



# Zurich Insurance Group – North America

Mike Foley, CEO North America

Deutsche Bank Global Financial Services Investor Conference

New York, May 30, 2017



# About Zurich Insurance Group



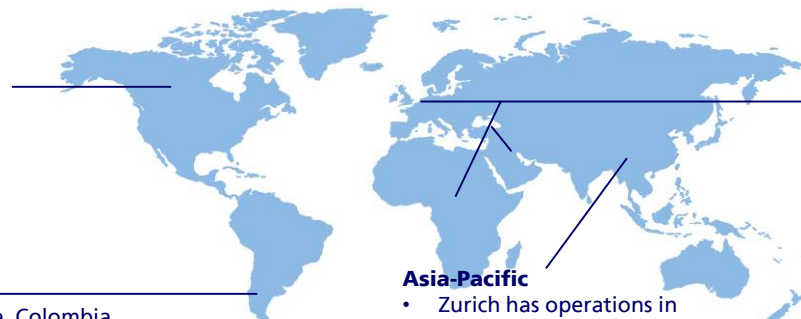
Life	P&C Commercial Insurance	P&C Retail Insurance	Farmers
<p><b>Business:</b> Protection, savings and investment solutions</p> <p><b>Market segments:</b> Individual, commercial and corporate customers</p> <p><b>Distribution channels:</b> Agents, banks, brokers and independent financial advisers</p>	<p><b>Business:</b> Property and casualty insurance and services, risk insights</p> <p><b>Market segments:</b> Commercial and corporate customers</p> <p><b>Distribution channels:</b> Agents, brokers, direct, other distribution agreements</p>	<p><b>Business:</b> Property and casualty insurance and services, risk insights</p> <p><b>Market segments:</b> Individual, corporate &amp; crop</p> <p><b>Distribution channels:</b> Agents, banks, brokers, direct, other distribution agreements</p>	<p><b>Business:</b> Management services related to property and casualty insurance</p> <p><b>Market segments of the Farmers Exchanges!:</b> Individual, commercial customers</p> <p><b>Distribution channels of the Farmers Exchanges!:</b> Agents, direct</p>

## North America

- Leading commercial P&C insurance provider serving the global corporate, large corporate, middle market, crop, specialties & programs sectors
- It also serves individual customers in the retail, affluent and corporate markets

## Latin America

- Zurich operates in Argentina, Brazil, Chile, Colombia, Mexico and Venezuela



## Europe, Middle East & Africa

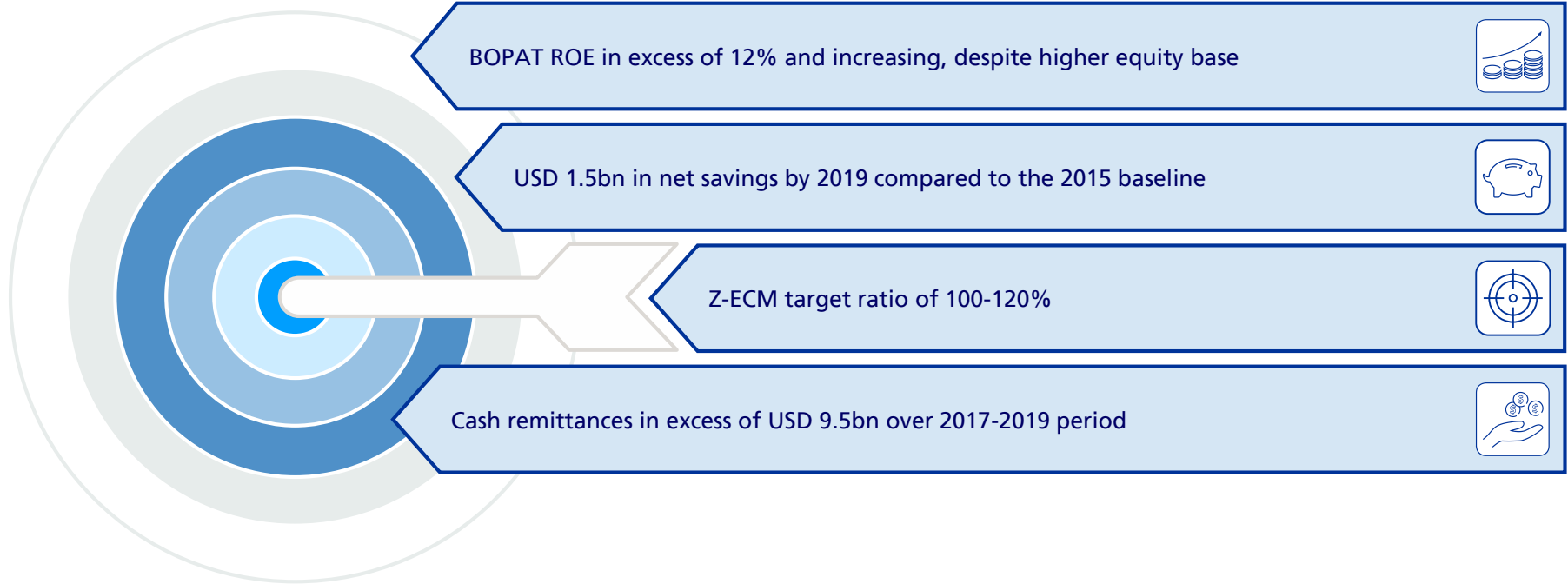
- Europe: Zurich has major operations in Germany, Italy, Spain, Switzerland, and the UK
- MEA: Our business spans the region with key operations in the Middle East and Turkey

## Asia-Pacific

- Zurich has operations in Australia, China, Hong Kong, Indonesia, Japan, Malaysia and Singapore

**170+ Countries - ~54,000 Employees – USD 67bn Revenue – USD 4.5bn in BOP**

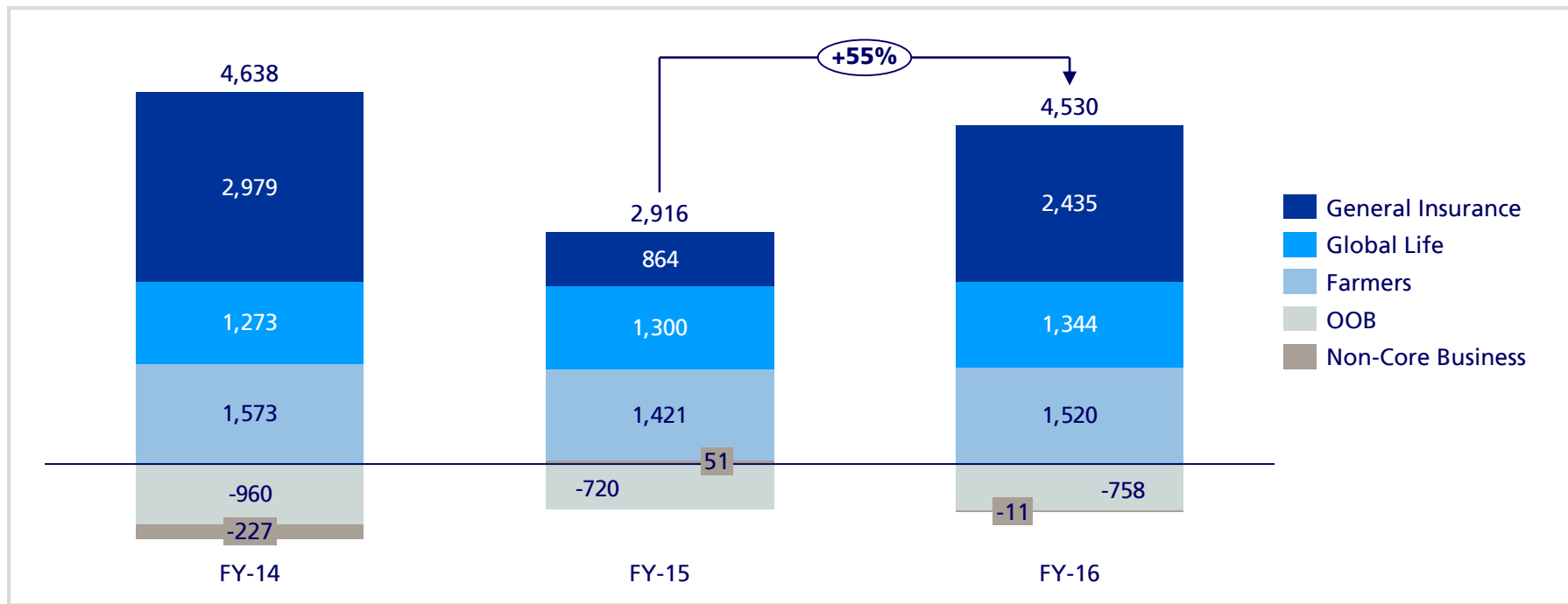
# Group 2017-2019 Financial targets



Source: November 2016 Investor Day Presentation

# Group BOP restored in 2016

## Group BOP (USDm)



Source: FY-'14, '15, '16 Financial Supplement. Results shown as reported and do not reflect 2017 restatements or changes to management structure.

# For NAC, in 2016 we committed to improve our Combined Ratio...



## 2015 Plan

## 2016 Plan

**Gross Written  
Premium (GWP)**

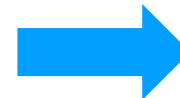
**Grow**



**Hold**

**Combined Ratio**

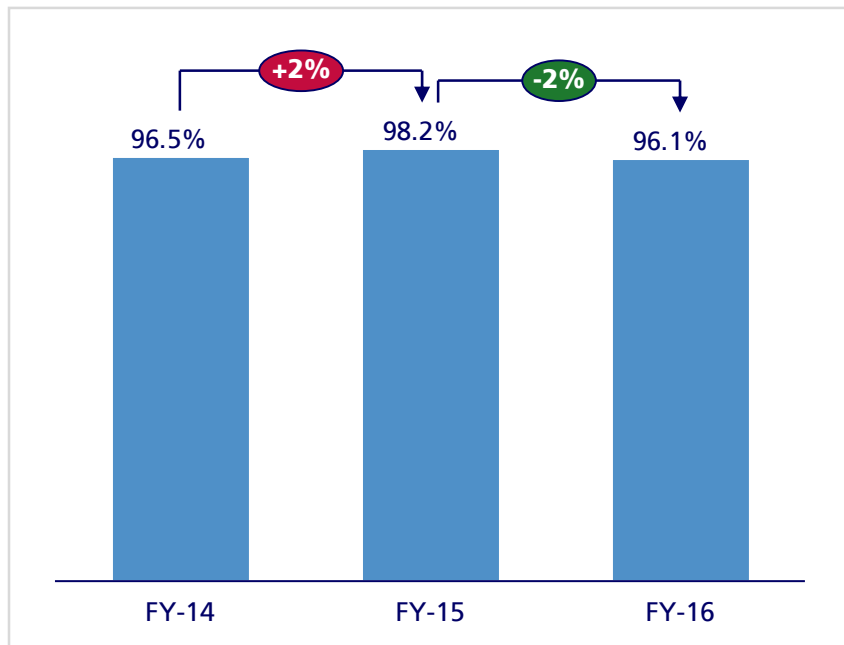
**Hold**



**Improve**

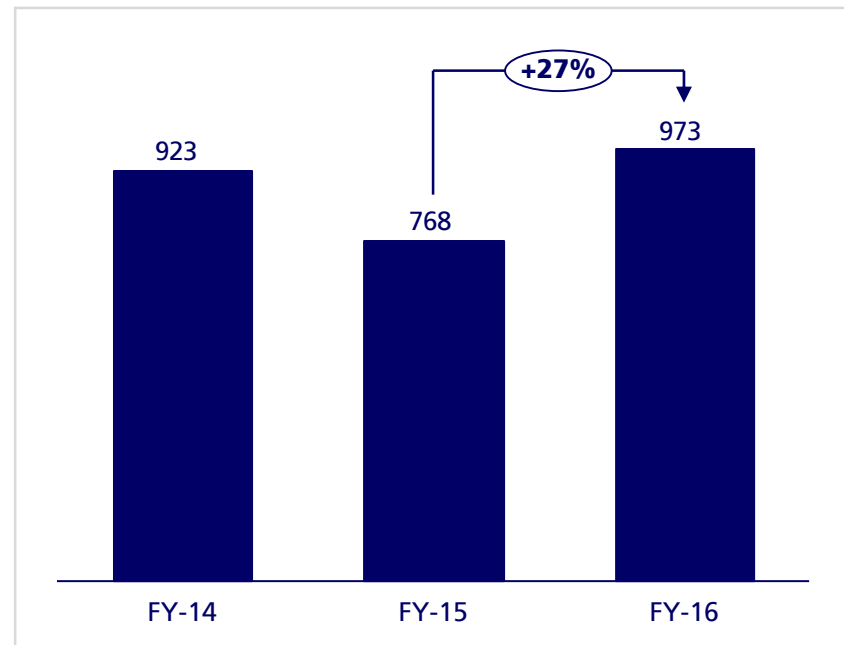
# ... and NAC did improve combined ratio and BOP in 2016

## NAC CALENDAR YEAR CR



Source: FY-'14, '15, '16 Financial Supplement

## NAC BOP (USDm)



# Key industry trends – North America Property & Casualty

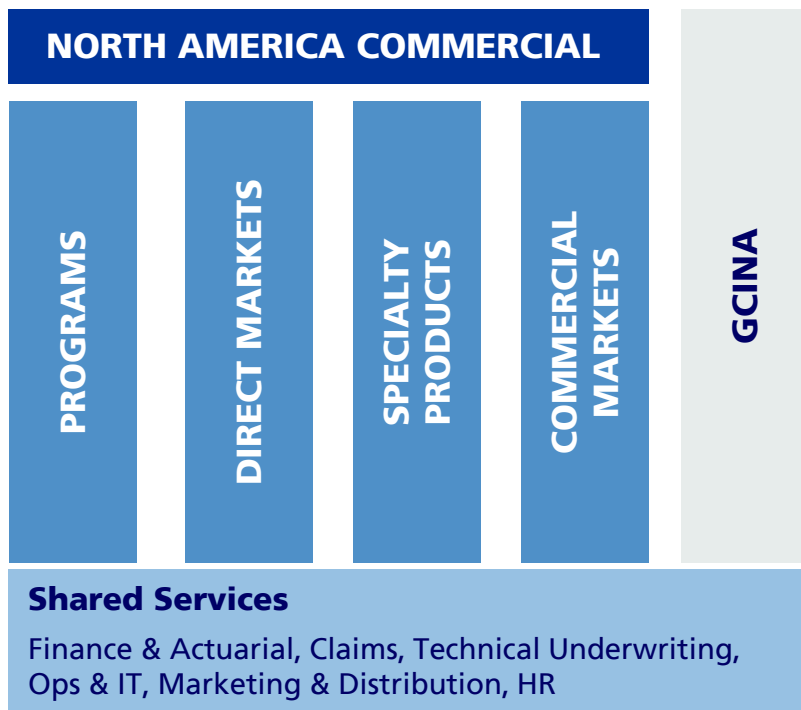


- Rate environment is **challenging**, but manageable
- **Scale matters** – largest carriers able to invest in information-based advantage (e.g. predictive analytics, automation of knowledge work)
- Winners will have **simpler** and **more efficient** operating models
- Industry model will need to **react and adapt to technology** changes
- Individual judgment not sufficient: **institutional insight** with **underwriter expertise** will win

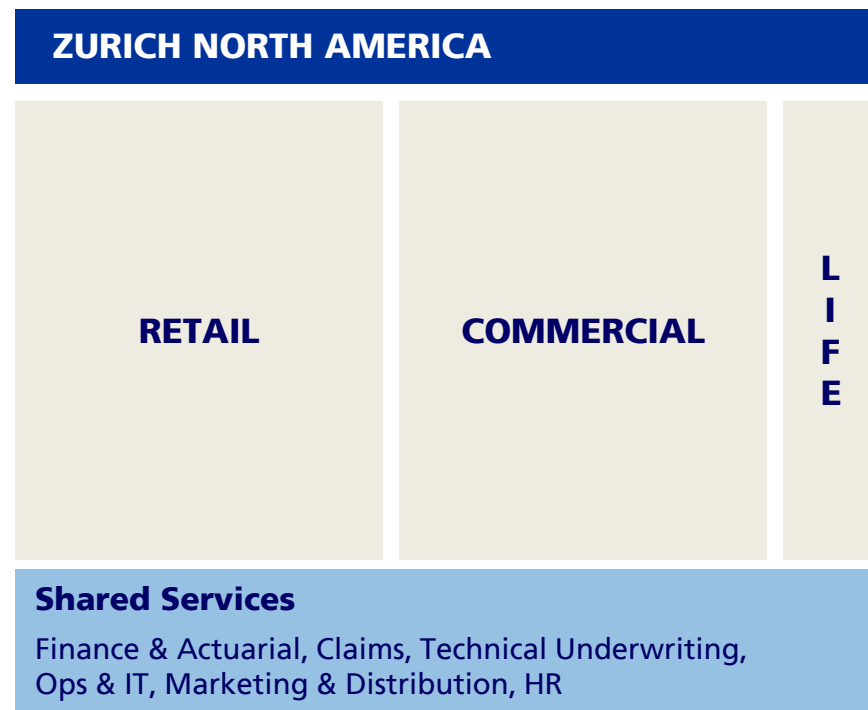
# As part of the new strategy, ZNA is going to market as one fully-integrated unit



## 2016



## 2017





# Details of new ZNA structure

 Dual reporting with CEO, North America and CEO, Commercial Insurance  
 2016A GWP USDbn

Zurich North America		
Life	P&C Retail <b>6.7bn</b>	P&C Commercial <b>8.5bn</b>
<b>North America Life</b>	<b>Alternative Markets</b>	<b>North America Commercial Insurance</b>
Life insurance products provided through <b>independent brokers</b> and <b>Employer Groups</b>	<b>Program Administrators</b> targeting niche markets <b>Direct sales force</b> targeting the auto dealer segment <b>Captive Consultants</b> targeting <b>Group Captives</b> business <b>Crop</b> products serving America's farmers through an <b>Agency force</b>	Standard P&C lines for <b>mid &amp; large size customers</b> <b>Special lines covering complex products for non-standard risks</b> Industry specific value propositions for <b>targeted customer industry segments</b> <b>Leading provider of solutions for customers with global exposures</b>
	<b>USD 15.2bn</b>	<b>98% CR</b>
Zurich North America Shared Services		
Finance & Actuarial, Claims, Technical Underwriting, Ops & IT, Marketing & Distribution, HR		

# RCIS acquisition was successfully integrated and contributed USD 105m of BOP in 2016

## RCIS acquisition positions Zurich as #2 Crop Insurer



### Rural Community Insurance Services (RCIS) acquisition:

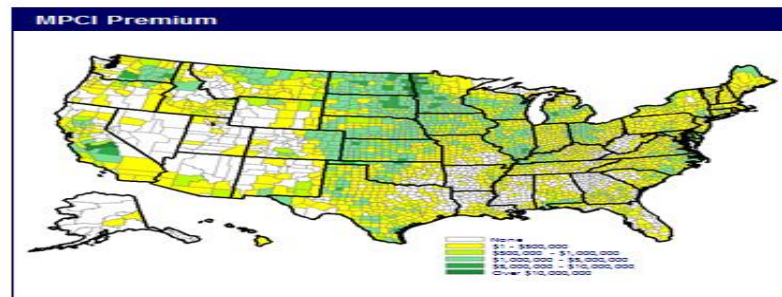
- Acquisition value of ~\$700m (100% cash purchase)
- RCIS is the 2<sup>nd</sup> largest Crop insurer with GWP of USD 1.9bn<sup>1</sup>
- Rated "A+" by A.M. Best as of April 5, 2016
- Crop business largely uncorrelated with wider P&C market
- Predictive analytics will be used to enhance performance

## Predictive model uses multiple factors across five categories

12 factors went into the model



## MPCI Premium concentrated in central part of US

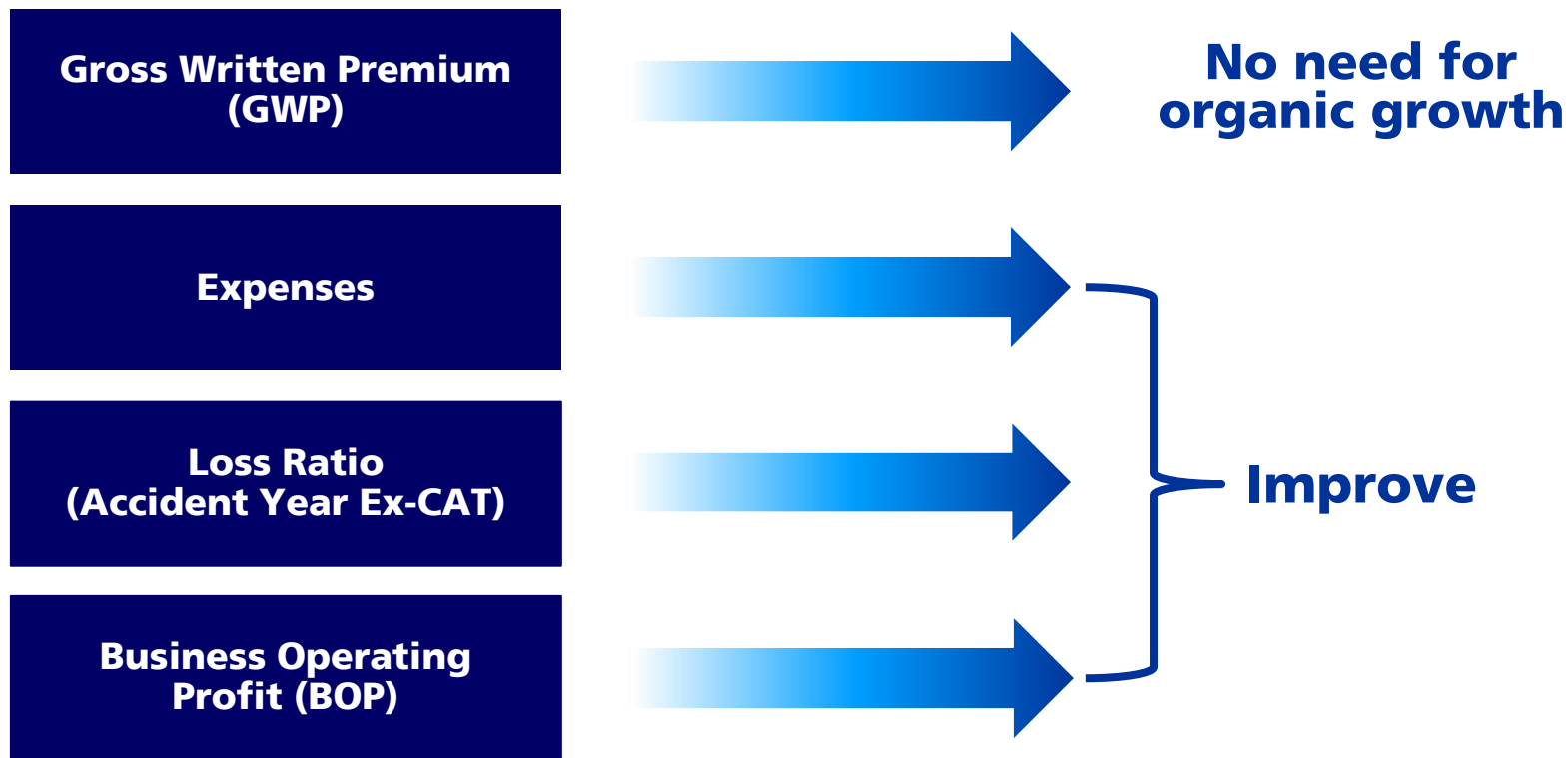


## RCIS Impact on 2016 results

### IMPACT NAC

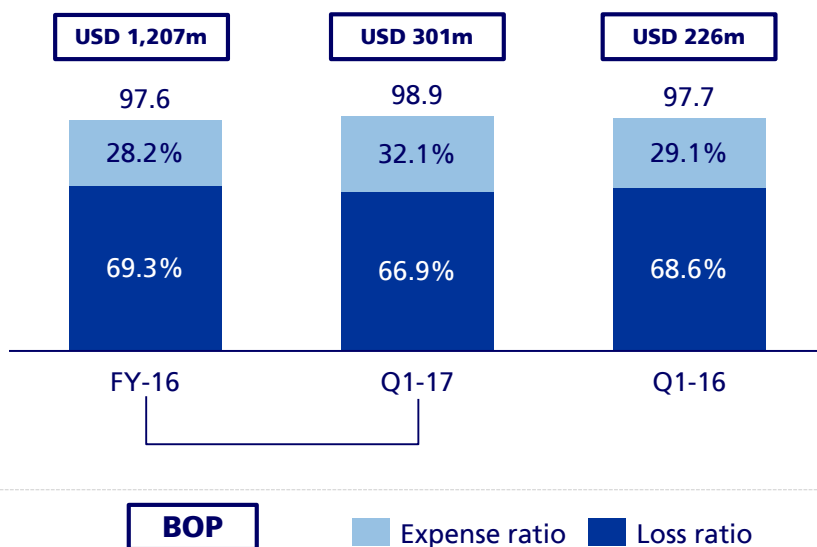
FY-16	Total NAC	RCIS <sup>1</sup>	NAC ex. RCIS
GWP (USDm)	11,917	1,389	10,528
NEP (USDm)	8,056	329	7,727
LR (%)	65.4%	81.7%	64.7%
ER (%)	30.7%	-12.6%	32.5%
CR (%)	96.1%	69.1%	97.2%
BOP (USDm)	973	105	868

# In 2017, ZNA will remain focused on improving Combined Ratio



# North America: Q1-17 key financial metrics

## Q1-17 KEY FINANCIALS



## COMMENTS

Driving factors:

1. RCIS acquisition impacting comparability on both expense ratio and loss ratio
2. One-off expense accruals in Q1-17
3. Lower NEP ahead of Q1-17 expense actions
4. PYD consistent with group guidance

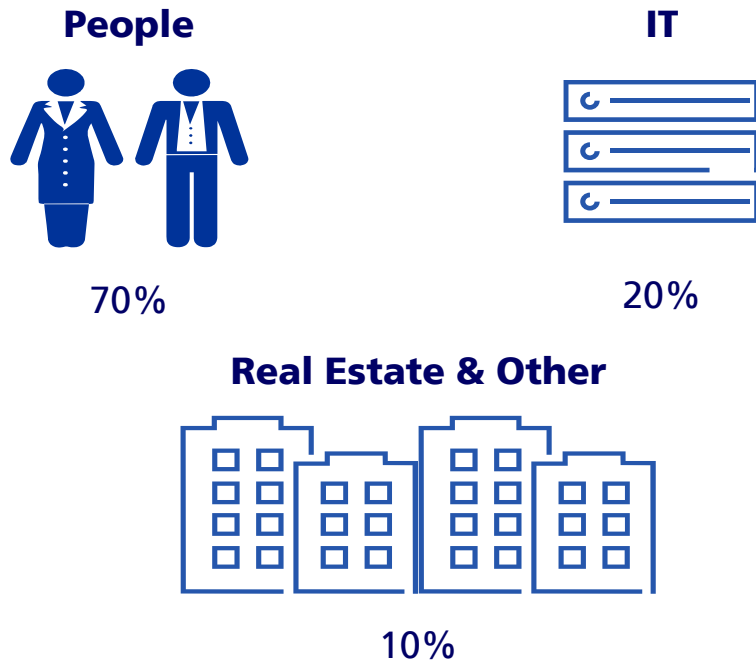
Source: Q1-17 Supplementary information for 3 months ended March 31, 2017.

# Selected areas of focus for ZNA

- Simplify and streamline the end-to-end operating model
- Build on strong customer relationships
- Drive technical excellence through claims, underwriting & risk engineering
- Continue to invest to develop distinctive insights through predictive analytics
- Run tests on emerging technologies and business models

# Savings will be achieved through a set of strategic actions

## Overall North America P&C Spend

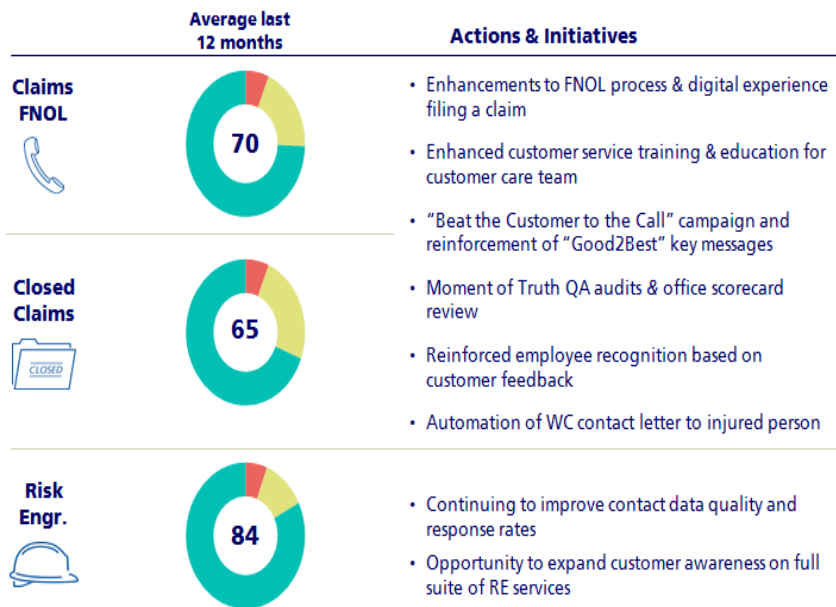


## Strategic Actions

- **Streamline Organization**
- **Reposition Select Books**
- **Manage Demand**
- **Drive Efficiencies**
- **Optimize External Spend**

# ZNA will continue to build on its strong customer advocacy

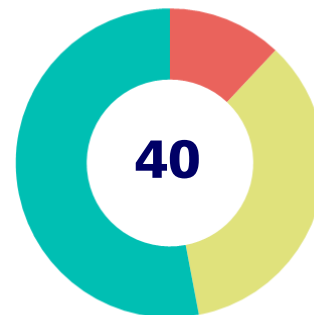
## Customer TNPS



## Customer RNPS

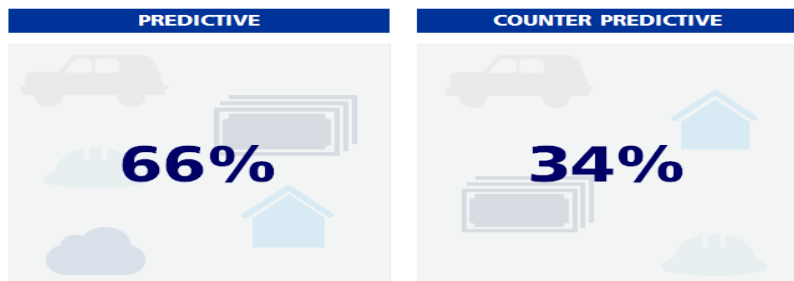
Customer RNPS = Promoters minus Detractors

Average last 12 months

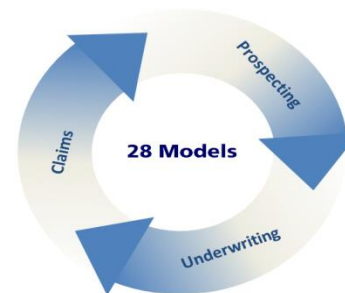


# Analytics coupled with underwriter judgment drives better performance

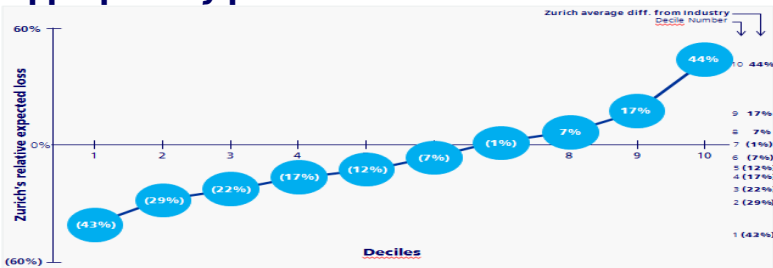
Approximately 1/3 of the time, individual pattern recognition results in poor decisions



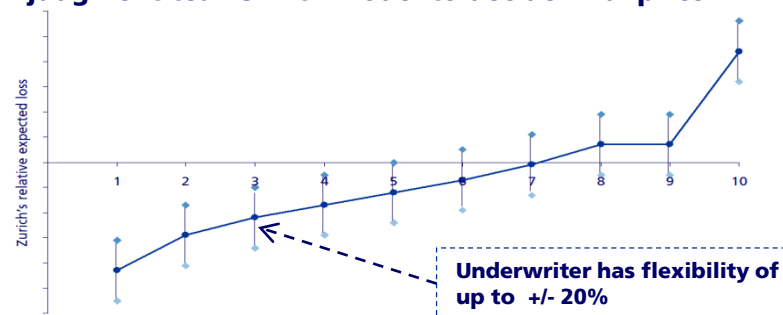
We develop three types of predictive models



Pricing model 'lift curve' shows how Zurich can appropriately price for the risk



UW judgment teams with model to decide final price





# We actively manage our portfolio of market baskets and our customer relationships

## Portfolio Management

9-Box Tool

1 year Risk Based Return Measure %

Pursue growth

Shrink or Fix

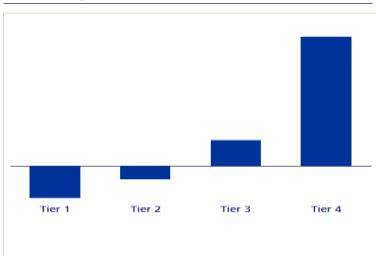


1 year Combined Ratio %

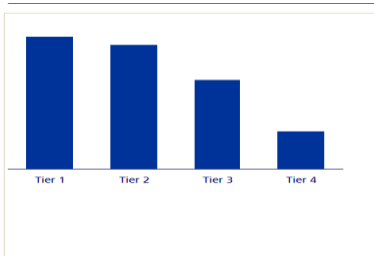
## Tiering

Example Book

Rate Change



Premium retention



## Governance acts as a check to underwriting quality

Item

2016 ZNA Impact

Technical Price Certification

95% of GWP

Technical UW Review (TUR)

38 Reviews

Delegated Program Review

30 Reviews

Manager Peer Review (MPR)

6800+ Reviews

# We are evolving our operating model through technology and innovation

## Natural Language Processing

### The NLP advantage

Ability to understand various flavors of an accident description



A **demand package** includes a **letter** stating a legal **claim** (usually drafted by a lawyer) which makes a **demand** for restitution of obligation with supporting documents



## Artificial Intelligence

### Additional Example GL Class Code Error

Account misclassification understated GL premium by 90%



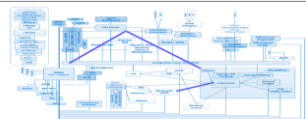
Class code 16915 GL premium at policy inception of \$1,114.00  
 Class code 16920 GL premium after audit at \$12,726.00  
 More than an 11x increase(!)

## Robotics

Robotics technology works by interacting with systems like people

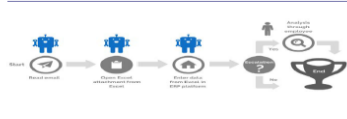


### Traditional automation



- Traditional IT automation requires the creation or modification of interfaces between systems
- This can be costly and time-consuming
- Complexity of the overall architecture grows with as interfaces grow, making eventual replacement of underlying systems more problematic

### Robotics process automation (RPA)



- RPA software (the robot) interacts with IT systems the same way that a person does
- A process is initiated by a trigger (like an email to the robot), then the robot follows prescriptive instruction to open files, copy data, save files, et cetera
- In action, it can look like an Excel macro working across applications

## Electronic Data Interchange

There is a need for real-time electronic data transfer



### Current State

Today, the submission process is manual with following key issues:

- Organizational friction between distributor and Zurich (misalignment on data requirements)
- Error-prone, manual data entry
- Time spent on asking and waiting for missing data elements



### Future State

Zurich's desire is to develop a solution that enables it to **transfer data automatically** (i.e., without manual intervention) between Zurich and distributor systems throughout the end-to-end submission life cycle (opportunity pipeline, submission, quote, policy delivery, post-issuance endorsements) to achieve following benefits:

- Reduced manual re-keying of data, improving accuracy
- Reduced quote turnaround time, raising productivity
- Improved contract certainty, increasing value for customers



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# For further information

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Zurich reports BOP of USD 3.4 billion

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**CALENDAR:**

- June 7, 2017, Goldman Sachs 21st Annual European Financial Conference, Madrid
- June 8, 2017, Vontobel Investor Summer Conference, Interlaken
- June 22, 2017, Autonomous, Insurance Rendezvous, London
- August 10, 2017, Half year results 2017
- September 14-15, 2017, UBS Best of Switzerland Conference 2017, Ermatingen
- September 26-27, 2017, Bank of America Merrill Lynch Conference, London
- November 9, 2017, Update for the nine months ended September 30, 2017
- November 15, 2017, Investor Day, London

