Insurance Cycle Management in a Competitive Environment

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How has the insurance cycle changed?

Six main cycle drivers:
- Capital
- Industry loss experience
- Industry discipline
- Profitability and ‘payback’
- Investment returns
- Market sentiment
Strategic transformation

Operational Transformation
- Platforms
- Data quality
- Expense base

Transformational Growth
- Customer
- Product
- Distribution

Enhanced service delivery
Scale
Cost advantage
Larger data set
Customer insight

Capital
ROE 16%
Margin
Volume

1 Business operating profit (after tax) return on common shareholders’ equity
Strategic transformation supports insurance cycle management

- Strong optimized capital base
- Active diversification
- Portfolio management

• Platforms delivering consistently high standards
• Data quality driven analysis
• Operational Transformation powered by The Zurich Way

- Customer experience
- Product differentiation
- Distribution excellence

\[ \text{ROE} \quad 16\% \]

\[ ^1 \text{Business operating profit (after tax) return on common shareholders' equity} \]
Capital: strong optimized capital base / economic financial strength (based on AA calibration)

Economic financial strength is based on available financial resources (AFR) at the beginning of the period and expected risks to be taken during the period as measured by risk based capital (RBC).
Active diversification: Zurich has a well diversified, global book

Business Operating Profit by segment\textsuperscript{1,2}

- **General Insurance USD 3,831m**
- **Global Life USD 1,162m**
- **Farmers Mgmt. Services USD 1,202m**
- **Other Businesses USD 554m**

Business Operating Profit General Insurance\textsuperscript{1,3}

- **Int’l Businesses**: 5% Global Corporate
- **North America Commercial**: 32%
- **Europe General Insurance**: 45%

Business Operating Profit Global Life\textsuperscript{1}

- **US**: 20%
- **UK**: 23%
- **Rest of Europe**: 17%
- **Switzerland**: 14%
- **Germany**: 17%

\textsuperscript{1} For the year ended December 31, 2006
\textsuperscript{2} Excluding Corporate Functions
\textsuperscript{3} Excluding Group Reinsurance
Active diversification: balanced global General Insurance portfolio benefits from diversification

A balanced risk landscape...

... and a balanced business portfolio ... result in superior capital efficiency

RBC numbers as of 2007
• We continually review and reshape the business by growing the most attractive portfolios that exceed our internal hurdle rate.
• We grow and shrink baskets to optimize return on our portfolio.

Illustrative example

Margin on premium

RBRM hurdle rate

Higher

Lower

Basket 20
Basket 19
Basket 18
Basket 17
Basket 16
Basket 15
Basket 14
Basket 13
Basket 12
Basket 11
Basket 10
Basket 9
Basket 8
Basket 7
Basket 6
Basket 5
Basket 4
Basket 3
Basket 2
Basket 1

Grow
Manage
Opportunistic

Size of bubble indicates plan GWP

1 As used in the case study on North America Commercial’s Specialties business in our presentation on Capital Management.
Consistency: platform with matrix of functions providing high standard controls and metrics

Group Value Added

Global Talent Base

General Insurance global functions

Market facing business divisions

Global Corporate

North America Commercial

Europe General Insurance

International Businesses

The Zurich Brand

Group Reinsurance

Global Underwriting

Global Risk Engineering

The Zurich Way

Customer, Distribution, Product Management

Global Claims Management

Capital Management
Data: micro-segmentation common technique across General Insurance

• Micro-segmentation in the UK, the US, Italy, Switzerland and Germany. Expected benefits of USD 1bn GWP across General Insurance from global application of this technique.

Example: German Motor Segmentation

• Market leader in combining data to evaluate technical price model for motor products

• Based on technical price models the Zurich motor Personal Lines tariffs are the most granular in the German market – enabling sales focus on most profitable pockets

Original: 445 cells

TZW: 8900 cells
Operational improvements in The Zurich Way

Global Profit Improvement Program

Legend:
- Growth / Distribution
- Claims
- Pricing / Underwriting
- Other
- Operating Expenses

USD 1bn

2003 2004 2005 2006 USD 540m USD 500m USD 500m USD 700m

Total planned benefits 2007 to 2009: USD 2 billion

2007 2008 2009

Restored profitability Operational excellence Profitable growth

Operational Transformation: sharpens business processes to create competitive advantage
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Appendix
Zurich applies a differentiated focus to unlock and grow business value.

Legend for GI BDs:
- IB  International Businesses
- EGI  Europe General Insurance
- GC  Global Corporate
- NAC  North America Commercial

Focus on margin enhancement

Focus on volume growth

- Farmers
- Global Life
- EGI
- IB
- GC
- NAC
Strategic objectives

• Become a top-five insurer globally

• Strengthen our market leadership positions

• Expand capital light and fee income businesses

• Position Zurich as the employer of choice in the insurance industry globally

• Generate a consistent mid-term BOPaT-ROE\textsuperscript{1} of 16%

\textsuperscript{1} Business operating profit (after tax) return on common shareholders’ equity