ZURICH
FINANCIAL SERVICES

Annual General Meeting 2001

Speech by Rolf Hüppi
Chairman of the Board and Chief Executive Officer
May 17, 2001

Ladies and Gentlemen
Dear Shareholders

On behalf of the Board of Directors of Zurich Financial Services, I would like to welcome you to our annual general meeting today. This is the first annual meeting of the new, unified Zurich Financial Services. As a result of the unification of the holding structure in 2000, the company merged with Zurich Allied AG and acquired all the shares of Allied Zurich p.l.c. I would like to thank you for attending and for the interest that you have shown in our company through your presence. As you know, this meeting is linked by satellite to London, as well as in Zurich, which makes it easier for the former shareholders of Allied Zurich p.l.c. to participate. It is a great pleasure for us to extend a special welcome to the former shareholders of Allied Zurich p.l.c. who are attending the meeting at the London venue.

As in previous years, I would like to present the key figures for the business year 2000, together with our Chief Financial Officer, Günther Gose. Then I would like to review with you the principles of our business orientation. Five of my colleagues from the Group Management Board will illustrate with practical examples how the strategy is already bearing fruit and how we have strengthened our position as a leading global provider of financial services.

It is disappointing – for you as it is for us – that we did not achieve our earnings growth target last year. The Group's earnings based on International Accounting Standards (IAS) declined from USD 3.26 billion in 1999 to USD 2.33 billion in 2000, and normalized net income – that we and others recognize as the more reliable yardstick against which to measure results – was down 5.5% to USD

2.1 billion. Mr Gose will go into more detail. But please allow me to emphasize two points with regard to net income and to the nature of our business. On the one hand, in 1998 and 1999, markets enabled us to realize exceptionally high gains on our investments. We also realized capital gains last year; but because of the changed market environment, they are currently at a level much closer to sustainable long-term expectations. We make allowance for these market-driven fluctuations with our normalized earnings concept. At the operative level, on the other hand, fluctuations particularly in non-life insurance are an inevitable part of our business. The accumulation of events in the fourth quarter of 2000 was exceptional and overshadowed the fundamentally healthy development of our core businesses.

We did not achieve the earnings level we expected last year. Nevertheless, our average increase in earnings per share of 19.2% per year over the last five years, up to and including 2000, is clearly within the range of our longer-term objectives. But after the positive development in previous years, investors once again expected not only a commensurate return on equity – which we did achieve – but also continued high earnings and a further earnings increase. The fact that the expectations were not fulfilled was certainly one of the reasons for the sharp decline in Zurich's share price in the early months of this year. In addition to that, we made mistakes in our communications. The reaction of the markets was exacerbated in March by our announcement of earnings expectations for the year 2001 of between USD 1.8 billion and USD 2.0 billion, another slight decline, which we characterize as a year of transition. It is small comfort that, since the start of this year, the shares of the European insurers represented in the MSCI index have declined by a full 18%. But this does not alter the fact that the markets responded to these earnings prospects with a sharp decline in the share price. We understand that you, too, were disappointed. And that is why we appreciate even more your continued loyalty to our Group.

Because Zurich sailed through some rough seas in the last few months, it does not mean that the whole ship is in danger of capsizing. We will not lose sight of our objective of achieving long-term sustainable growth in shareholder value. Experience has shown time and again how important it is to look forward and act as entrepreneurs in order to react quickly to changes in the market environment. We therefore decided in April of last year to tackle the new challenges, not least with a view to technology, by rethinking our business direction and implementing far-reaching operational measures. The Board of Directors, the Group Management Board and Zurich's employees are convinced that this will enable us to strengthen our leading position in significant markets and that this will be reflected in future income statements.

Where are we coming from?

Before I turn to this new direction, let me begin by looking back to the mid-nineties. In Europe and in Switzerland, the deregulation of the financial services sector was in its final phase. We could see that the opening of markets would generate a wave of fierce competition that would inevitably lead to a consolidation in the financial services industry. At the same time, the Board and the Group Management Board were aware that these developments presented opportunities. Our objective was to reinforce our position in our major markets and complement our range of services with investment products that would fit seamlessly into the strategic direction of our business.

We were not solely concerned with achieving critical mass. Our aim was to widen the scope of our customer base by means of new sales channels in markets that promised to be attractive in the medium- and long-term. In doing so we built on the customer-centric focus that had been firmly established in the Group for many years. In fact, our customers have taught us that we can serve their needs best by focusing on selected customer segments with customized products and services.

Decisive steps

A decisive element in this orientation was direct access to the asset management business. We knew, however, that we could not achieve such business expansion with our own internal resources and that Zurich would have to look for suitable partners that offered a good strategic fit. One thing was clear: we were committed to securing a leading position in our core businesses. To ensure our high earning power in the future and to be able to build on it, we knew we had to gain a leading position in each of our core businesses.

Ladies and gentlemen, today we can say with hindsight that this was a logical development to becoming a global provider of financial services. But in reality it did require radical rethinking. We had to break old habits and leave familiar paths to go new ways. In fact, Zurich moved quickly to implement its objectives. In 1996 we bought Kemper Corporation with its two life insurance companies and Kemper Financial Services, which we merged only a few years later into the venerable New York house of Scudder, Stevens & Clark, creating a leading asset manager in the US. And finally, in 1998 Zurich succeeded in merging with the financial services businesses of B.A.T Industries plc in the United Kingdom. These three steps brought us rapidly forward. For the first time, Zurich's businesses encompassed a competitive asset management capability; and we also gained decisive territory in life insurance. In the US and the UK, both markets in which we have been active for many decades, these measures led to the creation of significant and firmly rooted business units, comparable with our market position in Switzerland. In view of the trends readily identified today, this position in the world's most important market for financial services, the US, and the UK, the largest European market, will undoubtedly be decisive.

But our future success will be determined by our ability to adjust whenever developments require us to do so. Last November, as part of the reorganization that we implemented after the unification of our capital structure and embarking on our re-orientation, we re-grouped our asset management businesses and put them under the control of Steven Gluckstern.

The challenge of new technologies

The expansion of the Zurich Financial Services Group and our positioning in key business areas have paved the way. But beyond improving our market positioning, we have begun to focus our efforts on developments in the field of technology. From the mid-nineties, it has been obvious that the Internet would have an effect on all our business activities and that, in order to further capitalize on the strengths of our Group, we need to make use of new technologies.

The application of digital communications will indeed enable us to provide our sales force with even better and more effective support. At the same time, we are applying technology not only to promote growth, but also to enable us to implement new business processes that result in markedly lower costs. Sales growth and cost reductions will eventually result in higher earnings. But it is essential here that we create the bridge between the existing infrastructure and the new means of communication. In other words, we want to "web-enable" our business activities as far as possible. That is why we integrated all Internet activities into our existing operations and did not set them up as independent units.

Only a few years ago, there was talk of "disintermediation" or eliminating the role of the middleman. Nevertheless, our strategy was firmly geared towards both the support of our own sales organizations and the development of independent sales channels. We plan to exploit the advantages of the technological opportunities in the direction our new orientation is driving us -- toward growth and efficiency. First, the new technology enables the separation of marketing and production. The sales organizations at the front – whether insurance agents or representatives of our asset management businesses – can then benefit from services produced in a central location at low cost. We will use Zurich's own Intranet to link the different systems throughout our Group and ensure the flow of data and information between the more than 300 business units worldwide, as we have done, in particular, in the US.

The application of new technologies

But the support of our own sales organizations is only one side of the coin. The Internet platform can also be used – and this is another principle in our strategy – as a business-to-business network to increase the profitability of independent sales channels. This use of the Internet allows Zurich to link the sales organization and our employees with large independent distribution systems. As simple and obvious as it might seem at first glance, the implementation of such a project is complex and challenging. It may not surprise you that we have made the most progress in North America. Today we can already see that in Zurich North America our Internet-supported adaptation of the organization and its link to the US system of independent agents have been successful. The American model has recently been transferred to Canada, and we will be introducing it into other regions in the foreseeable future.

Ladies and gentlemen, the implementation of new technologies is no easy feat and involves coping with breakdowns and setbacks. But I can assure you that we have a very tight grasp on both the risks and the costs involved. Guidelines have been established, and the yardsticks for measuring success are in place. At the annual meeting last year, I informed you that spread over three years, we will spend around USD 1 billion on our technology initiative, of which, as planned, slightly less than a third was spent last year. These are investments in the future; and, as our experiences in the US show, the targeted level of profitability is realistic and attainable. With my colleagues in the Group Management Board, I am convinced that we will repeat these positive developments in many further projects.

There are two good reasons for this confident view. First, we have spread our development risks widely. At present, we are pursuing around 200 different projects, all of them based on established technologies. The key is their integration into existing businesses. Second – and here we differ from other companies – we have not limited ourselves to the development of so-called “front-end” solutions. We do not primarily develop the kind of highly visible solutions that address the customer directly, but also entail high risk as recent experience in a number of firms clearly illustrates. More than 60% of our projects serve to increase the efficiency of our sales channels and internal business processes. By doing this we can provide our intermediaries and customers with new products and services faster and more cost-effectively. I must say that we have also successfully introduced front-end solutions that are visible in the market in many places, including Japan, Germany, the UK and Switzerland. However, we have openly communicated that we too had to terminate a small percentage of our technology projects. That lies in the nature of such uncharted territory.

Management resources as a key factor

Essential to the successful implementation of our strategy are human and organizational resources that enable such a dynamic expansion. In order to deploy our employees and executives most effectively, we announced last November a new management structure including the reorganization of the Group into regions and global businesses. I will not go into the details of the new structure but will simply refer you to our corporate brochure, which provides a summary of the most important points and which you will find at the entrances.

This readiness to adapt the organization to the rapidly changing environment is one of our most critical concerns. This applies equally to the Board of Directors which, since 1995 has been preparing itself step-by-step for the challenges of modern corporate governance based on the Anglo-Saxon model. As mentioned in the annual report, we have formed a number of independent committees that enable their members to make informed decisions and ensure a system of checks and balances. The Board has re-examined several times the question of whether it is appropriate to entrust the responsibilities of the Chief Executive Officer and the Chairman of the Board to one and the same person. These reviews have always concluded that in a phase of rapid change, the most important factor is short decision paths and that this challenge is best met by the dual function, which is traditional at Zurich. However, neither Board of Directors nor I personally wish to proceed dogmatically. We are continuously examining the question of whether and when it would be appropriate to commission two people with the discharge of these functions.

Where do we stand today?

Zurich would not be one of the world’s leading financial services groups if we were not able to build on our strengths. This is the only way that we can fulfill the complex tasks that we are facing. One of our strengths is the regular interaction with our 35 million customers. We also gain strength from our products and services that are so firmly established in their markets, from a well-trained team of employees and from the technological platforms that enable improvements in the range of products and services we offer.

Last but by no means least, another of our strengths is the broad spectrum of products and services we offer. In other words, we must extend our product range to include investment products from third parties. In addition to asset management, we increasingly provide typical banking products from our strategic partners on joint platforms. At the same time, we also want to gain access to new customer groups by entering into strategic partnerships. This was the reason behind the alliances that our Farmers Group in the USA has entered into, as announced a few weeks ago. These include an alliance with Bank of America, the largest retail bank in the United States with 27 million customers, and the cooperation with Ulico, an insurance company owned by AFL/CIO pension funds and their 16 million members. At the end of March, we were also able to announce a link between our organization in the UK and the Bank of Scotland.

Dear shareholders, let me briefly summarize. In accordance with our strategic objectives, in the mid-nineties the Group laid the foundations to secure a leading position among global providers of financial services. With the re-orientation of the Group announced last year, we have confirmed our intention to expand in line with market challenges. This was, and is, not limited to expanding the volume of our traditional businesses. We have set ourselves the goal of expanding our range of products and services, especially asset management services, in order to create value for our shareholders. This encompasses a complementary Internet strategy, with an open architecture and also multiple forms of alliances, which will allow us both to broaden our customer base and to provide existing customers with new products from external sources.

The decisive factor here is that the strategy is implemented flexibly in each market and adapted to local preferences and circumstances. Implementing procedures in the different markets requires balanced fine-tuning. A good example is Switzerland, where the majority of households and companies are adequately insured and where Zurich already enjoys a strong position the market.

The strategy is right

If you were to ask me now how we succeeded in putting together the many pieces of this puzzle, I would say we have to thank our employees most of all. They are, of course, our most important resource. Their experience and unflagging dedication to Zurich are the basis of our success. We also appreciate all the efforts they made last year.

Ladies and gentlemen, the current financial year is already a third over. We will be presenting the half-year results for the Group in our interim report, so I can give you no details of how the year to date has progressed; and I must express the usual reservations about future developments. We do, however, assume that, as a result of the early implementation of measures in the US, we will benefit from the positive trend in market conditions in corporate business. Strong, double-digit growth in premium income so far, coupled with a marked reduction in expense ratios, reinforce this expectation. I am equally optimistic about the development of non-life business in the UK, and so far there are no negative signs to be detected in the traditionally profitable insurance businesses in continental Europe. Farmers Group and our life insurance businesses are also progressing in line with our expectations. In contrast, asset management is suffering from the volatility of the equity markets; and its performance to date does not meet our expectations.

Dear shareholders, the strategic direction of our Group must be continuously adjusted in line with changes in the market. This is not new for Zurich, as the company's management implemented complete change of direction as early as 1875 – only three years after the company was formed. The Insurance Association in Zurich (Versicherungs-Verein in Zürich) was then transformed into Zurich Marine and Accident Insurance Company (Transport & Unfall-Versicherungs-Actien-Gesellschaft „Zürich"). With its change of name, the young company signaled it had identified market needs that appeared to be profitable and that it would exploit from then on. This is the kind of flexibility we need today in our reactions to changing market conditions.

This principle applies first to our geographical presence. We are focusing on the world's most important markets, North America, the UK and Europe. But that does not mean we will be neglecting other areas. In the future, our investments will also be targeted at other regions of the world. But capital allocation will be subject to strict criteria in terms of strategic significance and earnings power.

This concentration of strength also means that we will divest ourselves of businesses that are no longer part of our core activities. We have already informed you of the decision to spin off Zurich Re as an independent listed company. This independence will make it easier for both Zurich Re and Zurich to focus on their own core areas. Above all, Zurich Re will be able to develop further in its sector without giving consideration to conflicting interests in other parts of the Group. And by bringing the intrinsic value of Zurich Re to the stock market, we are offering shareholders the opportunity to become investors in a very promising reinsurance company. We will, of course, provide you with more details of the spin off in the coming months.

Outlook

Dear shareholders, we have called 2001 a year of transition, and it is certainly a year of transition not least in terms of the reorganization of the Group Head Office at Mythenquai. But it would be wrong to view this step solely from the perspective of job reductions. It is correct that by the end of 2002, we will cut 230 jobs at Group Head Office; and an additional 380 will be relocated to the regions and profit centers. But the key issue is that Group Head Office – just like the regions and the individual business areas – will now concentrate on its key tasks. These include strategic leadership, governance – meaning the control and monitoring of the Group – and groupwide knowledge exchange.

This year we will successfully carry on with what we started in 2000. We want to optimize the organization and implement our strategies to show results. These have never been easy tasks, and it would be foolish to underestimate the difficulties. But Isaac Newton once said, "No great discovery was ever made without a bold guess." We want to be bold, but level-headed. And in the interests of the company's long-term success, that is our duty to you as shareholders, just as it is to all our other stakeholders -- our customers and our employees.

We have carefully considered the decision to follow this path into the future, and we feel strong because we are building on a solid foundation. Of course, we are particularly challenged in a period of rapid change. But Zurich may face future challenges with confidence because it has set its course early – and has chosen the right course.

Ladies and gentlemen, we can be proud of our achievements.

- With earnings in Swiss francs of CHF 3.9 billion for the year 2000, we are among the half-dozen companies with the highest earnings in Switzerland.

- Since 1995 we nearly tripled our annual dividend payment from CHF 6 per share to more than CHF 17 per share.

- A return on equity of 11% puts our relative performance near the top of our sector.

- Early on, we defined a strategy that anticipates market conditions and adjusted our corporate structure accordingly.

Zurich is on the right track. We are currently engaged in implementing our strategy with determination, and I think that we will harvest the fruits of this labor through higher business volume, lower costs and higher earnings. Together with my colleagues on the Board of Directors and the Group Management Board, I am convinced that by consistently staying the course and by taking concrete operational steps, we are doing everything to lead Zurich on to further success. We hope that we will continue to earn your complete confidence in the future.