

**Check against delivery.**

## **Extraordinary General Meeting 2002**

**Address by James J. Schiro**

**Chief Executive Officer**

*October 11, 2002*

Ladies and Gentlemen

Dear Shareholders

It is my pleasure to welcome you. I thank you for coming and for the interest you are showing in our company. When I spoke to you as newly appointed Chief Executive Officer last May, I said we needed to look at our company in a fresh light. We knew that we had to restore the Group's profitability and strengthening its balance sheet. I stressed that it would be important to tackle all issues and not to exclude any options.

Maintaining a dialogue with you is very important to me, particularly on this important day for the future of our company. I shall present you the results of the strategic and operational deliberations. We have worked hard, and we have much to report. One important element of our initiatives is the mobilization of new capital to fund sustained and profitable growth. As part of this, I am going to ask you to support the Board's proposal for a capital increase that will increase our equity base by approximately 2.5 billion dollars.

Let me begin by sharing with you what we have concluded.

## **Our Assessment**

Last year, when I decided to join Zurich Financial Services, I knew that I was going to join a company that was a leader in the industry and that enjoyed a great reputation among its customers and competitors.

Let me assure you that my assessment is now stronger than before. I have met with the leadership of our organization, with brokers and agents and, most importantly, with our customers and employees. What I have heard is reassuring, indeed. Zurich counts as one of the market leaders when it comes to providing innovative solutions for our customers' risk problems.

This is borne out by solid statistics where Zurich ranks consistently in the top tier. Our three largest markets, North America, the United Kingdom and Continental Europe, consisting of Switzerland, Germany, Italy and Spain, account for roughly 80% of our total premium volume. Our business is geographically well diversified, and the company has a strong position in and a well-developed knowledge of its markets. In short, our business is well positioned.

But we cannot stop here. Let me identify the issues that our review has revealed:

- We saw a need for improved financial discipline, and we recognized that our businesses had to focus more closely on delivering operational income.
- To do that we set a target of a 12% operating return on equity, which implies that we have to improve our operating performance by 1 billion dollars.
- Finally, our assessment showed a need to strengthen balance sheet and reserves.

Now, let me tell you how we are going to address these issues.

## **Our Action Plan**

Just over a month ago, my colleagues in the Group Executive Committee and I presented an action plan designed to fortify Zurich's position in the market place.

### *Back to basics*

In this plan we fundamentally refocus our business. The 1990's marked a decade of rapid growth and the vision to become a web-enabled financial services provider. Today, we see technology not as a stand-alone approach to distribution but rather as a tool that is best used in a prudent way to improve efficiency and customer service. And that is why today Zurich is an insurance-based financial services provider with an international network that is focused on chosen markets.

This has major implications.

We believe that profitable growth is best achieved in countries where we hold the most attractive market positions, possess strong local knowledge and expertise, and where we can benefit from economies of scale and scope. Out of our more than currently 300 businesses spread all over the world, only about a dozen generate roughly 90% of our earnings. Consequently, we must devote our resources to building on positions in our core markets and core product, centered on insurance. Where our customers demand services outside the core product suite, we will enhance our offering with third-party products.

Non-core businesses must exceed our target 12% business operating return on equity after tax over the medium term. Financial discipline requires that we will leave markets where this target is not met. Capital thus released will be redeployed into more profitable core businesses.

This brings me to our measures for improving the bottom line, the most challenging area of our strategy.

### *Improving the bottom line*

The starting point for the considerations I want to share with you is the changed environment in which our industry is operating. By now it is commonplace to observe that financial markets have been fragile and volatile and that economic growth has been sluggish at best. The bull markets that we have seen throughout most of the 1990's are gone, and the general consensus today is that these conditions are going to last for some time.

Business models that depend on capital gains are no longer viable. We must focus on financial discipline and delivering operating performance instead.

We have assessed our operating performance relative to a target business operating return on equity of 12% after tax over the medium term and excluding capital gains. We analyzed the performance of our competitors and drew on the knowledge and experience of the most efficient Business Units within our Group. Based on this analysis, we have initiated a profit improvement program designed to increase our net income by at least 1 billion dollars in 2003, which I laid out in detail on September 5.

### *A stronger balance sheet*

Let me now turn to the measures we have taken to strengthen the balance sheet.

To assure ourselves as to the adequacy of reserves, we consulted with our chief actuary and our independent auditors as well as with an independent actuary. Based on these consultations, we have booked a provision of 2 billion dollars before taxes to increase our reserves to a level that is now deemed to be above the midpoint of a reasonable range. In addition to that, we also made special provisions for goodwill impairments and capitalized software write-offs totaling 954 million dollars.

But in order to grow profitably in the future, we need to rebuild our capital base, which brings me to the reason for today's Extraordinary General Meeting.

### *Enhanced capital base and tighter financial discipline*

Let me start out by emphasizing that the outlook for profitable growth in the non-life insurance business of our core markets is better than at any time in the last decade. We are experiencing strong double-digit price increases in nearly all of our commercial lines in the United States, the United Kingdom and Continental Europe; and we are also seeing first signs of strengthening in personal insurance rates in these markets. Market observers expect this so-called hard market to continue. But in order to benefit from this strong market and to support our effort to create value for shareholders, we need additional capital.

Consequently, Zurich has embarked on a program designed to enhance risk-based capital by 5 billion dollars by the end of 2003. The cornerstone of this program is our proposal for a capital increase of 2.5 billion dollars, granting pre-emptive rights to existing shareholders.

The measures to improve our capital strength will allow us to take advantage of growth opportunities in the current hard market. In addition, they should go a long way in restoring the Group's financial strength rating to the level of AA.

### **How Do We Intend to Deliver?**

Without a doubt, we have embarked on an ambitious program. The proposed capital increase is only one part, although a very important one. Our goal is to make Zurich a strong company, capable of competing in the top-tier markets and prepared to create sustained value in the interest of all its stakeholders.

As I said on September 5, the easy parts are done. We have booked the reserves, and we have booked the charges. The more difficult task now is implementation.

We have refocused our businesses, and we will go forward with financial discipline and committed to delivering operating results. We are going to manage our resources closely to maximize value for our shareholders.

We are currently operating in a difficult environment. Financial markets are fragile, and the insurance industry is running both hot and cold at the same time. While the non-life business is profiting from the hardest market in a decade, our life business continues to suffer under the impact of weak financial markets.

We know that status quo and business models of the past are no longer options in this environment. That is why we have presented an action program to impose financial discipline, improve profitability and strengthen the balance sheet. I hope that you will show your support for this program today by approving one of its key building blocks: the proposed capital increase to fund profitable growth.