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Half Year Results Reporting 2004

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Chief Executive Officer

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I am pleased that our strong recovery continues with the sixth consecutive profitable quarter. It is based on sound underwriting, financial discipline and our sharp business focus. Overall, gross written premiums and policy fees grew by 2% to a record 26.4 billion dollars. Net income nearly doubled to 1.4 billion dollars in the first half of 2004, while business operating profit (BOP) rose 47% to 1.9 billion dollars. Net income return on equity was 16.8% and BOP ROE after tax came in at 15.1% (both annualized). Not only did we exceed our ROE targets by healthy margins, we were also able to further strengthen our balance sheet.

We enter the second phase of Zurich's recovery, building on our renewed performance culture and committed to creating shareholder value and strengthening our balance sheet. In the first half of 2004, we added 1.5 billion dollars to General Insurance reserves, bringing the total to 38.5 billion dollars. The consistent delivery of solid results gives us confidence that we can continue to operate from a position of renewed financial strength. The momentum comes from our strategy designed to leverage our global capacity and our renewed performance culture that strives for excellence in all activities. Our commitment to financial and operational discipline also shows up in the combined ratio; it improved by 2.1 percentage points to 96.7%.

However, the markets we are working in continue to be fragile. We all knew that the benign environment we have seen in the last 18 months, which was characterized by the

absence of large catastrophes and low claim frequencies, would not continue forever. Now hurricane Charley has reminded us of this point rather painfully. We reckon with losses of about USD 150 million net of reinsurance. We are also operating in an environment characterized by rapidly changing regulatory approaches. Increased litigation pressures primarily in the United States require close monitoring of the insurance industry's reserves.

Let me briefly touch on the increasingly inhospitable litigation system in the US. Per capita tort costs are expected to rise to 1,000 dollars by 2005, up from 720 dollars in 2001. This will be a staggering 2.4% of GDP, more than double of the OECD average, and more than in any of the key markets we are operating in. Aside from imposing an enormous burden on the economy, the system is highly inefficient. Only 20 cents of every tort dollar actually compensate the victims for economic losses, and nearly 60 cent of every dollar are eaten up by attorney fees, defense costs and administration purposes. They never reach the victims.

Our industry is asked, among others, to foot the bill. While insuring against economic loss is part and parcel of our business, rapidly changing court practices render underwriting and appropriate reserving nearly impossible. That is not to say that we are about to quit the US liability market. But we are mindful of the risks.

We are constantly assessing external developments, charting our own course based on our renewed operational and financial strength. We have taken actions to further strengthen our balance sheet when necessary, and as far as reserving is concerned, I am happy to reiterate our approach. We restructured our annual loss reserve reviews so that they are spread across the year rather than lumped together at year end. The new approach allows for continuing improvements in processes and methodologies and we continue to recognize developments as we see them. In the second quarter, we completed our review on a number of important segments. Following these reviews we have strengthened General Insurance reserves.

Turning to the results, I am pleased to report that all of our business segments contributed to our strong performance. The General Insurance underwriting result more than tripled to 487 million dollars, and going forward, our focus remains on making an underwriting profit over the insurance cycle.

The actions we have taken to improve the performance in Life Insurance are beginning to show results. But more work remains to be done to ensure that this segment meets the Group's internal hurdle rate. We are implementing measures designed to improve the profitability of the Life Insurance segment by reducing administrative costs and further de-risking the segment's balance sheet. Our main focus is on Continental Europe and especially the United Kingdom. In Switzerland, we continue to reduce our exposure to the group life business by shifting our activities to the independent Vita foundation.

Zurich has positioned itself to leverage its global capacity in order to continue to benefit from its well-balanced portfolio in attractive markets. While we continue to see good prices in most lines of business, the pace of rate increases has slowed to the single digits. In liability, for example, rates increased between 5% and 10% depending on the markets, in property they went up about 5% overall. Although there are some decreases for the largest property risks, these risks are still profitable for us. Rates for motor business are flat in most markets. I also note that earned premiums benefiting from strong rate increases in prior periods continue to flow through to our bottom line.

We are seeing increased competition from new entrants and we selectively withdrew from markets where prices no longer seem to meet our hurdle rates and our goal to deliver an underwriting profit. But there is no reason why the industry should return to the cash flow underwriting observed in the late nineties when rates were driven frequently below the technical price. We are committed not to repeat the mistakes of the past. In a time, when investment returns continue to be low, the industry's bottom line remains directly related to underwriting profitability. We are not prepared to defend market share by chasing prices down below a technically sound level. On the contrary, we consistently aim for profitable growth, and this is in the best interest of our customers and shareholders.

As we said in April, a number of lines, such as Commercial Middle Market, Global Energy, Construction and Specialties in the United States, are driven opportunistically. This means, we manage them prudently, expanding or contracting capacity in response to market dynamics. In addition, we are constantly adapting deductibles and terms and conditions in our Corporate Customer segment where we compete on more than price. We have the capacity to bring sophisticated solutions to the market and we leverage our capabilities on a global scale. Entry barriers to the global corporate customer segment are fairly high.

Sound underwriting is not the end of the story. Zurich's bottom line is also impacted by our ability to harness further productivity gains following the success of last year's profit improvement program. We are committed to retain these improvements permanently in our cost structure. The program to reduce expenses by 200 million dollars in 2004 is on track, and we will continue to identify opportunities to keep our expenses and cost base in check. For example, in July we announced an IT outsourcing agreement designed to generate 300 million dollars in cost reductions over the next seven years. Prior to this we had reported the outsourcing of our electronic workplaces and the consolidation of several data centers in North America and Europe into two units. While the control of IT operations remains with Zurich, the recent outsourcing contracts increase our flexibility in responding to business priorities. They are designed to reduce the complexity of current applications and facilitate common IT processes across the Group.

Enhancing productivity is more than an exercise in cost reduction. Last year's profitability drive was based on a mix of operational improvements and a sound approach to pricing. This will continue based on our track record for disciplined execution. The transformation program continues; it is designed to lead to sustainable improvements to the bottom line.

We are enthusiastic about our long-term growth opportunities. Growth will come from our clear focus on our chosen General and Life Insurance segments. To these segments we will apply our competitive advantage based on global scale, unique distribution skills and customer relationship management. Our well-balanced portfolio gives us a spread which limits the impact of cyclical price movements across individual lines of business.

Life insurance is building on a large customer base and benefiting from strong distribution in major markets. This includes our distribution arrangement with Deutsche Bank, which is contributing a sizeable share to the segment's premium volume.

The integration of our European General Insurance operations is moving ahead with the increased sharing of common services across countries to improve productivity. We are building on the competitive advantage in distribution, which derives from a history of successful innovations and a powerful agent network in the European key markets and this should continue to produce strong results.

In the United States we look to the unique structure of the Farmers Exchanges and the potential yet to be unleashed. The Exchanges added 231 million dollars of surplus in the first six months. They made good progress towards the target of increasing the surplus by 400 million dollars in the current year. Their exclusive agency force, traditional high customer retention and product density provide the foundation for profitable growth in the future.

Our Corporate Customer segment is now operating in an integrated structure that better leverages its value proposition and global capacity. The strong customer relationship management and global network extending to more than 120 countries contribute to a decisive competitive advantage.

Let me summarize. Our Group has a clear strategic direction, as outlined on April 2. We will continue to build on our worldwide market position and strong global brand. In the last two years, we have strengthened reserves, reduced debt and improved our capital position. And having aligned the Group's structure with its high-quality portfolio we will now continue on the path towards sustained profitability and the creation of shareholder value.