

# Claims management and reserving

Investors' Day

London, June 30, 2005



# Disclaimer and cautionary statement



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Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predictions of or indicate future events, trends, plans or objectives. Forward-looking statements include statements regarding our strategic direction, targeted profit improvement, return on equity targets, expense reductions, pricing conditions, dividend policy and underwriting claims improvements. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and Zurich Financial Services' plans and objectives to differ materially from those expressed or implied in the forward looking statements (or from past results). Factors such as (i) general economic conditions and competitive factors, particularly in our core markets; (ii) performance of financial markets; (iii) levels of interest rates and currency exchange rates; (iv) frequency, severity and development of insured claims events; (v) mortality and morbidity experience; (vi) policy renewal and lapse rates; (vii) changes in laws and regulations and in the policies of regulators may have a direct bearing on Zurich Financial Services' results of operations and on whether Zurich Financial Services will achieve its targets. Zurich Financial Services undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

It should be noted that past performance is not a guide to future performance. Persons requiring advice should consult an independent adviser.

# Agenda



- 
- Introduction John Amore
  - Claims management Jane Tutoki
    - Driving performance in claims Lutz Bauer
    - The Zurich Way roll-out in European claims John Amore
    - Conclusions
  - Q&A
  - Reserving Patrick O'Sullivan
    - Introduction Steve Wilson
    - Overview and The Zurich Way of reserving Caroline Barlow
    - European reserves – key features Nancy Mueller
    - North American reserves – key features Patrick O'Sullivan
    - Conclusions
  - What this means for Zurich John Amore
  - Q&A

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# Introduction

John Amore

CEO, General Insurance

# Objectives of today's presentation



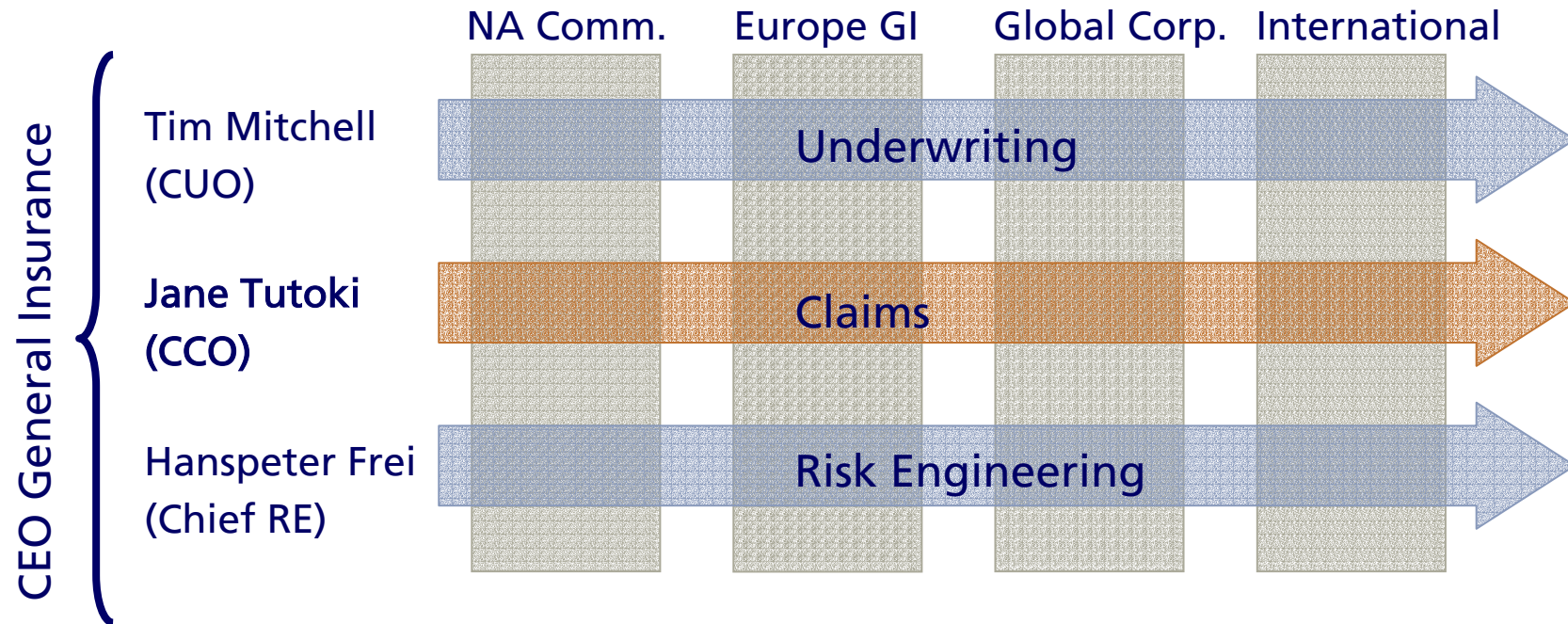
- On January 20, we showed you how we transformed Zurich to be an underwriting company
- Today, we will show you how we achieve
  - technical excellence in claims management and
  - best practices in reserving
- In both areas we will highlight the changes that we have put in place
- Finally, we will show you how underwriting, claims management and reserving all fits together to create profitability



We have configured our organization to maintain the operating discipline and focus on Claims ...



ZURICH



- Dual reporting of key management roles within their business divisions and directly to their General Insurance counterparts
- Strong global governance and central coordination to ensure technical excellence
- Consistent technical and operational standards

# ...as it increasingly contributes to the Group's overall improvement benefits

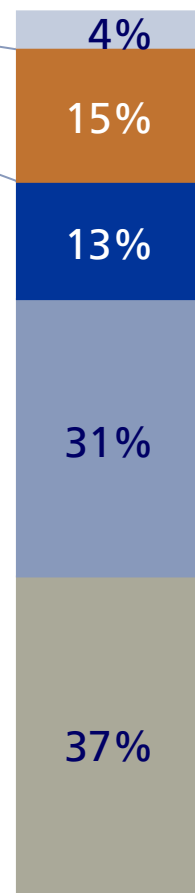


100% =  
USD 1 billion



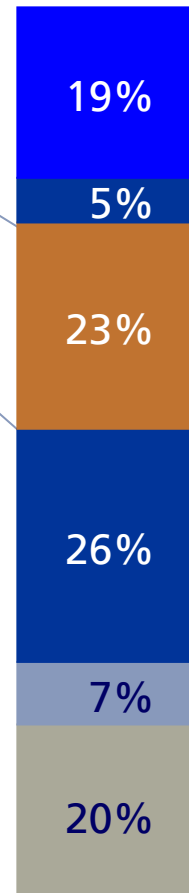
2003

100% =  
USD 540 million



2004

100% =  
USD 500 million



2005

Life, AM & other

Growth/Distribution

Claims

Underwriting Process

Pricing

Operating Expenses

# The Zurich Way maximizes financial benefits while supporting customer experience

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## Claims Best Practices

- Talent Management
- Technical Excellence
- Efficiency & Effectiveness
- Customer Focus



## Loss cost containment

- Indemnity expense
- Loss adjustment expense

## Customer satisfaction

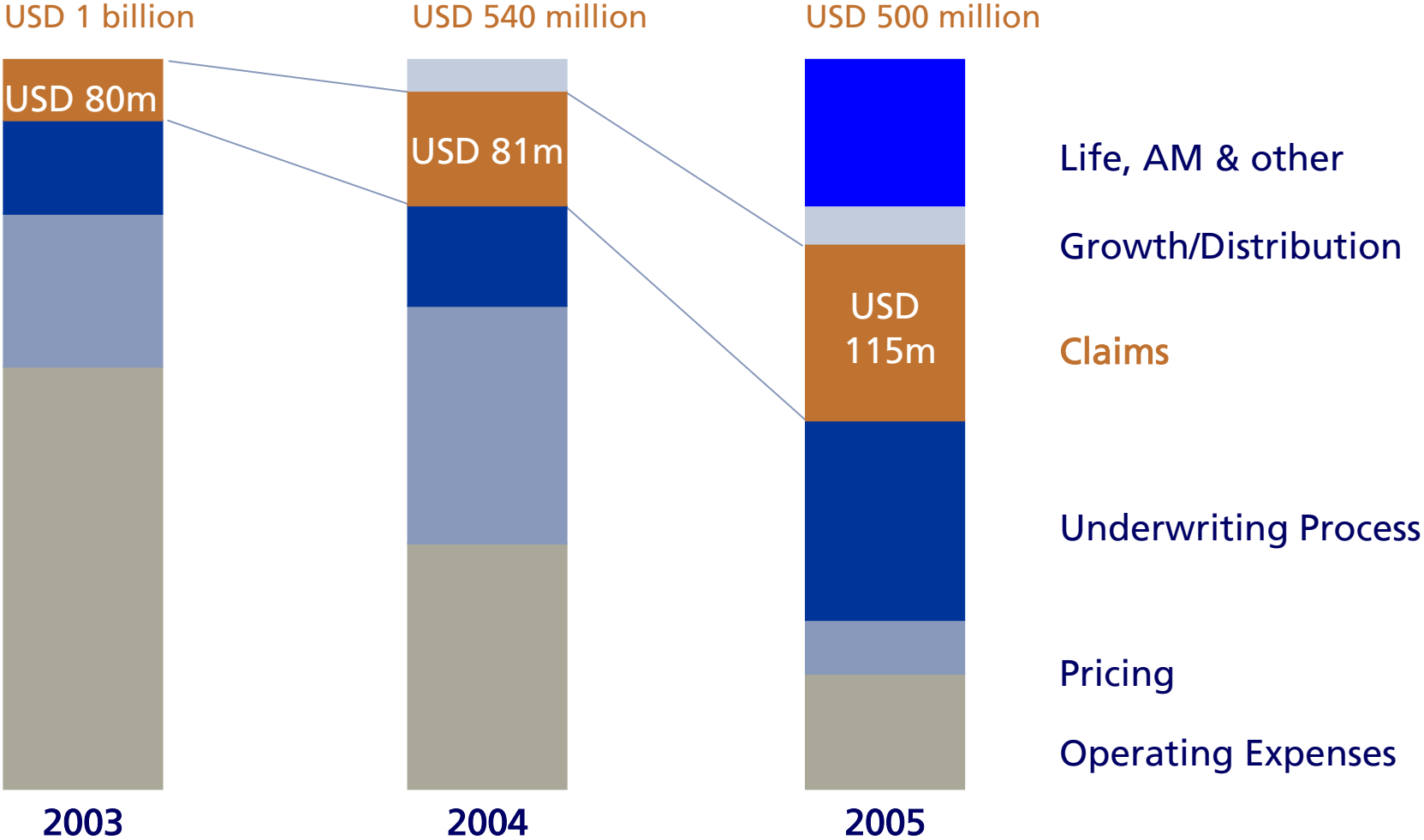
- Better service standards
- Higher retention

# Driving performance in Claims

Jane Tutoki

Chief Claims Officer, General Insurance

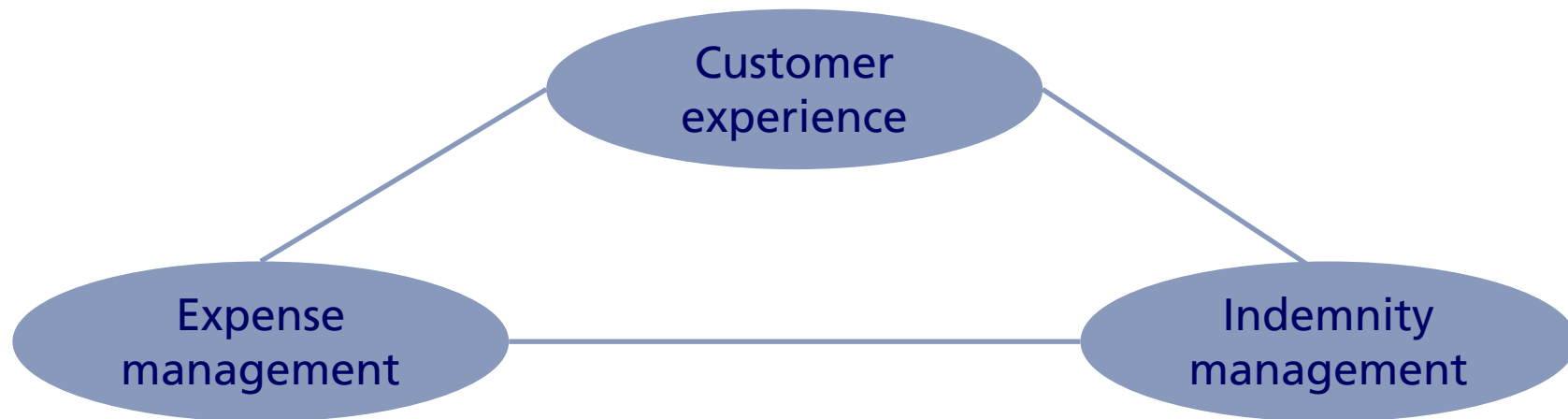
# Claims' performance is important to our improvement initiatives



# We have improved performance across the major levers in claims



- Reduced cycle times
- Consistent service standards
- Enhanced customer-facing service level agreements



- Vendor management
- Streamline operations

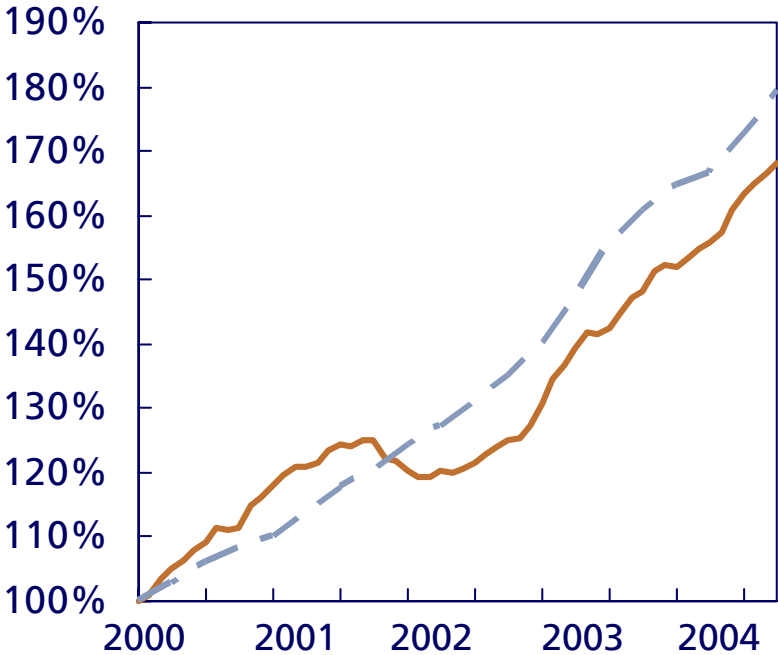
- Improve efficiency through technology and tools
- Consistent use of best practices (leakage reduction)

# We are outperforming the industry in personal lines claim costs in North America ...

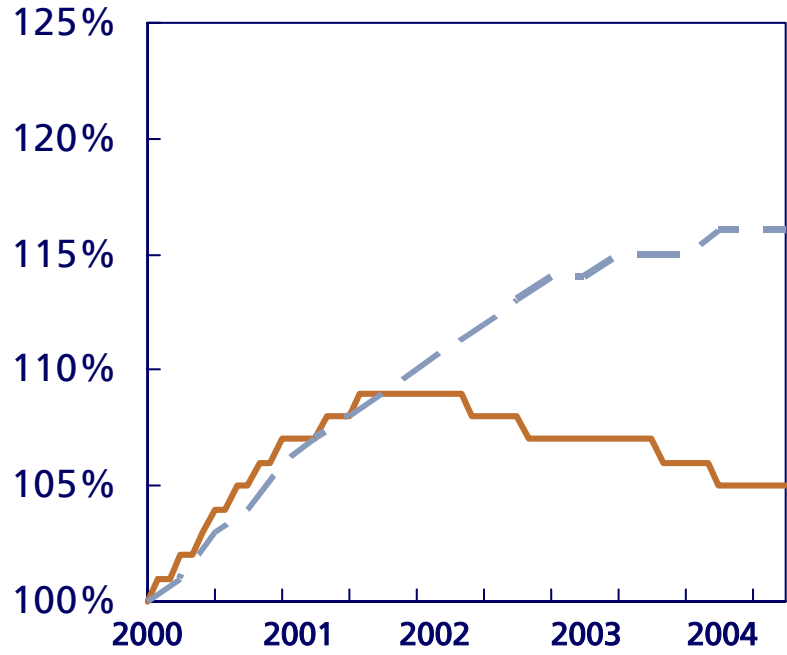


## North America – personal lines example: Farmers Exchanges

Homeowners - Indexed average claim cost



Auto PD – Indexed average claim cost



— Farmers

- - - Industry<sup>1</sup>

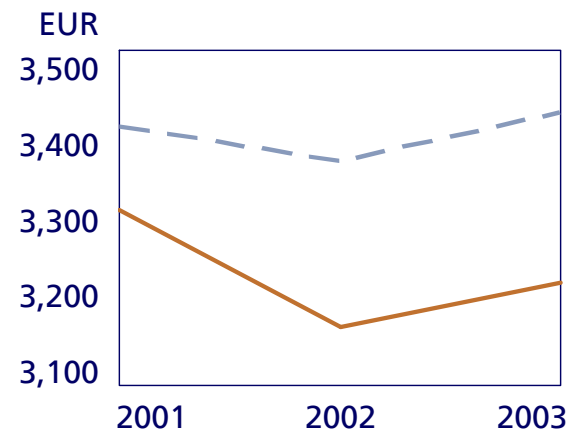
<sup>1</sup> Based on ISO quarterly reporting

# ... and also in Germany

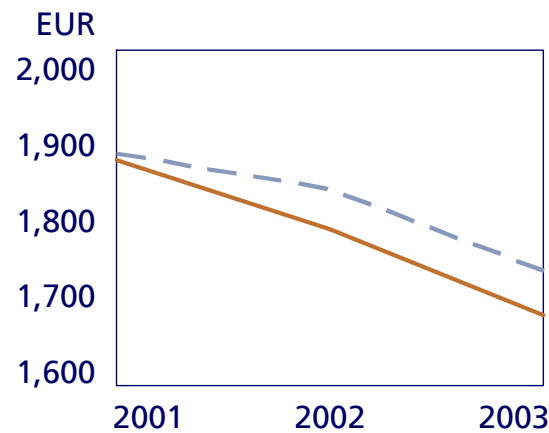


## Europe – personal lines example: German motor

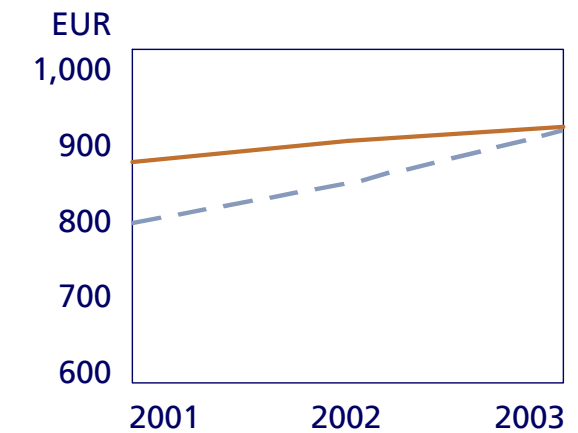
### Motor TPL



### Full comprehensive cover



### Semi-comprehensive cover



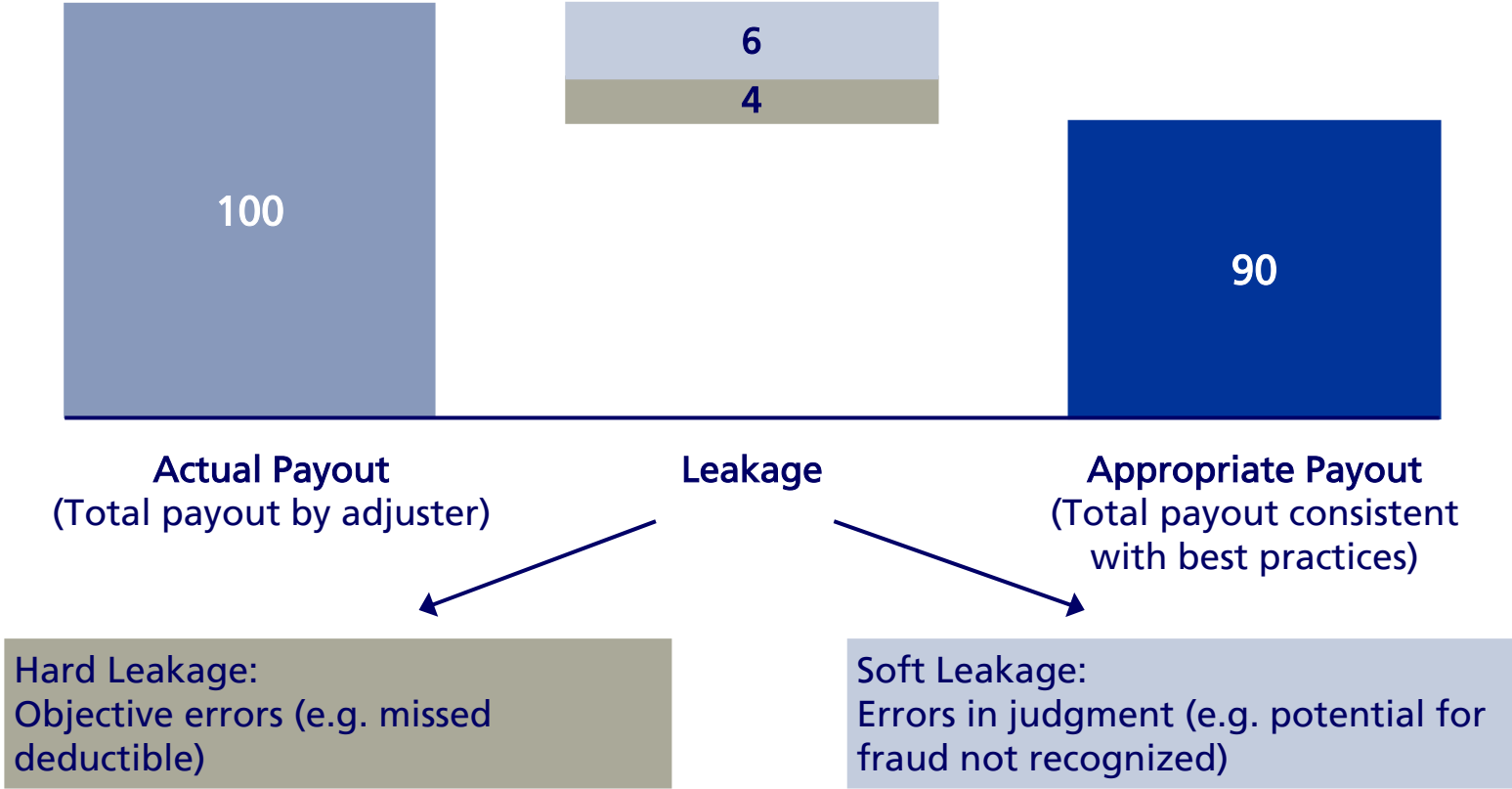
— Zurich      - - - Industry<sup>1</sup>

<sup>1</sup> Market figures weighted with Zurich portfolio structure and risk characteristics to account for changes in business mix; Source: GDV

# Claims “leakage” is an important performance metric



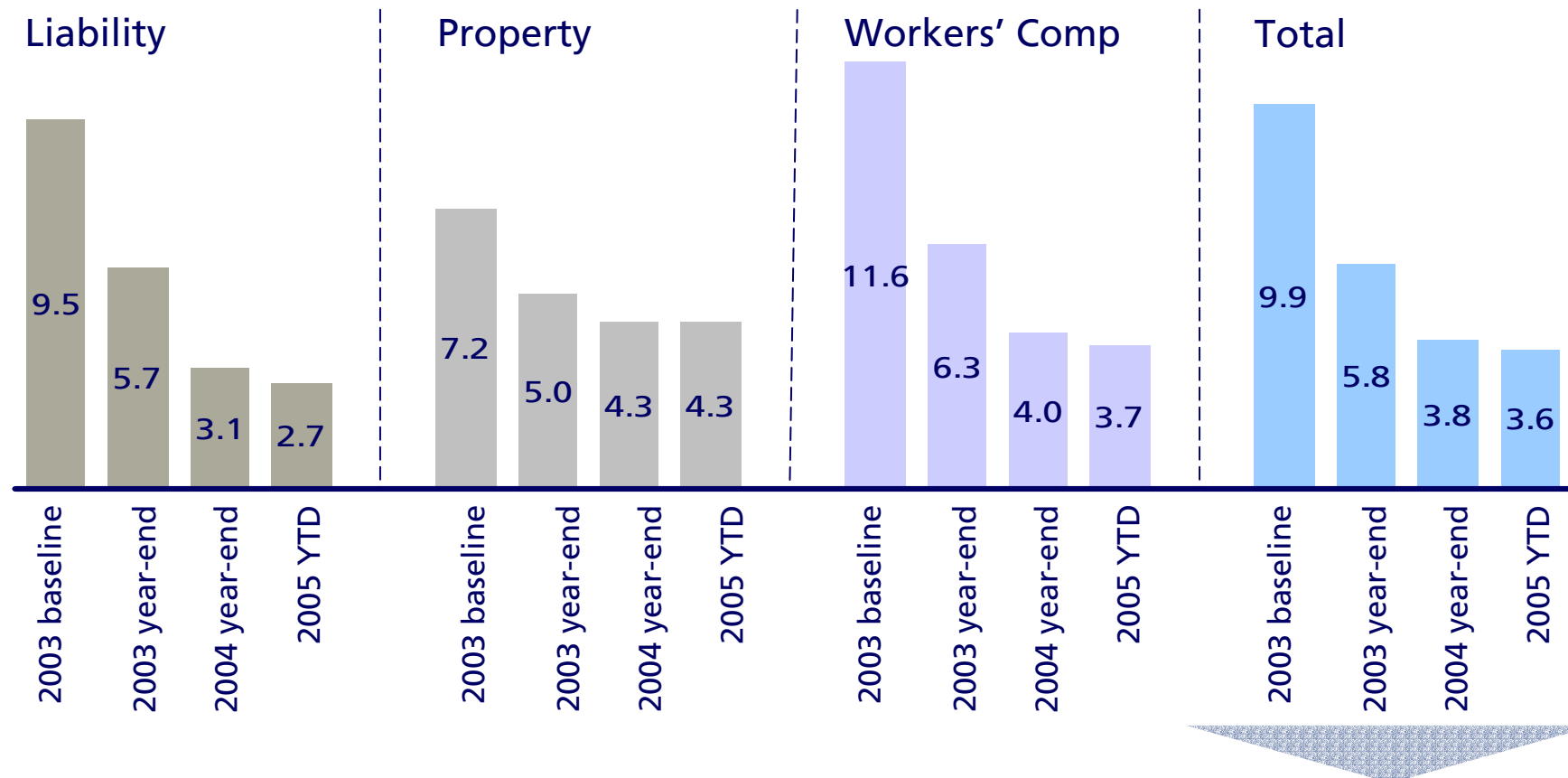
## What is leakage...?



# At NA Corp. a successful set of initiatives has driven performance against leakage baseline



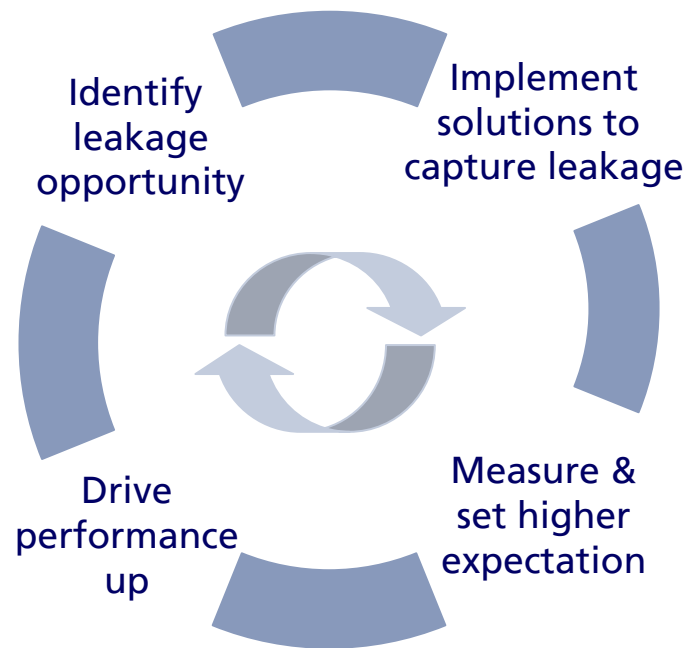
## Leakage in percent



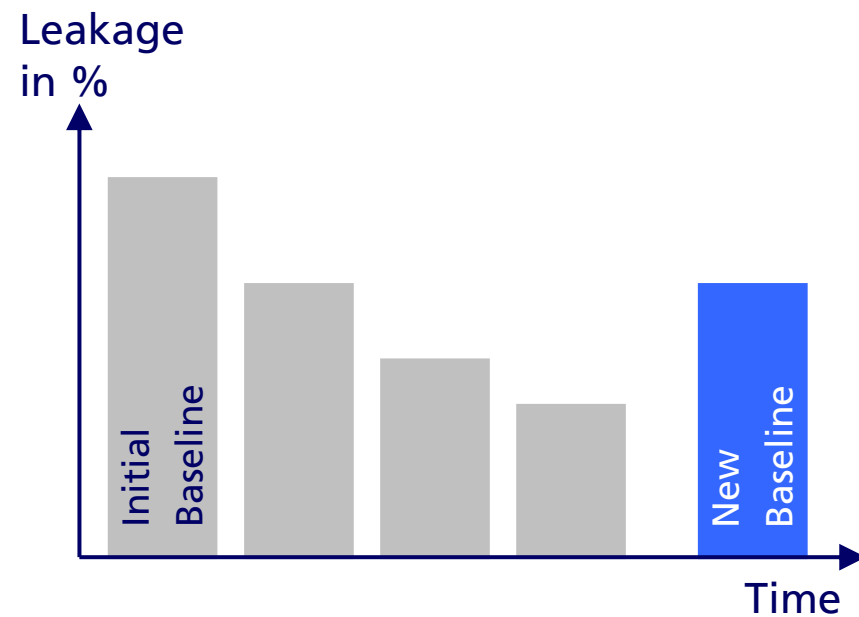
Overall leakage reduced 6.3 points

# We use leakage as part of a continuous improvement cycle

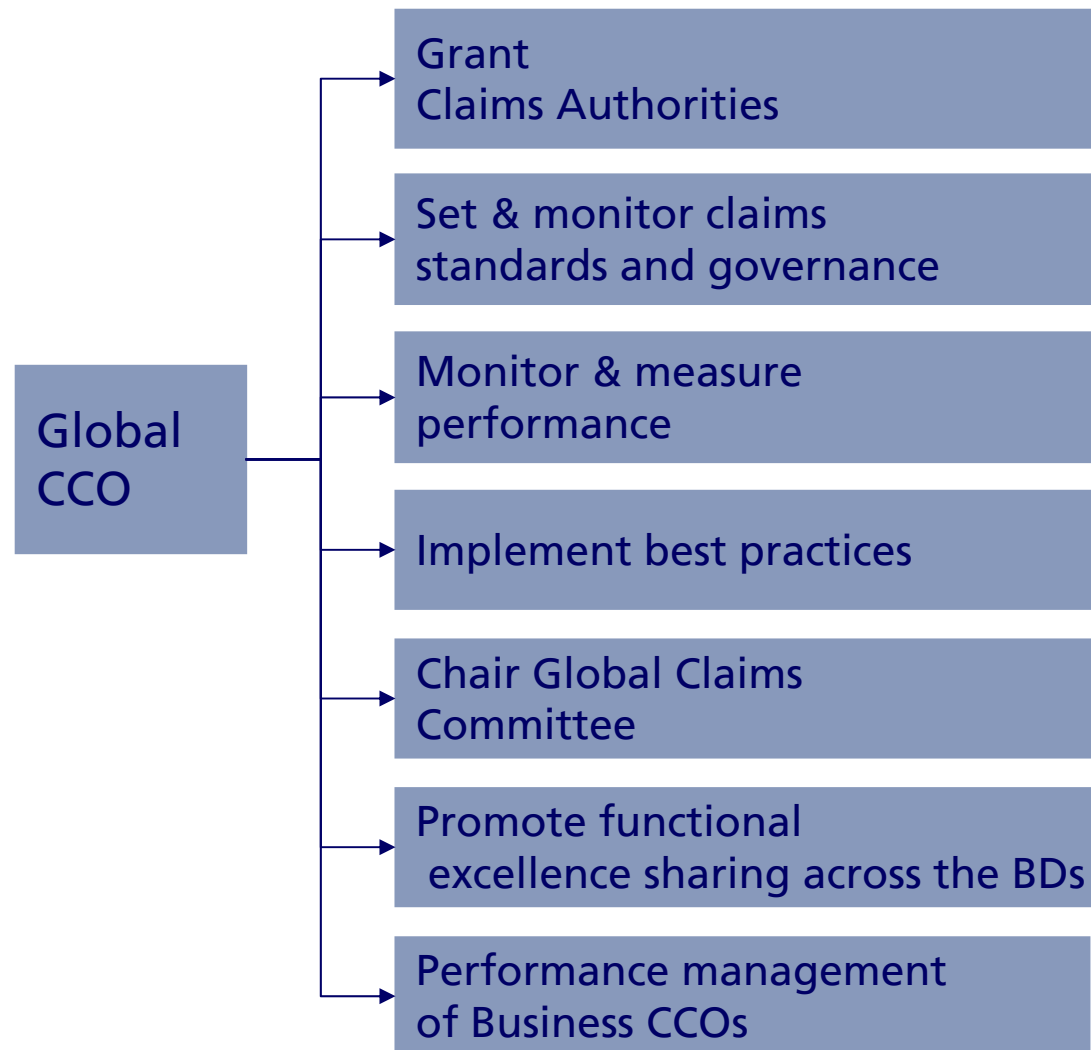
## Continuous improvement cycle



## Example



# Global Chief Claims Officer – New mandate and authority

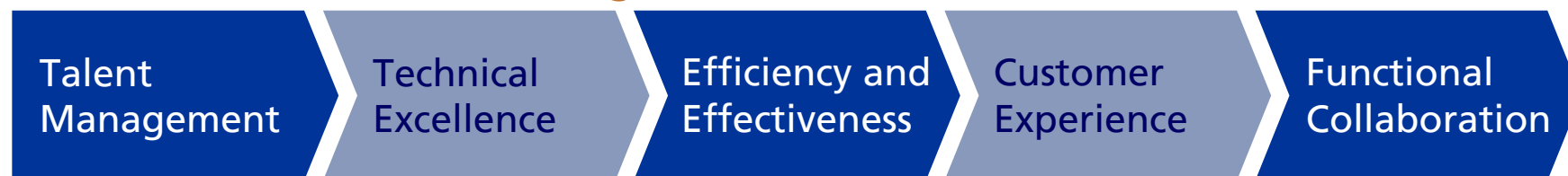


- Govern each responsibility globally and monitor local application
- Direct reporting relationship with CCOs of all 4 business divisions

# The Zurich Way embeds common metrics and management approach



## Our five areas of claims management focus



Structured process for Continuous Improvement and Performance Management

## Common metrics to create performance transparency

Staff turnover  
People skills

Quality score  
Leakage  
Recovery  
Fraud

LAE and expense  
LAE ratios  
Closing ratios  
Cycle time per segment  
Case load  
Rate of lawyer involvement  
Transfers/ handoffs

Customer satisfaction

Underwriting and actuarial interaction

Institutionalize our approach to Claims management

# Summary



- 
- Claims is an important component of the operational improvement program
  - We have configured the organization and committed as a management team to drive continuous improvement in Claims
  - We are institutionalizing our improvement program through The Zurich Way framework creating consistent, enterprise-wide transparency into claims performance

# The Zurich Way roll-out in European claims

Lutz Bauer

Chief Claims Officer, Europe General Insurance

# The Zurich Way drives consistent claims management



## Common language and methodologies



### Standardized claims processes

- Improved customer experience
- Sustained profitability

# Scope and timeline of the European General Insurance claims effort

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- 2002 – 2003 improvement initiatives managed locally (Business Units)
- 2004 institutionalized The Zurich Way in European Motor
- 2005 Roll-out of European Property and Liability

# We use three diagnostic tools

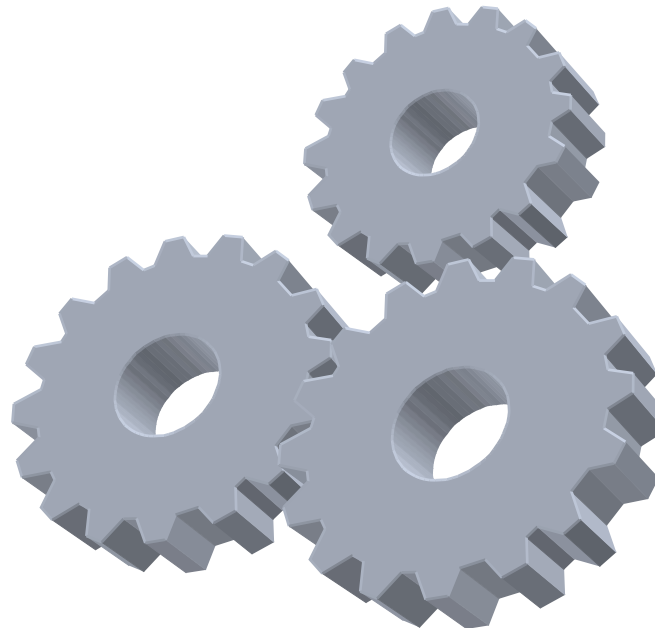
Identify Opportunities

Implement Solutions

Value Capture (Measure/Monitor)

## Closed File Review

- Quality review
- Representative sample of files



## Process Analysis

- Map the organization
- Assess current state and best practices

## Large Claims Analysis

- Expert assessment in “round-table” workshops
- Identify opportunities

Share toolkits and capabilities across the Group

# We have driven substantial change across and within the business divisions



## The five areas of management focus



### From

- Claims management in country-specific silos
- No cross border improvements
- No sharing of unique knowledge base



### To

- Consistent approach to claims
- Business Divisions driving improvements
- Sharing processes based on best European practices

# We have driven substantial change across and within the business divisions

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- We have identified 150 improvement points across Europe (e.g. fraud, recovery, etc.)
- Two specific operational examples
  - German Motor: Assessment and repair management
  - UK Commercial Motor: Early claims notification

# Example 1 – German Motor: Assessment and repair management



Identify Opportunities

Implement Solutions

Value Capture  
(Measure/Monitor)

- Use of external assessors leads to higher indemnities
- Loss adjustment expense levers are:
  - External assessors
  - High fees
  - Cycle time

- Rigorous review of external assessments
- Increase use of internal assessors
  - Hiring additional staff
  - Centralize assignment process
- Increase efficiency
  - automation
  - process controls

Average assessment<sup>1</sup>

Baseline <sup>2</sup>	3,000
Current <sup>3</sup>	2,700

Average assessment cost<sup>1</sup>

Baseline <sup>2</sup>	275
Current <sup>3</sup>	125

<sup>1</sup> in EUR

<sup>2</sup> as of December 31, 2004

<sup>3</sup> as of May 31, 2005

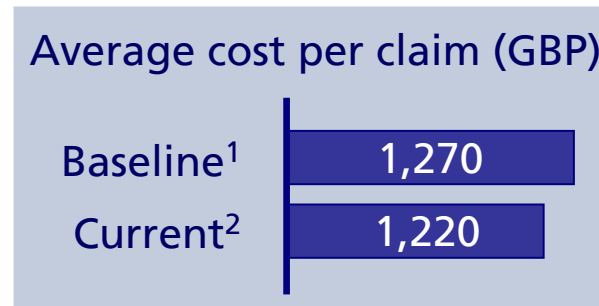
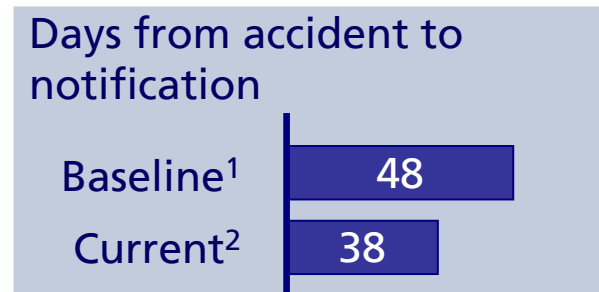
14% reduction in  
average costs

# Example 2 – UK Commercial Motor: Early claims notification



- Late notification:
  - Increases overall cycle time
  - Impairs investigation effort
  - Leads to leakage
  - Increase Zurich’s and customer’s costs
- Reduces opportunities to involve preferred suppliers

- Customer and Broker communication and „education“
- Bonus programs for intermediaries
- Technical platforms to facilitate claims notification



In addition:  
litigation cases  
decreased 15%

<sup>1</sup> as of December 31, 2004

<sup>2</sup> as of May 31, 2005

# Conclusion



- 
- The Motor claims initiative has added remarkable improvements
    - Financials benefits
    - Customer experience
    - Organizational progress
  - The Zurich Way process has proven its effectiveness
  - We are now rolling out The Zurich Way on Property and Liability in Europe
  - European claims will continue to be a strong contributor to Zurich's operational improvement program

# Conclusions – Claims management

John Amore

CEO, General Insurance

# Driving performance in claims strengthens our franchise





**ZURICH**  
FINANCIAL SERVICES

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# Reserving

# Reserving - Agenda



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- |                                 |                    |
|---------------------------------|--------------------|
| • Introduction                  | Patrick O'Sullivan |
| • The Zurich Way of Reserving   | Steve Wilson       |
| • The Zurich Way impact in 2004 | Steve Wilson       |
| • Europe                        | Caroline Barlow    |
| • North America                 | Nancy Mueller      |
| • Conclusions                   | Patrick O'Sullivan |

# Introduction



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- In 2004, we took significant steps to strengthen reserving
  - Today, we will cover 4 topics

Strengthened reserve governance

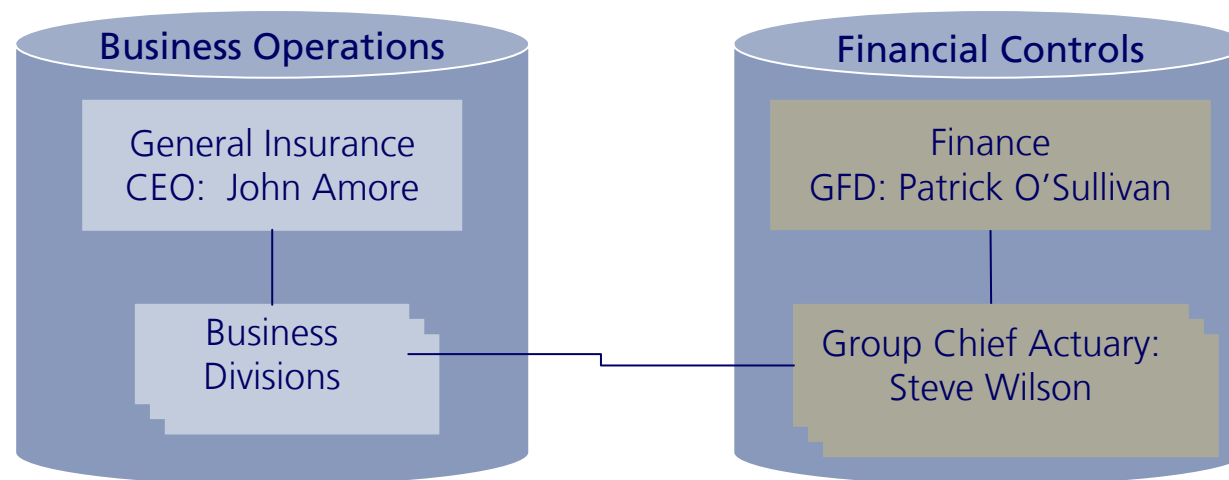
Best practice actuarial approach

Historical strength of our European reserve

Significantly strengthened US reserves

# Strengthened governance by segregating controls from operations from operations

- Clear segregation of controlling functions from business activity
- Applying the principles of The Zurich Way to the reserving process
- Significant Group oversight of local actuarial units
- Harmonization of actuarial approach

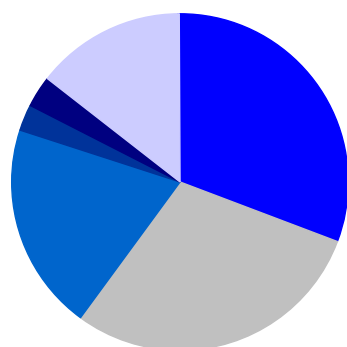


Consistent reserving process globally

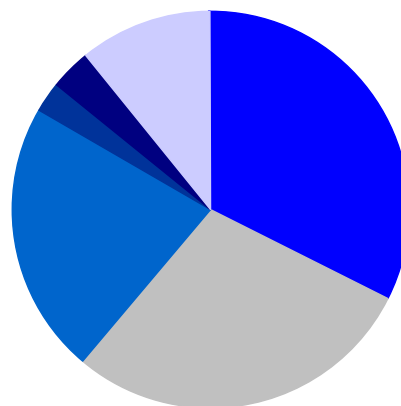
# New approach created step-change in reserving



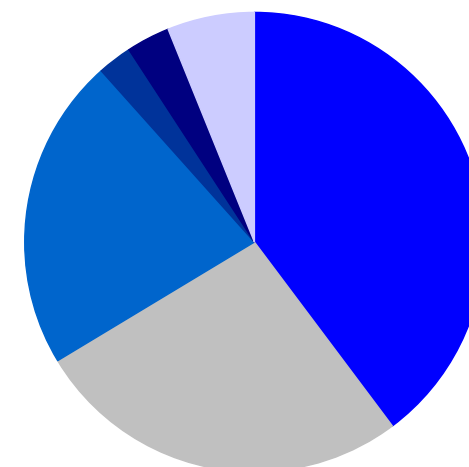
Dec 31, 2002: USD 30.4bn



Dec 31, 2003: USD 37bn



Dec 31, 2004: USD 43.5bn



■ NA Corp.   
 ■ Cont. Europe   
 ■ UKISA   
 ■ NA Cons.   
 ■ RoW   
 ■ CMB

in USD millions

	NA Corp.	Cont. Europe	UKISA	NA Cons.	RoW	CMB	Total
2002	9,384	8,836	6,075	746	897	4,428	30,366
2003	12,005	10,628	8,212	907	1,212	4,049	37,013
2004	17,306	11,517	9,633	1,078	1,289	2,651	43,474

# Reserves - Agenda



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- |                                 |                    |
|---------------------------------|--------------------|
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| • Conclusions                   | Patrick O'Sullivan |

# The Zurich Way of reserving is a global process

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- Governance
- Organisation
- Process flow
- Technical

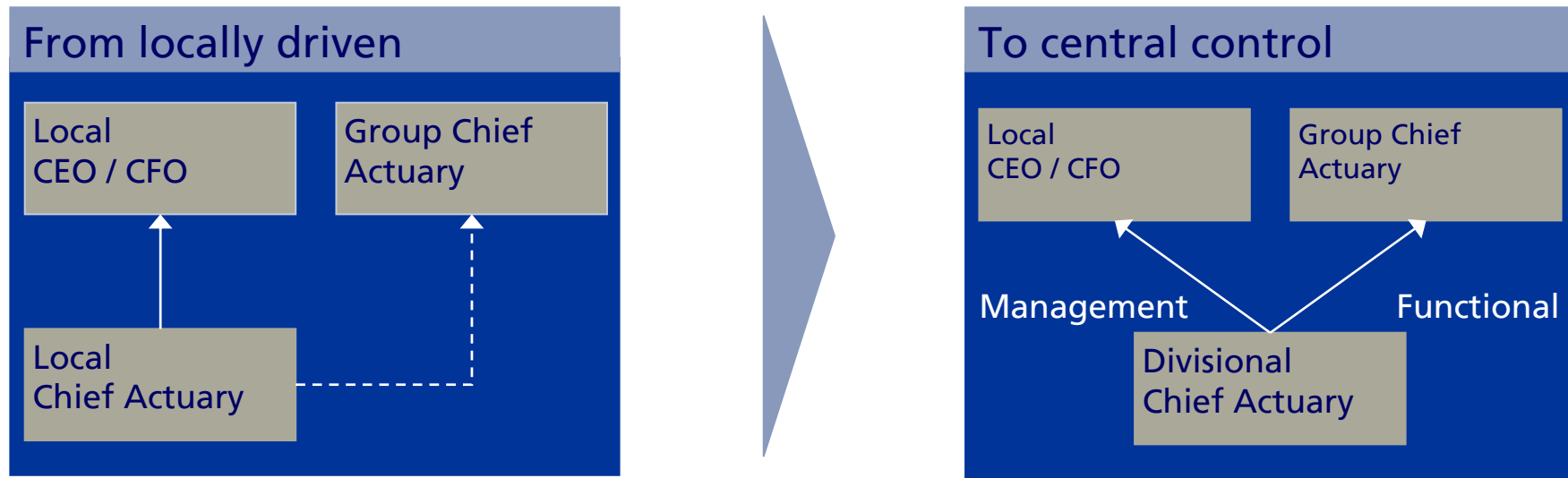
# We have strengthened governance



- 
- Quarterly reserve committees
    - Business Division and Group
    - Recommendations to management recorded
    - Full transparency and accountability to Group Finance Director
  - Expanded reserve policy manual
    - Actuarial documentation formally part of the process
  - Group Chief Actuary has direct quarterly reporting to
    - Group Chief Executive Officer
    - Audit Committee of the Main Board

Clear accountability for both management and actuarial

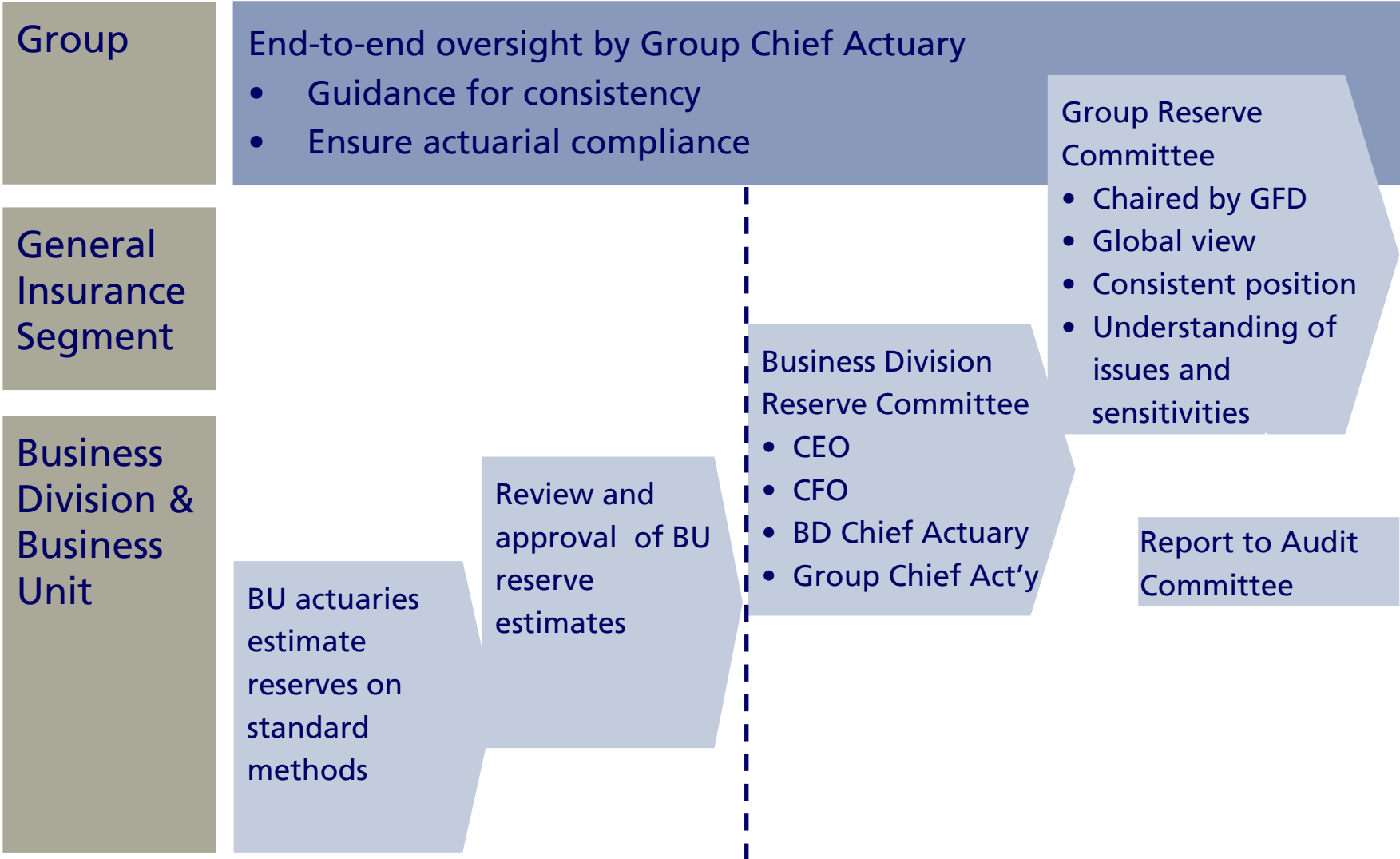
# We have integrated the actuarial function globally



- **Hard** line matrix reporting of local actuaries into the Group
- Talent mobility
- Collective problem solving

Strong actuarial function minimizing risk from local decision making

# We have full transparency and all reserve positions are approved at Group level



# We apply actuarial best practice



- 
- Chain-ladders on paid and incurred
  - Bornhuetter-Ferguson on recent accident years for long-tail
  - Average cost / claim count methods when data permits
  - More advanced techniques when needed
    - E.g. tail development curves & meso projections

# Review and feedback is essential – as is data segmentation

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- Core methods semi-annually / annually
- Rolling peer reviews
- Diagnostics quarterly / monthly
- Early warning indicators
- Assess accuracy of assumptions
  
- Detailed segmentation into homogeneous cells
  - Isolate trends
  - Group cells with similar characteristics

# Reserves are validated by major external firms



- 
- Major consulting firms hired by Group to
    - Validate our views
    - Provide an extra layer of control for Group
    - Provide specialist or market knowledge
  - Our reserves are based on our own estimates and the process addresses any material differences from the external firms
    - Identification and resolution of assumption/model differences
    - Visible to Group

# We aim for conservative initial reserves: UK all lines run-off demonstrates this



		Accident Year								
		1996	1997	1998	1999	2000	2001	2002	2003	2004
Ultimates at year-end	2000	73%	82%	91%	88%	76%				
	2001	73%	81%	90%	88%	79%	80%			
	2002	72%	80%	87%	87%	81%	78%	75%		
	2003	72%	80%	87%	87%	80%	75%	71%	65%	
	2004	71%	80%	86%	86%	78%	72%	67%	58%	63%

73%

71%

Decrease in ultimate means prior year profit

# Key ratios show the increase in initial reserve strength for North America

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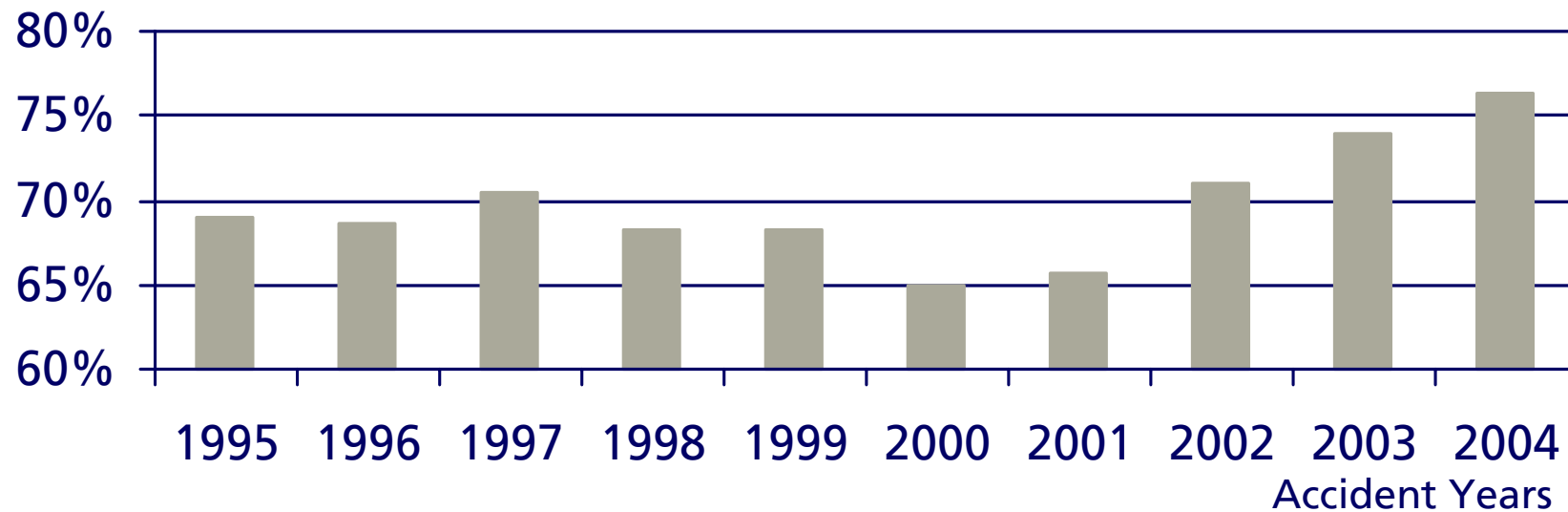
- Initial reserve-to-initial ultimate expressed as a percentage
  - strong indicator of opening reserve strength
  - not distorted by premium rate levels
- Hindsight initial reserve-to-ultimate percentage
  - retrospective view of the above using current information
- We adjust for business mix
- We use meaningful peer companies

# Initial reserve-to-initial ultimate by accident year as at end of year and with hindsight



Zurich US – all lines combined net before stop loss

■ Ratio of initial reserve-to-initial ultimate

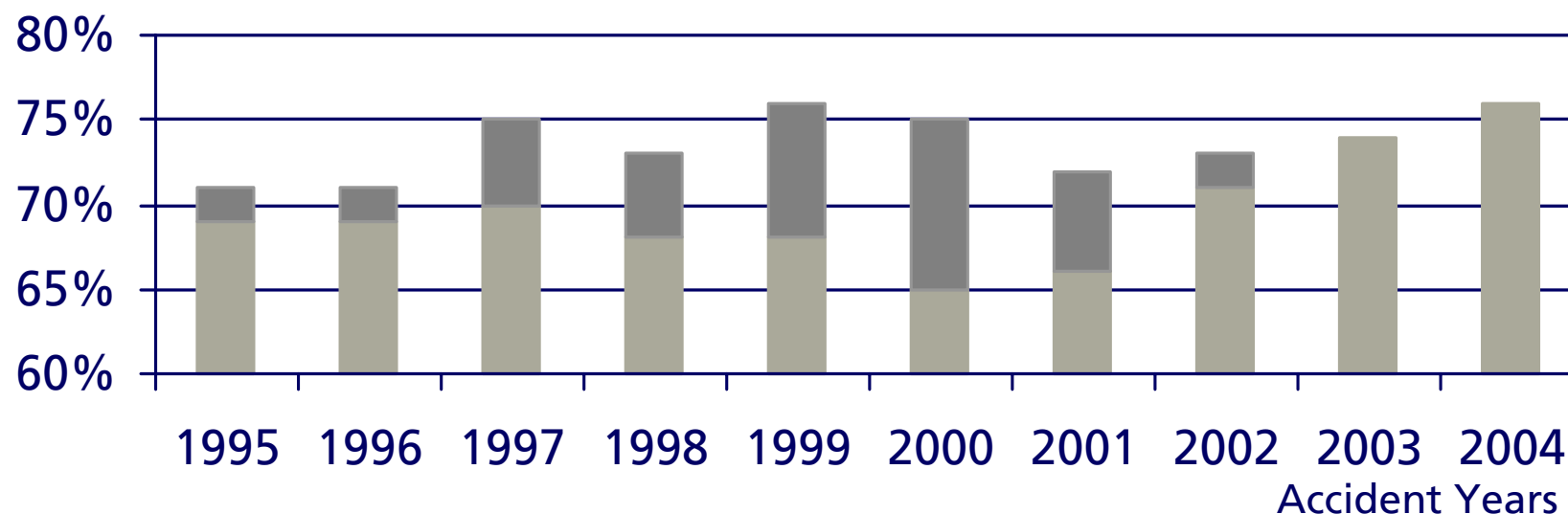


# Initial reserve-to-initial ultimate by accident year as at end of year and with hindsight



Zurich US – all lines combined net before stop loss

■ Ratio of initial reserve-to-initial ultimate      ■ Hindsight adjustment

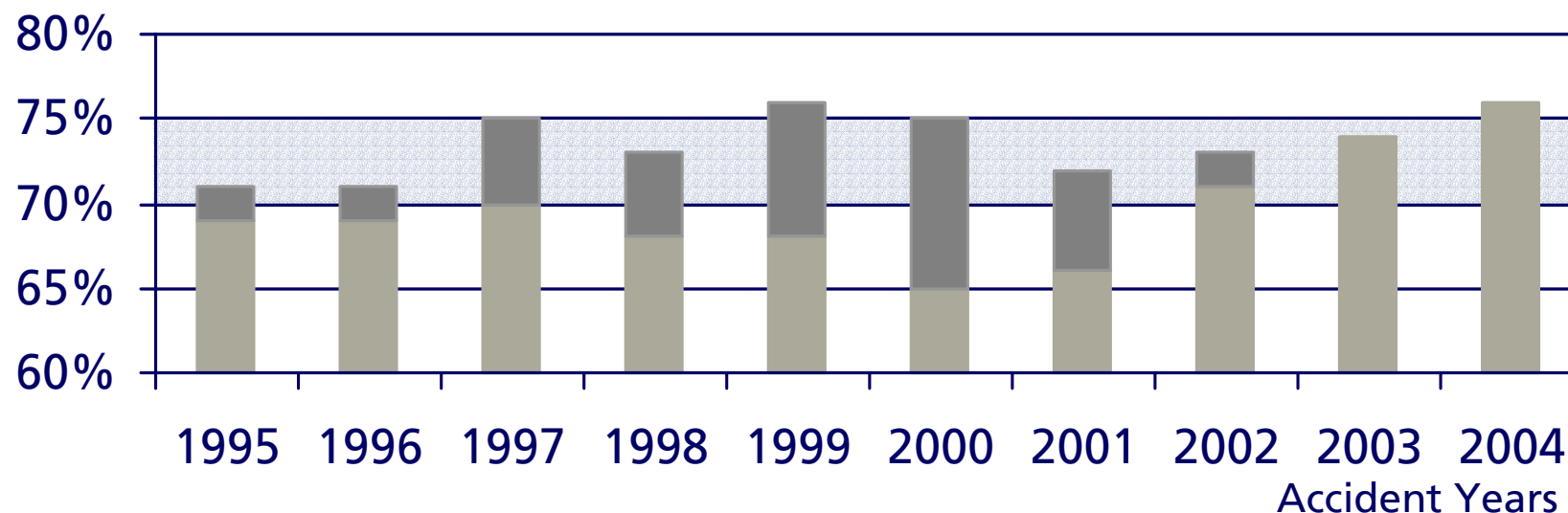


# Initial reserve-to-initial ultimate by accident year as at end of year and with hindsight



## Zurich US – all lines combined net before stop loss

- Ratio of initial reserve-to-initial ultimate
- Hindsight adjustment



- Adjusted for hindsight information, the ratio is more consistent across accident years

# Reserves - Agenda



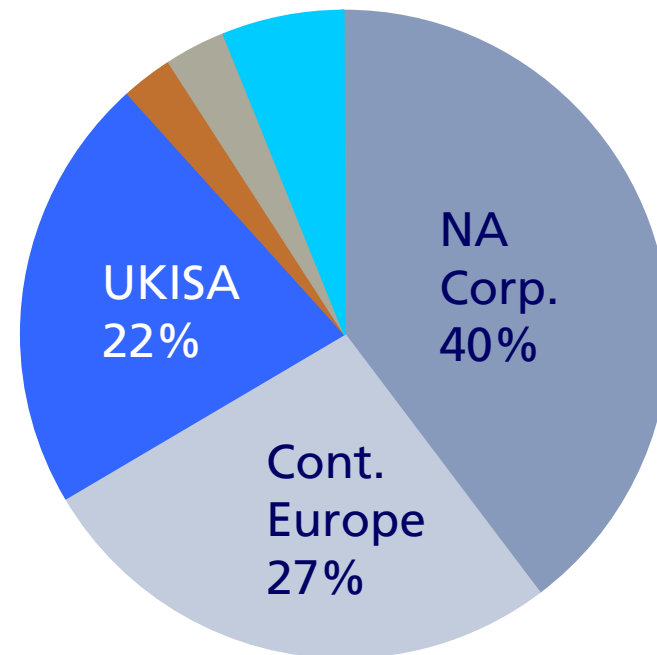
- 
- Introduction Patrick O'Sullivan
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  - North America Nancy Mueller
  - Conclusions Patrick O'Sullivan

# 89% of our reserves are in Europe and in North America



- Reserves have grown due to
  - volume growth – in hard market
  - more conservative assumptions
- Divisional Chief Actuaries have
  - regional responsibilities
  - Business units actuaries reporting to them

Dec 31, 2004: USD 43.5bn net reserves



# Impact in 2004



- Significant strengthening in North America
- Asbestos strengthening, mostly UK
- Releases in UK other than asbestos
- Releases elsewhere

in USD millions

Prior year devt

NA Corporate

2,565

NA Consumer

-58

Continental Europe

-121

UKISA

-208

Rest of the World

-79

Centrally Managed Businesses

-135

Total

1,964

# Strengthening in North America



Driven by 3 key elements  
of the new process:

- More conservative assumptions
- Detailed data segmentation
- Peer reviews

in USD millions

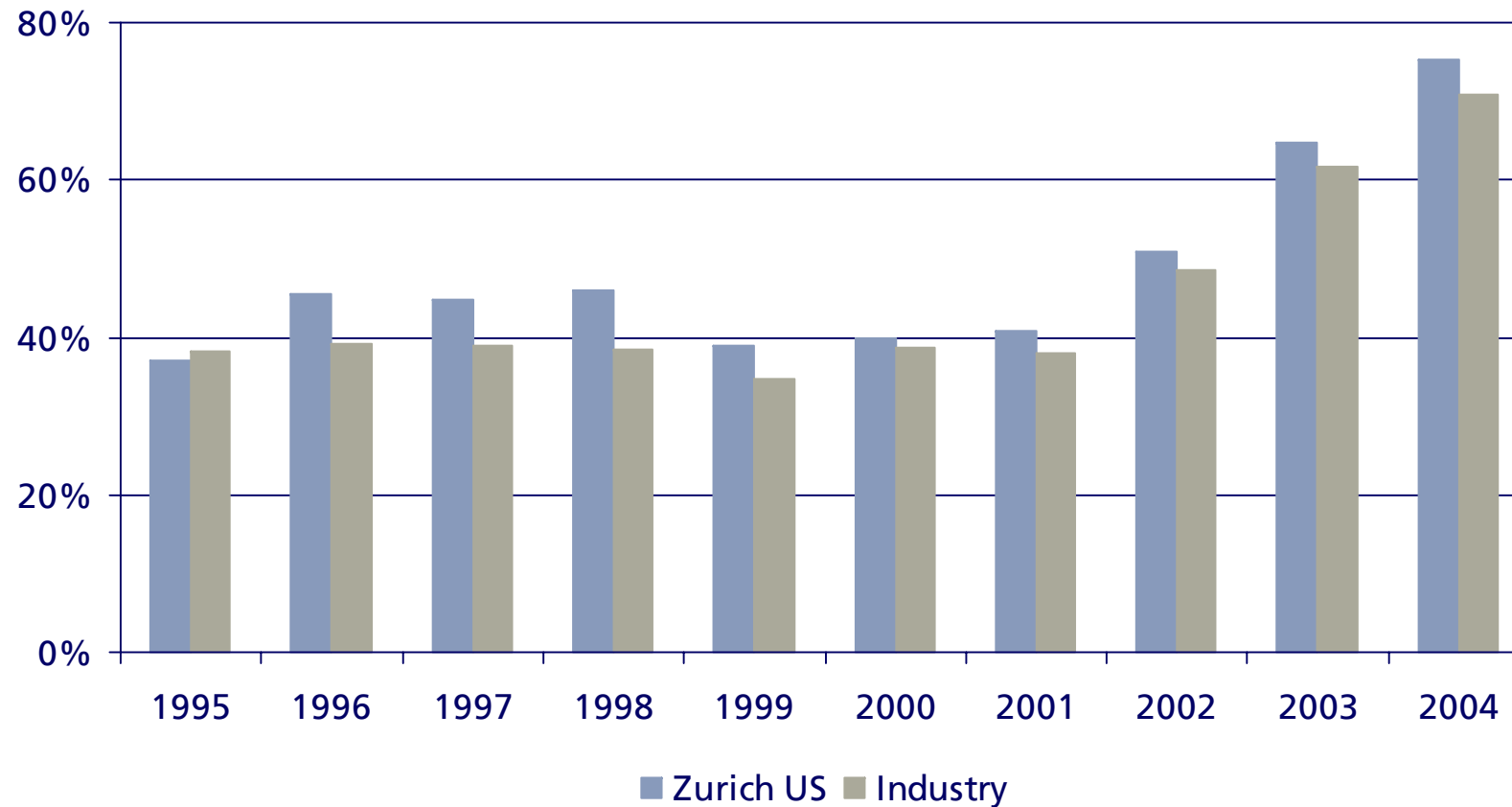
Prior year  
devt

NA Corporate	2,565
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Continental Europe	-121
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Rest of the World	-79
Centrally Managed Businesses	-135
Total	1,964

# The increase has positioned our US reserves well compared to industry



IBNR as percentage of total reserves by accident year as of Dec 31, 2004  
– all lines combined

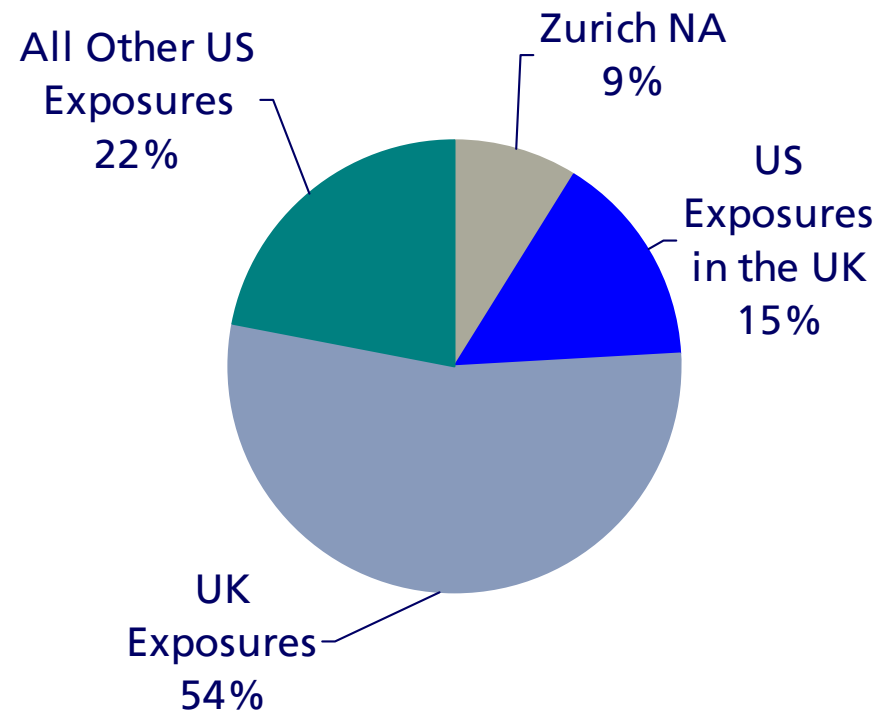


# We review asbestos & environmental reserves annually



- Total asbestos net reserves are USD 2.5bn (USD 3.0bn gross)
- More than half is UK direct
- Only 9% is North America direct and is primary coverage
- Other US reserves relate to London market and other run-off businesses
- UK reserves increased USD 300m in 2004
- Zurich NA reserves increased USD 80m in 2004
- **3 year survival ratio is 25**

## Net Asbestos reserves of USD 2.5bn



# Favourable run-off in other areas



- Release based on areas where surplus identified
- Surplus validated by external reviews
- UK release net of asbestos strengthening

in USD millions	Prior year devt
NA Corporate	2,565
NA Consumer	-58
Continental Europe	-121
UKISA	-208
Rest of the World	-79
Centrally Managed Businesses	-135
<b>Total</b>	<b>1,964</b>

# 2004 in summary: strengthened process, strengthened reserves

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## The Zurich Way of Reserving

- Strengthened our governance process
- Established direct reporting from local actuaries into the Group
- Integrated the actuarial function

## Our actions have addressed reserve issues

- Releases from Europe validated by robust analysis
- North America reserves significantly strengthened

# Reserves - Agenda



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- |                                 |                    |
|---------------------------------|--------------------|
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# Europe - Agenda



- 
- The Zurich Way in Europe
  - Overview of European reserves
  - Historical run-off of UK reserves
  - Detail on UK Employer's Liability
  - Detail on Asbestos methodology

# How The Zurich Way impacted Europe



- 
- Built on our existing processes and procedures
  - Strengthened and formalised Governance
  - Greater transparency both within Europe and to Group
  - Increased sharing of best practice

# Europe - Agenda



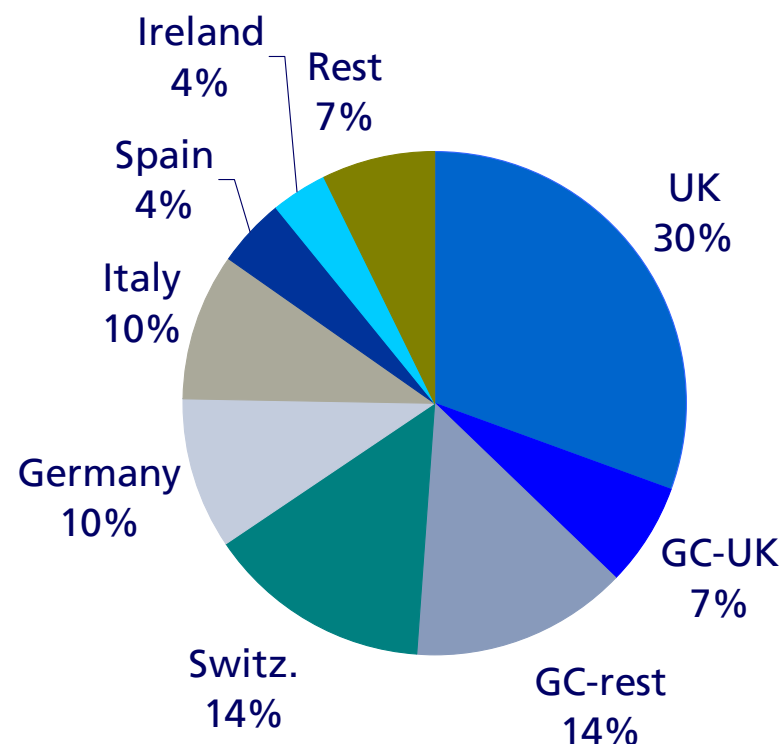
- 
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# European reserves are concentrated in UK, Switzerland, Germany and Italy



- European reserves of USD 18.2bn account for 42% of Group reserves
- UK accounts for 37% of European reserves
- Switzerland is second largest - Group home market
- Corporate business spread across Continental Europe
- Germany and Italy each around 10%
- Rest includes Portugal and Austria

European net reserves by country as of Dec 31, 2004

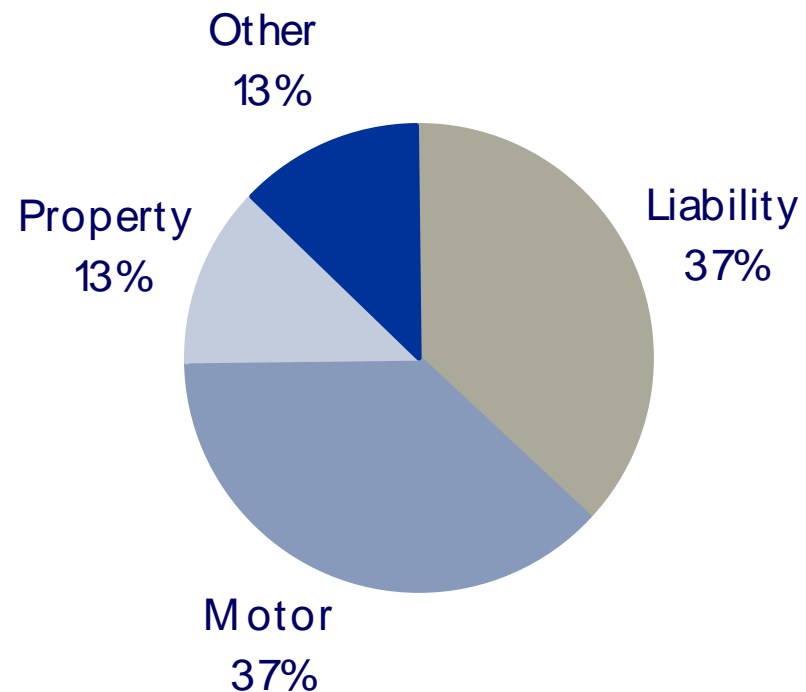


# Major lines are motor and liability



- Motor spread across all countries
- Liability concentrated in UK and Corporate segment
- UK Employer's Liability reserves amount to USD 3.3bn (50% of Europe liability reserves)
- Of this, USD 1.9bn relates to long tail disease
- Property reserves are mainly UK

European net reserves by line of business as of Dec 31, 2004

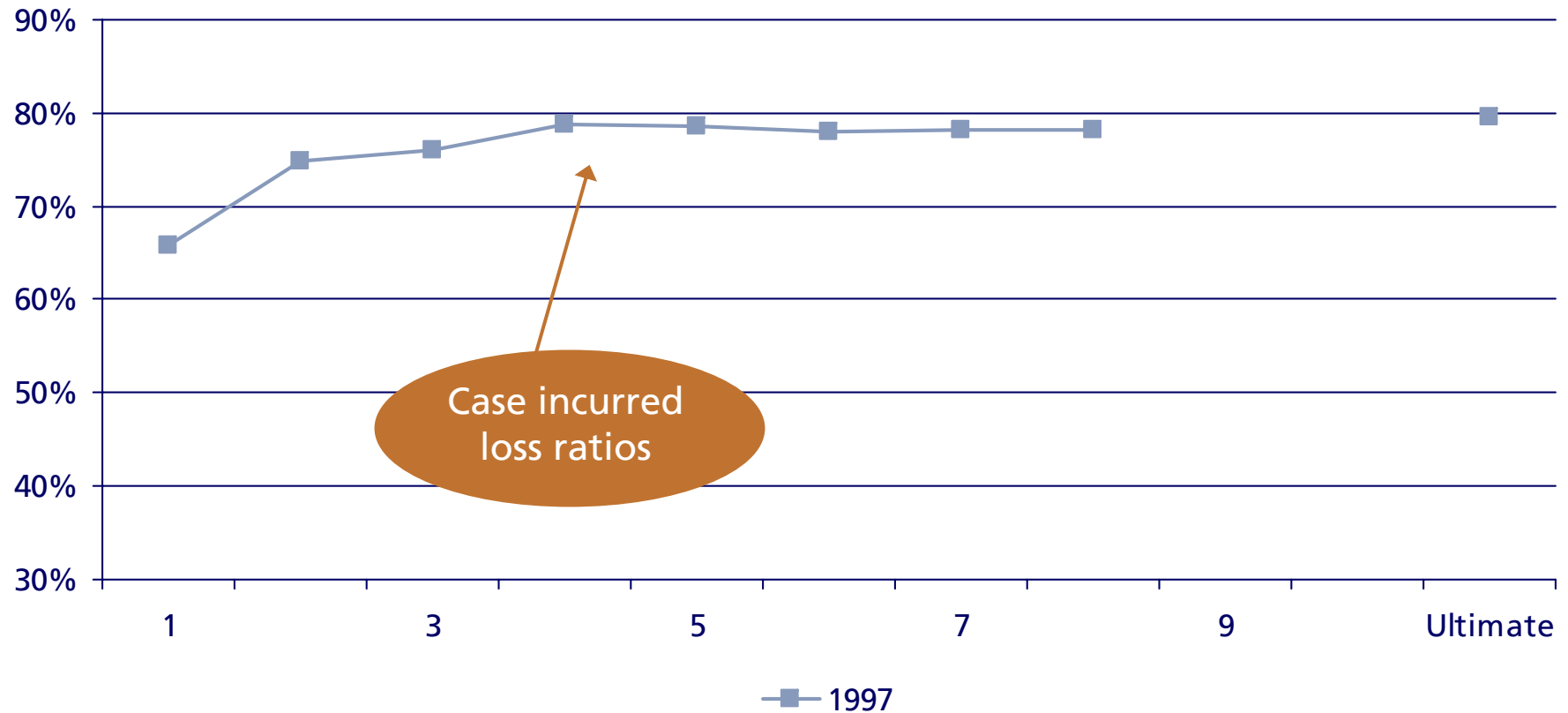


# Europe - Agenda



- 
- The Zurich Way in Europe
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  - Detail on UK Employer's Liability
  - Detail on Asbestos methodology

# UK all lines case incurred loss ratio development trends lower than ultimate selections

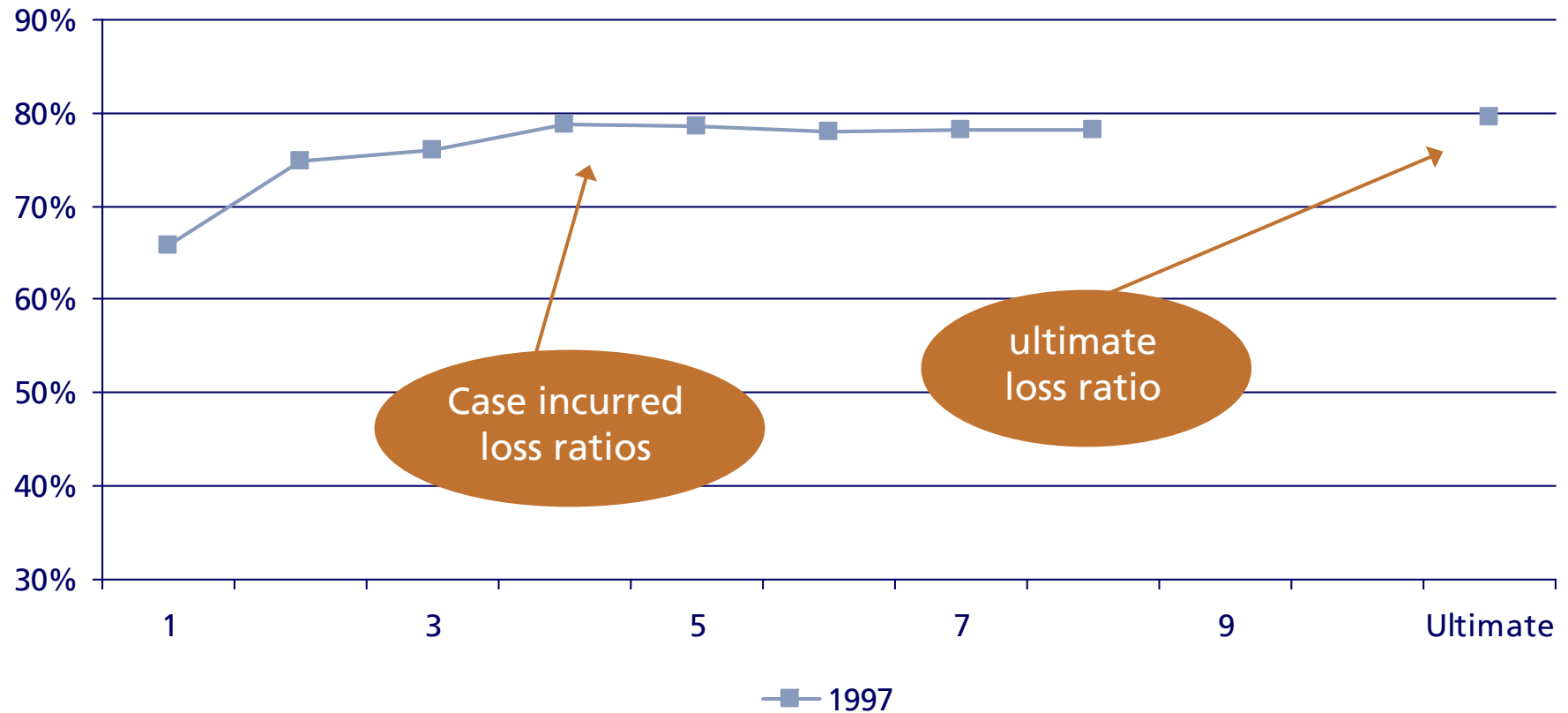


- Case incurred ratios peak in year 4 and then decline
- Positive IBNR covers any tail development

# UK all lines case incurred loss ratio development trends lower than ultimate selections



ZURICH

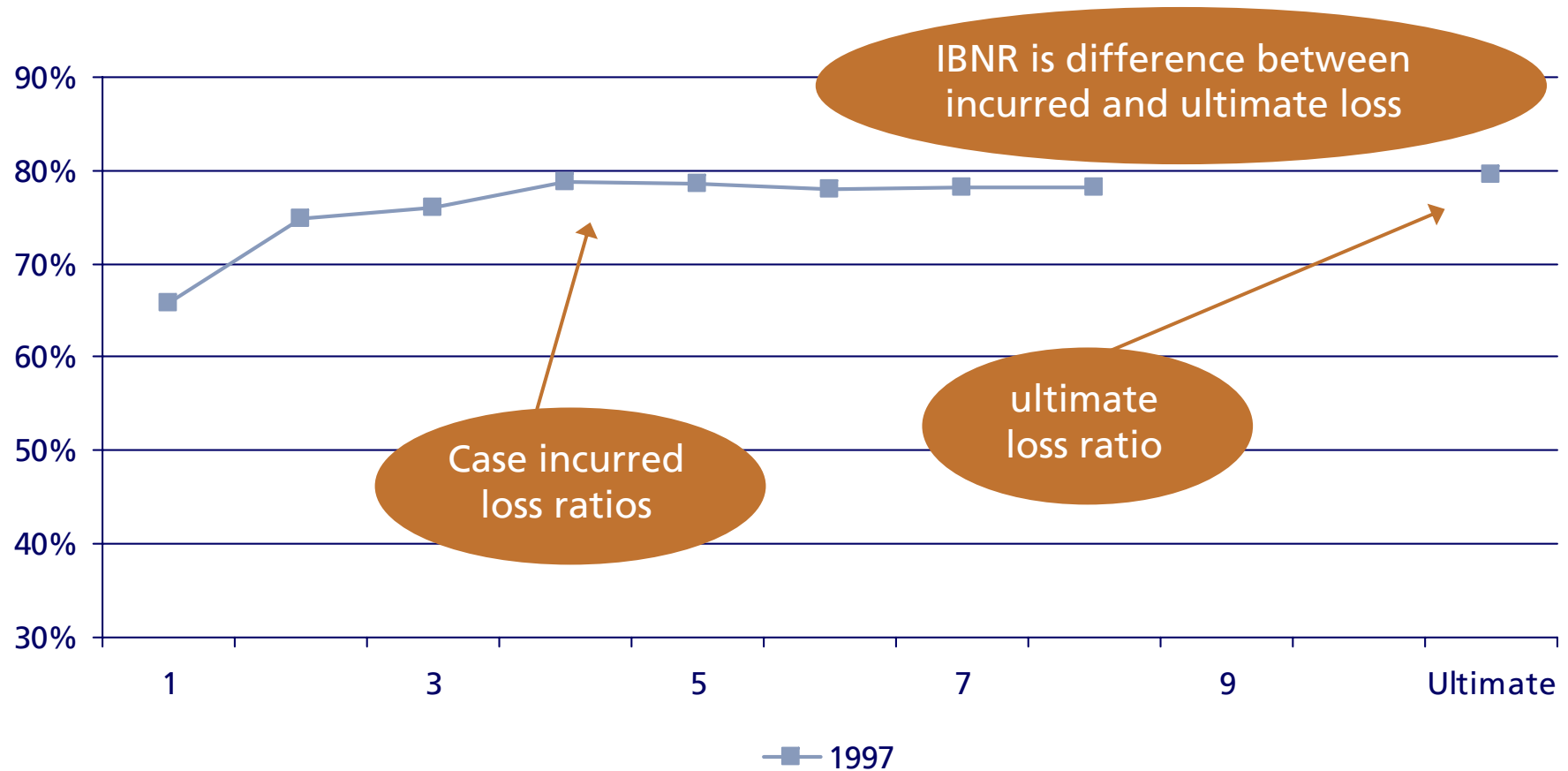


- Case incurred ratios peak in year 4 and then decline
- Positive IBNR covers any tail development

# UK all lines case incurred loss ratio development trends lower than ultimate selections



ZURICH

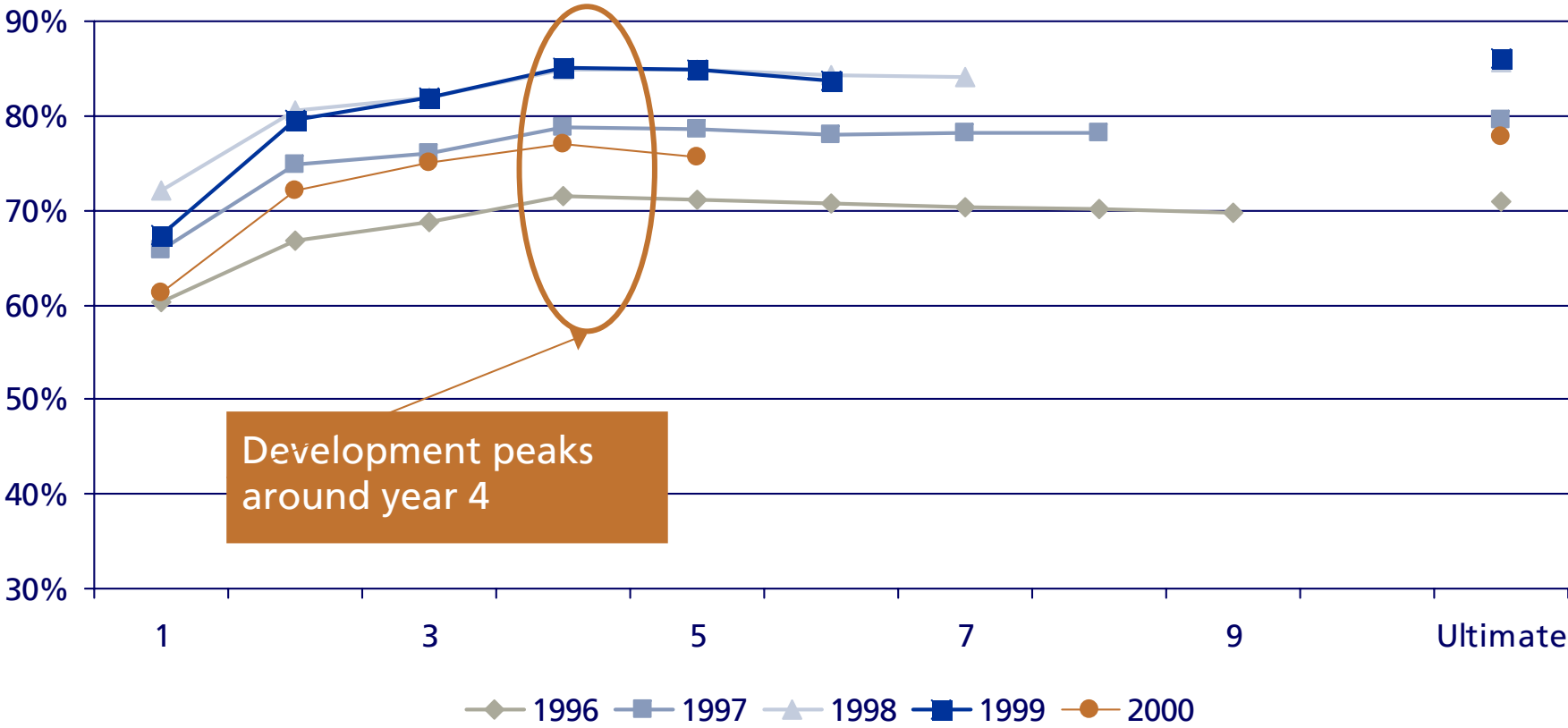


- Case incurred ratios peak in year 4 and then decline
- Positive IBNR covers any tail development

# UK all lines case incurred loss ratio development trends lower than ultimate selections



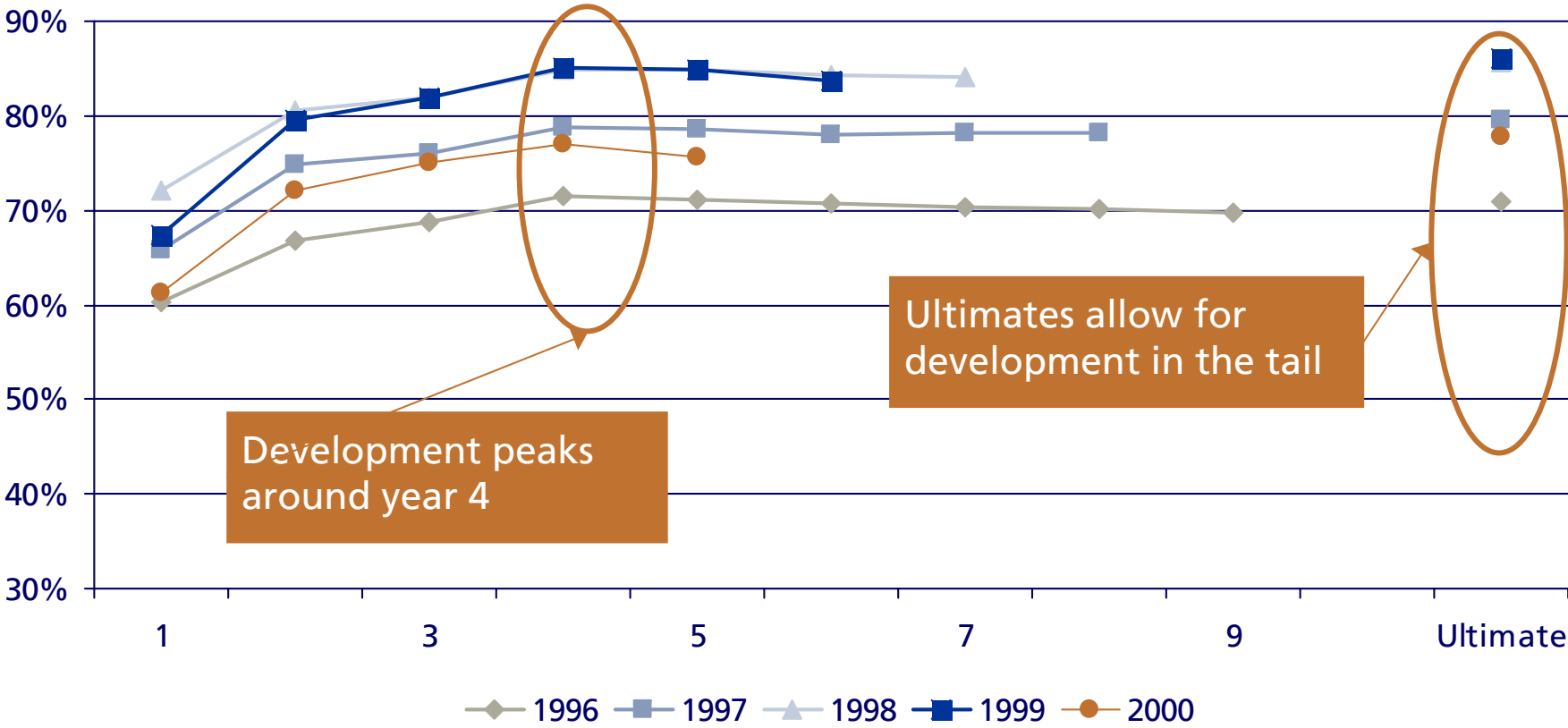
ZURICH



# UK all lines case incurred loss ratio development trends lower than ultimate selections



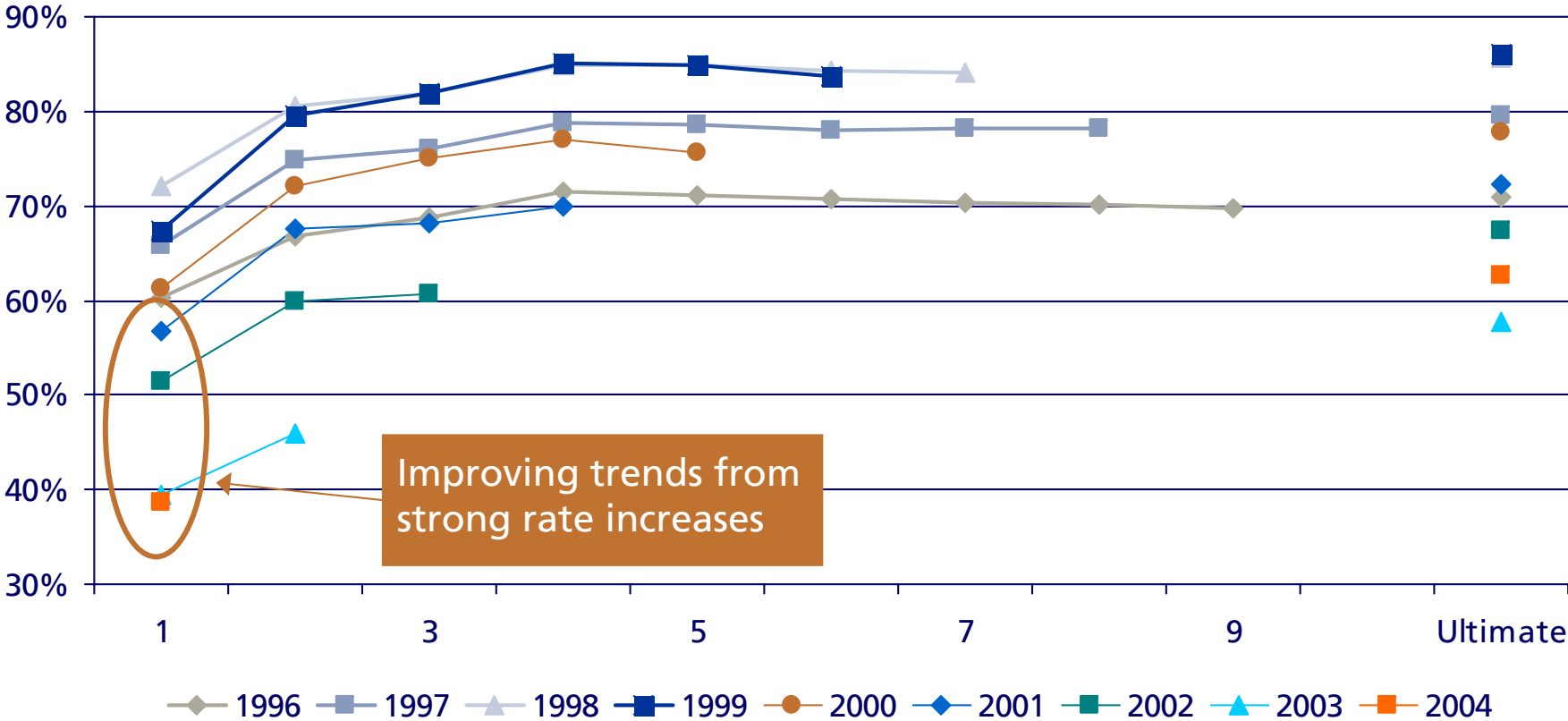
ZURICH



# UK all lines case incurred loss ratio development trends lower than ultimate selections



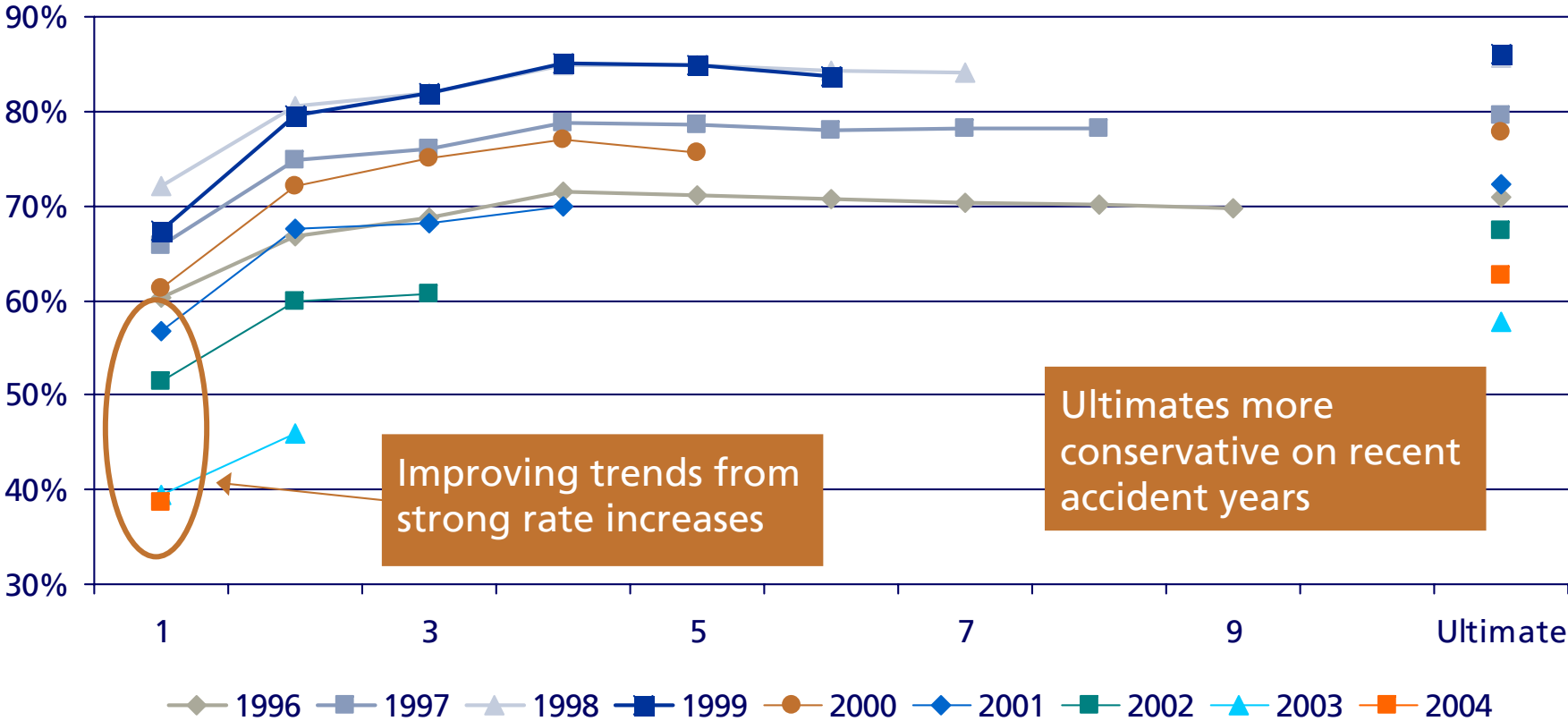
ZURICH



# UK all lines case incurred loss ratio development trends lower than ultimate selections



ZURICH



# UK all lines ultimate loss ratios: Historically run-off has been positive



		Accident Year								
		1996	1997	1998	1999	2000	2001	2002	2003	2004
Ultimates at year-end	2000	73%	82%	91%	88%	76%				
	2001	73%	81%	90%	88%	79%	80%			
	2002	72%	80%	87%	87%	81%	78%	75%		
	2003	72%	80%	87%	87%	80%	75%	71%	65%	
	2004	71%	80%	86%	86%	78%	72%	67%	58%	63%

- Progression of ultimate loss ratios demonstrates reserve strength
- Decrease in ultimate implies prior year development profit
- 2000 reflects market cycle and portfolio changes

# Europe - Agenda



- 
- The Zurich Way in Europe
  - Overview of European reserves
  - Historical run-off of UK reserves
  - Detail on UK Employer's Liability
  - Detail on Asbestos methodology

# Modelling Employer's Liability “mainstream” reserves



- 
- “Mainstream” reserves are USD 1.4bn
  - Comprise all claims except long tail disease (Asbestos, Deafness, VWF)
  - Detailed data segmentation
  - Data grouped by Nature of Injury code
    - 7 groups for non-disease claims
    - 4 groups for short tail disease claims (Dermatitis, RSI, Stress, Asthma)
  - Groupings determined by similarity of development patterns - improves accuracy and stability of projections
  - Four main reserving methods applied to each Nature of Injury group
  - Large claims projected separately

# Selection of ultimates for prior accident years



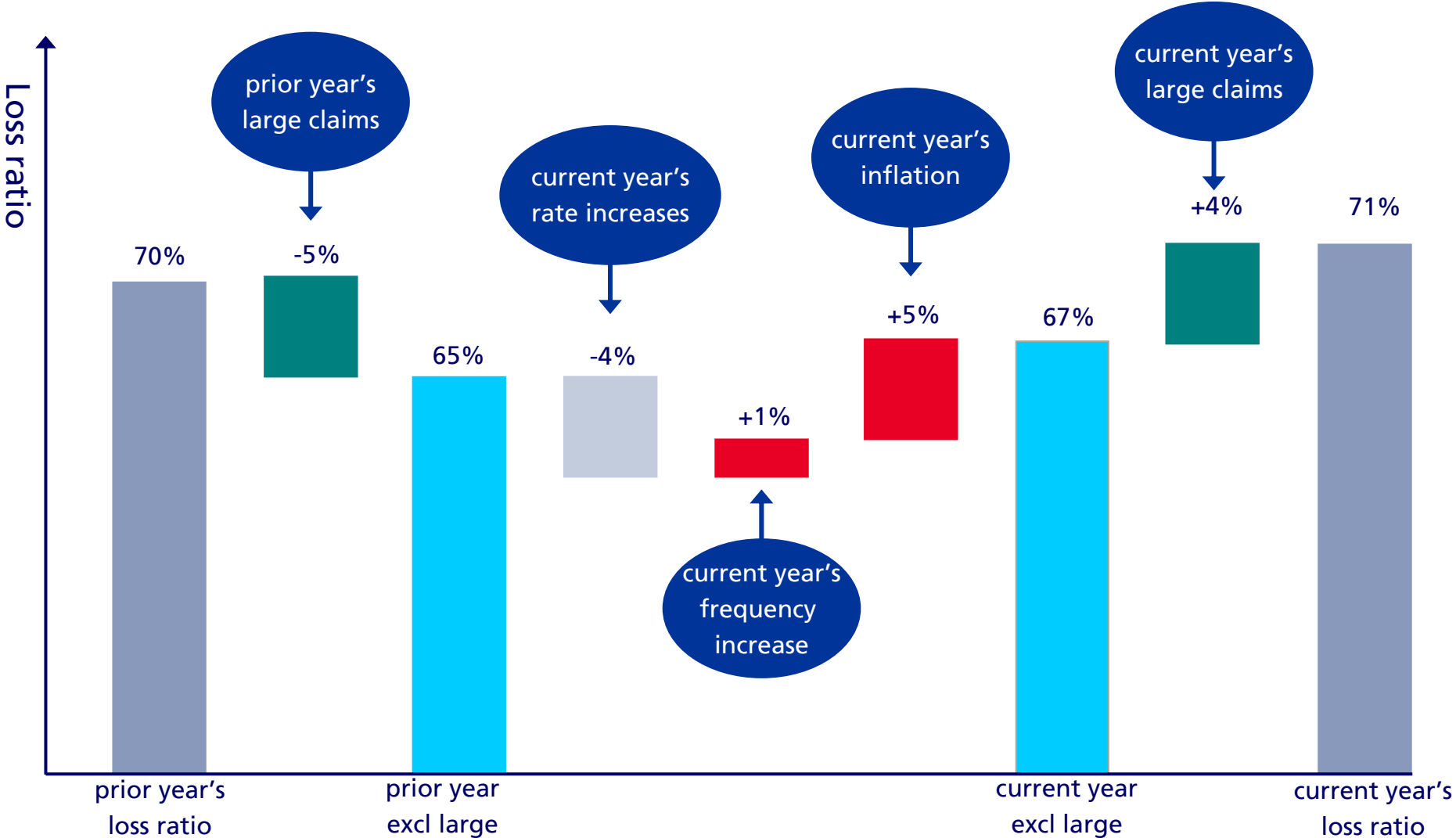
- 
- Results of methods are compared graphically and ultimate selected
  - Nature of Injury ultimates combined and compared with projections at overall level
  - Final selected ultimates take account of all information available
  - Check progression of ultimates across accident years

# Selection of ultimate for current accident year

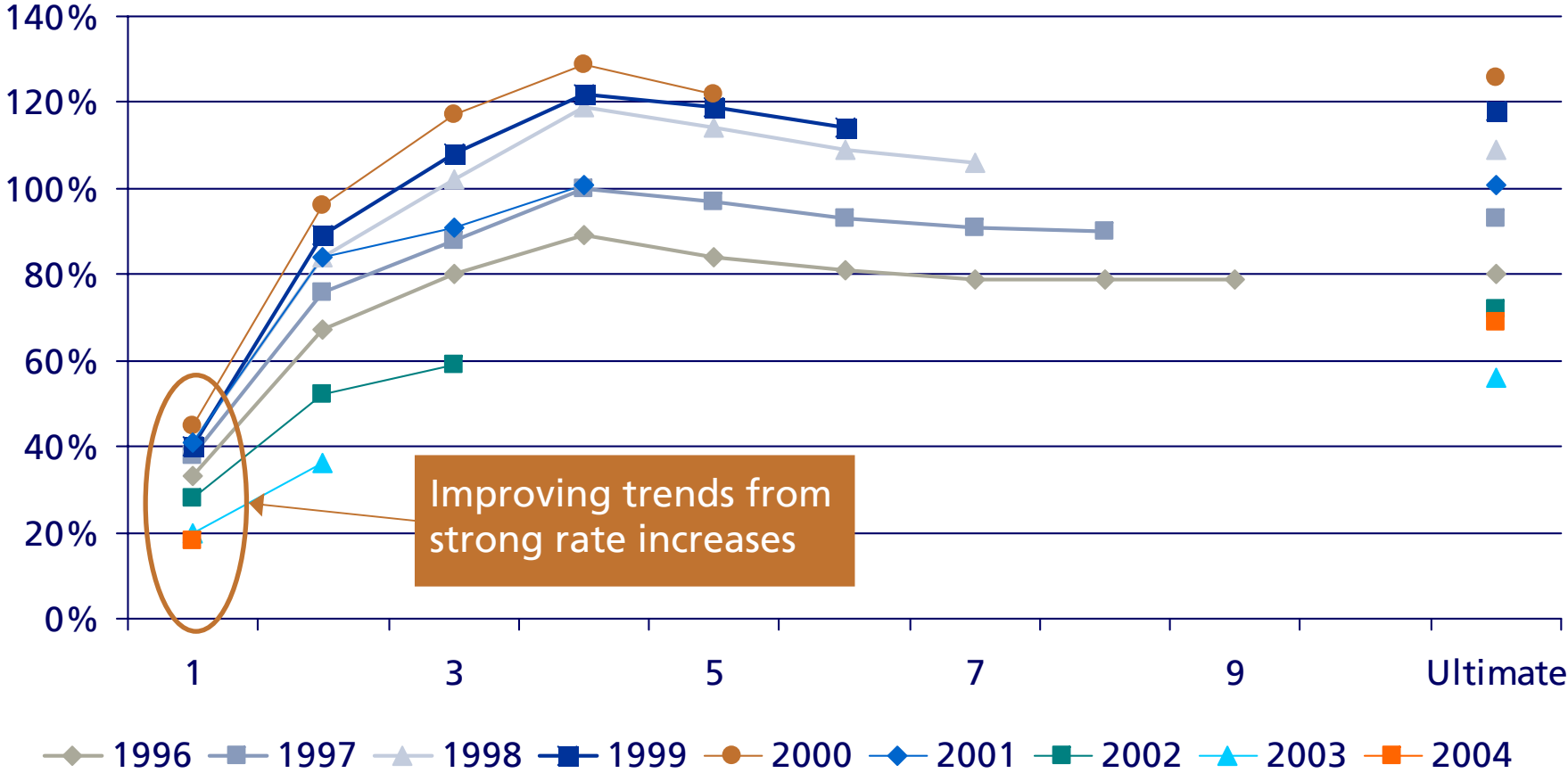


- 
- Current year is undeveloped so direct projections are volatile
  - “Loss ratio walk” method is used to roll forward from older, more developed years
  - This allows for
    - Rate changes
    - Claim frequency
    - Claims inflation
    - Large claims

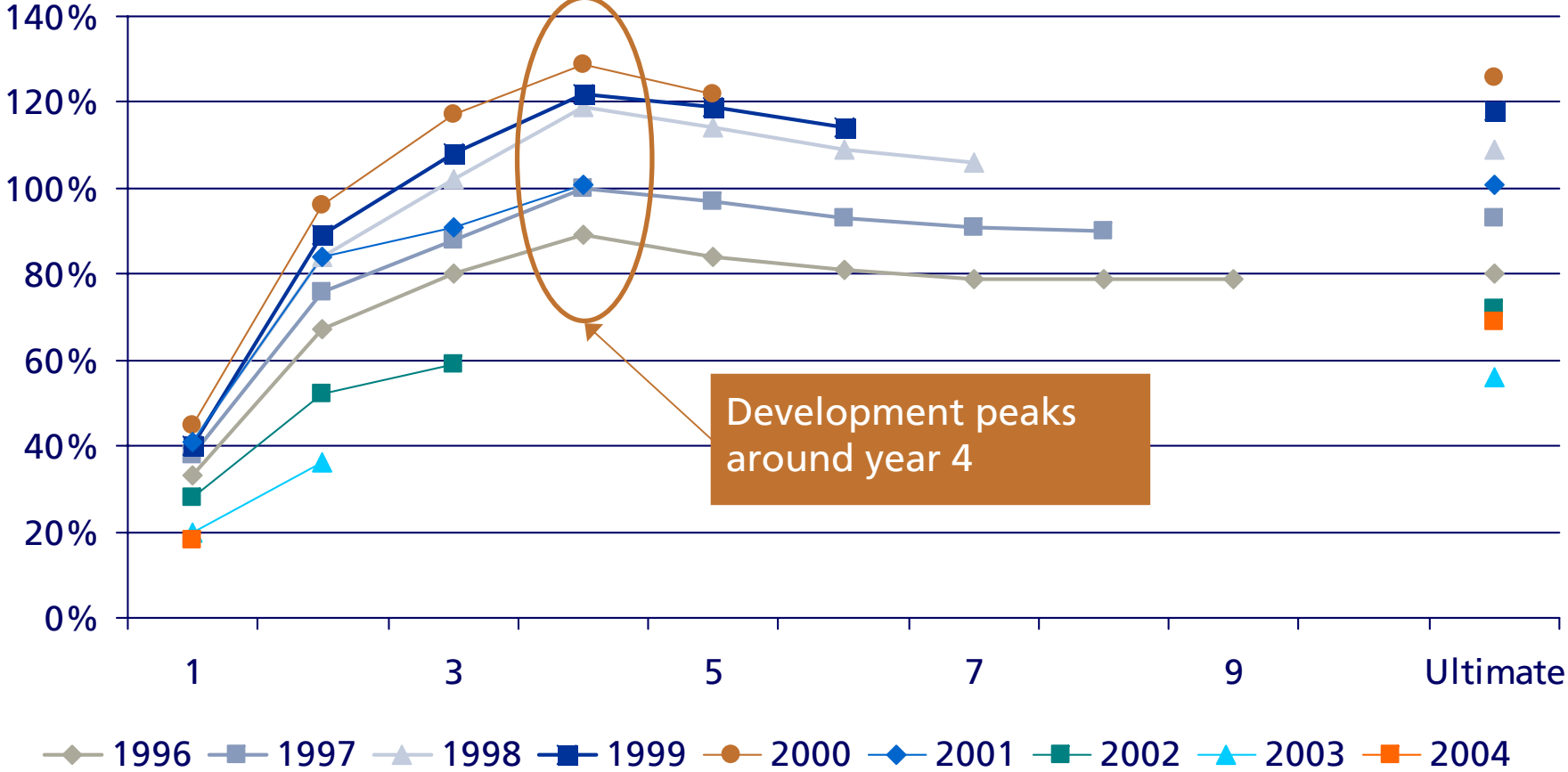
# Estimation of current year loss ratio



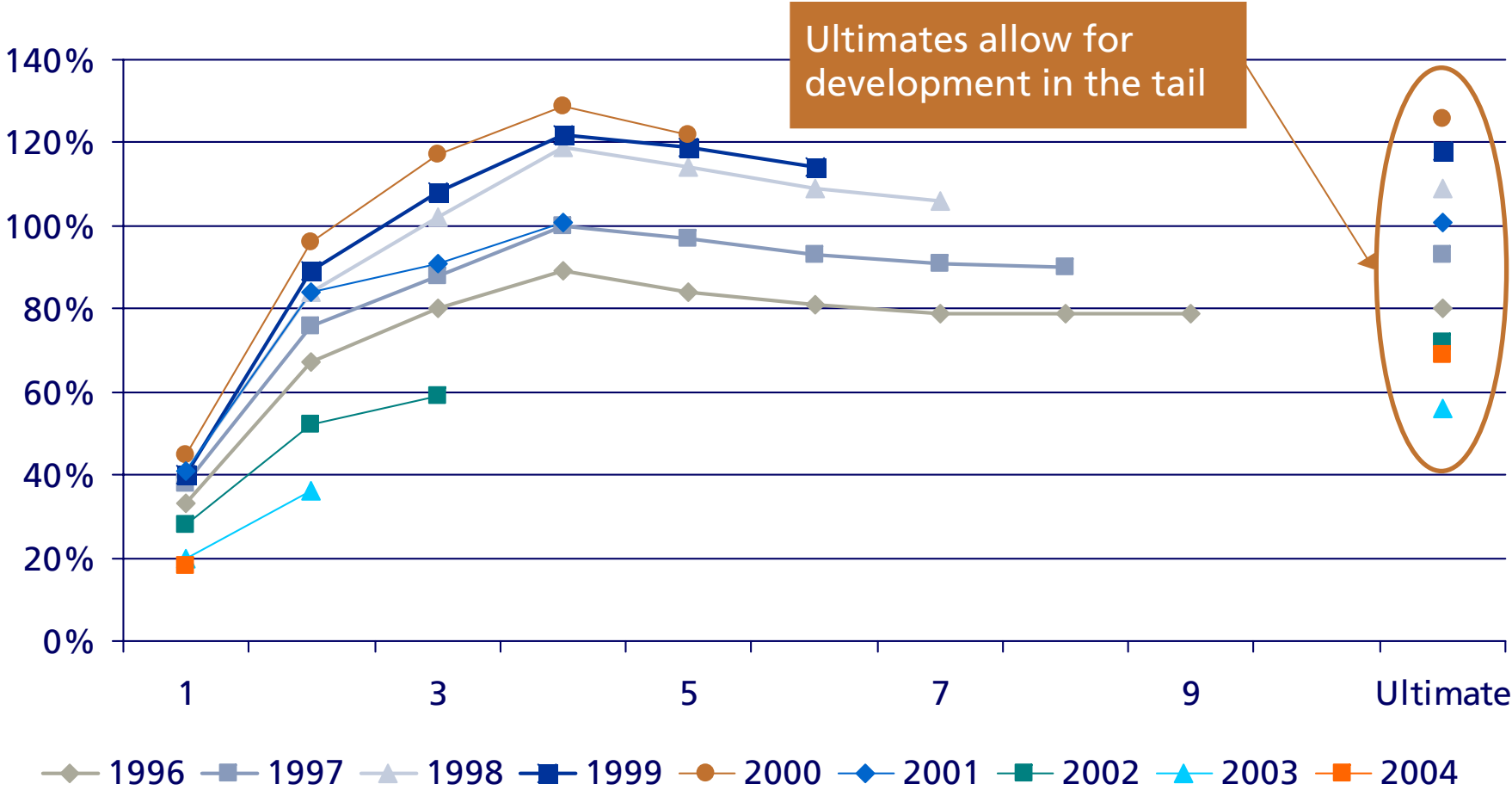
# Employer's Liability case incurred loss ratio development stable over time



# Employer's Liability case incurred loss ratio development stable over time



# Employer's Liability case incurred loss ratio development stable over time



# Even for Employer's Liability historical run-off has generally been positive



		Accident Year								
		1996	1997	1998	1999	2000	2001	2002	2003	2004
Ultimates at year-end	2000	87%	102%	124%	122%	116%				
	2001	84%	99%	120%	124%	132%	122%			
	2002	84%	99%	118%	125%	137%	122%	99%		
	2003	83%	98%	112%	122%	132%	112%	89%	75%	
	2004	80%	93%	109%	118%	126%	101%	72%	56%	69%

- Progression of ultimate loss ratios demonstrates reserve strength
- Decrease in ultimate implies prior year development profit
- 1999 and 2000 reflect market cycle and portfolio changes

# Europe - Agenda



- 
- The Zurich Way in Europe
  - Overview of European reserves
  - Historical run-off of UK reserves
  - Detail on UK Employer's Liability
  - Detail on Asbestos methodology

# Asbestos reserves and survival ratios as of Dec 31, 2004



in USD million	Gross reserves	Net reserves	Survival ratio
UK Asbestos	1,363	1,363	41 years
US Asbestos in UK	694	380	32 years
Other Asbestos	907	781	13 years
Total	2,964	2,524	25 years

- Survival ratio calculated as latest net reserves divided by average of last 3 years' net payments
- Survival ratio of 41 on UK asbestos demonstrates strength of reserves

# UK Asbestos - key features



- 
- Exposure arises in UK under Employer's Liability policies
  - Claims are modelled separately by claim type
    - Mesothelioma
    - Lung Cancer
    - Asbestosis
    - Pleural thickening
    - Pleural plaques
  - Mesothelioma is the signature disease for asbestos
  - Typical latency period for "meso" is around 40 years

# UK Asbestos - key features (cont.)



- 
- Key assumptions are
    - the number and shape of future claims
    - current average claims cost
    - claims inflation to date of payment
  - Long latency means meso claims will continue for many years
  - Although exposure reduced in 1970s, number of cases has not yet peaked

# We have adopted industry best practice to modelling future meso claims

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- Health and Safety Executive (HSE) benchmark projections of meso deaths updated in December 2003
- Update used by UK actuarial working party in 2004 to develop industry approach
- We participated actively in the working party and adopted the approach based on HSE projections
- New model projects number of population deaths by birth cohort
  - Frequency varies by cohort
  - Age at death increases over time

# More robust meso claim modelling included additional testing

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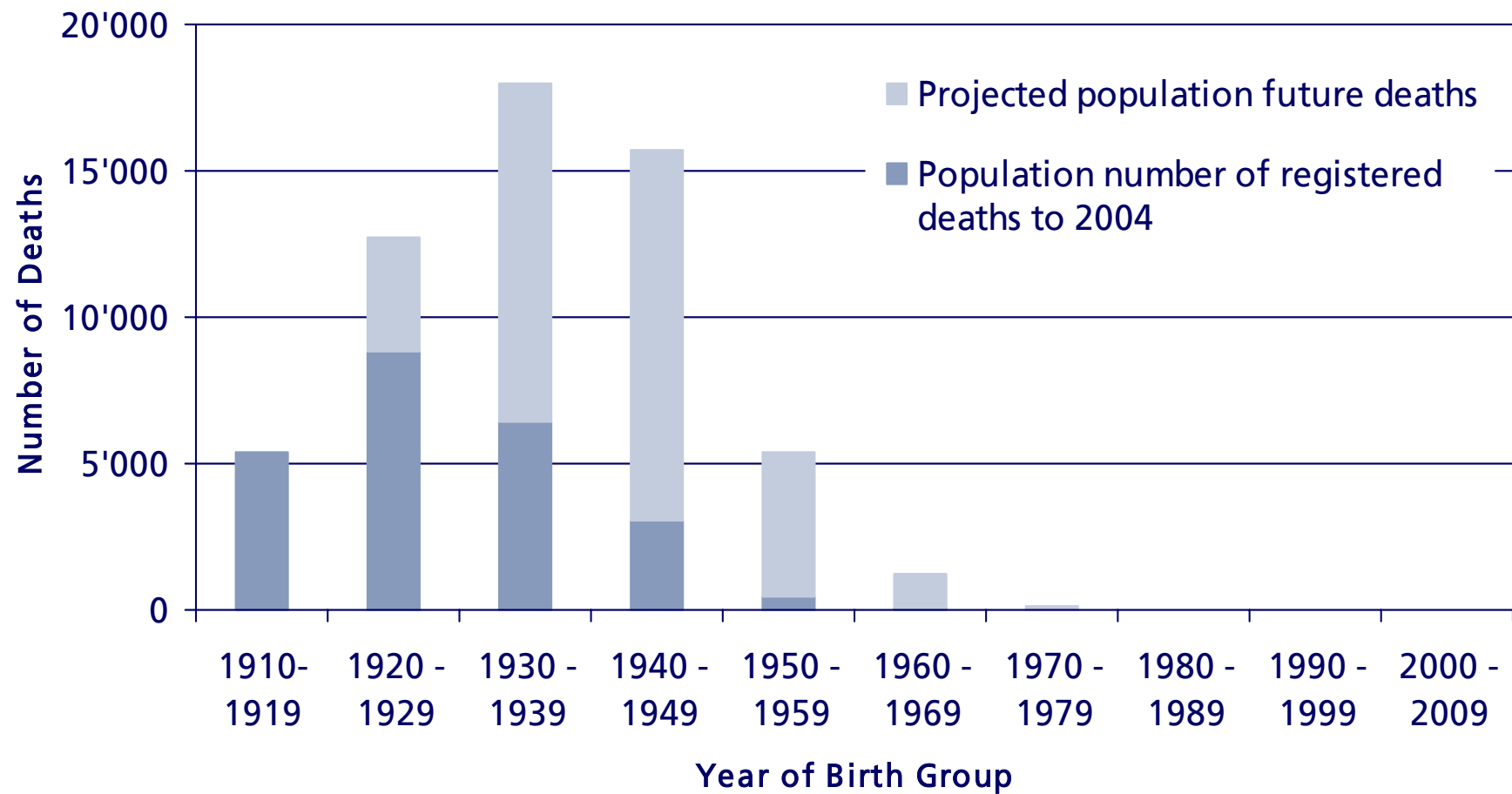


- Reasonableness check on projection shape
- Actual vs. expected comparison to test projection accuracy over time
- Zurich claims data calibrated against population figures
- Used Zurich exposure model to check the selected projection

# Modelled deaths by birth cohort



## UK population registered deaths from mesothelioma



# UK long-tail reserves - summary



- 
- The Zurich Way of Reserving reinforces existing approach
  - Conservatism in IBNR assumptions
  - Detailed modelling enables us to monitor explicit assumptions against emerging claims experience
  - Asbestos modelling is industry best practice
  - Asbestos survival ratio of 41 indicates strength of reserves

Historically development profits have arisen on re-estimation

# Reserving - Agenda



- 
- |                                 |                    |
|---------------------------------|--------------------|
| • Introduction                  | Patrick O'Sullivan |
| • The Zurich Way of Reserving   | Steve Wilson       |
| • The Zurich Way impact in 2004 | Steve Wilson       |
| • Europe                        | Caroline Barlow    |
| • North America                 | Nancy Mueller      |
| • Conclusions                   | Patrick O'Sullivan |

# North America - Agenda



- 
- The Zurich Way in North America
  - Overview of North American reserves
  - Workers' Compensation reserves
  - Commercial Multi Peril reserves
  - Summary

# How The Zurich Way impacted North America

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- We exchanged best practice with European colleagues
- Many aspects of The Zurich Way of Reserving were already in operation
- It has strengthened and formalized our Governance
- We adopted the new global standards including taking a more conservative approach
- The Zurich Way created a step change in our reserve position

# North America - Agenda



- 
- The Zurich Way in North America
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  - Summary

# North America General Insurance Reserves



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<i>in USD billions</i>	Net Reserves as of Dec 31, 2004	Prior-year development
Zurich Group	43.5	2.0
NA Corporate	17.3	2.6
US Statutory	12.1	1.8

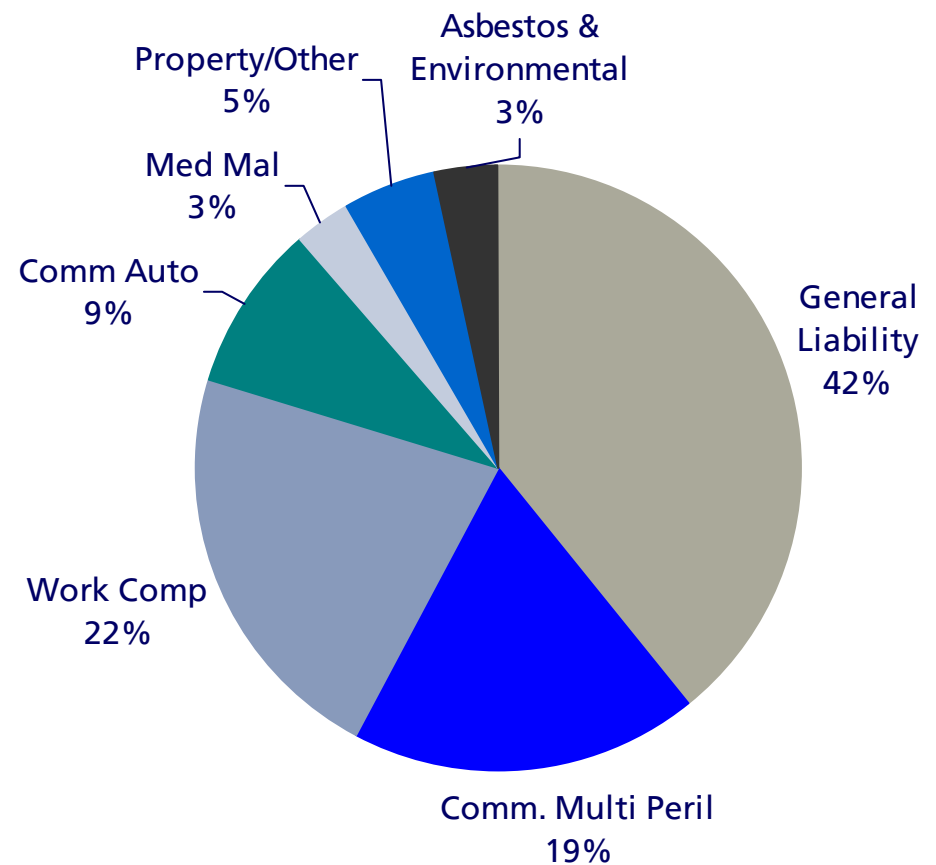
- NA Corporate 40% of Zurich 's overall reserves
- Zurich US legal entity 70% of NA Corporate
- Canada, Zurich Specialties London and internal reinsurance 30% of NA Corporate

# US statutory reserves by line of business



- Diverse portfolio of businesses reflecting US Commercial market
- Net reserves USD 12bn
- Gross reserves USD 23bn
- 25% of cessions to Zurich affiliate companies

## Net Reserves as of Dec 31, 2004



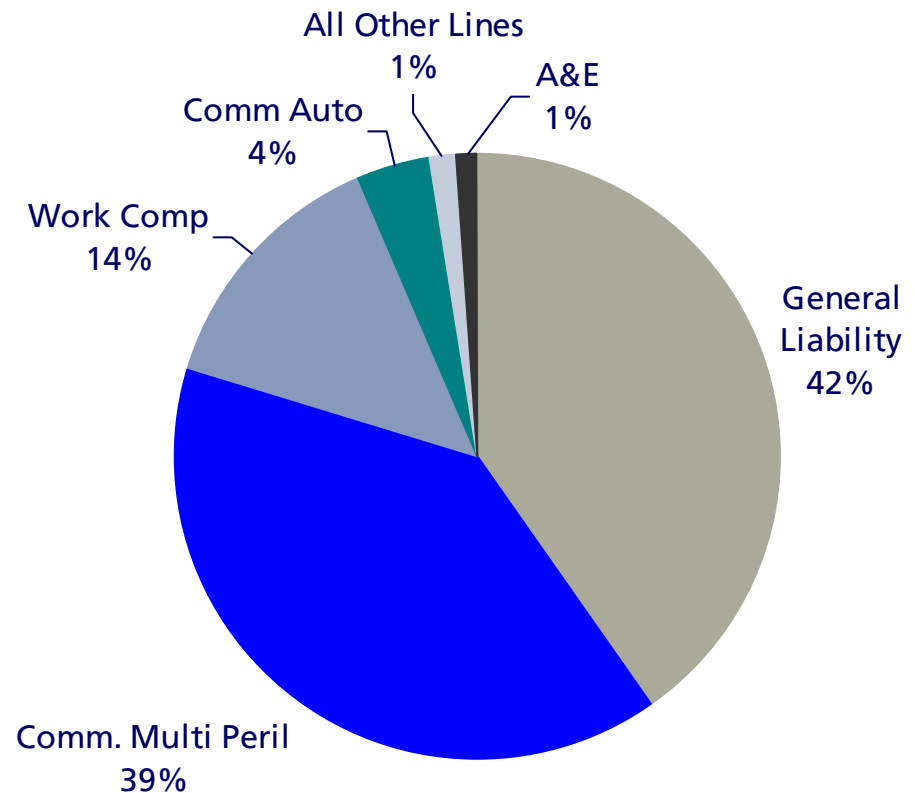
# 2004 prior year development concentrated in long tail lines in soft market years



## Source of prior year development

- 67% from accident years 1999-2001
- 65% from segments that were exited in 2002/2003, e.g.
  - Small residential contractors
  - Substandard surety
  - Certain medical malpractice segments


## Prior year development by line of business



# The reserving issues were caused by a number of factors

---

## Adverse claims trends

- Increased litigation
  - Claim severity inflation
  - Increased frequency of large claims
- 
- High ultimate loss ratios
  - Steeper development from changes in coverage & terms

# The reserving issues were caused by a number of factors

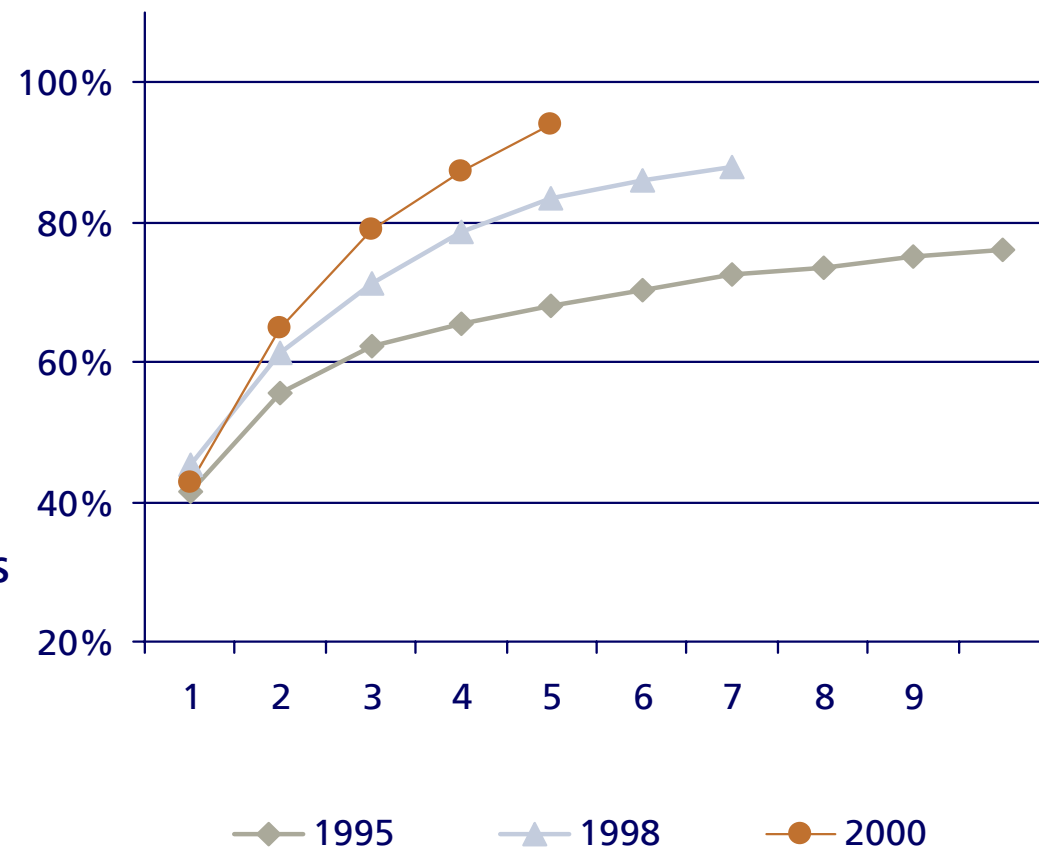


## Adverse claims trends

- Increased litigation
  - Claim severity inflation
  - Increased frequency of large claims
- 
- High ultimate loss ratios
  - Steeper development from changes in coverage & terms

## All lines case incurred loss ratio

## Net development before stop loss



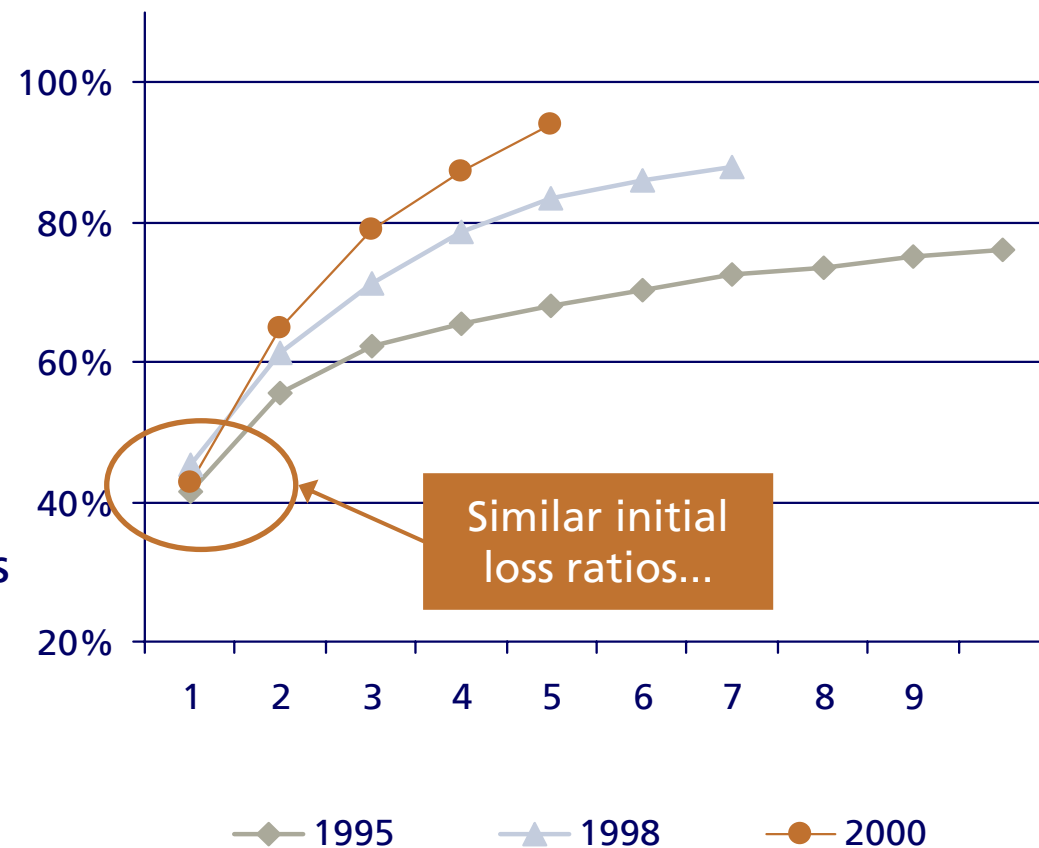
# The reserving issues were caused by a number of factors

## Adverse claims trends

- Increased litigation
  - Claim severity inflation
  - Increased frequency of large claims
- 
- High ultimate loss ratios
  - Steeper development from changes in coverage & terms

## All lines case incurred loss ratio

## Net development before stop loss



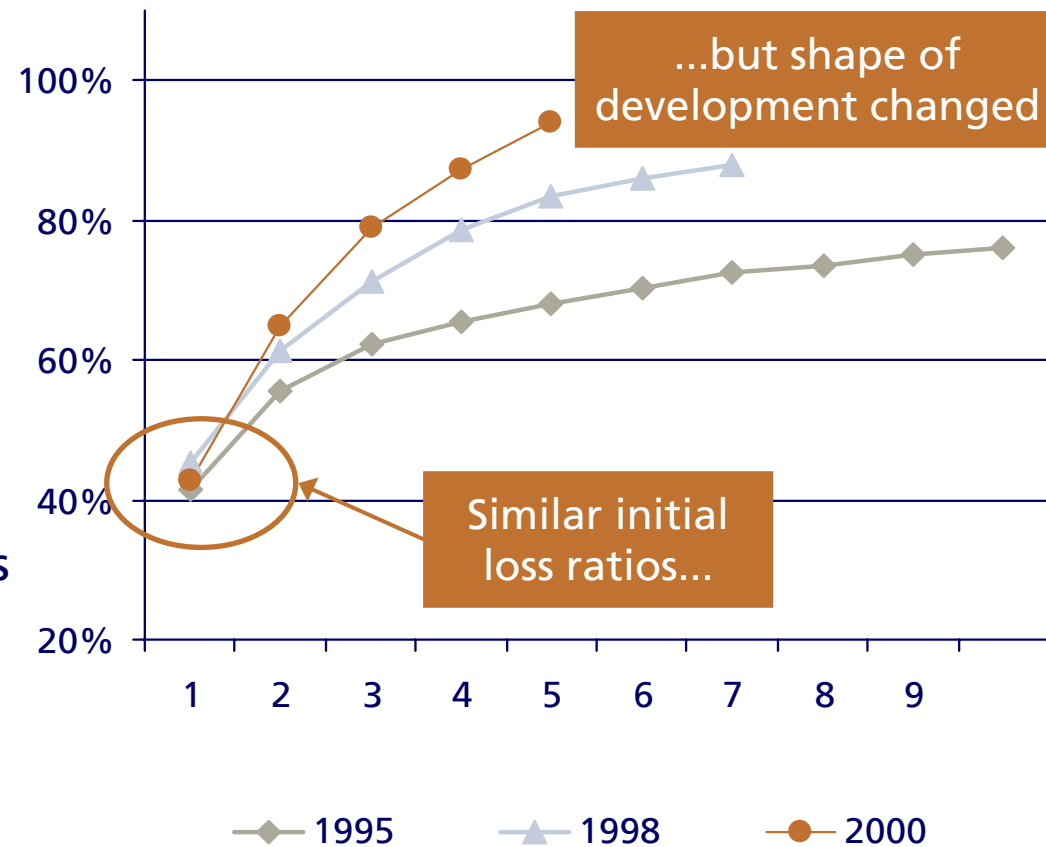
# The reserving issues were caused by a number of factors

## Adverse claims trends

- Increased litigation
  - Claim severity inflation
  - Increased frequency of large claims
- 
- High ultimate loss ratios
  - Steeper development from changes in coverage & terms

## All lines case incurred loss ratio

## Net development before stop loss



# The Zurich Way approach responded to these issues and reduces volatility going forward

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- Strengthened reserves and processes
- Close monitoring of industry factors
- Consistent underwriting, claims handling and reserving practices that improve predictability of ultimate results
- Growth in hard market reduces impact of random fluctuation
- Strong position on recent accident years
  - protects against adverse claims trends, unanticipated development etc

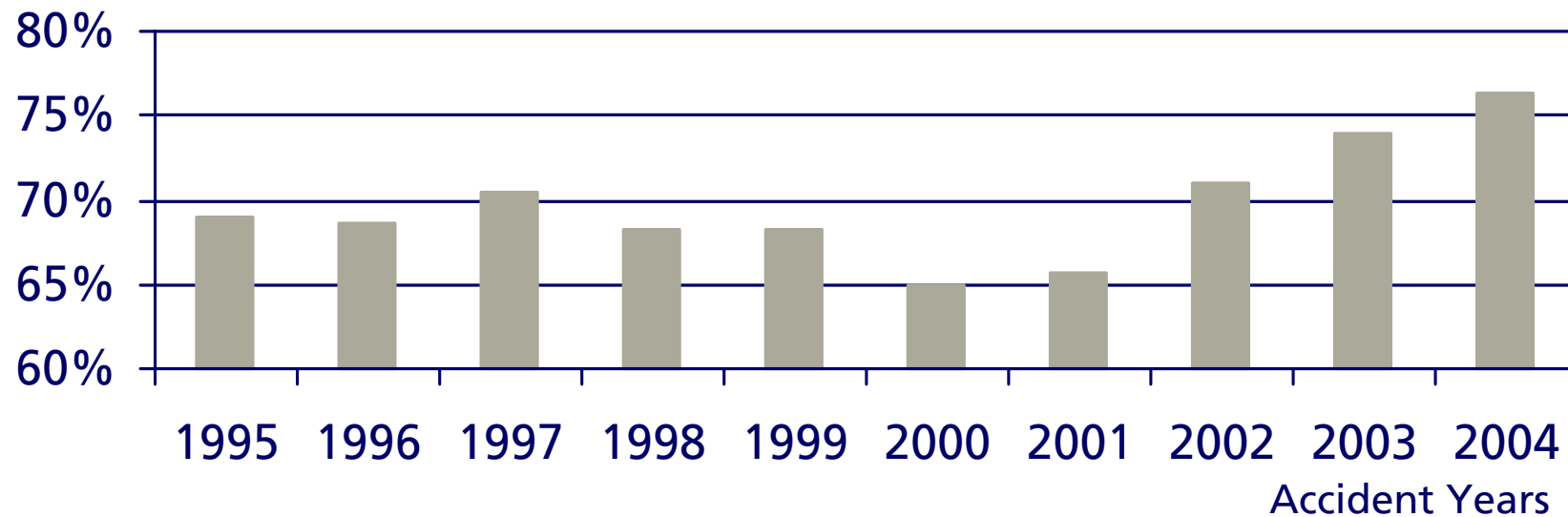
Our more conservative reserving approach reduces future reserve risk

# We can compare the strength of our initial reserves over time...



Example: Zurich US – all lines net before stop loss

Actual initial reserve-to-ultimate at age 12 months

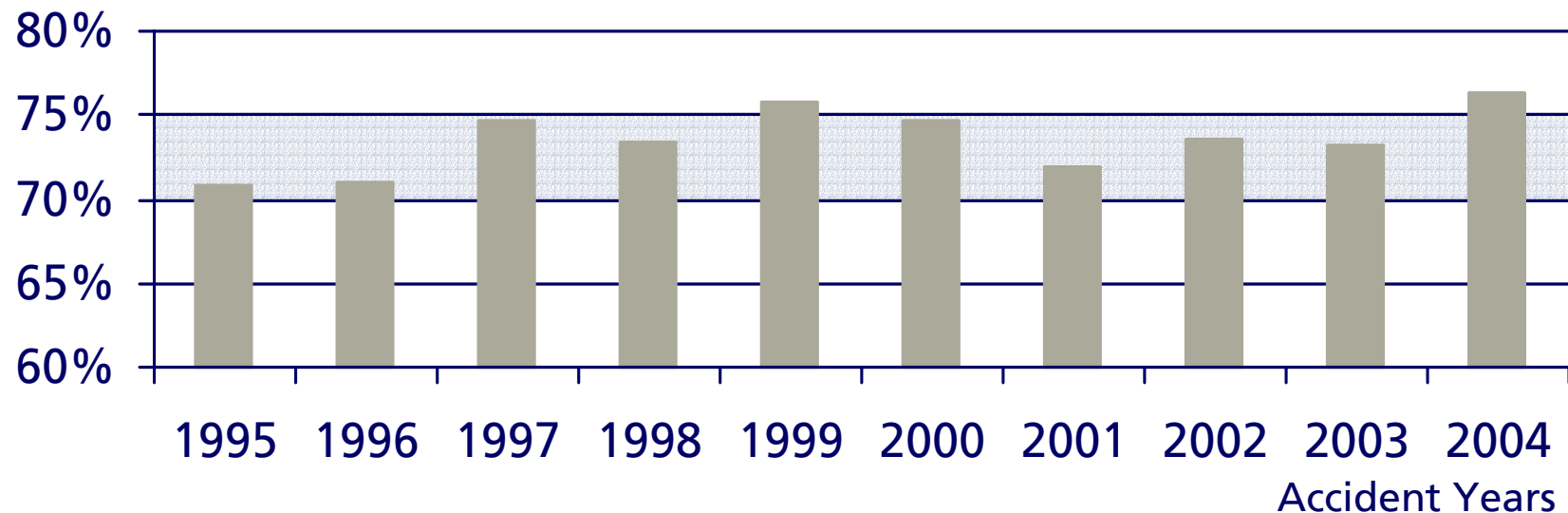


# ... and with the benefit of hindsight



## Example: Zurich US – all lines net before stop loss

### Hindsight initial reserve-to-ultimate as of 2004



- Strong position on recent accident years protects against adverse claims trends, soft cycle impacts, etc.

# We can compare the results with the Industry



- Common benchmarks measure relative strength of reserve position
- Comparison of gross reserves eliminate distortion from reinsurance differences; net reserves show similar patterns
- No single measure tells the whole story
  - Ratio of reserves-to-premium
  - Reserves as % of total ultimate loss
  - IBNR as % of total reserves
- All industry<sup>1</sup> comparisons are adjusted for Zurich's mix of business

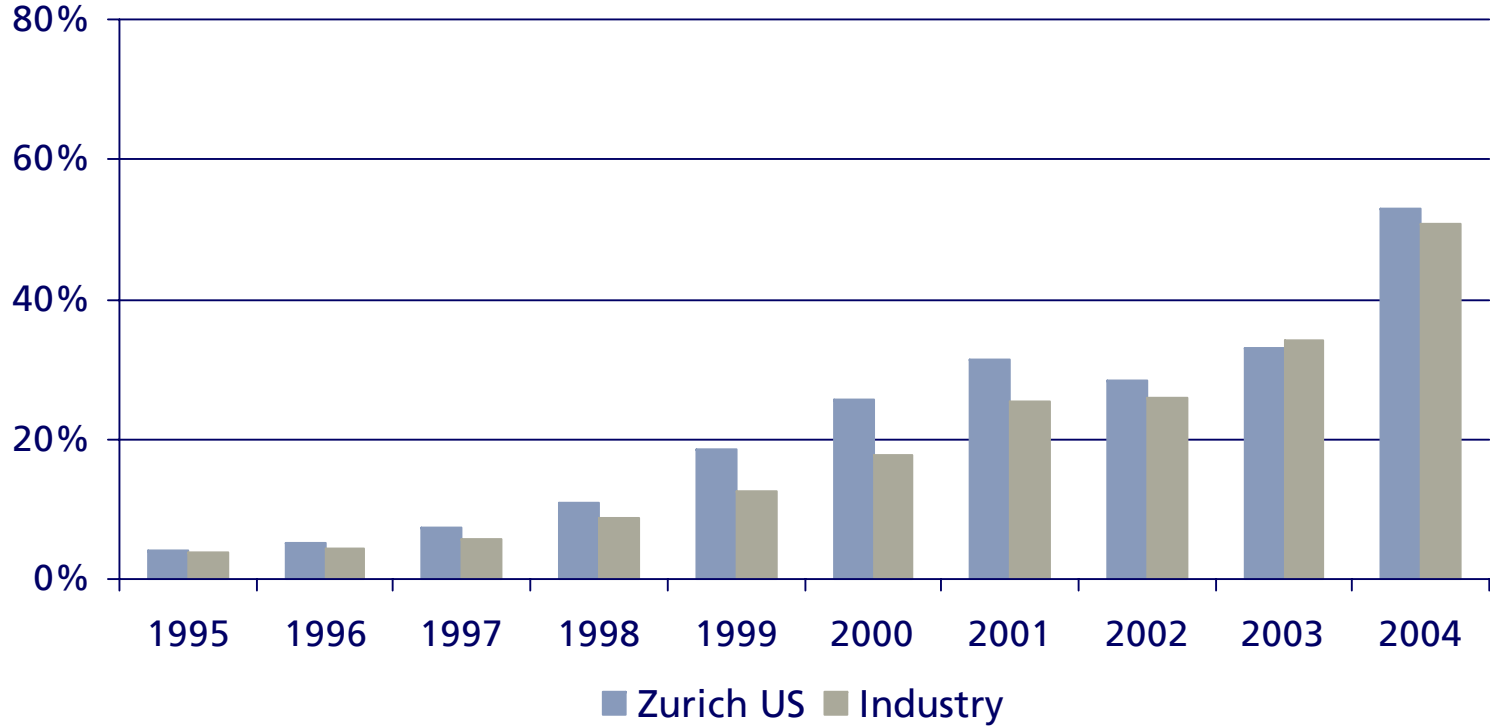
All benchmarks indicate Zurich reserves are now strong relative to industry

<sup>1</sup> For industry definition refer to Appendix

# Reserve-to-premium ratios show strength in each accident year



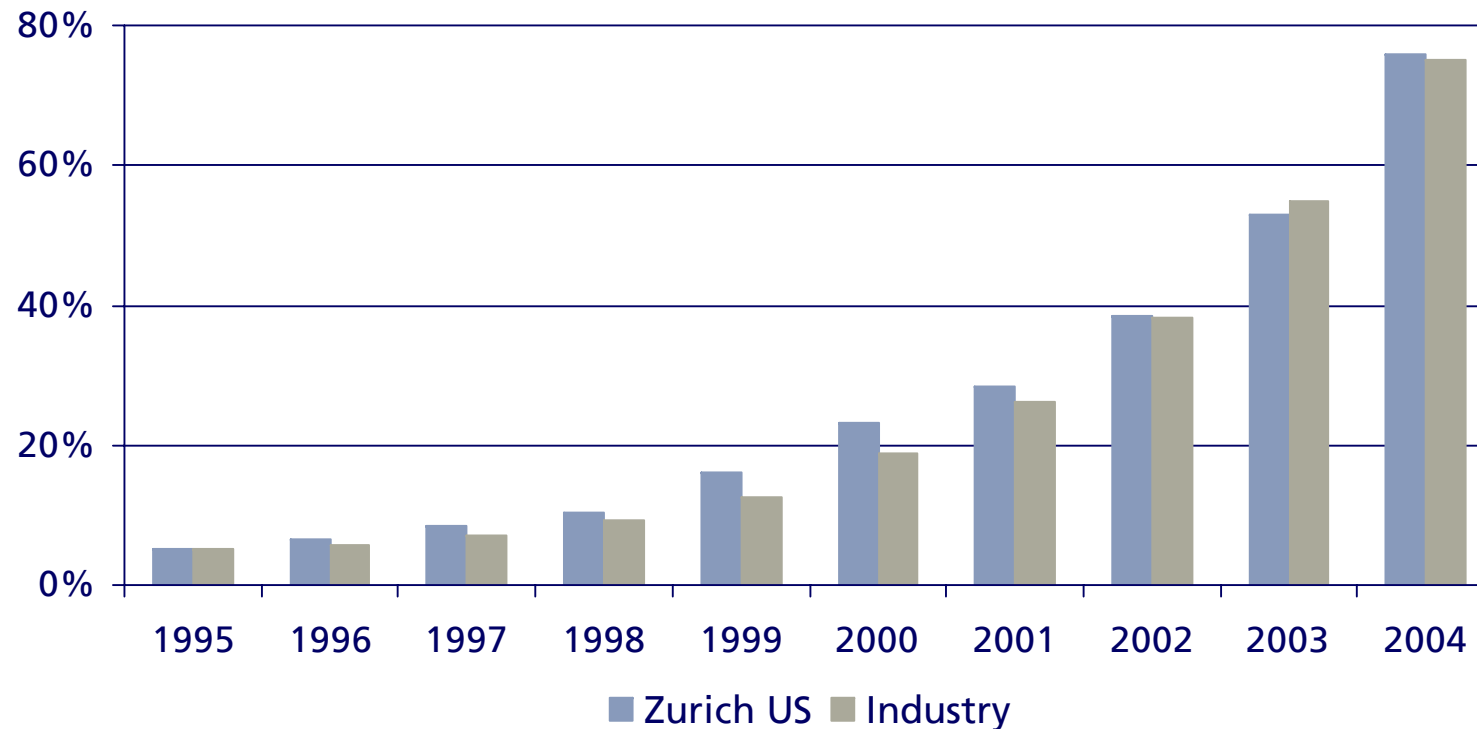
Gross reserves-to-premium by accident year as of Dec 31, 2004 – all lines combined



# Reserves-to-ultimate loss also shows strength in each accident year



Gross reserves-to-ultimate loss by accident year as of Dec 31, 2004 – all lines combined

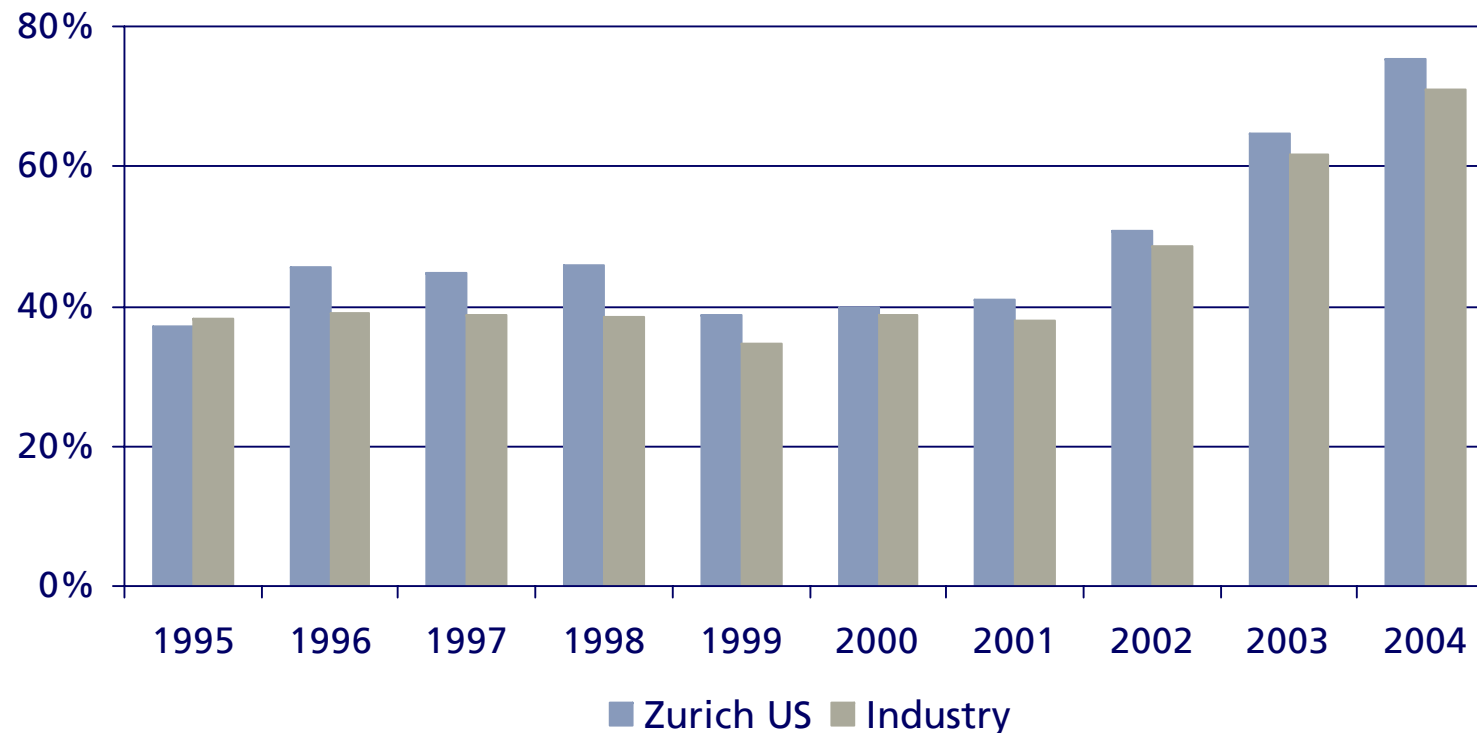


Zurich's reserves are stronger in virtually every year

# Zurich has a larger percentage of IBNR to overall reserves further indicating strength



Gross IBNR as percentage of total reserves by accident year as of Dec 31, 2004  
– all lines combined



The differential in years where Zurich market share is larger improves overall reserve strength

# North America - Agenda



- 
- The Zurich Way in North America
  - Overview of North American reserves
  - Workers' Compensation reserves
  - Commercial Multi Peril reserves
  - Summary

# US Workers' Compensation experienced internal changes in addition to market effects

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- Integration of US legal entities in 1999-2000 led to changes in claims handling
- 2000-2001 implemented MIRA case reserving tool

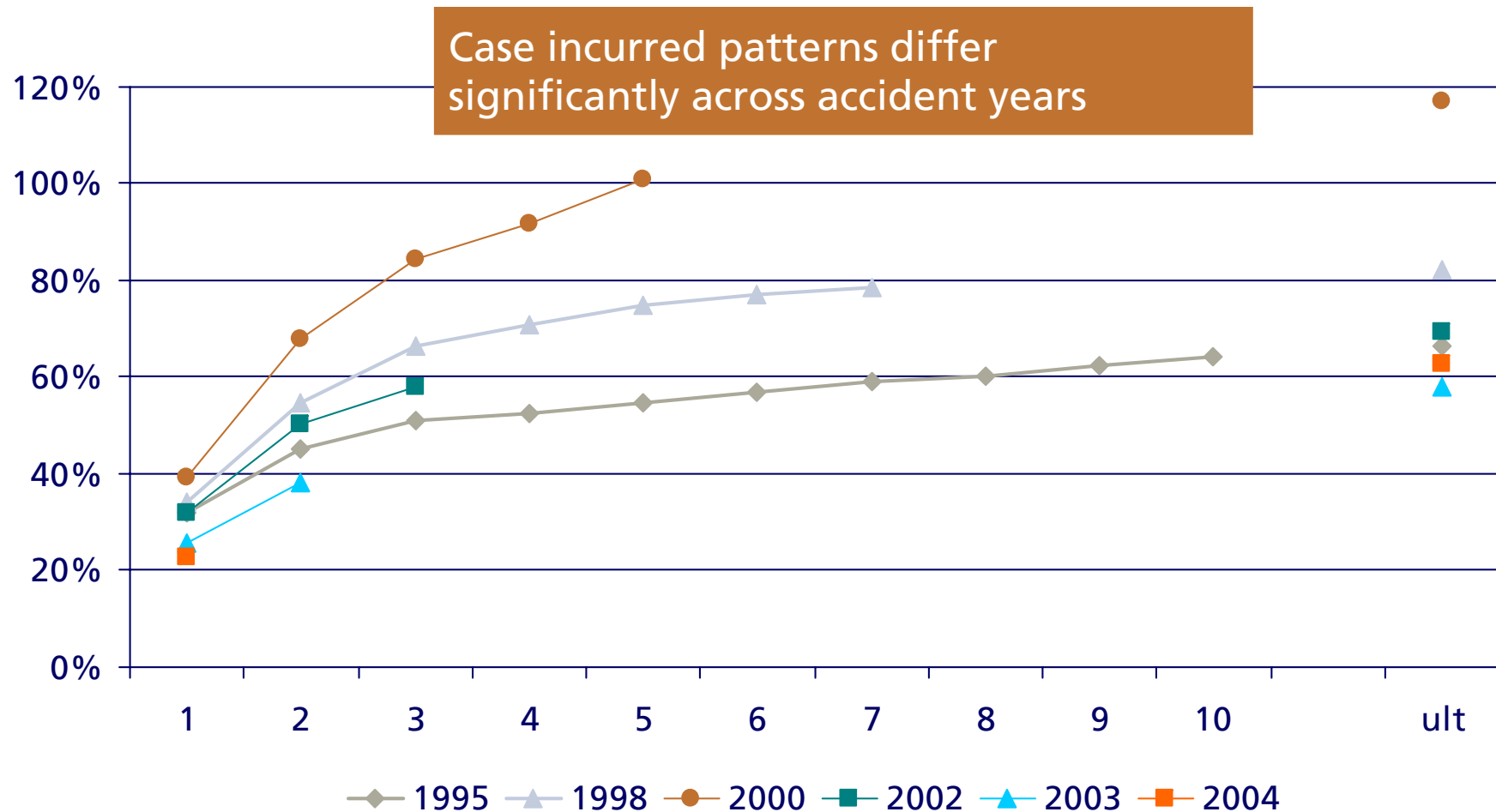


- Development patterns 1998-2001 – different than 1995-1997
- Indications that development patterns for 2002-2004 are stabilizing
- Claims leakage initiatives continue the focus on consistent claim handling
- Strong position on recent accident years

# We analyzed our Workers' Compensation<sup>1</sup> development in detail for case incurred losses ...



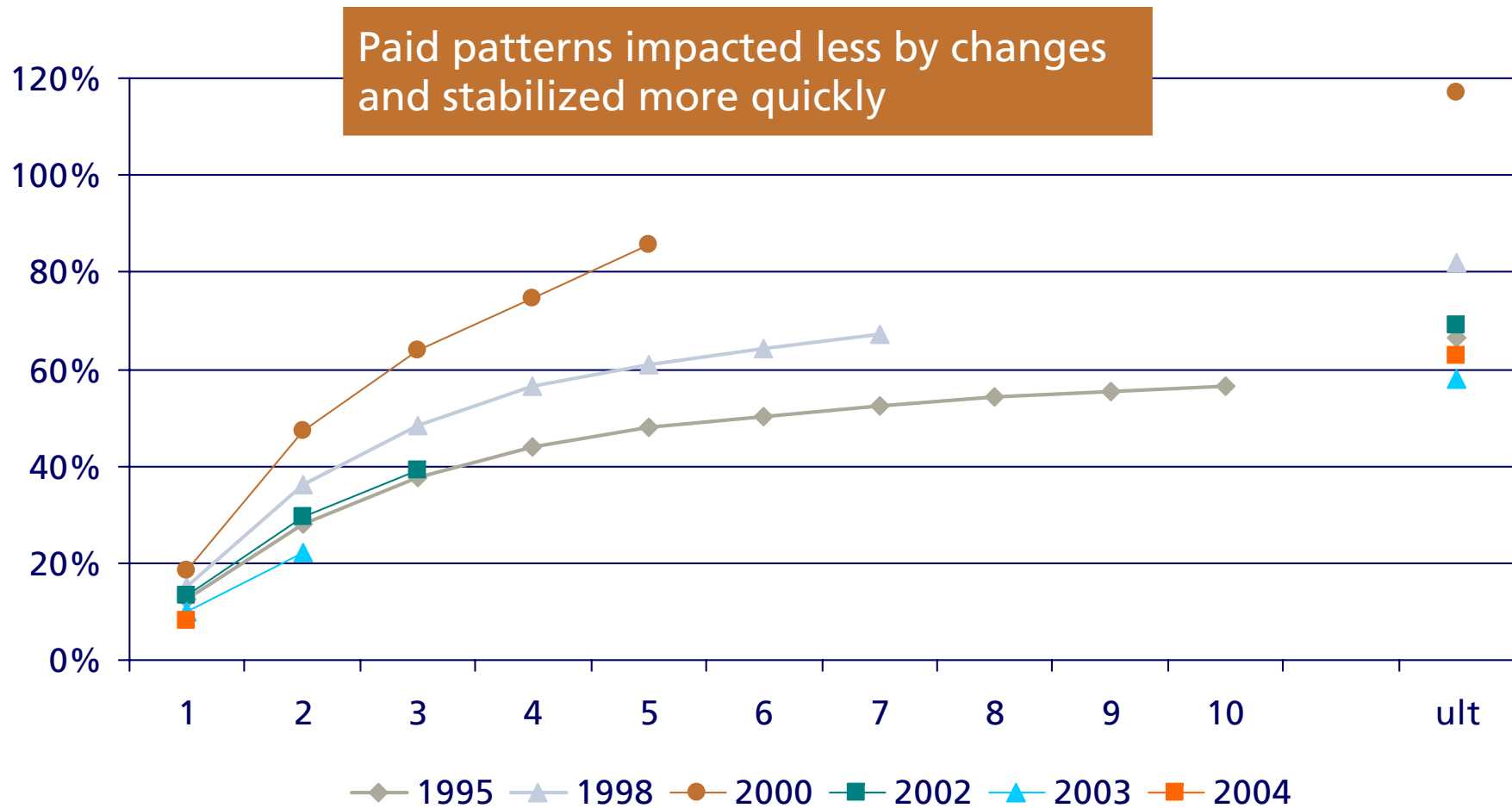
ZURICH



- Case reserving procedures and industry factors impacted development curves

<sup>1</sup>Net before stop loss

# ... and Workers' Compensation<sup>1</sup> patterns for paid losses only



- Paid development patterns better predictor of Workers' Comp. ultimate losses

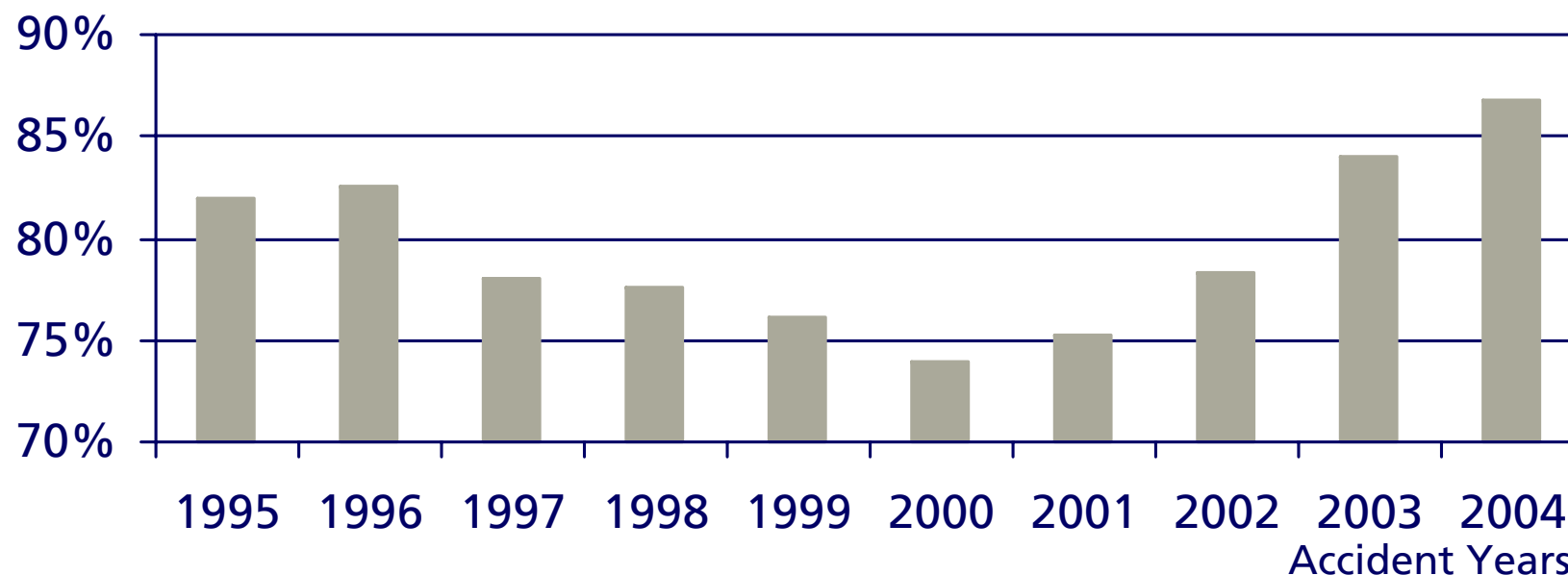
<sup>1</sup>Net before stop loss

# Resulting in Workers' Compensation reserves that are strong relative to historic trends...



## Zurich US – Workers' Compensation net before stop loss

Actual initial reserve-to-ultimate at 12 months



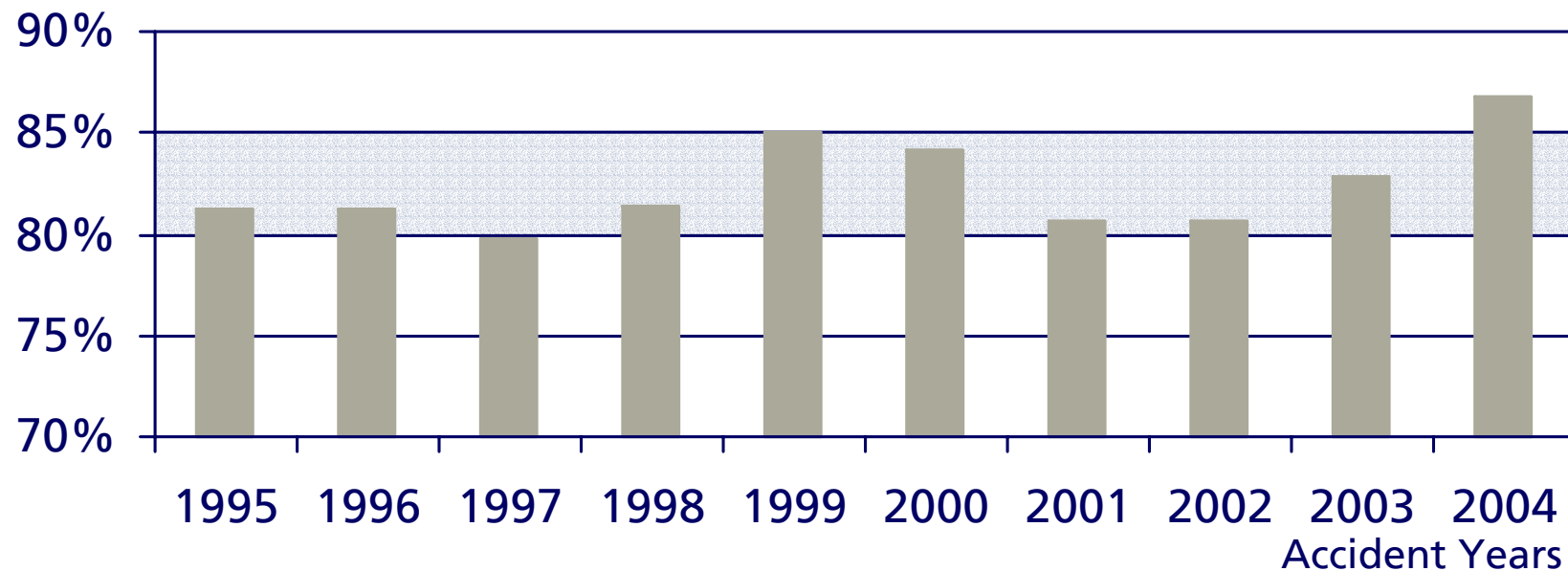
More conservative reserving approach in more recent accident years

... and are strong with hindsight development



Zurich US – Workers' Compensation net before stop loss

Ratio of hindsight reserve-to-current ultimate

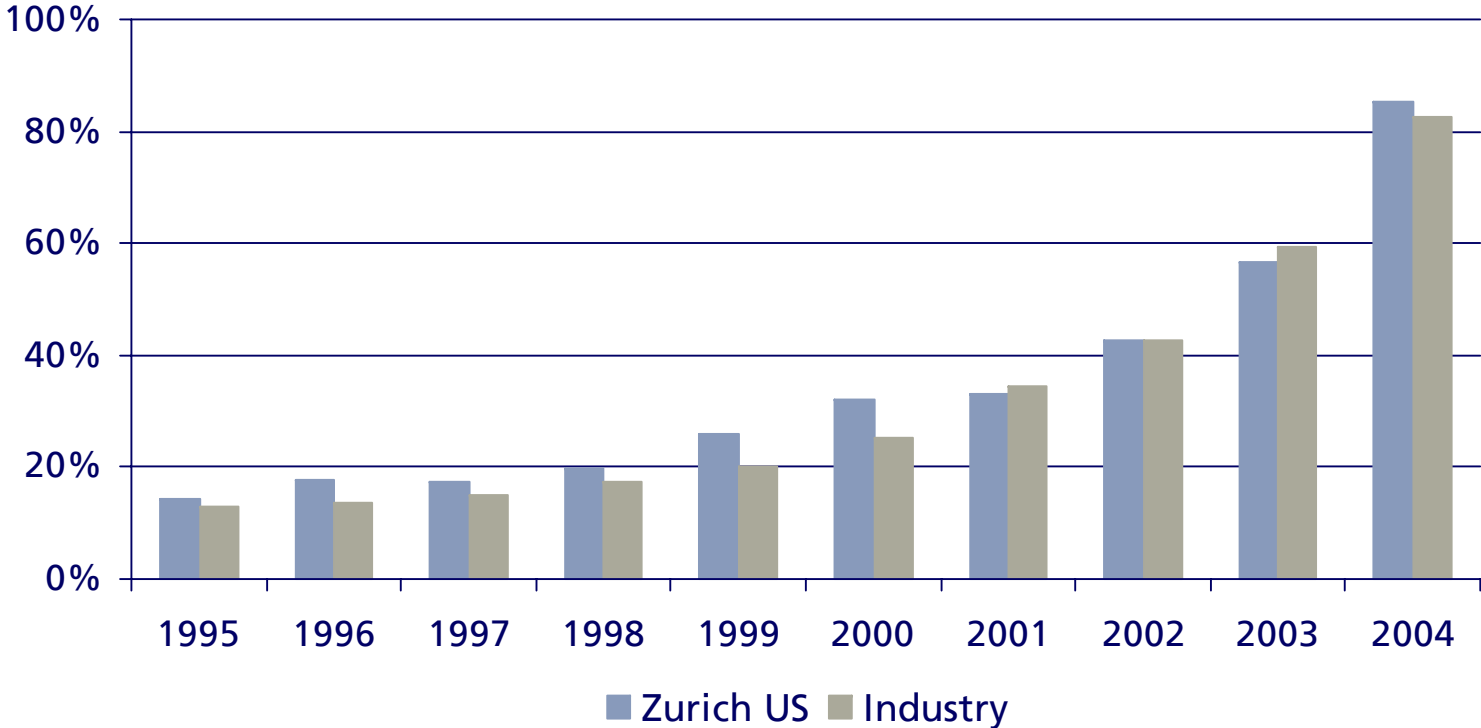


Strong position on recent accident years protects against adverse claims trends, soft cycle impacts etc.

# Comparisons to industry shows we are now clearly in line



## Gross reserves-to-ultimate loss by accident year – Workers' Compensation



Zurich's Workers' Compensation reserves as % of ultimate by accident year is in line with industry position

# North America - Agenda



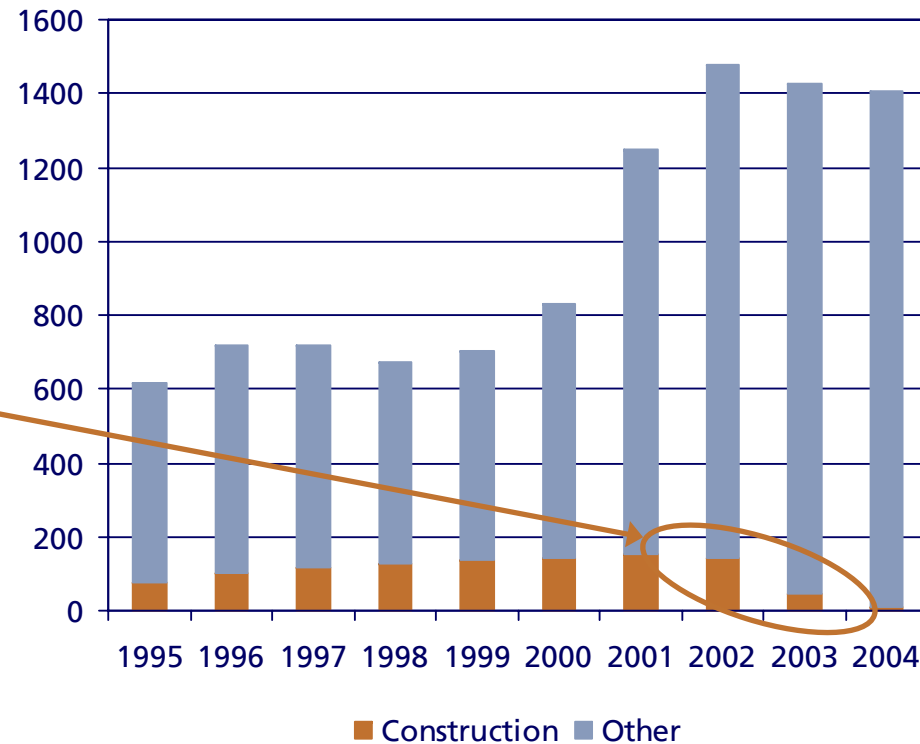
- 
- The Zurich Way in North America
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  - Summary

# Commercial Multi Peril covers many customer segments



- **Small Residential General Construction**
  - 90% liability
  - 10% property
  - Liability exhibits latent development
  - Began exiting in mid 2002
- **Other CMP**
  - 65% property
  - 35% liability
  - Liability exhibits shorter tail & more stable development

Gross earned premium

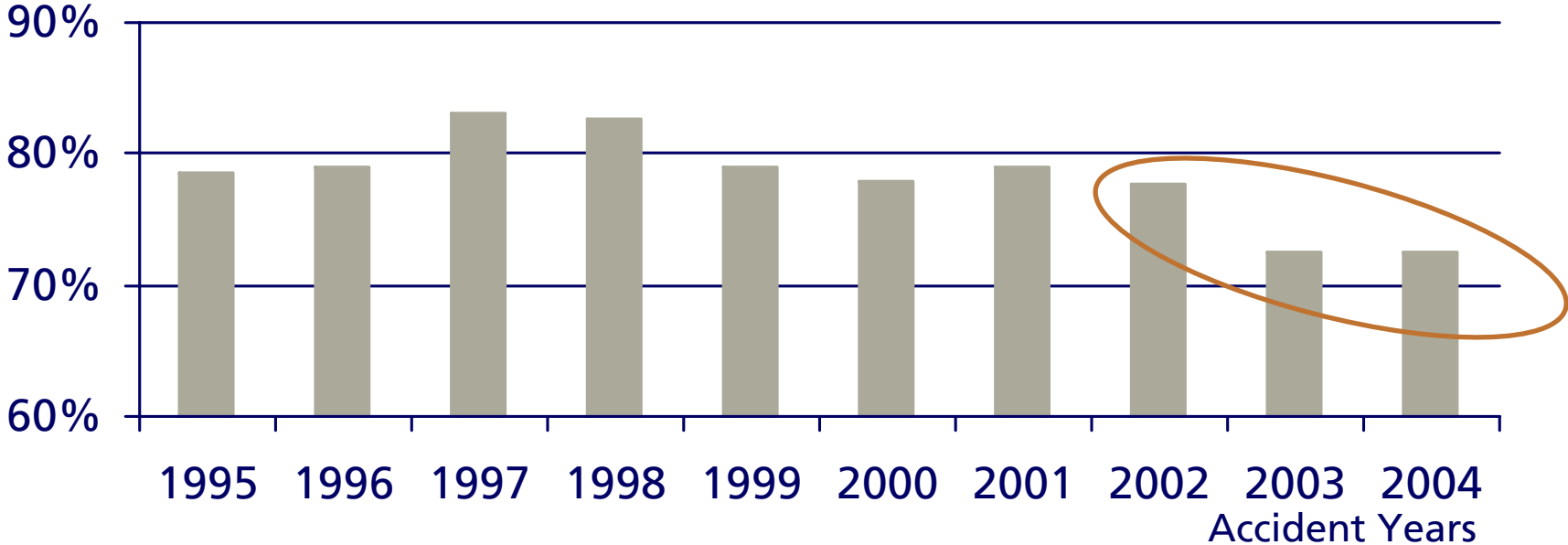


# Hindsight view for total CMP is distorted due to the change in mix of business ...



## Zurich US – Total Commercial Multi-Peril net before stop loss

Ratios of hindsight reserve-to-current ultimate as of Dec 31, 2004



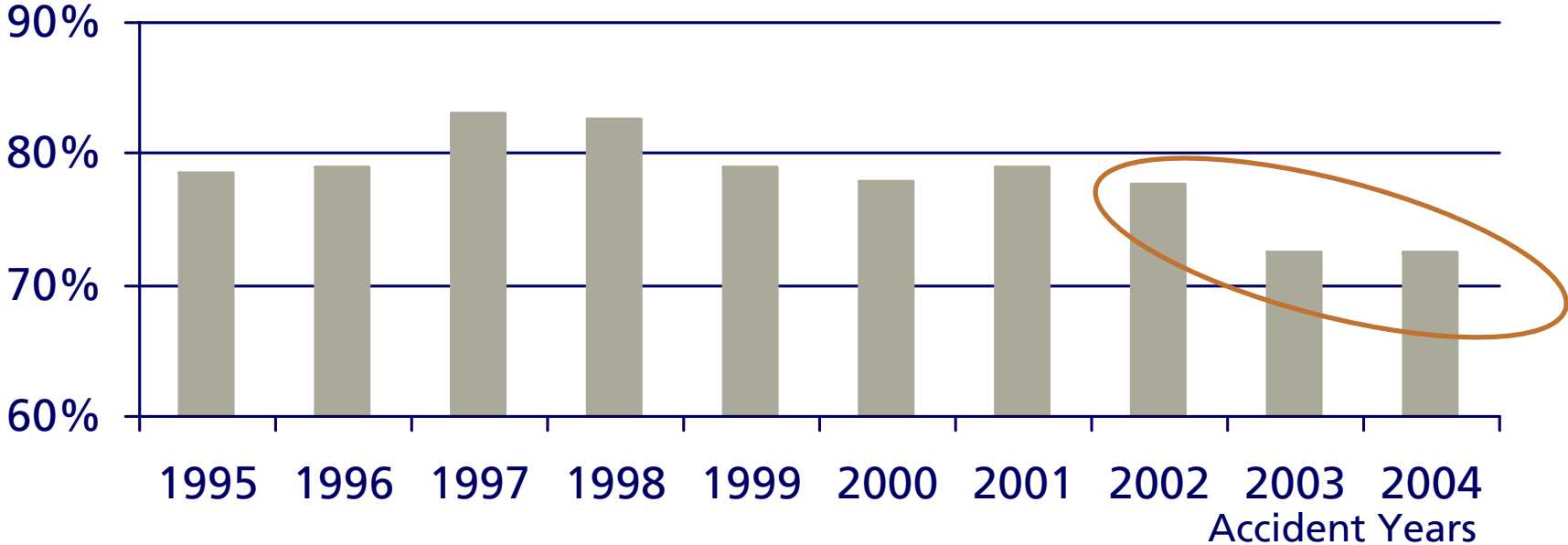
Reserve strength decreasing?

# Hindsight view for total CMP is distorted due to the change in mix of business ...



## Zurich US – Total Commercial Multi-Peril net before stop loss

Ratios of hindsight reserve-to-current ultimate as of Dec 31, 2004



Reserve strength decreasing?



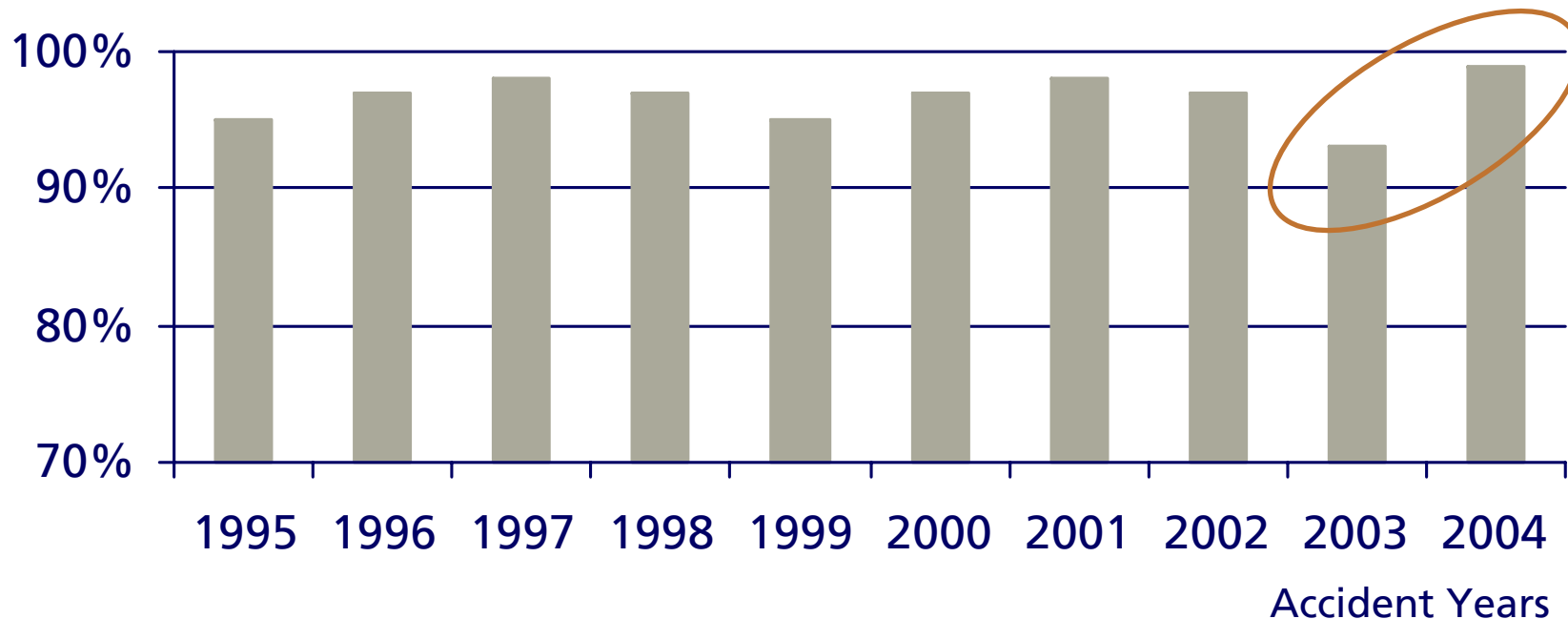
Our underwriting strategy changed mix to shorter-tail exposures reducing reserve-to-ultimate ratio

# Hindsight view by segment shows strength of current reserves and impact of mix change...



## Zurich US – Construction Commercial Multi-Peril net before stop loss

Ratios of hindsight reserve-to-current ultimate as of Dec 31, 2004



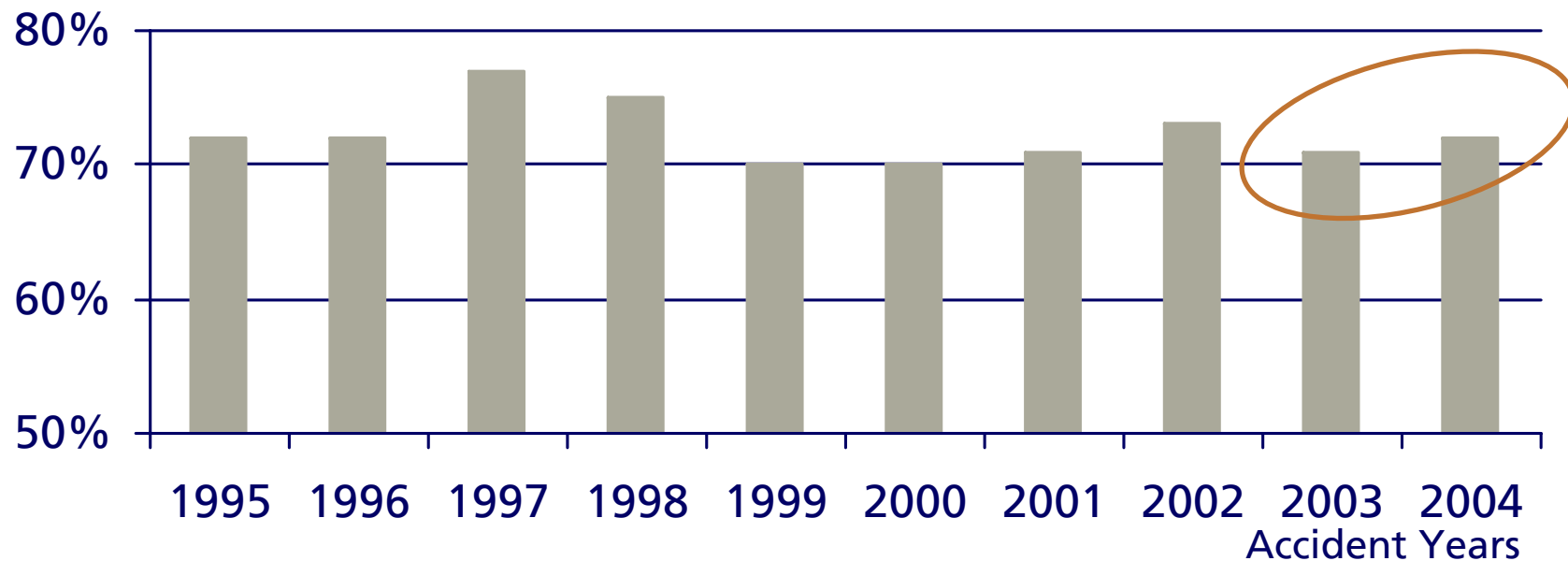
- Adjusting for mix, the true reserve strength is apparent
- Current accident years exhibit more conservative reserving approach when viewed by segment

# Hindsight view by segment shows strength of current reserves and impact of mix change...



## Zurich US – Other Commercial Multi-Peril net before stop loss

Ratios of hindsight reserve-to-current ultimate as of Dec 31, 2004

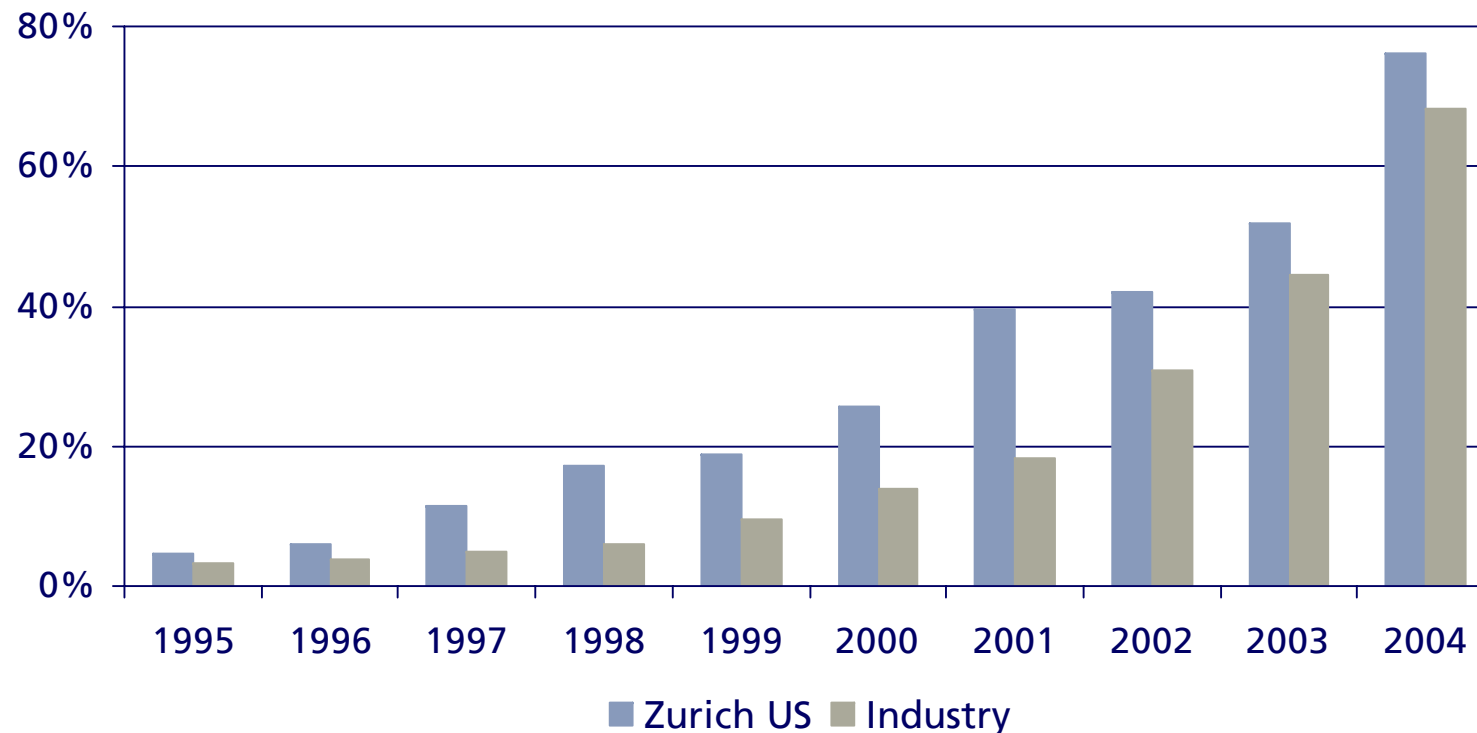


- Both segments exhibit consistent reserves; but total is misleading due to change in mix

# ...and compared to Industry, Zurich Commercial Multi Peril reserves are strong



## Gross reserves-to-ultimate loss by accident year as of Dec 31, 2004 – Commercial Multi Peril



- The differential is largest where we have more construction exposure

# North America - Agenda

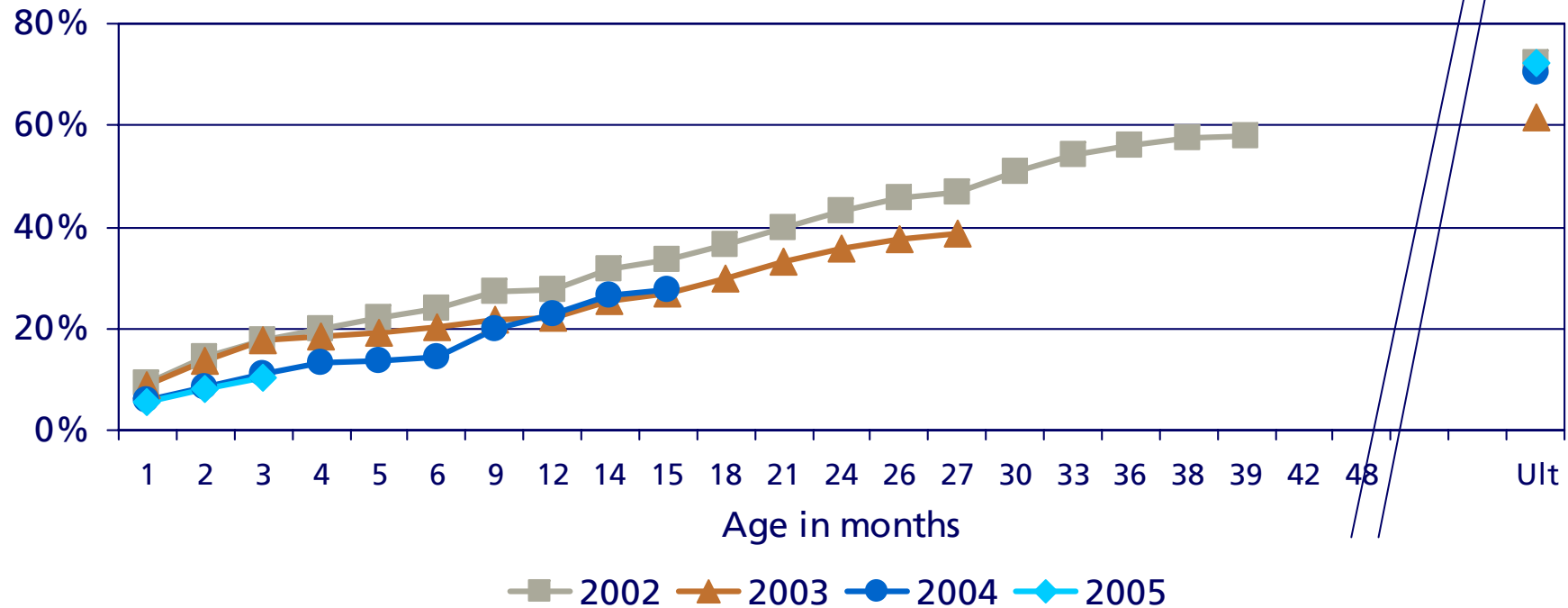


- 
- The Zurich Way in North America
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# With new process we monitor loss ratios monthly



Zurich US – All lines case incurred loss ratio net before stop loss



- Detailed studies and 2004 actions validated strong performance of recent accident years
- Ultimate loss ratios for accident years 2004 & 2005 reflect more conservative approach

# US reserves - summary



- 
- The Zurich Way of reserving resulted in significant strengthening of reserves and improved governance
  - Year-end 2004 reserves are strong relative to our history and relative to the industry
  - The detailed studies and actions in 2004 validated the performance of recent accident years

# Reserving - Agenda



- 
- |                                 |                    |
|---------------------------------|--------------------|
| • Introduction                  | Patrick O'Sullivan |
| • The Zurich Way of Reserving   | Steve Wilson       |
| • The Zurich Way impact in 2004 | Steve Wilson       |
| • Europe                        | Caroline Barlow    |
| • North America                 | Nancy Mueller      |
| • Conclusions                   | Patrick O'Sullivan |

# Our rigorous approach has laid the foundation for sustainable profitable growth



## Strengthened reserve governance

- Transparency and clear accountability lines
- Strong, integrated actuarial function
- End-to-end oversight by Group Chief Actuary

## Best practice actuarial approach

- Regular internal external reviews
- Benchmarking
- Consistent and more conservative approach

## Historical strength of our European reserve

- Track record of positive run-off
- Best practice asbestos analysis

## Significantly strengthened US reserves

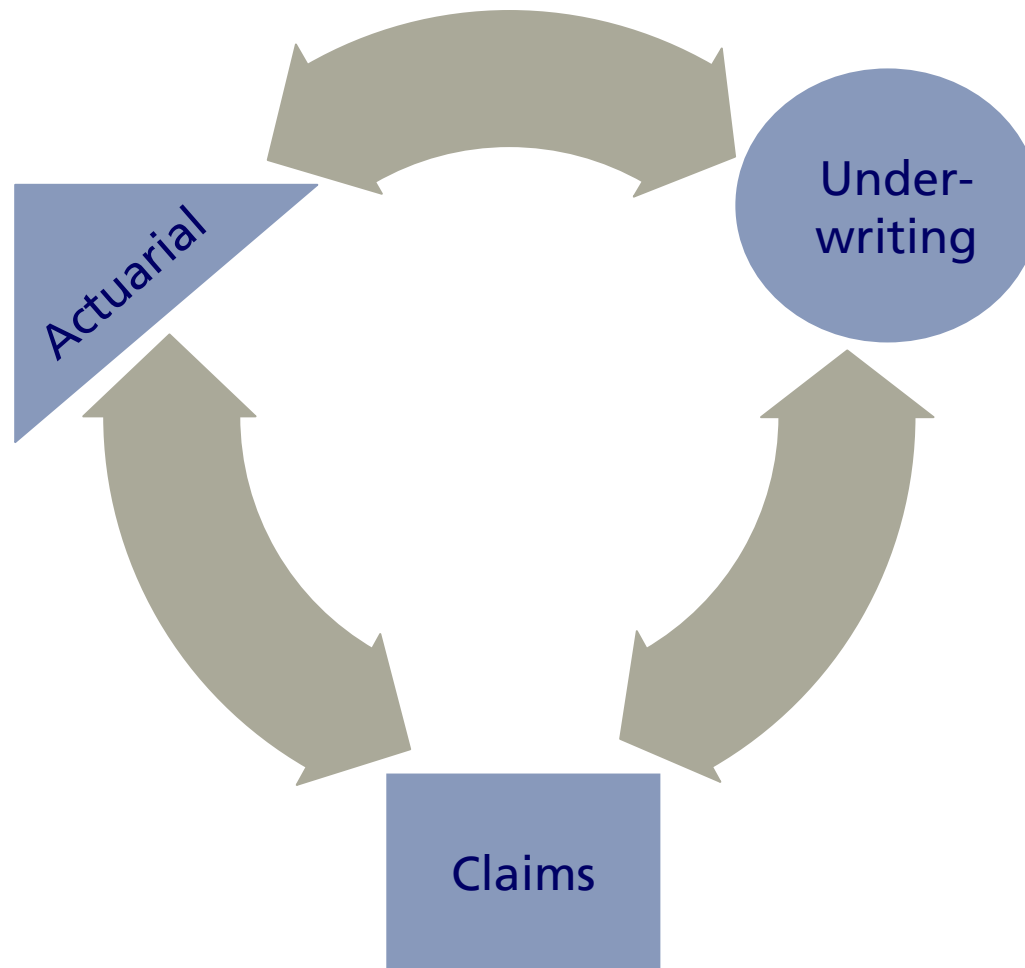
- Problematic areas exited
- Detailed studies including ground-up asbestos
- Favorable comparisons to industry

# What this means for Zurich

John Amore

CEO, General Insurance

We have an integrated approach to our technical functions...



... which provides a strong platform for excellence in execution

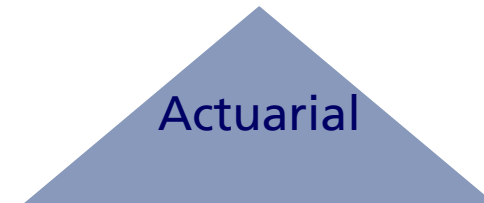


### Examples

- Accurate Technical Price
- Timely product changes in response to changed conditions
- Higher policy retention, greater knowledge of risk

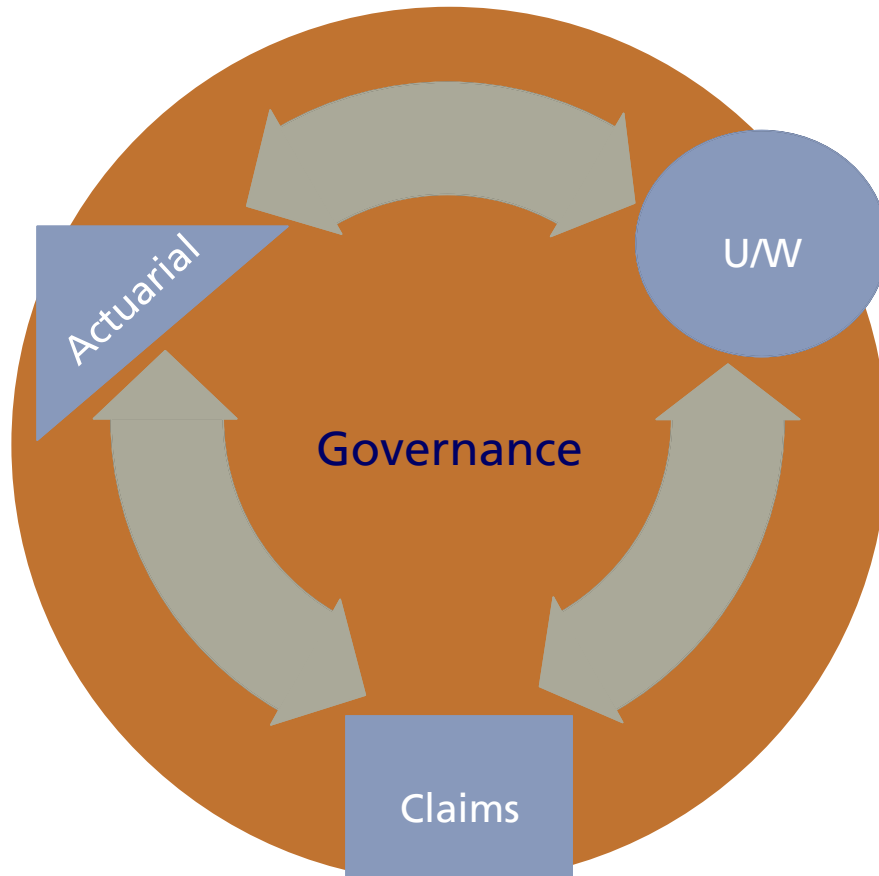


- Accurate loss costs
- Early detection of emerging issues
- Enhanced claims experience for customers



- Conservative assumptions
- Early detection of trends
- More knowledgeable reserve analysis

# Our integrated approach and governance will allow us to deliver strong profitability



## We have established

- New governance structure
- Strong integrated approach to our technical functions
- Best practices in reserving, claims and underwriting functions



ZURICH

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Q & A



ZURICH

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# Appendix

# UK all lines case incurred loss ratios



		Accident Year								
		1996	1997	1998	1999	2000	2001	2002	2003	2004
Development Year	1	60.4%	65.7%	72.2%	67.4%	61.2%	56.7%	51.5%	39.5%	38.6%
	2	66.8%	74.8%	80.6%	79.6%	72.2%	67.5%	59.9%	46.0%	
	3	68.7%	76.0%	81.9%	82.0%	75.1%	68.1%	60.8%		
	4	71.5%	78.7%	85.0%	85.1%	77.1%	69.9%			
	5	71.0%	78.5%	84.8%	84.8%	75.6%				
	6	70.7%	78.0%	84.3%	83.8%					
	7	70.4%	78.2%	84.1%						
	8	70.2%	78.2%							
	9	69.8%								
	Ultimate	70.9%	79.6%	85.6%	86.1%	77.7%	72.2%	67.5%	57.7%	62.6%

# UK Employer's Liability case incurred loss ratios



		Accident Year								
		1996	1997	1998	1999	2000	2001	2002	2003	2004
Development Year	1	33.3%	38.2%	40.8%	40.4%	44.6%	41.1%	27.5%	19.9%	17.6%
	2	66.8%	75.6%	84.3%	88.5%	95.8%	83.7%	52.1%	36.5%	
	3	79.6%	88.2%	102.4%	107.8%	117.4%	91.2%	59.3%		
	4	88.7%	100.2%	119.2%	122.2%	129.4%	101.1%			
	5	84.2%	97.0%	113.6%	118.8%	122.1%				
	6	80.9%	92.8%	108.7%	113.6%					
	7	79.4%	91.1%	106.3%						
	8	78.8%	90.2%							
	9	78.5%								
	Ultimate	80.3%	92.5%	109.0%	117.9%	126.1%	101.2%	71.8%	55.7%	69.5%

# Zurich US all lines case incurred loss ratio net before stop loss



		Accident Year								
		1996	1997	1998	1999	2000	2001	2002	2003	2004
Development Year	1	41.7%	41.5%	45.4%	45.3%	42.6%	42.7%	32.7%	27.2%	27.2%
	2	54.7%	55.5%	61.2%	62.4%	64.9%	60.0%	47.8%	39.6%	
	3	62.0%	65.7%	71.1%	77.4%	79.0%	72.2%	58.9%		
	4	67.1%	71.5%	78.7%	85.6%	87.3%	80.9%			
	5	69.8%	75.4%	83.5%	90.2%	94.1%				
	6	72.5%	78.3%	85.9%	94.1%					
	7	74.3%	80.2%	87.9%						
	8	75.8%	81.6%							
	9	76.6%								
	Ultimate	78.4%	84.6%	91.5%	99.7%	102.0%	91.8%	72.3%	61.6%	70.4%

# Zurich US Workers' Compensation case incurred loss ratio net before stop loss



		Accident Year								
		1996	1997	1998	1999	2000	2001	2002	2003	2004
Development Year	1	30.5%	35.5%	34.3%	36.2%	39.4%	40.7%	31.9%	25.8%	22.8%
	2	42.5%	49.7%	54.8%	60.0%	67.9%	61.4%	50.2%	38.2%	
	3	48.5%	57.6%	66.4%	73.2%	84.4%	75.0%	57.8%		
	4	51.7%	62.7%	70.8%	87.2%	91.9%	82.1%			
	5	54.8%	66.1%	74.8%	91.6%	101.0%				
	6	58.4%	72.0%	77.1%	96.7%					
	7	60.2%	70.2%	78.4%						
	8	62.0%	71.5%							
	9	61.8%								
	Ultimate	63.9%	75.9%	82.1%	106.0%	116.9%	93.8%	69.2%	57.8%	62.9%

# Zurich US Workers' Compensation paid losses net before stop loss



		Accident Year								
		1996	1997	1998	1999	2000	2001	2002	2003	2004
Development Year	1	12.0%	15.3%	15.3%	15.9%	18.5%	18.2%	13.4%	9.9%	8.3%
	2	27.2%	33.5%	36.0%	42.1%	47.4%	41.3%	29.4%	22.3%	
	3	36.1%	43.9%	48.5%	56.0%	63.8%	55.9%	39.0%		
	4	41.6%	51.1%	56.6%	71.4%	74.7%	64.9%			
	5	46.0%	55.6%	60.9%	78.4%	85.5%				
	6	48.5%	58.9%	64.2%	85.0%					
	7	50.8%	61.0%	67.2%						
	8	52.5%	62.8%							
	9	53.8%								
	Ultimate	63.9%	75.9%	82.1%	106.0%	116.9%	93.8%	69.2%	57.8%	62.9%

# Zurich US industry definition



Zurich US industry comparison is based on the following 39 US companies using Schedule P data

Allianz Insurance Company Group  
Anthem Ins Companies Inc  
Arch Capital Grp Inc  
Asctd Int' Markel Ins Cos  
Balboa Casualty Grp  
Beacon Mut Ins Grp  
Central Mutual of Oh Group  
Clarendon National Ins Company  
Combined Federal Ins Co & Affiliates  
Combined Safeco Ins Co Grp  
Continental Casualty Group  
Crum & Forster Insurance  
Employers Mut Co of Des Moines  
Federated Mutual Group  
Firemans Fund Insurance Group  
Grange Mut Cas & Aff Fire & Cas Ins  
Great American Group  
Harleysville Mutual Insurance Co Grp  
Hartford Fire Group  
Ohio Casualty Insurance Co  
Old Republic Insurance Group  
Onebeacon Ins Grp  
Rli Insurance Co Group  
Royal & Sun Alliance Usa

Sentry Insurance a Mutual Co Group  
Shelter Insurance Cos Group  
St Paul Travelers Companies and Affi  
Tig Insurance Group  
Utica National Insurance Group  
Vesta Fire Insurance Corporation  
West Bend Mutual Insurance Group  
Wr Berkley Corp  
XI Reins America Inc & Affiliates  
Zenith National Insurance Group  
American Home Assurance Company  
Employers Ins of Wausau  
Lexington Insurance Company  
Liberty Insurance Corp  
Liberty Mutual Fire Insurance  
Liberty Mutual Insurance Co  
Zurich Insurance Co Group