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ZURICH
FINANCIAL SERVICES

2002 Annual Results

Media Presentation

Opening Remarks by James J. Schiro

Chief Executive Officer

February 27, 2003

Good morning, and welcome to the 2002 annual results presentation for Zurich Financial Services.

Our company has been extremely busy since I met with you last September. Not only did we raise 2.5 billion dollars in new capital, we also began implementing our strategy with the goal of becoming a highly focused and profitable insurance-based financial services provider.

In addition to discussing our 2002 results, my colleagues and I would like to review what we are doing towards delivering on the commitments we made last September. I visited every major location of our organization, talking to employees, customers, agents, and brokers. I review progress on our program, constantly challenging our business leaders and following-up on previous commitments. I always ask them the same questions: Are you on target? Are you getting traction? From their answers I know that they are excited. They can see the changes already implemented, and they know that these changes will manifest themselves in our operating results over time.

My job is to ensure that the restructuring gets done. I have to keep the foot on the gas and brake pedals at the same time to keep everyone on track. I hold my colleagues in the Group Executive Committee accountable, because delivering on our promises is as important to me as to our company. It is the key to regaining confidence and trust of all our stakeholders.

But first, let me briefly reflect on the environment in which our company is presently operating.

We are benefiting from the strongest pricing environment we have seen in 15 years, particularly in our North American Non-life business. The trend is similar in other regions.

This hard market, now going into its third year, is the result of a dramatic reduction in capacity.

As a consequence of exceptional losses and the diminished capital base of companies throughout the industry, Non-life insurance capacity has shrunk by 25%, or roughly 180 billion dollars since the year 2000.

As only a fraction of this capacity has been replaced, we expect this hard market to continue well into the next few years.

This is good news for an industry that is still suffering from a decade of weak pricing, driven more by buoyant stock markets than by insurance fundamentals. Top line growth is giving us needed cover, while we get a handle on the factors driving cost and expenses.

However, our industry faces a number of challenges.

The global economy has been weak since 2001, and geopolitical uncertainties cloud the short-term economic outlook.

Equity markets have declined three years in a row, and concurrently we face the lowest interest rates in a generation. Some products in the life business, created in the heat of competition for premium dollars during the bull market of the 1990's, have become unprofitable under these circumstances. That is an industry-wide problem.

Additionally, the regulatory environment in several countries and the tort system in the United States in particular have added to the cost of doing our business, without bringing commensurate benefit to the public. Some call this the "tort tax".

For example, in Switzerland, the group Life business is legally required to provide a minimum interest rate guarantee of 3.25%. This is 110 basis points more than the current return on the risk-free asset, the 10-year Swiss government bond. Our position is clear: the minimum rate guarantee should either be abolished or closely linked to the risk-free rate.

In the U.S., the insurance industry is exposed to the most aggressive tort system in the world. Tort costs amount to 2.2% of GDP, which translates into 900 dollars per capita, two and a half times the average of the OECD countries. The insurance industry, and others, bears the heavy burden of asbestos litigation, the limits of which do not appear to have been reached.

Please do not misinterpret my comments: we addressed asbestos reserving already last September. We did a thorough review of our reserving in the spring of last year and took appropriate action in the first half – long before actions by many other companies have put this issue onto the front page. My point is that we are – and I do not mean just our industry – in dire need of a more balanced tort system, in particular in the U.S. Reforms need to address the rights of those who are truly injured, while weeding out frivolous claims. The "tort tax" is truly becoming usurious.

Each of these elements alone would have a severe impact on our industry. Together, they amount to what some term "the perfect storm". We are moving ahead in spite of them, having put our business on a more solid foundation and passing significant milestones on our way to operating improvements.

Patrick O'Sullivan and Thomas Buess will take you through the metrics we use to monitor our performance, and they will provide a detailed analysis of the 2002 financials.

Here are some highlights:

- Total gross written premiums, including those of the Farmers Exchanges, which we manage but do not own, grew by 11% to 62.2 billion dollars.
- Business operating profit, the internal metric that enables us to measure performance in the business of writing profitable insurance, increased from 217 million dollars to 1.1 billion dollars.
- The Non-Life combined ratio, before special provisions, improved by 5.6 percentage points to 103.6%.
- New Life business margin increased 2 percentage points to 6.1%. I will speak later on our developing strategy for the Life business.

However, I want to remind everyone that we are in a restructuring phase and that no recovery follows a straight line. We posted a loss of 3.4 billion dollars, and we charged provisions totaling 3.5 billion dollars. On the one hand, these were necessary actions to strengthen our balance sheet and give the company a sharper focus and higher earnings potential. But on the other hand, there is no denying that the provisions are higher than I would have liked them to be at this stage of the restructuring process.

Let me take you through some of the pluses and minuses. First, I would like to start with the negative developments at Centre and Zurich Capital Markets (ZCM), the two main businesses within Zurich Global Assets (ZGA), which cost us more than 350 million dollars in additional reserves, provisions and operating losses. I would like to give you the background to the strategic decisions we made for the businesses at the end of last year.

A number of concurrent developments are behind the turn of events at ZGA. When we replaced the management at ZCM last spring, we started a strategic review of its whole business. The urgency to act increased with the decision to sharpen our company's focus. As I told you in September, we are imposing high return targets on the capital allocated to our businesses. If they do not meet the internal benchmark, we will review all options with a view of maximizing long-term shareholder value.

The global economy remained weak and financial markets continued to be fragile, taking a turn for the worse in the fourth quarter. In addition, the rating of Zurich Financial Services was downgraded in the summer. The cumulative impact of these factors catalyzed our thinking. Given the adverse economic and financial environment we were facing then, we had to expect losses on some businesses written in Centre and ZCM. That is why, on the backdrop of the new capital allocation practice instituted in September, we changed the business mix for Centre and ZCM, and we made the prudent decision to reserve for the expected losses. We also discontinued the non-core, more "ratings-dependent" parts of the businesses by consolidating operations, reducing risks and narrowing the focus to purely insurance-based activities.

In early November, we stated that ZCM would exit activities in non-core businesses, including parts of the structured finance business and certain operations in Australia. Shortly thereafter, we announced that Centre would no longer write credit enhancement business, and that its finite risk P&C insurance and reinsurance businesses, now also under a new management, would be integrated into the Zurich North America Business Division. Let me emphasize that Centre is a strong brand, and it continues to be of strategic importance to our company.

The repositioning of Zurich Global Assets illustrates our approach to improving the company's bottom line. Closings and divestitures of businesses are part of this, and while I cannot disclose our plans, I will summarize our actions since last September:

- We closed the Zurich Bank in the U.K.
- We announced an agreement to sell Rüd Blass Bank, to be closed after regulatory approval, and
- We completed our exit from several of the smaller insurance markets in Northern and Central Europe.

You can expect to hear more from us along these lines.

I would like to say a few words about the Life business. Low interest rates and the collapse of the stock market have put the whole Life insurance industry under stress. There can be no doubt: The whole industry as well as our company needs radical action to ensure that operating targets are met again.

We thoroughly analyzed this business, taking into account both the current adverse market conditions and the fundamentally positive prospects for the long term. While our review is not complete, we have already taken the following actions:

- We stopped writing new policies in the capital-intensive with-profits business in the U.K.
- We increased administrative charges in our group Life business in Switzerland by 50%.
- We have cut costs in our key markets.
- We have cut bonus rates in our major markets Germany, the U.K., and Switzerland.
- We have reduced guarantees in new products, and we are offering more unit-linked products.
- We continue to improve our asset and liability mix in the UK, Germany and Switzerland. That means we will remain a seller or hedger of equities throughout this year, reducing the mismatch between life product guarantees and the performance of the equity market.
- Finally, I have begun an internal and external search for the first operational head of our Life business, who will be charged with driving the profit improvement program across this segment.

Our focus is on delivery. We are not only closing and divesting businesses. We have also put people, processes and structures in place that allow us to gain operational and financial control. We are single-mindedly driven by the commitment to execute and deliver. This means:

- Financial discipline
- Better process management
- Laser-sharp focus
- Centralized key decision-making, and
- Contingency planning

Patrick will talk in more detail about how we are going to ensure financial discipline.

Our Global Profit Improvement Program is on track. This is not merely an exercise in cost cutting and improving efficiency gains. It is rather a project driving performance and bringing fundamental changes to our operational and financial processes throughout the entire organization.

The sharp focus is on the tasks essential to being a profitable insurance company: solid underwriting and strong claims management.

The centralization of key decisions ensures timely flows of information and quick adjustments. Capital allocation is managed systematically from the center, as are the decisions on the investment portfolio. In addition to finance, we have centralized communication and IT.

Early warning systems, based on monthly tracking and quarterly reporting, are in place. They allow better contingency planning. If we are slipping in one area, we activate alternative programs to pick up the slack.

In short, we must exercise better control, and we are measuring performance. What gets measured gets done, and we are starting to see the results.