



Business Review for Analysts and Investors

Opening remarks by James J. Schiro

Chief Executive Officer

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Good afternoon and welcome to our Business Review for Investors and Analysts. Together with several of my colleagues, I will describe our plans for leading Zurich through the next stage of our recovery. We will present our strategy to improve the profitability in our life insurance business. In general insurance, our focus is on creating a platform for growth and sustained profitability. It will be based on improved customer focus in all lines of business and a go-to market approach in our corporate customer business. The framework that we are going to present today reflects the way we will manage to strong profitability and increased financial strength. We will also take the opportunity to describe our focus on increased coordination. Processes essential for the success of our insurance businesses over the cycle, such as actuarial functions, underwriting and risk management, but also capital allocation and finance functions, will be driven from the center.

Our strategic direction is straightforward. It is an extension, a second phase, if you will, of what we have been doing over the last eighteen months. We aspire to become the leading global insurance group in our chosen general and life insurance markets, consistently delivering increasing value for our shareholders. We are very mindful that only companies that deliver top tier results, that earn more than their cost of capital and create economic value in the long term are capable of providing rewarding opportunities for their employees and creating lasting valuable relationships for their customers, agents, and brokers.

Today's presentations describe the opportunities we believe we have to make progress, and we will tell you how we intend to capitalize on those opportunities over the medium term to ensure that we grow profitably. As we move forward we will – as we have in the past – provide details on the implementation of our plans. Consequently, our discussion today will be focused more on general principles.

The essentials of our future direction as an insurance group committed to both the general and life insurance core businesses can be captured in four points.

- First, customer focus is the starting point. Our culture is centered on helping our customers manage their risks and their savings. We provide innovative solutions to large corporate and small business customers as well as differentiated services to our personal lines customers.
- Second, we compete globally, particularly in our large corporate business, which benefits from our strong global brand. We operate in more than 50 countries, including a number of emerging markets, and we have an additional servicing capability bringing our network capacity to 128 countries. Our integrated global approach to the business and the unique perspective it provides us offer distinctive advantages for our customers.
- Third, growth that maximizes value for our shareholders is an essential part of our strategy. We are already well positioned for profitable growth in a number of our key markets. However, we will also consider acquisitions if they meet our strict performance criteria. Our principles are clear: we will only engage in deals from a position of strength where we have achieved our targeted levels of efficiency, where the transaction makes financial and strategic sense, meets our hurdle rates, and is accretive to value.
- And finally, our performance will be measured by our ability to deliver a 12% return on equity based on business operating profit after tax and not including realized capital gains. This requires us to achieve underwriting profits in general insurance, as well as strong new business margins and returns on embedded value in the life business. Doing so will enable Zurich to position itself in the top tier of insurers and allow us to exceed the cost of capital and our hurdle rates. Financial strength and stability are essential to our ability to serve our customers. We are therefore determined to regain our AA rating based on the strength of our balance sheet and the quality and sustainability of our retained earnings.

In 2003, we laid a foundation on which to build our future. We strengthened our capital base, improved financial discipline, achieved more than one billion dollars of operational improvements, sharpened our focus on core businesses while releasing capital from divestments of non-core businesses, and improved our competitive positions in major markets around the world. We also reduced the risk in our investment portfolio, strengthened our operational and distribution systems, and strengthened our leadership team.

We demonstrated that we have a culture that can deliver on our commitments and that keeps the stakeholders of our company informed about progress towards our performance targets. Now let me look to the future and tell you how we will be driving the next phase of our recovery.

Our priority is to create excellence in our core processes. We are continuing to strengthen our skills in underwriting, pricing, claims management and operational disciplines. Our model for driving the business is based on making an underwriting profit and reducing the impact of financial market fluctuations on our bottom line.

The allocation of capital to our businesses with the best prospect of sustainable high returns is key. We are now driving active risk-based capital allocation down to the business segment level, picking the best businesses and funding them. We will shrink businesses which cannot demonstrate strong opportunity for profitable growth and exit businesses which cannot achieve acceptable returns over time.

Managing our own risk in all its forms is crucial for our success. We must manage and master more than just insurance operational risk. To that end we are strengthening our internal approach to enterprise-wide risk management, ensuring that we meet high standards in dealing with all areas of risk with potential impact on our businesses and balance sheet. The insurance industry must catch up with the banks and others in the financial services industry and develop an equally comprehensive understanding of such risks.

As I said previously, functions essential for analyzing and managing the opportunities and risks inherent in our business must be tightly coordinated from the center. We will develop common understandings for claims management, underwriting, tied agent distribution, talent management and financial functions. We will define the building blocks required to generate improvements, and we will ensure that they are used throughout the Group.

After having taken steps to strengthen risk management, financial reporting and internal auditing last year, we appointed a Chief Underwriter and a Chief Actuary this week. Their job description includes the development of integrated approaches to their functions. They will ensure that common guidelines for underwriting and actuarial tasks are implemented through the whole Group, just as actuaries and underwriters in the line will be reporting to the Corporate Center.

The operational improvement program which we embarked on two years ago defined the basis to build on. This year and in the future, we will continue to concentrate on performance improvements based on tight cost controls in combination with appropriate pricing and efficient claims management. We will drive our operations with the same rigor and discipline as we have over the past 18 months. We will continue to streamline and to delayer our organization, and we have targeted a minimum of 200 million dollars in additional after tax expense savings for 2004.

But we will not stop at cost and expense savings; this is about growth and customer focus. Efficient operations provide the platform for our ability to secure prosperity and value creation in the future. To achieve these goals, and at the same time to reduce the vulnerability of our businesses to cyclical fluctuations, we must be prepared to continuously refine our business portfolio.

That's why today we are presenting a new framework for the way we will be managing our businesses going forward. The concentration on four new target market segments in general insurance will enhance their inherent strengths. At the same time, we will provide a global approach to our life insurance business and the corporate general insurance market segment serving our large international customers. To leverage the synergies and benefits from such an integrated approach we are also adapting our operational and functional responsibilities.

Specifically, Paul van de Geijn has assumed global leadership for the strategy of and the operations in the life business. Similarly, John Amore will lead our worldwide activities in general insurance. John has responsibility for developing and implementing Group-wide standards in underwriting and claims management, and he will continue to drive the strategic direction of our commercial business.

These functional assignments are another step in our transition to becoming a Group with common interfaces, efficient structures and well coordinated processes. The functional leaders are charged with deriving synergies throughout the Group primarily for the benefit of our customers. We are striving to strengthen our coordinated approach to the functional roles and responsibilities in our businesses as they continue to evolve over time.

Now let me take you through our segments, beginning with the life business.

The entire life sector has a number of well-known challenges: margin pressures, regulation, a low yield environment, and legacy infrastructures. In spite of these challenges, there is ample room to improve our performance, and we are determined to do so.

First and foremost, I expect Paul to unlock value through an integrated approach to life insurance that optimizes our resources to drive a leaner organization that is more resilient and ultimately more responsive to our customers' needs. This will translate into a sharper competitive edge for Zurich, supporting stronger and more sustainable earnings.

Specifically, we will drive profit and return on equity by further improving operating efficiency and refocusing on select markets and distribution channels with well structured, less capital-intensive products. Zurich will develop and implement common platforms and keep focusing on financial discipline including freeing-up capital by exiting under-performing businesses. We will continue to re-engineer certain product lines, and we are proposing a new business model for our life operations in the UK and for the Zurich Advice Network.

We have already taken a series of steps to address the life area, divesting a number of underperforming operations, closing some lines to new business, leveraging distribution in Europe and the United States, cutting costs and strengthening the management team. In the US, Farmers Life has performed well, and we continue to expand this business. Our active presence in the UK

and Germany positions us well in two of the three largest European life markets. We shifted our portfolio towards unit-linked products and we implemented an innovative solution for the group pension business in Switzerland. These measures go a long way in making our life business less cyclical and its earnings more stable.

One year ago I said that we needed to find a new model for our life business. Today, a fundamental transformation is underway that will enable Zurich to benefit from a growing market. Life insurers will be important providers of solutions to support retirement plans, and Europe in particular has a huge savings gap to fill. Our life businesses are well positioned to grow profitably by supplying such products to an aging population.

In general insurance, we will apply our capital and focus in the most attractive markets. We have identified four target market segments where we will concentrate our capital and where we believe we have the opportunity to win. These segments are global corporate customers, Europe personal and business customers, US personal customers, and US small business.

In each of these market segments, we will integrate our business capabilities and services and increase the processing efficiency and delivery mechanisms. We will enhance top line growth in each market by applying the full force of our scale, expertise and customer focus. Where applicable, we will enhance the effectiveness of our tied agency force, build stronger and more profitable broker relationships and optimize the penetration in other distribution channels. We will improve our performance by creating competitive advantages through segmentation, product design, best in class pricing, and claims handling. Through appropriate products, agents and customers will find it “easy to do business with Zurich.”

Specifically, in the global corporate customer business, we will capitalize on our unique balanced transatlantic footprint and our extensive global network. We will drive sustainable performance across the cycle through a single approach to the business.

In this market, Zurich is number two. Our strength in both the United States and Europe gives us the best-balanced presence in this segment. Based on our own analytical work, we consistently outperform the industry, and, with our strong commitment to the market, we are a core provider for

our distribution partners. We offer coverage for both international and large domestic risks. We intend to grow our business in a consistent and profitable way across both regions.

Zurich has a strong reputation for its ability to provide technical expertise and strong value added services, including risk engineering and claims services where we can help our customers to dampen the impact of the insurance cycle. We will continue to focus on our risk structuring capabilities and underwriting rigor across the cycle, and giving customers even better services in the process.

Geoff Riddell has been appointed to lead this new integrated global corporate segment, which in 2003 generated a premium volume of 7 billion dollars and grew by 30%. Geoff's responsibility will be to create a single customer approach and a seamless global network.

In Europe, the personal and business customer market segment is well positioned to achieve profitable growth through our strong relationships with customers, agents and brokers in structurally attractive markets. Our chosen markets offer opportunity for further growth. Significant expense savings and synergies are expected from the consolidation of the Continental European and UK business divisions.

The US personal customer segment will capitalize on the strong Farmers brand and its unique reciprocal structure. This structure has consistently delivered steady earnings and a consistent high return on equity to Zurich. The challenge is for the Farmers Exchanges to continue to improve underwriting performance, building on the improvement project begun 18 months ago. This program continues to focus on underwriting, pricing and claims handling. The goal of the Exchanges is to fund top line growth by strengthening their surplus by one billion dollars over the next three years, after having added 211 million dollars to the surplus in 2003.

Premium growth for the Farmers Exchanges, and consequently revenue growth for Farmers Management Services, will be driven by improving the efficiencies of their exclusive agency force and by increasing customer retention and product density. In 2003, Farmers achieved a record growth in the number of new agent appointments.

We have significant scale in the US small business segment and are well positioned in this market. US small business, comprised of companies with less than 50 employees, is the largest commercial segment in the United States. Together, Farmers and Zurich are one of the largest providers in this market, with the largest distribution capability through complementary exclusive and independent agent networks and a combined premium volume of 4 billion dollars. In this market segment, significant improvements in pricing and underwriting capabilities have been achieved, which are paving the way to success.

We are excited about the potential of our small business segment in the US, and we are currently evaluating the best way to enhance customer service and profitability by better applying Group-wide underwriting capabilities and our strong distribution network. We will have more to say in the not too distant future as we appoint the leader for this business.

Now let me touch briefly on those businesses that, although not part of the four target market segments, will continue to make an important contribution to our overall result. These are the International Businesses and the Other Commercial Business in the US. They are in general performing well, and our goal is to continue to manage them for underwriting profit. We will maintain strict financial discipline in each of these businesses. We will also make timely strategic decisions on businesses or markets where we are unable to realize our performance objectives, where the markets are unattractive or where we are unable to earn above average returns in historically more volatile businesses.

The first of these market segments, the US Other Commercial Business, comprises Commercial Middle Market, Global Energy, Construction and Specialties. These businesses are profitable, and we will continue to operate each to maximize value. But we are mindful of the constraints and opportunities generated by the insurance cycle, and capacity will be managed prudently and expanded or contracted in response to market dynamics.

The International Businesses is comprised of portfolios in Latin America, Asia Pacific, China, Southern Africa, and other emerging markets. While most of these markets have not been key growth drivers in the past, they play an important role in our overall business mix. They enhance our global value proposition and provide a presence in potentially high-growth markets. To sharpen the focus in these markets, Martin South will lead the International Businesses segment.

In past presentations we have underscored the importance of corporate discipline managed from the Corporate Center. Its main task is to support our strategic direction by providing strong governance, financial discipline, functional leadership and deep reach into the businesses. As we continue to institute our risk-based capital methodology through 2004, we will actively allocate capital and resources at the segment level to support higher sustainable returns on risk-based capital. From the Corporate Center we will drive integrated Group strategies for key financial areas such as investments, tax and reinsurance. We are managing IT centrally, and we will coordinate, audit, risk management, and communications from the Center.

But an essential role of the Corporate Center is to ensure that things are getting done – on time and with as little friction as possible. This requires focus on the dominant task and concentration on core business processes. We must have the right structure and processes in place, and we must get the basics right. Peter Eckert, Patrick O’Sullivan and I will continue to challenge our leadership to ensure that our businesses are on track. We continuously monitor our operating and financial performance to identify emerging issues and deal with them in a timely manner.

Specifically, Peter continues to be responsible for delivering business operating profits and to concentrate on operational discipline, especially during the transitional phase to a new functional centralized structure, while Patrick continues to enforce financial discipline throughout our organization.

Finally, our focus on implementation requires putting the right people in the right jobs, giving them honest feedback and rewarding their performance and behavior. That’s why we have realigned compensation for our senior management team according to Division and Group goals. The achievement of the Group’s targets is also a critical factor determining the compensation of our underwriters.

The enhancement of talent and the deepening of the management bench throughout the Group is one of my most important personal goals. In building effective teams for the future, we will ensure that performance management is based on goals and incentives that are closely aligned to maximize the Group’s competitive advantage.

Let me summarize.

Our aspiration is to become the leading global insurer in our chosen markets, consistently delivering top tier results based on a strong customer focus and a sophisticated global network. More and more of our businesses will be driven through Group-wide approaches with well-defined functional responsibilities at the Corporate Center. This will ensure the coordinated implementation of standards that are key to the profitability of our businesses.

We are at the beginning of establishing a performance-based culture grounded in common mindsets and behavior. My colleagues and I are convinced that only organizations that are firmly based on a culture of shared values will consistently reach their earnings targets, outperform the market over the cycle and be attractive places for talented people to work.

Going forward we will focus our energies on the life business and on four target market segments in general insurance. Based on our global capabilities, the strength of our technical expertise and our large footprint on both sides of the Atlantic, our businesses constitute a leverageable platform for generating sustainable and profitable growth over the insurance cycle.

The next phase of our recovery is about driving execution for improved performance in life insurance as well as growth and strong profitability in general insurance. This is not an exercise to reinvent the wheel, but to ensure that our performance continues to improve beyond the level achieved in 2003 and that we succeed in our primary task to create lasting value for our shareholders, our customers, and our employees.

My colleagues and I are determined to do this well.