Risk Management

As a major, global insurance carrier, Zurich helps customers around the world cope with a broad range of business and personal risks. In turn, we face a number of risks ourselves. Effectively managing these risks is critical if we are to sustain the strength and resources to be there for our customers when they need us.

We define risk management as an integrated, Group-wide approach for identifying, understanding, measuring and managing our business risks. These include:

- Insurance – risk transferred to us by customers through the underwriting process
- Operational – risk associated with the processes and internal control of the company
- Investment and credit – risk associated with the Group's investment portfolio, reinsurance agreements and other counterparty credit risk
- Financial risk – risk associated with currency fluctuations and management of the relative duration of our assets and liabilities.

The Board of Directors establishes Zurich's corporate risk management framework, including a reporting system. In turn, the Audit Committee of the Board assesses whether management addresses risk and control issues in a timely and appropriate manner. The Chief Executive Officer, together with the Group Executive Committee, oversees the Group's performance with regard to our risk management policies as well as the further development of these policies when required. The Chief Risk Officer reports to the Chief Executive Officer. The Audit Committee of the Board receives regular reports regarding the Group's risk profile, and mitigation activities.

We also benefit from the cooperation of our network of risk management and functional specialists within each business as well as at Corporate Center, where we have dedicated managers for each type of risk.

In 2004, we enhanced our risk management framework with the creation of Reporting Area Management Audit, Risk and Control committees.

Risk management policies, monitoring and modeling

Group-wide risk management policies specify risk tolerance boundaries and authorities, reporting requirements, and procedures for referring risk issues to senior management. We regularly monitor our risks through analyses and reports, and through relevant risk modeling.

In addition to risk-specific monitoring and modeling, we take a holistic view with risk-based capital (RBC) modeling. This type of modeling measures the difference between what we expect in a normal business operating environment and worst-case scenarios. We define risk-based capital as the capital needed to protect our policyholders against the worst-case loss (which we define as a one-in-2000 event occurring in one year). We have refined and expanded our RBC model to incorporate leading-edge methodologies and to give us a better view of our entire risk landscape. This modeling helps us make critical business decisions, such as allocating capital to lines of business.

Insurance risk

Managing risk transfer

As an insurer, we absorb certain of our customers' risks, and therefore we must carefully manage that transfer of risk. We do so in a variety of ways. These include setting limits on underwriting authority and requiring specific approvals for transactions involving new products or exceeding established limits. We take care to set appropriate pricing guidelines. We also centralize the management of reinsurance and closely monitor emerging issues that may affect our overall risk exposures, such as new areas of liability. Finally, we model and estimate risk associated with natural and man-made catastrophes, allowing us to manage these significant areas of insurance risk with a high degree of sophistication.

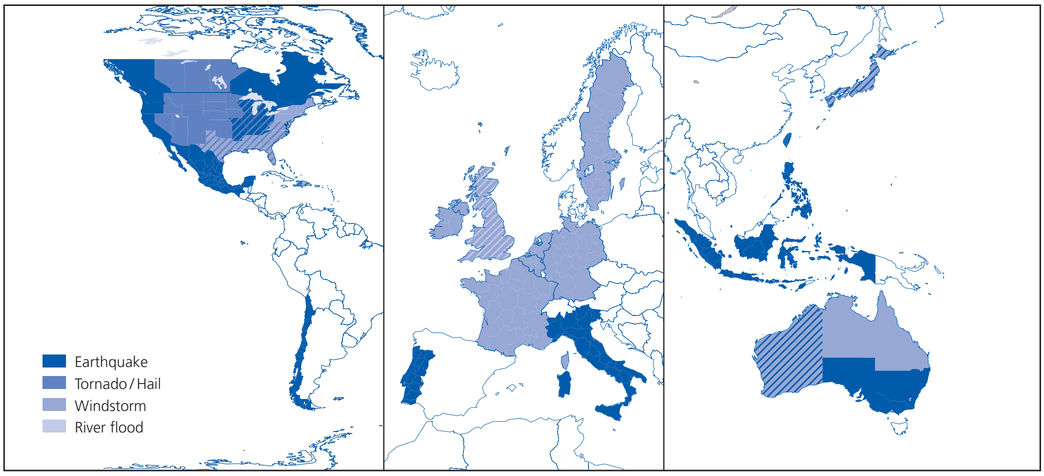
Modeling natural catastrophes

Since 1997, we have used a stochastic modeling process to quantify natural catastrophe risk across the Zurich organization. In this annual exercise, we assess the total risk represented by Zurich property policies located in the most hazard prone areas. We look at risk down to the policy level in most cases, using state-of-the-art probabilistic models developed by industry-leading providers of natural catastrophe models. The models are simulation tools that use a number of random variables to arrive at an estimate of risk exposure. These models principally address tornadoes, hail, windstorms, earthquakes, and flooding. We review our list of monitored regions and perils annually for changes in exposure. We also keep abreast of new developments or improvements in catastrophe models that may allow us to better estimate the risks we face. With these estimates in hand, we review how we manage total risk accumulations in the modeled areas. Actions may include modifying our underwriting, setting limits on exposure accumulations, and adjusting our purchase of reinsurance.

Managing risks from man-made catastrophes

Zurich's experience in monitoring potential exposures from natural catastrophes is also applicable to threats posed by man-made catastrophes, particularly terrorism. Due to the

World map with peril regions assessed in 2004



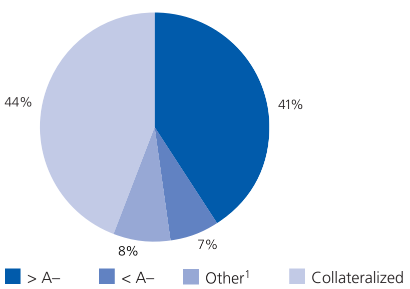
Note: Map not to scale.

high degree of uncertainty about what events might actually occur, our accumulation monitoring and analyses contain a number of assumptions about the potential characteristics of the threat. We review and aggregate workers' injury and property exposures to identify areas of significant concentration. The resulting data allows our underwriters, particularly in North America, to evaluate how insuring a particular customer's risk might affect Zurich's overall exposure.

Managing reinsurance assets

Our reinsurance assets at year end 2004 were USD 23 billion, of which 44 percent was collateralized. We rigorously manage this significant asset. We have centralized the purchase of reinsurance, and only conduct business with companies authorized by our Corporate Reinsurance Security Committee. This is the Group's committee responsible for setting standards and procedures to protect Zurich from credit losses with reinsurers. We also limit our maximum credit exposure by reinsurance group. Even as the reinsurance market remained under downward rating pressure, our tight credit risk policy resulted in an A– average credit quality of our reinsurance portfolio; the reinsurers that compose our 10 largest reinsurance exposures are rated A+ and above.

Reinsurance Assets Quality



[1] Other = unrated, information not available at counterparty level, etc.

Operational risk

A comprehensive approach for profiling risks

We regularly use our Total Risk Profiling process to systematically surface a wide range of potential situations that could pose risks that warrant management attention. This process has been particularly effective for assessing operational risks. We also use our risk profiling process to assess, and then manage, potential risks posed by major new projects, such as mergers, divestments and acquisitions or the outsourcing of specific operational functions.

Focusing on major operational concerns

Due to the importance of information technology (IT) to our business processes and the very real external threats we face, IT is a top-priority operational risk. We retain central control over a global network of resources devoted to IT risk, including functions that are outsourced. We continuously strengthen controls and adapt standard security methods to our specific IT environment, so that we can prevent, detect and swiftly respond to threats to our systems and data. We have been able to operate our systems without major disruption, despite a trend of increasing external threats to IT systems worldwide.

Managing business continuity

In order to support the continuity of our business, we focus on keeping our business continuity plans up-to-date. This includes analyzing our most critical processes and setting priorities for recovery in case of disruptions. We are primarily concerned with being able to recover from unexpected events, such as a natural catastrophe. As an example, the unusual 2004 hurricane season led to several potential business disruptions. Nonetheless, we were able to provide continuous service to our customers, and even enhance some of our operations, during very challenging conditions.

Evaluating internal controls

An effective system of internal controls is critical to risk management and sound business operations. In 2004 we launched a multi-year initiative to strengthen the consistency and documentation of our internal controls. Although primarily focused on important controls for financial reporting, this initiative also applies to related operational controls.

Investment and credit risk

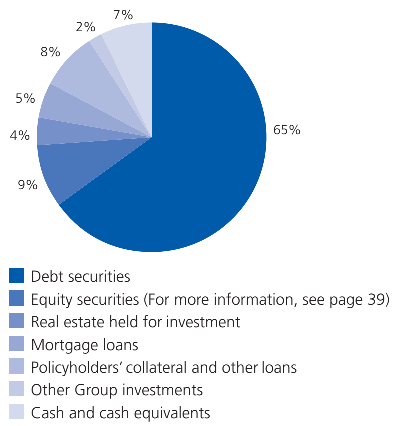
Modeling assets and liabilities

Our Asset/Liability Management and Investment Committee manages the Group's overall asset/liability matching exposure. It also oversees the activities of local asset/liability management committees. We are improving our asset and liability models to provide increased sophistication in our measurement of the Group's exposure to our liabilities and to our assets such as fixed income, real estate and other investment categories across currencies and businesses. While the setting of the model parameters and the testing are managed centrally, local variations take into account differences in specific product types. We monitor relative duration on both a business unit and Group level, and all exposures are captured in our risk-based capital measurement process.

Managing risks in investments

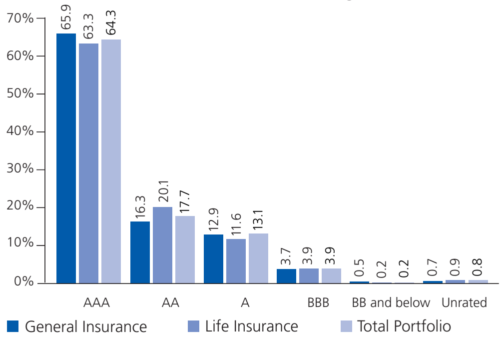
Our asset allocation policy takes into account Group and business unit capital and policyholder obligations. We diversify portfolios and asset managers and establish specific investment guidelines for each portfolio. We also carefully monitor investment exposures, compliance and performance. Group investments are recorded in a central database that allows us to evaluate our position against objectives, such as return and risk targets that include value at risk, adequate capital, liquidity capacity and other investment constraints.

Asset Allocation of Group Investments as of year end 2004



The overall average rating of our debt portfolio (including applicable loans) is AA+. We manage accumulations in these investments by issuer, industry and credit rating, and closely monitor changes. Any investment in securities that are below investment grade requires explicit approval. The largest concentration in our debt portfolio is in governments and supra-nationals, at 55 percent. The next largest concentration is in financial institutions, at 19 percent, of which 50 percent is secured by government guarantee or other collateral.

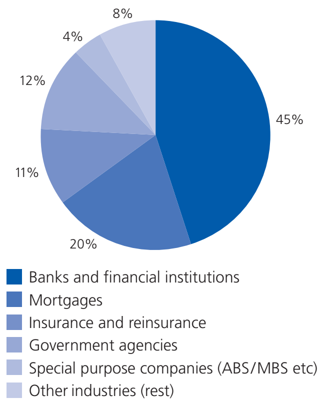
Total Debt Portfolio – Credit Rating



Managing exposure across multiple sources of credit risk

Even when we have made sure that our exposure to a counterparty is within set limits for each individual source of risk, our combined credit-related exposures could overexpose our capital to that counterparty's financial failure. Therefore, we limit our accumulated exposure to families of related counterparties across significant types of credit risk. We add together the exposure across such sources of credit risk as reinsurance assets, various types of investments and certain insurance products, derivatives and treasury instruments. We use best estimates, based on statistics and experience, to assign loss-given-default percentages and factors for

Top 20 Credit Exposures by Industry



the likelihood that a default would occur. We use this exposure aggregation information to detect and manage risk concentrations. The Chief Risk Officer regularly reports the five largest exposures in every rating category to the Audit Committee.

Financial risk

Managing our financial risks

Derivative financial instruments, such as interest rate swaps, options, futures and forward contracts are intended to limit risks in investments and financing. Zurich uses derivatives mainly to hedge certain economic risks. We address the risks posed by derivatives through a stringent policy that requires approval of derivative programs before transactions are initiated. Group Risk Management regularly monitors open positions. The Chief Risk Officer and the Chief Investment Officer approve derivative programs related to the investment portfolio; the Chief Risk Officer and the Group Finance Director approve non-investment portfolio derivative transactions.

As an international group, we are exposed to currency risk. We minimize our foreign exchange risk by matching the foreign exchange economic exposure of our assets and liabilities on local balance sheets, and by aligning the currency composition of our available capital to our internal capital requirements. We do not hedge emerging surpluses.

Zurich's risk management activities are designed to protect the long-term sustainability and strength of our company, which in turn, helps secure the interests of our many stakeholders.