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Annual General Meeting 2016

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Speech by Tom de Swaan

Chairman

Zurich Insurance Group

Before we come to today's agenda items, I would like to summarize the past fiscal year in my capacity as interim CEO, a role that I held from the beginning of December last year until the beginning of March. I would then like to show you the economic, technological, and social environment we are currently working in.

The Zurich Group generated a business operating profit of USD 2.9 billion in 2015. This is a decline of 37 percent compared to the previous year. Net income attributable to shareholders was USD 1.8 billion. This is a decline of 53 percent. Business operating profit (after tax) return on common shareholders' equity was 6.4 percent. This means that we have clearly missed our targets in the past year. These are not the results we had forecast, and they are, of course, also not the results we expect from ourselves.

What are the reasons for this? The reasons for the unsatisfactory results lie in the non-life insurance segment, i.e., in the General Insurance segment, in particular in the global business with international corporate customers.

Large losses affected U.S. more negatively than expected in 2015. Several explosions in the port city of Tianjin in northern China were particularly serious. A total of 173 people lost their lives in the middle of August last year, and around 800 people were injured. Estimates for total damages in Tianjin, an important trading center for cars, amounted to nearly USD 3 billion. We estimate that we will have to cover approximately USD 275 million in damages after reinsurance.

There were also storms and flooding in Great Britain, Ireland and Australia, which led to above-average costs last year.

This effected our result severely. The combined ratio of the segment deteriorated to 103.6 percent. Put differently: We had higher expenses in the General Insurance business than we did premium income. The business was therefore not profitable from an underwriting perspective.

Of course, we stand by our promise to our customers if they suffer a loss – that is why we are here. However, the disappointing results also clearly show that we have not consistently exercised our customary discipline when underwriting risks in certain areas. This is not acceptable.

We acted rapidly when we saw that the unexpectedly higher number of larger losses exceeded normal levels of fluctuation. We examined our underwriting practice and appointed new people to various management positions, especially in the global corporate business. We either did not renew loss-making insurance contracts or renegotiated them on better terms. We also abandoned entire business segments that were less important to us. The implementation of these measures is going according to plan. I am convinced that they will result in our once again realizing significantly better results this year.

However, let me be clear about one thing. We are one of the leading international providers in the corporate customer business. Thanks to our strong capital base, our extensive knowledge, our excellent service and our global network, our position in this business is excellent if not unique. Although the poor results in 2015 are unquestionably disappointing, I am convinced that we have taken the right steps to use our strong market position to again generate long term, profitable business. We will inform you of the results of the first quarter and our progress on May 12.

It is also certainly worth mentioning that, in General Insurance, we also performed well in some of our important markets. In particular, our business in Switzerland. In addition, with the acquisition of Rural Community Insurance Services, a leader in crop insurance, we have further strengthened our position among the five leading insurers in the commercial lines business in the U.S., which is by far the world's largest insurance market.

Business in our other two segments, Global Life and Farmers, was also very successful.

Business operating profit in the Global Life segment was USD 1.3 billion. In local currency, this is equivalent to an increase of 16 percent. However, as we report in U.S. dollars and the value of the dollar has risen against most other currencies, the recognized increase was only 2 percent.

Gross written premiums, policy fees, and insurance deposits were USD 29 billion. In local currency, this is equivalent to an increase of 6 percent. Our distribution partnerships with banks – with Santander in Latin America, Banco Sabadell in Spain, Deutsche Bank in Germany, Spain and Italy, and HSBC in the Middle East – were particularly successful.

We have therefore proven that, thanks to the right strategy, the right products, and the right sales approach, we can also be very successful in the Global Life business in this difficult environment where interest rates remain at record lows.

Farmers delivered a very solid contribution to business operating profit of USD 1.4 billion. The Farmers Group Incorporation is a wholly-owned subsidiary of Zurich, and provides administrative and management services for the Farmers Exchanges, which are organized as cooperatives. It receives a fee for this.

The Farmers Exchanges, which are among the leading insurance companies for individual customers and small businesses in the US, continued their positive trend in 2015 and made further progress in the implementation of their strategy. Focusing on selected customer segments, clear positioning, and improved service, among other things due expanded digital services, has paid off.

We have also made further progress in the area of corporate responsibility. This is shown, for instance, by our Dow Jones Sustainability Index ranking. The companies in this index are ranked according to economic, ecological and social criteria. In 2015, Zurich received 83 out of 100 points, its highest score since inclusion in the index and thus outperformed 99 percent of the companies in the insurance industry. I am particularly proud that in November we became the first global company in the insurance industry to be certified by EDGE in six key markets, including Switzerland. EDGE stands for Economic Dividends for Gender Equality, and is a globally recognized certification standard of equality for men and woman in the workplace.

It is also an important fact, including for you as shareholders, that Zurich retains its very solid capital base. This is confirmed by our internal models as well as external valuations by rating agencies.

Furthermore, we expect fund inflows from business activity of more than USD 10 billion during the current strategic period from 2014 to 2016. This is far above our target.

For this reason, the Board of Directors is able to propose an unchanged dividend of CHF 17 per share today. Our goal is also to maintain an attractive and sustainable dividend policy in the future.

In 2016, our focus is to bring our General Insurance back onto a solid footing and to continue the positive development in our other segments. We will also further optimize our geographic coverage. Accordingly, we have withdrawn from various markets where we were not profitable or had only a limited market position with low growth potential. We are continuing this process in 2016. At the same time, we are also investigating ongoing opportunities to strengthen our position by making acquisitions in interesting markets, such as our purchases of RCIS in the U.S. and Macquarie Life in Australia.

Further increasing efficiencies is also a high priority. Comparisons with our best competitors clearly shown that we still have significant potential to improve. We have therefore accelerated our efficiency program. We want to significantly exceed the cost savings of USD 300 million announced for this year.

We are thus well on our way to reaching our target of realizing Group-wide efficiency improvements of more than USD 1 billion by the end of 2018. We will achieve this increase in productivity of around 15 percent by implementing new technologies, simplifying our organization, consistently streamlining processes, and performing various tasks in shared service centers.

These necessary measures will also change our staffing situation. Our current expectation is that around 8,000 positions across the Group will be affected by this transformation by the end of 2018. This means that, due to new technological possibilities, these roles will no longer be required or will be relocated. As is customary at Zurich, we will assist the affected employees during this process and make every effort to find the best possible solution for them.

Last but not least, we will review our strategy during the year, and position ourselves for the years to come. The Board of Directors will work closely with Mario Greco, our new CEO, and the Group management on this task in the next few months.

Ladies and Gentlemen.

You read and hear about it every day in the media: We are living and working in an uncertain economic environment.

- Savers and investors are penalized in the new world of negative interest rates.
- Commodity prices are at an all-time low. The price for natural gas is lower than it has been in more than ten years.
- The Chinese economy is growing more slowly. This has given rise to fears about the economy.
- The countries involved in the Middle East are managing the crisis rather than attempting to find real solutions. The consequence is an unprecedented flow of refugees that even has the potential to destabilize Europe. The discussions about a Brexit contribute to the uncertainties in the EU.
- Russia's relations with the Western world continue to be tenuous.
- These uncertainties have also contributed to the financial markets performing more poorly at the start of this year than they have in any previous year. The stock exchanges are currently the equivalent of a rollercoaster. Prices are fluctuating wildly up and down.
- And of course, the barbaric acts of terrorism in our society are a further source of uncertainty.

It is therefore no wonder that there is much talk and much written about the crises and risks of the global economy.

Nevertheless, I ask myself whether the current situation is really so bleak.

Of course, the global market environment is volatile.

Of course, the historically low interest rates make it more difficult for us to invest our assets profitably.

Of course, the economies in the emerging markets are no longer growing at double-digit rates.

However, despite these problems, I am currently cautiously optimistic about the global economic situation. As insurers, we are used to looking at the big picture. We think long-term.

And, from this perspective, we at Zurich also see positive developments in almost every region of the world:

- The American economy, which is still the largest and strongest economy in the world, is experiencing a moderate upturn. Above all, the employment market is healthy there. They have again achieved virtual full employment.
- We expect that China, the second-largest economy in the world, will have a soft landing and no crisis. I am very optimistic that China will succeed in transforming its economy. Domestic consumption and services will become significantly more important. The continuously growing middle class will buy more and drive the economy forward. If in the future the Chinese economy only grows at a rate of 5 percent or 6 percent, it will not be a disaster.
- I am convinced that the low commodity prices and, above all, the low price of oil, will ultimately be positive for us. If the price of oil falls, energy, production and transport costs will also drop. With a little delay, this should have a positive effect on the European economy.
- In general, Europe is in better shape than even a year ago. One could even say that, from an economic point of view, things look better in Europe than they have in many years. The euro, which until recently appeared to be on the edge of an abyss, has now stabilized. Much will depend on whether we succeed in overcoming the current refugee problem. I will come back to this point a little later.
- The Swiss economy is holding up remarkably well – despite the strong franc. Zurich has also benefited from this: Our business here has performed particularly well. As a country unit, Switzerland was one of our best overall.

As you can see, there are currently also positive signals. Two things, however, give me pause for thought in the longer term. One is the extremely high debt of certain economies. Reforms are urgently needed to put these economies back on their feet, and on a growth path.

The other is that I am concerned about the dangers of deflation and the concomitant continuing low or even negative interest rates. The fact that we have negative interest rates in an area covering more than a quarter of the global economy is entirely new for all of us. If this situation continues, it will not only have a negative effect on employee benefits and the business models of financial services companies, it will also have a distorting and limiting effect on investment decisions throughout the economy.

(Break)

Dear Ladies and Gentlemen,

There is one development I haven't mentioned yet. You are all familiar with it from your own experience: digitalization. It is the defining issue of our time. It fundamentally changes how we live, work and think.

A new term has emerged for the rapid technological transformation that we are currently experiencing: the fourth industrial revolution.

It has begun with the Internet and is characterized by increasing digitalization, as well as the networking of people, things and machines.

These are truly exciting times for insurers. Our industry is also being revolutionized by digitalization and automation. I would like to give you three examples from within our company:

- We are funding tests on self-driving buses in several European cities, including in Switzerland. This is an important step in developing new insurance solutions. This also allows us to contribute to the development of an automated public transport system. I am convinced that transportation will undergo significant, long-term changes in the next few years. For insurers like us with large portfolios in auto liability insurance, this harbors risks but also presents opportunities, and we intend to be in the frontline in these developments.
- We are also doing pioneering work in the economic application of drones, i.e. unmanned aerial vehicles. Drones are currently already being used for numerous applications. We too use drones to obtain an overview of hard-to-reach disaster sites, such as the disaster in Tianjin I mentioned earlier. Soon such aircraft will also be used to deliver packages. We are one of the first insurance companies worldwide to offer liability insurance for professional drone users.
- A third example: Digitalization also improves and simplifies many of our processes – from underwriting to customer service. For instance, we have tested software for assessing damage claims in England. The results show that we can solve the same task in a few seconds instead of one hour – and achieve better quality. New opportunities such as these make us more efficient and productive – and, last but not least, they also increase customer satisfaction.

These technologies – and this is surely the special feature of this fourth industrial revolution – are developing at breathtaking speed.

Never before in history has a technological leap changed the world in such a short time.

You have all experienced it yourselves in the last ten to twenty years, in the way you get information or “google,” in the way you shop, and in the way that you communicate with each other.

This rapid development provides opportunities and harbors risks.

The opportunities: Never before has access to information been easier, freer and more. Never before has the exchange of ideas and knowledge been greater. The internet is open to everyone, whether you live in a city such as Zurich, in an even larger metropolis such as Los Angeles or Delhi, or in a village in Africa, where the number of smartphones is rising faster than anywhere else in the world. Already more than 2 billion people have smartphones today, and this number is expected to increase to more than 6 billion by 2020.

These new technologies will stimulate each other and lead to new inventions and innovations. They will also make the economy more productive, which will benefit people worldwide.

This too is a new development: Progress is spreading far more rapidly, and is no longer limited to individual cities or countries. Thanks to digitalization, the market economy, and globalization.

Let us also not forget in these turbulent times that the globalization of the last thirty to forty years has given large parts of the world unprecedented prosperity.

Ladies and Gentlemen,

These technological developments also harbor economic risks.

There will be companies – even entire industries – that will be overrun by the surge in technology and jobs will disappear. Unfortunately, this cannot be avoided. The history of the market economy has always been a history of rise and fall and trial and error.

However, what makes today’s revolution different from previous industrial revolutions is that people then had more time to adjust to new situations, acquire new capabilities and skills, and find new jobs.

Our modern societies, however, especially our education and social systems, are not yet geared to such rapid structural change.

We still have to find answers to these new challenges, and find them together. This is a task for politicians, for corporations and for each of us. We must work on it together so that as many people as possible can benefit from the changes.

We corporations must use the surge in productivity and operate our businesses profitably. This will allow us to retain jobs and create new ones.

The politicians must create favorable framework conditions that allow us to remain internationally competitive.

And each of us must continually educate ourselves. Those of us who are flexible and able to learn will be able to benefit.

It is also clear that those societies and companies that remain on the forefront of technical progress will also remain competitive and be able to offer high quality jobs.

Dear Shareholders,

These are the keys to our success. As a company, and as a country, we need competitive framework conditions and a highly qualified workforce.

No one disputes that the prosperity of a country mainly depends on the quality of its workforce.

Economists also largely agree on another issue: Open economies with global companies always fare better in the long term. They attract more investors and more talent.

This is why economies that are open to the world can better exploit their potential. They are more flexible, innovative and, in the end, more prosperous.

Competitiveness. Innovativeness. The ability to attract talent: Switzerland is at the top of all the ranking lists worldwide.

Why? Because Switzerland is open to the world, because it has carefully regulated its economy in the past, and because it has always welcomed global capital and global talent.

Switzerland absolutely must remain open to the world. Especially as a small country, it cannot afford to do without new ideas and fresh energy from outside. This diversity is one of our greatest strengths. Let's take our company as an example: At our headquarters here in Zurich alone, we employ people

from 45 nations, and I am very proud of that. However, this is also how things must be given that we are active in 170 countries and our personnel must reflect our markets and our customers as closely as possible.

Switzerland is no island. This is evident not only in our relationship to our European neighbors, but also in light of the current refugee problem.

This problem is first and foremost a major human tragedy. We must not forget that most refugees have a tragic reason for fleeing. Their home countries are torn apart by war, and they are trying to save themselves and the lives of their family members.

Ladies and Gentlemen, we would do the same if we were in the same situation.

Much depends on how we here in Europe resolve this refugee problem. Even if many refugees will hopefully someday be able to return home, we must accept that some will stay here.

If we succeed in integrating these people, then we will benefit as a society. We must all work towards ensuring that these people can become a part of our society. It will enrich us – not only materially, but also from a human point of view.

Switzerland has, for example, always benefited from immigration, including economically. Just think about probably the most typical of all Swiss industries, the clock and watch industry. It was, after all, mainly built up by refugees, the Huguenots – French Protestants who found a new home in Switzerland in the 16th century.

However, we don't even have to go back so far. The increase in prosperity that Switzerland has experienced in the past 20 to 30 years is also mainly due to immigration.

Switzerland's history in particular shows that we must also see migration as an opportunity, and not just as a threat.

An open Switzerland is a prosperous Switzerland.

Ladies and Gentlemen,

As I mentioned earlier, one of Switzerland's strengths always has been its careful regulation of the economy.

Please don't get me wrong, regulation is necessary. It creates legal certainty and thus stability. Fair, transparent and efficient markets are only possible with regulation. Without a state, a functioning market economy is not conceivable.

Especially as a small, internationally integrated country, we must have an interest in international regulation. We don't have a large domestic market like the insurance companies in the United States, Germany or France.

However, in order to succeed, we must look beyond our country's borders. For us, it is a matter of survival to be able to offer our services in other countries, on an equal basis, without discrimination. This is why we need consistent regulations that apply to all equally.

Nationalism, protectionism, isolationism – they are poison for a global company like Zurich.

Careful regulation, however, means that regulations must never be an end in themselves. One must always be sure that new regulations promote and do not hinder the market. A good balance is required, otherwise the expense will become too high for companies.

Dear Shareholders,

This concludes my report on the fiscal year and on the current framework conditions.

Last but not least, I would like to take this opportunity to thank all our 55,000 employees throughout the world for their valuable work, their highly professional commitment every day and their loyalty. And I would also like to thank you, Ladies and Gentlemen, for your attention.