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Annual Results 2012 - Media Briefing

Remarks by Martin Senn
Chief Executive Officer
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We are pleased to report solid profitability for the year despite a challenging market environment, the occurrence of storm Sandy and a disappointing result in our German General Insurance business.

Our underlying performance was strong with excellent progress in all our core segments. Thanks to our strategic focus on disciplined pricing and portfolio management we maintained our strong capital base, generated strong cash flows and delivered strong underlying profitability. This gives us the confidence to propose a sustainable and attractive dividend of CHF 17 per share. As the dividend payment will be paid from the capital contribution reserve, it is exempt from Swiss withholding tax.

We continued to sharpen our focus on insurance while diversifying our business geographically and by product mix. We grew our business in target markets and we maintained our position in mature markets. In 2012, we further expanded our bank distribution agreements, strengthening alliances in the Middle East, Italy, Spain and Indonesia and continued to progress the integration of our acquired insurance businesses in Latin America and Malaysia. In December last year, we announced two further milestones in our strategy to exit non-core businesses – the transfer of Eagle Star's general insurance portfolio to River Stone and the return of Zurich Bank's banking license in Ireland.

We also benefited from a strong performance in our investment portfolio as our Group investments delivered a total return of 7%, an increase of 1.7 percentage points from 2011.

As we reported at our Investor Day in November, we have made solid progress towards delivering on our 2013 targets.

Let's have a closer look at the numbers.

Business operating profit for the year declined 4% to USD 4.1 billion while net income after tax attributable to shareholders was USD 3.9 billion, up 3% from 2011. This reflects a strong underlying performance in our core businesses and in our investment portfolio, but also losses due to weather related events and developments in our German General Insurance business.

We are pleased that our businesses continue to make progress towards delivering on our targets. The General Insurance segment delivered a strong underlying performance. Gross written premiums rose 7% on a local currency basis on the back of average rate increases of 4%. The underlying loss ratio for General Insurance continued to improve in 2012 and was 61.4% at year end.

Global Life maintained profitability with continued growth in gross written premiums, policy fees and insurance deposits.

Excluding the recent acquisitions in Latin America and Malaysia, new business value declined by USD 90 million to USD 890 million as a slowdown in Europe offset strong growth in Latin America and North America. However, if we include Zurich Santander and Zurich Insurance Malaysia, new business value rose by 16% in local currency to USD 1.1 billion. With the contribution of those two acquisitions alone we generated USD 195 million of new business value in Latin America and Southeast Asia, representing one fifth of our new business value in 2012. This is a strong testament to our growth strategy in target markets. These results also underscore the growing importance of Global Life's contribution to the Group. The segment continued to diversify into protection and fee-based products, particularly in mature markets and to expand in emerging economies.

At Farmers, business operating profit in the management services company rose 5%. The margin on gross earned premiums was unchanged at 7.3% which is above the 7% we expect over the long term. Our reinsurance operations, however, had losses, reflecting the second consecutive year of significant weather-related events and the absence of favorable prior year loss development compared with 2011.

Finally, our non-core businesses delivered a business operating profit of USD 128 million thanks to an increased profit from other run-off businesses.

As a result of this solid performance across the Group we have preserved our excellent capital position with shareholders' equity increasing by 10% to USD 34.5 billion. The return on common shareholders' equity for 2012 based on net income attributable to shareholders was a robust 11.8%, while the business operating profit after tax return on equity was 9.3%.

Our strong capital position and cash flows gives us the confidence to propose a dividend of CHF 17. As this table demonstrates, we have consistently delivered a sustainable, competitive and attractive dividend over the years.

This means our decision is not driven by a specific pay-out ratio or yield, but our intention to pay a dividend which is sustainable and therefore reflects our confidence in our cash flows and our expectation for future profitable growth.

For 2012, the net cash flows from the businesses amounted to roughly USD 4.0 billion as forecasted at our Investor Day in November, providing healthy cash coverage of the dividend.

… Presentation Pierre Wauthier …

Now that you have seen our 2012 results, what I'd like to do is outline how we are growing our business:

For General Insurance focused growth remains a priority, both in mature and emerging markets. Focused means that we do not plant thousands of seeds and wait to see which ones grow. And it does not mean we compromise on profitability, it means, we rigorously pursue specific opportunities with the right resources and the right skills. And we are relentlessly focusing on delivering our target returns.

Profitability is driven by our technical excellence. We are in a skills business and the companies with the best skills and execution will win. And for us, growth will come from continually challenging ourselves to become more of a learning organization and from continually improving our customer focus.

By way of illustration, I'd like to say a few words about Storm Sandy. The unprecedented impact from the storm is well known and I won't go into details about that.

- Our response to Sandy focused on the impact the storm would have on our customers. It's in events like this that we are tested to deliver when it matters for our customers.
- Our response to the event began well before the storm made landfall. We reached out to the customers and brokers using various media to be sure they knew that we would be there to help. About 1,800 select brokers received pre-event e-mails with helpful links and tips to prepare for the storm.
- Risk engineering volunteers were on standby to assist our customers and brokers with outreach. Our customer care center identified backup resources and had staff prepared for overtime shifts to accommodate the influx of claims.
- And finally, we lined up a large team of loss adjusters and made sure that they were ready to respond quickly once the storm had passed.
- We started with our team on the ground in the impacted area right after the storm had passed. Within five business days of notice of loss, the Zurich CAT team made initial contact with all of our customers. And we paid our first claims on November 5, only six days after the storm had made landfall.

Now to our Life business: More than 40% of our new business value is coming from the emerging markets of Latin America, Asia Pacific and the Middle East. Including Zurich Santander, our Global Life business is currently ranked 4th in its peer group by new business value, up from 7th in 2010. As Pierre mentioned earlier, New Business Value in our Global Life segment increased by 16% in local currency to USD 1.1 billion in 2012.

We remain active in mature markets where the story is about investing where the opportunities are going to be and repositioning our distribution channels and our product mix for a sustainable future.

We are also making progress in reducing our sensitivity to low interest rates by moving towards protection and fee-based business. Since 2010, our protection business has moved from 39% to two thirds of the new business value. And importantly, individual protection, perhaps the most profitable of the businesses, has gone from 32% of the portfolio to a full 50%. Corporate Life and Pensions is now 26% of our new business value. And unit linked retail business which is as you know facing a challenging time and volatile economic circumstances has gone down from 33% to 15% of our new business value.

The most important thing to note is that traditional business such as medium-term savings products and annuities have reduced from 19% to 8% of our new business value. Those types of life insurance are heavy capital and interest rate centered businesses. Most of this business sold stems from continuing contractual contributions on in-force policies. Our portfolio reflects our strategy to drive product mix and satisfy customer needs.

Turning now to Farmers: Farmers Management Services' management fees and other related revenues increased by USD 79 million to USD 2.8 billion or by 3%. This company is wholly owned by Zurich and manages the Farmers Exchanges, a reciprocal insurer owned by its policyholders in the United States. The increase was driven by a 3% increase in gross earned premiums in the Farmers Exchanges.

The strategic target of the Farmers Exchanges is to maintain top quartile growth amongst the 12 largest personal lines companies in the United States. At year end of 2011, they were rated 4th. However, the Farmers Exchanges are not just a personal lines insurer, they are also one of the top five small business insurers in the U.S. and a growing portion of their book of business and their specialty products are considered commercial.

Profitable growth remains a very important and strategic objective for the Farmers Exchanges and this is going to come both from increasing average premiums and the continued eastwards expansion of their business. The Farmers brand is moving east with exclusive agents. In the last two years it started to do business in four additional states: Pennsylvania, New Jersey, Maryland and Georgia

CLOSING SUMMARY

In closing I would like to note that there were a number complicating factors affecting our results in 2012: the challenging economic environment, weather-related claims and the reserving issues in Germany. With all this we have delivered a strong underlying performance with improved underlying profitability. Our Group continues to generate strong, sustainable cash flows. We remain focused on the execution of our strategy, we are growing where we want to grow and we are well capitalized with solvency within our target AA range. We remain committed to delivering sustainable, long-term value to our shareholders, and we remain committed to being the best global insurer as measured by our customers, our employees, our shareholders and the communities in which we live and work.