

The Way Forward

Focus on operational excellence

Operational excellence is paramount for Zurich. It is a fundamental requirement in our aspiration to become the leading global insurance company in our chosen general and life insurance markets. To drive excellence forward, a critical factor will be the dedication and professionalism of our people – characteristics demonstrated by them every day of the week.

An equally essential element will be The Zurich Way, which we see as a vital aid in transforming the way we do business, both operationally and culturally. We are convinced it will help us to perform in the top tier of our industry, delivering sustainable value to shareholders and giving our customers consistent, distinctive and predictable service wherever they are.

Our aspiration

The core of our business is General Insurance and Life Insurance. Our culture is centered on helping our customers manage their risks and savings. We provide innovative solutions to customers from large global corporations to small businesses as well as differentiated services to personal lines customers. Our capital allocation is geared towards improving earnings by focusing on the most attractive sectors.

In General Insurance, our primary geographic focus is on North America and Europe. In the US, small businesses are underwritten through the Zurich units in North America and the Farmers Exchanges. Our General Insurance business in Europe covers commercial and personal lines. For our large corporate customers we are providing an integrated global platform.

The Farmers Exchanges, which we manage but do not own, have embarked on a major program to improve surplus by USD 1 billion by 2006. This strengthened capital base will support continued premium growth at Farmers, which in turn will be the source of growing management fee income for Zurich.

In Life Insurance, we aim to transform the business with a sales excellence program to improve productivity across the Group, a new business model in the UK, and by capitalizing on the strength of our agency networks in the US and Continental Europe.

Well-diversified business worldwide

Our newly-formed International Businesses division includes our General Insurance and Life Insurance businesses in Latin America, Asia Pacific and southern Africa. We consider these attractive markets to have considerable long-term potential, and our goal is to develop our capacity to serve them better. For example, we have expanded our presence in China, one of the most dynamic emerging markets, by strengthening the local management team representing the Group and by increasing our share in New China Life Insurance Company Ltd from 10 percent to 19 percent.

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Across the world, our well-diversified business portfolio – both by geography and nature of risk exposure – is a strong competitive advantage. So is our focus on our globally driven corporate customer business. In the end, however, the success of our market strategy will depend on operational excellence. Only companies able to excel in all activities will be consistent, long-term winners. Over the past two years, we have demonstrated the ability to deliver such excellence, and we are committed to continuing on that path.

Operational efficiency and professional integrity are inseparable, and our principles for doing business are firmly anchored in our core values, as expressed in *Zurich Basics*. These values guide us to do not only the right things, but also in the right way. The success of our business depends as much on the trust of our customers as on our ability to provide value. We will continue to work hard to keep that trust by serving our customers with fairness and integrity.

Our people

Clearly, having the right people with the right skills in the right place at the right time is critical to our success. One element of The Zurich Way has been to create a common set of talent guidelines that our units around the globe will eventually adopt. This includes the areas of leadership assessment, employee recruitment, compensation and incentives, performance management, and career development.

We are changing the culture and raising the bar for all our employees. An important part of The Zurich Way talent management initiative is that our top 200 senior executives have been assessed by external consultants. We have taken an inventory of our talent and where we have found gaps, we will fill them. We will continue to do so, and to upgrade our talent.

The Zurich Way

Underpinning all of our thinking is The Zurich Way. During 2004, we identified and developed common methodologies, standards and business tools to help us achieve best practices in our operations and core processes. Seven major project initiatives, or workstreams, led by and composed of some of our best operational experts, were charged with developing blueprints for achieving consistent and sustained performance improvements. These workstreams include personal lines underwriting, corporate and commercial underwriting, claims management, distribution, life operations, finance, and talent management.

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The finance workstream helped the Group enhance financial discipline during the 2005 planning and budgeting process. Each of the other six workstreams performed at least two pilot tests of process improvements designed to implement The Zurich Way. Based on the lessons learned from these pilots, more than 100 projects will run through 2005, each carefully monitored and with monthly reviews. Because this type of disciplined monitoring has contributed to profit improvement programs in the past three years, we believe that targeted 2005 improvements of USD 500 million after tax are within reach.

Far from being simple cost savings, most of the improvements will come from better processes firmly anchored in shared Zurich values. For example, we have identified underwriting measures that will consistently improve our ability to get the right price for the risks we accept. A wide range of actions will improve the efficiency of our claims handling processes and ensure that claims are settled speedily, fairly and at the right price. In Life Insurance, initiatives based on a program to develop sales excellence showed a high rate of success in the pilot phase.

Building on our strengths in General Insurance

Our General Insurance businesses in the US and Europe are at the forefront of implementing The Zurich Way underwriting initiatives. Our twin aims are to develop new procedures and tools to produce a better and more consistent underwriting result, and to improve

underwriter acumen by changing the culture. Once again, common business processes are at the forefront of our thinking. The most tangible measures have come from file reviews that helped us identify and quantify the greatest opportunities for improvement. Our first initiative began in the UK and looked at the pricing of motor fleet risks, employers' liability, and property insurance.

Since then, our business units in eight European countries have pooled their knowledge and experience to identify areas for further improvement in motor claims. Thousands of closed files were examined to see how we could have dealt with claims and other issues more efficiently. The business units also analyzed our claims and studied practices on the more serious personal injury claims. As a result, our motor claims teams are introducing changes that are benefiting our customers and our business, with a central project office ensuring rigorous implementation.

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Personal customers experience the difference

In the US, the Farmers Exchanges are typical of our determination to provide the best possible customer service. The personal touch is paramount, as in the case of Richard and Esther Shapiro, who lost their home in Sawpit Canyon, California, in a wildfire. Mrs. Shapiro wrote: "Our family was devastated, but before the last embers of that fire died, Farmers contacted us. We have never been so impressed with an insurance company and the high caliber of personnel as we were through this experience. Most of our neighbors have had pretty negative experiences with their carriers, and many may not be able to rebuild their homes. We have spread the word about our confidence in Farmers."

In Europe, we can build on a strong network of 40,000 agents, brokers and financial advisers, offering both general and life insurance products and services. We also offer complete cover through direct contact in all our major European markets. We work with brokers and intermediaries, and have powerful wholesale partnerships with customer organizations. These include Deutsche Bank across our major European businesses, the motoring organization ADAC in Germany, EasyGroup and Alliance and Leicester in the UK, and Halifax Bank in Spain.

Personal customers can deal with us in a variety of ways, either through brokers or agents, direct by telephone or on the Internet. In Germany, we are the market leader with 42 percent market share in motor direct business. A quarter of new business is generated via the Internet.

Commitment to commercial enterprises and small businesses

We pay equal attention to commercial enterprises of all sizes. We offer our commercial customers a comprehensive range of general insurance products, including automobile, workers' compensation, multi-peril, liability and property products, as well as fidelity and surety bonds and a range of speciality coverages. One example is Zurich's provision of insurance cover for the ambitious restoration and renovation project at La Scala Theater in Milan, which began in July 2002 and continued until late 2004. We also insured other major public works in Italy, including the construction of the Salerno-Reggio Calabria highway and high-speed rail links between Novara and Turin.

In the UK, our small business proposition now offers 24-hour Internet access for brokers. Demand for this service has expanded rapidly, and more than half of new business was written in this way in 2004. Zurich is now among the top three players in this sector in the UK.

In the US, Zurich and the Farmers Exchanges are among the largest insurance providers in the small business market. To enhance our service, a free Web-based service known as Virtual Consulting helps insurance agents and their customers to identify causes of loss, and recommends solutions for minimizing them.

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As the second largest insurer in general corporate business worldwide, we are building on a proven record of giving our customers and potential customers what they need.

Hundreds of small businesses in Florida were grateful for our swift response when four hurricanes swept through the US and the Caribbean in the late summer and fall of 2004. We worked with customers such as citrus growers, healthcare facilities and manufacturing plants to help them get back into operation as quickly as possible. In the immediate aftermath of Hurricane Charley in mid-August, we sent 200 claims professionals to the state. After Hurricanes Frances, Ivan and Jeanne followed in swift succession, we sent a further 600 claims representatives. An emergency field operation was set up in Tampa, Florida, and our claims center in Colorado stayed open 24 hours a day to process claims. These were then passed to our Catastrophe Center near Chicago, which grew from 14 people to more than 80 to respond to the emergency.

Global teamwork supports international companies

As the second largest insurer in general corporate business worldwide, we are building on a proven record of giving our customers and potential customers what they need. Our Global Corporate business division emphasizes our commitment to this market, and draws on the strength of our established international network to develop deeper and stronger

relationships with major corporations. The active management of this network allows us to serve global customers in more than 120 countries. It also helps us to ensure a uniform standard of service and expertise as we continuously move towards one Zurich.

We have the flexibility to provide solutions in the way our customers want. One of our more unusual assignments came when McDonald's Corporation asked us to write a comprehensive property and liability program. McDonald's firmly believes that its major business partners should understand its philosophy and be familiar with day-to-day sales operations. Several of our employees spent time in the main branch of McDonald's in Zurich, serving customers and learning the business requirements at first hand. We have since written a multiline program for McDonald's Corporation corporate locations in the US.

In another case, Nestlé was looking for a centrally managed program for its global motor fleet. Zurich experts in the US and Europe worked together to produce a multi-national insurance solution that offered consistent overall protection but with local service for Nestlé's operations delivered through the Zurich network. The program now provides insurance protection to some 12,000 of Nestlé's motor vehicles in central and eastern Europe, Asia, and North and South America.

Our International Program System enables us to provide major customers with information about their worldwide operations that would be almost impossible to gather manually. This includes underwriting, premium, claims and accounting data.

Developing the Global Life Insurance business

Our Global Life Insurance business is benefiting from The Zurich Way throughout the organization. We are introducing a sales excellence program to improve the productivity of our tied sales force across the Group, based on our best practices in all major countries as well as from other industries. A pilot is running in Switzerland and will be expanded to key countries in Europe.

In Germany, we took full advantage of a unique sales opportunity provided by a pending change in the tax laws that enabled us to increase savings policy sales. The Deutsche Bank distribution channel performed particularly strongly. We have also introduced a new range of pension products to take full advantage of the changed tax laws.

In the UK, we are introducing a new model that will allow the different parts of our life business to develop separately. Our Zurich Advice Network of franchisees will become a retail distribution company called Openwork, a key business partner for Zurich that will sell third-party products as well as our own. These will include life, pensions, investment

and mortgage products, as well as general insurance products. To help the new business grow, we are drawing on the expertise that Farmers has built up in the US in developing and retaining a highly effective tied sales force. The UK's extensive distribution network gives us a strong position in the life market.

The other part of the UK life operation will comprise two business areas. One will manufacture competitive products for Openwork and existing independent financial advisers, and will look for new outlets. The second will be a specialist manager of important books of business where we no longer market the products, but where we need to give customers the priority they deserve. By reorganizing our businesses in this way, with focused management teams, we can concentrate on the different issues that each faces.

In the US, Farmers' share of the life market has grown further through cross-selling of products to general insurance customers of the Farmers Exchanges. In Continental Europe, we see great market potential and opportunities through our

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relationship with Deutsche Bank, which uses Zurich as its exclusive supplier of life insurance products. We have more than 10,000 agents in our major general insurance markets of Germany, Switzerland, Italy and Spain, who can work closely with our colleagues in the Life Insurance business to exploit cross-selling opportunities.

Expert advice from risk engineers

A critical part of the risk management process is to advise customers about the hazards they face, and help them minimize potential losses. Across the world, 800 risk engineers serve multinational companies and small family businesses alike. Recruited locally, they understand the local safety culture and regulations, and can conduct risk assessments and service calls in the local language. Working to the same standards and procedures globally, they provide expert advice and services tailored to individual needs, including property protection, environmental and strategic risks, fleet management, business continuity, and health and safety.

This approach has proved to be popular and effective. Taiwan-based Powerchip Semiconductor Corporation, one of the world's leading manufacturers of high-tech dynamic random access memory, or DRAM, said: "Zurich is our trusted strategic partner, and we are sticking with them because they have provided quality and innovative services to us." Another customer, Tony Rodolakis, vice president, Risk Management for Starwood Hotels

and Resorts Worldwide, observed: "Doing business with Zurich Risk Engineering has been an outstanding experience, oftentimes exceeding my expectations."

To ensure we keep in touch with customers' needs, we have organized risk management councils of customers whom we meet several times a year in the US and Europe. We also organize unique risk engineering workshops for customers and brokers, to provide a comprehensive view of the hazards that can affect an organization. Our International Risk Engineering training course is accredited by the Institute of Risk Management in the UK, an internationally recognized body.

Committed to excellence

We live in times of intense competition, but we are confident that our key differentiating factor is our unwavering commitment to operational and financial discipline in producing successful results, keeping our promises, and meeting our customers' needs. We want our customers – wherever they are, however large or small their business or their needs may be – to know that when they deal with Zurich, they are dealing with professionals. 57,000 people.

One team. One Zurich.

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