



# Investor Day 2013

Zurich, 5 December 2013



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# Agenda



09.30	Registration and welcome	
09.45 – 09.50	Opening Remarks	Tom de Swaan
09.50 – 10.30	Strategy	Martin Senn
10.30 – 11.00	Finance Perspective	Vibhu Sharma
11.00 – 11.20	Break	
11.20 – 12.00	Global Life	Kristof Terryn
12.00 – 12.45	Q&A part I	
12.45 – 13.45	Lunch	
13.45 – 14.35	General Insurance	Mike Kerner
14.35 – 15.15	Farmers	Jeff Dailey
15.15 – 15.30	Break	
15.30 – 16.00	Cash and Capital	Vibhu Sharma
16.00 – 16.55	Q&A part II	
16.55 – 17.00	Closing Remarks	Martin Senn

# Opening Remarks

**Tom de Swaan, Chairman Zurich Insurance Group**





# Strategy

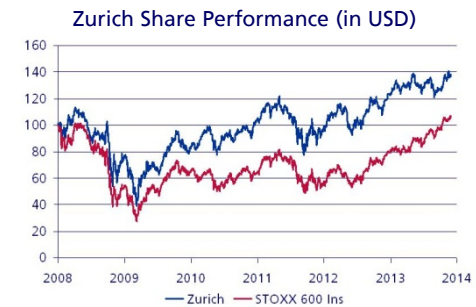
**Martin Senn, CEO Zurich Insurance Group**



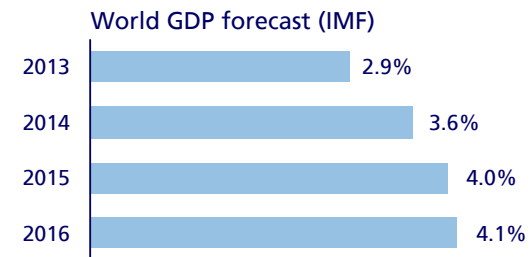
# Building on our strengths as we move into a new phase



- Disciplined investment and focused underwriting have helped us outperform the sector since the credit crisis began
- We set ambitious targets for 2010 - 2013, some of which we are unlikely to achieve
- Defensive attraction will not be enough in a world more focused on opportunities



2013 Target	Status
Combined ratio	✗
Growth in NBV	✓
Farmers growth	✗
Cost reduction	✓
BOPAT ROE	✗



# What we will continue, change and improve



## What will we continue to do

Underwriting focus and investment discipline will remain unchanged

## What's new

Prioritizing investment in distinctive positions and managing other businesses for value

## What will we do better

Improving operating profitability and growing our operating earnings

# Our value proposition to investors is strong...but can be improved



## Investors like...

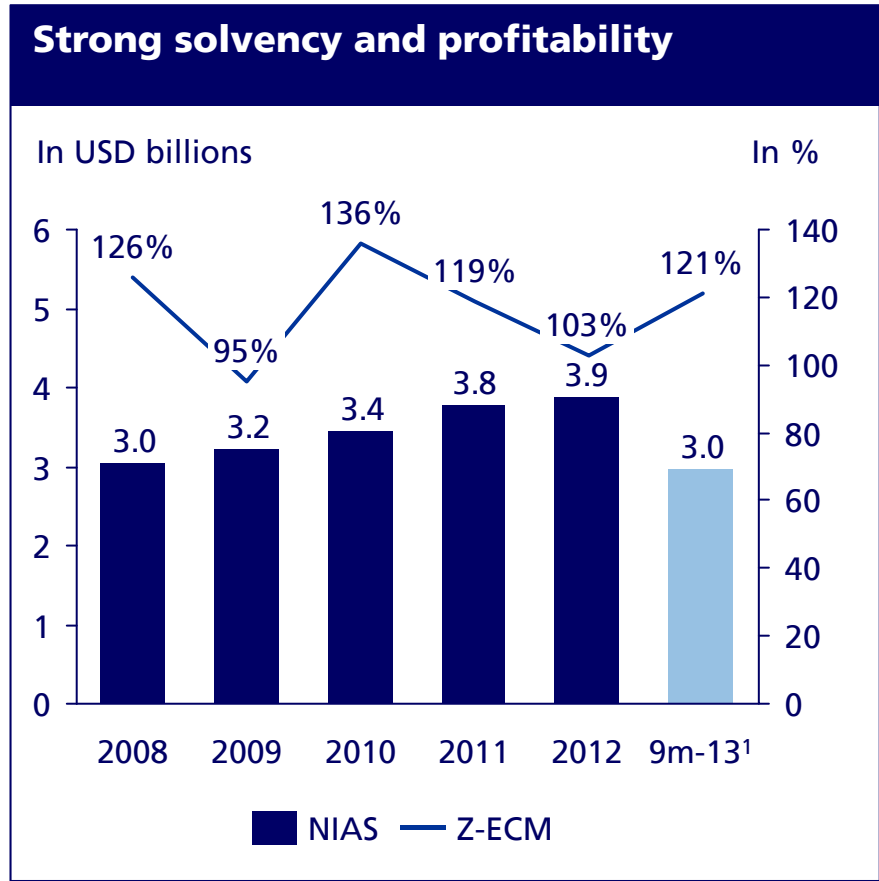
- Solid defensive stock
- Strong franchises, especially in General Insurance corporate and commercial
- Farmers business model
- Focus on efficiency and technical discipline
- Solid cash generation and dividend

## Investors question...

- Positioning in retail markets
- Translating higher life new business value into growth in BOP and Cash
- Farmers growth potential
- Sustainability of high dividend pay-out ratio



# Strong balance sheet and solid profitability underpin cash returns

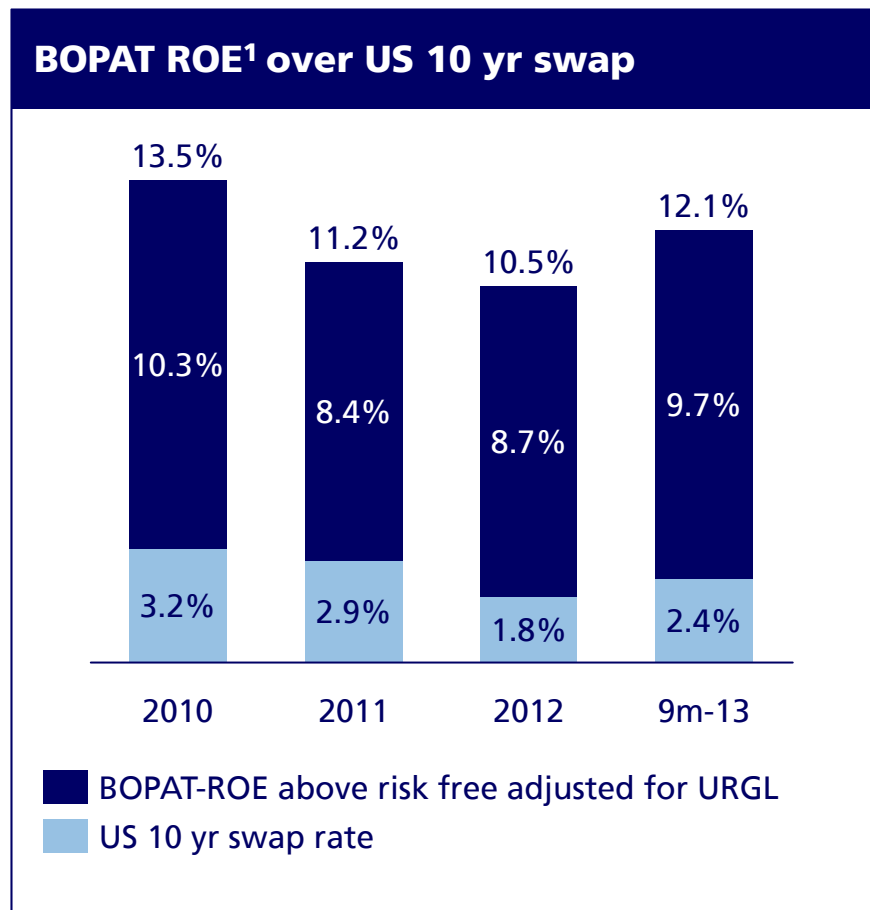


NIAS: Net Income Attributable to Shareholders

Z-ECM: Zurich Economic Capital Model

<sup>1</sup> Z-ECM as of HY-13

# We generate a solid operating ROE, with room to improve



- ### Focus areas
- General Insurance: profitability improved, still lagging local champions
  - Global Life: good NBV growth, needs to translate more fully into operating profits and cash
  - Farmers: continued strong cash generation, while refocusing the go-to-market strategy

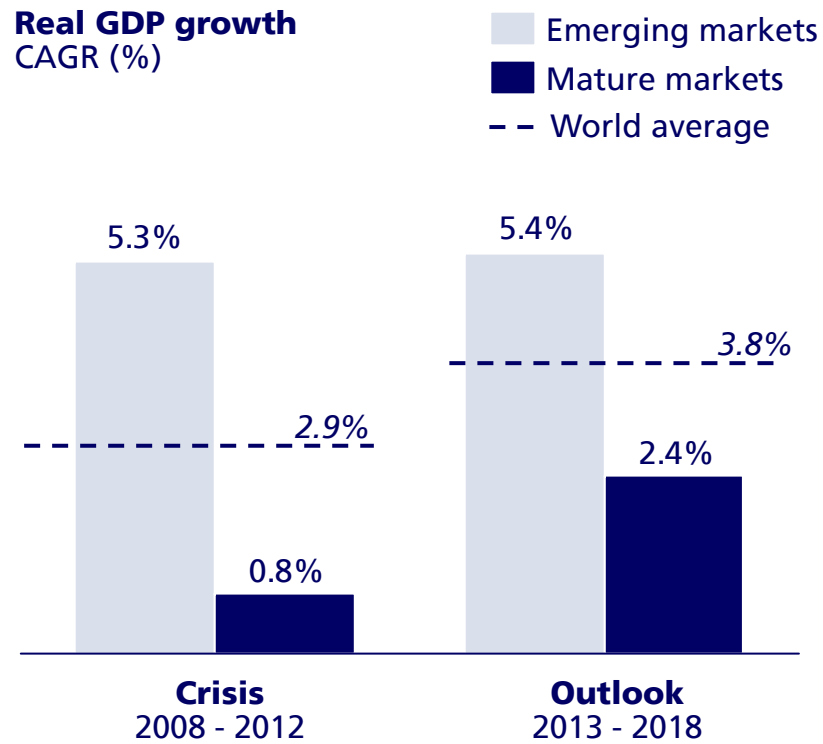
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<sup>1</sup> BOPAT ROE expressed excluding investments unrealised gains and losses in shareholders equity

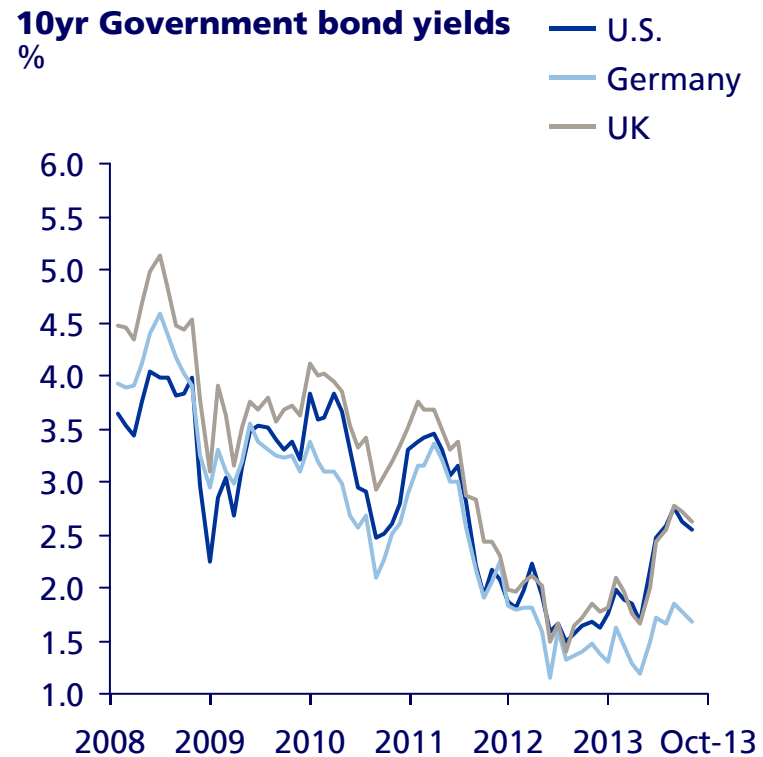
# The global economic environment is improving



## Continued emerging markets growth, Mature markets are recovering



## Bond yields are beginning to reflect improving fundamentals



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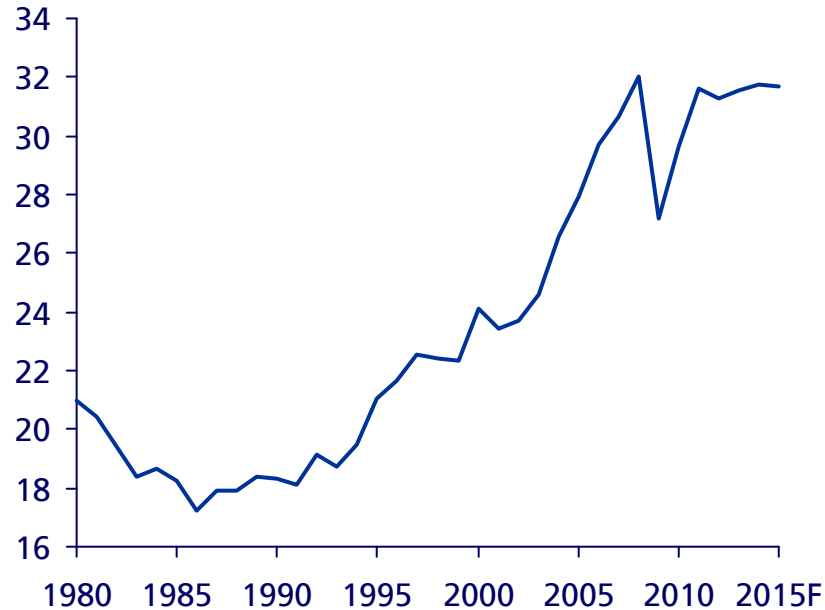
Source: Datastream, IMF 'World Economic Outlook' (October 2013)

# Globalization drives the growth of cross border insurance



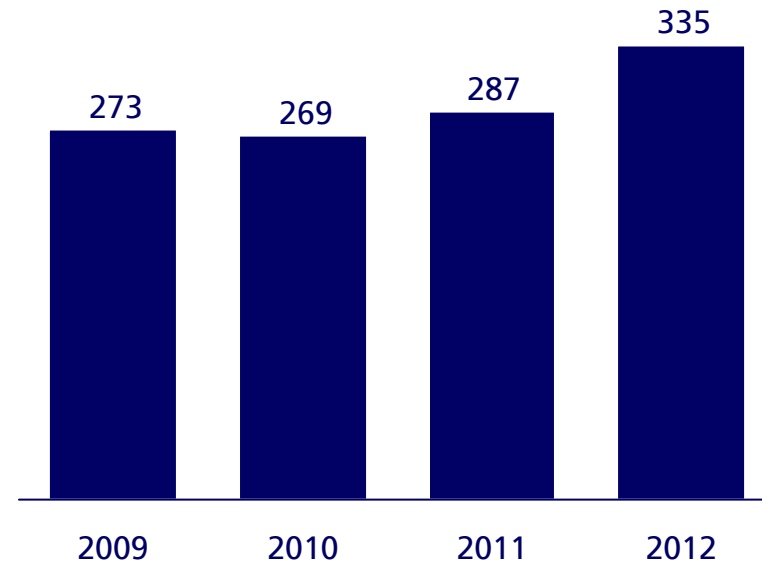
## Ongoing advancement of global trade

World exports  
% of GDP



## Growing regulatory hurdles and protectionist pressures

Protectionist measures  
implemented by G-20 countries  
Number



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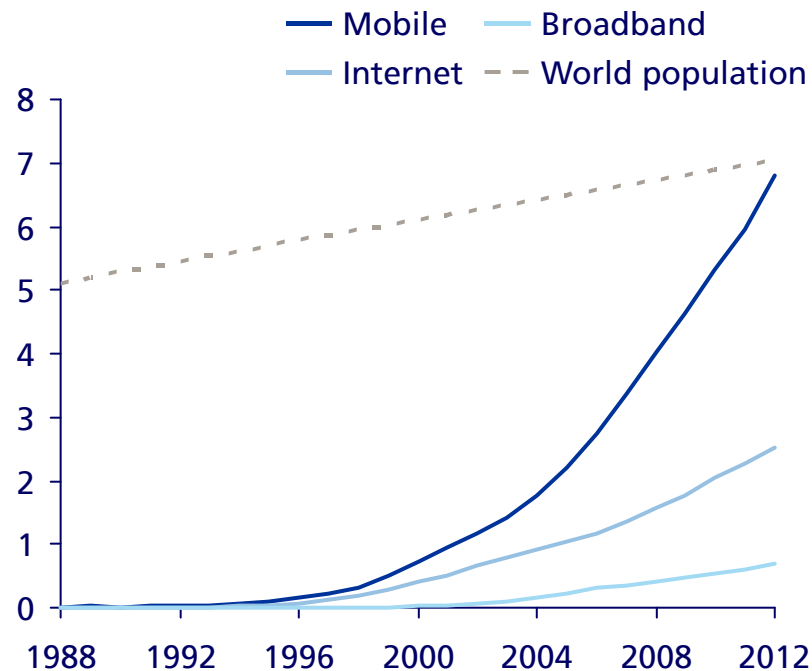
Source: IMF, Global Trade Alert

# Technology creates new opportunities for the insurance industry



## Increasing adoption of technology...

Number of subscribers, in billions



## ... will drive significant change in the coming years

- **Big Data**  
2.5 exabytes (2.5×10<sup>18</sup>) of data created daily
- **Cyber risk**  
Annual cost of cybercrime of USD 110bn
- **Cloud**  
36% of data in cloud by 2016
- **Social media@**  
1.11bn active Facebook users
- **Telematics**  
Predicted 23% growth by 2016

Source: Forrester, Digital Disruption (November 2013), Gartner (June 2012) IBM (What is big data?), International Telecommunication Union, TechNavio (August 2013), World Bank (2012), Symantec

# Customer needs are changing...



- **Corporate** customers and intermediaries are beginning to request combined life and general insurance solutions in some market segments
- **Commercial mid-market** decisions are shifting from relationship-driven to more data-driven
- **Retail** customers are increasingly using digital and mobile channels to engage with insurers on their own terms

World ranking by revenue <sup>1</sup> , 2012	Employee Benefits	General Insurance
Broker 1	1	2
Broker 2	2	1
Broker 3	3	3
Broker 4	4	4

**Global peers and brokers**

- Arms race for analytics and data
- Data analytics communicated as key strategic theme
- Significant investments to build capabilities to harness data

**Results from 2013 survey<sup>2</sup>**

Online customers	32%
Multi-channel customers	58%

<sup>1</sup> Source: 150 top brokers directory of Business Insurance, brokers depicted are MMC, Aon, Willis and AJ Gallagher

<sup>2</sup> Source: Zurich Global consumer survey with 12'249 respondents across 13 countries



# ...creating opportunities we will capitalize on



## Opportunities

### Corporate

- Globalization and interconnectedness of risk drive need of global capabilities
- Composite offerings become a differentiating factor

### Commercial mid-market

- Increasing advantage from data analytics
- Skilled players with depth of capabilities and resources are favored

### Retail

- Segmentation of customers further based on attitudes, values, needs, service orientation and price sensitivities

### Our advantage, as a global and composite insurer

- *Uniquely positioned as a corporate insurer with global reach and composite proposition*
- *Balance sheet strength and diversification benefits*
- *Strong position in key markets (i.e. US and UK)*
- *Ability to leverage talent and know-how across the Group*
- *Initiatives launched in select markets where we can build at-scale positions as an international, premium-branded insurer*

# We are strong in Corporate and Commercial...work to do in Retail



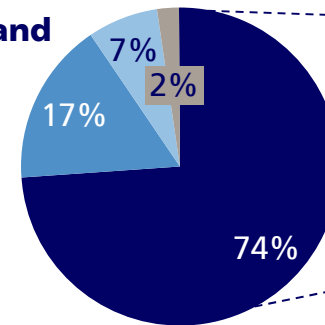
## Breakdown of Zurich's GWP (2011) by market share per country

### Zurich's market share (2011)<sup>1</sup>



### GI-Corporate and Commercial mid-market<sup>2</sup>

100%=  
USD 24.9bn

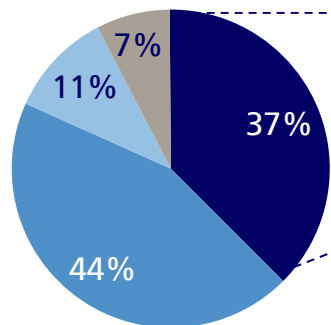


11 countries, among which<sup>3</sup>

- Australia
- Germany
- Switzerland
- UK
- US<sup>4</sup>

### Life-Total

100%=  
USD 30.3bn

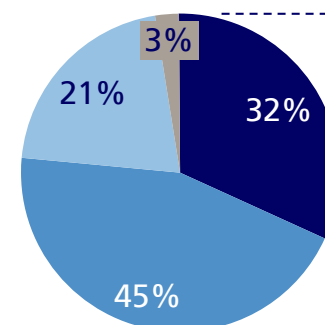


6 countries, among which<sup>3</sup>

- Brazil
- Ireland
- Spain
- Switzerland

### GI-Retail<sup>2</sup>

100%=  
USD 10.4bn

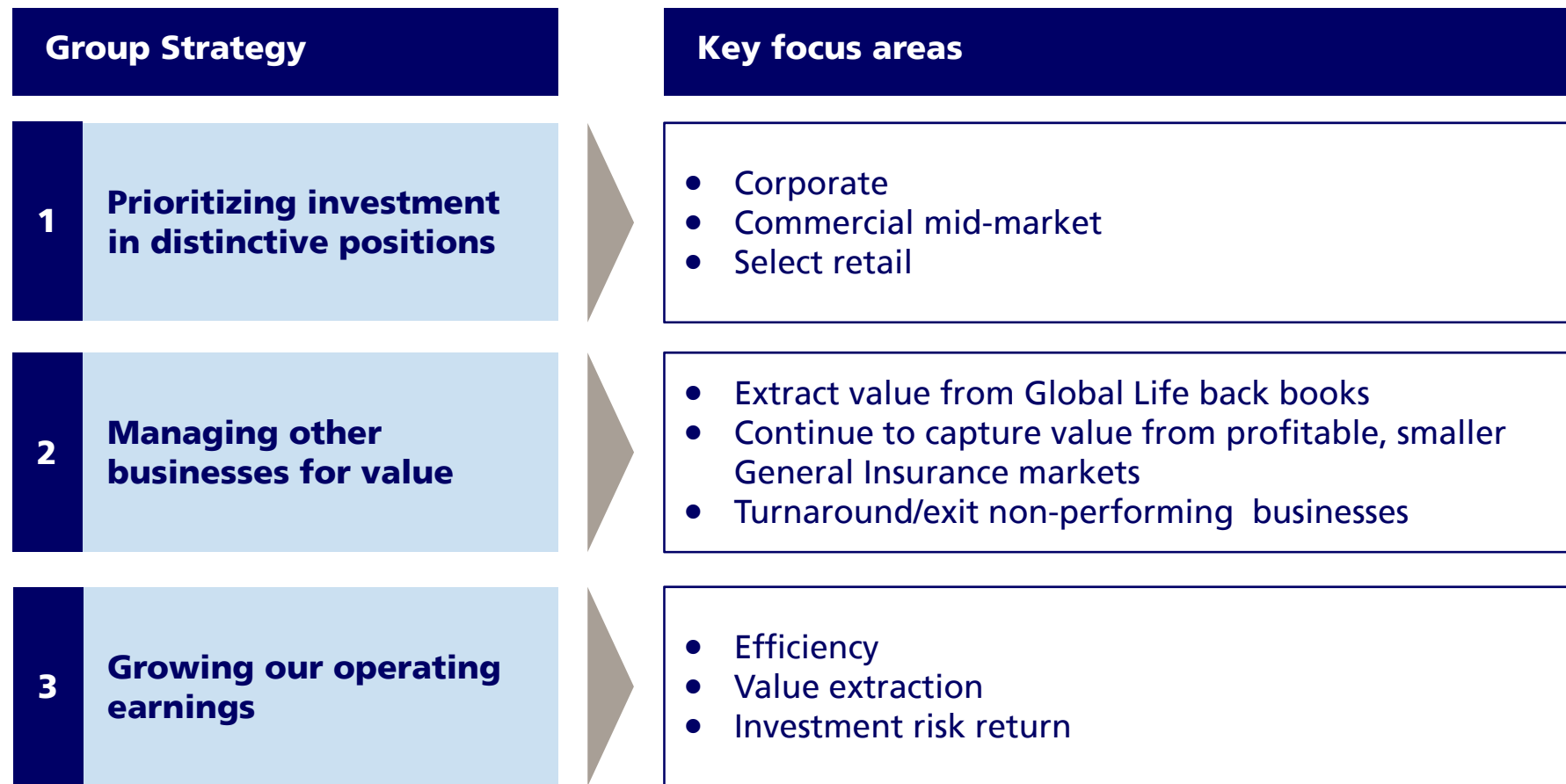


6 countries, among which<sup>3</sup>

- Argentina
- Mexico
- Switzerland

<sup>1</sup> Excluding Farmers Exchanges. Zurich Santander and Zurich Insurance Malaysia Berhad (ZIMB) market shares based on preliminary 2012  
<sup>2</sup> GI Corporate and Commercial mid-market refers to overall commercial business and Retail to personal lines only  
<sup>3</sup> Countries accounting for at least 3% of Zurich's GWP in the segment  
<sup>4</sup> Market share calculated for US Commercial, excluding GC portion, assuming mid-market is 66% of the overall US Commercial market  
 Source: Axco, MarketStance, McKinsey 'Global Insurance Pools', Zurich's internal data and estimates

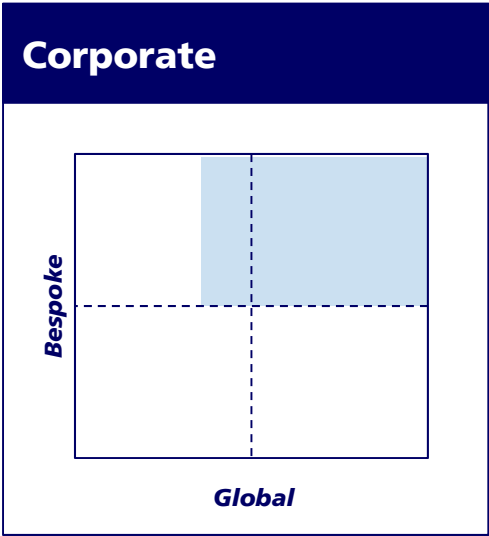
# Cornerstones of our strategy



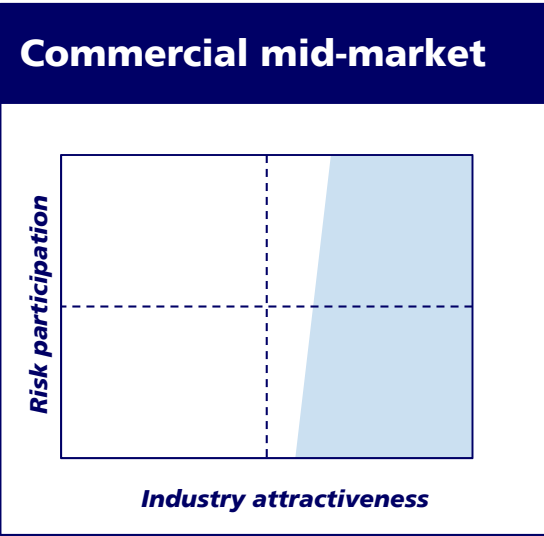
# Prioritizing investment in distinctive positions



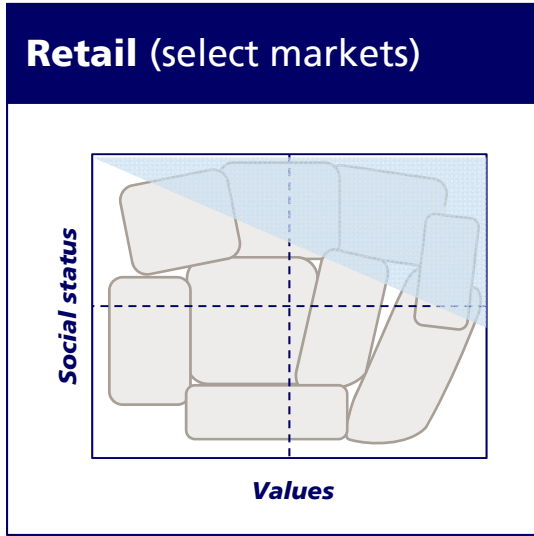
## Target customer segments



- Increase cross sell and commonality
- Align footprint
- Integrate offerings

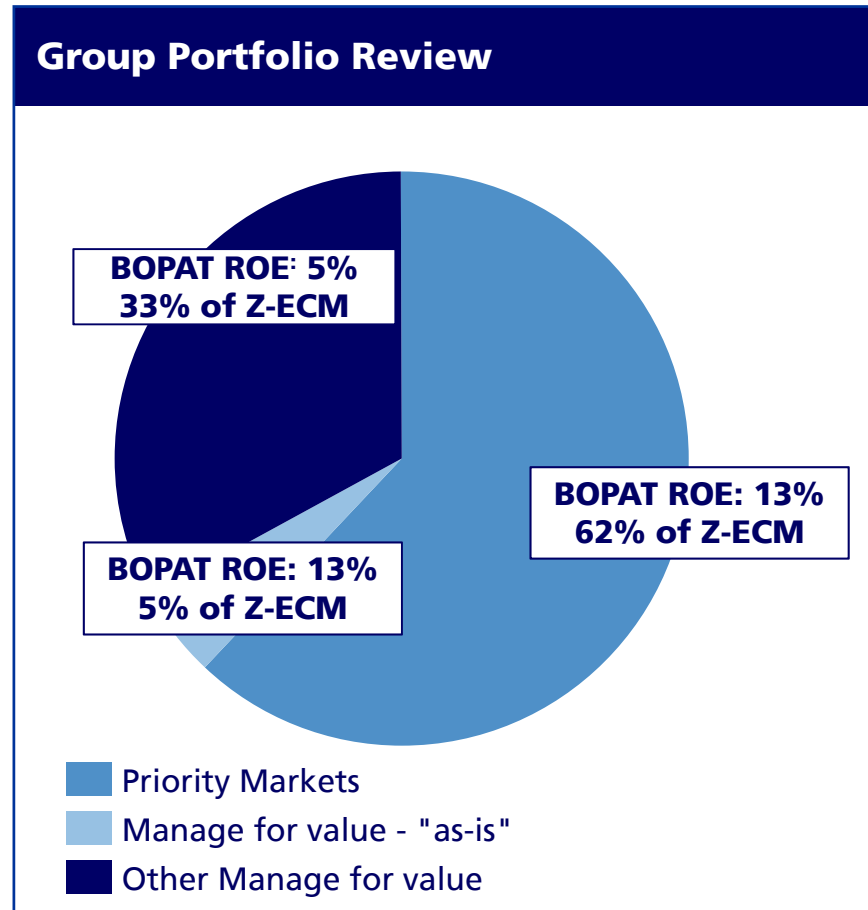


- Promote predictive analytics
- Simplify operational landscape
- Improve broker value proposition



- Increase product-density
- Improve customer experience
- Foster Omni-channel service model

# Managing other businesses for value



- Two thirds of our capital is allocated to priority markets and manage for value "as-is" markets
- One third of our capital is allocated to our other manage for value businesses
  - We will maximise the value in certain key life back books
  - We will turnaround or exit non performing businesses

BOPAT ROE based on 2010-2012 averages  
Z-ECM for Zurich Economic Capital Model, based on 2012 data

# Growing our operating earnings



<b>Efficiency</b>	Reducing complexity and overhead burdens
<b>Value extraction</b>	Continuing operational transformation to extract more value from our business
<b>Investment Risk Return</b>	Enhancing excess investment returns through specific initiatives while modestly increasing risk in a balanced way



# Delivering an attractive total return to our investors



## Zurich's targets for 2014 - 2016

**Improving return on equity**

BOPAT ROE target 12 - 14%<sup>1</sup>

**Maintaining a very strong capital position**

Z-ECM ratio 100 - 120%

**Generating high levels of free cash flow**

Net cash remittances to Group<sup>2</sup> > USD 9bn

**Plus** Report cards providing proof points on execution of our strategy

<sup>1</sup> Excluding unrealised gains and losses

<sup>2</sup> Cumulative net cash remittances to Zurich Insurance Company Ltd, after deducting central costs, in 2014-2016

# Story of the day



Theme	Key topics	Speaker
<b>Finance perspective</b>	Evaluating execution of our 2013 strategic targets Outputs of the portfolio review New profitability targets	Vibhu Sharma
<b>Global Life</b>	Building on bank distribution and CLP success Better back book and expense management Improving our BOP and cash generation	Kristof Terryn
<b>General Insurance</b>	Execution on customer focus priorities in key markets Building on success in Corporate and Commercial Technical excellence and expense management	Mike Kerner
<b>Farmers</b>	New go-to-market strategy Reducing reinsurance support to Farmers Exchanges	Jeff Dailey
<b>Cash and capital</b>	Balance sheet strength, cash and capital flexibility Improving operating free capital generation Strong cash remittance track record	Vibhu Sharma

# What we will continue, change and improve



## What will we continue to do

Underwriting focus and investment discipline will remain unchanged

## What's new

Prioritizing investment in distinctive positions and managing other businesses for value

## What will we do better

Improving operating profitability and growing our operating earnings



# Finance Perspective

**Vibhu Sharma, interim CFO Zurich Insurance Group**



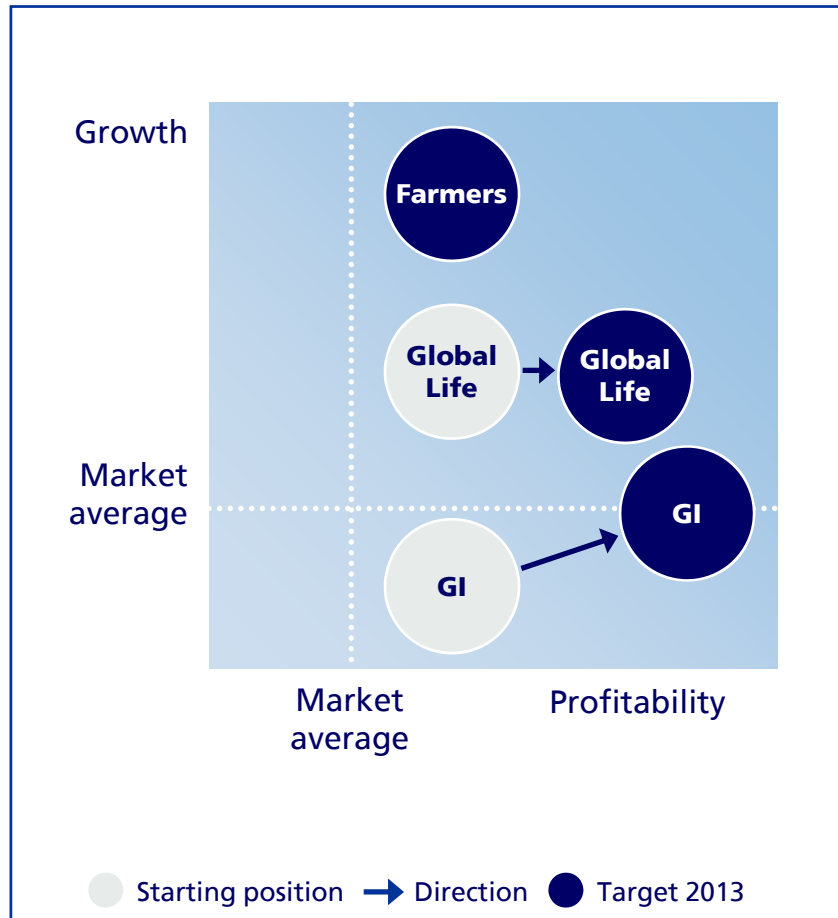
# Group strategy

## Finance perspective



- Continue to generate good returns from underwriting capabilities
- Group Portfolio Review drives a more focused and differentiated strategy
- Tangible plans in place to grow our earnings and improve our ROE
- New targets and report card focused on delivering attractive total shareholder returns

# Our 2010 - 2013 strategic targets



### General Insurance

Improve Combined Ratio by 3 - 4 pts relative to global competitors and hold market position

### Global Life

Rank Top 5 of European-based global peers by New Business Value

### Farmers

Maintain top tier market share growth in U.S. Personal Lines

- **BOPAT-ROE of 16% strategic ambition<sup>1</sup>**
- **Run rate cost reduction of USD 500m in mature markets**
- **Delivering attractive Total Shareholder Return**

<sup>1</sup> 13% to 15% BOPAT ROE referenced as the mid target in Dec 2012



# In General Insurance, we did not achieve our relative target...



<b>Combined ratio (in % NEP) as reported, calendar year</b>		
	<b>2010</b>	<b>9m-13</b>
AIG	116.8%	100.5%
Generali	98.8%	95.1%
AXA <sup>1</sup>	99.3%	95.7%
Allianz	97.2%	95.0%
<b>Zurich GI</b>	<b>97.9%</b>	<b>95.3%</b>

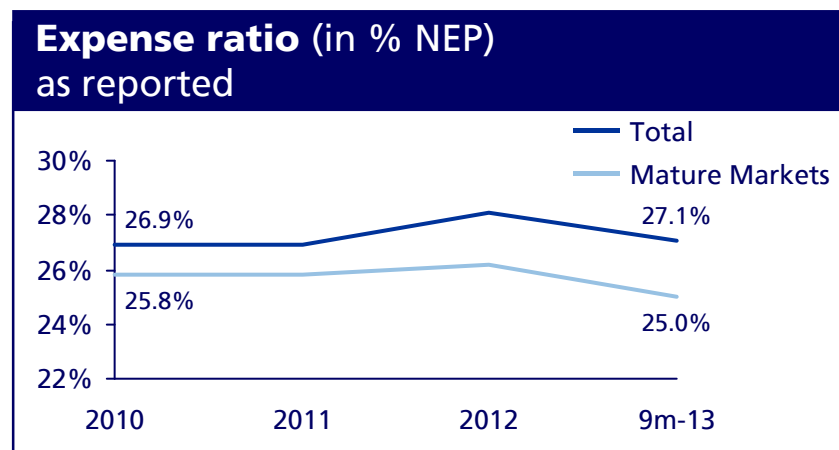
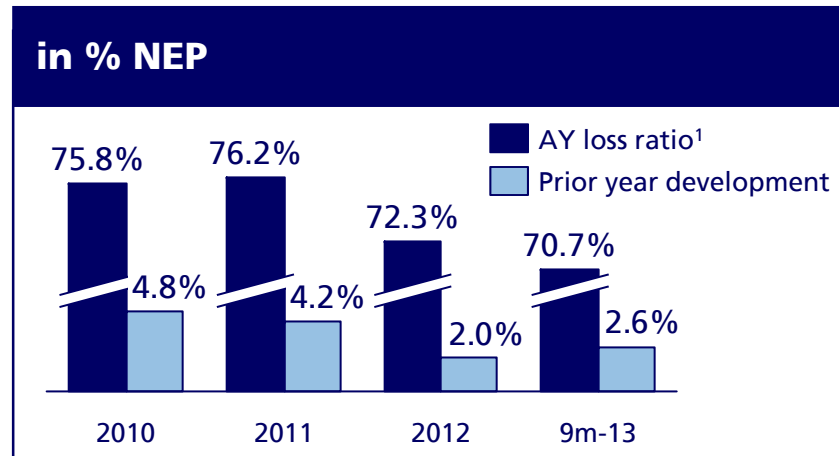


### Achievements

- We improved our combined ratio by 2.6 percentage points
- Our global peers have shown comparable improvements

<sup>1</sup> AXA includes AXA Corporate Solutions and P&C; 2013 figure as of HY-13  
Source: Publicly available disclosure

# ...but we made significant progress in improving our profitability

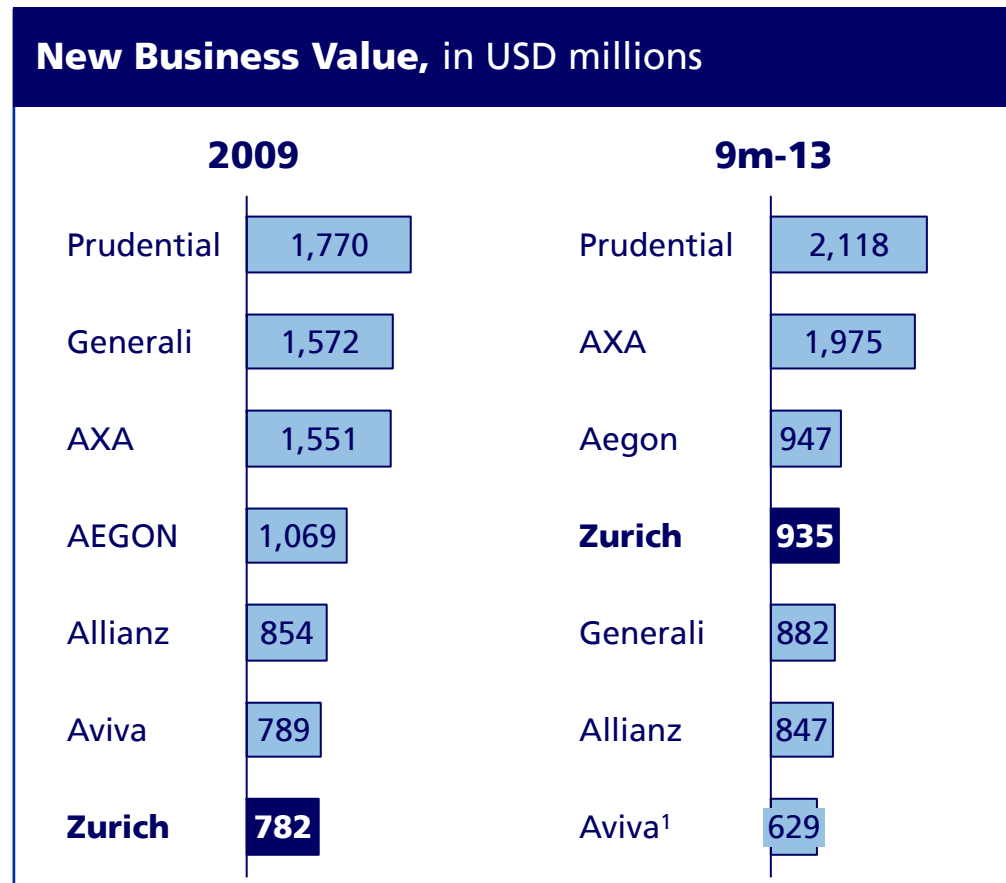


- ### Achievements
- AY loss ratio improved by over 5 percentage points even including a slightly higher impact from weather and large industrial losses
  - PYD has reduced from exceptional 2010 level but still a strong result
  - Our expense ratio in mature markets improved by roughly 1 percentage point

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<sup>1</sup> Accident year loss ratio excl. prior year reserve releases/increases

# We have grown our new business value in Global Life



- Achievements**
- We have grown new business value organically in all regions except Europe
  - Zurich Santander makes us a leading international insurer in Latin America
  - Good organic growth in emerging markets
  - Margins have improved as a result of our product focus

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<sup>1</sup> Estimated NBV net of tax and non-controlling interest based on published half-year results  
 Notes: Converted at average exchange rates; 2009 figures as presented alongside our "top 5" ambition  
 Source: Company data, Zurich

# Farmers focus turned to improve the profitability of the overall book



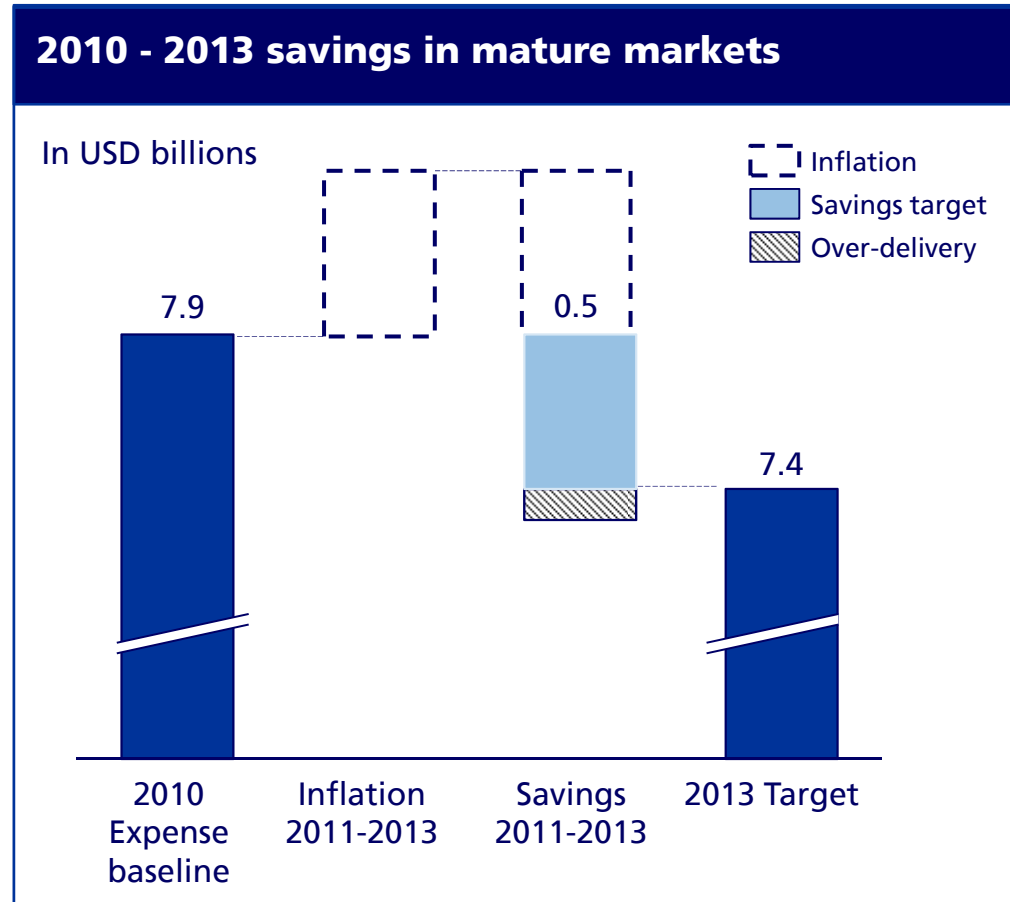
Rank	Carrier	2012 Total Personal Lines market share	2-year trend 2010 - 2012
1	StateFarm	18.5%	0.5 ▼
2	Allstate	9.7%	0.6 ▼
3	Geico	6.6%	0.7 ▲
4	Farmers	6.0%	0.2 ▼
5	Progressive	5.7%	0.3 ▲
6	Liberty Mutual	5.1%	0.4 ▲
7	USAA	4.8%	0.5 ▲
8	Nationwide	4.1%	0.3 ▼
9	Travelers	2.8%	0.2 ▼
10	American Family	2.0%	0.2 ▼
11	The Hartford	1.3%	0.2 ▼
12	Erie Insurance	1.2%	0.1 ▲

### Achievements

- Farmers took rate action in 2012 based upon several years of significant weather losses and a declining investment environment. In addition, Farmers took action to reposition several books of under performing business
- Rate driven GWP growth of 4% in 2012 turned into a decline of 1.4% at 9m-13 as new business and retention levels declined
- Combined ratio improved by 4.3pts at 9m-13 vs same period last year even with higher catastrophe losses

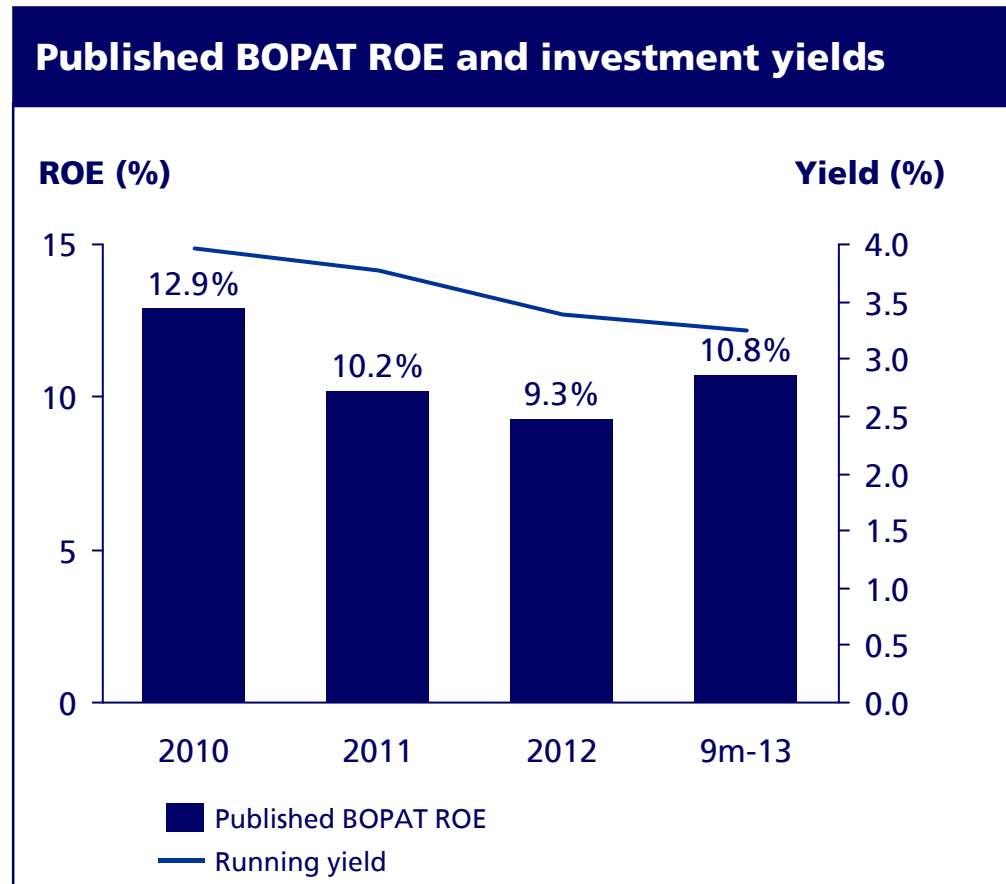
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# On track to deliver savings in excess of the USD 500m target



- ### Achievements
- Streamlined processes and organisation of Operational and non-market facing functions in Europe and North America
  - Implemented a large scale procurement transformation to reduce cost base
  - Executed real estate consolidation across Europe and North America
  - Benefits from two of the largest outsourcing deals in the insurance industry

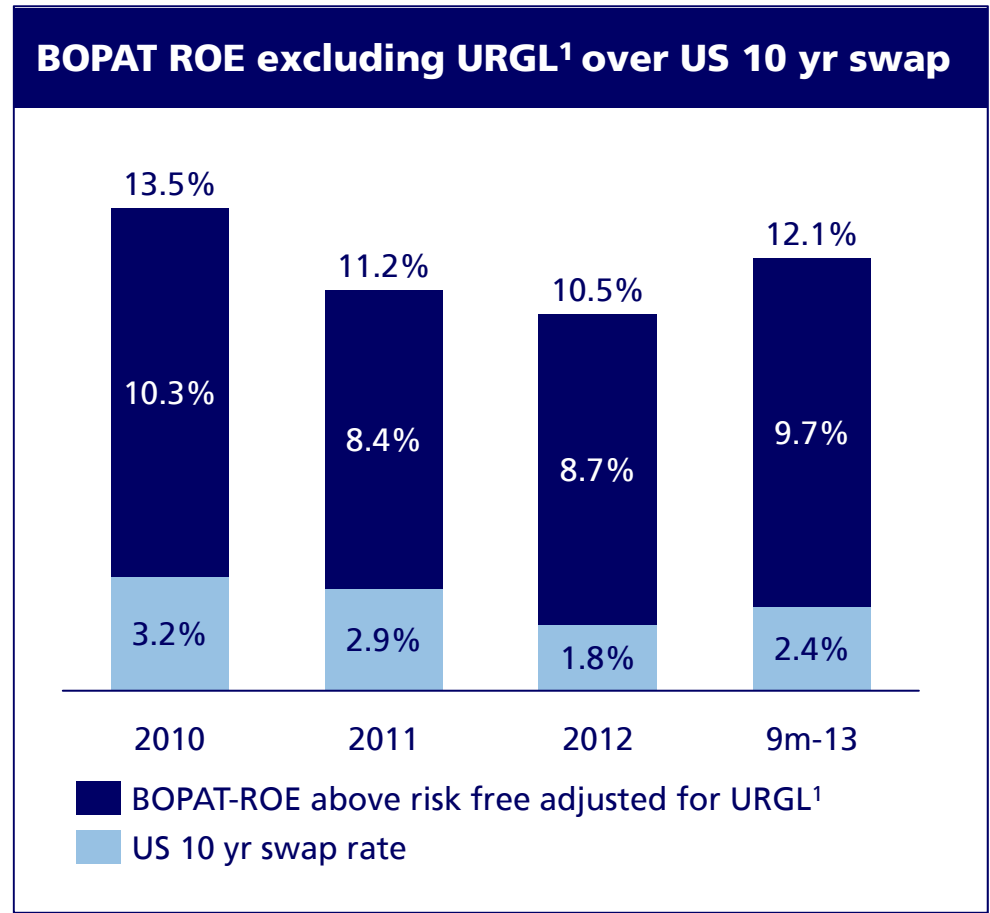
# Ambitious BOPAT ROE target has proved challenging...



- ### Key influences
- Shortfall against 2010-2013 plan in part due to the further decline in yields compared to plan assumptions (~1 percentage point)
  - Remainder of the difference is due to a combination of higher catastrophe losses, particularly in relation to 2011 and 2012...
  - ...and we also did not fully live up to our expectations



# ...but we generate significant value from our underwriting capabilities



- ### Key influences
- Our return over risk free has remained in the 8% to 10% range, excluding unrealised gains, even with high catastrophe losses
  - This demonstrates that our strategy was the right one...
  - ...and that we continue to generate significant value from our underwriting capabilities...
  - ...rather than from taking outside asset risks

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<sup>1</sup> Unrealised gains and losses in shareholders equity

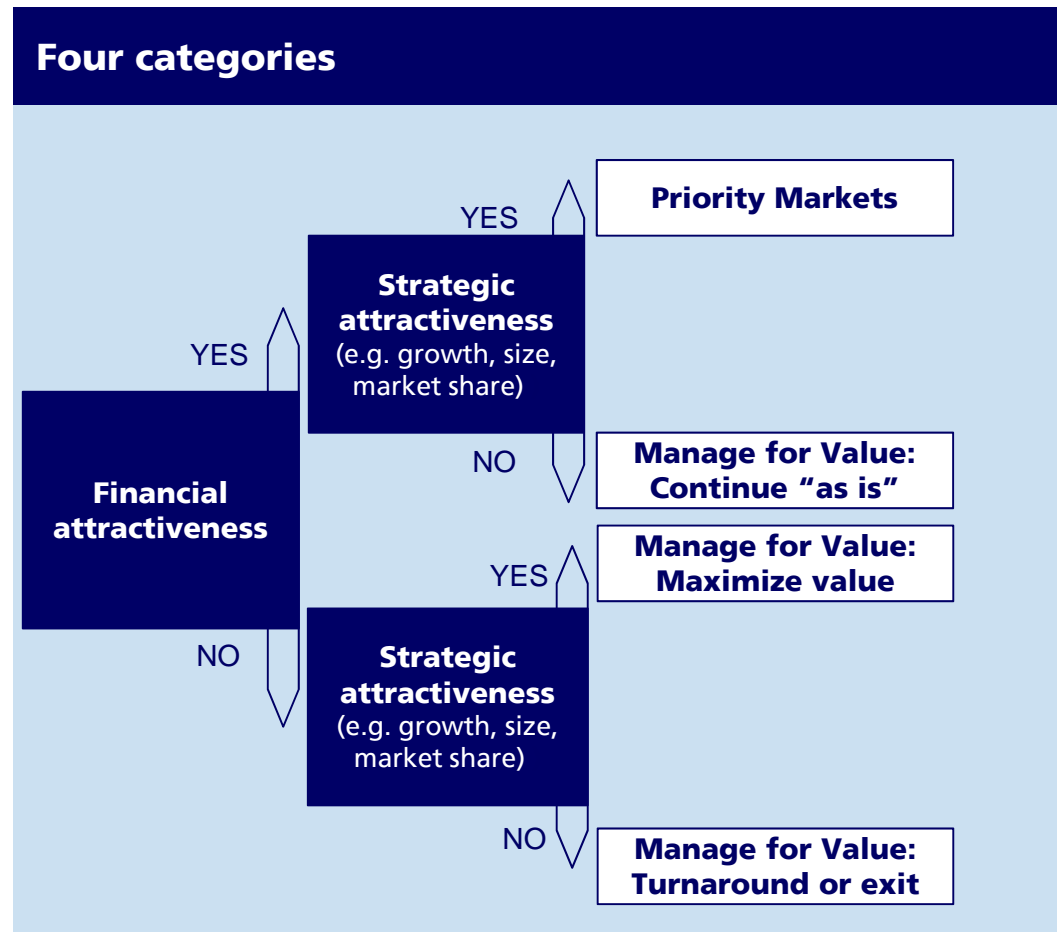
# Building on the last three years: key takeaways from 2010 - 2013



- 1** We continue to deliver attractive returns, driven by technical and underwriting discipline
- 2** We deliver sustainable underwriting profitability in GI with room to improve further
- 3** We now want to translate our GL growth into higher cash and BOP
- 4** We continue to generate significant cash profits from FMS, while the “go-to-market” strategy of the Farmers Exchanges is implemented

...plus need to show a clear set of metrics as proof points for execution of our strategy

# Framework for Global Portfolio Review



- Drivers of GPR<sup>1</sup> decisions**
- We have conducted an in-depth review of all our major business units and categorized them based on a financial and strategic evaluation
  - Financial KPIs include BOPAT ROE and economic value metrics, on a historical and prospective basis, built on our plans
  - Strategic analysis based on market characteristics and our positioning

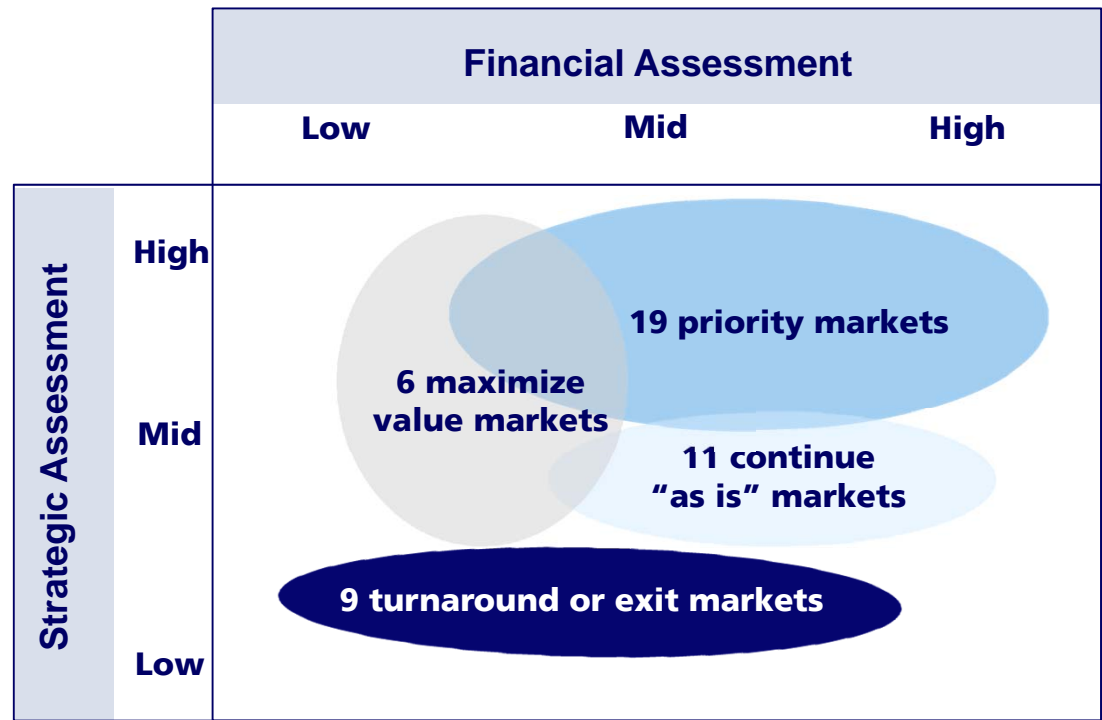
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<sup>1</sup> Global Portfolio Review

# Results from Global Portfolio Review



## Number of business units, by GPR<sup>1</sup> grouping



## Priority markets

- Markets with critical market share and high returns
- Markets with high profitable growth potential

## Manage for value

- Maximise value: screen well on RBRM<sup>2</sup>, less so on BOPAT ROE
- Continue as is: solid performers, but not key strategic assets
- Turnaround or exit: low strategic priorities, weaker financial performance

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<sup>1</sup> Global Portfolio Review  
<sup>2</sup> Risk based return measure

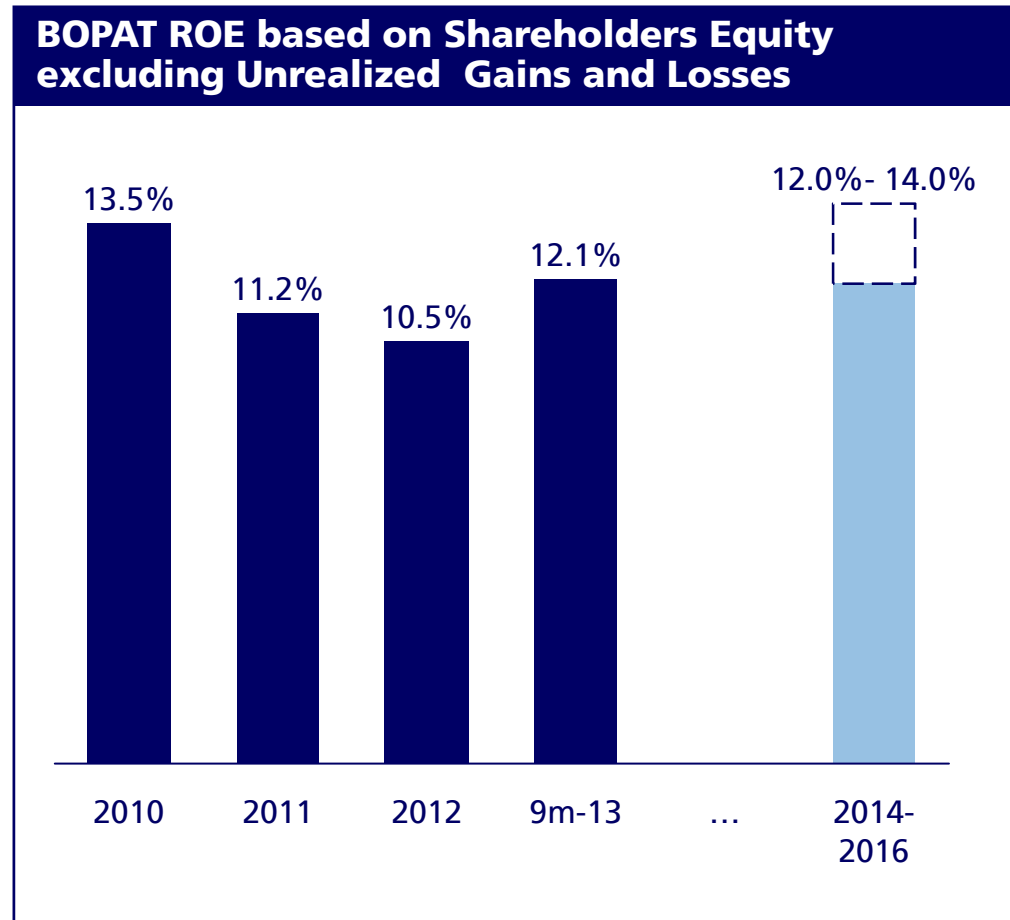
# Growing our operating earnings



	Key objectives
General Insurance	<ul style="list-style-type: none"><li>• Investing selectively in growth in priority markets</li><li>• Improved combined ratio, more than offsetting lower investment income</li></ul>
Global Life	<ul style="list-style-type: none"><li>• Growth in technical margins exceeding decline in the investment margin</li><li>• Expense efficiencies, more focused investment</li></ul>
Farmers	<ul style="list-style-type: none"><li>• Higher quality and less volatile earnings</li><li>• Strengthening of Farmers Exchanges balance sheet allowing a reduction of quota share reinsurance</li></ul>

...new strategic direction likely to lead to some restructuring and other charges over the next 12 months, estimated at USD 400m - USD 600m

# BOPAT ROE is our key target



- Description**
- We will measure our BOPAT ROE based on Shareholder Equity excluding Unrealized gains and Losses
  - Operating improvement initiatives more than offset headwind from continued decline in investment income
  - BOPAT ROE target includes cost of targeted investments in priority markets that are expected to have a positive impact on BOP within 3 to 4 years

# Report card – to be used at a group level and by each segment



Focus		Update
1	Investments in priority markets	<ul style="list-style-type: none"><li>• Key strategic developments and initiatives</li><li>• Customer proof points and metrics</li><li>• Growth in market share and margin</li></ul>
2	Managing for value	<ul style="list-style-type: none"><li>• Tangible proof points on managing these businesses to rigorous hurdles</li><li>• Examples of portfolio actions</li></ul>
3	Growing operating earnings	<ul style="list-style-type: none"><li>• Segment initiatives</li><li>• Margin development</li><li>• Expense management initiatives</li><li>• Investment performance</li></ul>

# Group strategy

## Finance perspective



- Continue to generate good returns from underwriting capabilities
- Group Portfolio Review drives a more focused and differentiated strategy
- Tangible plans in place to grow our earnings and improve our ROE
- New targets and report card focused on delivering attractive total shareholder returns





# Global Life

**Kristof Terryn, CEO Global Life**



# Key messages

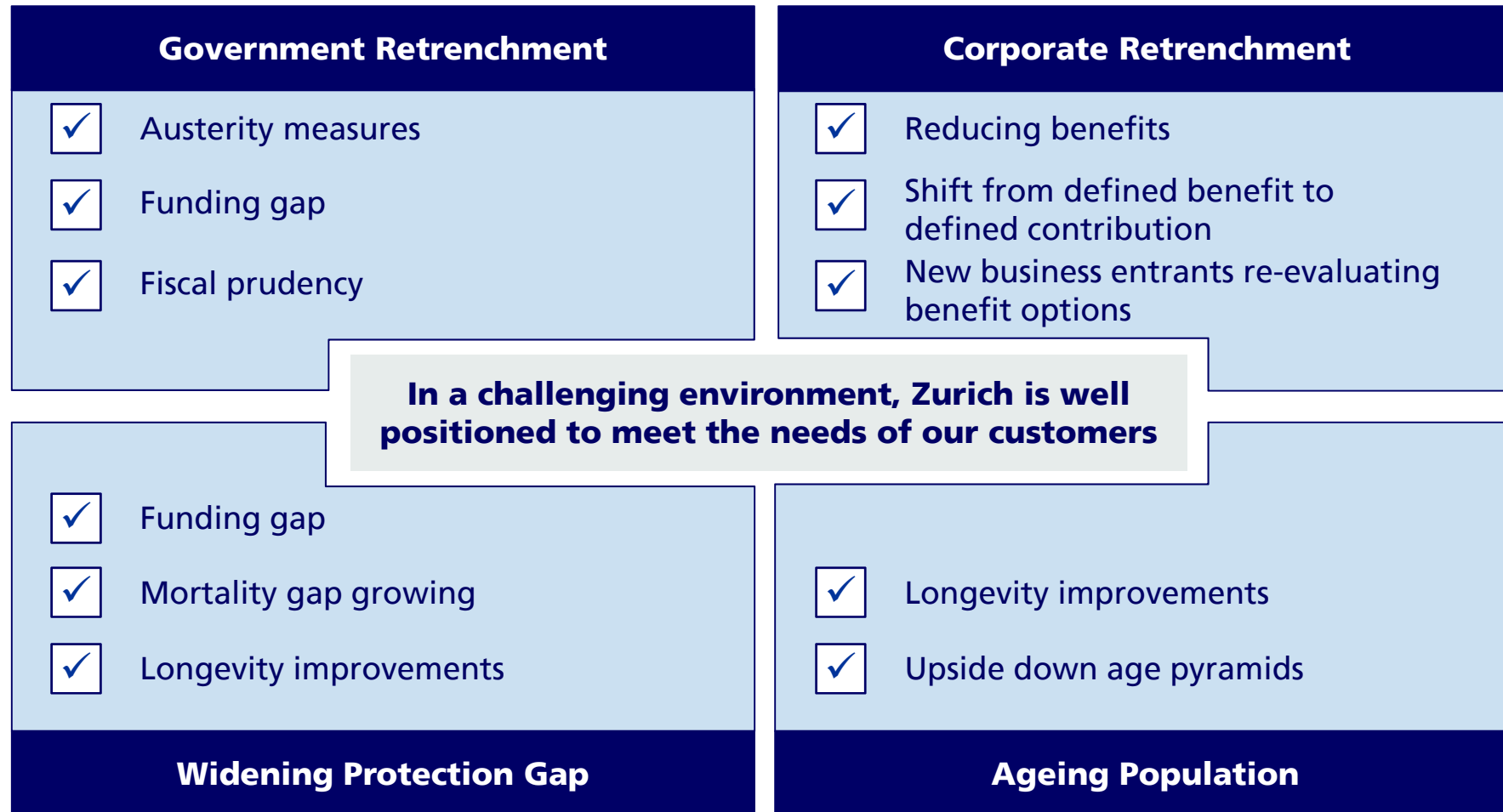


- The need for life insurance is strong and we are well positioned
- We have a track record of successful growth
- Over the next cycle, we will shift our focus towards more targeted growth while managing for value or turnaround / exit businesses where appropriate
- We will use our global capabilities to optimize our in-force business



**Growth in operating profit and cash remittance**

# The need for Life insurance is greater than ever



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Source: Swiss Re / Sigma; Milliman; United Nations, Department of Economic and Social Affairs

# We have a track record of successful growth

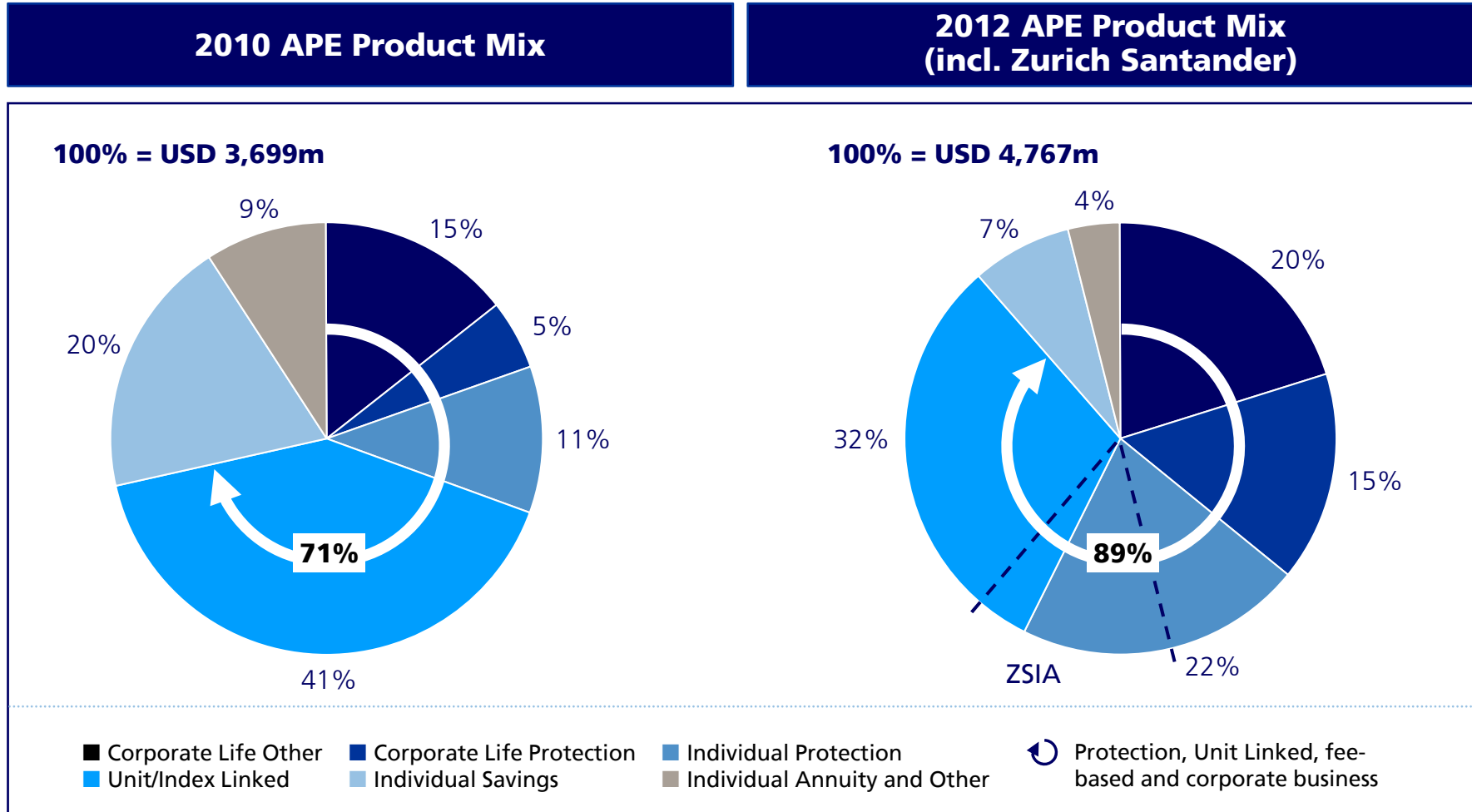


Target	Status
<b>1</b> 30% of NBV from APME <sup>1</sup> and Latin America	<input checked="" type="checkbox"/> 48% of NBV generated from APME and Latin America as of 9m-13
<b>2</b> Top 5 European-based global insurer by New Business Value (NBV)	<input checked="" type="checkbox"/> 4th in defined peer group as of 9m-13
<b>3</b> Cash generative while self-funding organic growth	<input checked="" type="checkbox"/> Cash remittance well over USD 500 million per year

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<sup>1</sup> Asia-Pacific and Middle East

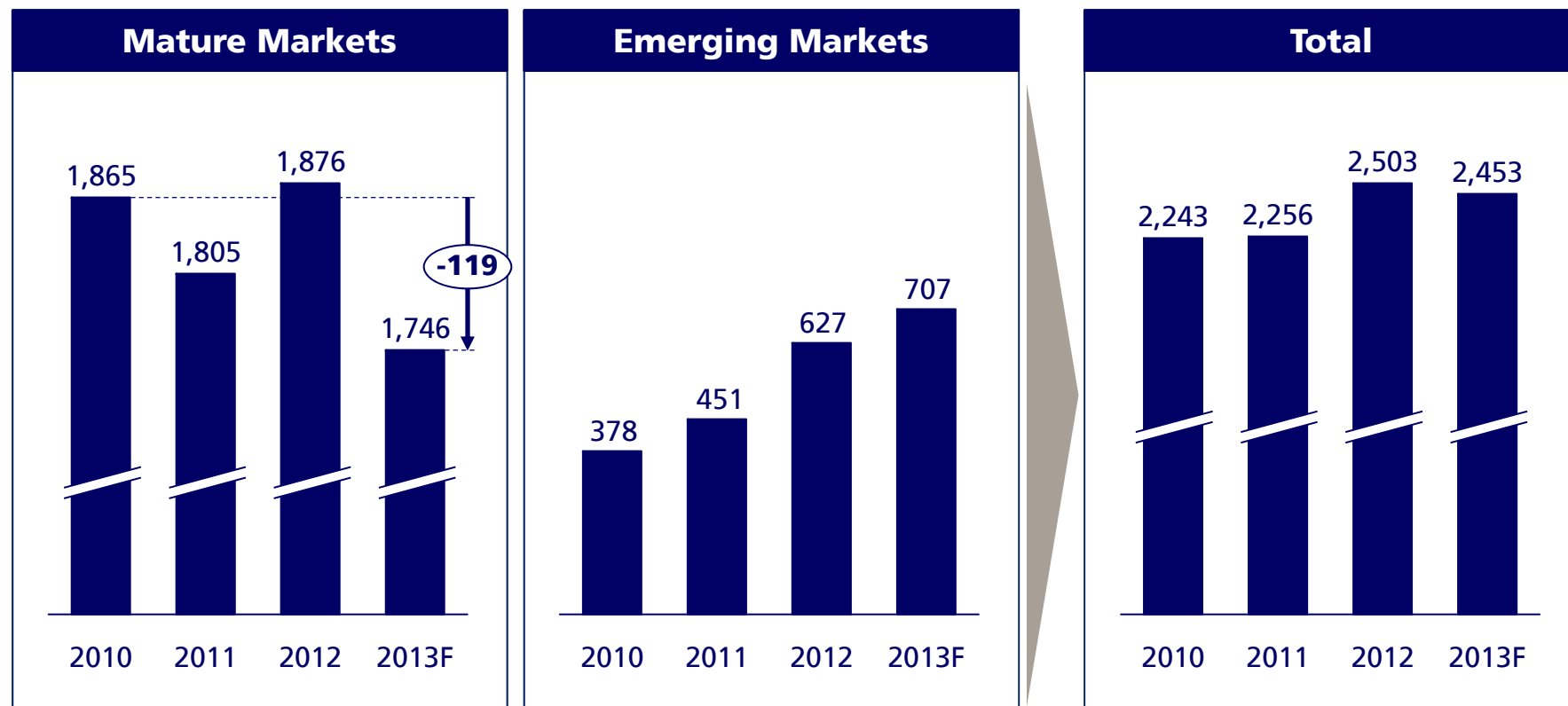
# Meeting our customers' needs through protection and unit-linked savings



# Decreased management expenses in mature markets



Management Expense<sup>1</sup>, in USD millions



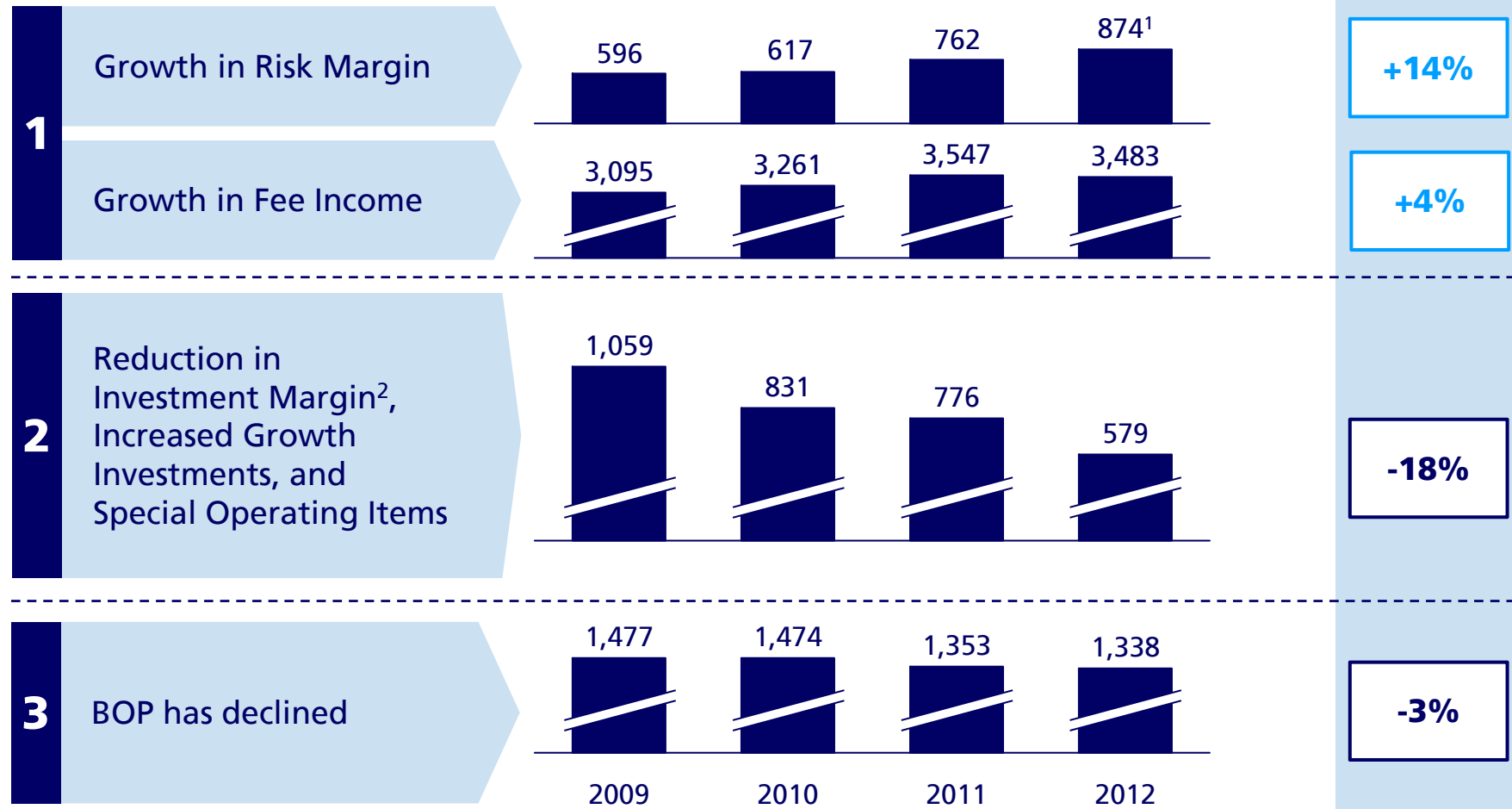
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<sup>1</sup> Estimated expenses, 2013 at constant FX

# Overall BOP impacted by lower investment yields



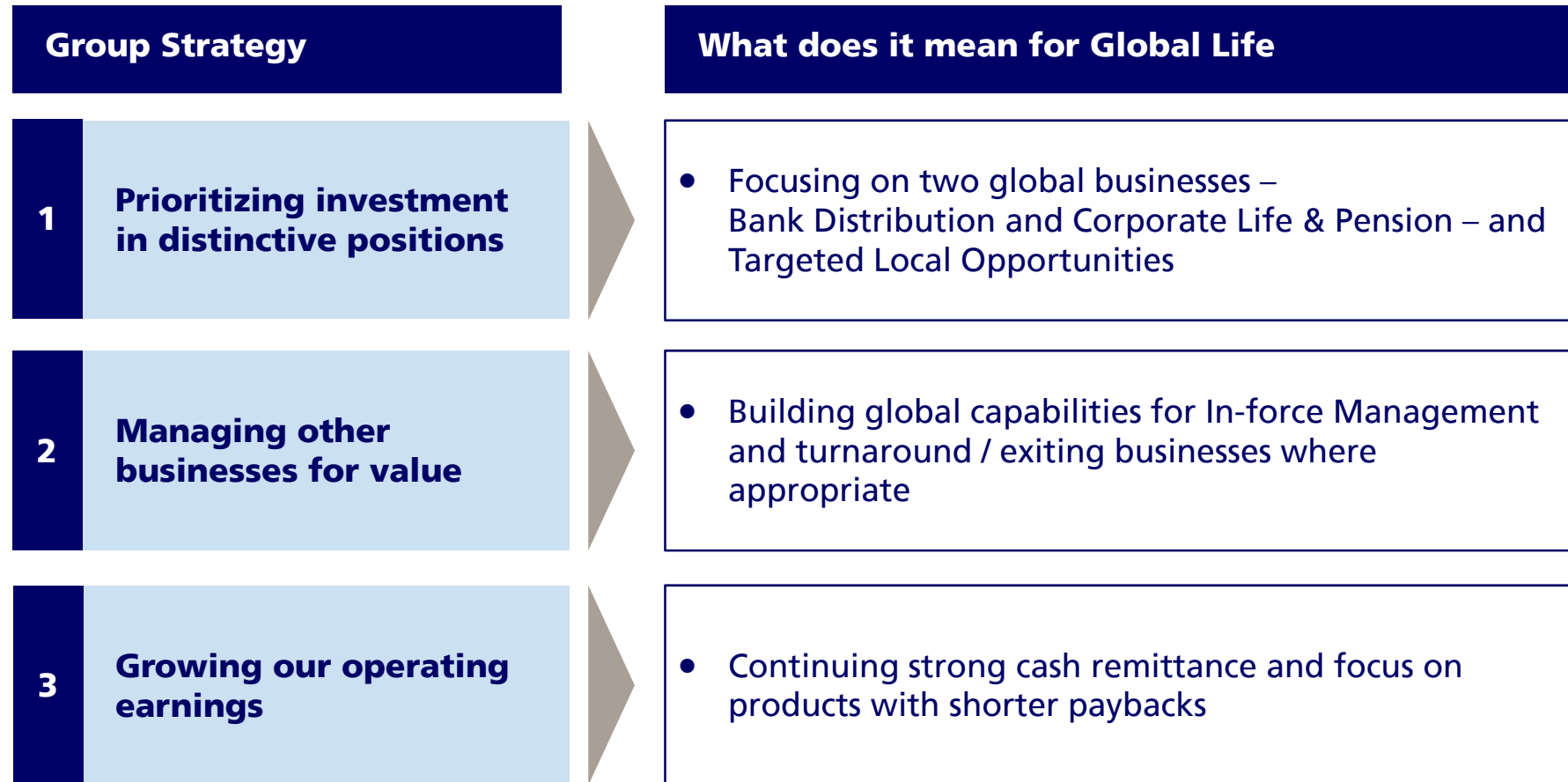
in USD millions



<sup>1</sup> Includes Zurich Santander net result (USD 105m), primarily risk margin net of expenses

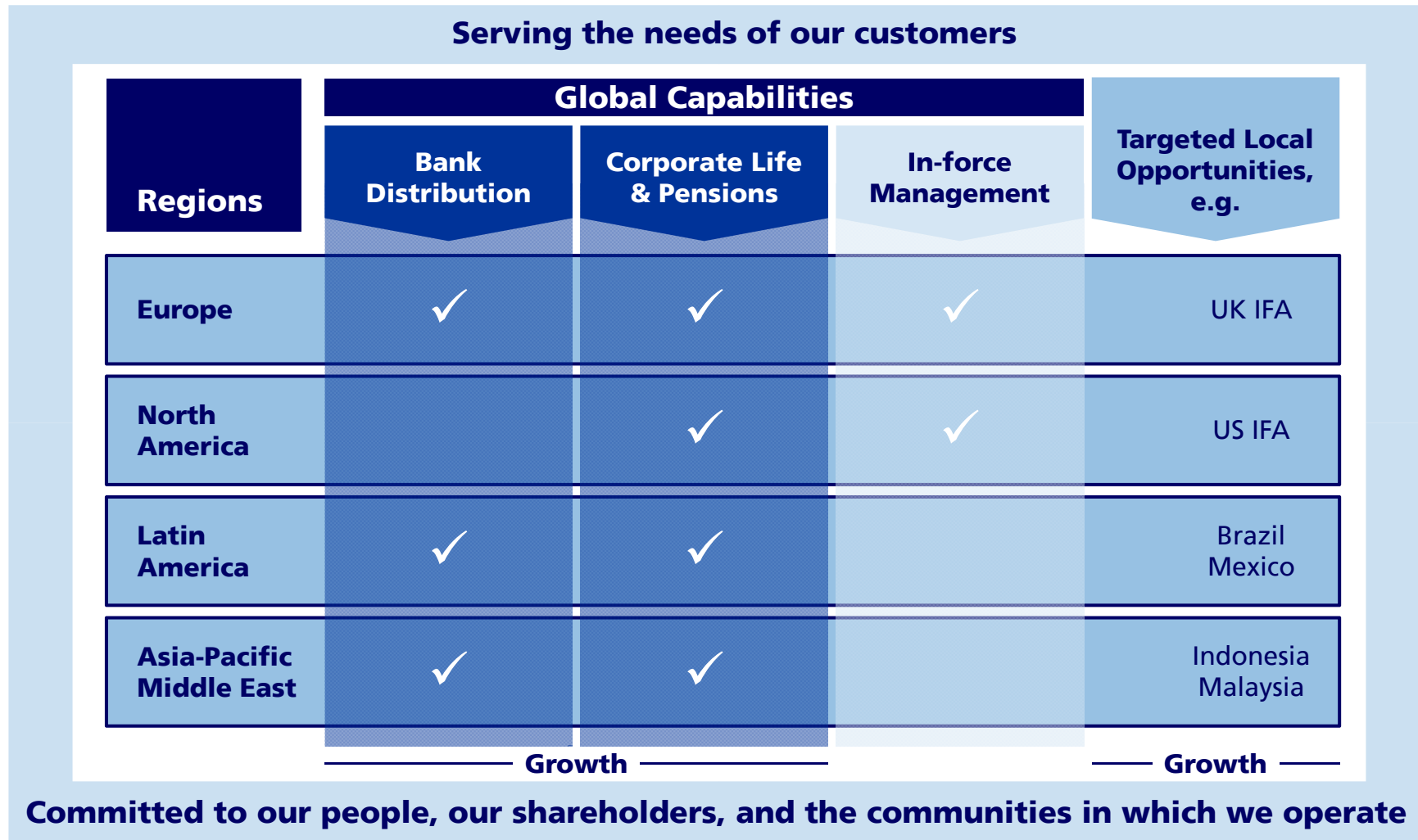
<sup>2</sup> Investment Margin net of German local statutory impacts

# Cornerstones of our strategy



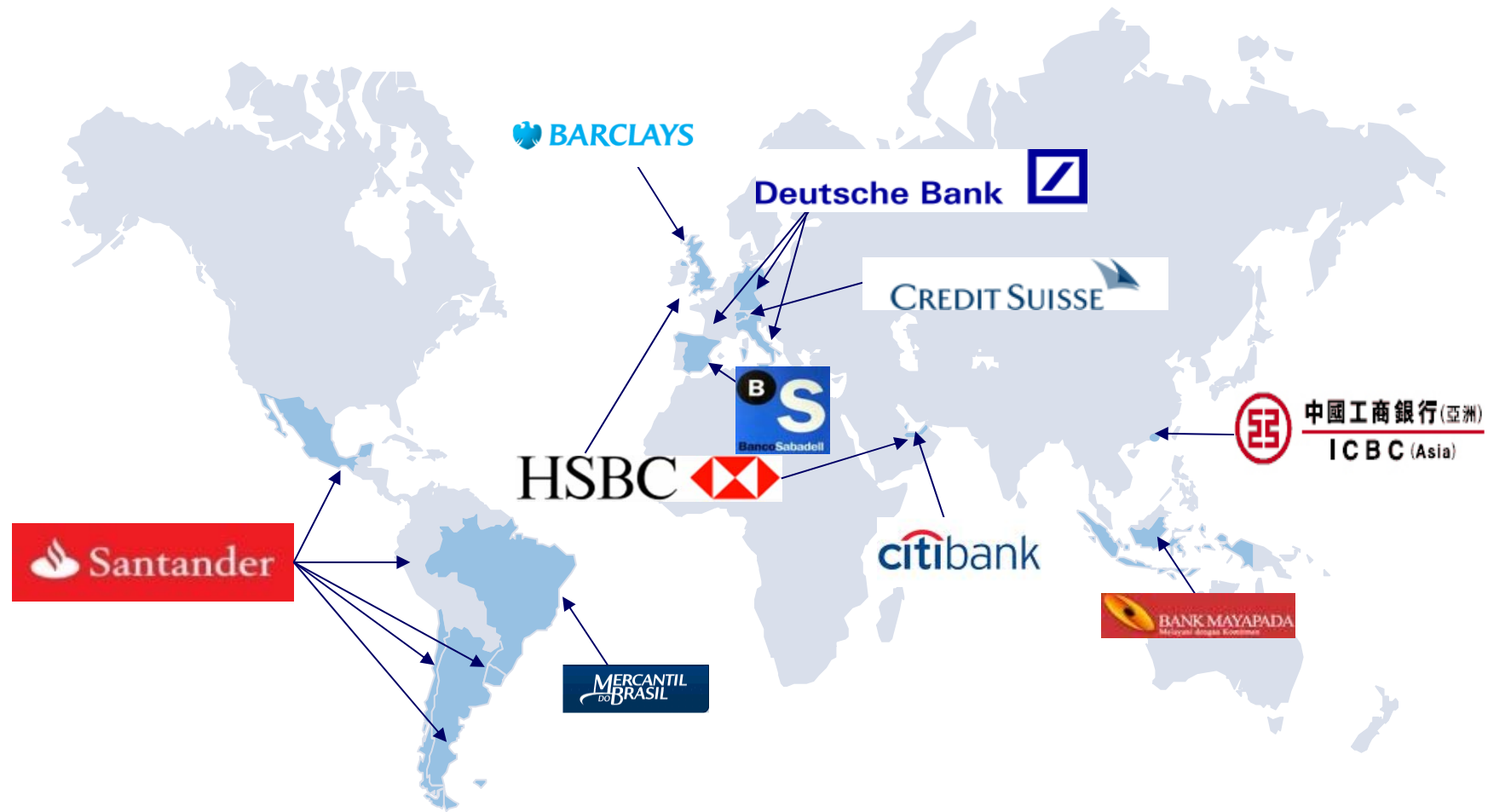


# Focus on a select number of growth opportunities



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# Bank Distribution<sup>1</sup>, in Europe, Latin America and Asia-Pacific/Middle East



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<sup>1</sup> Selected bank distribution agreements only

# Zurich Santander delivers strong growth in local and IFRS profit

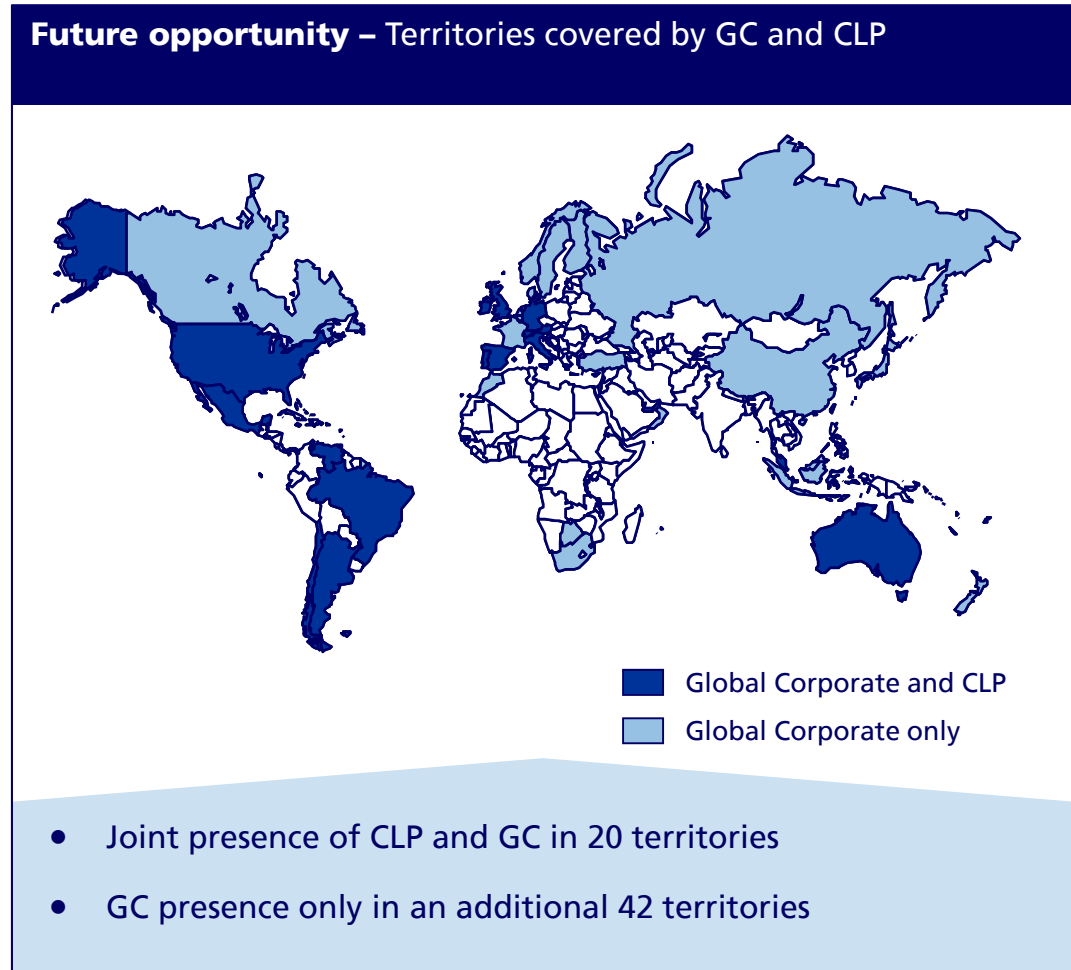
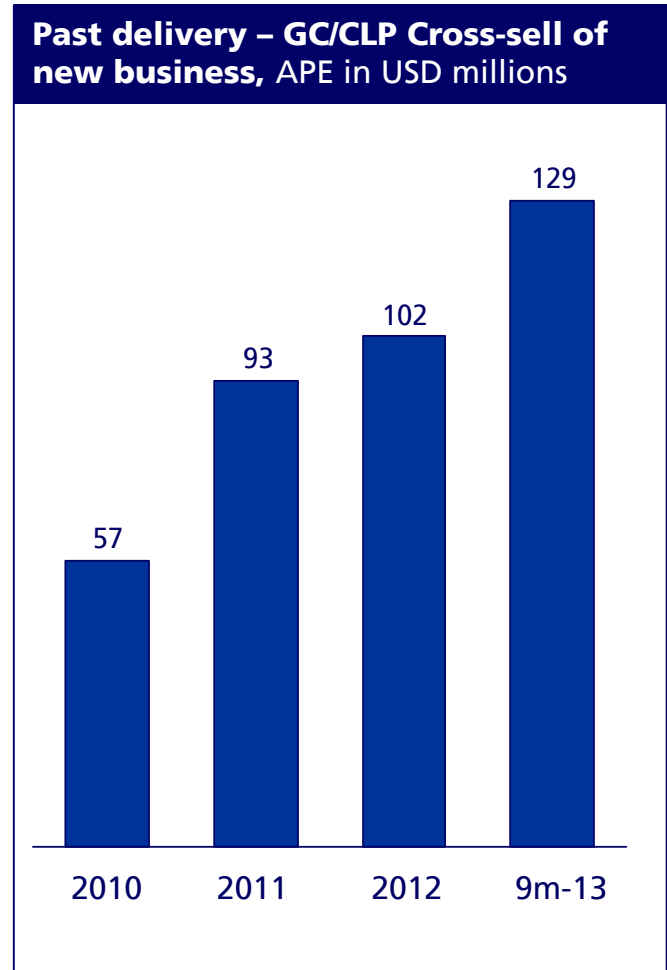


Key Messages		9m-12	9m-13	
		USDm	USDm	
1	Growth in Life GWP & Insurance Deposits <sup>1</sup>	2,630	2,840	+8%
2	Growth in Life local statutory profits <sup>1</sup>	251	320	+27%
3	Growth in GL BOP <sup>2</sup>	71	130	+83%

<sup>1</sup> Zurich Santander before minority interests, FX adjusted to remove impact of currency fluctuations

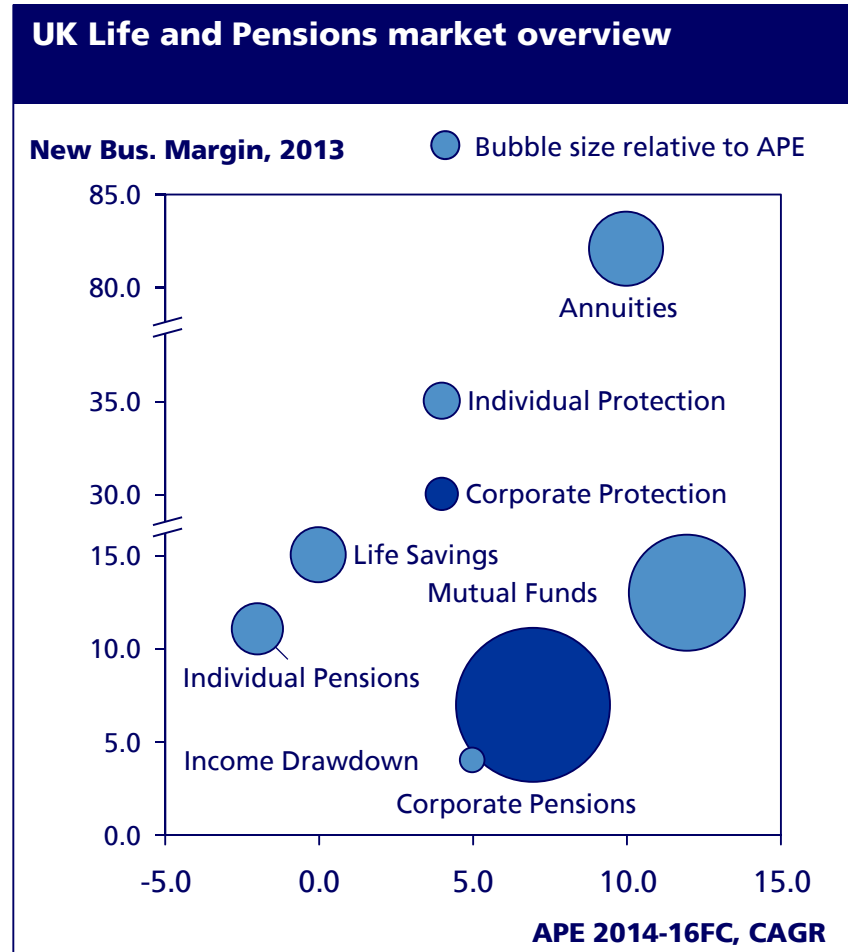
<sup>2</sup> Indicative BOP after minority interest at actual FX, Q3-12 and Q4-12 BOP were reported as a total in Q4-12

# CLP composite go-to-market approach and geographic expansion



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# In the UK, we are growing corporate protection and corporate pensions



Source: Zurich internal estimates



Source: Association of British Insurers

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# Targeted local opportunities



## US

- Continue to expand distribution partnerships with Brokerage General Agencies
- Establish relationships with Private Placement Life Insurance expert independent brokers

## UK

- Drive adviser adoption of the Retail Platform and grow retail protection
- Add easy-to-understand savings and income propositions to Corporate Savings Platform

## Brazil

- Leverage global relations with multinational clients and global EBCs
- Grow affinity schemes / wholesale distribution

## Indonesia

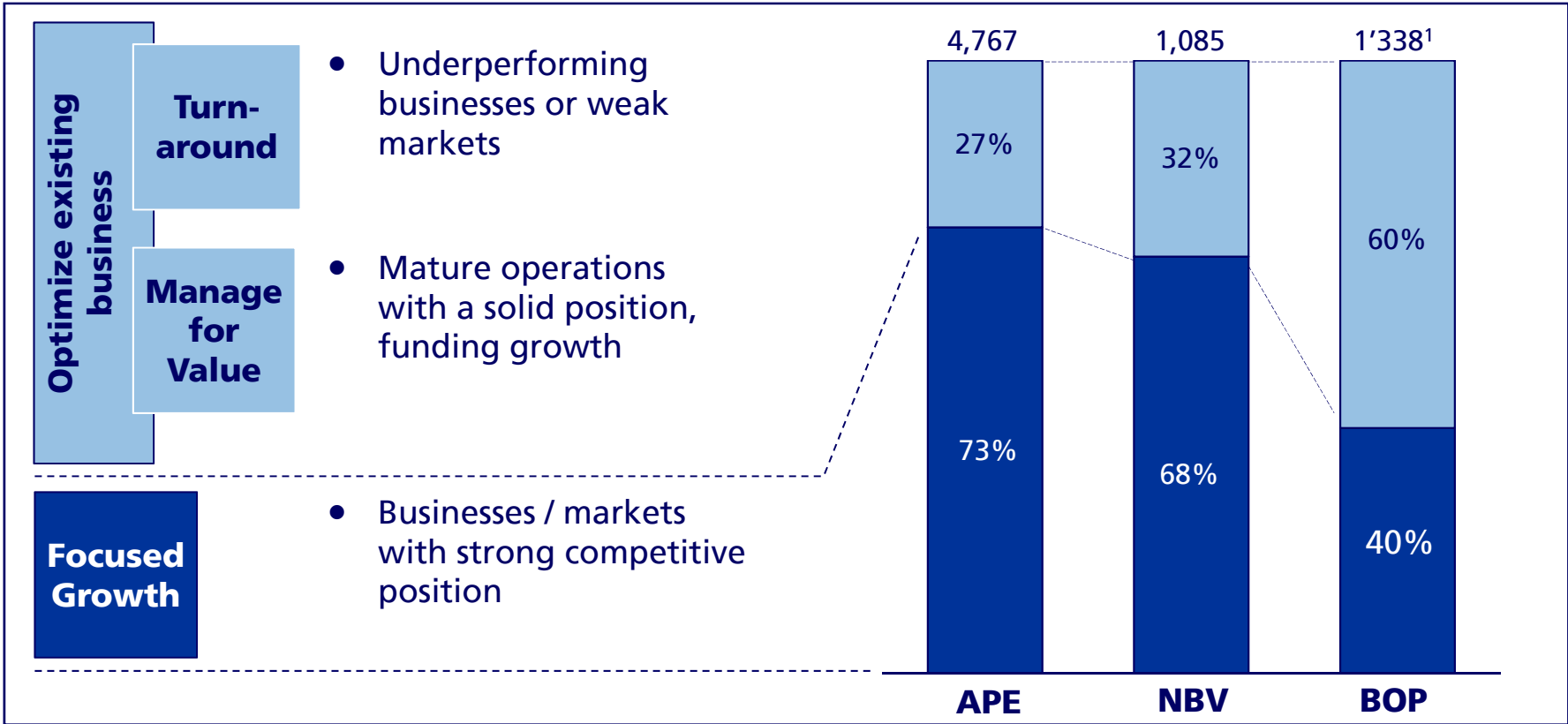
- Grow and develop the agency network
- Maximize value of bank distribution agreement with Mayapada

# Focus on selected growth, while managing for value, and turnaround



## Business Classification

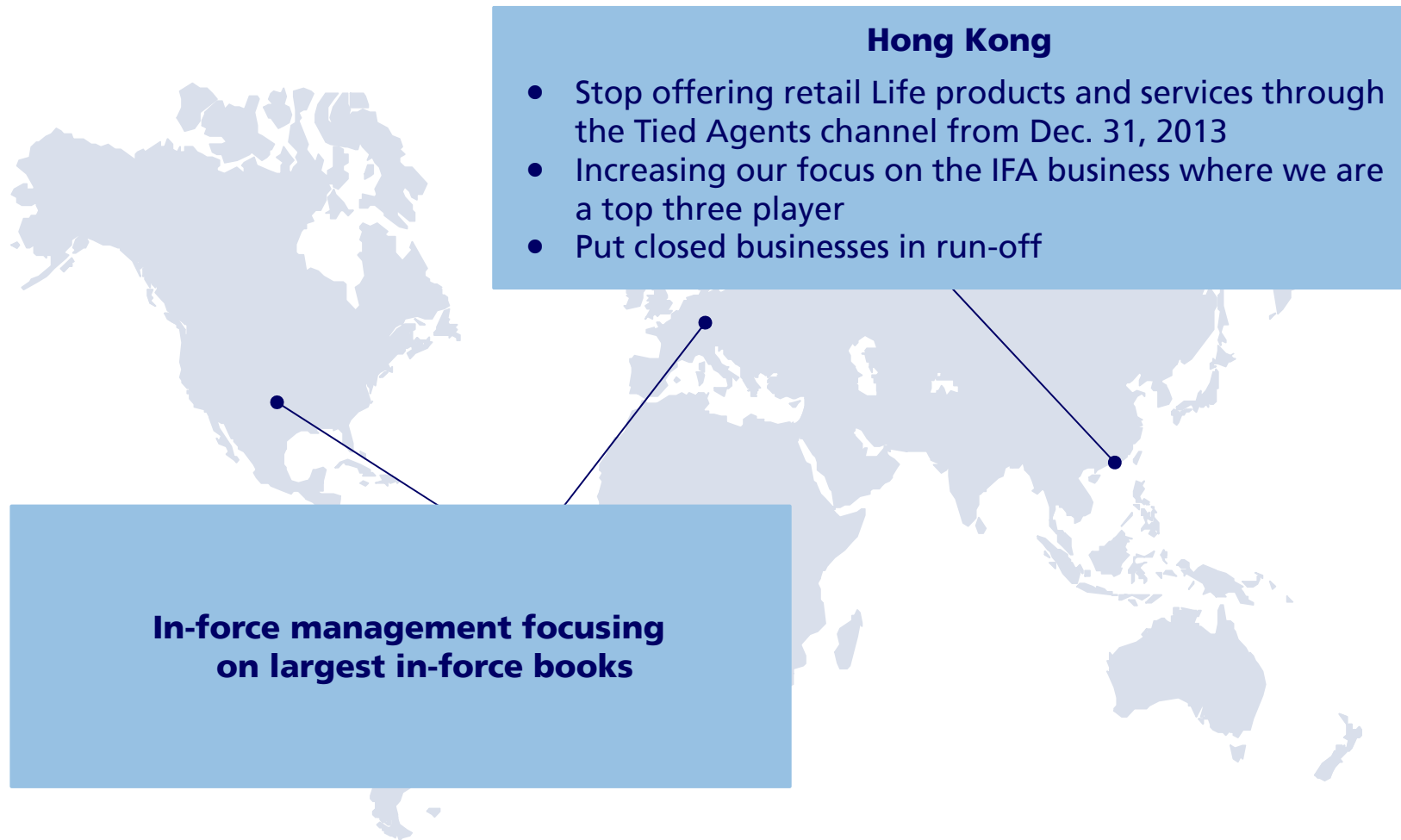
## Key Performance Indicators by business classifications, 2012, USD m



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<sup>1</sup> Split before allocation of GL global management team expenses

# Specific local actions include



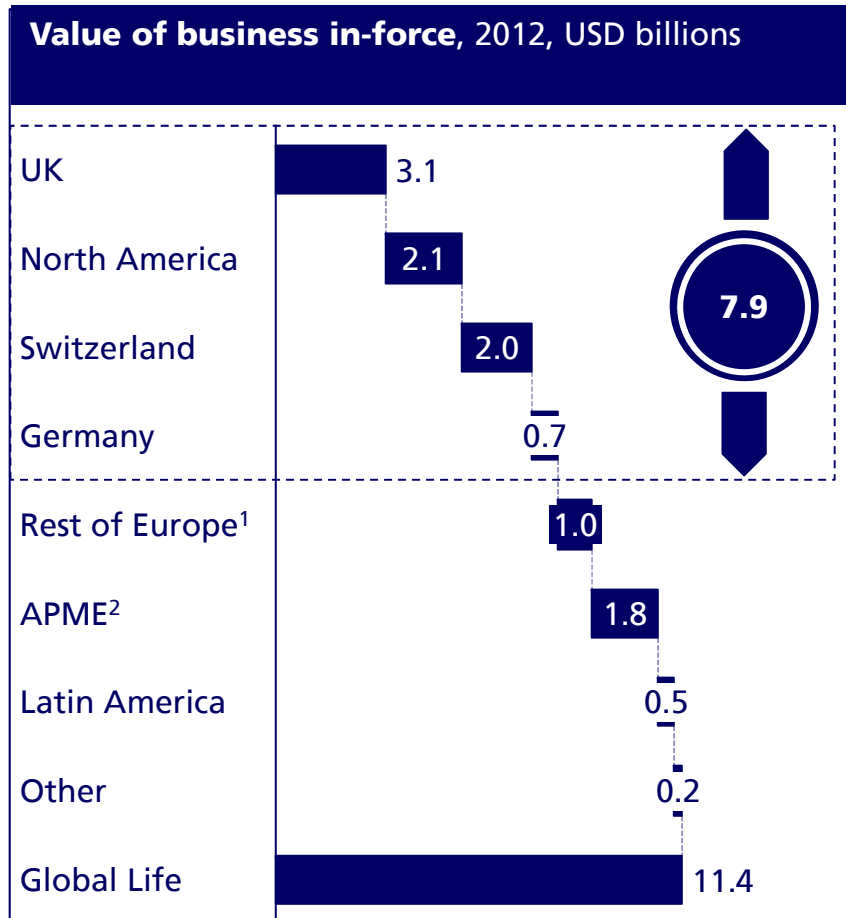
## Hong Kong

- Stop offering retail Life products and services through the Tied Agents channel from Dec. 31, 2013
- Increasing our focus on the IFA business where we are a top three player
- Put closed businesses in run-off

**In-force management focusing on largest in-force books**



# Building global in-force management capabilities



**We have a clear understanding of the value of our in-force books**

- Zurich’s in-force books have a value of USD 11.4bn of which the top 4 account for USD 7.9bn
- We have a proven dedicated in-force management model in the UK

**Global model with a strong emphasis on targeted actions**

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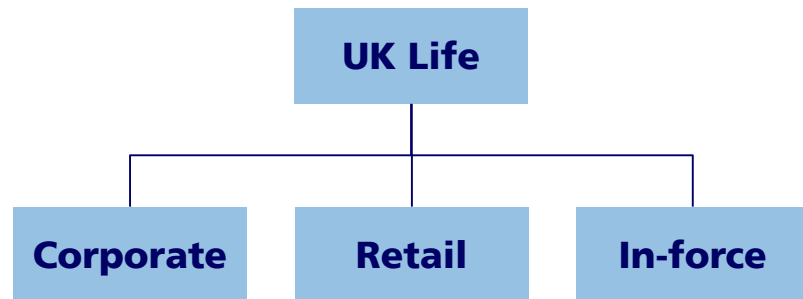
<sup>1</sup> Includes Ireland, Spain, Italy, Austria, Portugal

<sup>2</sup> Includes ZIL, Australia, Hong Kong, Japan, Malaysia

# We have successfully developed in-force capabilities in the UK



## Organizational structure of UK Life business



- Management by specific product categories and platforms within in-force
- Profitability analysis and reporting by product category and platform
- Persistency analysis (by product type, by channel, by distributor, etc.)
- Focus of Customer Options Team on target customer groups

## Benefits of dedicated in-force management

- ✓ **Clear focus of in-force unit on BOP delivery** (separation also facilitates BOP transparency for new business)
- ✓ **Granular and structured insights into the economics of the business and on the components of BOP** (at a product and platform level) which allows identification of improvement potential
- ✓ **Clarity on roles, mandates and management responsibilities**
- ✓ **Mitigation of risk** as increased transparency improves ability to spot potential risks earlier, e.g., volatile claims pattern on specific product line

# Focused growth and in-force management drive operating earnings



ZURICH®

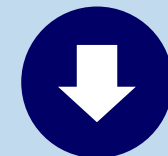
## Grow our **total revenues**

- Focused growth in Bank Distribution, CLP and targeted local opportunities
- Improved persistency resulting from lapse management
- Greater cross-sell/up-sell and recapture of maturity benefits



## Manage down our **new business costs**

- Re-focused new business activity in selected markets
- Selective product and distribution decommissioning



## Manage down our **operating costs**

- Delivering strategic platforms in Latin America and North America
- Selective decommissioning
- Service and expense management



# We will revisit our operating model, which will have financial implications



## Levers to increase BOP by 2016

**Refocus business portfolio**

**Optimize in-force books**

**Ongoing expense measures**

**Operational model and platform strategy**



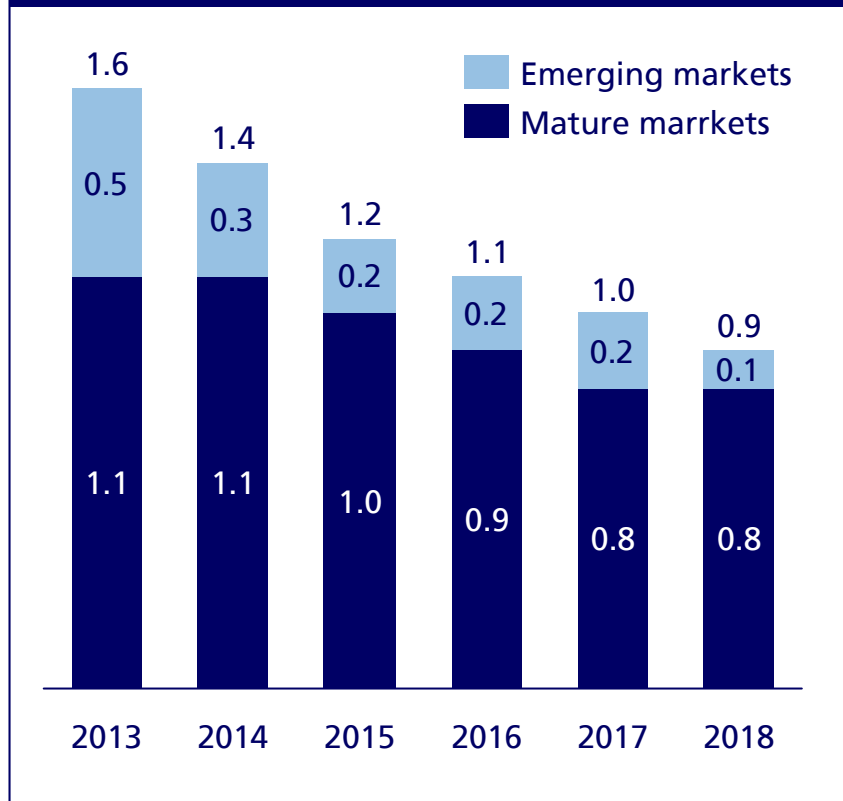
**BOP growth**

**Expected financial impact  
in the next 3 quarters**

# Global Life in-force portfolio cash generation capability



**In-force cash generation capability, in USD billions<sup>1</sup>**



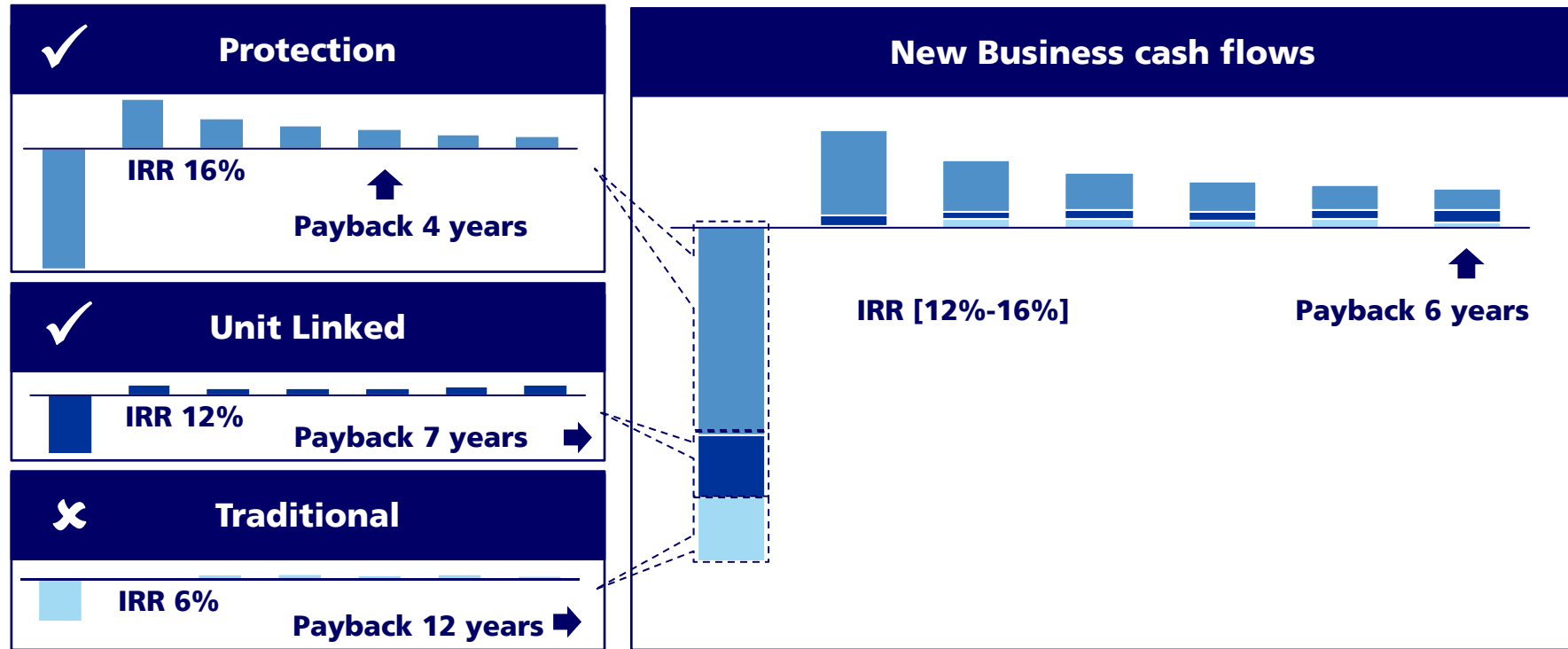
## Cash generation capability 2013-2018

- The reduction of in-force cash generation capability reflects the shorter paybacks of Zurich Santander
- Mature European and North American in-force books have a more stable base of long-term cash generation capability

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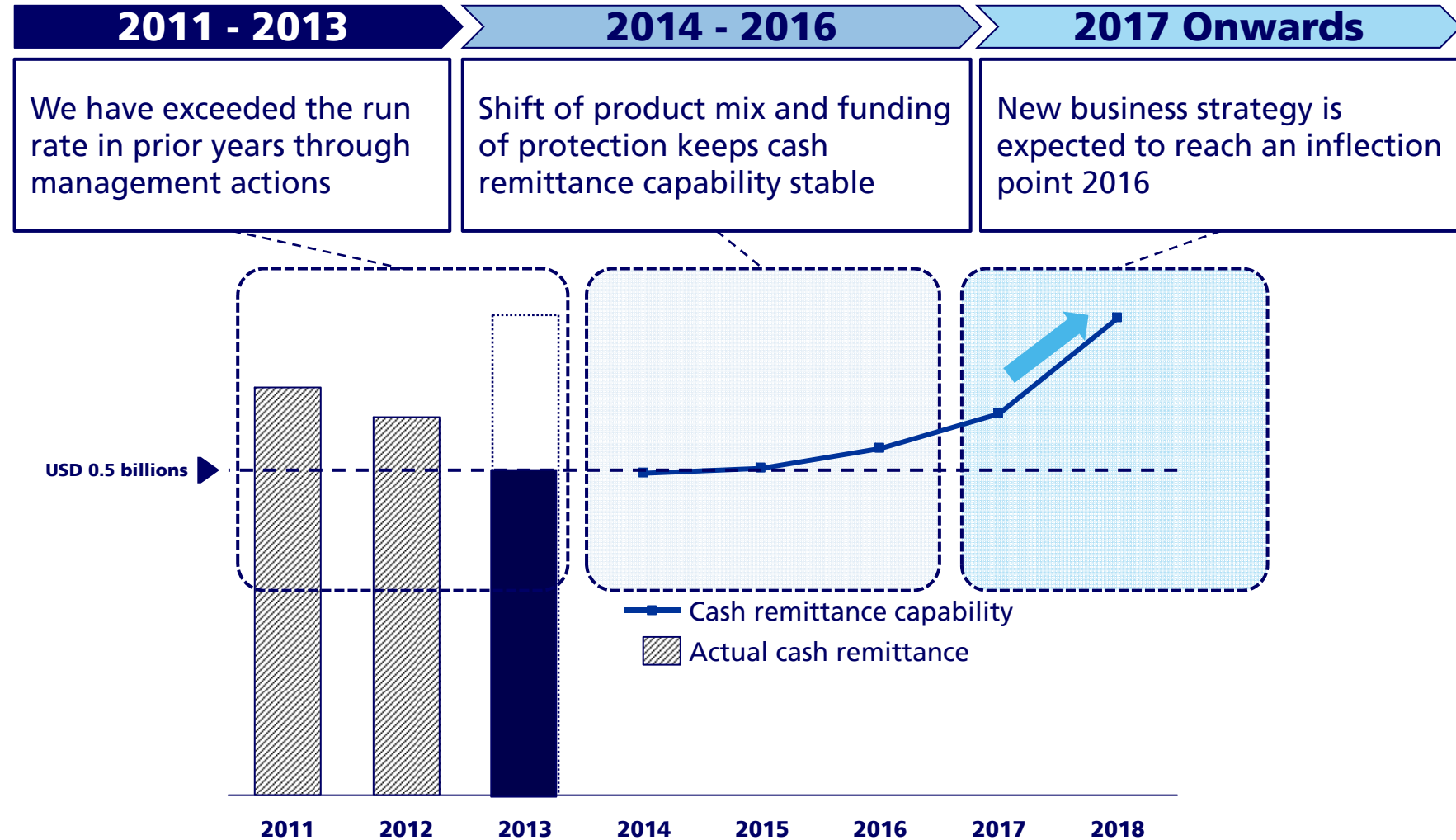
<sup>1</sup> Excluding in-force management actions

# Product focus provides shorter payback but higher new business strain



- **Growth in protection** leads to high new business investments, but attractive returns and short paybacks
- **Unit-linked** will deliver solid and stable profits with medium-term paybacks
- **De-emphasis of traditional business** provides additional investment capacity to write target products

# The actions we take should positively impact cash remittance



# Key messages



- The need for life insurance is strong and we are well positioned
- We have a track record of successful growth
- Over the next cycle, we will shift our focus towards more targeted growth while managing for value or turnaround / exit businesses where appropriate
- We will use our global capabilities to optimize our in-force business



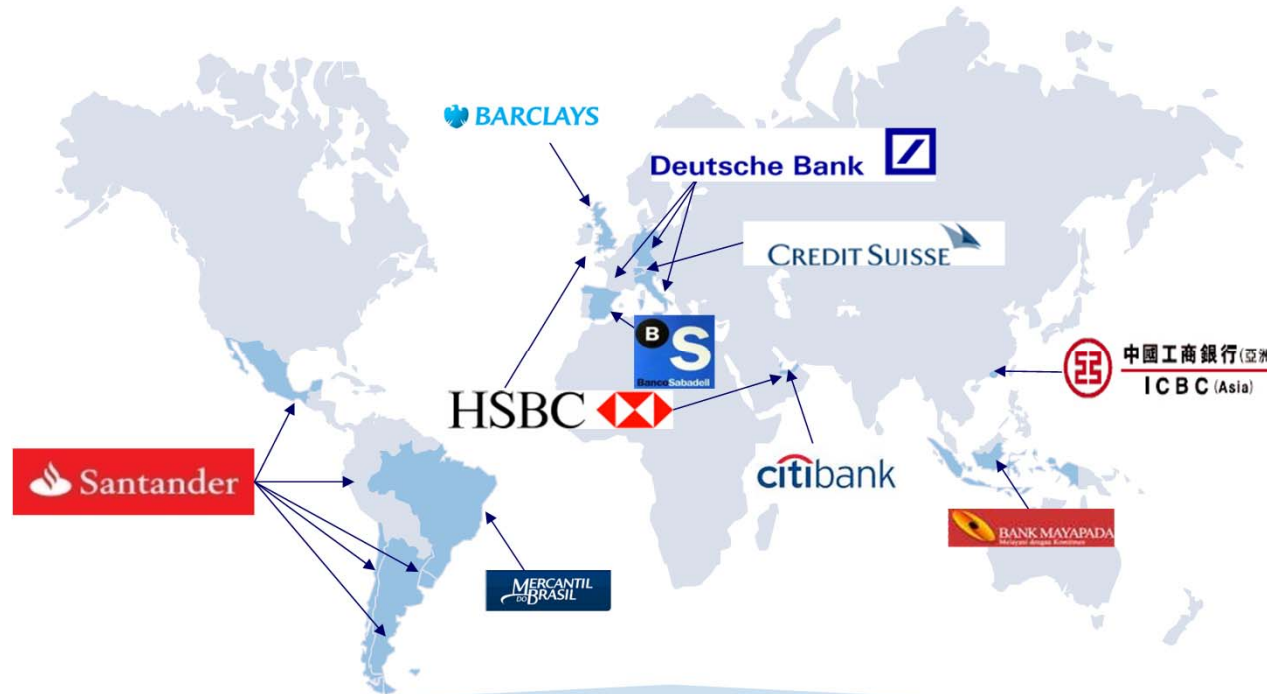
**Growth in operating profit and cash remittance**



# Appendix



# Bank Distribution<sup>1</sup>, in Europe, Latin America and Asia-Pacific/Middle East



- Access to almost 60 millions customers, of which there are 14 millions in Europe, 43 millions in Latin America and over 1 millions in the Middle East
- Successful management and extension our exclusive / multinational distribution agreements over the last 3 years, e.g.,
  - Joint Venture with Banco Santander
  - Extension of the exclusive distribution agreement with Deutsche Bank in 2012
  - New exclusive distribution agreement with HSBC in the Middle East

<sup>1</sup> Selected bank distribution agreements only

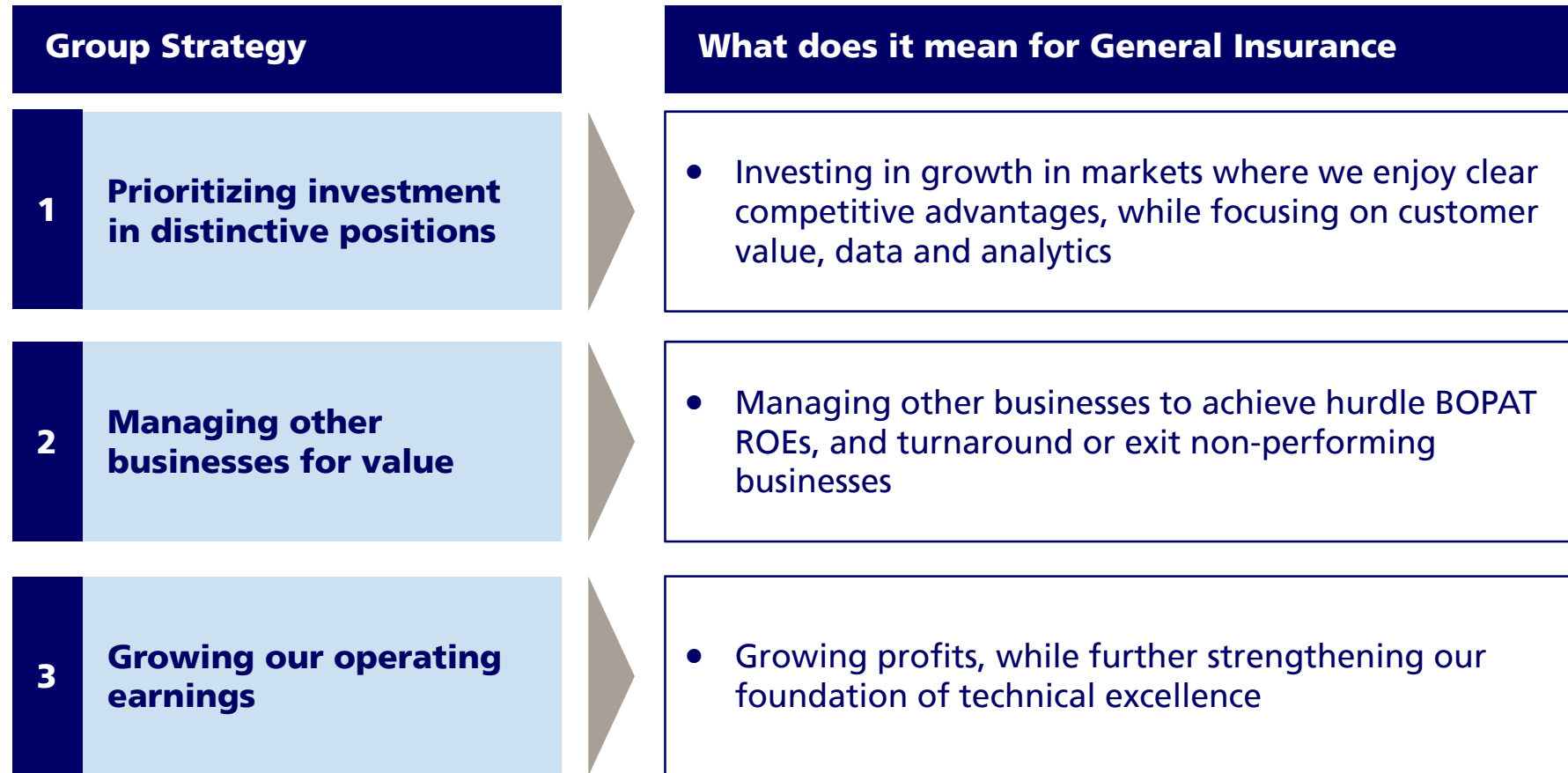


# General Insurance

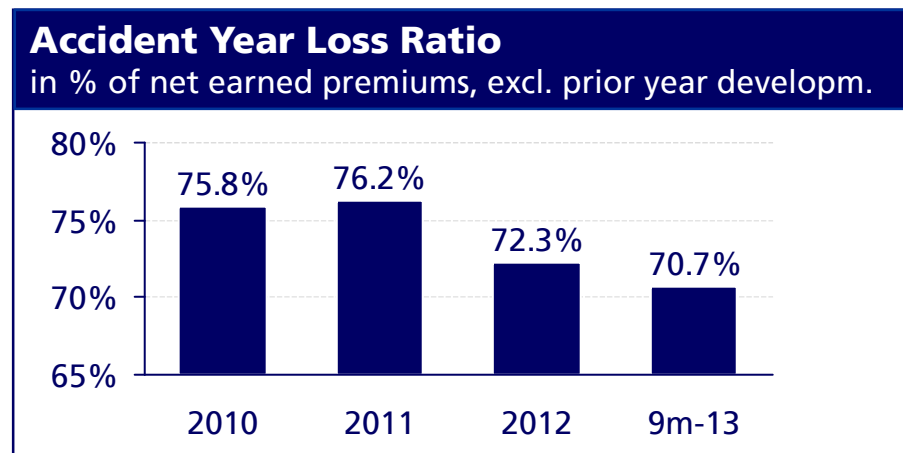
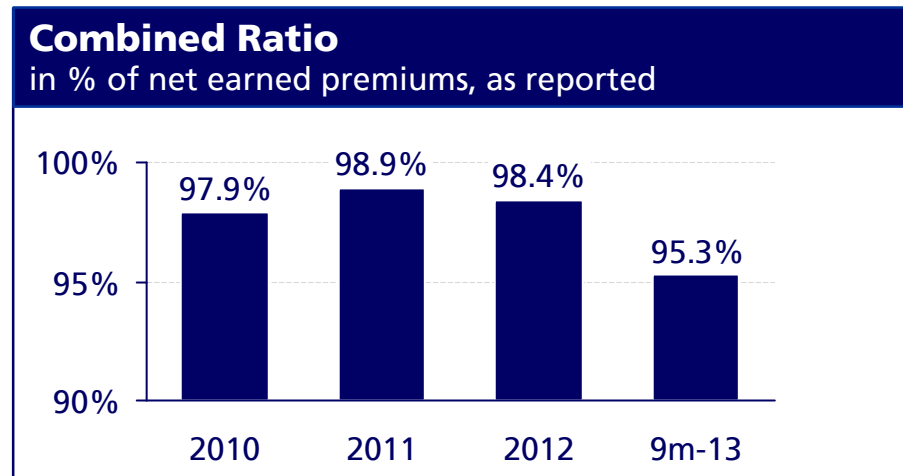
**Mike Kerner, CEO General Insurance**



# Key messages

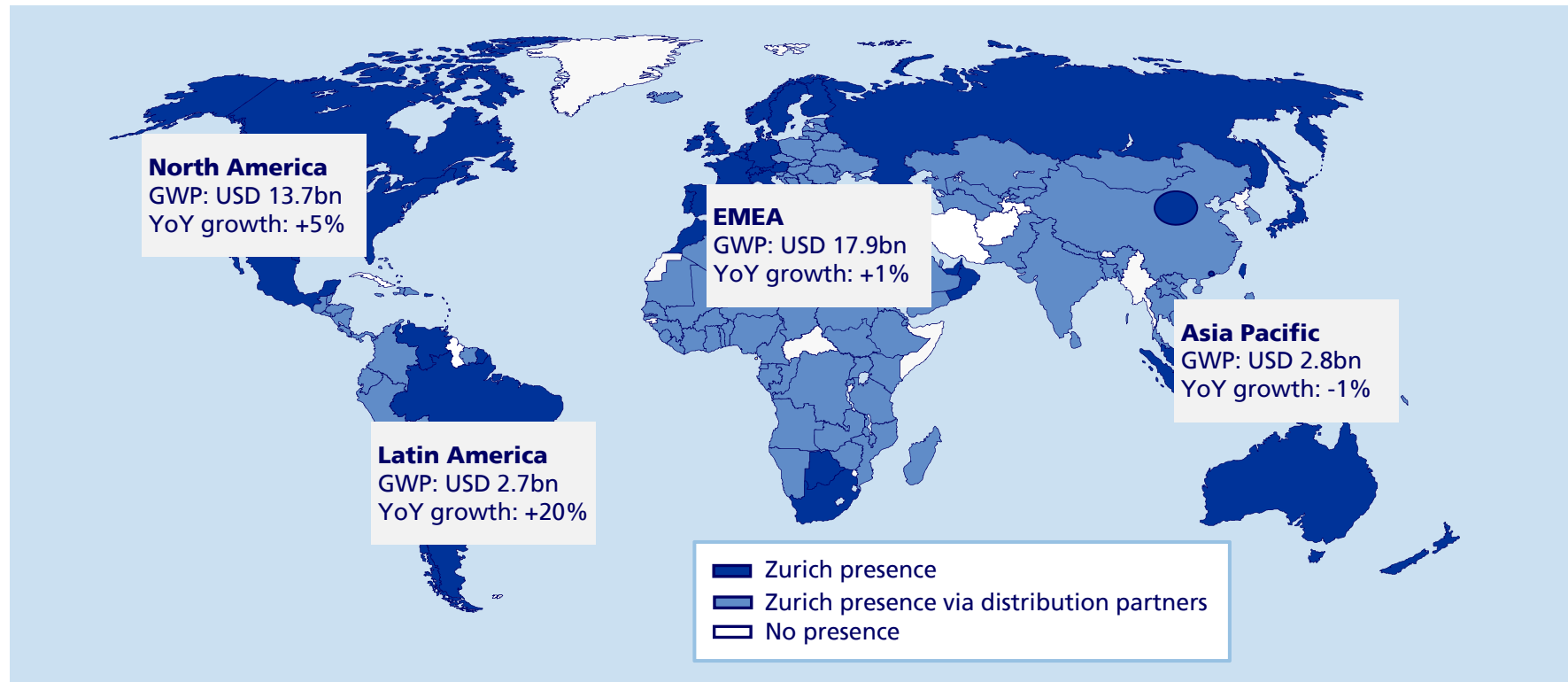


# We continue to focus on improving our Combined Ratio



- Over the past three years, our Combined Ratio improved by 2.6 percentage points.
- Our Accident Year Loss Ratio improved by 5.1 percentage points over the same period.
- We have delivered on our USD 350m expense savings target for the 2011 – 2013 strategic period.

# We are a truly global general insurance business



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Note

- Regional figures include Global Corporate business and are as of 2012; growth rates are as of 9m-13
- The blue dot in China represents the Zurich office in Beijing; in China, contracts are issued by both Zurich and distribution partners

# Three Zurich GI differentiators



**1**

We leverage best practice from across the globe to aid local execution

**2**

We assist customers in achieving superior risk management through distinctive claims and risk engineering services

**3**

We are – first and foremost – an underwriting organization, with globally consistent tools and processes

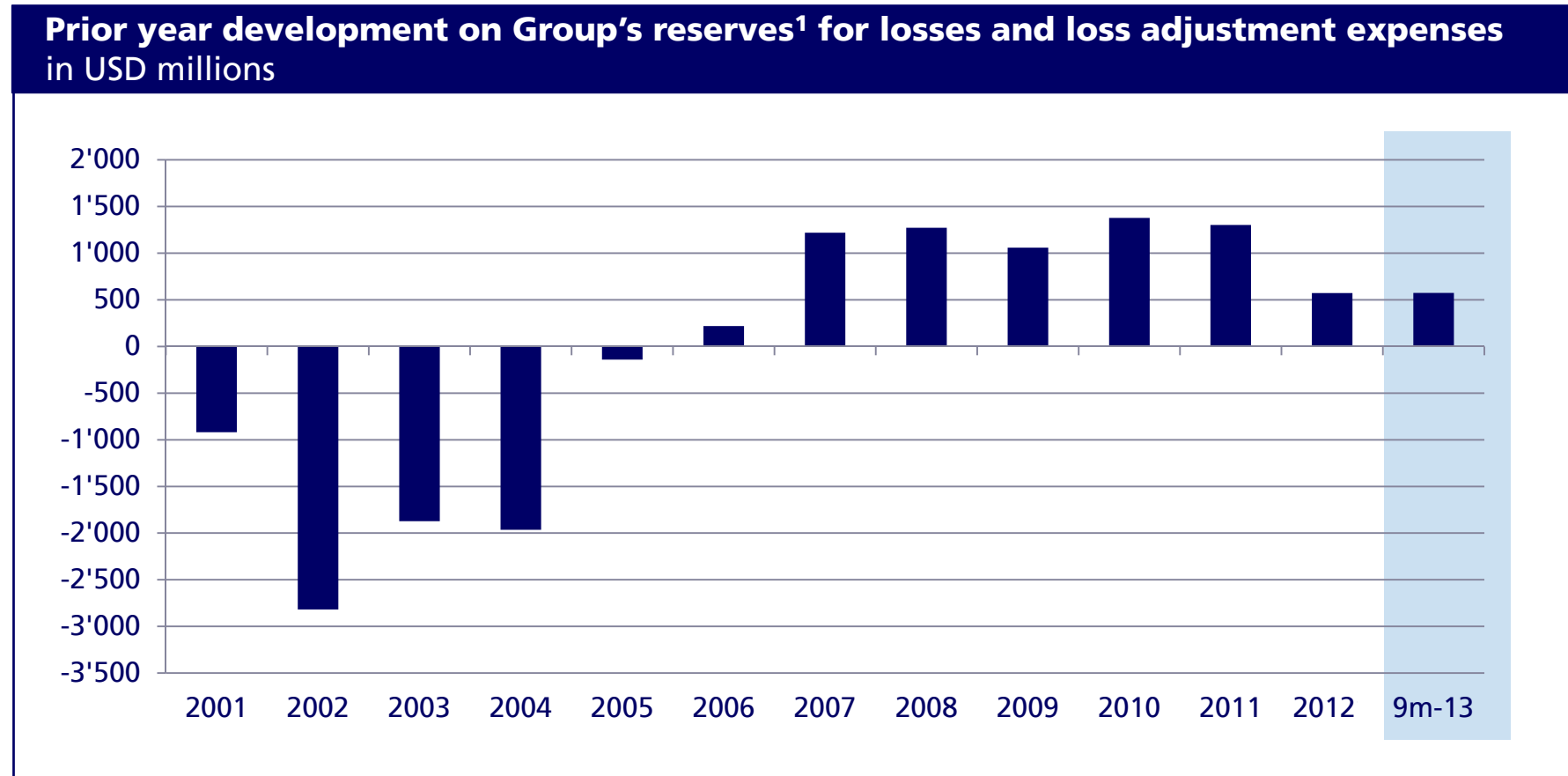
# We are a world class underwriting organization



- Execute globally
- Embed global best practice
- Improve quality and consistency



# Our prior year development has been continuously favorable since 2006



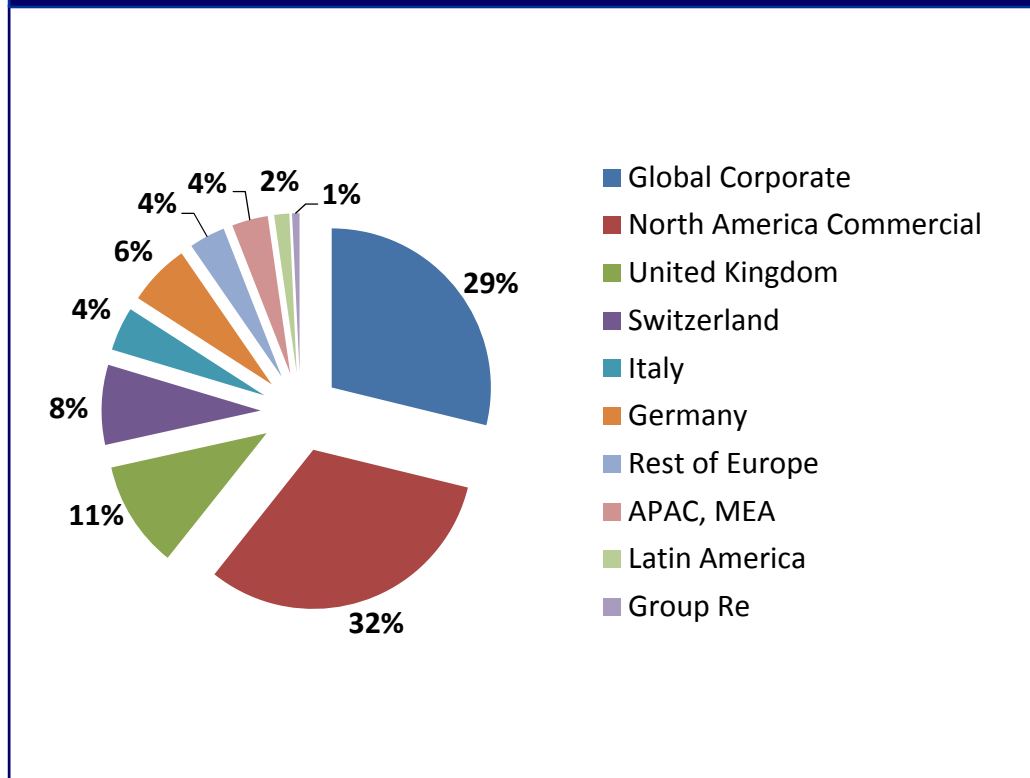
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<sup>1</sup> includes General Insurance, Farmers Re and Non-Core businesses

# Our net loss reserves reflect a diversified portfolio



**GI reserves, split by business**  
as of 9m-13



## Key takeaways

- Total GI Net Loss Reserves USD 55bn as of September 30, 2013
- Although we operate globally, almost 90% of our total reserves come from nine countries
- In the aggregate, reserves have been set at a prudent level

# Ratios of paid to ultimate losses demonstrate reserving consistency



**Development of paid-losses/ultimate-losses ratio<sup>1</sup>**  
 Accident year view, in %

Year	12 months	24 months	36 months	48 months	60 months
2008	36%	60%	70%	76%	81%
2009	37%	61%	72%	79%	
2010	37%	62%	73%		
2011	37%	61%			
2012	36%				

- Key takeaways**
- Overall consistent reserving approach over time
  - Demonstrated by accident years developing in a consistent fashion over time
  - Stability facilitated by being a Group operating across many countries and many lines of business

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<sup>1</sup> Ratio of paid-losses to ultimate-losses shows losses paid out during a given accident year, divided by the ultimate incurred losses during that accident year, expressed here as a percentage

# Development of paid to ultimate losses in our largest businesses



Development of paid-losses/ultimate-losses ratio <sup>1</sup> Accident year view, in %						
GI Region	Year	12 months	24 months	36 months	48 months	60 months
<b>Europe</b>	2008	49%	71%	78%	82%	85%
	2009	51%	74%	82%	86%	
	2010	49%	75%	83%		
	2011	49%	72%			
	2012	49%				
<b>Global Corporate</b>	2008	22%	46%	60%	67%	75%
	2009	20%	43%	59%	68%	
	2010	20%	47%	62%		
	2011	23%	48%			
	2012	19%				
<b>North America Commercial</b>	2008	21%	46%	59%	69%	77%
	2009	19%	42%	55%	67%	
	2010	21%	44%	57%		
	2011	22%	49%			
	2012	22%				

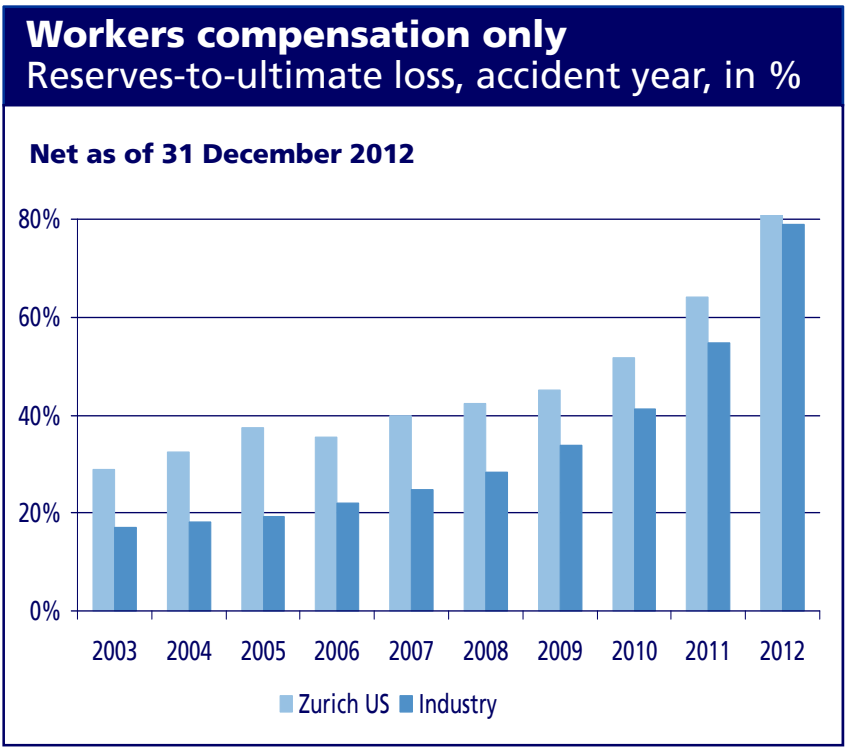
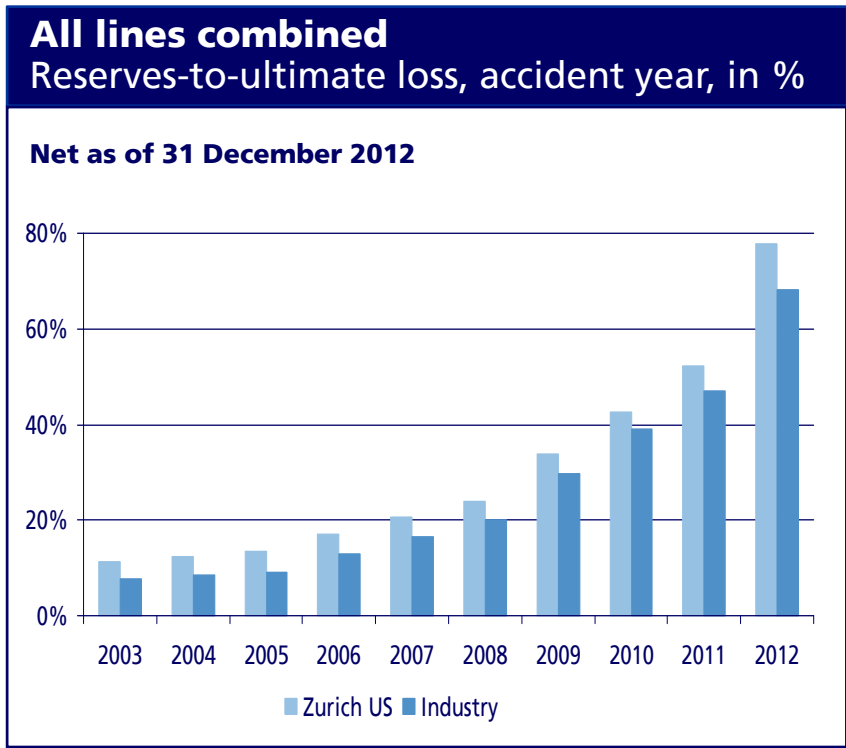
### Key takeaways

- This regional view highlights the positive impact of our diversified portfolio
- Even at this more granular level, our reserves show a consistent approach over time

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<sup>1</sup> Ratio of paid-losses to ultimate-losses shows losses paid out during a given accident year, divided by the ultimate incurred losses during that accident year, expressed here as a percentage

# Zurich US<sup>1</sup> reserves are well-positioned, compared to industry

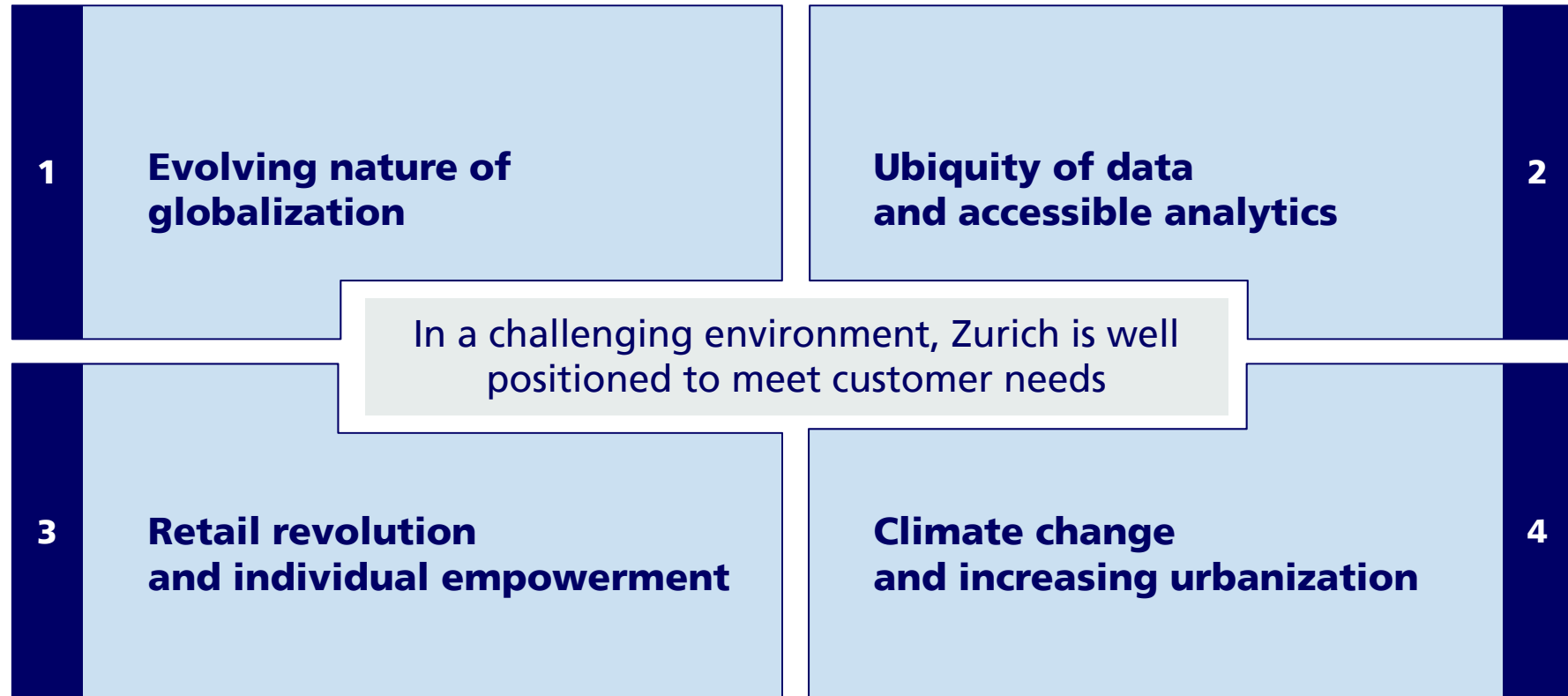


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Note: Industry results reflect the entire industry with line ratios weighted by Zurich distributions

<sup>1</sup> includes North America Commercial and Global Corporate in North America, but not our Canada operations

# We actively track external events and trends in our operating environment



# 1. Evolving nature of globalization



**Dimensions of trend**

- Increased cross-border business
- Free flow of alternative capital
- Regulatory complexity



**Zurich response**

- Efficiently extend multinational insurance solution to smaller businesses
- Broader, deeper value proposition: market-leading underwriters, in-house claims and risk engineering experts
- SST<sup>1</sup> and organizational preparedness for Solvency II

<sup>1</sup> Swiss Solvency Test

# 2. Ubiquity of data and accessible analytics



**Dimensions of trend**

- Use of data to drive pricing, risk selection, claims and sales insights
- Use of legacy, unstructured data
- Data velocity – shortening gap between insights and action



**Zurich response**

- Investments in data analytics in key parts of the insurance value chain
- Data mining of legacy systems through working with best-in-class vendors
- Culture and systems to enable easier, quicker collaboration



# 3. Retail revolution and individual empowerment



## Dimensions of trend

- Customer interaction on their own terms, on-the-go and through multiple channels
- Transparent and real-time responses to financial needs



## Zurich response

- Investments in systems and organizational changes, extending to intermediaries and distribution partners, to provide a seamless customer experience across all touch points
- Targeting specific customer sub-segments, based on nuanced segmentation

# 4. Climate change and increasing urbanization



## Dimensions of trend

- Increasing frequency and severity of natural catastrophes
- Economically disadvantaged groups have particularly lower resilience to natural catastrophes
- Higher concentration of risk



## Zurich response

- Risk engineering expertise, both general and specific; reflect in risk selection and pricing
- Risk education, also through knowledge contribution to Group's Flood Resilience program
- Spread risks globally through capital markets

# Active Portfolio Management – prioritizing investment in distinctive positions



## Strategic management of portfolio

- Evaluation of our business, based on past-performance and our view of prospects, led us to divide our portfolio into two categories

### Invest in focus markets<sup>1</sup>

**Invest**

- Businesses where we have a competitive advantage, or which have longer-term strategic value
- We will make investments in these markets<sup>1</sup> to grow

### Manage for value the remaining markets<sup>1</sup>

Manage to hurdle BOPAT ROE	Turnaround or exit
<ul style="list-style-type: none"><li>• Profitable, relatively smaller business</li><li>• We remain committed to these markets<sup>1</sup>, and will continue to capture value from these businesses</li></ul>	<ul style="list-style-type: none"><li>• Businesses that are low performers, not meeting our targets, requiring definitive action plans</li><li>• We will take deliberate measures to turnaround these businesses, divesting and exiting where appropriate</li></ul>

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<sup>1</sup> Markets, in this context, need not always refer to whole countries

# Execution on our customer-focus priorities is well underway

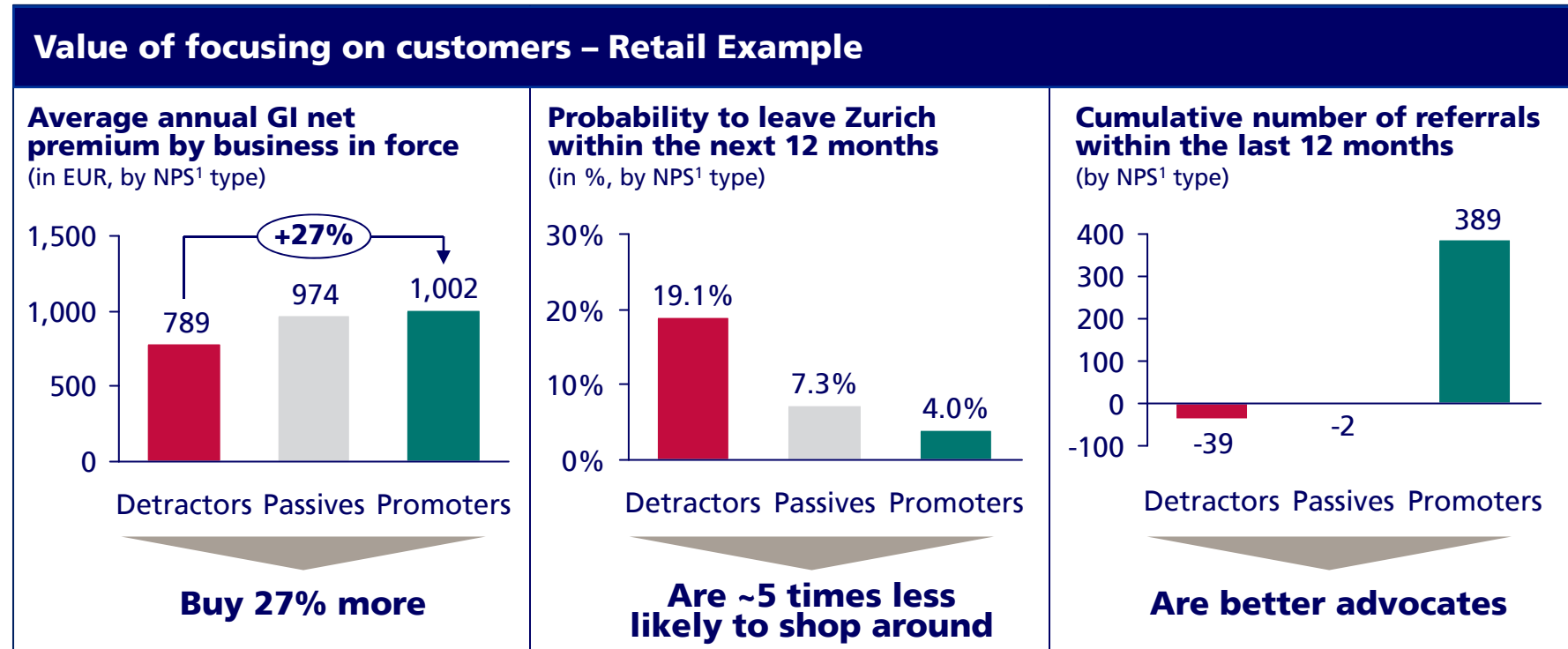


**Drive profitable growth by focusing on customers**

### Executing across our six customer-focus priorities

Listen and act upon customer insights	<b>Timeline</b>  <b>2013</b> <ul style="list-style-type: none"><li>In-market implementation through 17 pilot programs</li></ul> <b>2014</b> <ul style="list-style-type: none"><li>Scale and deploy customer-focus globally</li></ul>
Customer service / service expectations	
Customer scorecard	
Segment specific propositions	
Single customer view / customer analytics	
Incentives and culture	

# Advocate customers translate into more and sustainable business

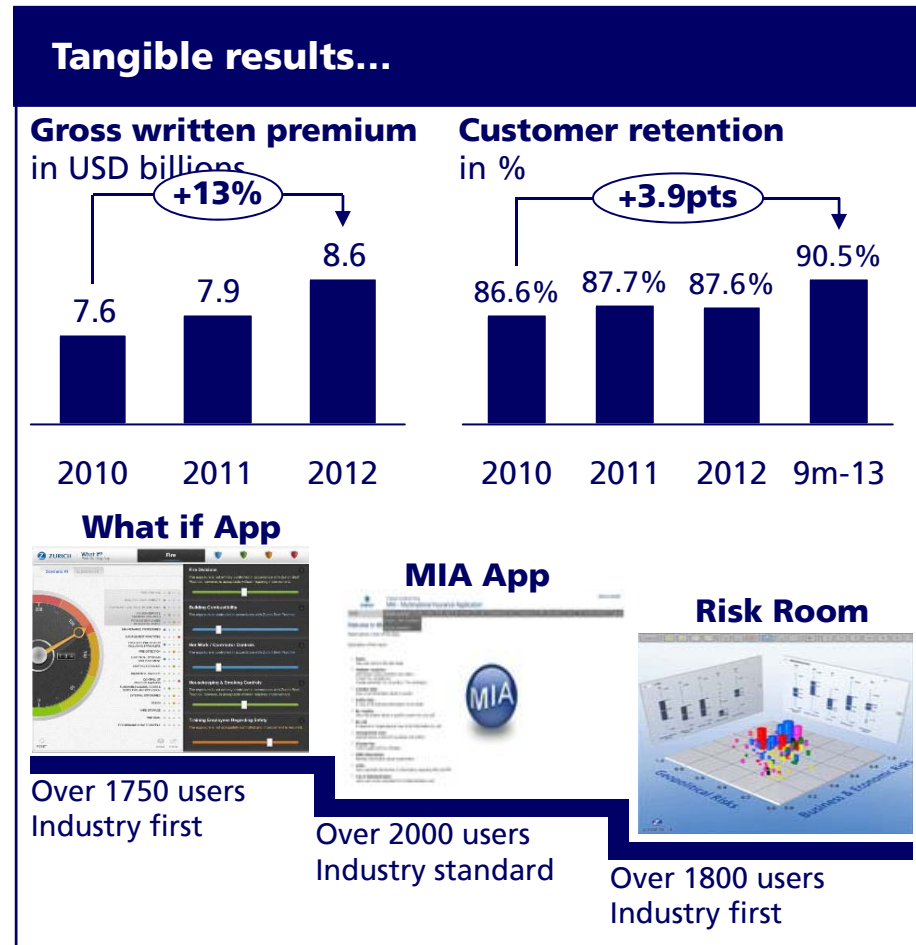


**Customer focus to show through clearly and sustainably in our top-line**

Source: Externally supported study of Zurich Germany Personal Lines, N=994 policyholders (377 Detractors, 344 Passives, 273 Promoters)

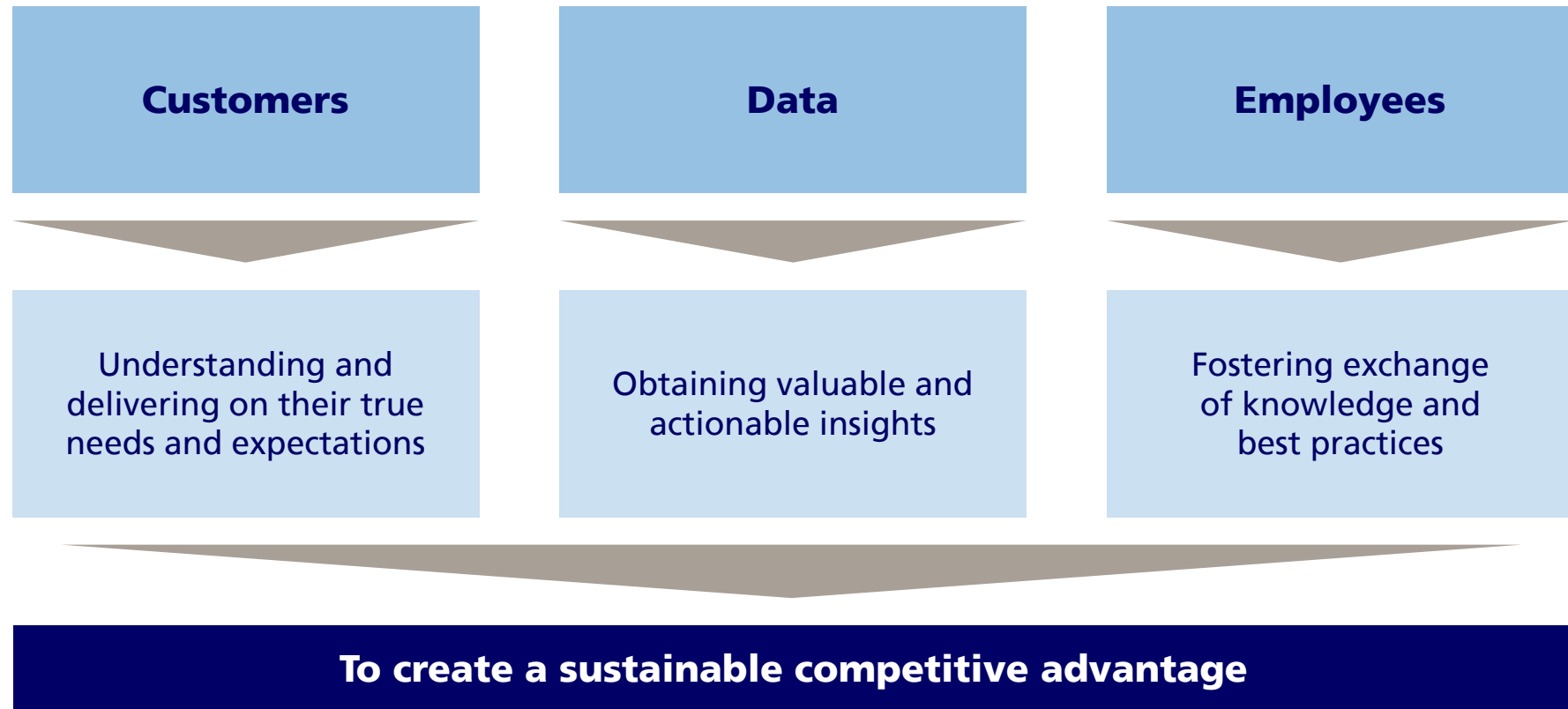
<sup>1</sup> Net promoter score

# Global Corporate's success is based on customer focus



- ### ...driven by global capabilities
- **Largest international network** with 206 territories and 3'000 people
  - **Risk Engineering Insights & Benchmark** enhancing our customers' risk management
  - **Multinational Insurance Application (MIA)** helping customers through complex and changing regulatory environments
  - **Zurich Risk Room** helping companies make risk-aware decisions across borders
  - **Customer First Culture** – composite approach, e.g. Corporate life and pensions

# Becoming a learning organization is based upon three elements



# Leveraging predictive analytics is key to North America Commercial's sustainable success



## Ambition

"...to consistently deliver distinctive risk insights, through a compelling value proposition to our customers and brokers, delivered through a simple Zurich Way of doing business"

## Avenues of action

- Improved consistency and technical execution through enhanced transparency
- Build predictive models and risk selection pricing tools to use data to deliver unique underwriting insights on the front-line

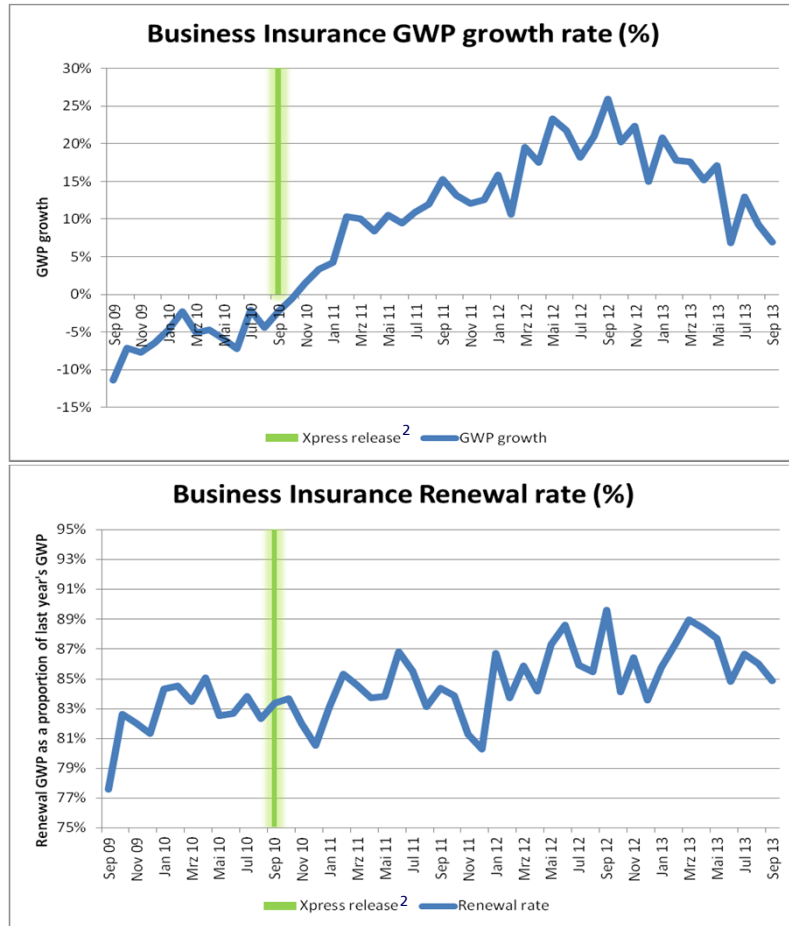


## Accomplishments

- Technical Price calibration
- PATH (Pricing Activity Tracking Hub) tool rolled out
- Second generation Workers Compensation model – better insights and implementation



# Our Australian SME<sup>1</sup> platform is innovation in action



- In Australia, we rolled out a new capability in the middle market to provide a more consistent approach and quicker turnaround to brokers
- This has helped us to grow total GWP through increasing New Business and Retention Rate, while not compromising on profitability
- Zurich named 'General Insurer of the Year', by Australia's National Insurance Brokers Association (NIBA)

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<sup>1</sup> Small and mid-sized enterprises  
<sup>2</sup> Xpress refers to the Zstream Xpress Platform that supports fast flow business

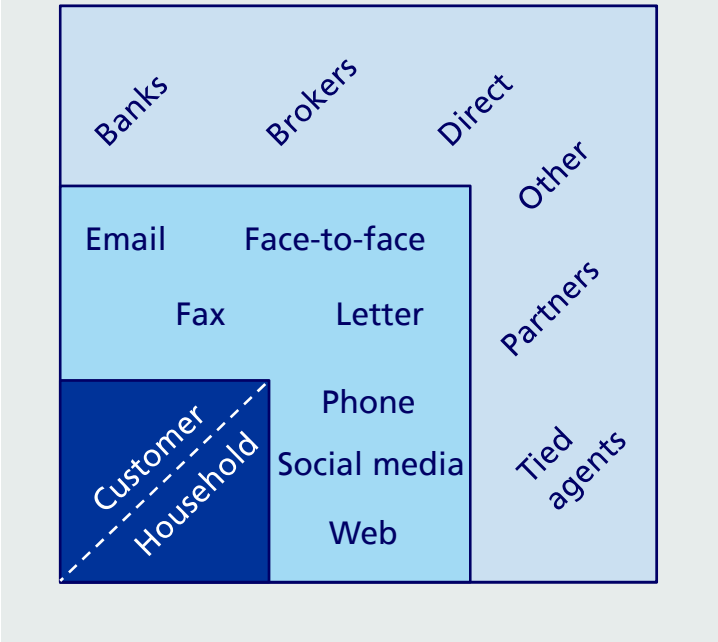
# We will respond to customer needs in chosen retail markets



**Extensive research towards deeper understanding of needs and behaviours of retail customers**

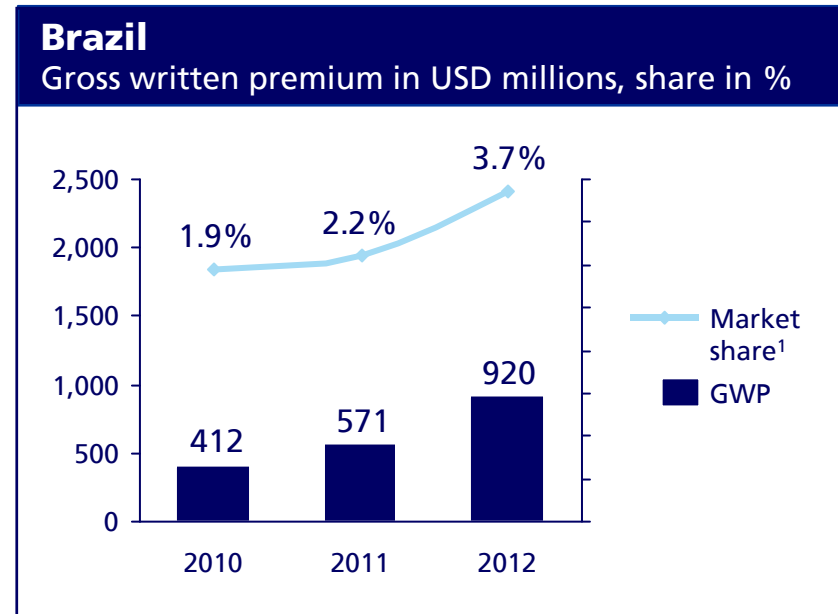
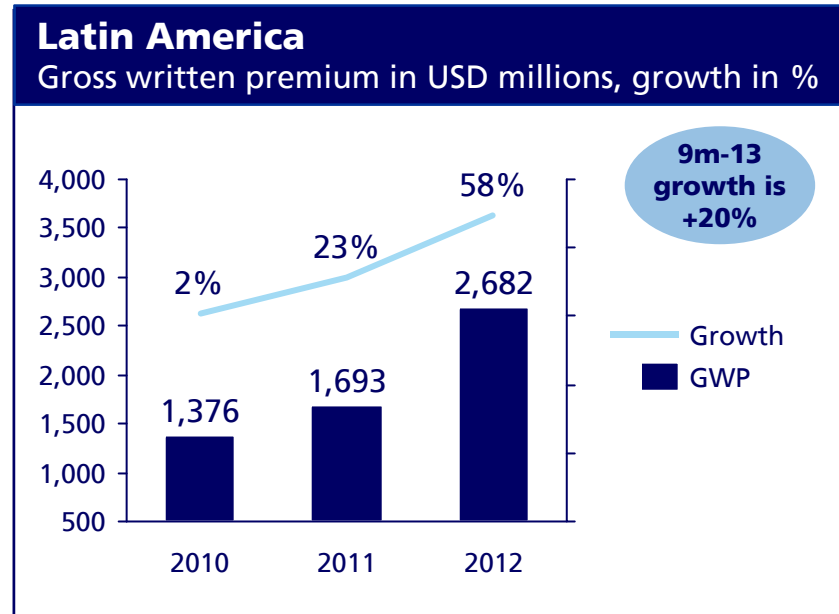
## Redefinition of our go-to-market strategy to deliver superior value to our target customer sub-segments

### Omni-channel integrated approach



- Higher service levels at key "moments of truth"
- + • Innovative and modular propositions
- Significant investment in brand

# We continue to invest in growing our share of Latin American markets



<sup>1</sup> Source: SUSEP Brazil

# Active Portfolio Management – manage to hurdle ROE, or turnaround, exiting if needed



## Strategic management of portfolio

- Evaluation of our business, based on past-performance and our view of prospects, led us to divide our portfolio into two categories

### Invest in focus markets<sup>1</sup>

#### Invest

- Businesses where we have a competitive advantage, or which have longer-term strategic value
- We will make investments in these markets<sup>1</sup> to grow

### Manage for value the remaining markets<sup>1</sup>

#### Manage to hurdle BOPAT ROE

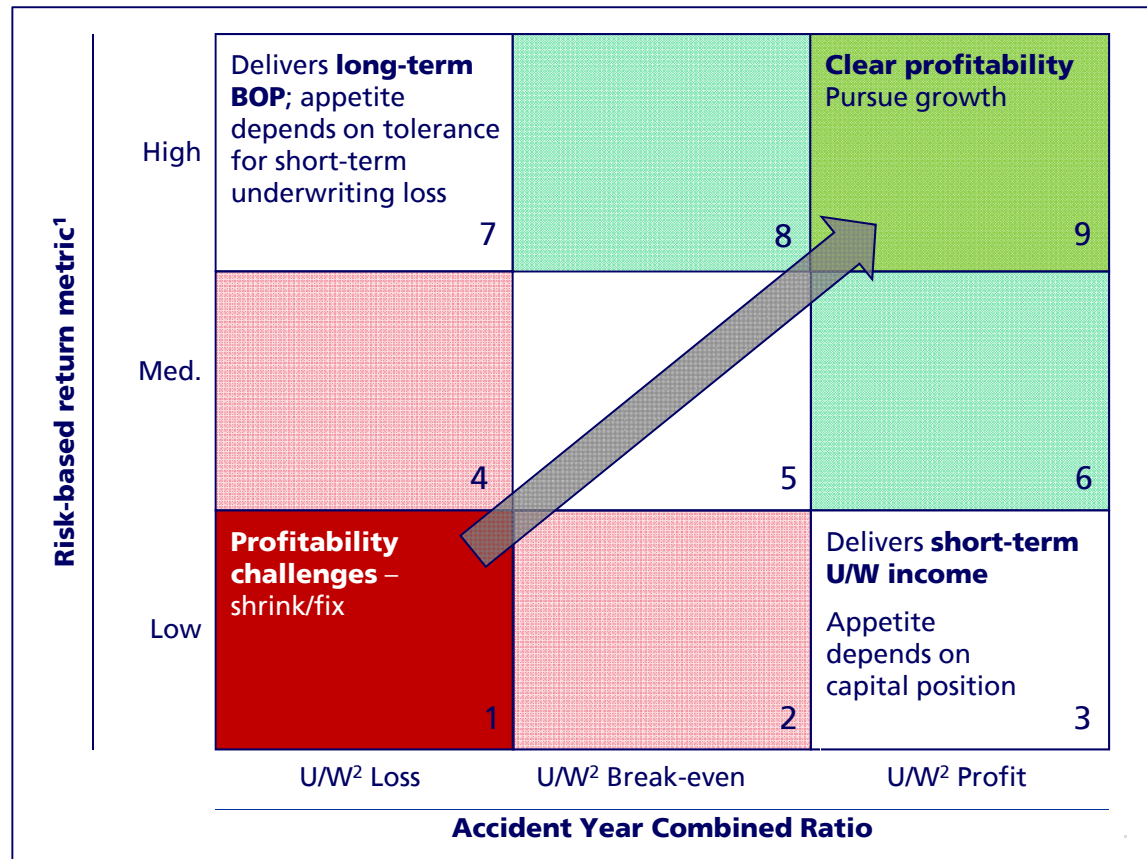
- Profitable, relatively smaller business
- We remain committed to these markets<sup>1</sup>, and will continue to capture value from these businesses

#### Turnaround or exit

- Businesses that are low performers, not meeting our targets, requiring definitive action plans
- We will take deliberate measures to turnaround these businesses, divesting and exiting where appropriate

<sup>1</sup> Markets, in this context, need not always refer to whole countries

# Portfolio optimization drives growth in best performing portfolios

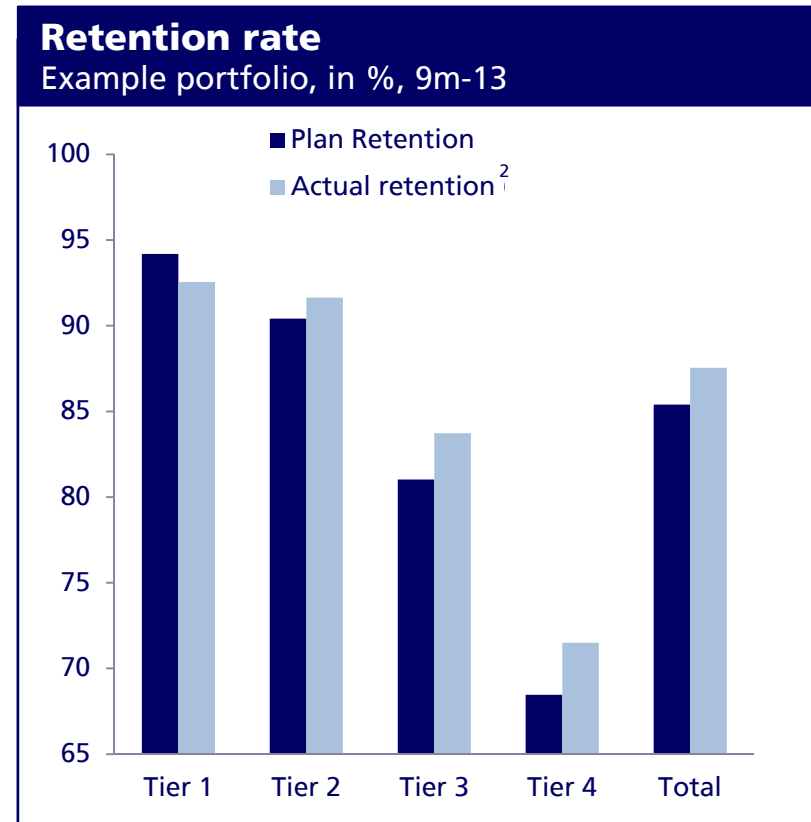
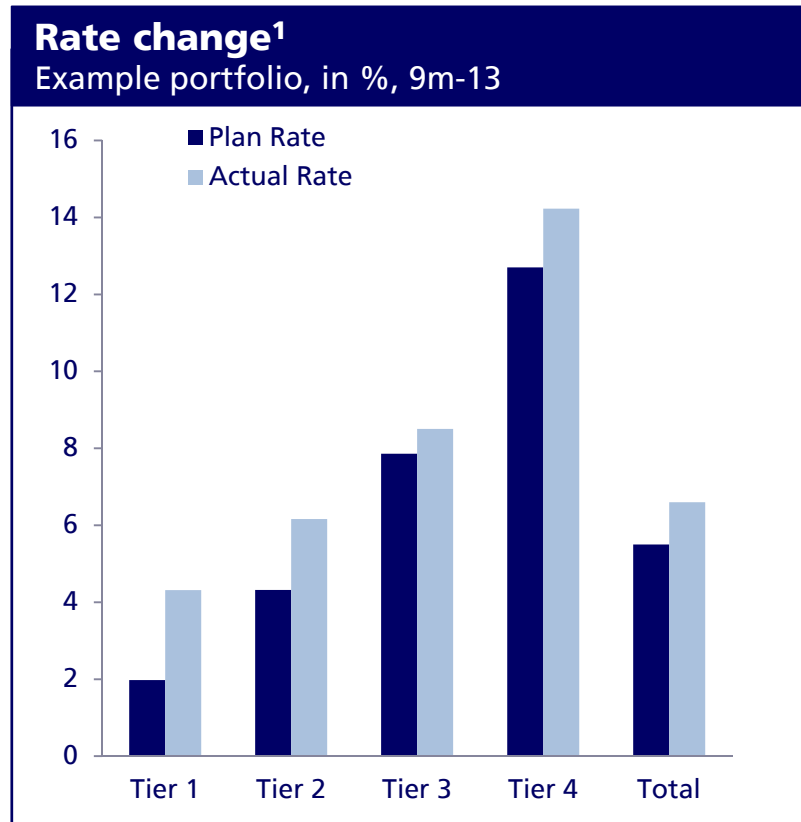


- Portfolios are managed according to profitability metrics and actions taken to move business from box 1 towards box 9
- Net earned premium (NEP) in box 1 decreased by 11 percentage points (USD - 3.2bn) between 2011 and 2013<sup>3</sup>
- Combined NEP in boxes 6, 8 and 9 increased by 2 percentage points (USD +0.7bn) between 2011 and 2013<sup>3</sup>

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<sup>1</sup> Internal Zurich measure of economic profitability of new business written or earned in a given accident year (typically made at a granular, portfolio level), against the risk taken in underwriting that business, and expressed as a percentage  
<sup>2</sup> Underwriting  
<sup>3</sup> As of HY-13

# Tiering execution ensures that rerating action improves the portfolio



Note: Tiers on the left are relatively more profitable than tiers to the right, with Tier 1 representing the most profitable part of the portfolio

<sup>1</sup> The Zurich Rate Change Monitor expresses the GWP development due to premium rate change as a percentage of the renewed portfolio against a comparable prior period. In this slide, the periods shown for 2013 are compared with the same periods of 2012

<sup>2</sup> Adjusted for change in underlying risk (CiUR)



# Our strengthened claims foundation is contributing to profitability









### Leveraging internal expertise to deliver improvement initiatives

- Improvement opportunities in technical claims handling identified, resulting in a tailored initiative plan per country


#### Timeline: On-site country reviews

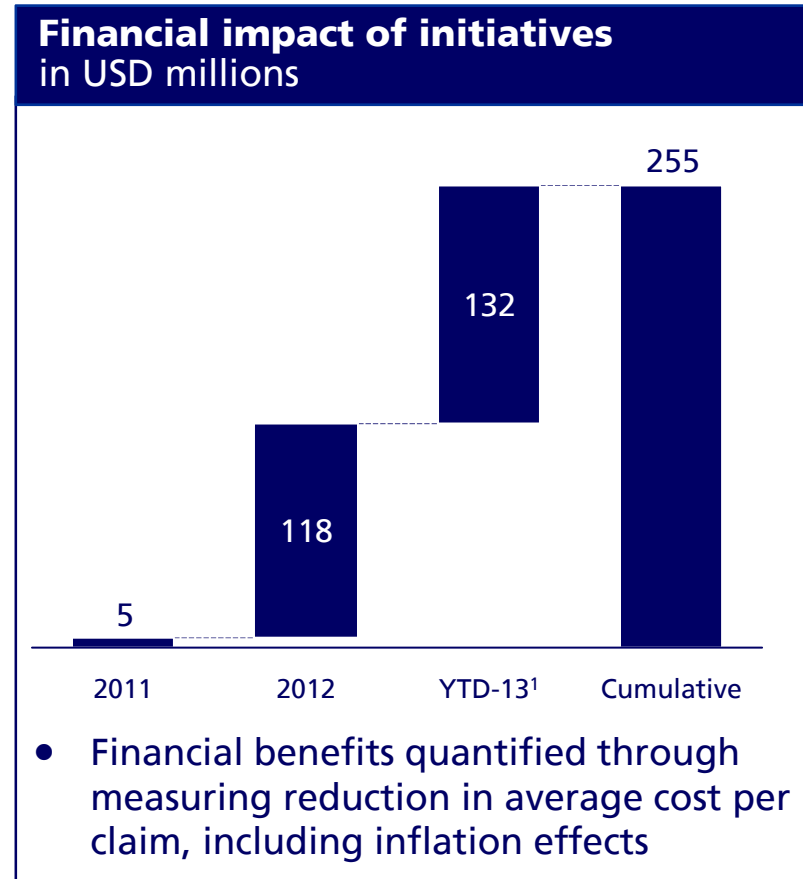
**2011**  

---

**2012**        

---

**2013**   Benefits contribution will start in Q1 2014



Note: This claims diagnostic program excludes Zurich North America

<sup>1</sup> As of August 2013

# We are actively tracking our Large Loss experience



- From 2010 to 2013 our large losses have increased the combined ratio by 1.1% points.
- Small catastrophes and weather losses have increased slightly but this is inline with global industry experience.
- Key driver of the increase in individual large losses is the change in business mix, mainly the increase of Global Corporate's share of the overall book.
- Increase in large losses in 2012 and 2013 is driven by some significant individual large losses in Global Corporate, UK and Germany.

- Moderate increase in large losses reflects changes in business mix and some inherent volatility.
- We are on top of the development and continuously monitor our loss trends, review our underwriting appetite for industry and limits and update our pricing to reflect our desired return on allocated capital.



# Energy underwriting guidelines changed in response to Large Losses



## Energy as part of Global Underwriting Strategy

- Energy is a focus industry for Zurich, because of its critical relevance to the global economy
- New underwriting strategy implemented in January 2012 and updated in November 2013

### Risk selection

- Investment in additional Risk Engineering resources
- Stricter underwriting posture based on engineering scores
- Non-renewed USD 130m since Jan 2012 or ~18% of 2011 GWP baseline<sup>1</sup>

### Terms and conditions

- New attachment points and limits offered based on company size and risk characteristics

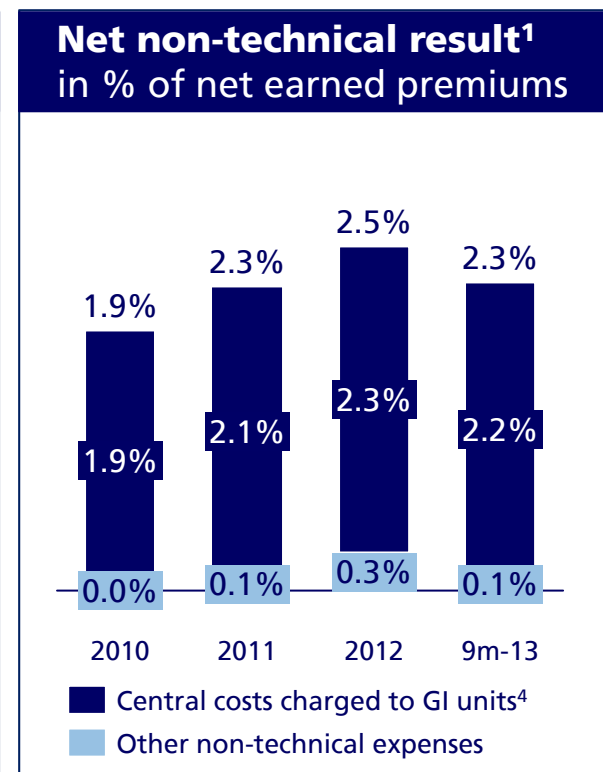
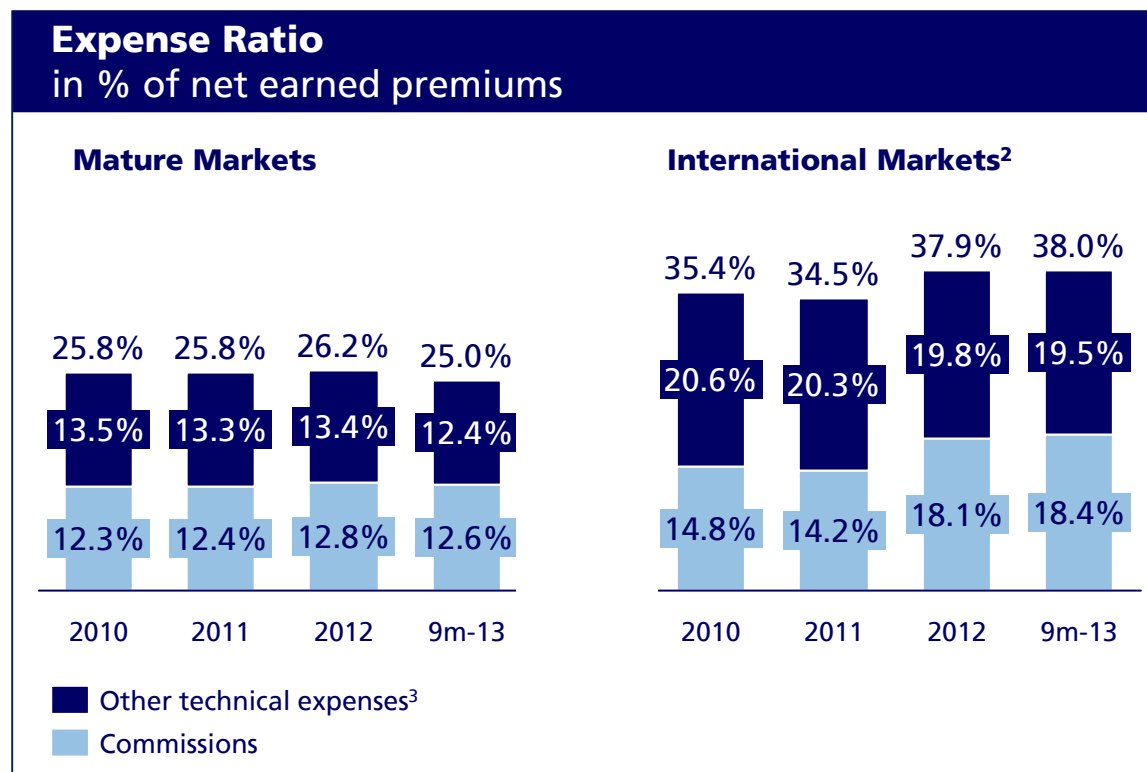
### Pricing

- Consistent pricing through two global, certified pricing tools
- Regular monitoring of portfolio and account level profitability metrics, incl. tiering execution

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<sup>1</sup> For the global Energy Property book

# We continue to manage our expenses



Note: All numbers calculated at actual rates

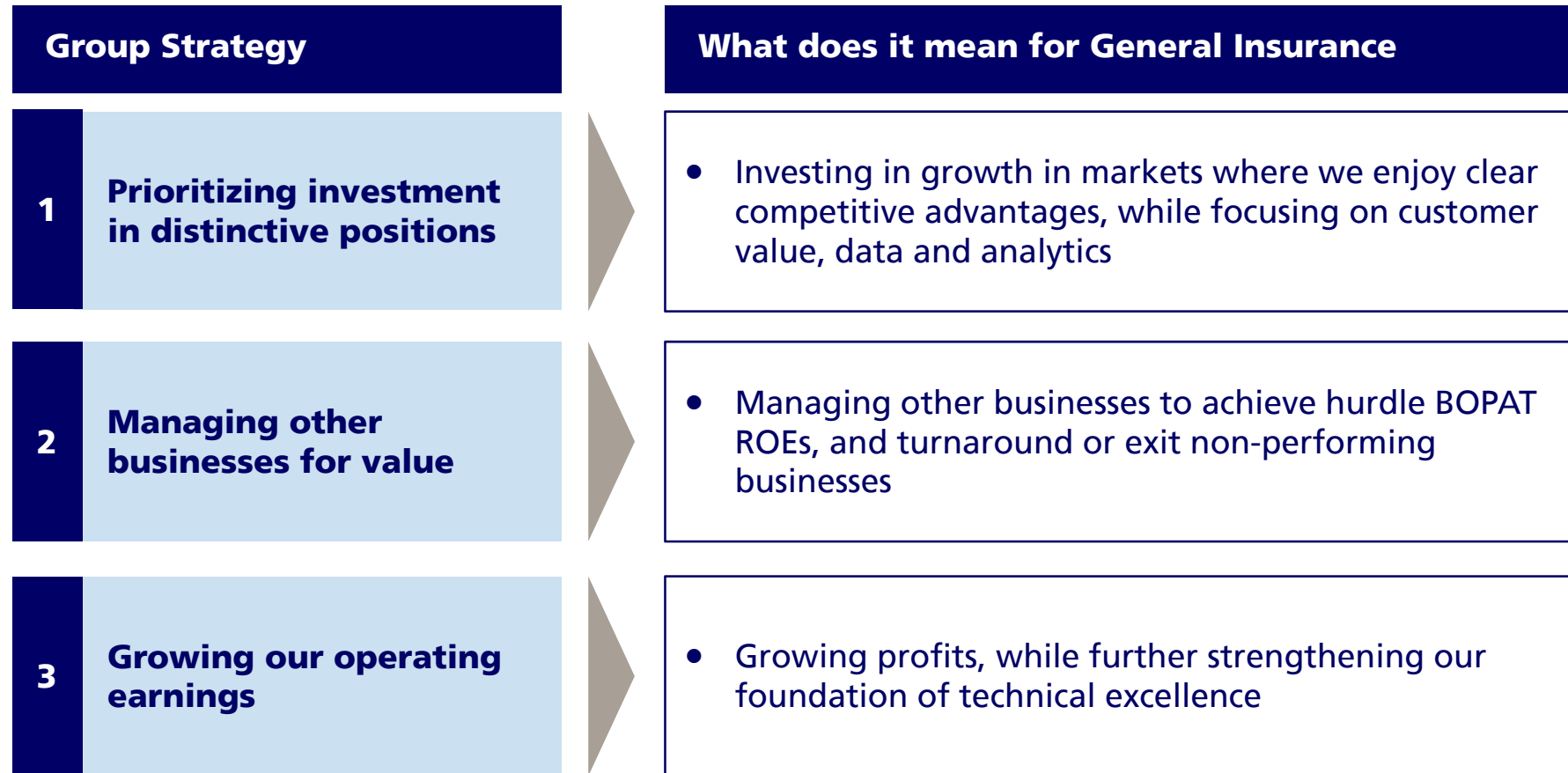
<sup>1</sup> Excluding interest expense on debt and other interest

<sup>2</sup> Includes Australia and Japan

<sup>3</sup> Includes premium taxes

<sup>4</sup> Includes Corporate Center, segment, regional and other central charges to GI units

# Key messages



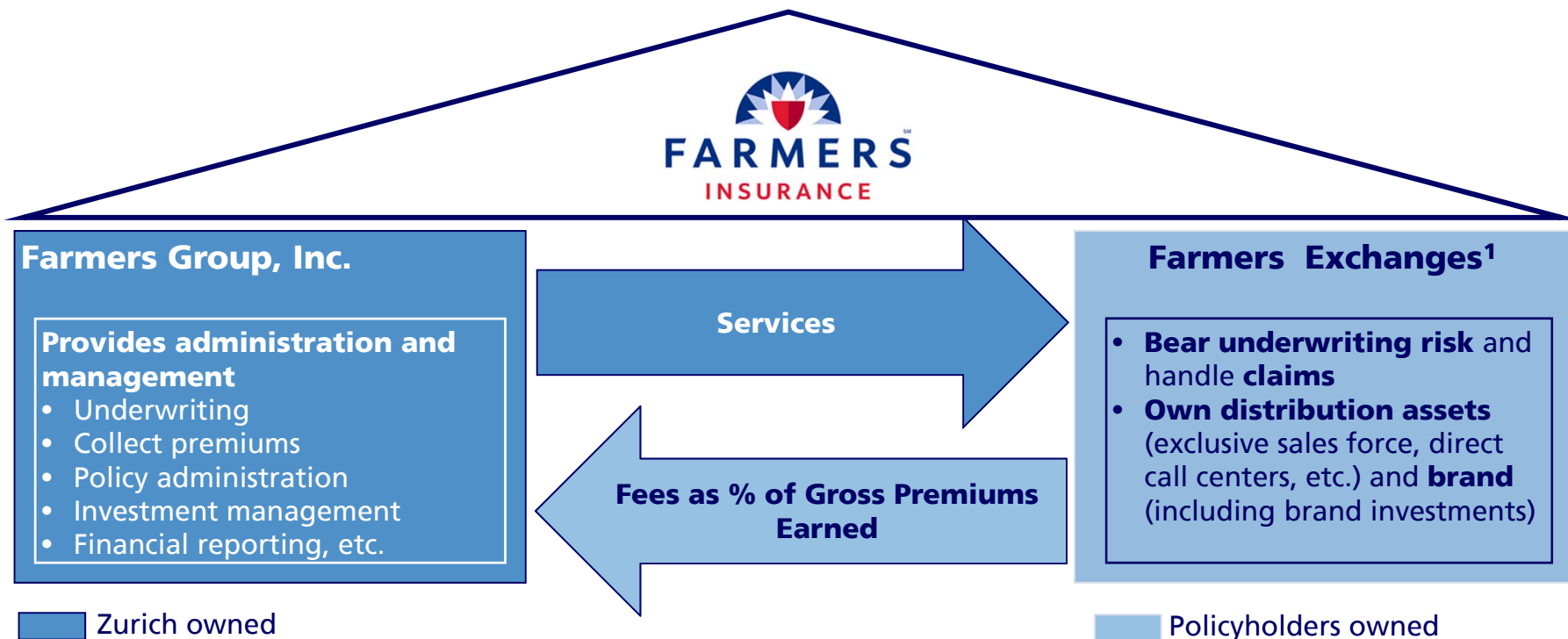


# Farmers

**Jeff Dailey, CEO, Farmers Group, Inc.**



# Farmers' business model



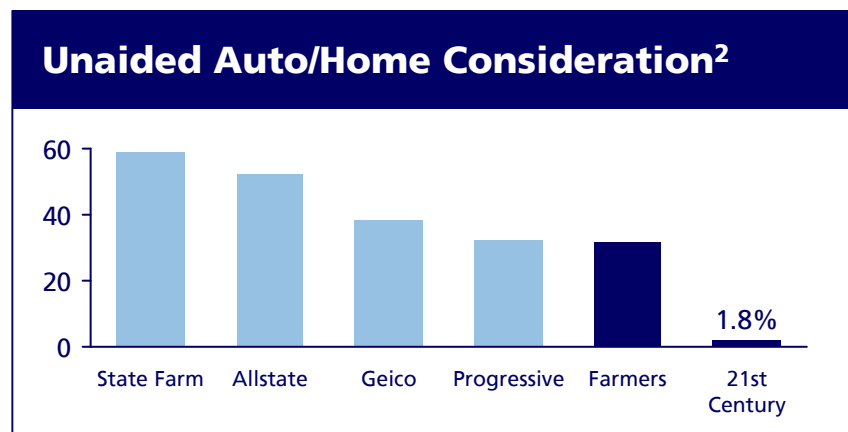
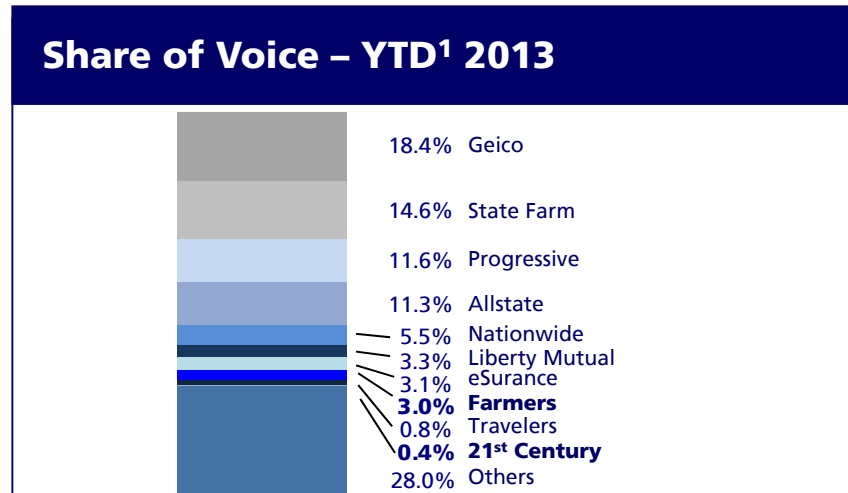
<sup>1</sup> Zurich Insurance Group has no ownership interest in the Farmers Exchanges. Farmers Group, Inc., a wholly owned subsidiary of Zurich, provides management services to the Farmers Exchanges and receives fees for its services.

# Key messages



- Farmers is building on its strengths to compete in a rapidly changing market
- Go-to-market strategy is focused on targeting value conscious customers
- Growth opportunity remains in the East and Farmers is gaining traction
- Focus is on improving Farmers Exchanges' balance sheet

# U.S. Insurance market context – Farmers



### Market environment

- U.S. P&C is a mature market with a 2007-2012 CAGR of 0.5%
- Competition is fierce – USD 6bn spent on advertising, market leaders have largest share of voice
- Having all channels is becoming a necessity
- Auto insurance is in a long-term secular decline as today average annual consumer expenditures in homeowners insurance now exceed auto

<sup>1</sup> Source: Kantar: Media spend - full month data only available through July 2013

<sup>2</sup> Source: Hall and Partners: General Market, as of 9m-13

# Foundation for Farmers consumer strategy – Customer segmentation



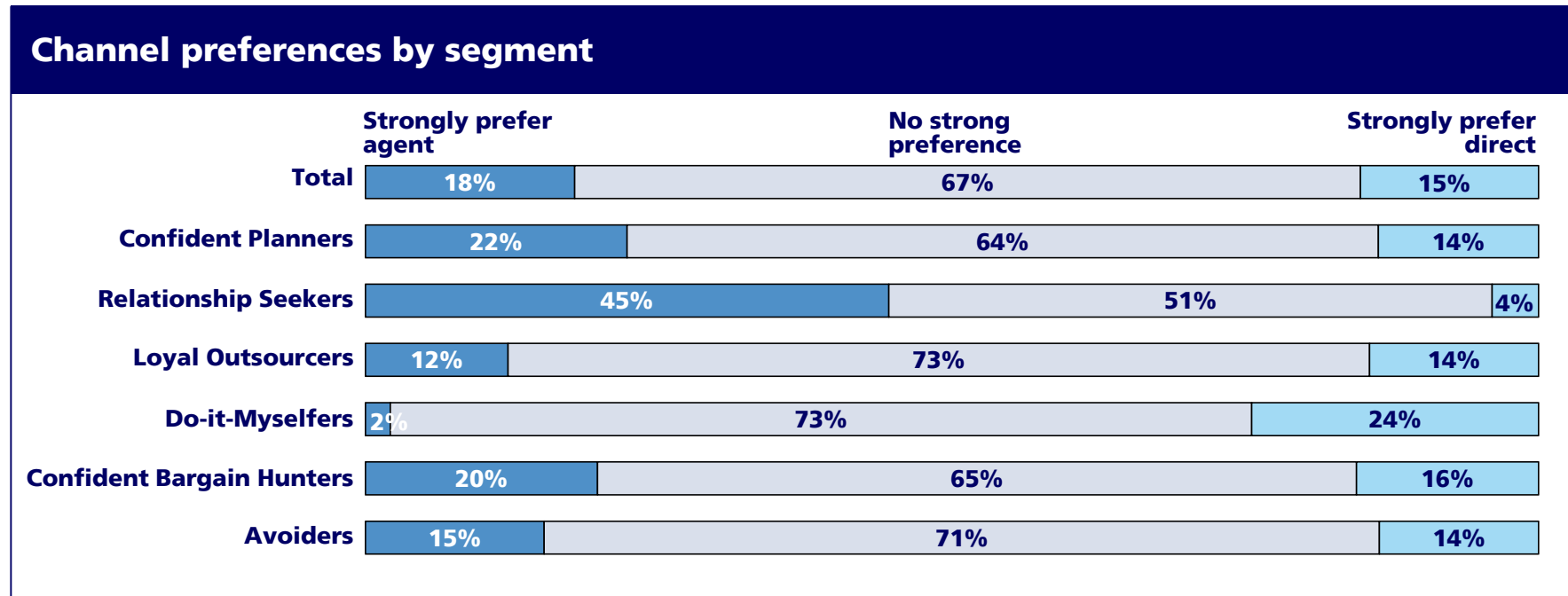
Targeting demand via Confident Planners						
	Segment	% of Households	Auto&Home Spend (USD billions)	Auto&Home Spend (%)	Consumer Life Time Value (USD billions)	Consumer Life Time Value (%)
Value	Confident Planners	17%	69	28%	746	32%
	Relationship Seekers	15%	32	13%	404	17%
	Loyal Outsourcers	14%	56	15%	290	13%
Price	Do-it-Myselfers	24%	56	23%	363	16%
	Confident Bargain Hunters	14%	62	13%	396	17%
	Avoiders	15%	19	8%	118	5%

- There is a clear delineation between value and price conscious consumers
- Both mega segments equal approximately 50% of the market, while value conscious represent approximately 60% of the insurance spend
- Farmers assets best match up with customers focused on value, and specifically the confident planner

Source: FDS Demand Landscape (2012); TCG Analysis



# Foundation for Farmers consumer strategy – Omni-channel approach



- Consumers have no strong channel preference and demand integrated web, after hours calls, and agent capabilities for selling and service
- Farmers adopts omni-channel approach building on its large Exclusive Agents network

Source: FDS Demand Landscape (2012); TCG Analysis

# Farmers strategy



## Cornerstones of Farmers strategy

### **PRIORITIZING INVESTMENT IN DISTINCTIVE POSITIONS**

- Focus on targeting value conscious customers
- Improve the customer experience
- Drive eastern expansion
- Focus on a single consumer facing brand

### **MANAGING FOR VALUE**

- Restore profitability of underperforming businesses
- Reposition 21<sup>st</sup> Century Direct

### **GROWING OPERATING EARNINGS**

- Further improve Farmers Exchanges and Farmers Management Services expense structures
- Reduce Farmers Exchanges reliance on Quota Share support

# Target customer focus, geographic expansion and efficiency to drive profitable Farmers Exchanges growth



## Go-to-market strategy

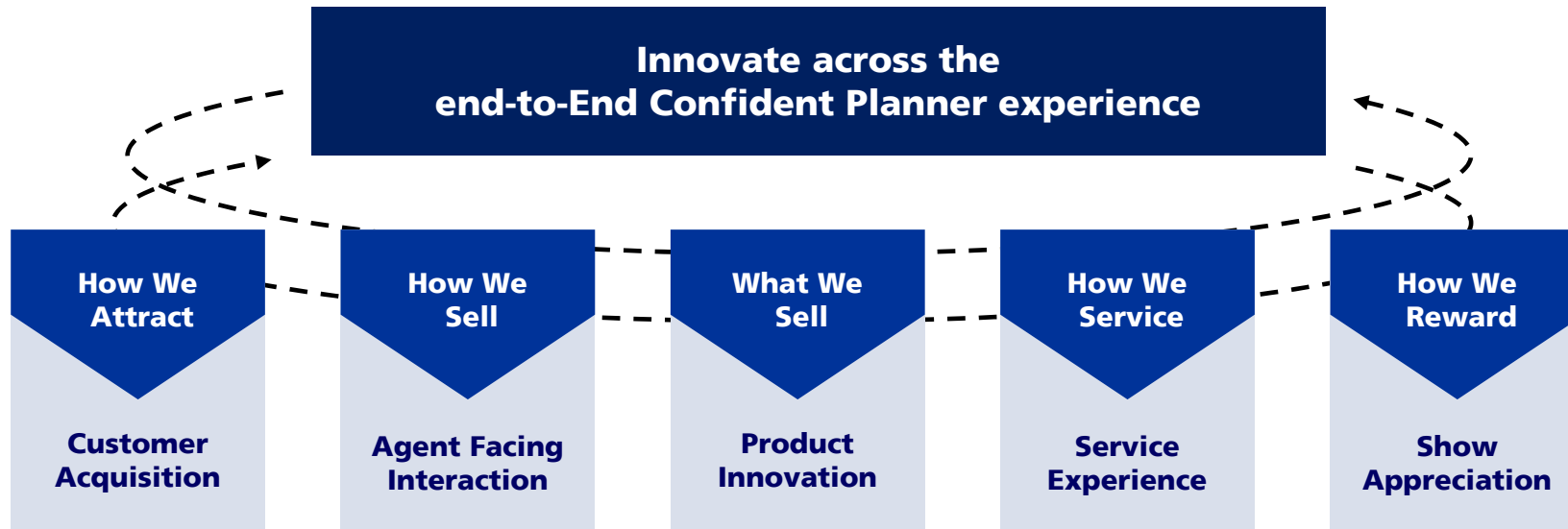
- Consumer focus strategy around target customer
  - Products and services that appeal to the preferred segment
  - Customer experience focus driven by Net Promoter Score
  - Omni-Channel Experience
- Expanding East with Exclusive Agents
- More competitive expense structure



## Key initiatives

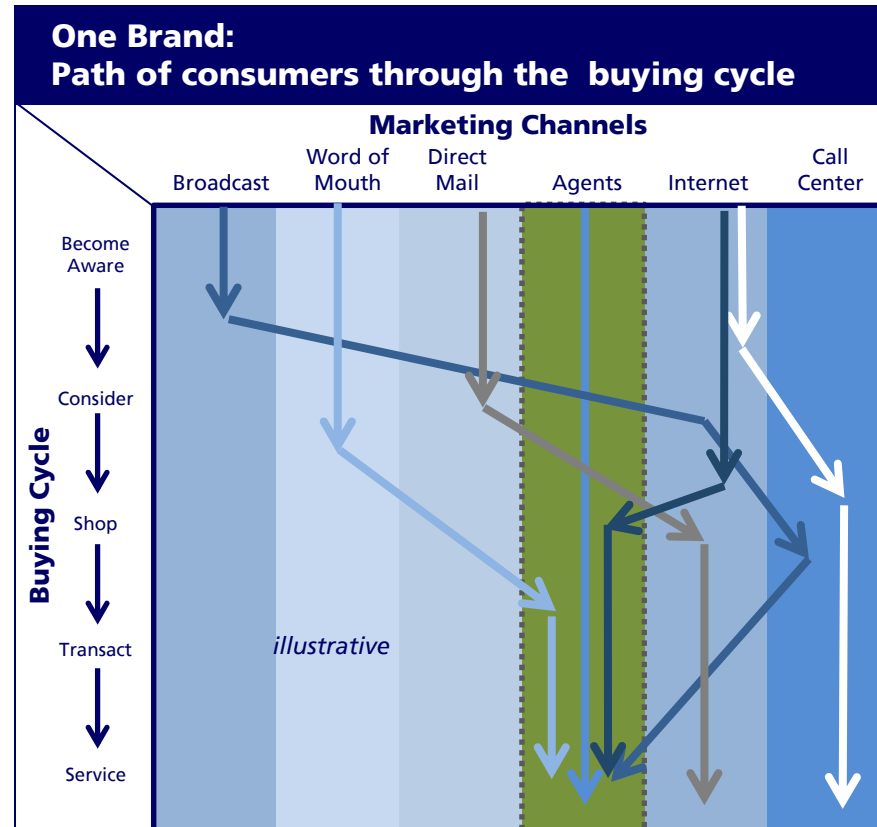
- Converge consumer facing brands to a single Farmers brand
- Wrap direct capabilities around Farmers' agent with Omni channel
- Improve five drivers of customer experience
- Add 6 states to our eastern expansion beginning with Florida and Connecticut
- Reposition non-core Independent Agent businesses for value to improve Farmers Exchanges profitability

# Targeting the value conscious consumer



- Our target amongst value conscious consumers is Confident Planners which are 17% of U.S. population and 28% of Insurance spend
- Focusing on Confident Planners will allow Farmers to be attractive to the entire spectrum of value buyers
- Farmers' over indexes in the number of Confident Planners, but under indexes in their spend with Farmers
- Winning here is about innovating across the entire value chain

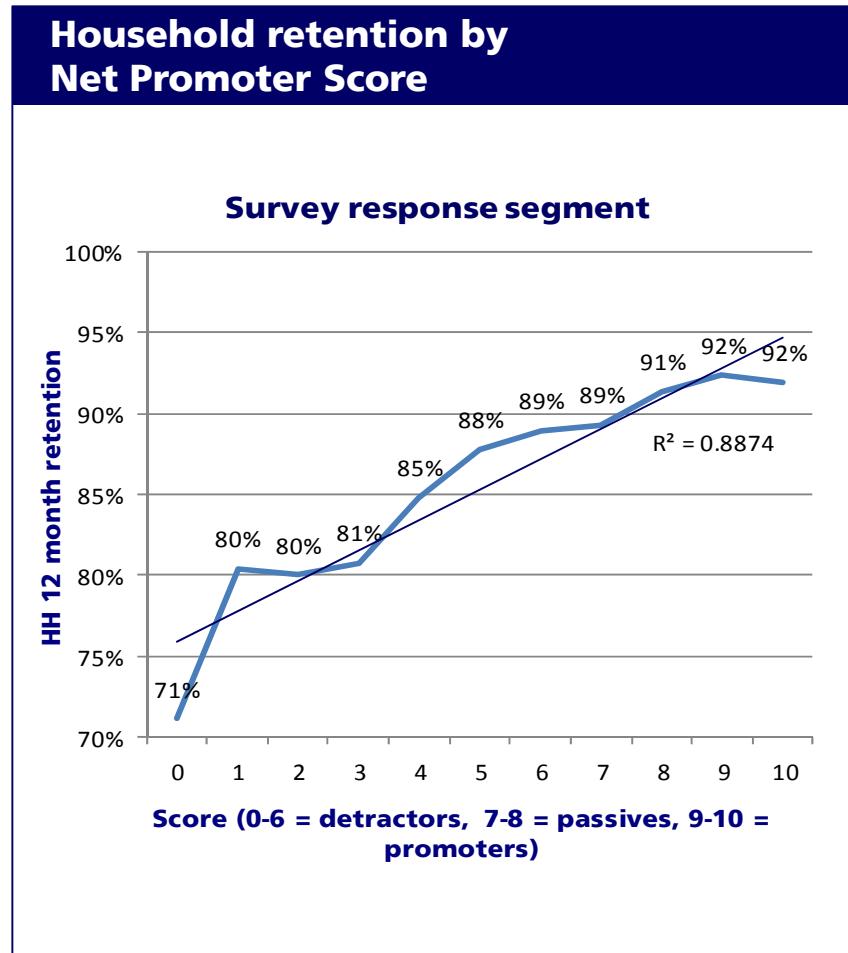
# U.S. Personal Lines is an omni-channel journey



- Majority of insurance shoppers begin on the web, while closing with an agent
- Omni-channel is the seamless integration of channels for sales and service
- Farmers non integrated omni-channel efforts have achieved USD 252m GWP<sup>1</sup> in 9m-13 and USD 760m GWP<sup>1</sup> since 2010 in cross sell and quote not taken opportunities

<sup>1</sup> Includes new business and renewal premiums  
Illustration source: Multichannel Marketing, Akin Arian

# Improving customer experience critical to strategy – large growth lever



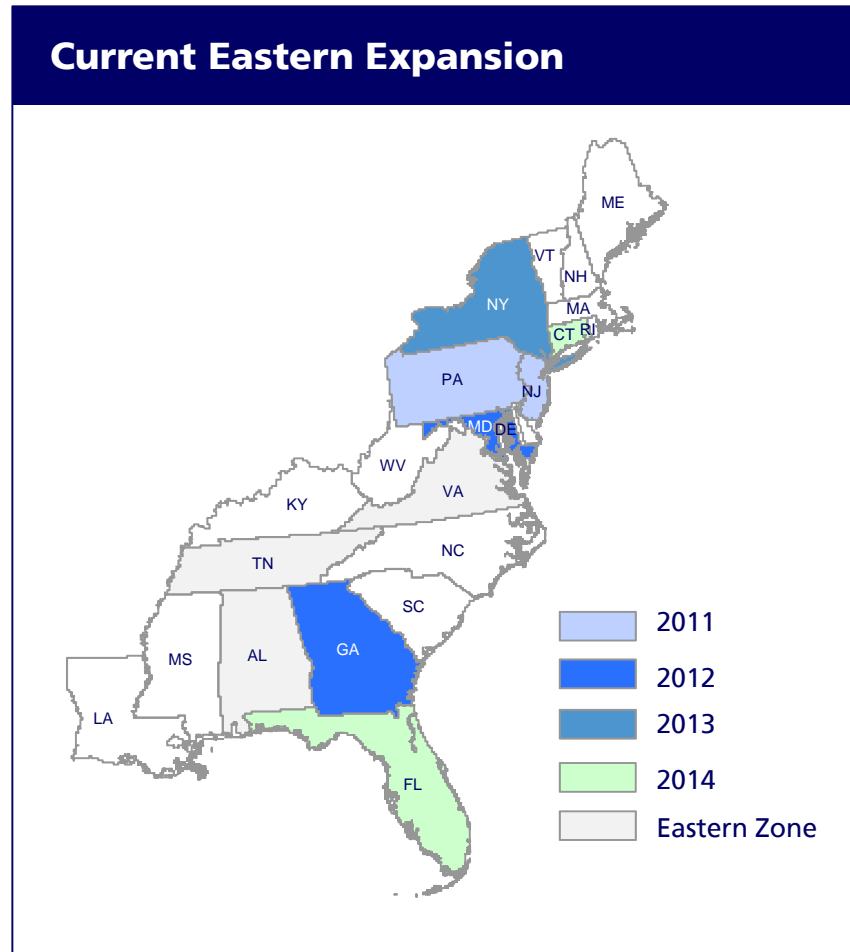
- Focus on improving the customer experience at Farmers as measured by Net Promoter Score (NPS)
- This is critical to retaining Confident Planners, but it is also a large growth lever as it's a way to improve retention. This is a large growth opportunity as Farmers lags key competitors.
- NPS is highly correlated to retention. Price is a major component of NPS as the amount you pay colors your perception of value.
- Farmers has identified and will focus on five NPS strategic drivers:
  - Rate stability
  - Customer communication
  - Website satisfaction
  - Agent behavior
  - Claims satisfaction

# Digital strategy to improve Net Promoter Score



- Significant work to retool digital experience
  - Measuring digital experience by both NPS and percentage of task accomplishment
- Benefits of investing in digital
  - Direct impact on customer experience and revenue
  - Leverage digital channels to provide an Omni channel experience
  - Lower service costs

# Eastern Expansion

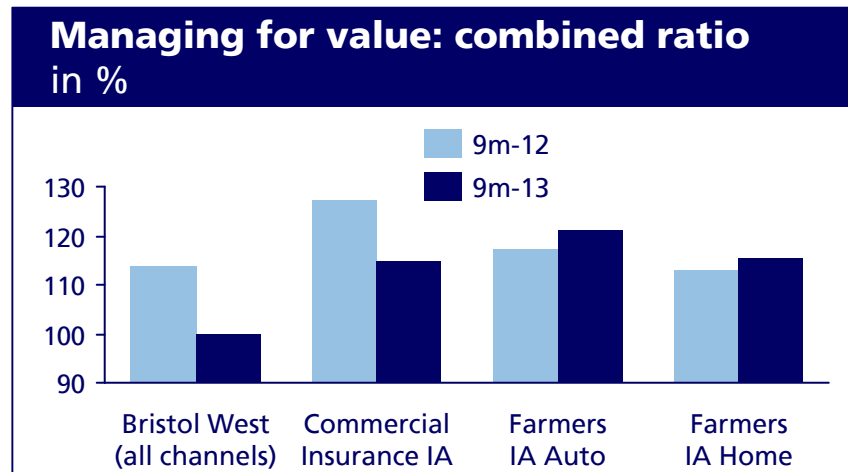
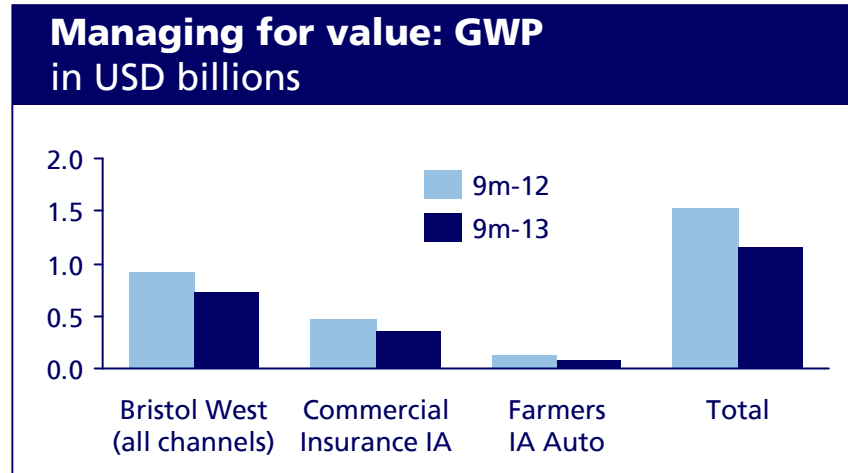


- Currently in 5 Eastern states with Farmers Agents (PA, NJ, GA, MD & NY)
- Strong results to date in our Eastern Expansion efforts
  - 479 agents and 398 additional licensed producers in these states<sup>1</sup>
  - Topped USD 100m GWP in three years
- Expanding six additional states over next three years
  - Plan to rollout Connecticut and, in a controlled manner, Florida in 2014
  - Followed by two additional states in each year 2015 and 2016

<sup>1</sup> As of November 15, 2013

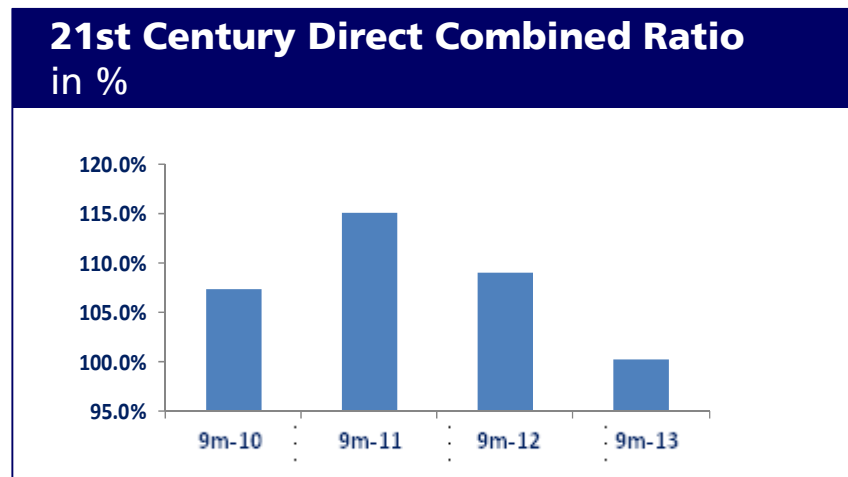
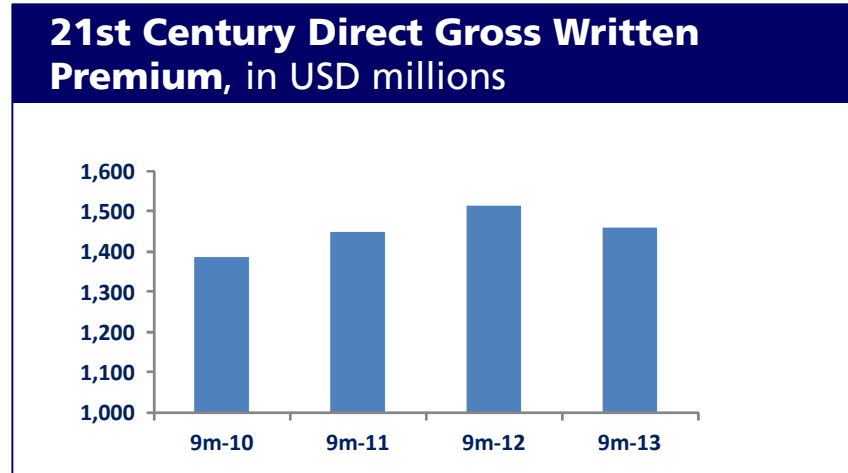


# Repositioning to improve profitability



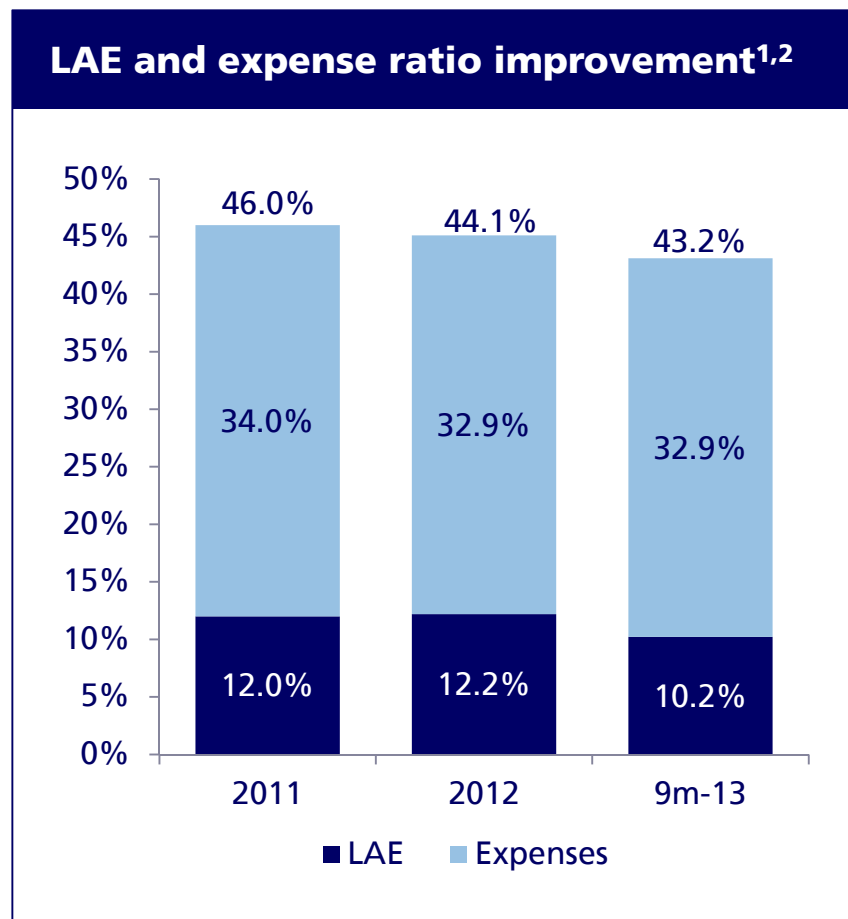
- Over the last two years profitability challenges have been more than weather. Significant repositioning of the non-core Farmers book has created a decline of USD 350m comparing 2013 to 2012:
  - Re-established Bristol West as a niche non-standard auto writer
  - Discontinuing Farmers branded independent agent business
  - Significant rate and underwriting actions to improve profitability of the Business Insurance independent agent channel

# Repositioning 21<sup>st</sup> Century Direct



- Farmers repositions 21<sup>st</sup> Century Direct for several reasons:
  - Proprietary consumer research shows there is no direct market, but rather segments that use all channels
  - A significant consideration hill is to be climbed with the Farmers’ brand. It’s too expensive to build consideration for two brands aimed at different segments
  - It’s expensive to grow direct given the significant first year cost investment
  
- 21<sup>st</sup> Century Direct provides a great platform for Farmers to build out our omni-channel approach.

# Progress has been made in improving expense structure

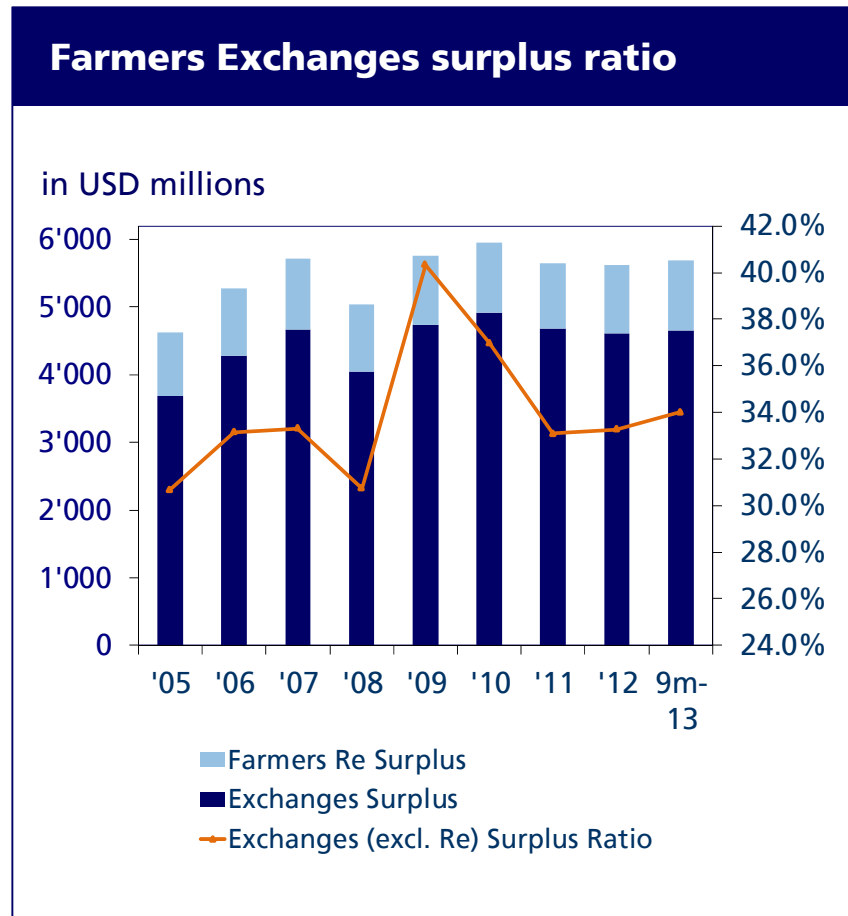


- Farmers Exchanges reduced expenses by 3 points since 2011, while at the same time investing in Eastern Expansion, distribution and customer experience initiatives
  - Focused on efficient claims handling with better use of technology
  - Scaled back two brand advertising
- Efforts continue to achieve similar improvement over the next three years adjusted for continued investments in Eastern Expansion
- Expense savings efforts encompass Farmers Management Services and the Farmers Exchanges

<sup>1</sup> Before quota share treaties with Farmers Reinsurance Company, Zurich Insurance Company Ltd, and a third counterparty.

<sup>2</sup> Expenses include management fees of Farmers Management Services, LAE = Loss adjustment expenses

# Strengthening Farmers Exchanges capital will lead to reduced reliance on reinsurance



- Historically, and in accordance with NAIC<sup>2</sup> guidelines Farmers Exchanges surplus has been presented including Farmers Reinsurance Company<sup>1</sup>.
- In a day-to-day operating context, the Exchanges' Capital is managed and regulated on a stand alone basis.
- Capital management framework:
  - Stand alone Surplus Ratio of 33% - 36% in the near term
  - Exchanges NAIC RBC<sup>2</sup> of 325% - 350%
- Quota share reinsurance is an expensive form of capital support for Farmers Exchanges and through Farmer Re add volatility to the Farmers segment results.
- Farmers' goal is to significantly reduce reliance on quota share reinsurance.

1 Farmers Reinsurance Company is a wholly owned subsidiary of Farmers Group, Inc., not owned by the Farmers Exchanges

2 NAIC: National Association of Insurance Commissioners; RBC: Risk-based Capital

# Key messages



- Farmers is building on its strengths to compete in a rapidly changing market
- Go-to-market strategy is focused on targeting value conscious customers
- Growth opportunity remains in the East and Farmers is gaining traction
- Focus is on improving Farmers Exchanges' balance sheet

# Appendix



# Farmers relationship to Zurich



## What is “Farmers”?

- Farmers is a brand name beneficially owned by the Farmers Exchanges.
- The “Farmers Exchanges” are Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange and their subsidiaries and affiliates. The three Exchanges are California domiciled interinsurance exchanges owned by their policyholders with governance oversight by their Boards of Governors.
- Farmers Group, Inc. and its subsidiaries are wholly owned subsidiaries of Zurich Insurance Group Ltd. They form part of the “Farmers” reporting segment in Zurich financial statements with the exception of the life operations. Neither Farmers Group, Inc., nor Zurich has any ownership interest in the Farmers Exchanges.

## Relationships Among the Farmers Exchanges, Farmers Group, Inc. and Zurich

- Farmers Group, Inc. and its subsidiaries are appointed as the attorneys-in-fact for the Farmers Exchanges and in that capacity provide certain non-claims administrative and management services to the Farmers Exchanges for a fee.
- Zurich owns Farmers Group, Inc. but does not manage the Farmers Exchanges, and there is no reporting by Farmers Exchange officers, management or personnel to Zurich.

## Farmers Exchanges Strategy

- The Boards of Governors of the Farmers Exchanges approve or ratify Farmers Exchanges financial plans and strategies, rate activity, investment strategies and mergers and acquisitions, among other things.
- References in the Farmers Strategy to financial information about the Farmers Exchanges is proprietary to the Farmers Exchanges, but is provided with the consent of the Farmers Exchanges to support an understanding of the performance of Farmers Group, Inc. and Farmers Reinsurance Company.

# Cash and capital

**Vibhu Sharma, Interim CFO Zurich Insurance Group**





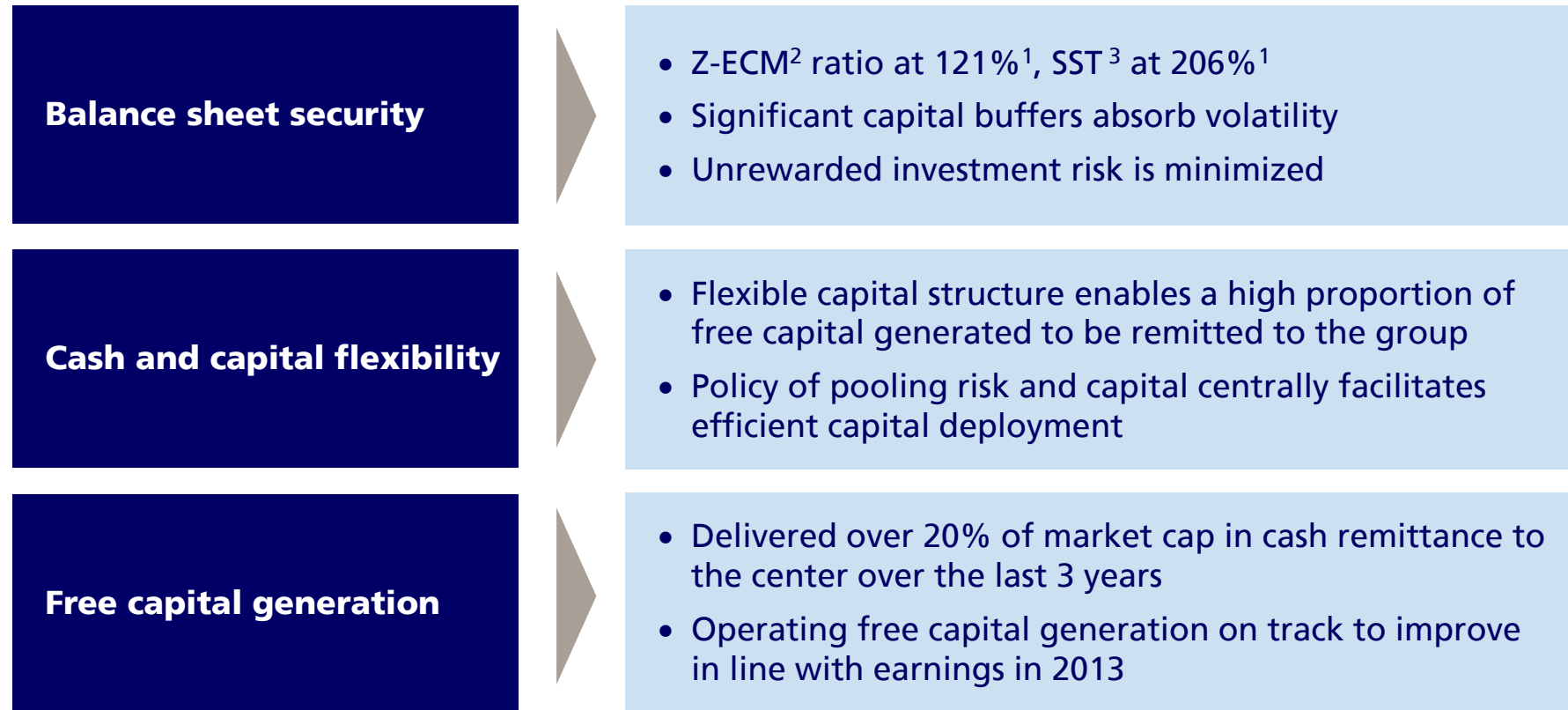
# Key messages



- Strong financial position
- Capital flexibility and buffers to absorb volatility
- Operating free capital generation is improving
- Remit > USD 9bn in net cash to the holding company in 2014 - 2016, after central costs, while investing to grow the business

**We will continue to pay a sustainable and attractive dividend**

# Three key factors underpin our dividend



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<sup>1</sup> As of 1 July 2013  
<sup>2</sup> Z-ECM = Internal Economic Capital Model  
<sup>3</sup> Swiss Solvency Test

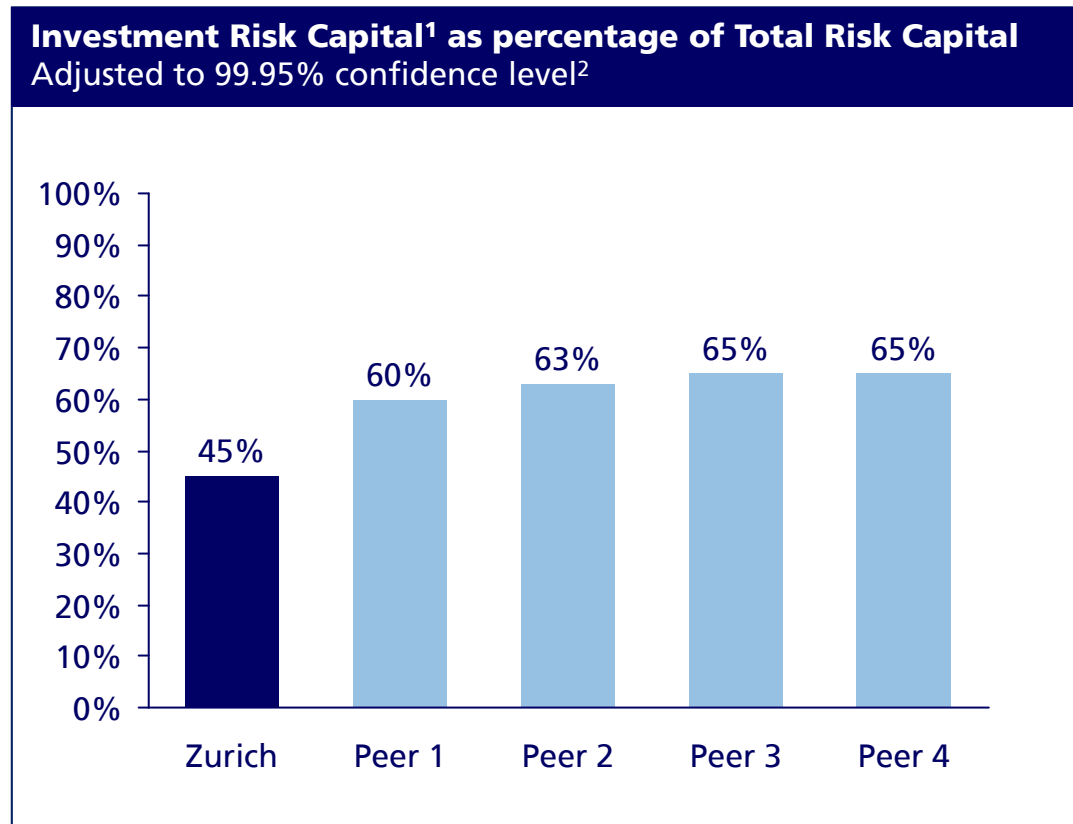
# We have a very strong balance sheet...



Z-ECM <sup>1</sup> Ratio	SST <sup>2</sup> Ratio	Solvency I
<b>121%</b>	<b>206%</b>	<b>261%</b>
As of 1 July 2013	As of 1 July 2013	As of 30 September 2013
Moody's financial leverage	Moody's earnings coverage	Financial strength rating
<b>25%</b>	<b>8x</b>	<b>AA range</b>
As of 31 December 2012	As of 31 December 2012	As of 5 December 2013

1 Z-ECM = Internal Economic Capital Model  
2 Swiss Solvency Test

# ...with low capital volatility coming from investment risks compared to peers...



## Key observation

- ALM/Market risk contribution to total Z-ECM is estimated to be lower than at selected peers<sup>3</sup>

## Primary factors

- Focus on insurance risk over investment risk
- Managing assets relative to liabilities on a risk adjusted basis
- Relatively small duration gap with both Global Life and GI assets slightly long relative to liabilities

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<sup>1</sup> Asset Liability Matching and Investment Credit Risk Based Capital, including diversification, relative to total Risk Capital; Risk Capital is diversified within Risk types

<sup>2</sup> Zurich's own calculation and estimation based on Company Reports combined with internal data analysis

<sup>3</sup> Global Peers includes a sample of 4 large global peers

# ...and an efficient capital structure



## Strategy

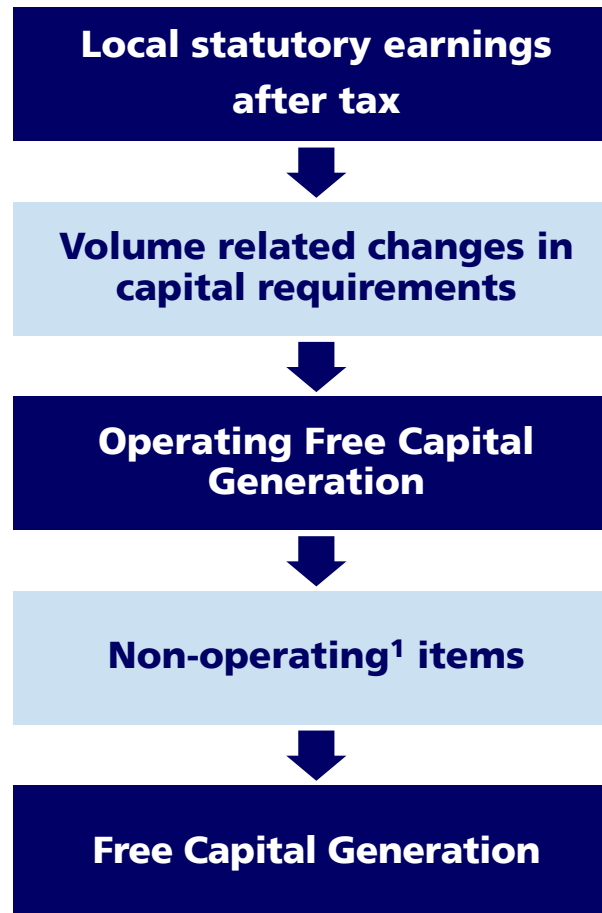
Manage local subsidiaries to the regulatory minimum plus an adequate buffer for short term volatility

Pool capital and risk as centrally as possible

## Key aspects

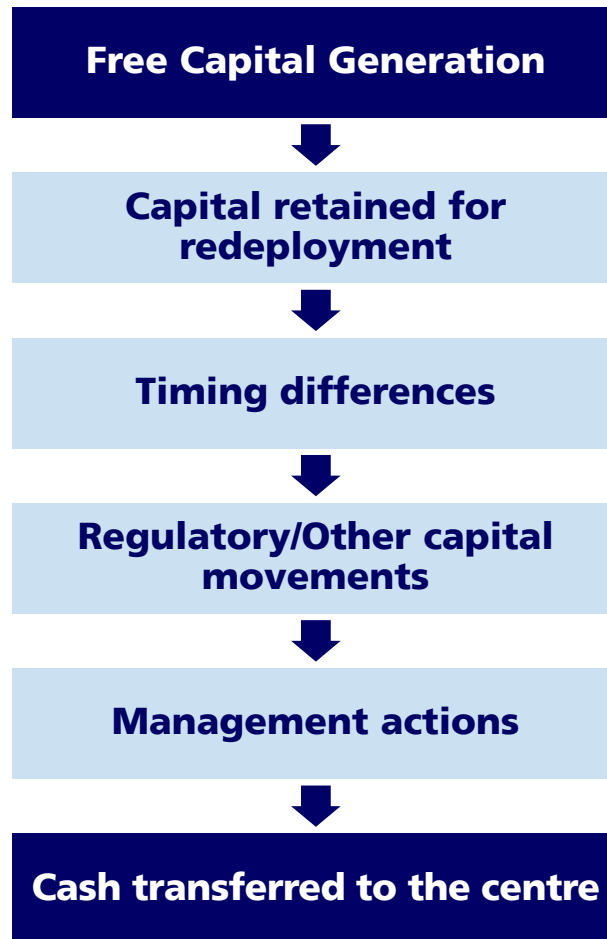
- Active capital management to minimise timing friction between free capital generation and up streaming to group
- Capital targets set and monitored centrally
- Focus on intra-year dividends
  
- One key European GI balance sheet
- One key U.S. GI balance sheet
- Use of internal reinsurance
- Significant liquidity asset buffer held centrally

# Principles applied to Free Capital Generation

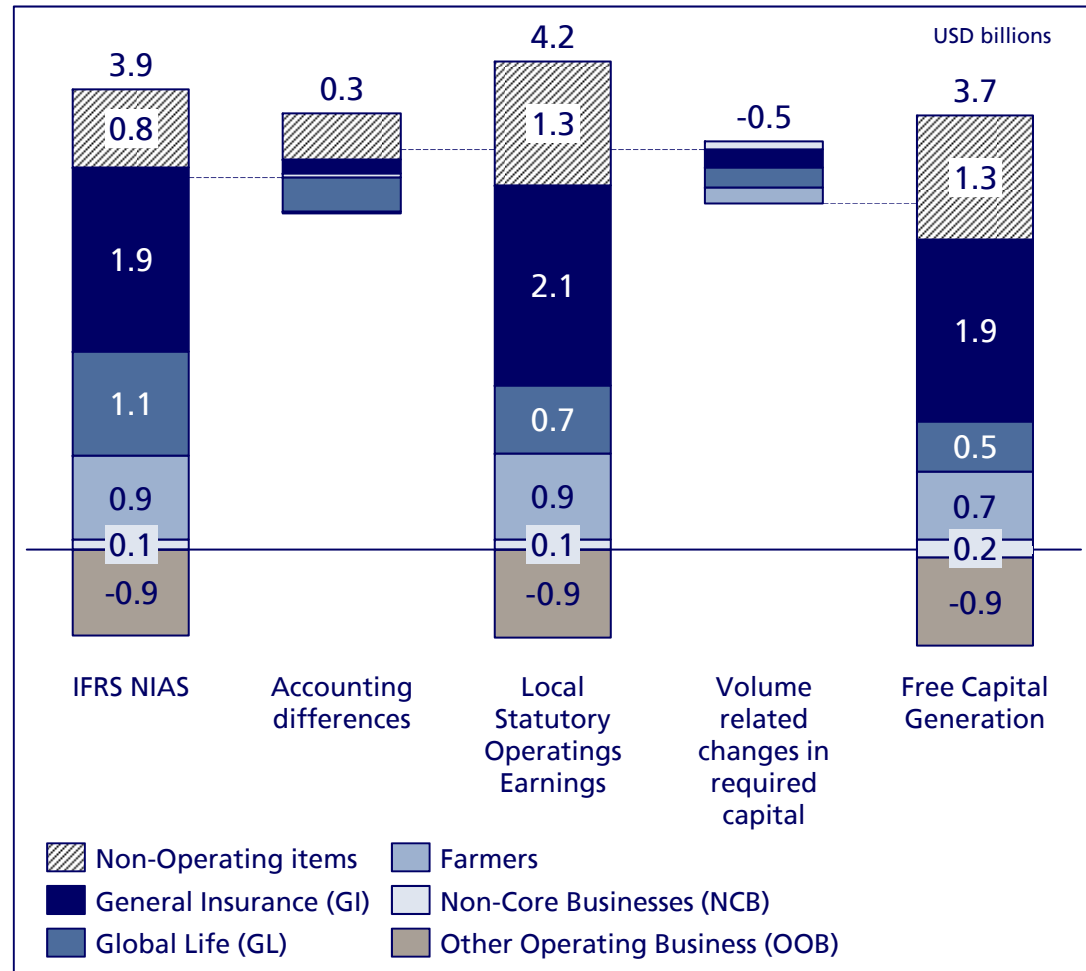


<sup>1</sup> Non-operating items are those not firmly defined under local statutory principles. The identification and quantification therefore involves judgement. To the extent possible the definitions used were kept similar to those defined in the IFRS accounts.

# How Free Capital Generation translates into cash paid to the centre



# Net Income to Free Capital Generation (2012)



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## Key Differences

### IFRS to local statutory

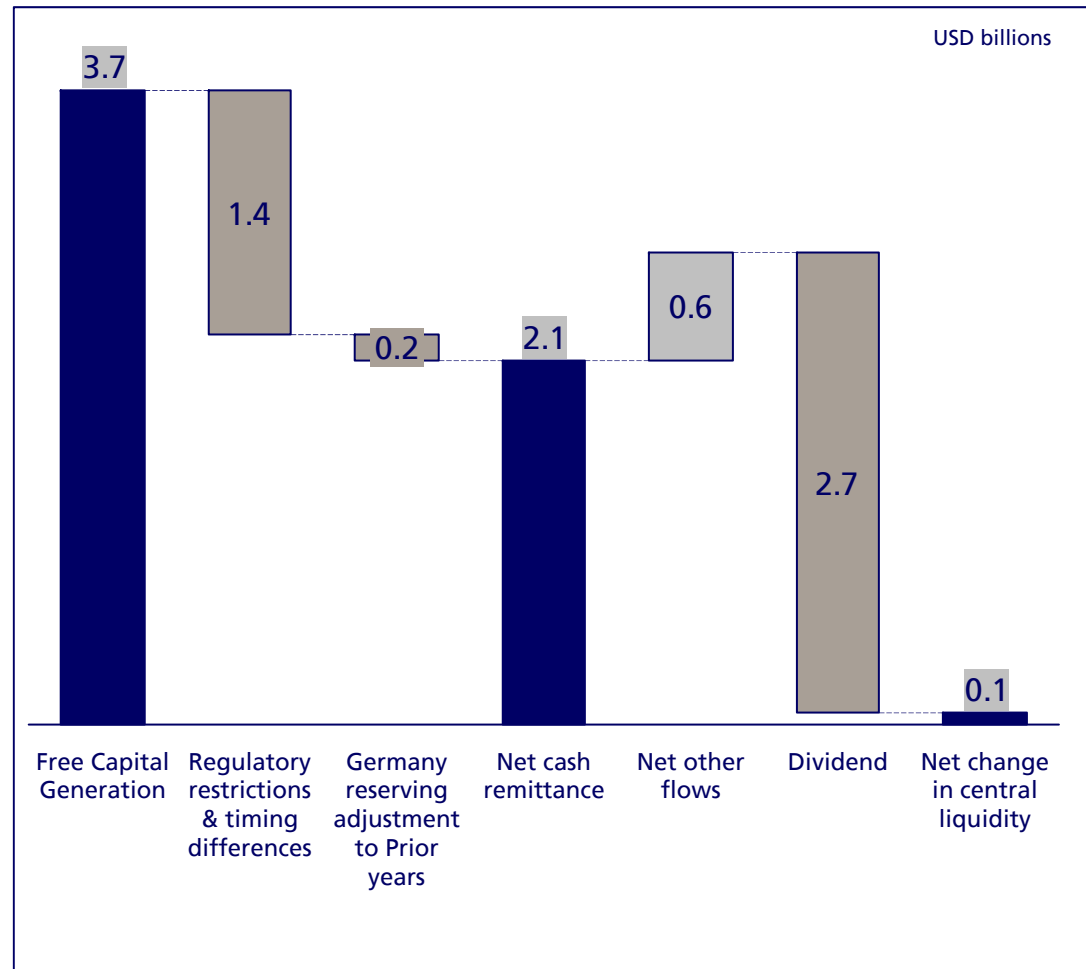
- GI: Mainly tax loss carry forward in U.S. GI otherwise relatively similar to IFRS
- GL: Mainly intangibles deferred in IFRS
- Farmers, NCB & OOB: similar to IFRS

### Capital requirements

- GI & GL capital increases in line with volume growth
- Farmers driven by increase in the quota share in 2012
- NCB capital release following the run-off of reserves



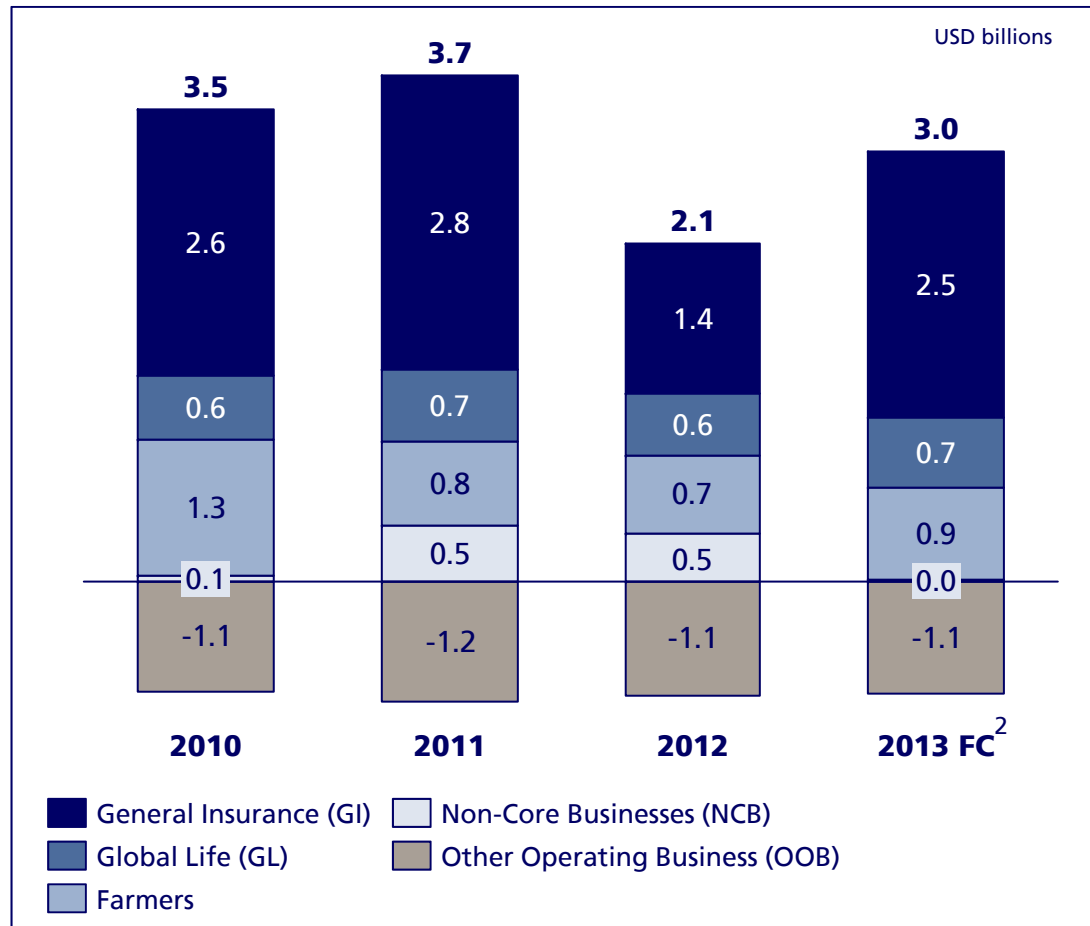
# Free Capital Generation to change in central liquidity (2012)



## Key movements

- Net increase in central liquidity after all cash flows
- Regulatory restrictions in the U.S. and Europe GI
- Timing differences mainly relate to Switzerland GI and Italy Life
- Net other flows include net funding and excess capital releases

# Very strong track record of remitting cash to group



## Key messages

- 2010 and 2011 benefitted from ZNA<sup>1</sup> surplus note repayments
- 2012 impacted by one-off regulatory capital restrictions in the U.S. and Europe GI, and Germany GI reserve strengthening
- Central liquidity buffers increased in all years presented
- Picture excludes large positive one off capital projects
- 2013 expected to return to a level more consistent with prior years

<sup>1</sup> Zurich North America

<sup>2</sup> Estimated remittances, subject to change.

# Growing free capital generation underpins new remittance target



Levers	Key aspects
Profitability	<ul style="list-style-type: none"><li>• BOPAT ROE 12 - 14%</li><li>• Grow operating profits</li></ul>
Growth	<ul style="list-style-type: none"><li>• Allocate capital efficiently to products and balance sheets</li></ul>
Capital investment	<ul style="list-style-type: none"><li>• Prioritise investments</li><li>• Stop investing in non-performing business</li></ul>
Acquisition costs	<ul style="list-style-type: none"><li>• Manage business mix to reduce strain</li></ul>
Legal entity structure	<ul style="list-style-type: none"><li>• Continue to streamline the Group's legal entity structure to minimise the frictional cost of capital</li></ul>

# Key messages

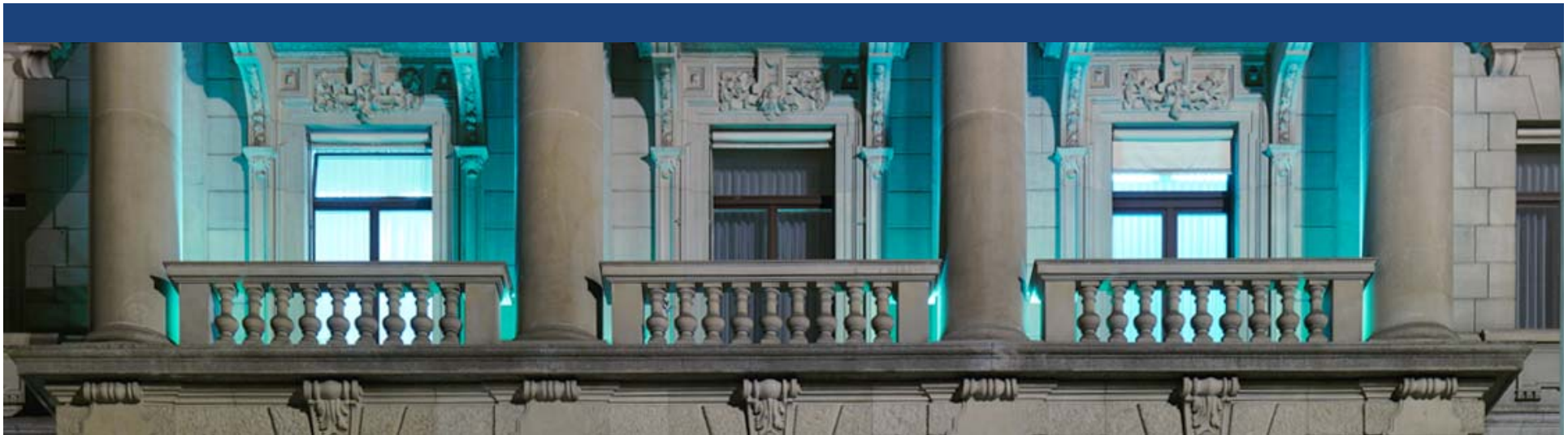


- Strong financial position
- Capital flexibility and buffers to absorb volatility
- Operating free capital generation is improving
- Remit > USD 9bn in net cash to the holding company in 2014 - 2016, after central costs, while investing to grow the business

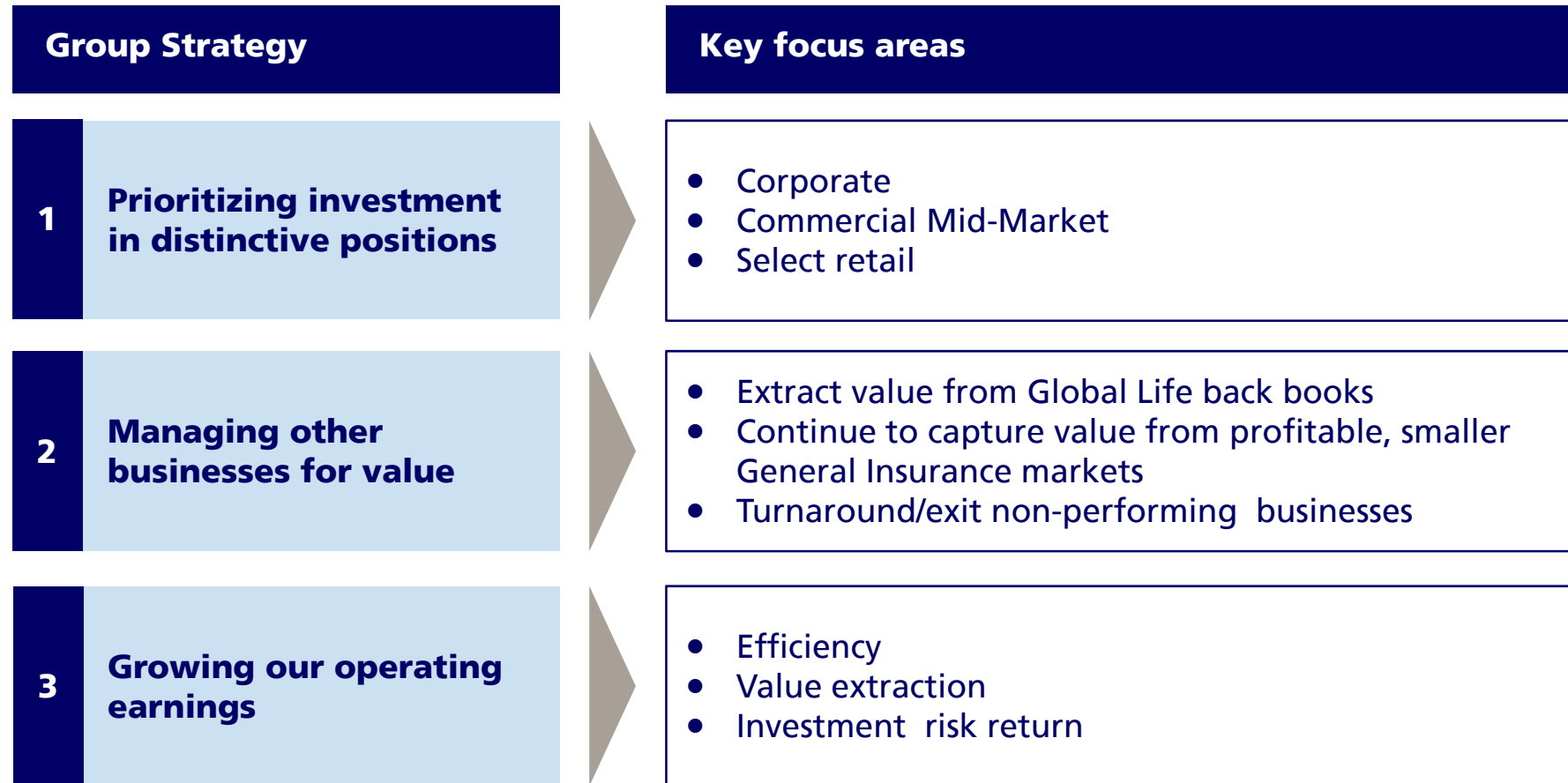
**We will continue to pay a sustainable and attractive dividend**

# Closing Remarks

**Martin Senn, CEO Zurich Insurance Group**



# Cornerstones of our strategy



# Disclaimer and cautionary statement



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All references to "Farmers Exchanges" mean Farmers Insurance Exchange, Fire Insurance Exchange, Truck Insurance Exchange and their subsidiaries and affiliates. The three Exchanges are California domiciled interinsurance exchanges owned by their policyholders with governance oversight by their Boards of Governors. Farmers Group, Inc. and its subsidiaries are appointed as the attorneys-in-fact for the Farmers Exchanges and in that capacity provide certain non-claims administrative and management services to the Farmers Exchanges. Neither Farmers Group, Inc., nor its parent companies, Zurich Insurance Company Ltd and Zurich Insurance Group Ltd, have any ownership interest in the Farmers Exchanges. Financial information about the Farmers Exchanges is proprietary to the Farmers Exchanges, but is provided to support an understanding of the performance of Farmers Group, Inc. and Farmers Reinsurance Company.

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