

# Zurich's approach to the German life market

UBS Conference Frankfurt - July 8, 2005

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# Agenda

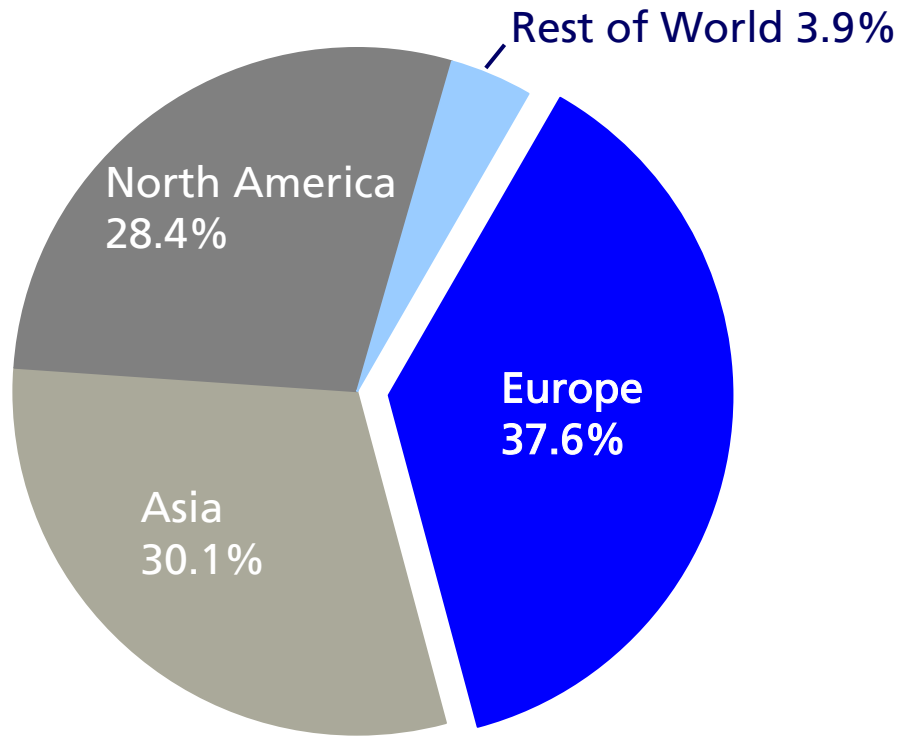


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- German life insurance market potential
  - Zurich Group Germany – brief history and recent developments
  - Zurich's business model and focus in Germany
  - Current issues and future challenges of German life insurance
  - Summary

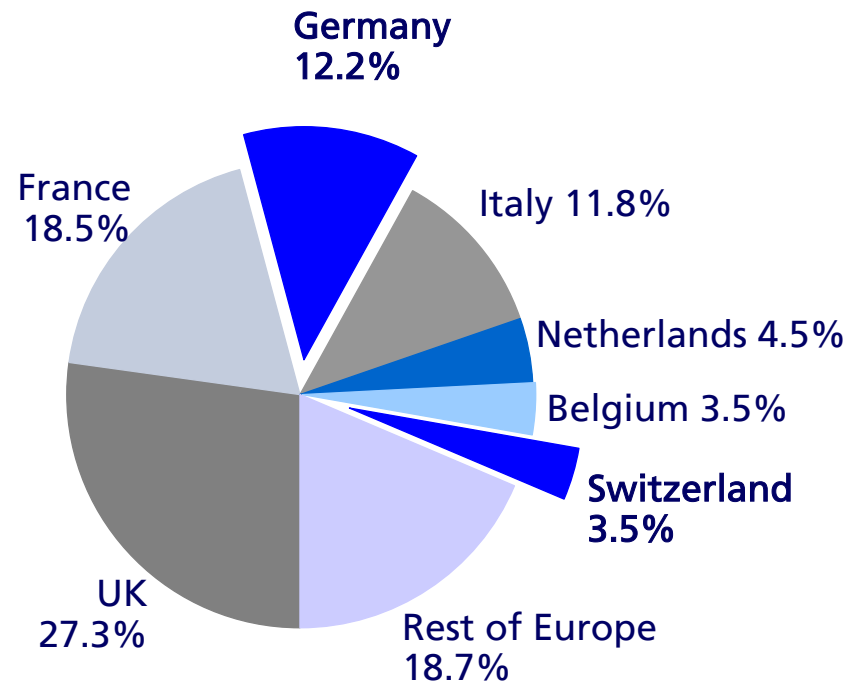
# German life market is 3rd largest in Europe and 5th largest world-wide



## Life Insurance premium volumes 2004<sup>1</sup>



World: USD 1,849 billion



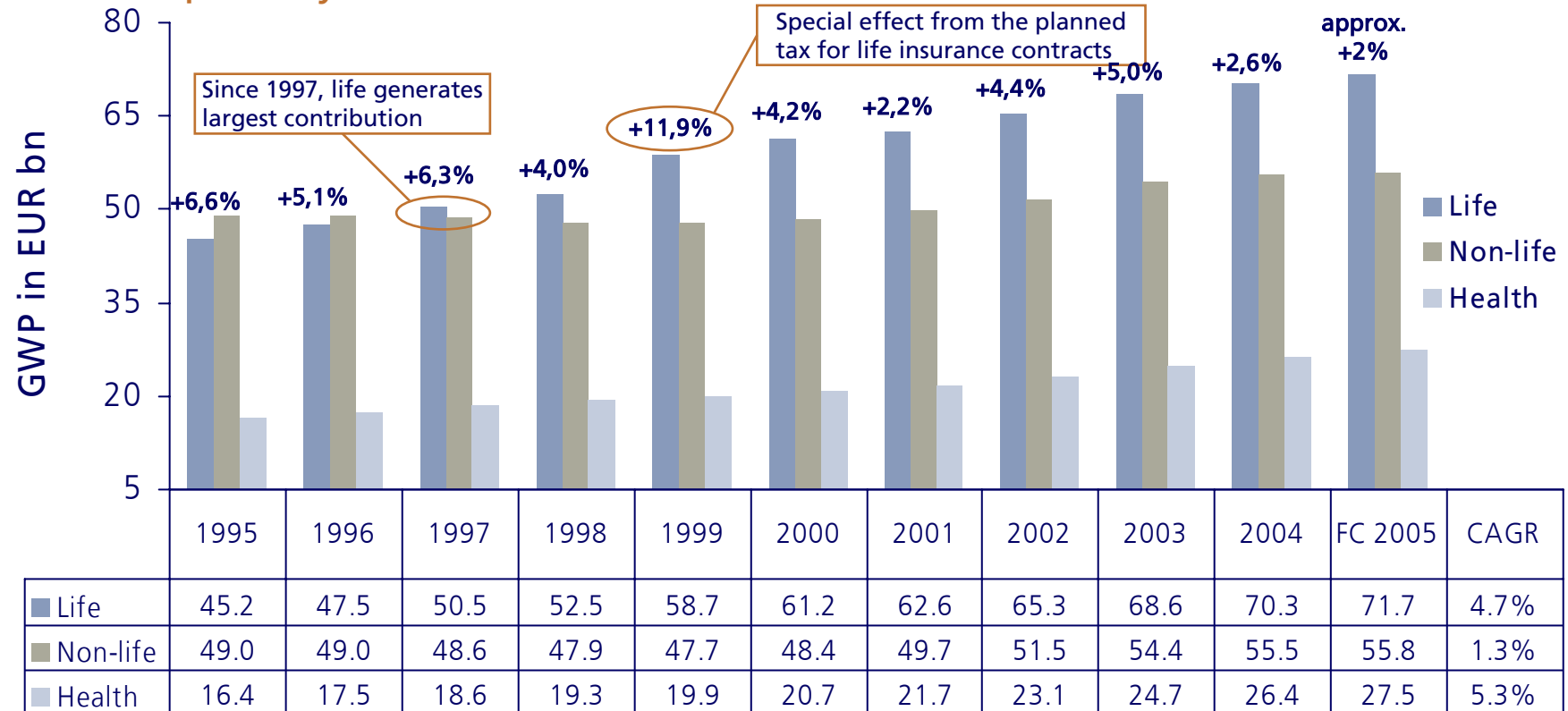
Europe: USD 695 billion

<sup>1</sup> Source: Swiss Re, sigma 2/2005

# Steady market development with robust growth



## German primary insurance



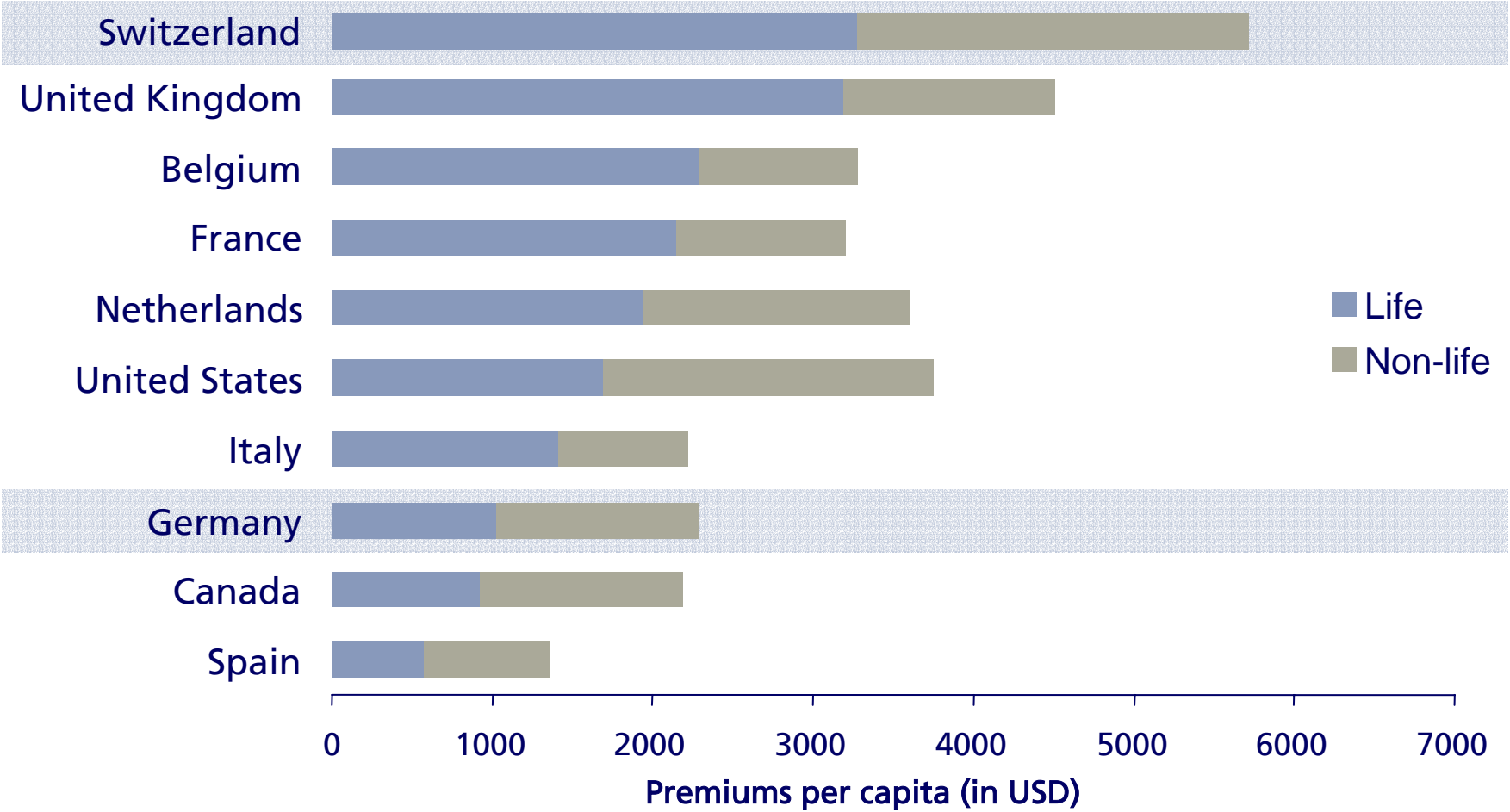
- German GDP grew around 2% on average p.a. between 1995 - 2004
- The German life insurance market grows more than twice as the economy

Source: GDV 2005 - Life including new pension funds introduced in 2001 (*Pensionskasse*) and 2002 (*Pensionsfonds*)

# Less saturated than other developed markets ...



## Insurance density 2004

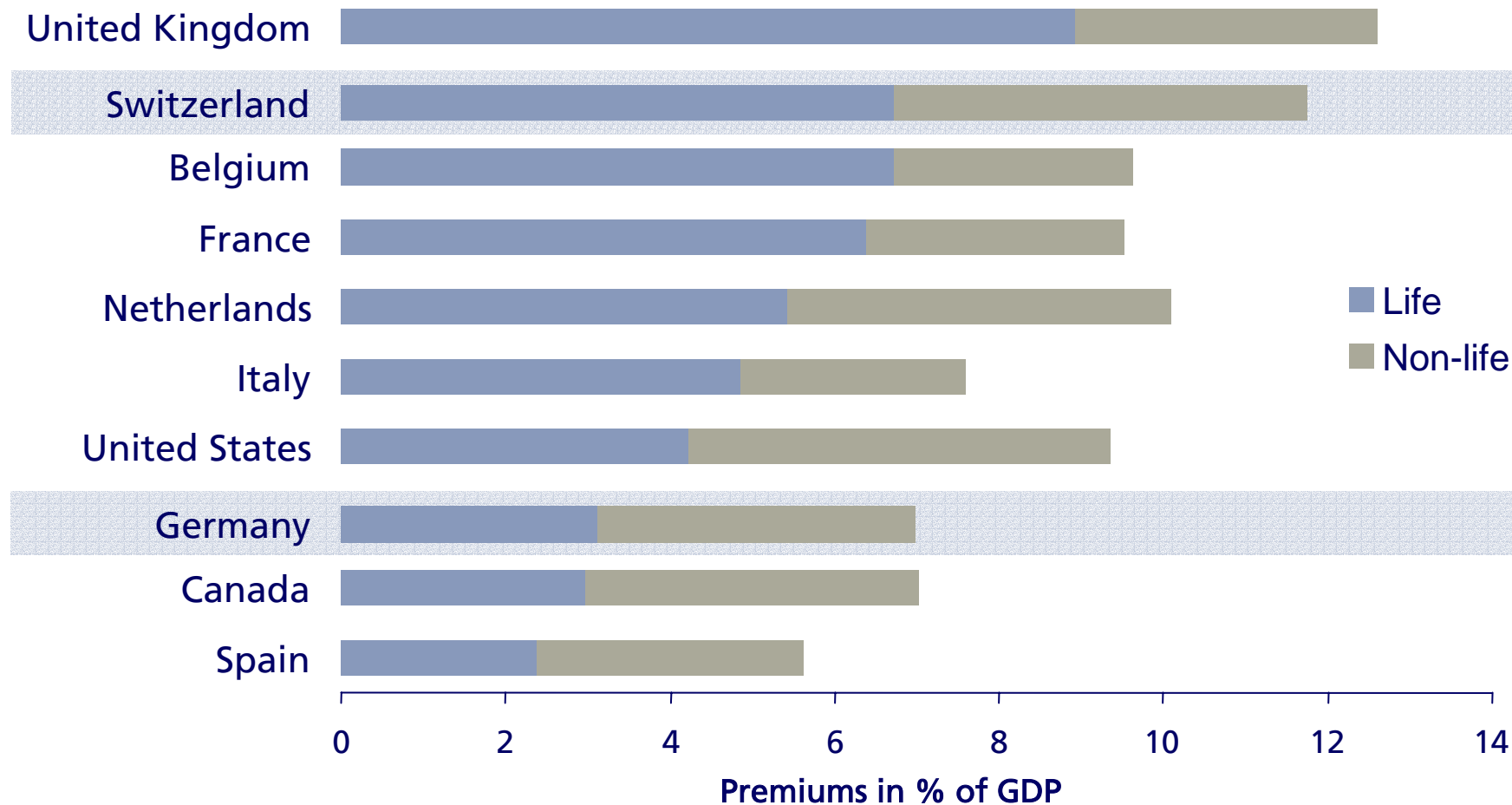


Source: Swiss Re, sigma 2/2005 - 10 biggest life insurance markets in Europe and North America by premium volumes 2004  
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... and with enormous growth potential



### Insurance penetration 2004



Source: Swiss Re, sigma 2/2005 - 10 biggest life insurance markets in Europe and North America by premium volumes 2004  
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# History and DNA of Zurich in Germany



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**1844:** Agrippina founded

**1875:** Zürich Versicherung opens first subsidiary in Germany

**1918:** Deutscher Herold founded

**1995:** Merger of Zürich and Agrippina

**1998:** Zürich Agrippina health insurance founded

**2000:** Unification of Zürich's and Agrippina's brands and distribution channels to Zürich Agrippina

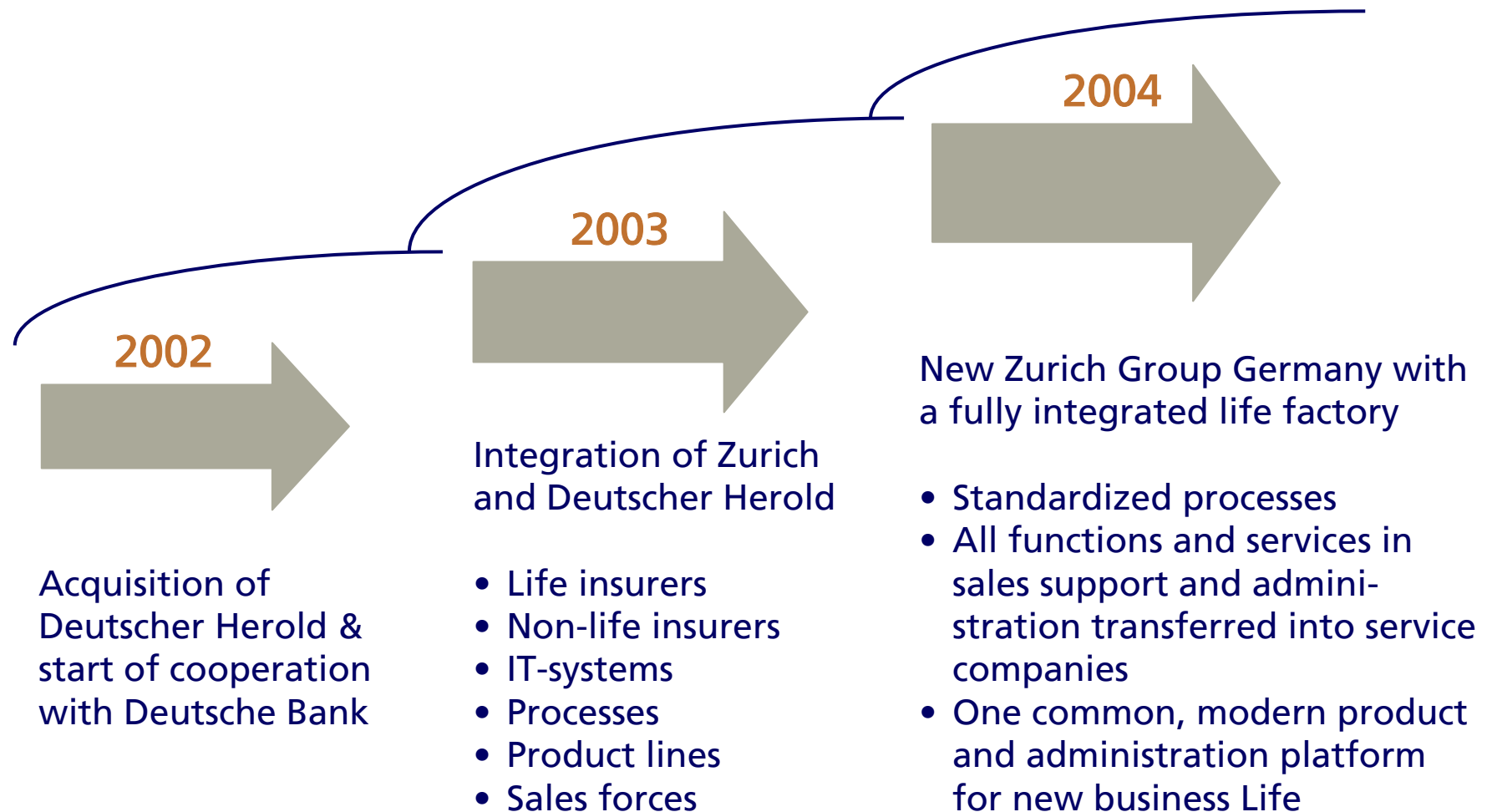
**2000:** Unification of the different legal entities to Zürich Beteiligungs AG

**2001:** Zürich acquires Neckura

**2002:** Acquisition of Deutscher Herold Group

**Zurich Life Germany is an integral part of Zurich Financial Services' Global Life segment**

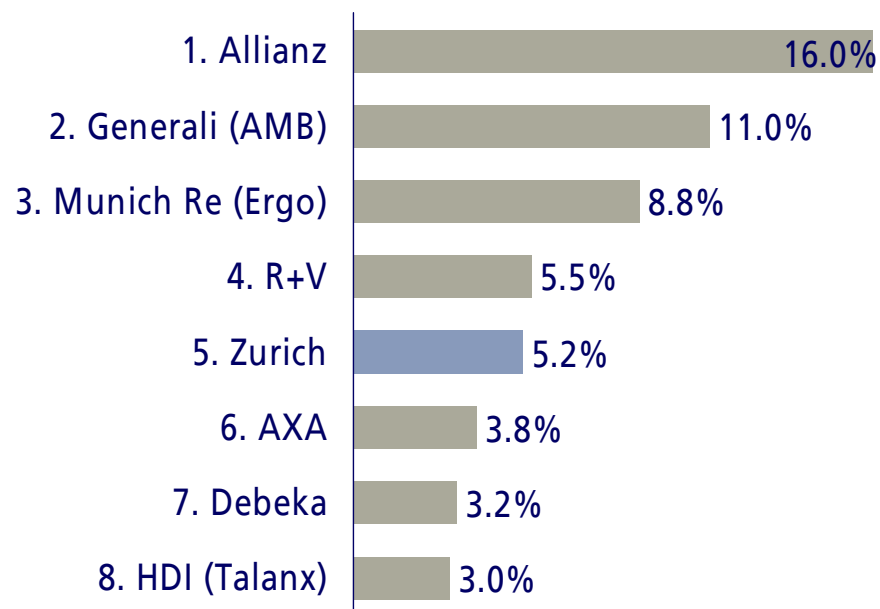
# Recent corporate actions leading to ...



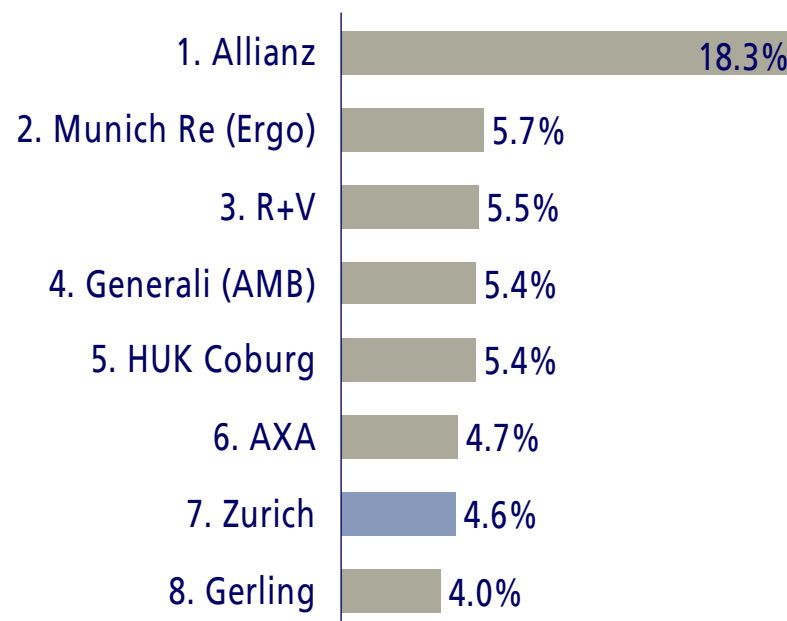
# ... strong top tier positions in the German market



## Life Insurance – Percentage of GWP<sup>1</sup>



## General Insurance – Percentage of GWP<sup>1,2</sup>



Zurich Life: 5.2% = EUR 3.6 billion

Zurich GI: 4.6% = EUR 2.5 billion

<sup>1</sup> Gross written premiums (GWP) in 2004, local statutory (HGB) - Life: EUR 68.4 bn (excl. pension funds); General Insurance: EUR 55.5 bn

<sup>2</sup> Incl. GCG (Global Corporate Germany)

Source: GDV and company informations (partly estimated)

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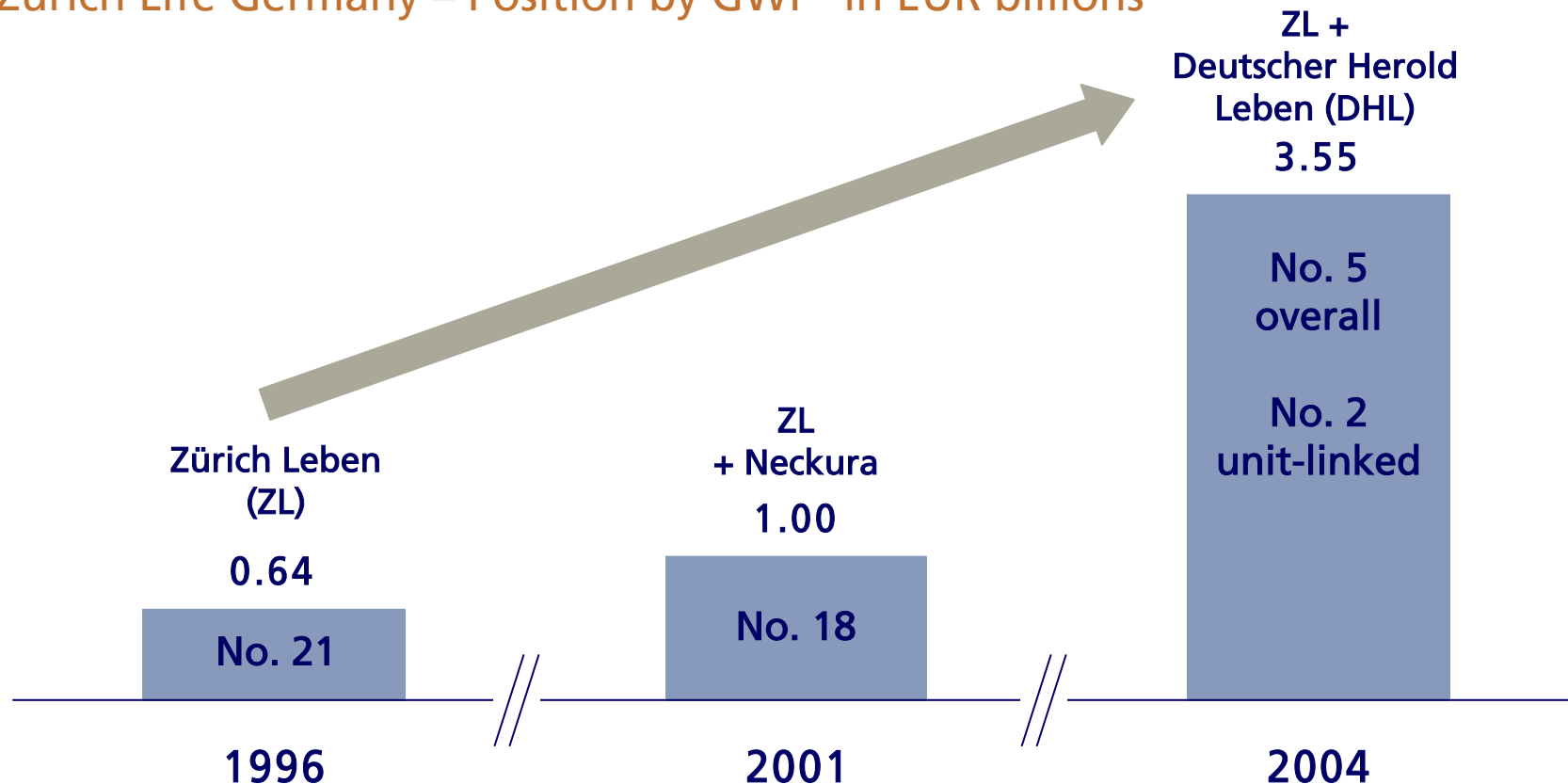


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We moved from # 21 in 1996 to top 5 in less than 10 years

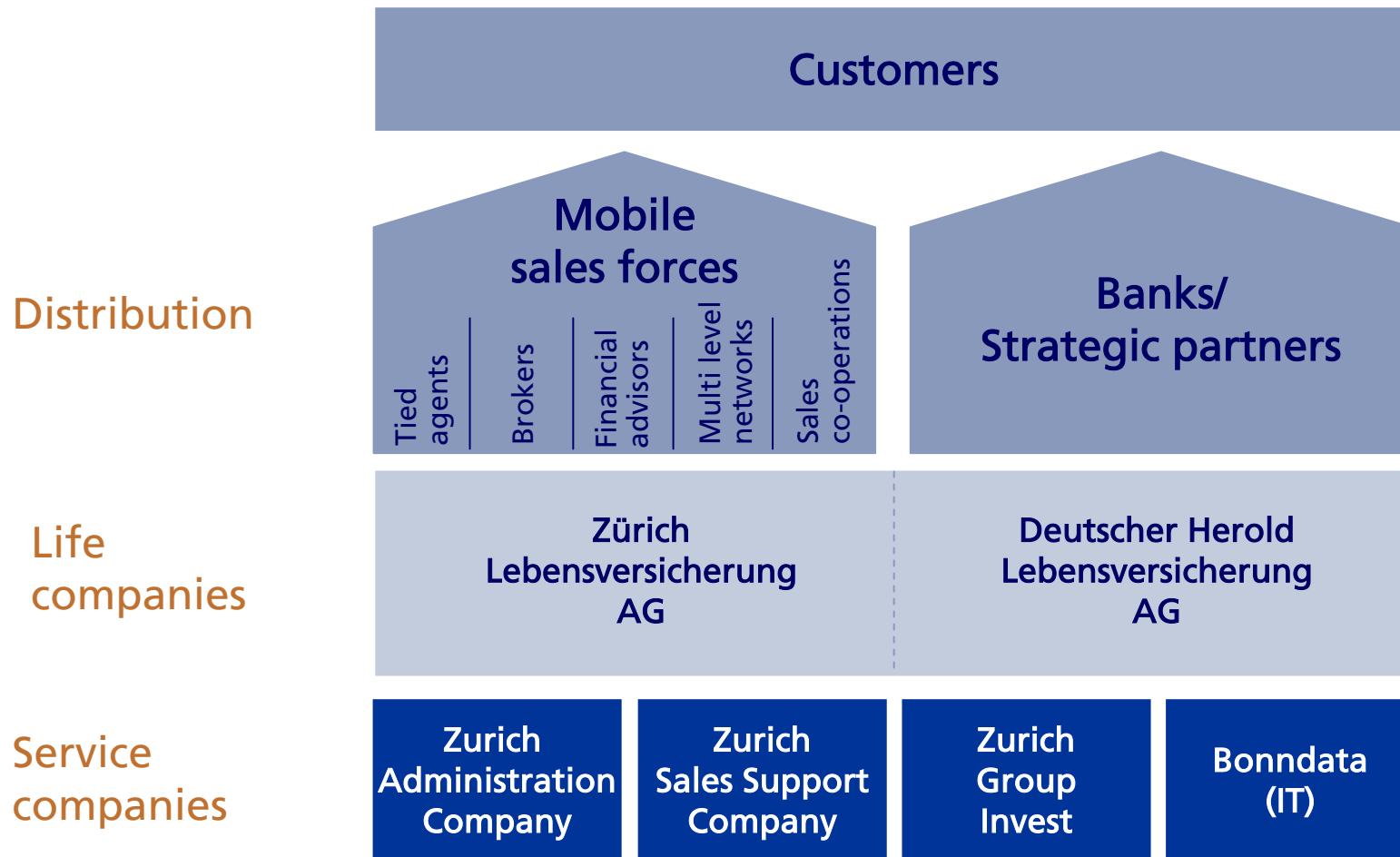


Zurich Life Germany – Position by GWP<sup>1</sup> in EUR billions



<sup>1</sup> Gross written premiums, local statutory (HGB) - business for own account

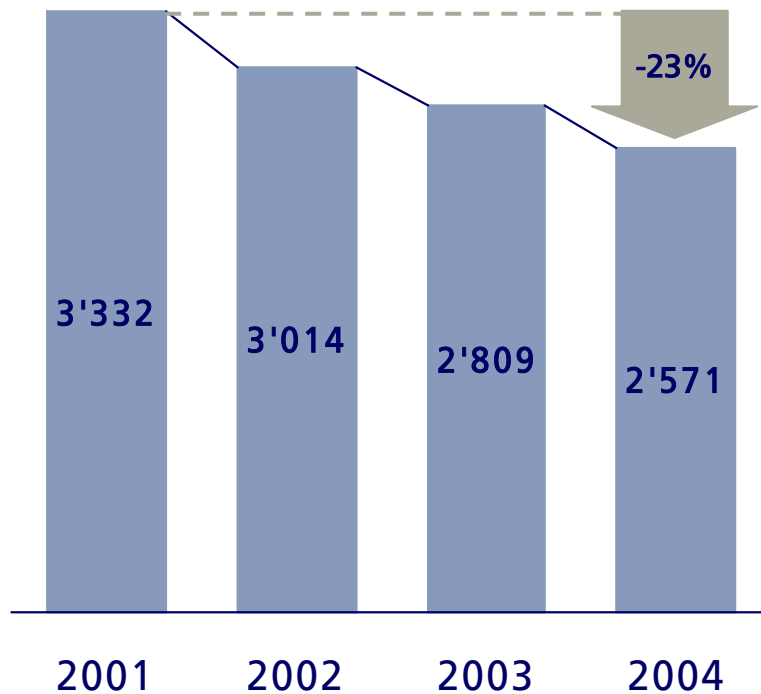
# Our distinct multi-channel business model ...



# ... captured synergies and increased productivity

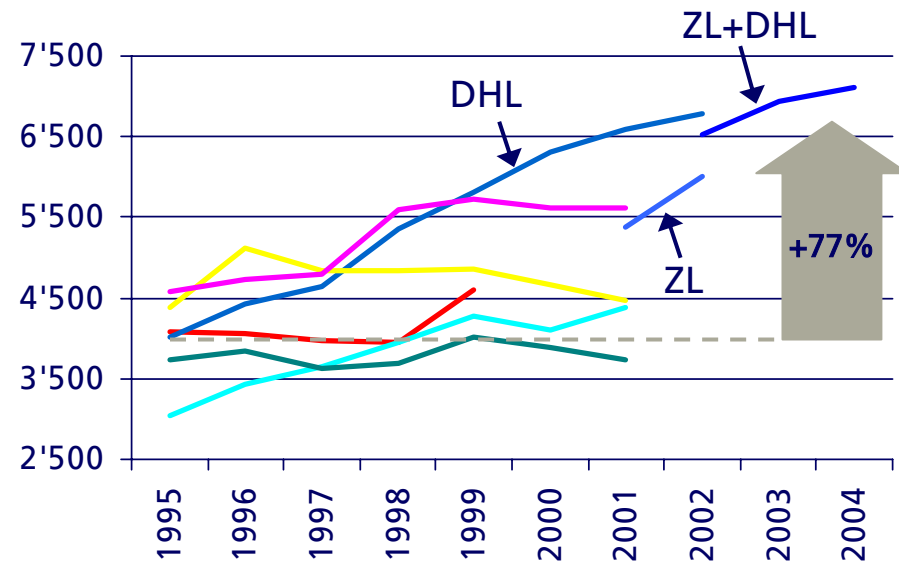


## FTE development Life



Total reduction: -761 FTE

## Comparison of productivity Life (# of contracts/employee customer service)

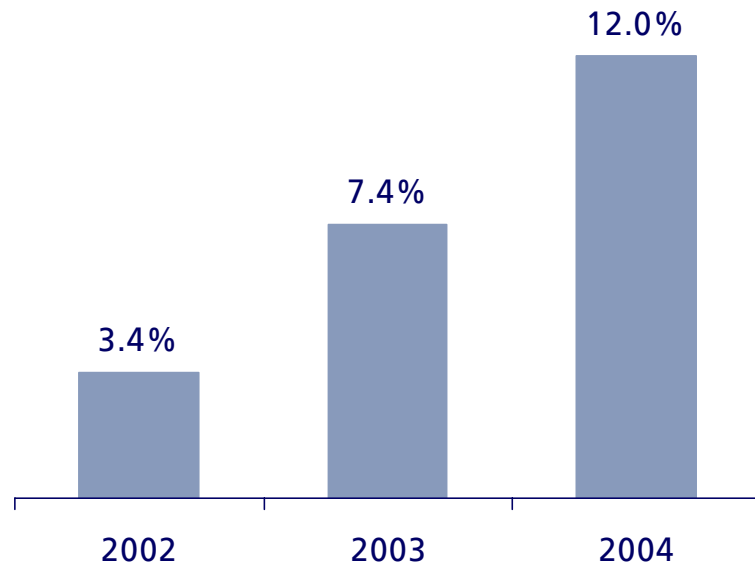


- DBV
- DHL
- ZL
- Gothaer
- Victoria
- Allianz
- Württemberg.
- ZL+DHL

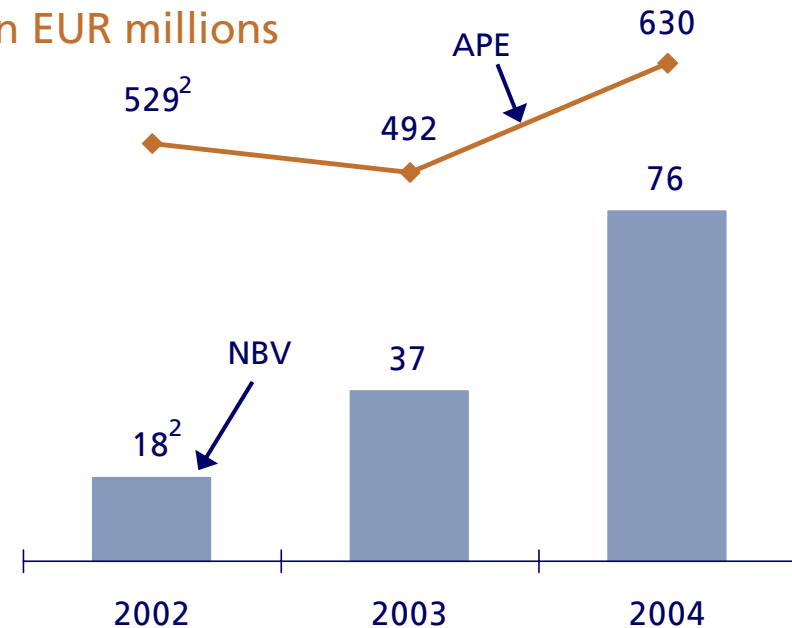
# Steady performance improvements since 2002



New business profit margin  
as % of APE<sup>1</sup>



New business value and APE<sup>1</sup>  
in EUR millions



In spite of reduced investment income a NBPM of 12% is achieved in 2004 due to

- an increase in efficiency and profit contributions from subsidiaries
- the new product generation with higher profitability
- the shift in new business mix to unit-linked
- a higher shareholder participation

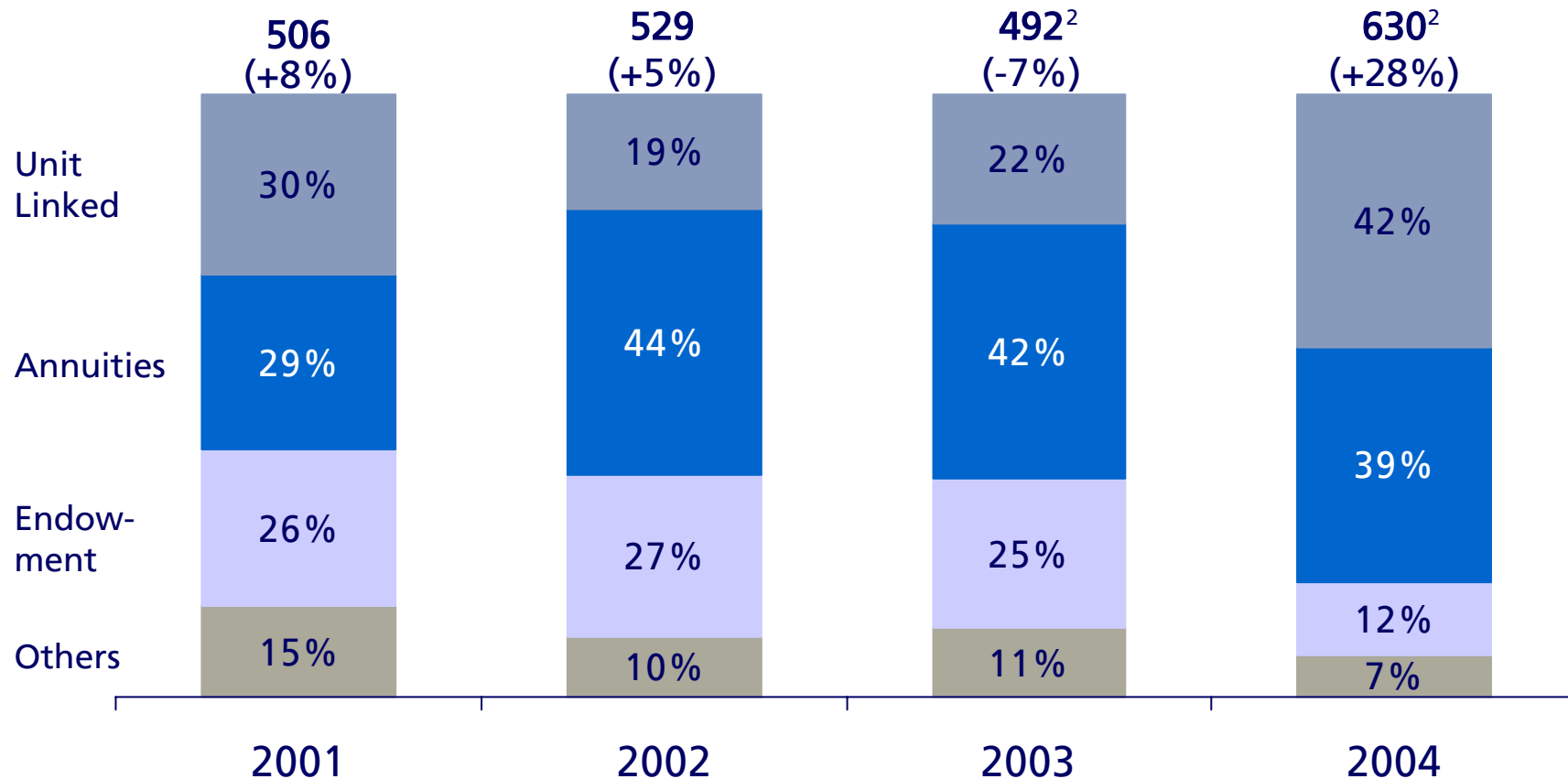
<sup>1</sup> APE = Annual premiums equivalent

<sup>2</sup> Full year 2002 figures

# Clear focus on traditional and unit-linked annuities ...



Share by product line (as % of APE<sup>1</sup>)



<sup>1</sup> APE = Annual premiums equivalent

<sup>2</sup> Excluding new business for *probAV Pensionskasse* (cooperation with AXA - sales performance FY 2004: EUR 55m APE; FY 2003: EUR 26m APE); 2001: Pro forma figures; 2002: Full year (FY) figures

# ... with a top quality product approach



Product	Rating
Unit linked (Vorsorge <i>invest</i> )	FFF (excellent)
Riester-product (Förderrente <i>invest</i> )	FFF (excellent)
Annuity (Rente <i>classic</i> )	FF+ (very good)
Disability insurance (BUZ)	FFF (excellent) 5 stars from M&M



- Top ratings from the two most important rating agencies in the German market
- Top grading because of customer oriented product conditions, the quality of service and risk auditing

# We have a powerful multi-channel distribution ...



## Market management

**Banks / Strategic partners**

**Mobile sales organisation**

**Direct business**

## Sales employees, agents & brokers

- DB sales force ~ 10'000

- Tied agents ~ 2'000

- Financial advisors ~ 1'000

- Brokers ~ 4'000

- Multi level networks ~ 1'000

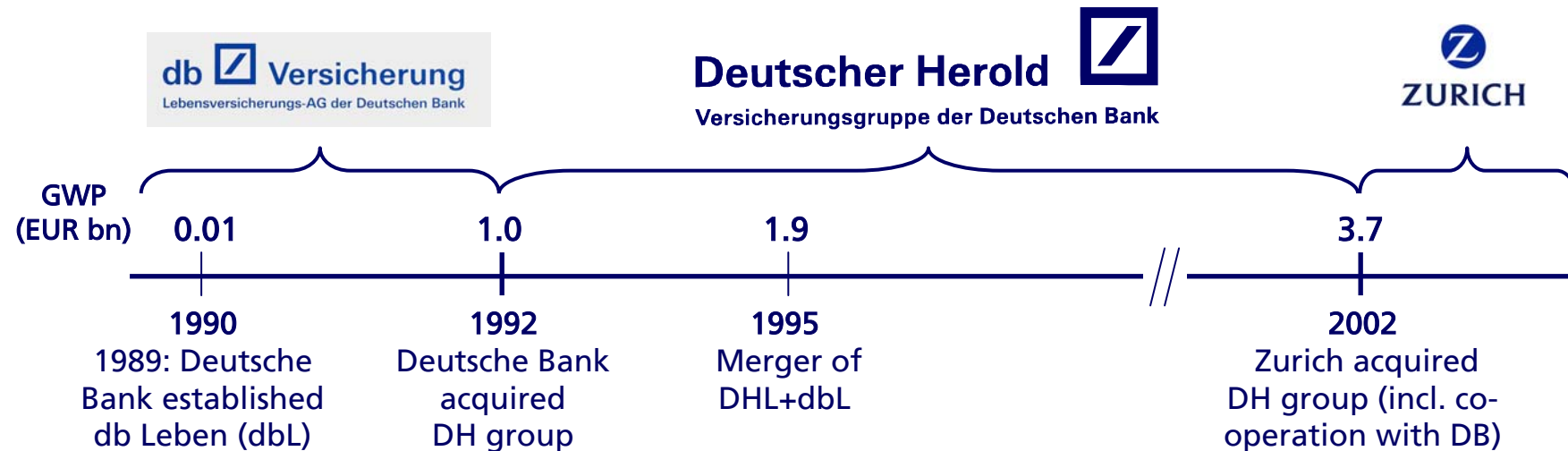
**Total ~ 8'000**

- General insurance only



**Customers**

# ... and 15 years of bancassurance experience



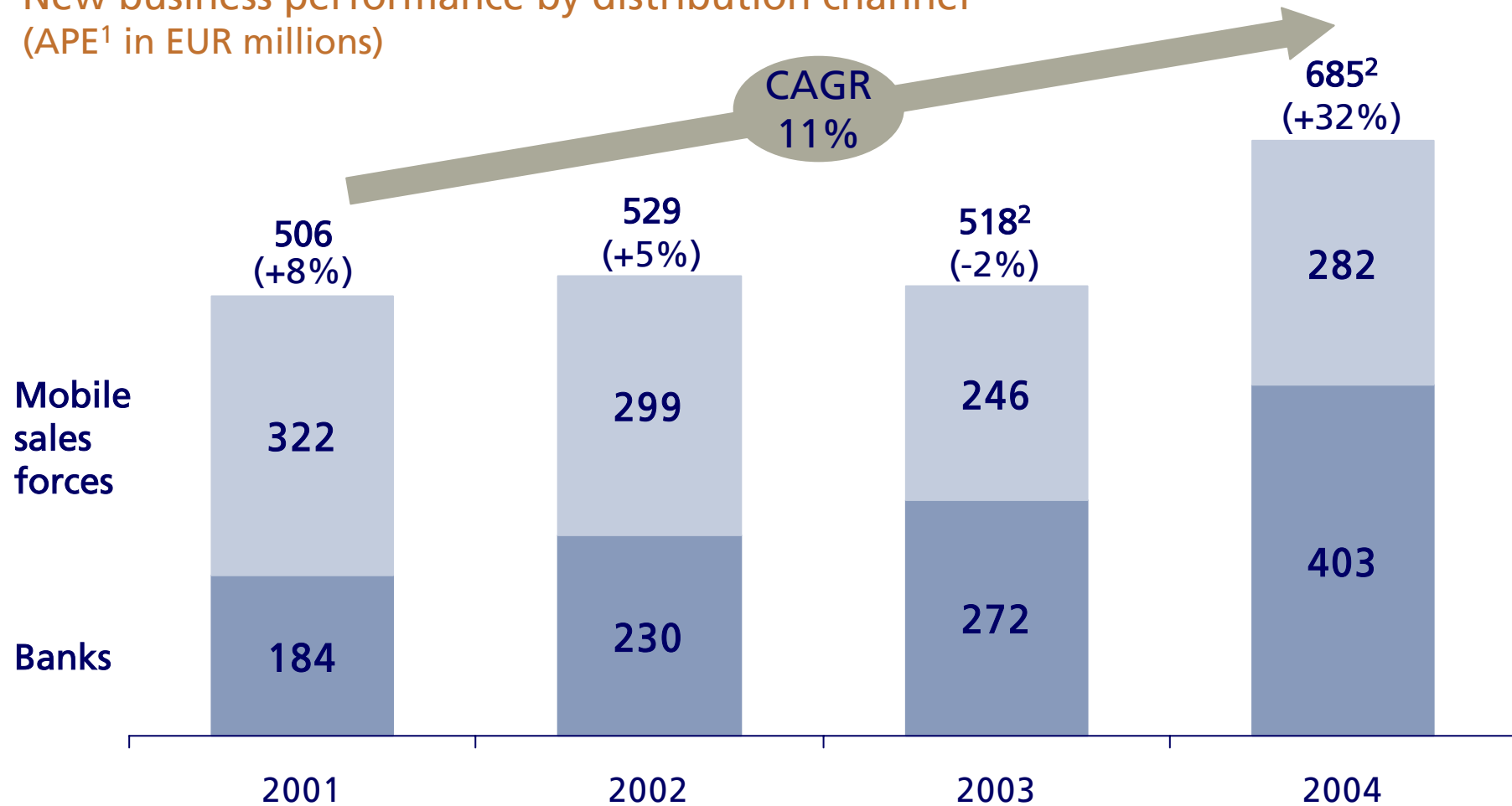
## Success factors of bancassurance

- Position products close to bank's brand
- Continuous presence of insurance products in banks' financial solutions
- Integration of insurance and banking (processes, systems, communication)
- Bank employees sell insurance

# New business volume up 11% CAGR since 2001



## New business performance by distribution channel (APE<sup>1</sup> in EUR millions)



<sup>1</sup> APE = Annual premiums equivalent

<sup>2</sup> Including new business for *probAV Pensionskasse* (cooperation with AXA - sales performance FY 2004: EUR 55m APE; FY 2003: EUR 26m APE); 2001: Pro forma figures; 2002: Full year figures

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# Current issues and future challenges



Issues & challenges	Actions taken or initiated by Zurich Life Germany
1. Longevity	<ul style="list-style-type: none"> <li>✓ Annuity reserves strengthened</li> <li>✓ New mortality tables implemented for new business</li> <li>✓ New bonus system in place without guaranteed interest rates for bonuses</li> </ul>
2. Low yield environment	<ul style="list-style-type: none"> <li>✓ Bonuses &amp; guarantees reduced (focus on UL products, no guaranteed rates for bonuses)</li> <li>✓ Strong asset liability management implemented</li> <li>✓ ALM mismatch reduced (duration of bond portfolio increased)</li> </ul>
3. Financial strength	<ul style="list-style-type: none"> <li>✓ Asset portfolio de-risked</li> <li>✓ Policyholder bonuses reduced</li> <li>✓ Financial reserves rebuilt</li> </ul>
4. New tax environment due to retirement income law "AEG"	<ul style="list-style-type: none"> <li>✓ New products introduced</li> <li>✓ Training campaigns for sales forces completed</li> <li>✓ Sales excellence program started</li> </ul>

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- Zurich is firmly established and well positioned in the top tier of one of the biggest and most promising life insurance markets in Europe
  - We have made visible progress on all key performance indicators especially in the profitability of new business and are ready to capitalize further on our economies of scale in sales & administration
  - Our business model is focused on profitable and growing market segments with top-rated, 'capital-light' and de-risked products for all three layers of old-age provision in Germany
  - In addition to our first class distribution partner Deutsche Bank we are increasingly leveraging our mobile distribution power for sustainable and profitable growth
  - We are actively addressing and successfully coping with all major issues and challenges of our German life insurance business



ZURICH

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Q & A



ZURICH

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# Appendix

# Increased tax incentives for old-age provisions provide further growth opportunities in Germany



Pension & tax reforms reduce state pensions & provide private old-age provisions partly with tax benefits	Tax incentives	Our solutions with strong focus on UL in all layers
<p><b>1. Layer: Base coverage</b></p> <ul style="list-style-type: none"> <li>• State pension reform lower coverage ratio<sup>1</sup> from 48% to 40%</li> <li>• Private old age provision with special "Rürup-products"</li> </ul> <p><b>2. Layer: Funded supplementary benefits</b></p> <ul style="list-style-type: none"> <li>• Company pensions</li> <li>• Riester pensions</li> </ul>	<ul style="list-style-type: none"> <li>• Premiums out of gross income with deferred taxation</li> <li>• Premiums out of net income with state benefits (Riester pensions)</li> </ul>	<p>Basic pension (Rürup pensions) ✓</p> <p>Company pensions ✓ Riester pension ✓</p>
<p><b>3. Layer: Capital investment products</b></p> <ul style="list-style-type: none"> <li>• Annuities: taxation further reduced</li> <li>• Endowments: higher flexibility</li> </ul>	<ul style="list-style-type: none"> <li>• Annuities: no taxation of accrued investment income</li> <li>• Endowments: tax advantages partly sustained</li> </ul>	<p>Annuities ✓</p> <p>Endowment ✓</p>

<sup>1</sup> Gross statutory pension income in relation to last gross income