

Zurich Is a Rare Structurally Advantaged Multiline Insurer With a Narrow Moat



[Henry Heathfield](#) Aug 6, 2026

Stock Analyst Note

Business Strategy and Outlook

Zurich Insurance is one of the best-quality companies in our European insurance coverage, and it is a truly unique business. The ownership of Farmers Management Services provides the company with an unusual uplift in returns delivered to shareholders. We believe this business and these returns are well protected by the long-standing attorney-in-fact agreement. The relationship between Farmers Exchanges and Farmers Management Services has been in place since the exchanges were founded nearly 100 years ago. This makes it unlikely the relationship will change because any change would have to be agreed upon by every single Farmers Exchanges policyholder. That would involve a lot of paperwork. FMS margins and returns touch 30%; in the world of insurance, that's almost unheard of.

While Farmers is a unique asset, Zurich also holds a strong commercial insurance operation. Its business is the largest provider of international programs to multinational corporates. Here, dedicated account managers and underwriters serve these corporations to bring a global program of policies under one umbrella, reducing the workload and administration for these individual businesses. That sort of insurance program requires vast infrastructure, data, and analytics to run successfully as well as ongoing strict controls in risk management. Zurich has the largest risk engineering network globally, which helps survey clients' assets and helps them reduce the chance of and the damage of a claim. Complemented by Zurich Resilience Solutions, which helps clients establish how to better position themselves against climate change, Zurich has one of the strongest commercial insurance offerings globally. After Zurich established a firm position with larger commercial

enterprises, it is moving down to midmarket; we think it is particularly centered on North America. The company is set to apply what it has learned in the large commercial space to these slightly smaller businesses. However, we think the bespoke nature of this underwriting makes it nicely profitable. Our expectation is for a stable rise in business operating profit over the next few years.

Bulls Say, Bears Say

Bulls

Zurich's Farmers Management Services is a low-capital-requirement, high-margin, stable, and wide-moat intangible asset.

Zurich has the largest international program commercial insurance division in the world and this is incredibly hard to replicate.

Having established a firm foothold in the large and bespoke commercial insurance segment, Zurich is applying what it has learned to the North American midcommercial market.

Bears

Versus some peers, Zurich is underweight in the commercial midmarket.

While Farmers Exchanges compete in the less price-sensitive relationship-driven model of personal lines insurance, they still have an established Allstate rival.

International programs can be highly complex multinational programs to underwrite, manage, and administer. This could leave Zurich exposed to low levels of oversight.

Financial Strength

Zurich has sound financial health.

Zurich holds \$14.0 billion of debt on its balance sheet, split between \$4.2 billion of senior debt and \$9.8 billion of subordinated debt.

Within Zurich's senior debt profile, there are around 14 individual debt instruments issued. None of them are significantly large. The nearest EUR 586 million large lump matures in 2028. Most of this senior debt carries relatively

low interest rates, the highest being 5.324%, issued in Australian dollars and will mature in 2029.

In Zurich's subordinated debt profile, there are also around 14 individual debt instruments issued. The nearest large lump is \$1,000 million, first callable in June 2026. Interest rates being paid are midsingle digits or lower, with the highest being 6.25%.

Zurich's long-term debt/equity has tended to average around 40%. We forecast the business will get back down to this.

Economic Moat

We award Zurich a Narrow Morningstar Economic Moat Rating.

Zurich owns Farmers Group, which comprises three business lines: Farmers Life, Farmers Reinsurance, and Farmers Management Services. Farmers Life and Farmers Re are relatively small units. Farmers Management Services produces the majority of Farmers Group earnings and provides management and administration services to the underlying Farmers Exchanges that write personal insurance lines.

The Farmers Exchanges were founded in the 1920s by John Tyler and Thomas Leavey, who believed that farmers and ranchers tended to experience and file fewer claims on their vehicles and were entitled to preferential prices. They originally went door to door, farm to farm, in and around Los Angeles; the business grew over the years, with a concentration on the Western states. Farmers Exchanges tend to hold around a 5% personal lines market share nationwide and are around the seventh-largest personal lines insurer in the US. Their strength remains in the Western states, where they hold around a 10% market share, and are around the sixth or seventh largest across the central states and in the lower end of the top 10 up and down the Atlantic coast.

The acquisition of MetLife US property and casualty made the business a truly national operation. The acquisition included the agreement that Farmers Exchanges can sell its personal lines insurance policies through the MetLife group benefits platform. These MetLife group benefits customers became part of Farmers Exchanges and, at the time of the acquisition, stretched across 3,800 companies and nearly 40 million employees, bringing in close to 2.5 million policies and around \$3.6 million of gross written premium.

Zurich acquired Farmers Management Services as part of its takeover of British American Tobacco's financial services business in 1998. On Farmers Exchanges, policyholders are owners of the exchanges, and they appoint Farmers Management Services as attorney-in-fact to provide nonclaims services such as risk selection; administering policy documents; invoices; premium collection; and investment portfolio management. FMS charges a management fee for these services. This management fee has tended to be around 13% of the exchange's gross earned premium. In reality, FMS manages to a 7% management fee after incurring expenses. The return on equity generated by Farmers Management Services tends to be around 25%-30%.

The relationship between Farmers Exchanges and Farmers Management Services has been in place since the exchanges were formed. And for the exchanges to change to a different service provider, all exchange customers would need to agree and sign up. All policyholders sign an agreement with both Farmers Exchanges and FMS when they take out a policy.

Farmers Exchanges are not trying to compete with the likes of Geico and Progressive, which dominate direct advertising and are price-aggressive. They compete more in agency business, where customers are seeking multiple policies and wanting to establish a long-term relationship, and are going to Farmers Exchange agents for insurance across all their needs. This business model is more about embedding local community agents.

In Zurich's nonlife insurance business, the company runs the second-largest commercial insurer in the world, with commercial gross premiums written accounting for two-thirds of the nonlife business division gross premiums written.

Over the past decade, Zurich has taken strong action to improve the performance of its commercial insurance business by tilting the weights of its four primary lines away from one where the business was overweight in the long-tail casualty. Furthermore, the business has made substantial investments in data and analytics, the efficiency of its claims processing and settlement. These investments in intangible assets have all had tangible benefits. Zurich's commercial insurance claims ratio improved by 10 percentage points over the last half-decade under IFRS 4, and nearly all that improvement came from its claims ratio.

Zurich's commercial insurance business is made up of four strong offerings, which are international programs, captives, risk engineering, and resilience solutions. The international programs business provides bespoke and tailored insurance programs to multinational corporations, spanning 200 companies across 7,800 international programs with 2,000 dedicated professionals for international programs. While these programs come up for renewal on an annual basis, because of the continued emphasis on building a strong top three as well as regional broker relationships and stronger client relationships, Zurich's international programs business has 80%-90% retention. Zurich's commercial insurance business has increased its share of wallet with the largest three brokers by 5-6 percentage points.

Building the infrastructure to serve large international programs is not a small task. The provider needs knowledge of local laws, business environment, and business practices. Further, the information technology needs to be strong to serve both Zurich and the customer in this international program. Data and analytics play an important role in risk selection, and in Zurich's risk engineering services, Zurich assesses and provides customers with feedback on how they can better manage their risk. This can be complemented by the company's Resilience Solutions, available to both Zurich customers and noncustomers. Zurich has one of the best commercial insurance underwriting standards in our coverage, as under IFRS 4 the business also pulled commercial peak-to-trough large loss volatility down from 12 to 5 percentage points.

Fair Value and Profit Drivers

Our fair value estimate is CHF 560 per share, using an exchange rate of CHF 0.8101/\$1.

With Farmers Group's joint acquisition of MetLife's US property and casualty division, policies written on MetLife's group benefits platform will now become part of Farmers Exchanges. This is a nice captive way for the exchanges to expand their reach with limited investment in a physical distribution force. The growth of Farmers Exchanges increases the strength of the relationship with Farmers Management Services because it raises the number of policyholders that sign an agreement for FMS to carry out management services. Further, the underlying exchanges strategy of building Farmers as a business and brand built on a proprietary distribution force of agents embedded in communities means stickier relationships. The target here is not to offer the cheapest price

possible and spend heavily on advertising but to build a relationship with customers. That relationship model means retention becomes primary and acquisitions become secondary. With the expansion into the Eastern states and the acquisition of MetLife's US property and casualty business, growth in gross premium earned on Farmers Exchanges has been elevated. However, with the integration of that acquisition, we forecast mid-single-digit growth.

FMS charges a fee to the exchanges that is contractually agreed to be between 12% and 20%. The fee is based on the exchange's gross premium earned and has more recently been at the lower end. Our expectation is for a continuation of this rough 13% fee rate and maintenance of expenses. The MetLife acquisition is now fully integrated, and the managed gross earned premium margin is stable at around 7%.

In Zurich's nonlife insurance division, where the business has strong capabilities in providing insurance to large multinational corporates, we believe the company is applying what it has learned here in improving efficiency to the midmarket that also requires bespoke insurance products. We think this is a profitable and relatively untapped opportunity for Zurich, particularly in North America. Further, our expectation is this business can be written profitably once the right infrastructure is in place. Zurich now has something in the region of 18 regional offices in the United States, ready to serve midmarket commercial customers. Building out these portfolios will take time. With a combination of readjusting and rebalancing its nonlife commercial insurance portfolio, investing in and integrating stronger data and analytics, better digital processing, and tightening peak-to-trough claims volatility, historically Zurich has improved its net expense on claims annually. Zurich's target is to grow midmarket gross premiums written to \$10 billion by 2027. This should help provide an uplift to commercial insurance business operating profit of \$4.2 billion.

It is easy to overlook Zurich's life insurance business because of the strength of Farmers and commercial insurance. However, the life and health business frequently contributes nearly a third of operating profit, though it is one of the lowest-returning business units because of the capital requirements. The most important sales channel for Zurich life and health is bancassurance, through which the business sells almost 40% of its annual premium equivalent. Zurich has 80 partners here and leverages its nonlife commercial relationships. Zurich Corporate Life & Pensions accounts for one-fourth of annual sales.

Independent financial advisors make up the remaining third. What makes Zurich successful in life and health is its focus on one or two product groups. Zurich ranks second in the world in the proportion of life and health annual premium equivalent generated from protection sales, accounting for over a third of annual premium equivalent in life and health.

Risk and Uncertainty

We assign Zurich a Low Morningstar Uncertainty Rating.

We believe the threat of major value destruction, at less than 10%, is low for Zurich. The company does well in all Sustainalytics ESG Risk Rating scores.

Both Farmers Management Services and Farmers Exchanges are relatively low-risk, writing personal lines motor and home insurance to US retail customers in a way where the sales agent most likely meets the underlying policyholder and can observe in some way the asset they are insuring. While there could be an outsize rise in claims severity or frequency for policies written on the exchanges, this would not directly affect the profitability of Farmers Management Services, which would only see a decline in earnings as a result of reduced underlying volume.

We think the largest threat of major value destruction to Zurich would be structurally lower investment returns. In our bear case, we incorporate a 20-percentage-point write-down in equities, a high-single-digit write-down in bonds, and we lower our long-term assumptions for the investment income that Zurich can generate on its portfolio by 50 basis points. In this scenario, Zurich is worth CHF 510 per share.

Capital Allocation

We award Zurich an Exemplary Morningstar Capital Allocation Rating.

Zurich has a sound balance sheet.

Under the Swiss Solvency Test, the amount of capital Zurich is required to hold is \$16.7 billion. With actual risk-bearing capital of \$43.2 billion as of Dec. 31, 2025, Zurich holds a Swiss Solvency Test ratio of around 259%.

Zurich has made exceptional investments.

Around a decade ago, the commercial insurance industry was rapidly deteriorating as Zurich and its competitors had chosen to chase growth. Loose pricing discipline and reinsurance practices meant Zurich bore the brunt of the claims stemming from a China port explosion. Since this time, Zurich has embarked on a strategy of downsizing underperforming divisions, tiering business lines, and improving underwriting. This tiering looked at the profitability of books and assessed the resulting impact of price increases on retention. Smaller rate increases were applied to top tiers and higher rate increases to lower tiers. This meant Zurich retained the business that was most profitable and made organic investments in establishing a leading data and analytics platform to establish excellence in pricing and underwriting.

Exited lines included the Middle East, commercial motor insurance in Australia, boiler and machinery insurance, and North American commercial transport. Since this time, Zurich has undertaken a number of transactions to free up capital. These have included the sale of its legal malpractice business in Germany to Catalina, divestment of its legacy traditional life insurance book in Germany to Viridium, and the sale of its Italian life and pensions book in 2022 to GamaLife. Proceeds from these divestments have been used to invest in higher-returning lines, including the Latin American operations of QBE to support its existing joint venture with Santander; the life insurance operations of OnePath Life, entering a 20-year bancassurance agreement providing access to its 500 bank branches across Australia and New Zealand, bringing 6 million new retail customers and a resulting in a 20% Australian retail life insurance market stake. Zurich also jointly acquired MetLife's United States property and casualty operations for \$3.94 billion, with Farmers Exchanges and Zurich respectively contributing \$1.51 billion and \$2.43 billion. Growth in premiums written on the exchanges flows directly to Farmers Management Services. More recently, Zurich announced the acquisition of AIG's global personal travel insurance business, Travel Guard. Rolled into Zurich's existing Cover-More business, this should give Zurich a 10% market share of travel insurance worldwide. In 2026, Zurich agreed to acquire the specialty insurer Beazley for \$10.9 billion.

Zurich has made appropriate distributions.

Zurich targets a dividend payout ratio of 75% of net income, subject to last year's dividend. The business does not commit to a specific share repurchase program, and there are no share buybacks currently planned.