



Annual General Meeting 2005

Speech by James J. Schiro

Chief Executive Officer

April 19, 2005

Mr. Chairman

Dear Shareholders; Ladies and Gentlemen

The 2004 results show that Zurich is back on track. Three years ago, when the Board of Directors entrusted me with the leadership of this great company, we made no secret that Zurich was facing a number of challenges. We knew that we needed to restore the Group's profitability. We also had to strengthen our balance sheet and refocus on our core businesses with sound underwriting principles. But one challenge stood out. Our primary task was to regain credibility in the financial markets and become known again for delivering on our promise.

Today, we are moving forward on a firm platform designed to deliver profitable growth. The fundamentals of our businesses are strong. We demonstrated our ability to absorb earnings shortfalls in some areas, and we dealt with a number of legacies. I would like to highlight the record of the last three years. Later, Patrick O'Sullivan, our Group Finance Director, will give you the details of our 2004 performance.

In September 2002, we presented a comprehensive plan for the recovery. It was committed to financial and operational discipline. Our benchmark is business operating profit. We are gratified to have seen that number grow by 150% to more than 3.1 billion dollars last year. This translated into

a sizeable improvement of our business operating return on equity after tax. It more than doubled from 5.1% to 11.5% and came close to our medium-term target of 12%. Over the same period, we substantially improved from a 2002 loss of 3.4 billion dollars to a net income of 2.6 billion dollars, which corresponds to a return on equity of 13.3%.

The cornerstone of our plan to strengthen the balance sheet was the Rights Issue of 2.5 billion dollars that you approved in October 2002. We were grateful for your early support. It quickly put us ahead of many in our industry who later also raised capital. It enabled us to capitalize on our strong market position in writing profitable general insurance business. By the end of last year we had grown shareholders equity to 22.2 billion dollars, an increase of more than one third over the level of 2002.

The regained strength of our balance sheet is also reflected in our reserves. Net insurance loss reserves increased from 30.4 billion dollars at the end of 2002 to 43.5 billion dollars at the end of 2004. Based on our more conservative actuarial assumptions, and after having completed a global review, we strengthened our loss reserves by 2.0 billion dollars last year. This brings total strengthening for prior year developments to nearly 4 billion dollars for the last two years.

These actions go a long way in addressing issues that arose from the underwriting practiced in the late 1990's and that affected Zurich along with the rest of the industry. But we dealt with them from a position of strength. We now look forward to a future with lower prior year reserve developments. We have the resilience and underlying strength to absorb the impacts of shocks that are associated with our business.

We have also improved our business organization. Our focus is on a portfolio in General and Life insurance that is firmly anchored in attractive markets on both sides of the Atlantic. As the largest Swiss insurer we are driving our businesses on a global scale while being mindful of cultivating local markets. Last year, we ranked second among the European-based carriers of general insurance, and our Corporate Customer business is number two worldwide. Our coordinated approach to the allocation of capital is designed to identify the best return profiles in our worldwide portfolio.

Ladies and Gentlemen, 2004 demonstrated that the fundamentals of our businesses are strong. We are confident about the future, but mindful that the normal course of business brings its challenges. We have our work cut out for us.

Our task is and has always been to expand the level of our performance while balancing growth and profitability. That is why we are implementing one uniform and consistent Zurich Way across the Group. It will bring common methodologies to our businesses from underwriting to claims management, distribution, finance and talent management. They can be summarized as “what gets measured gets done.” These methodologies are driven by the same discipline that supported the strength of our recovery and they must become engrained in our culture. We want to ensure that our achievements of the last three years are replicated across different units.

All successful companies have a strong, performance-oriented culture, thriving on common processes and shared values. Zurich’s ascent to market leadership was no different. A reading of old records reveals that common actuarial methodologies and accounting principles were implemented in the early 20th century. At that time, the company grew quickly abroad with a heavy focus on Germany and France and an early foray into the United States. The expansion could have not been managed so successfully without a strong commitment to profitability and universally adapted business principles.

Today, we are a global company that serves global customers, and our leverage comes from offering integrated solutions. The beneficiary of our approach is the customer. Large multinational corporations are demanding uniform standards of service wherever their operations may take them. This puts high demands on our organization and our employees’ ability to cooperate across boundaries. Our people are reaching out to their peers with a clear understanding of the capabilities in other locations. The Zurich Way is defining the rules for their collaboration, and we are seeing the results in a higher degree of customer satisfaction and new accounts gained.

Let me return to specific challenges facing our businesses, General insurance first.

There is much ado among forecasters about the apparent weak pricing environment in general insurance markets. But what Mark Twain said after having read his obituary holds true for current conditions as well: reports about broadly declining rates have been greatly exaggerated. Yes, prices

are declining in a few lines of business, but current rates still allow us to write profitable business. Our policy is clear. Where rates do not meet our targets, we will either write less business or withdraw completely. While our preference is for growth, we are uncompromising about our commitment to profitability.

Turning now to Life insurance, I am pleased to report progress on all key metrics. We have refocused the business on profitable market segments. We introduced new products that reflect better current financial market conditions. We are leveraging a world-class distribution system in cooperation with strong business relations, and we are applying our collective strength and global expertise to build scale and presence in key markets.

We have made good progress. But there is more work to do, particularly in the UK where performance does not meet our hurdle rate. Earlier this year, we revised the distribution strategy and revamped the UK manufacturing model. An inspiration is the excellent track record of Farmers. Their Life business, which is consolidated in our accounts, is growing rapidly and it is very profitable. We will leverage the lessons learned in the United States by developing suitable adaptations of the Farmers experience in Europe.

It will take time for our overall efforts to bear fruit. In the interim, we are committed to inform you about our progress. We have recently expanded the information given to the financial markets with a series of investors' days. The first, on the topic of underwriting, was held in January; the second, on Life insurance, followed a couple of weeks ago. More workshops on other businesses are scheduled later in the year. By informing about activities that are typically not discussed in our financial reporting, we adhere to our principles of transparency and accountability. They are integral to our way of doing business.

Before concluding, I would like to touch on external challenges with a potential to fundamentally change the business model governing the relationship between insurers, brokers and customers.

In 2004, the insurance industry, including Zurich, came under heightened scrutiny by public authorities and regulators. Their investigations focused mainly on three areas. They concerned business practices involving insurance carriers and brokers, the use of non-traditional products and certain reinsurance contracts. We proactively performed internal reviews, strengthened our processes

and took remedial actions where necessary. We also reported certain transactions to the appropriate regulatory bodies, and the Group continues to cooperate with all investigative and regulatory inquiries.

Our current industry environment comprises challenging market forces, prosecutorial attention, regulatory interventions, and legislative activities. Take the US tort system, for example. For all practical purposes, it does not deliver what it is supposed to do. The trial bar has turned it into a gigantic redistribution engine that burdens consumers, insurers and businesses alike, while the truly injured are rarely compensated adequately. Recently, we have seen progress in the political debate that would restrain some excesses. But for the time being, the tort system continues to impact our business and we must cope with it.

I believe our industry will be better off by moving forward in a proactive manner. The industry-wide investigations in the United States are a reminder that we should always be prepared to look at our business models and improve on them. Our goal must be to serve the customer first, and our actions must be guided by our compliance with the law. There is no trade-off between acting lawfully and business success. We may compete vigorously; but we must always be fair and lawful. This is the only way to conduct a business, which is as dependent on the trust of our customers as on our ability to provide value to the market.

Our Group is well prepared to deal with current challenges. Over the last three years, we have been reviewing our practices and procedures with a view to making us more competitive and efficient. We instilled financial discipline, improved our internal controls and promoted transparency. We worked hard to build trust and credibility in the markets, and we continue to strive for the highest levels of operational efficiency and professional integrity. Our actions are based on ethical standards as embodied in Zurich Basics, our internal core values and basic principles.

Ladies and Gentlemen, today marks the last AGM under the leadership of our Chairman Lodewijk van Wachem. Three years ago, he stepped in at a critical juncture in Zurich's history and he has since overseen an exciting transformation. Mr. Chairman, on behalf of the Group Executive Committee, I would like to thank you for your helpful advice, wise counsel and strong support in helping us drive the turnaround. The house you are leaving is in good order, and we would like to extend our best wishes for an active retirement.

We would also like to thank our employees for their resolve and support. Our recovery would have been impossible without the dedicated effort of our employees. We are proud to have a strong talent pool in our organization, and we will work hard to attract and retain the best and the brightest to Zurich in order to ensure the Group's future prosperity.

Ladies and Gentlemen, the last three years have brought remarkable changes, and I am sure that not all of them were easy to accept. Activities essential for the success of our businesses are now centrally coordinated, and we are managing our risks with a global perspective. We have sharpened our focus, improved our earnings capacity, strengthened our balance sheet, and we dealt with legacies. Our fundamentals are strong. My colleagues and I are confident about the Group's ability to generate sustainable profitable growth, attractive returns to shareholders, and rewarding opportunities for our employees.

I look forward to reviewing Zurich's progress again in 2006.

Thank you.