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Annual General Meeting 2002

Speech by Rolf Hüppi

Chairman of the Board and Chief Executive Officer

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Ladies and Gentlemen,

Dear Shareholders,

Let me start out by saying that the preparation of this address was not easy.

No Chairman or Chief Executive of a major insurance group enjoys reporting to their owners on the Year 2001. I am no exception. A look back at the worst year in the insurance industry and our Group's unsatisfactory earnings performance is sobering. If we were not sure that we maintain solid positions in our key markets and that we are on the right track, I would not enjoy standing in front of you today.

But let us first have a quick review of last year that was not only characterized by September 11. It is true that the terrorist attacks could cost our industry up to USD 70 billion. The horrible incident has already redefined the way our society thinks about risk and how we conduct our business. And this happened in a year already affected by poor financial market conditions with a negative equity market performance and low interest rates, which accentuated our underwriting losses. Our industry has been painfully reminded that the years with seemingly guaranteed high investment returns are a thing of the past. With a glance at unchanged weak stock markets and low interest rates, one has to expect that the results in our industry will once again be negatively impacted.

These market forces did indeed contribute to our industry's performance. Moreover, I admit that our results were also affected by a number of factors of our own making. In particular, our

underwriting results were poor. The combined ratio worsened from 104.2% to 111%. Even after deducting the special impact due to September 11, our combined ratio of 109% is not acceptable. We have already determined measures to improve this situation.

Parallel to these developments, we had to deal with the most comprehensive reorganization of our businesses and structures in recent memory. No doubt, for this transformation we paid a price, too, as indicated by the many profit warnings. In spite of these setbacks, we have created a more solid platform for the future. Our renewal program -- under the heading of "focus, growth and efficiency" -- was started and carried out in 2001 against adverse headwinds. Because this program is so important for your company, I would like to spend some time with you this morning discussing its objectives.

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Let me invite you on a brief trip through time. Not surprisingly, I would like to start in 1963. When I joined the company, Zurich was a Swiss-based insurer that was also active in many other countries. The home market was undisputedly Switzerland, where we were engaged over the whole range of businesses. At the same time, however, our international activities had not achieved critical mass in any of the regions where the Zurich flag was flying. Although the brief Annual Report for 1963 listed affiliations in Europe, Africa, Asia, Australia and North America, it provided no detailed regional review. Readers could only guess how much of the total premiums of CHF 983 million had been written outside of Switzerland.

Twenty years later things were considerably different. Gross premiums had nearly quadrupled to CHF 3.9 billion. From the Annual Report for 1983 -- by now doubled in size -- we learn that North America was the largest business region, followed by Switzerland and then Continental Europe. Although North America has always been an important region for Zurich, where we ranked number 30 at that time, we still did not command critical mass there. Nor did we in any of the other markets abroad.

Now fast-forward another couple of decades. If you take your time to leaf through the information-rich full Annual Report 2001, you will discover an entirely different picture. The Zurich Financial Services Group now does command a global presence. We are established in three key markets with gross written premiums that have grown by a factor of 25 to CHF 96 billion. And we are not just a presence in these three markets. Instead we have become a player to be reckoned with. In the US

non-life market, for example, we are number two or three, depending on whether we measure in gross written premiums or net written premiums. We are number three in the UK non-life business and fourth overall. Including Deutscher Herold, we will rank fifth in Continental Europe this year. In the last seven years alone, we have increased our market share in the USA by a factor of four to 4.8%. In the United Kingdom we tripled market share to 4.4%, while in Continental Europe, including Deutscher Herold, we will gain 0.5 percentage point to 2.7% in the current year.

We have come a long way, transforming into a leading insurance-based financial services provider that is competing among the best of the world. Today, Zurich is the only Swiss-based direct insurer that plays a significant role on a worldwide scale, with Swiss Re, our neighbor down the street, being a major global player in the reinsurance market.

But before I talk about Zurich's position as a global financial services provider, I would like to take up another issue that I mentioned in my brief trip though time. It relates to the size of our Annual Reports and what one might or might not infer from this about our transparency.

Transparency is a topic that has taken up much of the public discussion last year – and not only in Switzerland. In the wake of the spectacular collapse of the US energy trader Enron, we have become sensitive about different accounting standards on both sides of the Atlantic. A majority of commentators even in the US now acknowledge the virtues of International Accounting Standards (IAS) adhered to by most European companies. And we have become aware of the value of proper disclosure in the interest of shareholders and other stakeholders alike.

To be sure: more disclosure is not necessarily better. It can be confusing. That is one reason why we decided it would be useful to present you an executive summary at the beginning of the report and to collect information about Zurich's performance onto one single piece of paper, which we made available to you this morning. Different users of this information have different requirements, of course. But by now there are agreed international standards about what to disclose. And Zurich has adopted such standards for a number of years.

The same holds for the conduct of corporate governance. Zurich has been among a small number of listed Swiss companies complying with the toughest international standards. After the 1998 merger between Zurich and the financial businesses of B.A.T Industries, our Group adopted UK standards for corporate governance and transparency. We have had audit, remuneration and nominations committees for a number of years. Even the new requirement by the SWX Swiss Exchange on the

disclosure of Board and top management compensations will not change anything for us. For several years now, we have published more compensation information than most Swiss companies.

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Let me now return to the business of your company. Most of you have been loyal shareholders for a long time. In recent years you have been witnessing rapid business growth. Beginning in 1990, and with accelerated pace after 1995, Zurich embarked on an ambitious program. Gross written premiums are now some three times the volume of 1994; and the Group is firmly established in three home regions – the US, the UK and Continental Europe. Growth of this caliber does not just happen. It takes deliberate decisions and committed dedication. In our case we decided to achieve a leading position in key financial services markets and assembled a dedicated team committed to meet this goal.

Of course, new business risks and uncertainties are part and parcel of expansion. It would be disingenuous to claim we never made mistakes. But limiting ourselves to the Swiss market only was never a viable option. Our decision to expand the size and scope of the Group was instead based on a rigorous assessment of its strategic position. Let me give you some of the strategic assessments of the early 1990s.

Although Zurich was strong financially, other groups were overtaking us in terms of size. Almost a quarter of the business came from Switzerland. This was clearly a market with attractive financial prospects but one that offered only a limited growth potential for the company and its shareholders. At that time, the insurance industry was consolidating rapidly, as our competitors began to merge or to acquire each other. Had we done nothing, there would have been a risk that Zurich might have become marginalized or even might have lost its independence.

In this decision, one could say, we responded primarily to the ongoing changes in the industry structure. Indeed, the formation of larger players was a result of the competitive pressures of deregulation. These competitive pressures were, curiously enough, at a later stage dampened by re-regulation. The 1990s was a period of high mergers and acquisitions activity in the financial services industry. Over the same period, we were faced with changing markets. Well-informed customers began to demand broader-based, value-added solutions. It became increasingly clear that they wanted not only the best advice but also a wide range of choices. Our standard life insurance

products, for example, had to be supplemented with or replaced by transparent, higher yield investment and/or capital market products.

But it would be too simplistic to say that we were only reacting to external challenges. More important was that our actions were based on a clear vision. By consistently executing our vision, we not only transformed the Group, our employees were also among the pioneers in many instances. This is not about short-term gains. It is about creating sustainable value for shareholders and other stakeholders. Let me give you a few examples:

- Our moves to acquire Kemper and Scudder, as well as the subsequent merger with B.A.T Financial Services, were early forays into the asset management business. They were also early examples of large-scale transnational transactions involving insurance firms moving at the same time beyond the traditional boundaries of the industry. We believe consolidation will continue as national markets are still fragmented.
- Zurich belonged to the first companies that diagnosed the process of convergence and globalization in the financial services industry and acted on it. We recognized the similarities and the potential for synergies between life insurance and asset management. Convergence between insurance and banking – often described as bankassurance – is likely to continue. However, it perhaps will continue at a less rapid pace than some observers predicted and most likely not extend to non-life insurance and banking. But the economic case for the bundling of services in pursuit of financial protection and asset accumulation is compelling. We are convinced that it will continue to shape our industry.
- We were among the first to bring computers from the back office, where they had served us well in administrative duties and claims processing, to the front office in support of agents and brokers. Early predictions that the industry would lose complete business lines to start-up Internet providers have not panned out. This has been seen to be true in particular with transactions that take place between businesses and consumers (B2C); here the volumes remain clearly below expectations. Direct transactions between businesses and businesses (B2B), on the other hand, have performed better than B2C. In Zurich North America, for example, 94% of USD 1.5 billion in premiums with our small business clients are generated over the web. Since 1999 productivity, measured in gross written premiums per employee, has more than doubled from USD 1.8 to USD 4.5 million.

- We also recognized that new technologies would permit a radical decomposition of the value chain. Manufacturing and distribution no longer need to be joined under one roof or even within one company. We can create economies of scale by eliminating duplications and concentrating the manufacturing of standardized contracts in one location. Or we can offer customers best choice by including products of foreign origin within the framework of an open architecture. This logic contributed in large part to our decision to swap Zurich Scudder to Deutsche Bank for Deutscher Herold. We no longer need to be manufacturing everything ourselves to provide our customers with investment products and services.
- And finally we became a leading provider in global risk management. We offer structured financial and capital market products to our corporate customers in search of alternative risk transfer solutions.

These are just a few examples. Undisputedly, we were not always successful in our technology investment decisions. But it would be imprudent to expect that every investment would be a resounding success. On balance we are convinced, however, that we are on the right track. We believe that many of our local investment technology platforms are a tribute to our capacity to innovate and create value for our shareholders.

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By the end of 2000, and after the merger of the two holding companies Zurich Allied and Allied Zurich, it became apparent that after this expansion phase we needed to refocus, select attractive growth prospects from the new base and get a grip on our costs. We decided to divest what we no longer considered strategic to our future, most prominently Zurich Re, which is now traded at the SWX Swiss Exchange and in New York as independent company Converium. In the case of Converium, we had to recognize that some of the potential customers in reinsurance were not prepared to give their business to a company that was owned by one of their main competitors in direct insurance.

The successful sale of Zurich Scudder Investments also served to consolidate our business portfolio. But this transaction was different. It could be used as a lever to break into Continental Europe, where we see considerable potential in the life insurance business. The German government has decided to supplant public and increasingly unaffordable old age provisions with privately funded pension schemes. Consequently, there will be a sizeable demand for pension products in the long

run, and Zurich is determined to become an active player in this market. In this perspective, we were fortunate to own Zurich Scudder. It allowed us to engage in a transaction with Deutsche Bank, exchanging an asset manager in the US for Deutscher Herold, a much sought-after life insurance business in Germany, Italy, Spain and Portugal. And it provided us an exclusive distribution agreement with the largest European banking network.

One important consequence of our expansion strategy is its impact on capital. We were able to finance growth in part by retained earnings and to a significant degree by increasing our capital leverage. The recent divestments helped us to reallocate our resources to selective growth projects. However, we recognize the need to expand our capital base further to take full advantage of attractive market opportunities. These opportunities have arisen during 2001, a period of strong growth and a favorable pricing cycle. But in order to maintain our high rating level, regulators and rating agencies require that an increase of USD 100 million in non-life premiums be supported by about half that amount in capital. That is why we propose to you today to prolong the time period for issuing authorized stock by two years and to increase the size of contingent stock. Both measures will us enable to grow in step with the prevailing market dynamics.

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Another consequence of our market position concerns the organization. There is no ideal organizational structure; we only know variations with their advantages and disadvantages. When a company grows, well-established patterns shift and the company needs to adapt its structure to suit its needs. Zurich has recognized this as long overdue. We knew that sooner or later we had to streamline the global organization, and last year we decided to do so by consolidating our businesses into five divisions and by creating a globally networked organization.

Unfortunately, 2001 was everything but an ideal year to implement a far-reaching transformation. For our industry it was an *annus horribilis*, characterized by events and developments that by themselves would have been considered extraordinary.

To be sure, all insurers and financial services providers were affected by the negative performance of the financial markets. Many were also affected by the loss developments in the US, such as the tragic events of September 11 or asbestos and environmental liabilities or all of these factors. Zurich was unfortunately exposed to all of them.

But dealing with insurance losses is part and parcel of our business. But it would be wrong to see this as a downside only. Operating as a large player in a large market with a number of large risks often entails being confronted with large losses. But let me add a fundamental tenet. Our industry not only works on the premise that risks can be distributed over large numbers – which makes them insurable – but also over time. This implies that losses can accumulate in one year, with negative consequences for the income statement. We already recognize today that higher premiums in important market segments have created a prerequisite for the recovery of our industry. Zurich must also benefit from improved market conditions. This requires that we improve our underwriting and reduce the combined ratio.

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In spite of the severe headwinds we faced in 2001, we made a number of decisive steps that helped position Zurich for the future. In particular:

- We repositioned the Group with the Initial Public Offering of Converium and the divestment of Zurich Scudder. The acquisition of Deutscher Herold enabled us to better balance our portfolio geographically. The US and UK markets, currently the most dynamic markets for non-life insurers, account for more than half of the portfolio. Moreover, strategic alliances significantly enhance our customer reach.
- A welcome side effect of the Converium IPO and the divestment of Zurich Scudder is that it helped us to regain the flexibility of our balance sheet. The external debt was reduced by more than USD 1 billion, and our capital ratio has improved accordingly.
- We restructured the organization in five strong business divisions that concentrate on five market segments. At the same time, we simplified the management structure by moving away from vertical silo arrangements to the needs of a horizontally integrated structure. This will allow a quick transfer of best practices. The focus for the management team is now on speedy execution and thorough implementation.
- We implemented measures that strengthen our management information and control systems. The ultimate goals are transparency – to you shareholders and investors – and the production of figures that are both timely and accurate. We all agree that we had too many profit warnings last year.

- And finally we made strides in becoming more efficient. The non-life expense ratio was reduced by 4.5 percentage points over the course of two years. Global procurement and a better management of IT processes and systems allowed sizeable savings. GHO expenses were reduced by USD 140 million.

This was indeed a busy and taxing agenda. We could not have achieved it without our employees. Their experience and unwavering dedication to Zurich are the basis of our success. They are, of course, our most important resource. We appreciate the efforts they made last year, and we thank them all.

In looking forward, I know that Zurich is well positioned in key markets and that our employees have an enormous potential of capabilities. Our focus on customer oriented solutions and on growth markets will continue to play a decisive factor in our future. Of course, Zurich will also pay careful attention to the growth potential in Switzerland, our traditional home market, and expand our positions here. Although prerequisites for underwriting have improved somewhat, we cannot forget that fragile financial markets will continue to impact our results.

Dear Shareholders, Ladies and Gentlemen, market shares and growth are only a means to an end. I am convinced that you would like to see the future of your Zurich secured by profitable growth and I know that your Board of Directors and the future management team will do everything possible to ensure this.