

## **20th Annual Banking, Insurance & Diversified Financials CEO Conference**

Remarks by Martin Senn, Chief Executive Officer of Zurich Insurance Group

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### **Slide 1: Title Slide**

I have to say that I would prefer to be addressing you in different circumstances given the announcements we made just over a week ago.

The performance of parts of our General Insurance Business has been very disappointing. This is having a material effect on our Group's performance, restricting our ability to take advantage of opportunities in the market and undermining the trust of our key stakeholders. This is my responsibility and I am personally addressing these shortfalls together with Kristof Terryn who has been appointed as new CEO of General Insurance.

We are undertaking a thorough review of the areas that have not performed to rectify the poor performance with urgency and added drive.

Today I will take you through what has gone wrong and what we are doing to put it right.

On the positive side much of General Insurance is in good shape. That together with Global Life and Farmers, which are both on track, reinforces that our business is very strong and is supported by a very strong capital position. But I am conscious that we need to do much better.

Concerning RSA, our decision was driven by part of our business coming off track. Our priority must be to get our house in order before we consider undertaking a major acquisition even if there was a good strategic fit.

I recognize that our credibility with investors has not been helped by the events of the last few months and getting back onto the front foot is a key priority.

### **Slide 2: General Insurance**

Let me focus on the issues in our General Insurance business.

Our results for GI have been below our expectations in each quarter of this year. In the first quarter, we had a high level of large industrial losses although this was offset by a very light quarter for natural catastrophes.

This adverse large loss experience continued into the second quarter, when we also were impacted by an increase in claims costs related to commercial auto in North America as well as higher natural catastrophe claims. This led to us reporting a combined ratio for Q2 of 100 percent.

As you would imagine we undertook considerable analysis of the issues after these results. We looked into the causes of the continued high level of large losses and we also looked into claims patterns in commercial auto.

In relation to commercial auto, our indications at the time were that what we were seeing in our results was reflective of broader industry trends and that our claims assumptions were reasonable.

And in relation to large losses, while we clearly identified challenges in our Global Corporate business, for the most part our view was that first half experience was attributable to a level of volatility that is to be expected in commercial insurance. For example, we had one major fire loss in the UK in the second quarter that was clearly well beyond typical expectations.

With the benefit of hindsight some of the assumptions we made at the half year results now look to have been too optimistic.

As we announced last week, early indications of our GI results point to further adverse large loss experience in the third quarter, and before we allow for the impact of losses from the Tianjin port explosions.

Further, the preliminary outcome of the quarterly reserve reviews completed in mid-September has indicated that we will need to take further actions in some other portfolios, notably auto liability business in North America.

I want to make clear that analysis is ongoing around these issues, and our final results for Q3 may be different to the preliminary view that we provided last week. But, as we see things today, we expect to report a combined ratio for the third quarter of above 108 percent which in turn means that we expect our GI business to report an operating loss of around 200 million dollars for Q3.

In terms of the drivers of the loss most of these issues reflect localized challenges.

In particular, the biggest source of our problems has been Global Corporate. As you can see on this chart, our current year combined ratio for the Global Corporate business has shown deterioration across each quarter of 2015.

Of course one question I know that you will have is the extent to which these issues impact our view of future profitability.

### **Slide 3: Explaining General Insurance results**

To help provide you with more transparency, on this slide I show the moving parts of our combined ratio between our adjusted 2014 starting point and our preliminary view for the nine months.

We now expect to report a combined ratio for the nine months which is around 3 points higher than the adjusted 2014 level. As you can see from the chart on this slide.

Some of the drivers of this change are due to factors that are likely non-recurring.

In particular, we would not extrapolate the lower prior year development that we had this year, the Tianjin loss, the short-term uptick in the expense ratio or the lower than expected levels of natural catastrophe losses.

Having said that, while we had expected to see some improvement in our underlying loss ratio this year, actual results for the nine months show a 1.7 point deterioration. This is mainly due to the adverse experience in large losses that we have had in the last three quarters and which we now recognize. This points to deeper issues in our business than simply a question of expected volatility.

These issues require our immediate attention, and let me explain our response.

### **Slide 4: Clear path to address profitability challenges**

As a matter of urgency, I am undertaking a review of the GI business with Kristof Terryn.

I want to emphasize that this is not a review that focuses on our balance sheet or on our reserve position, but on the outlook for the business and the remedial actions needed to get back on track.

This review will set a base line for performance that fully reflects our current profitability and will identify the actions needed to improve our profitability in three main areas:

First, we will take steps to enhance technical discipline in underwriting and claims in certain parts of the GI business. This will largely focus on problem areas such as Global Corporate Property and North America Auto Liability.

Second, we will take further actions to reduce expenses particularly in light of a likely decline in the top line in 2016 as we re-underwrite certain portfolios.

And third, we are reprioritizing the profitability improvement actions currently under way to bring more focus and impact.

I will report back to you on the results of the review with our third quarter numbers. But, let me also put this review in context.

Despite the challenges, as I said earlier much of GI is in good shape and we have a clear strategy for prioritizing investment in areas where we can grow the business.

We remain confident that we can still improve the GI combined ratio by 2-3 percentage points albeit this is likely from a higher baseline than the 98.5 percent starting point that we talked about at the time of our investor day.

In addition, while remedial actions are clearly necessary in GI, we should also recognize that the Group continues to make good progress in Global Life and in Farmers.

#### **Slide 5: Global Life**

In terms of Global Life, we are on track to achieve the targets we set in 2013. In terms of top-line development, we continue to see strong growth in bank distribution and in our Corporate Life & Pensions business.

From a profitability perspective, and supported by the positive effects of in-force initiatives, the business is on track to achieve our goal to increase BOP by more than 50 million dollars a quarter.

And our cash remittances continue to exceed our run rate target levels, benefitting from structural actions to release capital, for example through the recent disposal of our UK annuity book.

#### **Slide 6: Farmers**

At the Farmers Exchanges which we do not own we have seen renewed top-line growth over the last few quarters after a challenging few years.

This reflects a broad based transformation of the business in terms of the type of customer that is targeted, improving the quality of both customer experience and distribution and numerous other initiatives.

This transformation is a long way from being completed and in common with many of peers. There is a need to improve personal auto profitability but progress to date has been very encouraging.

#### **Slide 7: Improving efficiency**

In addition, as we shared with you at our Investor Day in May we are also implementing our plan to deliver underlying savings at a Group level of at least 1 billion dollars by the end of 2018.

We expect the bulk of these savings to come through our shared services initiatives and improvements to our processes and systems.

Many of these initiatives are already under way. To give you some tangible examples we are now relocating part of our finance function from high cost centers to Krakow and Bratislava, and we have recently consolidated the bulk of our communications infrastructure under a single provider.

We have many more such actions in the pipeline, and recognize that we will need to push this even harder given a likely reduction in our GI top-line as we launch re-underwriting actions in the next few months.

#### **Slide 8: Strong capital position & cash generation**

In addition, Zurich continues to be a highly cash generative business, backed by a very strong solvency position.

As we announced with our half year results we expect to deliver cash remittances in excess of 3.5 billion dollars in 2015 and this remains the case even despite the issues in our GI business.

Further, solvency, as measured under the Zurich Economic Capital Model, remains in a very strong place. As of March 31, the Z-ECM ratio was at 120 percent at the top of our target range.

As a result, and as we have told you before, we expect to deploy 3 billion dollars of excess capital by the end of 2016.

While I cannot provide any additional guidance on this topic, as we see this today, we would view the most likely outcome for capital deployment to be through a combination of bolt on acquisitions and cash returns to investors.

Capital deployment is a key step in our ability to improve our returns.

#### **Slide 9: We remain committed to delivering the 12-14% ROE target**

Starting with our first half results, we generated a return on equity of 11.6 percent. This benefitted from relatively benign catastrophe experience and a one-off currency gain, and would have been around 10.5 percent on an adjusted basis.

As we look into 2016 there are two key ways in which we can improve our starting point ROE.

First, showing clear tangible progress from the profit improvement actions in the General Insurance business that I mentioned before. This should enable us to improve our overall group ROE by at least 1 percent in comparison to the adjusted first half baseline.

Second, the other key aspect of this chart is the impact of deploying 3 billion dollars of capital at a 10 percent return which we estimate would bring a further 1 point benefit to our overall group ROE.

Of course, there are uncertainties here, since we cannot pre-judge the outcome of the GI review. But, as we see things today, and based on all of the events of the last few months, we remain confident and committed to achieving all three of our targets.

#### **Slide 10: Key messages**

In closing, our recent performance has been very disappointing and I understand investors' frustration.

The profitability of the General Insurance business has been negatively affected by an increase in large losses and by slower than expected progress in improving the underlying loss ratio. This is largely due to localized issues. I am undertaking a thorough review of the business with Kristof. We have a number of initiatives already underway to address these challenges and expect to see the benefits of these actions flowing through to results in 2016.

At the same time, we continue to see good progress in Farmers and Global Life and both businesses remain on track to deliver against our expectations.

We are implementing our strategy to deliver in excess of 1 billion dollars in cost efficiencies by 2018. And we intend to redeploy 3 billion dollars of excess capital by the end of next year.

Zurich remains profitable, well capitalized and continues to target a business operating profit after tax return on equity of 12 to 14 percent.



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