: Group Audit

The third line of defense consists of the assurance function Group Audit. Group Audit is responsible for auditing risk management, control and governance processes. The Head of Group Audit reports functionally to the Chairman of the Audit Committee and administratively to the Group CEO, and meets regularly with the Chairman of the Board and the Chairman of the Audit Committee and attends each meeting of the Audit Committee.

Board

The Board is ultimately responsible for the supervision of the control and assurance activities.

External audit

External audit is responsible for auditing the Group's financial statements and for auditing Zurich's compliance with specific regulatory requirements. The Audit Committee regularly meets with the external auditors.

#### **4. What is the percentage of the risk committee that is independent?**

66

#### **5. Are there any executives on the risk committee?**

Yes

#### **6. Does the firm describe business continuity risks related to disruptions of operations?**

Yes

**7. Does the firm link its directors' bonuses to the achievement of long-term goals?**

Yes

**8. Does the firm have a Code of Ethics?**

Yes

**9. Percentage of non-executive directors that have industry-specific expertise**

100

**10. Does the firm have country-specific components in their anti-bribery and/or corruption statement or policy?**

Yes

**11. Does the firm provide its employees with training on anti-bribery and/or corruption?**

Yes

**12. Please explain the background and general principles for the inclusion of investment vehicles and asset types**

For the underlying investment choices, currently we have over 100 fund choices. They are all SFC authorized funds carefully selected by us, with a variety of low and high investment risk, different asset classes (equity, fixed income, mixed assets, etc) and different classifications (geographic region, industry, large / small cap, etc...), to suit different risk appetite and investment needs of each individual customer.

**13. What is the rationale of risk profiling for including investment in the "menu" of the ILAS platform? What are the risk assessment tools being used?**

Similar to Q12, to comply with the regulatory requirements and enhance the customer experience we have to provide a range of fund choices including variance of investment risk profile. Based on 3rd party professional assessment (e.g. Morningstar, Financial Express) and internal assessment we have a thorough and disciplined process the manage the risk assessment of the underlying fund choices.

**14. What is your Product Due Diligence Process? Please explain how an idea is generated and financial metrics used to measure the feasibility of a third-party asset manager:**

We have an internal governance process on how to select and manage our fund choice portfolio. Both quantitative (e.g. AUM, fund performance) and qualitative (advisor feedback and customer feedback) are important measurement for the fund portfolio management.

**15. What are your exclusion policies and the minimum E.S.G. requirements of the products?**

We have the guidelines (with reference to the group and the regulators) in choosing and maintaining the fund choices. For example, we will not consider any non-SFC authorized funds and to include some fund choices with ESG elements.

**16. Under what circumstances will a fund be removed from the selection? What are the steps taken to prevent losses suffered by the clients from the removal?**

As mentioned in Q14, we have an internal governance process to manage the underlying funds including the fund deletion. While some fund choices deletion are driven by the fund houses (e.g. low AUM, merger) which we have to follow, we have regular committee meetings to review the fund portfolio, including the review of any fund deletion required. During the review process, we will conduct a health check whether there is any replacement fund in order to mitigate the impact to customers.

**17. Please explain your Post-sale control, specifically on risk profiling and matching of the investments selected.**

We are fully complied with post-sales control of risk profiling and matching of investment selected based on the regulatory guidelines.

**18. How do you ensure that the brokers focus on the clients' risk appetite and product alignment, and what training has taken place to ensure the customers' safety?**

We provide regular training and roadshows covering product features with strong focus on the proper selling process in accordance to GL15 ([https://www.ia.org.hk/en/legislative\\_framework/files/GL15.pdf](https://www.ia.org.hk/en/legislative_framework/files/GL15.pdf)). A comprehensive training deck together with consultant manual detailing the guidelines on Financial Needs Analysis (FNA), Risk Profile Questionnaire (RPQ) and Important Facts Statement and Applicant's Declarations (IFS-AD), etc. would be shared with brokers. Our new mobile application, ZOOM is specially developed for financial advisors who can perform financial and risk assessment digitally which could ensure product and investment choices are matched with client's risk appetite and financial needs before processing further to application. We also invite asset managers to share latest market insights and trends with brokers in order to enhance their investment knowledge and competency.

**19. What actions are taken when mis-selling activities are identified, and what are the consequences on the broker?**

We have a set of sales compliance procedures, with reference to the regulatory and in-house requirements, that are well-communicated with our advisors. For serious non-compliance issues such as mis-selling, penalties would include but not limited to commission clawback, servicing contract termination, etc.

When mis-selling activities are identified, we will conduct thorough investigation with relevant internal and external parties. We would interview with the relevant RO of the broker and review the existing controls and procedures if they are sufficient enough to prevent similar incidents from occurring again in the future. We would not accept any new business written by the relevant advisor for 3 months if mis-selling activities are observed again.