



Annual General Meeting 2003

Speech by James J. Schiro

Chief Executive Officer

April 30, 2003

Ladies and Gentlemen

Dear Shareholders

One year ago, when I was privileged to address you for the first time, I said it was clear that our company was in need of repositioning – to restore profitability, strengthen its balance sheet, increase the capital base, focus on its core businesses with sound underwriting principles, and restore credibility.

This is precisely what we have been working on.

On September 5, 2002, we announced our plan. It is, above all, a program to instill financial and operational discipline. But it also included measures to promote capital efficiency, position the company as an insurance-based financial services provider and reduce costs. We are determined to increase business operating profit by 1 billion dollars in the current year. We have the structures and processes in place to do so. We are on track. Now we must demonstrate that we are delivering.

One cornerstone of this program was the Rights Issue of 2.5 billion dollars that you approved in October. This put us ahead of many others in our industry who have since raised capital and others that are yet to do so. It enabled us to continue to expand our share of profitable non-life business. We thank you for this support.

The implementation of this program involves many tough decisions. My colleagues in the Group Executive Committee and I set strategic priorities, announced divestments and – probably the most difficult of all – decided on staff redundancies. I can assure you, we did not make these decisions lightly. But they are indispensable in order to put our company back on track toward sustainable and profitable growth. There are no short cuts to restoring value for all our stakeholders: our employees, our customers and you, our shareholders.

Let me give you a progress report on the program to reposition our company.

- The Global Profit Improvement Program, designed to generate a sustainable increase in net income of 1 billion dollars in 2003, is on track. This is more than an exercise in cost cutting. Rather, under Peter Eckert's direction it developed into a tool to help us on an ongoing basis with organizational, structural and business process changes to harness efficiency gains. It impacts claims, underwriting and all support services. The Zurich North America Corporate Customer Casualty unit, for example, now calculates return on capital for each policy. This is instrumental in achieving better rates with our reinsurance partners because we can now provide detailed and transparent account information.
- Our divestment program is on track, disposing of businesses and country activities that either no longer belong to our core activities or do not meet our earnings hurdle rate. But we do not intend to hold fire sales. I can assure you that we are sticking to our goal of maximizing business value, even in these difficult market conditions. Moreover, the decision to exit selected countries should not be interpreted as a retreat from global activities. In fact, our presence in key global markets is providing enormous strength. We are the only large insurance company with a well-balanced presence in these markets; and we are working to leverage this geographic advantage to create lasting value.
- We set a target of improving our risk-based capital position by 5 billion dollars by the end of 2003. I am confident that we can achieve this, barring unforeseen events. This sum was to be a combination of new capital to be raised, including the rights issue, more effective use of reinsurance, disposals and repositioning our businesses to reduce their capital requirements. Disposals are on track to release more than 1 billion dollars of capital by the end of this year. We have substantially reduced our exposure to equities, and we have narrowed the scope of ratings sensitive businesses to reduce the amount of capital support required by them. The bulk of the measures designed to improve our capital management is in place. Under the watchful eye of Patrick O'Sullivan, our Group Finance Director, financial discipline will continue to be imposed on all our activities.

It would be a mistake to look at the transformation of our company only in terms of cost cutting or disposals. Our future success will depend largely on the core strengths of our company. When visiting our operations and talking to customers and brokers, I am always struck by the ingenuity of our employees. The Customer's Risk Intelligence System developed by Zurich North America Corporate offers our customers a crucial competitive advantage, which was the primary reason for several large accounts selecting Zurich over the past year. I am confident that John Amore, who runs our Corporate Business in North America, will continue to motivate his team to come up with many more innovative solutions.

To give another example, Continental Europe has successfully introduced an Internet-based "Renewal Controlling Tool" that provides information on a single account basis. It tracks the largest accounts, which reflect about 50% of total premium volume. Monthly reporting delivers precise data on the status of renewals, and the tool serves as an early warning system for all country managers. Tools like this facilitate Axel Lehmann's challenging job in integrating operations in the various countries that make up our Continental Europe Division into one competitive powerhouse.

Ladies and Gentlemen, we must reinvent our business to meet the challenges of rapidly changing market conditions. From my visits to the front, I know that this is precisely what happens almost daily. We are also delighted to see that innovative ideas are crossing the ocean. Under Martin Feinstein's leadership at Farmers, the familiar HelpPoint centers that you see throughout Switzerland are now springing up across the United States.

We must recognize, however, that the external environment in which the financial services industry is operating today is still unfriendly. Interest rates are at their lowest level in 40 years, and the US stock market has declined three years in a row. The last time this happened was during the Great Depression in the 1930's. Although the war in Iraq has been short, the outlook for the world economy continues to be fraught by risks and weaknesses. Japan has yet to recover from more than a decade of stagnation. Continental Europe is hovering at the brink of recession. Only the US appears to be poised for recovery, but it is predicted to be atypically slow, at best. In spite of these headwinds, we are working hard to deliver on our promises. While we can neither predict nor control the volatility of financial markets, our program is designed to insulate our core businesses from them as much as possible.

Undoubtedly, the activity most affected by weak financial markets has been our life business. Today we know that the models of the nineties, based on the premise of a never-ending bull market, are broken, and the risks inherent in those models have been exposed. If we want to continue to offer life insurance, we must first and foremost develop a new blueprint for this business. It has to produce attractive earnings that are sustainable in all financial market conditions. Sandy Leitch is directing a comprehensive analysis of our strategy and offerings covering the whole range of life insurance and pension products.

In the meantime, we are moving aggressively to strengthen the life segment. We have ceased writing new policies in the capital-intensive with-profits business in the UK, and have cut bonus rates in major European life markets to reflect low-yield financial markets. We are offering more attractive products without guarantees or with guarantees that we can safely hedge. We are intensifying our focus on efficiency and taking strong measures to improve profitability and capital flexibility. In addition, we continue to improve the asset liability mix. Under the guidance of David Wasserman, our Chief Investment Officer, we decided to remain a seller or hedger of equities throughout this year, reducing the mismatch between life product guarantees and the performance of the equity market.

But our own efforts will only be successful if a sound regulatory environment supports them. The group life business in Switzerland is under pressure from government regulated interest rate guarantees that are too high. Although the minimum interest rate was lowered to 3.25% at the beginning of 2003, it is still higher than the risk-free rate we can earn in the market. The principle is simple. The minimum rate guarantee should either be abolished or closely linked to the risk-free rate and be independent of political interference.

If this issue cannot be resolved in a timely manner, we will have to evaluate all of our strategic options for the group life business. Hans-Jürg Bernet, our CEO of Zurich Switzerland, and his team are doing a remarkable job in a difficult environment. But in the end, he too cannot ignore the financial facts. We are not prepared to allocate capital to a business that cannot be run in a profitable way. We owe this most of all to you, our shareholders. But we also owe it to the pensioners in Switzerland, because most pension funds hold sizeable chunks of Zurich shares, and these funds depend on a positive return on the capital invested in our company.

But these considerations should not distract us from the big picture. Our core businesses are sound, and the outlook for continued strong non-life premium growth is good. After a decade of declining rates and growing losses, non-life insurers are currently benefiting from strong price increases. This

“hard market” could conceivably extend well into 2004, although some lines of business appear to be at the brink of the next downward cycle. The threat of a market softening clearly calls for disciplined underwriting if we want to stay on a track towards improved profitability. Finally, looking to the life business, we believe that an ageing population, and the shift from government designed pay-as-you-go social security systems to funded pension schemes, indicate good long-term prospects for this sector.

In many ways, our company is much better prepared than one year ago to deal with the unpredictability and the many challenges of the global market place. While we have accomplished much, there is still more to do.

This single-minded focus on implementation is driven by increased attention to financial discipline, better process management and centralization to key decisions. Under the leadership of our Chief Financial Officer Thomas Buess, we are tightening our accounting and financial controlling systems. This year, our results were reported earlier than previously, and in three weeks we will report quarterly results for the first time ever.

But no one can claim to have witnessed a straight-line recovery. Even the best plans are bound to run into obstacles. That is why we developed contingency plans that make up for changes in the environment that may negatively affect us. We are determined not to lose momentum in pursuit of our repositioning.

In the last year, I have seen much to reinforce my belief that Zurich is a great company with a rich history and a strong brand. Let me quote from a text that crossed my desk recently. Summarizing the strengths of our company the author wrote:

- “We have a good know-how and extended experience for more than 100 years in the core insurance business.
- We are present in all the important insurance markets.
- Our professionalism is highly recognized. We usually are a welcome partner.
- We have a reputation for stability and dependability.
- We have a considerable well-balanced spread of risks within the insurance portfolio but also as far as our investments are concerned. “ And he concluded:
- “We have the human and financial resources to do better than our competitors, and it is our job to make this happen.”

Ladies and gentlemen, that was our Honorary Chairman Fritz Gerber speaking in 1989. I believe he hit the nail on the spot. These are also my goals for our company. We are very fortunate: Zurich's achievements, values and goals are unchanged. Yes, I am convinced that we have the financial resources and the people to be a great company. That is why, together with our dedicated employees and my colleagues in the Group's leadership team, I share a real excitement to work here. I am sure you will join me in thanking them for their hard work in reshaping our company as Switzerland's leading global direct insurer.

I look forward to reviewing Zurich's progress with you again in 2004.