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Annual General Meeting 2015

Zurich, April 1, 2015

*Speech by Martin Senn
Chief Executive Officer
Zurich Insurance Group*

Dear shareholders,
Ladies and gentlemen,
Dear colleagues,

Welcome to this Annual General Meeting,

I want to give a special welcome to our apprentices from Zurich Switzerland. I am happy to see you in the Hallenstadion this afternoon. We need to invest in engaged and motivated young people like you. You are our future.

In 2014, we made good progress in many areas in the implementation of our strategy. Our Chairman Tom de Swaan has already given you a short overview.

We delivered a good profit, but we are still not quite satisfied with our financial earnings. We can and will do even better and become even more profitable.

We still have a lot of work to do if we are to reach our 2016 financial targets. Particularly against the backdrop of an uncertain economic environment.

The most important points from last year:

- We generated a net profit of 3.9 billion US dollars – a decline of 3 percent.
- Return on equity – or our profitability as a percentage of equity – was 11.1 percent. That figure is respectable – but our goal is 12 to 14 percent.
- An especially positive factor was our cash remittances of 3.7 billion dollars, well ahead of our target.

Ladies and gentlemen,

Thanks to our stable earnings and excellent capital position, the Board of Directors is once again proposing a dividend of 17 francs. This amount is the same as last year, reflecting the continually strength of our business. As you are probably well aware – we are one of the most profitable companies on the Swiss stock exchange.

As you can see: Your financial investment is worthwhile I thank you for your trust and support.

This year, we will continue to execute on our strategy:

- First: We are making targeted investments in select markets, where we already enjoy a strong position or have solid growth prospects, as well as in our businesses serving global customers.
- Second: We are restructuring or exiting businesses that do not meet our profit expectations. We have already sold off the private customer business in Russia and reduced our presence in the life insurance markets in Luxembourg, Australia and Taiwan.
- Third: We aim to increase our operating profits by becoming even more efficient and generating better returns on our investments. We have already taken measures continue to simplify our organizational structure which – as already indicated – we expect will cost savings of 250 million dollars, starting in 2016.

We want to use this strategy to grow stronger and become even more profitable. I am convinced that we will be able to navigate the current uncertain economic and political environment and reach our goals.

2014 was also the year of the World Cup in Brazil. You will remember that the Swiss national team did very well. They only went out of the competition after a dramatic loss in overtime to Argentina.

The World Cup was also an important event for Zurich. The tournament actually began four years earlier for us. In 2010, the Brazilians had to decide whether to build or renovate their football stadiums. The Brazilian construction consortium selected us to act as insurer because we are the most experienced, we have the strongest capital position and we are the largest project insurer in the world.

Zurich insured five of the 12 World Cup stadiums during construction. The World Cup was an enormous project. Nevertheless, we took the same approach as for all our projects – big or small: We help our customers understand and protect themselves from risk.

A team from Zurich was involved in, and monitored the construction of, the Brazilian World Cup stadiums from the very start. We found out very early that the rainy season would cause problems with the soil. Based on our recommendations, walls were built to prevent mud slides.

We also played a role in getting the soccer stadiums ready in time. And on 13 July 2014, the final between Germany and Argentina took place.

Dear attendees,

The past year was also dominated by something completely different from the World Cup: Growing uncertainty. We live in a time of new uncertainties, both economic and political.

The most recent Global Risk Report from the World Economic Forum, which we and other specialists helped prepare, illustrates this uncertainty. The global risk environment is becoming more fragile, more fragmented and more instable than in previous years.

And for the first time since 1989 – the end of the Cold War – geopolitical risks are seen as more dangerous than economic risks. Cross-border conflicts are seen as being of particular concern over the next ten years. Even more dangerous than economic risks, unemployment or even climate change.

Uncertainty – as you will also have noticed – has become greater. We were all surprised by intensity with which geopolitical risks have moved back into the spotlight.

Just think of Ukraine: Who would have thought, back in early 2014, that such an armed conflict would break out in Europe?

Or what about the terrorist militia that calls itself the “Islamic State” and insults an entire religion with its name. This brutal organization, which is wreaking havoc not far from the borders of Europe, is a symbol of a failed state and the failure of governments.

The economic environment is also plagued by uncertainty: The euro crisis is still festering. The situation in Greece remains delicate. The oil price fell surprisingly fast and far. And the Swiss National Bank also surprisingly abandoned the minimum cap on the euro exchange rate.

Many people wonder in these situations: What does this mean for my country? What does it mean for the company I work for? What does it mean for me and my family?

Ladies and gentlemen,

We must adapt to a changing world. A world with less political and economic stability and less predictability. A world with lower growth and low interest rates.

In such a world, insurance companies will play an even more important role than they do today. Our task is to help our customers to understand and manage risk. Dealing with uncertainty is our core business.

I see this as one of our most important social functions: We create safety and security. We do so even in the face of political risk or increased technological risks such as data theft, data loss and cyber-attacks.

We help make sure that people and companies do not have to fear for their future, even in the face of catastrophes. We make it possible to take on personal and business risk.

As an insurer, we are prepared for extreme situations. It is our business – and our obligation – to be prepared for the unforeseen. To put it bluntly: We need to be ready for black swans and white ravens.

For example, we regularly test our exposure to risks that happen only every hundred years or every 250 years. Just imagine: We even have models to handle events that only occur every 500 years. And we offer appropriate policies; for example for a catastrophic earthquake in California.

Zurich has survived many wars and crises in its history. From the Russian Revolution, through the First and Second World War to the systemic collapse in Eastern Europe. From the Great Depression of the 1930s, through both Oil Crises, to the bursting of the dotcom bubble and the most recent financial and economic crisis.

We survived all these political and economic catastrophes and we have always been there for our customers when they needed us most.

In an uncertain world, in uncertain times, we help customers recognize risk and protect themselves from it. Today, tomorrow and into the distant future. This is our reason for being an insurer, this is our calling.

Dear shareholders,

Though it may sound trite, it does not make it any less true: we focus on our customers and their needs. We listen to them closely, because only after we know and understand what they need can we give them an appropriate response.

A small but typical example from Germany: In surveys we found out that some customers thought that Zurich was too slow in processing claims.

We reacted. We now provide customers with intermediate reports on the status of claims adjustments in complex and time-consuming claim events. The response was enormously positive.

Thanks to our consistent focus on customers, we managed to kill two birds with one stone. Our customers are happy and we can accelerate our profitable growth. Our experience clearly illustrates that high quality advice is also good for business.

Competition in the industry is also getting tougher and tougher. In this competitive environment, insurance companies that put customer needs first will have a huge advantage. Every day we need to ask ourselves how we can offer more and better products than our competition. We want customers to come to us and stay with us.

This is what we mean when we say we want to be the best global insurance company. Our employees work their hearts out every day to make this a reality. I would like to take this opportunity to thank all our colleagues sincerely for their enormous commitment.

Ladies and gentlemen,

An important tool for getting closer to our customers is digitalization. We need to do this at multiple levels. For example, our customers expect to be able to reach us through all possible channels – whether through advisers or on the telephone, via e-mail, our website or social media.

Digitalization also helps us help our customers even more. We can now record, save and analyze more data than ever before. We refer to this as Big Data. To give just one figure: In ten minutes we now generate as much data as humanity produced from the beginning of history to about the year 2000.

We used to rely on estimates for our assumptions and risk calculations. With the greater volume of data now available to us, we are better at predicting specific events, at estimating risks more precisely, detecting the source of damage more exactly and thus providing faster and more efficient help.

I want to provide two examples about the effect Big Data has had at Zurich.

The first example:

The U.S. experiences around 3,000 hail storms every year. They cause about 1.6 billion dollars in damage.

We wanted to know more about the extent of the damage. So, we compared the National Weather Service's hail storm data with our own data on damage claims. With this larger quantity of data, we were able to compare individual storms at very specific times and in highly defined areas with each other.

The findings were clear: The damage depends primarily on a single factor – on the size of the hail stones, which vary from area to area. We also found out where the hail stones tend to be larger.

As an insurer, we drew two conclusions: We could adjust the premiums based on the location and size of hail stones. And we could tell our customers in the hard hit areas ahead of time how they could better protect their cars and houses from hail.

The second example:

In several countries, we launched pilot projects for electronic data transmission in cars. Companies could have black boxes installed in their fleet.

These provide information about safety and driver behavior, gasoline consumption and CO² emissions.

With the data thus compiled, route planning and vehicle usage could be optimized. We worked together with each customer to develop programs to identify drivers with the greatest risk potential and to provide them with better training.

The result: The operating costs for companies fell by an average of 10 percent, the gasoline costs by 11 percent and accidents by an incredible 20 percent. All of which means improved driving safety and lower operating costs, lower environmental pollution and less damage and lower insurance premiums, of course.

I see this as one of the most useful effects of Big Data: instead of just recording damage, we can help prevent it. Insurers who want to be successful need to act not just as claims handlers, but also as providers of prevention services.

I am convinced that successful insurers will be those who keep up with the latest technological developments. Those who can intelligently manage the flood of data will be able to operate their business faster, more efficiently and be more customer friendly than ever before. In order to get there, our specialists are now working with leading high-tech companies from Silicon Valley.

Ladies and gentlemen,

We are still feeling the impact of the Swiss National Bank's decision. Removing the euro peg and lowering interest rates have fundamentally changed the framework of the Swiss economy.

Zurich has only minimal foreign exchange risk exposure. Our income and expenses tend to be in the same currencies. We thus have a sort of natural currency hedge.

Nevertheless, our economy, our country – every one of us – will feel the impact of lifting the fixed euro exchange rates and we will need to focus more on our strengths. Our country and our exports are known for their high quality and not for their low prices.

Reliability, high performance, relatively little bureaucracy, political stability, rule of law and international predictability have always been key features of Switzerland. The rule of law and predictability, however, have suffered in recent years due to populist public initiatives. This has scared away both domestic and foreign investors.

Ladies and gentlemen,

Switzerland has always been seen as a competitive and innovative leader in international surveys. This is no coincidence.

We have top universities – and a dual education system to make sure that young people are integrated into the working world. The best talent from around the world comes here to study and work.

We need to do everything we can to maintain these global competitive advantages. A key pillar to our success is openness. Let me be clear here: Bilateral treaties and the freedom of movement for people are essential. They are essential for our company, for our society and for our entire country.

As a small country, Switzerland has profited from such openness. The cultural and economic exchange has made us wealthy and enriched our lives.

We need to see the advantages of such openness more clearly. And since not all people can benefit to the same degree from this, we also need to support those who are placed under pressure and fear for the future.

I am certain: If people who live here feel safe; if they see a future for themselves and their children – then they will also be open to new ideas, open to new technologies – and open to other people.

We at Zurich are in the process of implementing an appropriate strategy in Switzerland. We also plan to train more domestic employees. We want to keep older employees in work for longer. And we will better utilize the potential offered by women – as our President Tom de Swaan already explained.

Our dual education system is particularly close to my heart. It is one of the success factors for Switzerland. Thanks to our apprenticeship system, we have an innovative economy with well-trained experts and lower youth unemployment than most other countries.

We aim to increase the number of Swiss trainees by 25 percent. And we are now working with other Swiss companies on a plan to export our vocational teachers to other countries, such as the U.S.

Ladies and gentlemen, it is vital that Switzerland and its economy maintain this excellent framework for success: Only economically successful companies, only internationally competitive companies, only companies that generate profits can create new jobs and maintain them.

Thank you for your attention.