Annual Results Reporting 2003 – Media Conference

Remarks by James J. Schiro

Chief Executive Officer

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18 months ago we embarked on a journey to restore our credibility in the financial markets, strengthen our balance sheet, and build a platform for sustainable and profitable growth.

I am pleased to report that we continue to make good progress on all fronts. We have sharpened the focus on our three core businesses: General Insurance, Life Insurance and Farmers Management Services. We put processes and structures in place to improve operational and financial discipline, and we have strengthened our financial position.

Our 2003 results show that we continue to move in the right direction. Today we reported a net income of 2.1 billion dollars, generating a return on equity (ROE) of 12.5%. Business operating profit, our internal performance metric, was 2.3 billion dollars, allowing for an after tax ROE of 9.3%, a sizeable improvement of 4.2 percentage points over the prior year. The return to profitability was based on our strong emphasis on the fundamentals of underwriting and claims management as well as on tight cost and expense controls, which positioned us to benefit from the strong insurance markets.

In recognition of the Group's performance the Board of Directors proposes to the Annual General Meeting of Shareholders on April 16 to approve a payout in form of a reduction of the nominal value from 9 francs per share to 6.50 francs per share on earnings of 19.90 francs per share.

The improvement is reflected in all three core segments:

In **General Insurance** net income rose more than four times over 2002 to 1.9 billion dollars. On the backdrop of strong premium growth insurance reserves grew by 6.6 billion dollars to of 37 billion dollars, with reserve strengthening amounting to 1.9 billion dollars.

We have taken significant reserving actions throughout the year. The principles of our practices are clear. We look at our reserve positions at regular intervals and we act in light of any new and relevant information. We deal with the issues as soon as we see them, and we do not delay bad news. Our decision to strengthen reserves was made prudently and from a position of strength. It speaks for our renewed resilience that despite strengthening our reserves we managed to deliver a satisfactory net income and strong combined ratio of 97.9%. I am satisfied that the underlying performance of our General Insurance business remains strong.

In **Life Insurance** the sizeable increase of the net income to 799 million dollars benefited from early measures to improve this segment's performance. These actions included the reduction of bonus rates in our major markets Germany, Switzerland, and the UK, as well as the decision to stop writing new policies in the capital intensive with-profits business in the UK. We reduced costs and expenses and increased administrative charges. We developed an innovative solution for the Group Life business, and finally, we changed the mix of Life products by reducing guarantees and offering more unit-linked policies.

We are pleased with the results of the Life business at this stage of the recovery. The new business margin rose to 9.0%, an improvement of nearly 3 percentage points over the performance in the year before. Our embedded value return has also improved year over year to 10.5%. We are committed to the Life segment, but we recognize that we still have a lot of work to do. Although a number of underperforming businesses have been either sold or closed, the Life segment still does not earn its cost of capital. For the Group to achieve its overall earnings targets, the Life segment must also increase its contribution.

Farmers Management Services, our third large core segment, maintained its record of delivering steady and increasing earnings. Net income in this segment rose by 7% to 604 million dollars. The Farmers Exchanges, which we manage but do not own, succeeded in improving their operational performance as well as their solvency position despite large catastrophes in California towards the end of the year.

Our **investment performance** was characterized by strong growth in our invested asset base and a shift towards fixed income securities. This shift was in line with our commitment to de-risk the balance sheet. At the end of 2003 the exposure to volatile equities was 6.4% of our investment portfolio. Net investment income increased by 12% to 7 billion dollars, and the return on invested assets more than doubled to 4.9%. Going forward, our investment strategy is geared towards generating a more stable income, while paying appropriate attention to the complex requirements of our insurance liabilities.

No review of 2003 would be complete without a comment on Centre. You have heard me say this before; no recovery follows a straight line. Indeed, the nature of our business calls for an ability to cope with challenges. Such challenges were posed by Centre in the course of the year, significantly affecting the result in our Other Businesses segment. But these challenges were dealt with by the end of the third quarter, and Centre contributed modestly to the Group's net income in the fourth quarter.

In 2003 we fundamentally changed the way we do businesses internally and interact in the market. Our plan to enhance the long-term stability and earnings profile of our Group had three key levers: operational improvements, a sharpened focus on our core insurance businesses and strengthening of our capital position.

- Our operational improvements were primarily based on strict adherence to the plan set out in September 2002, which included measures to improve underwriting and claims management as well as disciplined pricing, cost and expense controls programs and contingency planning. We met or exceeded all targets of our profit improvement program.

Monthly monitoring, by Peter Eckert on the operational side and by Patrick O'Sullivan on financial activities, allowed us to stay the course and embed the disciplined approach in our culture, a culture that now has changed. We developed Group-wide processes for managing and monitoring strategic and key operational functions, and today we operate increasingly as one team that speaks with one voice and represents one Zurich.

- We sharpened our focus on core businesses and key markets, optimizing our portfolio to help produce sustainable earnings. Although we sold a few small insurance businesses, we did not – nor do we intend to – retreat from our ambition to be a provider with global reach. On the contrary, in 2003 the large corporate customer segment was one of our fastest growing and most successful businesses. Based on available data, we believe we are now the second largest insurance provider to large global corporations, serving them in 128 countries. We intend to expand on our strong position through a coordinated global approach, ensuring that customers can rely on a uniform standard of excellence in programs, underwriting and claims management.

  Obviously, fine-tuning a business portfolio of Zurich's magnitude is an ongoing process. However, the bulk of divestments has been made and successfully implemented in 2003. The Group's structure now better supports our overall performance objectives.

- In 2003 the objective of strengthening our capital base by 5 billion dollars was exceeded through a combination of measures. Fresh in our memory is the subordinated debt issue that raised 1.3 billion dollars last October. The success of this issue was particularly encouraging. High demand from investors who saw good value in holding Zurich paper enabled us to increase its size. The stronger balance sheet is now reflected in an improving outlook for our credit ratings, bringing us closer to the AA benchmark that remains our target.

  Our financial strength is probably the most decisive asset for our corporate customers in a world characterized by a heightened degree of risk awareness. That's why more and more corporations are selecting us, and we will continue to work hard to remain the partner of choice for our corporate customers. But strong brand awareness and financial strength benefit also our business relations with small and medium sized corporations as well as personal lines customers in Life and General Insurance. Our customers want to rely on an insurer capable of fulfilling its promise, and financial strength is the foundation on which this promise is built.

My colleagues and I are pleased with the results of our program at this stage of the recovery. While our result benefited from increasingly positive financial markets and an uneventful accident year for general insurance, the commitment to financial and operational strength, in combination with improved underwriting discipline and claims management, had a significant impact. The trend towards improved profitability grew stronger in the course of the year. Clearly, 2003 has laid the foundation for a favorable earnings trend, and our program is designed to maintain the momentum.

The challenge going forward will be to manage our businesses to sustainable profitability and to maximize Zurich's long-term value for its shareholders. Our goal is unchanged: to make our earnings more resilient, given the volatile nature of our industry, and less dependent on the fluctuations of financial markets. In 2003 we made considerable progress. Our current position allows us to capitalize on our renewed strengths as we continue on the path set out more than one year ago.

To do so we will continue to sharpen the focus on our core businesses. In April, we will talk about our approach to enhancing the long-term profitability of our company. But let me state the guiding principles for our businesses going forward. Basically, our challenges are to profitably grow our businesses and to further refine common methods for crucial processes, not only for underwriting and claims management, but also for the development of our own talent. We will continue to concentrate on cost efficiency and financial discipline by building upon the achievements of last year. In addition to the stronger focus on Group-wide approaches, we will implement appropriate structures in support of our strategic ambition. Examples are the appointment of Paul van de Geijn as head of our global Life businesses and the creation of the single Business Division Europe led by Axel Lehmann. Paul is charged with implementing an accelerated profit improvement program, ensuring that our Life segment will improve its long-term performance and contribute to the Group's overall earnings and ROE target. The Life business must earn its cost of capital. Axel's job will be to maximize the efficiency of our operations in Continental Europe and in the UK. Better coordinated and leaner organizations will permit a more efficient and effective use of our resources.

The economic environment for most of our General and Life Insurance businesses has brightened. Equity markets have improved, while central bank interest rates are expected to stay low for the foreseeable future. The world economy is poised for a strong upswing. Turning to our industry, I notice a lot of talk about soft prices and the imminent end of the so-called the hard market. I believe this to be premature. Recent renewal data of our reinsurers do not support it, and the economics of our business do not warrant a quick return to a soft market, as a closer look at our industry's capacity reveals.

As seen from the supply side, insurance rates are determined to a large extent by available capacity. We estimate that the decline in the global equity markets, the terrorist attacks of 9/11, and large-scale natural catastrophes contributed to a loss of global insurance capacity of roughly 200 billion dollars in 2001 and 2002. Of this, about 65 billion dollars may have been replaced through equity issues, subordinated debt and retained earnings. Even if we are factoring in the recent recovery in the global equity markets, current capacity continues to be clearly below the level seen in 2001.

While we may quibble whether insurance capacity was appropriate before 2001, we see that long-tailed businesses in particular continue to be short of capacity. Consequently, rates in these lines of business are likely to remain firm, and we do not anticipate price reductions in the short-term. The story is different where capacity has become readily available, and we expect the market to reallocate capital in reaction to emerging pricing pressures.

Based on first quarter renewals, we believe that the market will remain strong and that we will be able to benefit from a continuing strong market. We will monitor developments and maintain a disciplined approach in our underwriting. Our goal is to continue to make underwriting profits. Decisions about product pricing will be based on our internal standards, and Zurich will not pursue market share at the expense of future profitability.

Let me briefly touch on an unresolved issue that is clouding our industry. As I said last year, tort reform in the United States continues to be a major concern. We are observing an unprecedented claims inflation caused by nearly unconstrained litigation. If unchecked, it could induce our industry to reduce its exposure in a number of lines of business – clearly, an unintended consequence that we may wish to avoid.

Going forward we are determined to build on our renewed strengths by working together as one team, concentrating on operational excellence and leveraging our presence in our chosen markets. On the basis of our lower cost structure and our global network, we are now well positioned to benefit from the economic recovery underway in the United States and in Europe and to continue to deliver profitable growth.