

# Zurich to acquire the Life insurance business of ANZ (OnePath Life)

Investor presentation  
December 11, 2017

Zurich Insurance Group



# Compelling strategic and financial rationale

## Leadership in Australian life

- Creates a leading Australian life business with a 19% retail protection market share
- 20 year strategic partnership with ANZ, a leading Australian banking group, for the distribution of life insurance solutions
- Distribution through independent channels further strengthened

## Alignment with Group strategy

- Aligned with Group focus on retail banc-assurance and life protection
- Group earnings volatility reduced through increased stable life technical income

## Attractive financials

- USD 2.14bn<sup>1</sup> / AUD 2.85bn purchase price<sup>2</sup> equivalent to ~1x Embedded Value<sup>3</sup>
- Immediately accretive to earnings and cash, ROI >10% expected from year 2
- Distributable earnings expected to exceed NIAS due to run-off of legacy businesses, with expected cash remittances of AUD1.4bn over the first five years

## Funding

- Transaction expected to be funded through combination of internal resources and senior debt
- Modest reduction in Group capital flexibility

## Enhances group financial targets

- BOPAT ROE target expected to be raised by 50bps on completion of transaction
- Cash remittance target for 2017-19 expected to be enhanced by ~USD 225m<sup>1</sup> / AUD 300m
- Expected to increase dividend plans within the first year post completion

<sup>1</sup> Calculated with an AUD/USD exchange rate of 1.33.

<sup>2</sup> The transaction price of AUD 2.85bn comprises AUD 1bn of upfront reinsurance commissions, expected to be paid subject to regulatory approval in May 2018 with the remaining balance paid on completion.

<sup>3</sup> As calculated by ANZ (excluding franking credits).

# Significant uplift in earnings of our Australian business

## EXPECTED PRE-TAX P/L IMPACTS (AUDm)<sup>1,2</sup>

	AUDm	Comment
2018 BOP	~70	Expected impact from reinsurance pre-completion
2019 BOP	~300	Before restructuring and any deal related charges
Synergies	>40	Expected from year 3 onwards
Amortization	~20	Yearly charge starting 2019, including VOBA and distribution agreement
Deal related charges	~200	Expected to be recognized over 2018-2021 and outside of BOP

## FY-17 PRO-FORMA BALANCE SHEET (AUDm)<sup>1,3</sup>

	AUDm		AUDm
Cash and cash equivalents	2,036	Trade payables and other	643
Trade and other receivables	428	Life investment liabilities	1,853
Other financial assets	2,571	Life insurance liabilities	749
Ceded Life insurance liabilities	718	Other	54
Other	7	<b>Total liabilities</b>	<b>3,299</b>
<b>Total assets</b>	<b>5,761</b>	<b>Net assets</b>	<b>2,462</b>

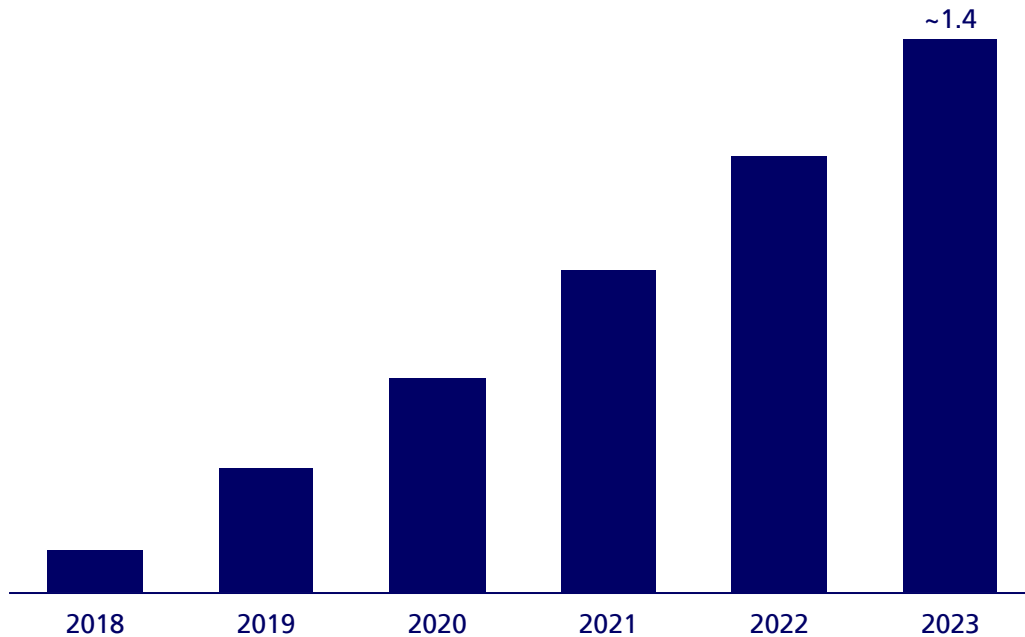
<sup>1</sup> Includes acquired business.

<sup>2</sup> Tax rate expected to be approximately 30%.

<sup>3</sup> For the financial year ended September 30.

# Strong cash generation capability supports dividend

**EXPECTED CUMULATIVE CASH GENERATION (AUDbn)**



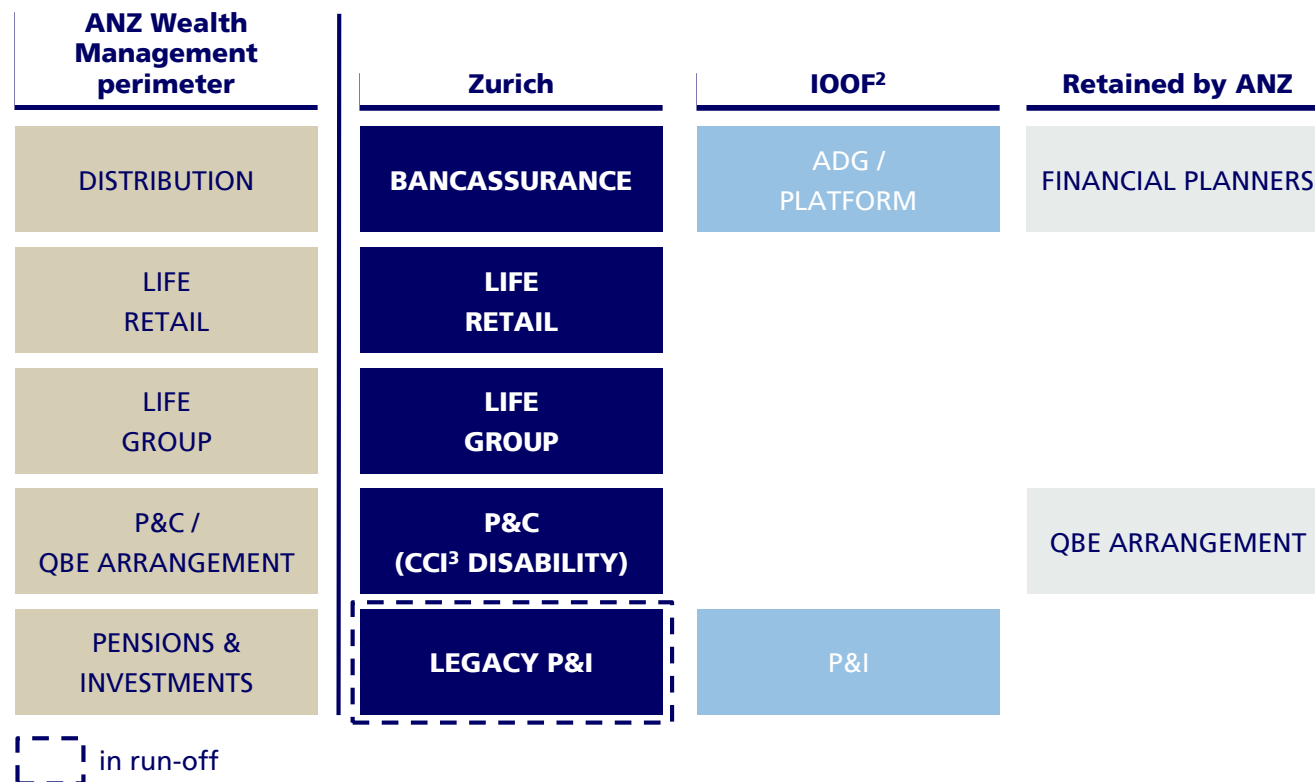
- Predictable profit and cash emergence from a mature retail life business
- Distributable earnings expected to exceed reported earnings due to run-off of legacy pension and investment portfolio
- AUD 1.4bn in cumulative distributable earnings expected over the first full five years of the transaction
- Payback of initial investment expected after 10 years

# Completion of deal expected by November 2018

## EXPECTED TIMELINE

Time	Milestone
December 2017	Signing
May 2018	Reinsurance of a substantive portion of the portfolio to be acquired <sup>1</sup>
November 2018	Expected completion <sup>1</sup>
November 2020	Full separation from bank and other businesses not in perimeter of acquisition

## SCOPE OF DEAL



<sup>1</sup> Subject to regulatory approval.

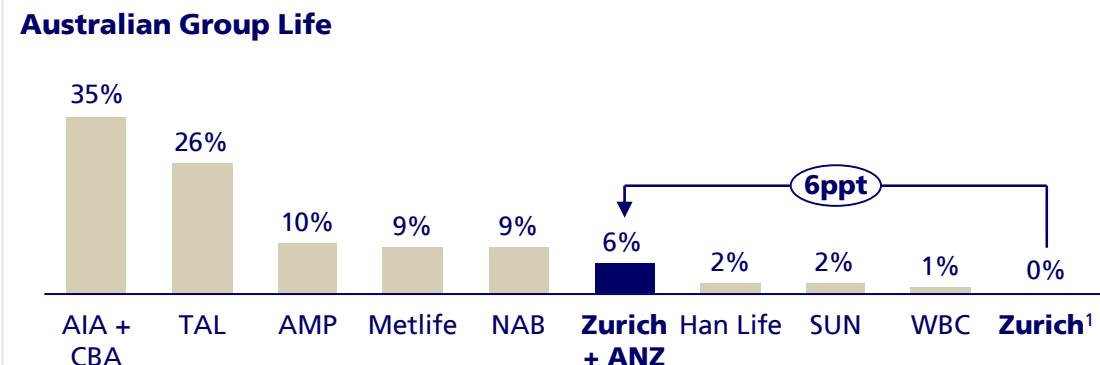
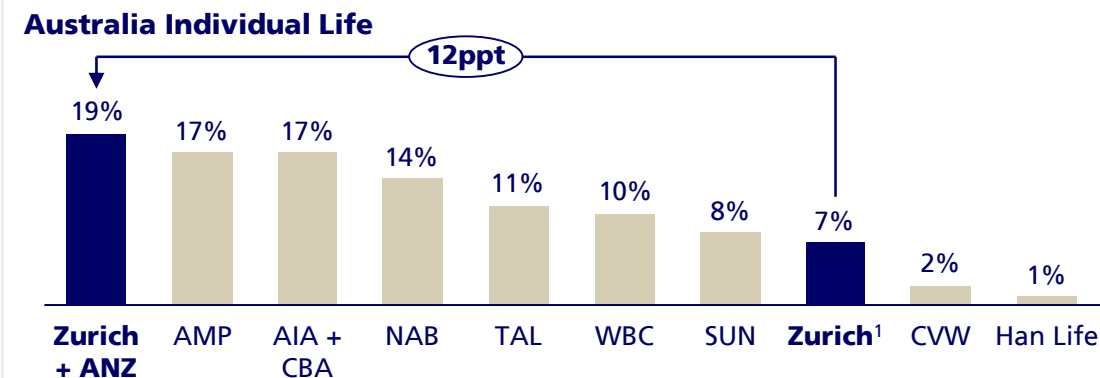
<sup>2</sup> On October 17, 2017 IOOF Holdings Limited has announced that it has entered into an agreement with Australia and New Zealand Banking Group Limited ("ANZ") to acquire ANZ's OnePath Pensions and Investments business and Aligned Dealer Groups.

<sup>3</sup> Consumer credit insurance.

# Transformational to Group's positioning in Australia; increased contribution of less volatile earnings

- Strengthens existing position in a core market
- Creates leading Australian life franchise
  - #1 retail life player with ~19% in-force share
  - #6 group life player with ~6% in-force share
  - Business focused on the more profitable retail segments of the market
- Distribution through leading Australian banking group
  - ~6m customers equating to 1 in 4 Australians
  - ~15% deposit and ~16% mortgage market share
  - 680 branches, 2300 ATMs and digital channels
- Distribution agreement with IOOF
- Increased distribution through independent distribution channels

## CURRENT AND PRO-FORMA IN-FORCE MARKET SHARES (%)<sup>2</sup>



<sup>1</sup> Zurich Financial Services Australia Limited (Australia), Zurich Australian Insurance Limited (New Zealand).

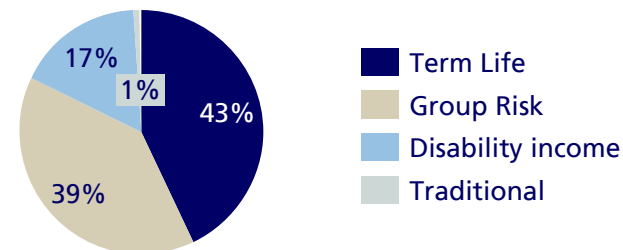
<sup>2</sup> Source: Strategic Insight, as of June 2017.

# Australian protection market supported by structural growth and premium indexation

## MARKET FUNDAMENTALS

- GDP growth of 3% CAGR 2011-16 at upper end of developed markets
- Strong GWP growth of ~10% CAGR over last 10y (4x GDP)
- Relatively low insurance penetration at ~4%
- AUD 15.7bn in-force life insurance premiums in 2016
- 4<sup>th</sup> largest pool of retirement savings in the world with insurance embedded in wealth creation

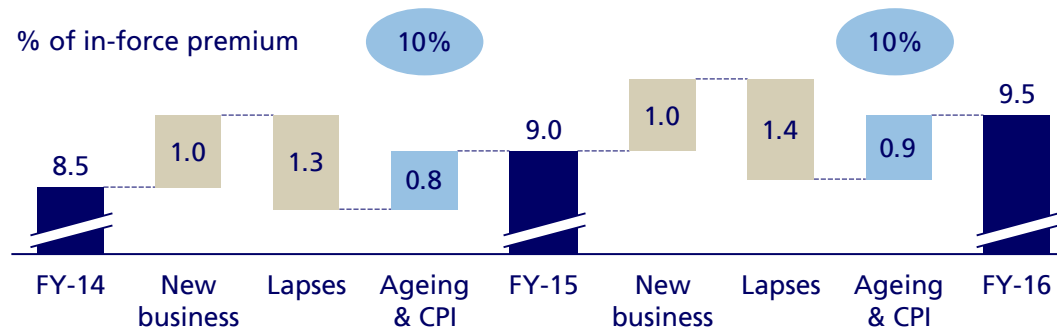
## IN-FORCE ANNUAL PREMIUMS BY PRODUCT (%)



## STEPPED PREMIUMS SUPPORT INDIVIDUAL LIFE GROWTH

- Stepped premium (premium adjusted annually) products account for 82% of protection market, with level term the balance
- Premium increases represent ~10% of overall in-force
- Premium increases reflect a combination of age based increases, CPI<sup>1</sup> indexation and re-pricing based on experience
- Level premium rates may also increase with CPI<sup>1</sup>

## INDIVIDUAL IN-FORCE PREMIUM DEVELOPMENT (AUDbn)



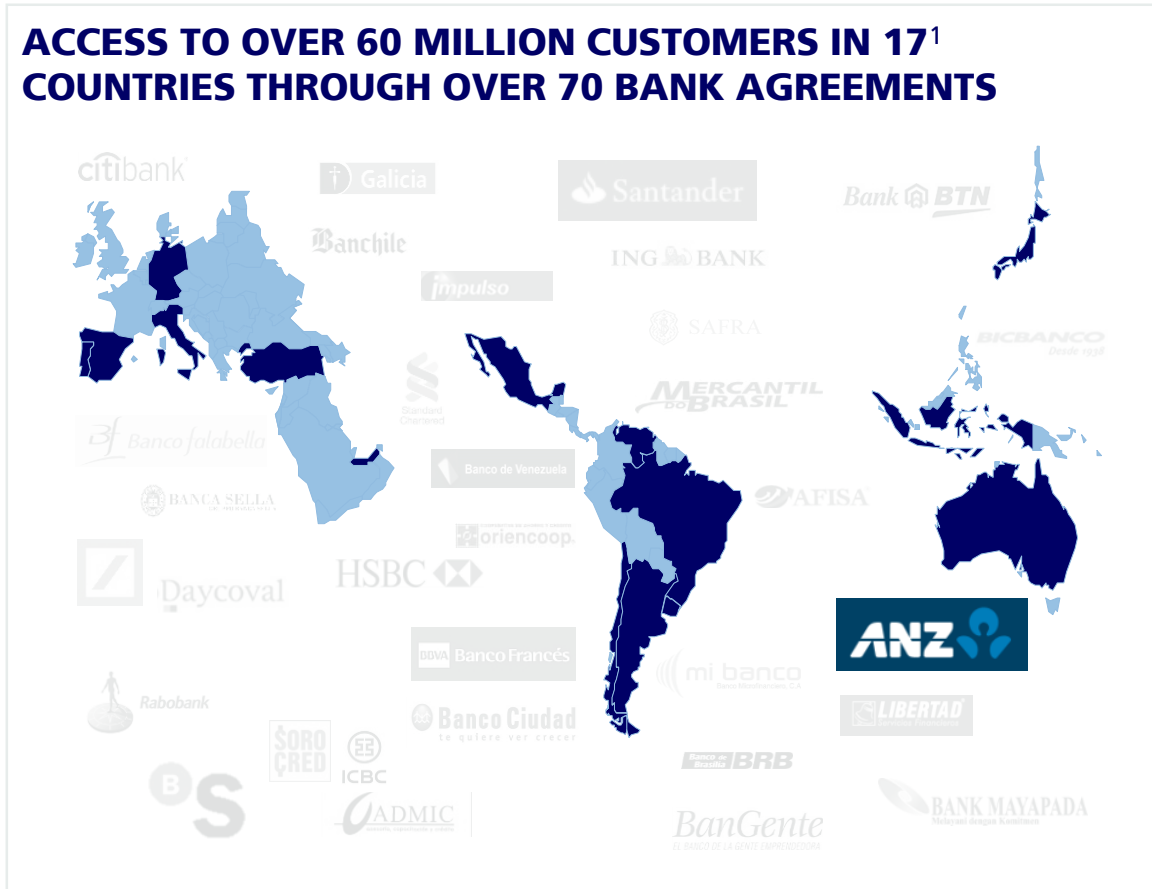
<sup>1</sup> Consumer price index.  
Source: Strategic Insight, as of June 2017.



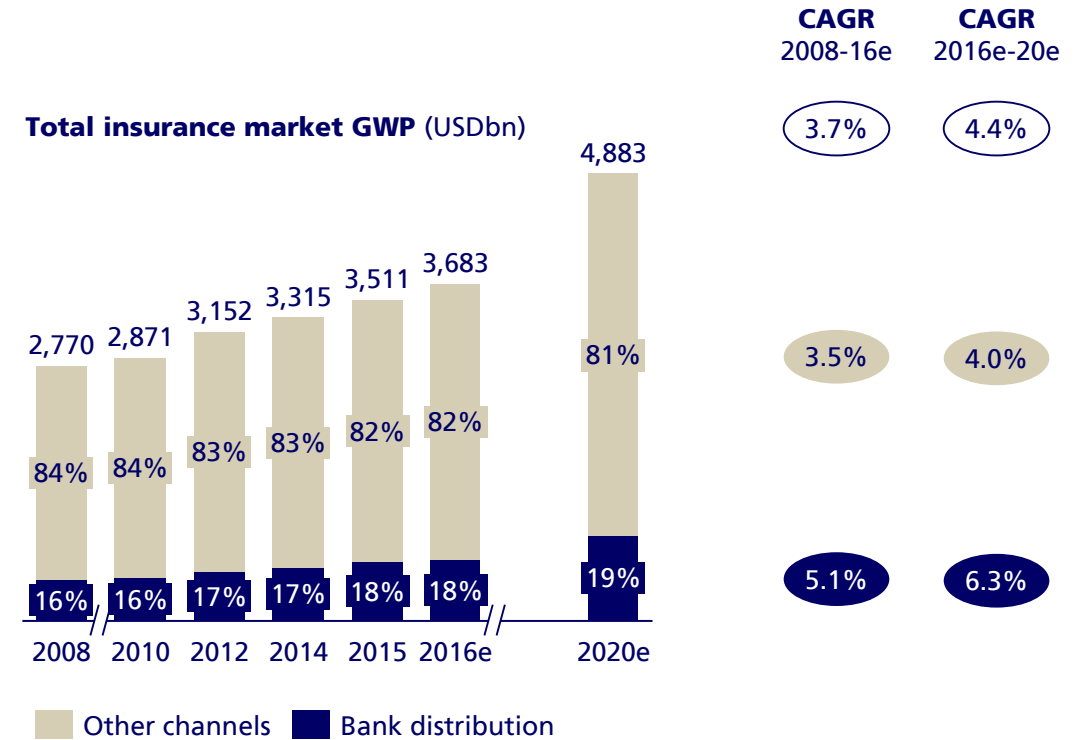
# Partnership with ANZ builds on Zurich's recognized global footprint in the strategically important bank distribution channel



## ACCESS TO OVER 60 MILLION CUSTOMERS IN 17<sup>1</sup> COUNTRIES THROUGH OVER 70 BANK AGREEMENTS



## BANK DISTRIBUTION CHANNEL IS EXPECTED TO GROW FASTER THAN THE MARKET<sup>2</sup>



<sup>1</sup> Includes only countries with material business through bank distribution channel.

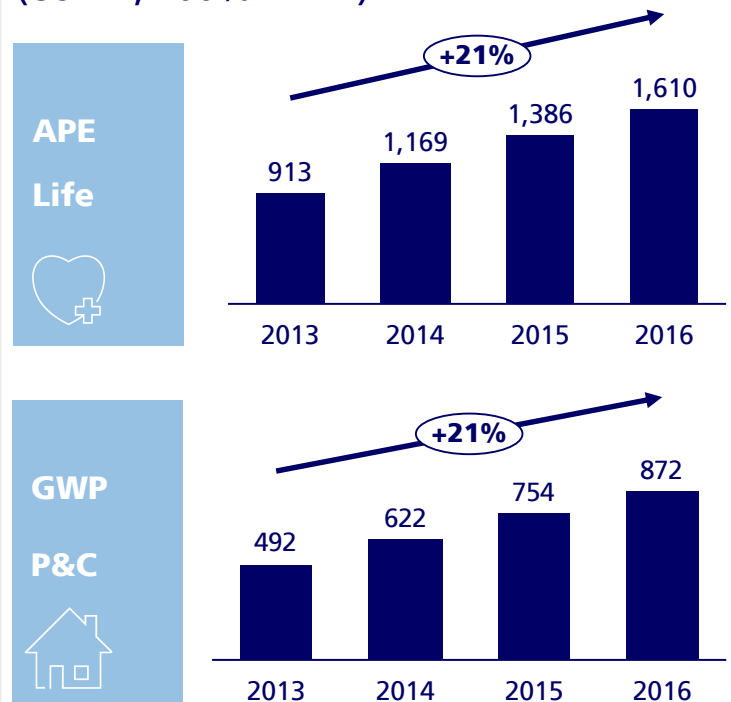
<sup>2</sup> Source: McKinsey.



# Zurich has a strong track record in Bank distribution, which has become a material contributor to the group

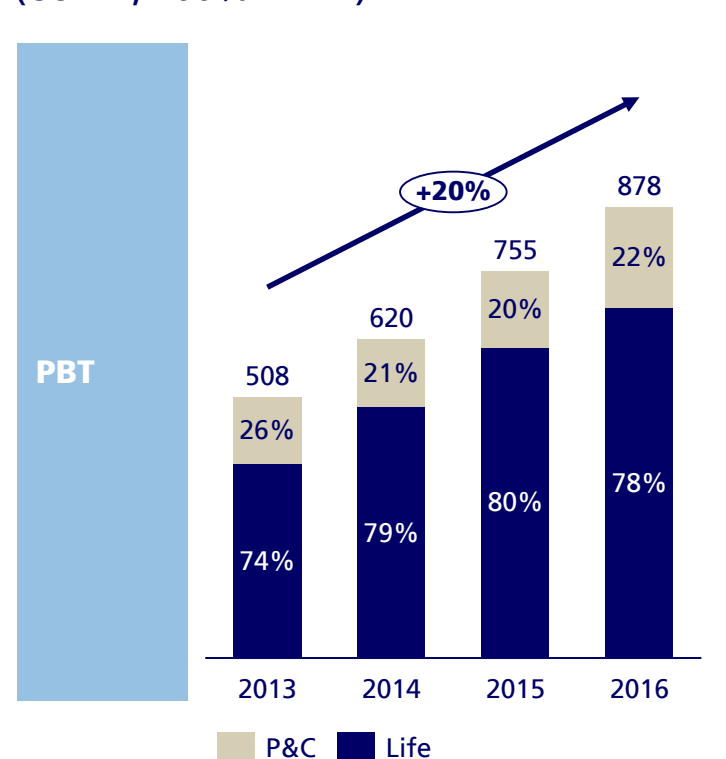
## STRONG RETAIL VOLUME GROWTH

(USDm, 100% VIEW)<sup>1,2</sup>

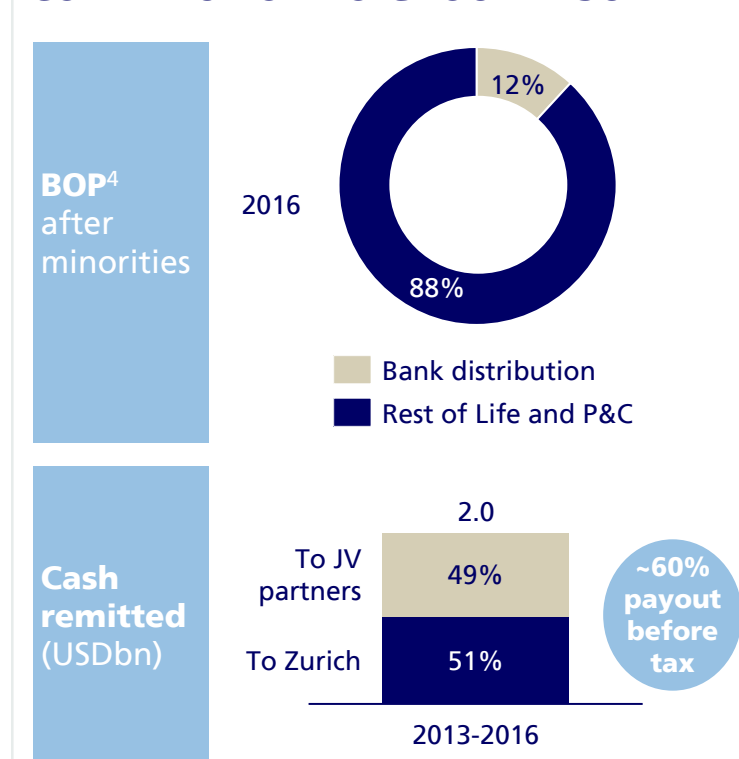


## AS WELL AS BOTTOM LINE RESULT

(USDm, 100% VIEW)<sup>1,3</sup>



## RESULTING IN AN IMPORTANT CONTRIBUTION TO GROUP RESULT



<sup>1</sup> All figures expressed in constant FX.

<sup>2</sup> Volumes distributed through major agreements with Santander, Sabadell and Deutsche Bank.

<sup>3</sup> Profit Before Tax, before minorities of Bank JVs (Zurich Santander and Sabadell).

<sup>4</sup> Bank distribution major agreements with Santander, Sabadell and Deutsche Bank; Rest of Life and P&C excludes Farmers, Non-Core Businesses and GF&O.

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# Appendix



# Further details on the transaction

## FINANCIAL OVERVIEW (AS DISCLOSED BY ANZ)

Products in scope	All insurance products including: <ul style="list-style-type: none"> <li>• Advised Life</li> <li>• Direct Life</li> <li>• Group insurance</li> <li>• Mastertrust insurance</li> <li>• Consumer credit insurance</li> <li>• Small legacy run-off portfolio of pension and investment products</li> </ul>	
Price	AUD 2,850m	
FY-17 contribution	Pro-forma cash NPAT <sup>1</sup> Insurance in-force book	AUD 189m AUD 1.7bn
FTEs	~900	

## REINSURANCE AGREEMENT

- To gain early exposure to a portion of OnePath Life earnings, Zurich will enter into a quota share reinsurance agreement via a AUD 1 billion upfront commission payment
- In effect, Zurich acquires the rights to a portion of the profits from OnePath Life's in-force insurance book
- Arrangement is expected to be in place in May 2018, subject to regulatory approval
- Zurich receives a portion of premiums from the OnePath Life in-force book
- ANZ receives reinsurance recoveries from Zurich on business reinsured

<sup>1</sup> Net profit after tax, calculated under Australian GAAP.

# For further information

## CALL US

### Investor Relations

Richard Burden +41 44 628 96 40  
Francesco Bonsante +41 44 628 00 68  
Gianni Vitale +41 44 625 48 26

### Rating Agency Management

Michèle Matlock +41 44 625 28 50

### Events

Patricia Heina +41 44 625 38 44

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The screenshot shows the Zurich website's investor relations page. At the top is the Zurich logo and a navigation menu with links for News, About us, Products and services, Industry knowledge, Investor relations, Corporate responsibility, and Careers. Below the menu is a large image of three business professionals in a meeting. To the right of the image, there is a text box that reads "Zurich reports BOP of USD 3.4 billion" with a link "More on our latest results". Below the image and text box, there are two bullet points: "Investor Relations website" and "Financial results and reports". At the bottom, there is a "Follow us" section with icons for Twitter, Facebook, LinkedIn, and YouTube.



**CALENDAR:**

- February 8, 2018, Annual Results 2017
- March 20-21, 2018, Morgan Stanley European Financials Conference 2018, London
- April 4, 2018, Annual General Meeting 2018
- April 9-10, 2018, HSBC West Coast Financials Conference 2018, San Francisco
- May 9, 2018, Interim Management Statement for the three months ended March 31, 2018
- May 29-30, 2018, DB Global Financials Conference 2018, New York
- June 8, 2018, Goldman Sachs 21st Annual European Financial Conference, Frankfurt
- August 9, 2018, Half year results 2018

