Annual General Meeting 2006

Speech by James J. Schiro
Chief Executive Officer
April 20, 2006

Mr. Chairman
Dear shareholders, ladies and gentlemen

My colleagues and I are proud to present you with a record operating performance for 2005. Net income was 3.2 billion dollars, up 30%, and business operating profit increased 32% to 4 billion dollars. The return on equity of 15.5% ranks us toward the top of our peers and has exceeded our target of 12% for the second year in a row.

Our performance was also reflected in the stock market. At the end of 2005, our market capitalization was 40.3 billion francs. This corresponds to a year-on-year increase of 48% and to more than a doubling compared with the end of 2002. We clearly are on the right path. The quality of our earnings and strength of our strategy continue to provide a solid foundation for sustainable economic value.

Patrick O'Sullivan, our Group Finance Director, will discuss our results in detail later. What I would like to focus on instead is the embedded nature of Zurich's strengths. These strengths, which touch on all core competencies, are embodied in our people, 55,000 strong. They have shown the commitment and capability to make much needed change. Whether it is here in Switzerland, the rest of Europe, North or South America, Africa or Asia, the employees I have spoken with about these changes impress me. They should make all of you proud. We appreciate their dedication to the Group, and we thank them for their tireless efforts.

One of the most graphic illustrations of the resilience created by these embedded core strengths was our ability to achieve the 2005 results despite record catastrophes. We recall the heavy floods in the UK and Switzerland, forest fires in Spain and Portugal, and, of course, the exceptional series of hurricanes striking the US Gulf coast states and the Caribbean. Just the floods in Europe and the hurricanes in the US contributed to a catastrophe charge of 1.3 billion dollars net of reinsurance.

It is worth noting that 7 of the 10 most expensive hurricanes in US history occurred in the 14 months between August 2004 and October 2005. In fact, last year's hurricane frequency was nearly three times above average, and an early forecast for this year's season predicts activity levels close to double the long-term average.

Our resilience in the face of such an exceptional volatility should not surprise. In light of increased storm frequencies we started early to challenge modeling assumptions, tighten underwriting standards in catastrophe-prone regions, and assemble robust reinsurance programs. Our underwriters have new tools to assess the impact of prospective risks to the overall portfolio **before** acceptance and reduce overall exposure.

But we should see these events in perspective. Catastrophe-related claims are only a fraction of our payments for insured losses. We are here to help our customers; they count on us when things go wrong. That is the reason why the operational and financial strength of our Group is so vital. We would not have been able to fulfill our role without the results achieved in the last years, and these results are the product of a transformational change.

This change is now embedded in how our people integrate best practices to improve core competencies of our businesses, and I would like to spend a few minutes to tell you why and how this change was implemented.

When I started visiting our operations three years ago, what struck me most was how fragmented they were. Mind you, they were all Zurich – but it was hard to find two units that went about their business in the same way. Now it is clear that a global organization of our size with operations in more than 50 countries cannot afford the luxury of having no common way of dealing with its core business activities.

That is why The Zurich Way came about. It is our approach to instill a common language and standardized processes throughout the organization and ensure that the improvements will have a lasting impact.

Over the last three years, we have implemented literally hundreds of improvements. It is important to see how we delivered. In 2003, more than half of operational improvements of 1 billion dollars came from cost cutting. In 2005, the ratio has dropped to 20%. Almost three quarters of operational benefits are now coming from process improvements in underwriting and claims management. Together, these efforts contributed well above our target of 500 million dollars worth of economic value.

The Zurich Way is not a one-off cost-cutting exercise. Its true value resides in the passion for excellence that affects everything we do. It is a change in the mindset that had a lasting impact on the Zurich and that will continue to generate benefits in the years to come. In 2006 and 2007, we plan to add another 1 billion dollars in operating improvements. I am proud to say that we were among the earliest in the industry in implementing such programs. Their lasting improvements will go a long way in providing for contingencies necessary to cope with the volatilities inherent in our businesses.

Let me recap this segment with a look at how our transformation to operational excellence has materialized in results. Indeed, the performance, as measured in business operating profit and business operating return on equity, is showing continuous improvements. The same is true for the new business profit margin in the Life segment. We even see an underlying improvement in the General Insurance combined ratio when taking into account that the last two years mirror large catastrophes, reserve strengthening and a more conservative approach to reserving.

The success of our programs owes much to the careful tracking of their implementation. It may sound trite, and I have said it before: "what gets measured gets done." The Zurich Way has instilled a culture, which is defined by measurable progress and a lasting commitment to operational excellence.

The operational improvements go hand in hand with a strengthening of our balance sheet. Since early 2003, net insurance loss reserves have grown by more than 50% to 46.2 billion dollars, and over the same period, shareholders' equity increased by more than one third to 22.4 billion dollars. The strength of our balance sheet is further supported by a step change in reserving, which is the result of improved governance, harmonization of actuarial methods, and more conservative assumptions. Over the last years, we added nearly 6 billion dollars for adverse developments in prior years, and we are confident that the legacies of the past have now been addressed.

Ladies and gentlemen, whereas The Zurich Way is transforming our approach to business and enabling us to execute our strategy, our brand campaign carries the message of our capabilities to the outside world. Just in case they escaped you, we reproduced the campaign images in this hall, which I am sure you could not fail to notice as you came in.

We are excited about building a strong brand, and we are pleased by the response the campaign has produced. This is one Zurich – worldwide, and building it into a leading brand is an integral part of our business strategy because it helps us achieve our aspiration of being the leading insurer in our chosen markets. Research has revealed that the Zurich brand recognition is extremely low – and this for a company writing nearly 50 billion dollars in premiums. Just imagine the potential a doubling of brand recognition will unleash. We believe that it will translate into growing demand for products and services, and we are determined to harness the strength of our brand for profitable growth.

Looking ahead, the next task is to build on our achievements and embedded strengths. Most low hanging fruit have been harvested, and we must raise our aspirations higher. This also entails refinements and revisions to our business model. So let me be more specific.

When I joined Zurich, I was surprised to see an industry running on a model dating to the late 19th century. I said then that we had to find new business models. The challenge was perhaps the greatest in Life Insurance where low financial market returns and regulatory constraints forced us not only to come up with new products but also with entirely new approaches to manufacturing and distribution. The 2005 results demonstrate that we are making progress in implementing these new ways. But challenges continue to face us also in General Insurance. Let me address three specific points.

- First, I see us becoming even more customer-centric. While I do not wish to belittle the role of intermediaries, we must reclaim ownership of the customer. Ultimately, brokers and insurers are serving the same customers. That is why I believe that it will be in the common interest of all parties to build strong relationships at multiple levels. At the same time, we must acknowledge that the business is written on our balance sheet. We cannot delegate responsibility, and we must be actively involved in the selection of our customers and the subsequent transactions with them.
- Second, and this goes hand in hand with my first observation, we will see increased market transparency. The Zurich American Insurance Group is implementing new pre-binding

disclosures in the US market for general insurance. Brokers and agents will have to inform customers of our company's compensation arrangements, a first for our industry. This is fair and in the interest of all customers, and we believe to have set a standard for the industry to follow.

- Third, we have stepped up and we will continue to improve compliance. Compliance is more than ticking off boxes and filing forms at required intervals. It is a reflection of our basic values – to do what is right in the interest of our customers and build trustful relationships to protect the assets of our shareholders, customers and employees. Our processes are designed to reduce compliance risks from our business processes and monitor ongoing compliance.

We have embraced all three elements as fundamental to our strategy. Having seen the necessity for change early on, we were able to deal proactively with the challenges related to industry-wide investigations in the United States. In fact, Zurich was the first company to have achieved far reaching agreements with the regulatory bodies in the US. They close the book on questions raised by attorney generals and departments of insurance in a number of states but also with class action plaintiffs who had filed suit against insurers and brokers that was consolidated in the US district court of New Jersey.

Many of our strategic challenges are defined by our ability to cope with the risks facing our Group. I have said before that a global financial services company of our scope and size must manage its risks comprehensively. To be sure, risks impacting our assets are in many ways different from the insurance risks affecting the other side of the ledger. But in the end, we must arrive at an integrated view. This point is shared by rating agencies and regulators, two important partners in the risk dialogue. For example, the Swiss Solvency Test and Solvency II on a European level are both calling for fundamental changes in the approach our industry will have to take with respect to the management of risk.
Our response to these challenges consists in a further strengthening of our risk management function and in developing an enterprise-wide framework. You heard from the Chairman that the Board decided to create a new Risk Committee. Its creation mirrors our internal developments. Over the last years, we have centrally coordinated the monitoring of our credit and investment risks, and we are now better aligning our capital and risk management. Early on, we have created the function of a Chief Risk Officer, and his mandate has been strengthened over time. He continues to report to me, and he is in constant dialogue with the relevant board committees.

Now, a few words about the businesses themselves. The market-centric structure announced two years ago is now fully operative. We used to have more than 300 semi-autonomous strategic business units. They were only loosely connected and often not tightly managed from the center. Now we have a structure that mirrors our strong customer focus and the fact that we are competing on a global scale. We have a large footprint in attractive markets on both sides of the Atlantic, and we have promising beachheads in Asia/Pacific, Latin America and other vital markets.

Let me begin my short tour through our businesses with General Insurance and specifically with Global Corporate. In this market, Zurich is the worldwide number two. Based on our own analytical work, we consistently out-perform the industry, and, with our strong commitment to the market, we are a core provider for our distribution partners. We will continue to drive sustainable performance across the cycle based on the quality of service and our unified approach to the business.

Second, we are also well positioned in the US small business segment, which is part of the North America Commercial businesses. This market is comprised of companies with less than 50 employees; it is the biggest commercial segment in the US. Together, Farmers and Zurich are one of the largest providers, with the largest distribution capability through complementary exclusive and independent agent networks. Their combined premium volume is 4 billion dollars. Dedicated distribution and new product offerings will drive profitable growth in this market segment.

I do not want to leave the United States without mentioning Farmers Management Services. It is the business backed by the Farmers Exchanges, which all of you know, we do not own. Farmers is a unique model that has delivered and will continue to deliver reliable fee income and earnings growth to Zurich. Essential for the income earned in these operations is, of course, the success of the Farmers Exchanges. I am pleased to report that they achieved their goal of growing surplus by 1 billion dollars nearly one year ahead of schedule. The bigger surplus will allow them to grow their business in the future. Their momentum is driven by their strong franchise and their best earnings performance in history. The Exchanges are rapidly growing their tied agent force, and the productivity of their agents has more than doubled in the last three years. Farmers is poised to unleash the power of distribution, and, given their record, we expect them to deliver.

Turning to Europe, the General Insurance business is well positioned to capitalize on last year's achievements. We are the largest underwriter of personal lines in select European markets. It is a business with low loss variability and stable income growth, and we believe it will continue to be a healthy generator of cash and earnings. Going forward, we will benefit from the synergies derived from common platforms. They have made us a competitive provider, notably in motor insurance. Our teams in Europe are determined to achieve cost leadership. It will enable them to defend and build on market share without any loss in the quality of earnings.

Finally to Life Insurance. I am pleased to report that the turnaround in the UK and Switzerland is on track to be completed by the end of 2006. Now that our margins are improving, we want to re-emphasize growth. It is not our intention to be all things to all people; we would rather drive our business to market leadership in select niches. Our distribution partnerships have already propelled sales to above average growth in Italy and Spain and we gained market share in almost all other countries. We want to sustain the improvements and go for profitable growth. We are proud of the achievements of our Life teams. They are determined to continue the momentum, and I am convinced they will.

Let me sum up. Our strong footprint in the most important insurance markets of the world in combination with our financial strength and resilience puts us in an excellent position to tackle the future. Our goal and focus is to grow profitably in these areas. We believe that our shareholders are participating in an enterprise that has the strength to independently chart its course and grow organically as well as through acquisitions that strategically complement our portfolio.

Let me hasten to temper runaway expectations. Acquisitions are not a strategy. At best, they are a means to complement our portfolio. Our rules are clear: we are not prepared to engage in willful adventures. Any potential acquisition must fit our strategy, meet our hurdle rate and contribute to economic value.

Ladies and gentlemen, we could not meet our goals without the right people. Our industry is transforming at a rapid pace. The market is demanding new products, and we must constantly adapt to changing regulatory and capital requirements. This requires us to bring sophisticated skills to the table. That is why the recruiting and retaining of talent is one of our top priorities. My colleagues and I spend a considerable amount of time identifying and developing the next generation of leaders, and I make it my personal goal to see us excel in this task.

Earlier this month, David Wasserman relinquished his functions as member of the Group Executive Committee to become head of Zurich Alternative Asset Management, our new internal business unit for the management of alternative investments. In his role as Chief Investment Officer, David also successfully managed the transition of our investment function. David and his team have successfully rebalanced the portfolio to maintain favorable returns in a difficult market environment. The success of our investment portfolio is integral to our overall performance, and our profound thanks go to David for his contributions to the GEC.

As David's successor, I am pleased to introduce Martin Senn who was appointed Chief Investment Officer effective April 1. Please join me in welcoming Martin Senn; we are happy to have him on our team.

Ladies and gentlemen, in 2005, we achieved results in a most demanding market environment. Our resilience was firmly embedded on our commitment to operational excellence and financial discipline, and it showed in our financial performance. We have also been fortunate to be supported by a team of motivated and talented professionals. I am pleased to say that your company is stronger today than one year ago, and it continues to gain in strength.

The current year will undoubtedly bring its challenges. But we are well prepared. Our team is the best guarantee that we will stay the course toward sustainable and successful performance and reach our aspiration to be the leading global insurer.

I look forward to reviewing Zurich's progress again in 2007.