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Annual General Meeting 2004

Speech by James J. Schiro

Chief Executive Officer

April 16, 2004

Guten Tag, sehr geehrte Damen und Herren

Ladies and Gentlemen

I am pleased to review the progress we made on our program to restore the Group's earning power, financial strength and credibility in the financial markets. We made important decisions to ensure the sustainable and profitable development of our Group. We are moving in the right direction, and we can be proud of our accomplishments. But much remains to be done, and it is this agenda for our future that I would like to discuss today. But let me first talk about our record in 2003.

Our return to profitability was based on a disciplined approach to our core businesses in life and general insurance. At the same time we benefited from a strong general insurance market. The favorable conditions are likely to continue in the current year. Because my colleague Patrick O'Sullivan, our Group Finance Director, will talk to you about our financial record, I shall concentrate on our actions to improve performance.

The plan to enhance the Group's earnings and financial strength had three key levers.

- First, operational improvements were based on strict adherence to the plan we set out to you, our shareholders, in 2002. It included measures to improve underwriting and claims management. It called for disciplined pricing and significant cost and expense reductions. We

were successful in achieving each of our improvement plans, and operational and financial discipline is now tightly supervised from the Corporate Center. We work increasingly as one team that speaks with one voice and represents one Zurich.

- Second, we sharpened our focus, optimizing our portfolio to help produce sustainable earnings. The measures included the sale of Threadneedle in the UK, the sale of Zurich Life in the US and the transfer of mainly derivative transactions from the portfolio of Zurich Capital Markets, underscoring our intention to exit from such banking-related activities. We also divested a number of smaller businesses to strengthen our portfolio. Fine-tuning a portfolio of Zurich's magnitude is an ongoing process. The bulk of divestments, however, has been made and successfully implemented.
- Finally, we exceeded the objective of strengthening our capital base by 5 billion dollars through a combination of measures. The stronger balance sheet is now reflected in an improving outlook for our credit ratings, bringing us closer to the "AA" benchmark that remains our target.

But the year was not without challenges. Such challenges were posed by the need to increase reserves in general insurance and for Centre, with the latter significantly affecting the result in our Other Businesses segment. But the challenges at Centre were dealt with by the end of the third quarter, and the unit contributed modestly to our net income in the fourth quarter. In the end our commitment to financial discipline and the implementation of contingencies allowed us to make good progress on our overall program.

Two weeks ago we presented our strategic direction for the next several years. This direction is an extension of what we've been doing for the last 18 months and primarily builds on our existing strengths. In my visits with customers and brokers, I am pleased to hear how impressed they are by the professionalism of Zurich's people. We have a fine record of producing innovative customer solutions, and our global network covers more than 120 countries in support of our customers.

Our vision for Zurich's future capitalizes on our strengths. We aspire to be the leading global life and general insurance group in our chosen markets. Only insurers that deliver top tier results, earn more than their cost of capital and create economic value in the long term will be capable of providing rewarding opportunities for their employees and creating lasting valuable relationships for their customers, agents, brokers, and shareholders.

Consequently, our way forward will be based on a clear customer focus and our strong global presence. We will grow our businesses, never losing sight that, at the end of the day, we must have earned the cost of our capital. As we told analysts, growth may even include acquisitions. But acquisitions must meet strict performance criteria. We will engage in such transactions only from a position of internal strength. They must make financial and strategic sense, and they must add to shareholder value.

The financial market turbulences of recent years have demonstrated that we must manage and master more than just insurance operational risk. In 2003, we had approximately 176 billion dollars of assets invested in stocks, bonds, cash and real estate. On these assets, we must earn a decent return and ensure that they match our insurance liabilities at any point in time.

The complex challenges of asset liability management are one reason why we believe that financial services companies of our size must understand and control a wide range of risks. That's why we have begun to strengthen our approach to enterprise-wide risk management. We want to ensure that we meet high standards in dealing with all areas of risk that may have an impact on our businesses and our balance sheet.

We are also better coordinating functions essential for managing our activities. We have centralized them at the Corporate Center to ensure an optimal flow of information and a fast response to changes in the market. More efficient operations will ultimately benefit our customers and provide a solid footing for our future prosperity. To help us achieve these goals, and to reduce the impact of cyclical fluctuations on our businesses, we continue to optimize our insurance portfolio. In general insurance, we will concentrate on four target market segments, while pushing ahead fundamental reforms in our life insurance business.

Let me briefly touch on our key market segments, beginning with life insurance. The current challenge in this segment is low profitability. Although new products and our strong focus on financial discipline contributed to sizeable progress in 2003, we are still some distance from making an adequate return on our capital. But the actions we have taken, and the measures we are now implementing, will improve the profitability of the life business and move us closer towards our goal of earning the cost of capital in this segment.

Particularly encouraging is our new approach in the UK. The Zurich Advice Network, which currently comprises 3,800 tied advisers, will be opened up to third party products and the advisers will be offered a stake in the Network based on their performance and the Network's success. When we presented this idea to 60 top-performing advisers two weeks ago, it became clear that it is a win-win plan. Introducing third party products will increase choice for our customers and make the Zurich Advice Network even more attractive for advisers to participate in.

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.

However, private insurers can play their role only within a sound regulatory framework. Recent proposals by the Federal Council on the distribution of profits in the group pension business – the so-called “legal quota” – are bound to squeeze already slim margins even more. Switzerland's three pillar system is undisputedly one of the best in Europe. It provides a solid foundation to securing the financial needs of our retired citizens. The role of the private sector in the second pillar should not be underestimated, and I would like to encourage government and parliament not to undermine its stability by considerations of political expediency.

Now let me turn to general insurance and discuss our four target market segments. Again, driven by customer focus and our capacity to innovate we will concentrate on the most attractive markets. This is particularly true for the first segment, our global corporate customer business where, in 2003, we generated a premium volume of 7 billion dollars and profitably grew by 30%. Zurich is now number two worldwide. Our customers tell us that Zurich is the one company that's making its global network work for them.

To serve our customers even better is precisely what we also will do for small businesses in the US, our second target market segment. Together, Farmers and Zurich would be one of the largest providers in this market with a premium volume of 4 billion dollars. Until now they have operated separately. But, given that Farmers manages one of the best agent networks in the US and that Zurich operates on one of the most sophisticated technology platforms in the country, we clearly have a winning proposition. We are currently examining ways to capitalize on the strengths of these two operations and develop a go-to market strategy.

Combining two forces is also the challenge in our third target area, the personal and business customer market segment in Europe. We are merging the businesses in the United Kingdom and Continental Europe. This consolidation will create sizeable cost savings. But more importantly, we expect it to enable profitable growth by building on existing platforms of excellence and extending them to the entire European market. An example is motor insurance where we have a consistent record of innovation – think of the HelpPoint that was developed in Switzerland and that's now being adopted in the US.

This brings me to our fourth target area, which is the personal customers segment in the US, served by the Farmers Exchanges. We do not own the Exchanges, but we manage them. Our income is a fee related to the premium volume of the Exchanges. We are now challenging Farmers to fund stronger top line growth by strengthening the capital base of the Exchanges, which in turn will increase the income stream flowing to Zurich.

To summarize: our aspiration is to become the leading global insurer, delivering top tier results based on our strong customer focus and our sophisticated global network. We will concentrate on the life business and on four target market segments in general insurance. We will continue to manage our operations with the same rigor and discipline as we have over the past 18 months. We will streamline and consolidate our organization, and we have targeted a minimum of 200 million dollars in additional after tax expense savings for 2004.

The next stage of our journey is about driving execution for improved performance. We have the building blocks to generate profitable growth in the future and to continue to create lasting value for our shareholders, customers, and employees. This is our primary task, and we are committed to doing it well.

Let me conclude by thanking you, our owners, for your support throughout the year. I look forward to reviewing Zurich's progress with you in 2005.