# Investor Day



## Company Participants

- Craig Fundum
- George Quinn
- James Quin
- Jeffrey Dailey
- Martin Senn
- Michael A. Linton
- Mike Foley
- Steve M. Hatch
- Unverified Participant

## Other Participants

- Andrew J. Ritchie
- Andy D. Broadfield
- Atanasio Pantarrotas
- Ben Cohen
- Dhruv Gahlaut
- Farooq Hanif
- Marcus P. Rivaldi
- Nick Holmes
- Ralph Hebgen
- Stefan Schürmann
- Thomas Seidl
- Vinit Malhotra

## MANAGEMENT DISCUSSION SECTION

### James Quin {BIO 18345789 <GO>}

Good morning, everyone and welcome to our Investor Update for 2014. My name is James Quin, I'm Head of Investor Relations. And I'll talk you through the agenda for this morning. So we are going to start off with Martin, who'll provide an update on the execution of the strategies we set out one year ago today, but the main focus of today is really to talk about two of our main priority businesses, being Farmers and NAC. And finally, George will give you an update on finances and our progress so far this year and also on our priorities for the next couple of years as we look to obviously move towards our targets. There will be plenty of time for Q&A. So we have three Q&A sessions. Obviously, we look forward to your questions.

With that, I will hand over to Martin.

### Martin Senn {BIO 3241585 <GO>}

Thank you, James. Thank you again James and good morning, ladies and gentlemen. It's great pleasure to have this opportunity to update you on our progress in executing our strategy 2014 to 2016 that we have set out one year ago.

Back on December 5, 2013, we described how we saw ourselves in terms of our strengths and where we needed to improve. We set out what we saw as the context for the next three years in terms of the economic market and as well as the strategic environment. And based on this assessment, we told you that we would continue to do and what we would change, but also where we got improved and we stress that our strategy for 2014 to 2016 could be an evolution, another evolution. We would not compromise on the discipline and focus that has helped us to remain profitable and as well helped us to defend a very strong balance sheet.

At the same time we recognize that the context in which we were operating have changed and that we have to change with it if we were to continue delivering attractive total returns. We set a new and renewed focus on investing in our areas of strengths and addressing the challenges in those operations that were performing less well. And we acknowledge the need to improve our profitability and grow our operating earnings.

And with that, we laid that three cornerstones to our strategy. First, prioritizing investment in distinctive positions, which are those where we can capitalize on opportunities, incorporate in commercial mid-market and select retail markets, where we have a clear competitive advantage. Second, managing other businesses for value. This means extracting more value from some of our key life back books, particularly those in Continental Europe, and continuing to capture value from profitable smaller general insurance markets by turning around or exiting some of our non-performing operations.

And so we said that we would make these investments and manage other business for value by taking actions to grow our operating profits by delivering further efficiencies globally, reducing complexity and overheads and by enhancing returns on our investment portfolio. The aim here for us was to report back during 2016 with a better position and high return business with more of our capital allocated to priority markets. We also set new targets that are closely aligned with these ambitions as well as the priorities of our investors and other foundation of how management is being remunerated. One year in, we have made good progress in terms of prioritizing investment in distinctive positions. We have also taken significant steps to address manage for value challenges and taking actions needed to grow our operating earnings. But as I've said before, this is only a start and we have to do a lot in 2015 to continue this momentum.

In terms of progress to-date in prioritizing investment in distinctive positions we will spend time today expanding on initiatives which are on the way to our key markets, Farmers and North America Commercial. These two businesses account for more than 40% of Group earnings. They are both leaders in fast evolving markets and while there have been challenges we are encouraged by what we have seen in 2014 with those operations. We are able to place the benefit from significant changes in the market in which they do operate.

And in this respect today we will illustrate very clearly how we're responding to two of the key industry trends that we talked about last December. First, how technology and big data are creating new opportunities for the insurance industry altogether. And second, how customers' needs in retail are changing and how we need to respond. For example, in focusing on developing omni-channel capabilities.

There is a lot going on in the business beyond NAC and Farmers. We are investing in advance customer segmentation in our corporate business and in select retail markets like Switzerland and Italy. And we have expanded our presence in two priority markets through new distribution agreements with Via Varejo in Brazil, and Sabadell in Spain. Our priority for 2015 will be to continue these investments and to deliver more evidence on the impact that this is having on our positioning.

In relation to manage for value, we have taken a number of steps in some of our key item and businesses, including the sale of the Russian retail business. And in Global Life, we have exited some optional positions, and we have developed a holistic approach to in-force management in

UK, Germany and U.S., which we anticipate could contribute additional bump of between $80 million and $100 million.

For 2015, we intend to largely complete the work on the GI turnarounds, and on the first phase of Life in-force management actions. We continue to look closely at structural options to improve manage for value returns, and we expect to see some early actions in this area over the course of the next 12 months.

In relation to growing our operating earnings, as we have announced at the half year, we largely completed the streamlining of our organization structure, above the business unit level in July. This process is intended to speed-up our decision making and optimize our governance. But it is also expected to deliver annual cost savings of $250 million by the end of 2015. And as part of our initiatives to enhance investment returns, investment management completed the objective of deploying additional risk capital in the second quarter of this year.

Looking into 2015, we have made some good progress, but there's much more that needs to be done. George will talk later about the levers at our disposal to improve our return on equity as we continue to invest in our priority markets, while finding additional efficiencies in our operating structure. But to come back to the main topics for today, we want to spend time explaining the key trends in two of our main priority businesses. And before I hand over to the respective CEOs, I'd like to summarize, the distinctive strengths of these businesses. And why we see these operations as well placed to capitalize on a period of industry change, let me start with NAC.

North America Commercial accounts for around 16% of our Group operating profits. We are a top five player with around the 5% market share in what is the world's largest and biggest market for commercial lines by some margin. This is a business that has been completely reshaped over the last decade under the great leadership of Mike Foley. We believe that we now have among the best pricing and underwriting capability of the industry. And as Mike would put it himself, we have moved from reds to green in terms of the profitability of our portfolios. In other words, we have a well-managed business with a distinctive position in an attractive market, a great example of where we intend to invest our resources.

Now, as you all know, pricing trends are less positive than they were one year or two years ago. But our profitability is good and we see the industry in aggregate as disciplined. Furthermore, we see significant change in the industry as the top tier insurers invest in developing data and analytics capabilities. We expect this to drive significant market share to the top eight insurers, including of course, our business. And this is a key initiative for us. Mike and Craig Fundum, who is the President of Commercial Markets within NAC will explain how we managed the business and where we are investing in more detail later. But the key differentiator for us is our ability to export these capabilities to other parts of the world over the next three years to five years.

Farmers is another key priority market for us. Farmers is among the top five retail insurance brands in the U.S. and second behind State Farm and its core 29 states in the western part of the country. While the business has continued to generate stable and steady cash flows for Zurich, the Farmers Exchanges had their challenges in 2012 and 2013. And we won't be the first to admit that the business did not evolved quickly enough to address a dynamic and rapidly changing market.

But this is not in the past. Farmers is in the middle of a nature of business transformation build around the strengths of agency distribution and focusing on customers who do look for quality service and advice. And Jeff Dailey has done a great job in his three years as the CEO of Farmers to help the business adapt to the exchange market and insert overhauling all aspects of branding, technology, distribution and customer service.

Jeff and Mike Linton who is the Chief Marketing Officer of Farmers will explain recent trends in the industry and how Farmers is adapting, expanding on the many transformation actions on the way.

And he'll also highlight a number of examples that show whether these actions are starting to translate into tangible success.

So without further comments from me, I would like to hand over to Jeff who will take you through the Farmers business in much more detail. Thank you very. Jeff, the floor is yours. I wish you joy and success. Thank you.



## Jeffrey Dailey {BIO 17070898 <GO>}

Thank you, Martin. Thank you. Here's the joy. It is a pleasure to be here today to speak to you and really to talk to you about the customer transformation journey that we begun last year, we spoke about it last year in Zurich at the Investor Day. We are – I'd love to agree with Martin more in the middle, but I think we're early part of that journey of really transforming Farmers into a customer-centric organization.

With me today to help describe what's going on in the marketplace and Farmer's journey is Mike Linton, who is our Chief Marketing Officer. Mike has extensive background in marketing, in fact, he has been the Chief Marketing Officer for firms like Best Buy and eBay, as examples. And he comes to Farmers in a bit of a non-traditional way. Our paths crossed almost 30 years ago and he's one of those people that you friend on Facebook and you can't quite exactly remember why you did that or who he was.

So four years ago, Mike had been a Farmers customer, probably had the same thoughts about me that I had about him, and I got this note from Mike in Facebook's complaining about a claim, at Farmers, saying that I work at Farmers. So lo and behold, we are able to fix his claim and actually convince him to become the Chief Marketing Officer at Farmers. And he has been instrumental not only in our strategy development, but also in the execution over time. So before I start, I want to do what I did last year, really describe especially for people that maybe a little bit new to Farmers story. Really the unique relationship that exists between the Farmers Exchanges, the Zurich wholly owned subsidiary which is Farmers Group, Inc. and our customers.

So this is a relationship that's not quite unique. There is one other company in the U.S. that is a bit like this, but the exchanges are a policy owned insurance company. In fact, we talked about the exchanges, there are actually three of them. There are three separate exchanges and they have outsourced the management of those firms to the wholly owned Zurich subsidiary, called Farmers Group, Inc. And we do that obviously for a fee.

Now the core agreement between the policyholder of the exchanges and the management company is something called as subscription agreement. And that subscription agreement provides in one of the exchanges that for the premium charge, the management company can collect 25% up to 25% of that premium and in the other two exchanges up to 20% of the premium. And for that fee, we do all of the typical insurance underwriting, policy, maintenance, management, IT, investment management all of that is done by the attorney in fact.

And the risk – the underwriting risk is borne by the exchanges. The exchanges are managed by a separate board of governors for each of the exchanges. They're responsible for the strategy of the exchanges. They're responsible for the performance of the exchanges. And they're also responsible for the claims adjudication. We have 11,000 person claims force for Farmers. The head of our claims operations actuary reports into the board of governors. So that's how the structure works. And that fee now on average in 2014 is a little over 14% of premium is what is transferred to the management company.

Before I start, let me just give you kind of an outline of what we're going to talk about today. And Martin I think summed it up well, which is we're going to talk about where the marketplace is in the United States today, and how Farmers fits in and the changes that we're making from a strategic perspective that's going to enable us to actually win in the marketplace differently than we competed in the past. And even though as I said its early in this journey, we have some significant proof points that show that not only is the strategy working, but from our perspective more importantly, it's really fit for the long-term for Farmers and so that's really what I'll be covering with you today.

Let me set the stage though by talking a little bit about the retail marketplace in the United States. And really I want you to take away three points from this slide. This is a very large market, so if you just take automobile and home owners insurance in the United States, it's almost a $270 billion business. It's very mature and it's very concentrated. The top-ten writers of auto and home insurance in the United States today account for two-thirds of the premium in the marketplace and that has been consolidating over time, albeit relatively slowly. And there are hundreds, if not thousands of other companies that compete, but it really is a consolidating marketplace.

The second thing I would like you to takeaway is that what's fundamentally changed in this business over the last 10 years or 15 years, is really the advent of marketing, which is a key reason that Mike is on our staff and a key reason that he is here. Probably the best way to describe this in the U.S. is around the advertising spend. So if you look at the chart in the middle there, we spent last year as an industry $6.1 billion on marketing spend in the United States for insurance. So to put that in a little bit of perspective, at least, and again I know this won't translate directly, but at least in the U.S. you see an awful lot of beer adds, Budweiser, Miller, and certainly different brands here. The insurance industry spends more than two-times what the beer industry spends on television advertising.

And so this is really become a very important part about the way people think about this. This spend has been focused on really two areas in the United States and we're going to show you how we think about it differently, but it's been focused on two areas. The first is, almost all of that spend is around car insurance, so it's very heavily focused around car insurance and almost every single ad you see is going to tell you how you can save money. So it's been a real push to try to commoditize the car insurance business.

The last thing I would tell in terms of marketing being really important in the U.S., is as I think about barriers to entry probably the most significant barrier of entry for companies coming into the U.S. to try to compete in the marketplace really is this advertising spend. If you don't have at least $100 million to spend on your brand to actually create consideration, you almost have no chance. And consideration that Mike will talk about in a few minutes is really the key, if you can't get your brand considered then it doesn't matter how attractive your prices are, it doesn't matter how good your service are, you're just not going to get used. So this has really become a pretty significant barrier to entry.

Third, takeoff on the market that has changed a lot in the last 15 years. There has really been the sort of the flattening of the auto insurance line, if you look at the chart below for the last 10 years, the average premium to insure an automobile in the United States has essentially not changed. And that's because we have, not only do we have safer vehicles and we continue to get safer vehicles on the road, in the U.S. there has been a lot of work on actually trying to create safer drivers as well, whether it's through team licensing, much more aggressive enforcement of drunk driving laws and those kinds of things has really taken frequency down. And as a result, the severity actually has been sort of more or less offset by frequency. So you see a very flat expenditure for auto insurance and our expectation is that that will continue if not overtime decline a bit.

But the second point is that, at that same timeframe, we've got a 4% compound annual growth rate of the homeowner's line. Now this is actually significant for a couple of reasons. Home for the first time in 2007 actually became more expensive for a person to insure than an automobile. And if you think about how people think about homes versus autos, the most significant investment a person is going to make probably in their life time, most people will be their home. So as it becomes, that's something that they really want to make sure that they get properly insured, and it also is absolutely critical that, as it takes a larger share of their disposable income that they've done that right. So home is really kind of emerged in the last seven years or eight years as a very important part of the personal lines experience.

So as the market has changed, it's obviously had an impact on the leader board in the industry and so let me describe that for you as well. So what this is? This is the companies listed in 2013 by the direct written premium. And then where they were in 2000. And so, you can see there has been significant change. And there is a couple of points I would make about this change. The first I talked about was this really a ramp-up in marketing and advertizing expenditure. And I said it was really mostly about auto. So if you look at the big changes that companies like GEICO and Progressive made was really fueled by their development of advertising their ability to grab customers.

Most exclusive agency companies, Farmers included of them, try to compete actually in that space. And in fact, a number of us again including Farmers, actually were not acquired direct auto platforms in order to compete. But what we've come to learn over time and I think looking back, you're always smarter than you are looking forward, as this was not a story about direct distribution, what this really was a story about, was a story about consolidating price conscious shoppers or price oriented shoppers. And the story really is that the company with a best business model, that can drive the lowest cost can ultimately run on those customers. And that's not a position that Farmers can be in. We're not going to be a low cost operating model. We're not going to be able to compete for the price-oriented consumer. And I think we recognized that perhaps a little late as Martin said, but we did recognized that.

The other major thing that's actually happened to the multi-line, which tends to be the exclusive agent companies during this timeframe was we had a significant change in the weather in the United States. We got better at modeling, in understanding our risk and we had a lot of named events, Katrina probably being the single largest name, but there certainly were a lot of them. And that actually caused a lot of companies with significant exposure in catastrophe-prone areas to shut business. So when you shut a homeowner risk, more than likely you're also going to lose the auto risks that go away from that. In addition, just away from the cat-prone areas, we've had a significant change in weather, mostly in wind and hail all throughout the whole country. So that has made actually the homeowners line, exposed it a bit in terms of being underpriced. So there has been a rapid rise in prices in the homeowners line to make sure companies that they're actually making sure that they get enough premium for the risks of their insurance through weather.

And so as we think about the move, the battle for the price-oriented consumer has been on for about 15 years. We think it's largely one, but still being fought out a bit. The emerging battle from our perspective is really around value-oriented customers and that is the strategy that we described to you last year, and that we're going to talk a bit more about here today is really positions Farmers well to win in that area and to talk you through that bit of the strategy, I'm going to ask Mike to come up and take it from here.

## Michael A. Linton {BIO 2053429 <GO>}

Thanks Jeff. Good morning, everybody. My objective today is to take you through the strategic specifics of our strategy with an emphasis on why we think we can win in the marketplace that Jeff just described. And this and its core is a story about focus and we believe that relentless focus for us is required in what is a massive and very competitive marketplace, because generally all things equal, we're going to be a higher priced company and so that focus as you go through my slides, I want to kind of set a stage here is in three key areas:

The first is targeting the right customer that wants what we have to sell. The second is building a single customer facing brand, and that's Farmers that attracts those customers to the brand, and makes them look at what we have that is different than the marketplace. And the third is investing in the infrastructure and the capabilities, like digital, I'll go into later that deliver a great experience for that customer, because if you're going to have a higher price, you want the customer to have better experience and I'll tell you why our assets we think as we arrange them will help that customer have a great experience. So let's start by talking about the customer. You heard last year about confident planners, I would like to drill down into the confident planner now with the next slide.

So in 2012 we spent almost a full year of very, very detailed, very mathematical research to segment the market. And we ended up with six segments. I am showing you the value segments here, but I'd like to draw your attention to first on this slide, is the dark blue and light blue columns on the one side of the slide and that really differentiates. The light blue is value oriented customers, and what I mean by that is they care more about protecting their assets than they care about price, so the first thing they look at is, are my assets covered. Below the line, care most about price and that is their first movement when they shop. As Jeff talked about we think that market has been a long-term fight and has in large part consolidated. We believe the top end has not.

I wanted to take you through confident planners and what we mean when we say confident planners. The research around was not just about buying insurance or even just thinking about insurance, it was thinking about assets and coverage and how you go about that. And the confident planner is at the peak of this marketplace. It's 70% households, 28% of the insurance spend, but as we look at their lifetime value owns the third of the marketplace. And when you think about the confident planner, it's more of a mindset than anything, but it is a person who believes that they are building assets for the future, even if they don't have any assets today. Over time they have a tendency to accumulate assets. They actually concentrate in certain professions, architects, engineers, lawyers, almost anybody that has to invest long-term in education or development is in the large part confident planners. An important part about the confident planner is the two groups below them, relationship seekers and loyal outsourcers, they're looking for partners and insurance or people that kind of will do it for them. If you meet the needs of the confident planner, you meet the needs of the entire light blue group. So while we target confident planners, we sell to – and we'll sell to anybody that wants to buy, we are meeting the needs of everybody in the light blue group.

So let's now talk about how we stack up Farmers versus this customer group, and I'm going to start with some of our strengths. When we look at the marketplace, one of the keys is there you have a big recognized brand and we've been in our business for well over 75 years. We've been advertising for a fair amount of time, in our core 29 states, 93% of customers are aware of us. That's a really good start meaning you have a really big brand and you can leverage it.

The second thing is a broad product line. When you think about the confident planner, they have multiple assets. The value group has multiple assets. They are really over time looking for understanding of those assets and coverage of those assets and then the ability to cover more and more things simply. We have a lot of lines there. You may not know of a business insurance, we're the largest business insurance provider in the exclusive agent channel, and we are also launching some new products, for example, we just put out pet insurance, just a bit ago, to further broaden our product line.

The third thing we have is a large agency force. And why is that important particularly with the confident planner and the value segment. As you think about your assets and you build your assets, what you want is not just a route delivery of coverage, you want someone to help you talk through, what is a very complex marketplace with tremendous different choices that you have to make, particularly as you have more assets. That's where the agent comes in, and provides customized service. And as we build out what we call omni-channel, we'll talk about that in a minute, digital and call center capabilities, the agent is still the cornerstone of this, providing customized service to those value consumers. One thing, I do want to say about our agents is, we have over 13,000 agents which is equivalent of the McDonald's store fronts in the United States. We have it leveraged the agents as much as we may in terms of building the brand, but that to me is a big opportunity. So that's some strengths we think we start with as we build this out. Where are we going with those strengths next?

But when we talk to customers, what we learned is, man, if I'm going to pay more and if I'm a value customer and I want my assets protected, boy, I expect outstanding customer service, and frankly we didn't think our service was good enough. And we've launched on a relentless journey to improve that, that would go on forever, but early results are very encouraging. The move away from 21st, with a single focus on Farmers has allowed us for our marketing and our thinking into a single brand. And as Jeff pointed out earlier, this is surely a battle of big brands, moving to one customer facing brand gives us a lot more leverage to leverage the big brand as we go forward. When we look at that broad product line and we look at the customer base, our research indicates there's lots of cross-sell opportunities. In fact, just in the confident planner portion of our book, we think there is at least $2 billion of cross-sell opportunities, because we don't have the full book of every confident planner at Farmers, and this is where the agent comes in and the customer service comes in as we go forward.

The fourth thing is omni-channel capabilities, and what we mean by that is, leveraging all our channels and that's primarily digital, phones and the agent, in a way that the company goes to the customer and the customer customizes how they react with us. They don't have to pick a specific channel, they can go to anyone. But at the core, the agent is the cornerstone providing customized service and advice to the value segment, and improving the quality and increasing number of agents should continue to generate growth for us.

So we talked a little bit about customer experience, and we launched as I said last year, a relentless journey to improve our customer experience, and we think this goes on forever and ever. I'm going to start at the bottom of the slide and say, we measure the customer experience by Net Promoter Score, and what we've seen is that focused investment and focusing on key points where the customers are telling as they want better service or improved service can move this number. As Jeff will share with you later, moving this number translates to retention, which is very important to our growth.

I talked about focused investments. There's some of them above the line. There are six things I listed there, I'll explain a couple just for context. The first would be the Farmers Friendly Review. When we talk about what a confident planner or a value-oriented customer wants, they want you to be ahead of the insurance game for them. So the ability for us to actually have an agent meet with them in advance of their renewal, in advance of any life change and talk them through what insurance they might need or constantly review their insurance is extremely important. We've increased our Farmers Friendly Reviews by I believe almost 50% in a single year by focusing on that.

The second thing we heard from customers was, can you make this insurance thing a little easier. It's complicated. It's filled with a lot of legal language. It's tons of paper, and if you see - if you read through that, you could see there is couple projects designed to explain it more crisply. The last thing I would talk about here is digital transformation. And when we think of digital, it's an enabler of our whole strategy and it glues things together, and when you talk to customers, they expect you to have a digital presence. They don't think about anyone in a single channel. They think digital presence is necessary for virtually in any brand, in any industry and insurance to them is no exception.

So I've kind of set the stage for what we have; I want to now turn the thinking to, all right how do you talk to the confident planner and the value segment, in what is a tremendously competitive market. One of the most competitive and confound markets I've been in since I started in marketing a long time ago at Procter & Gamble. And first, I will say the strategy with which we approach the marketplace is that, every time you touched the Farmers brand, you come away as a consumer smarter about insurance.

So if you're noticing there, we're are not talking about price, we're talking about making it smarter, because actually when we dig into what the confident planner in the value segment wants, they want four things listed on that slide. They want insights into how this works through them. They know insurance is not a one size fits all. They think you have their planners. So they want you to be ahead of them with them, they don't want you just to be dealing with the renewal right now or the policy right now, they plan, the reason they have assets, they plan. They want you to talk to them really straight, the more confusing you are, the less they trust you, and they really want a one-stop shop.

So every time you talk to Farmers, you come away smarter. I thought one of the best ways to illustrate this would be to show you three television spots which are currently running in the United States. What I'd ask you to look for or hope that you see is the first, that Professor Berk (36:54) is the man actually teaching you about insurance and he is a proxy for our agent. The second thing is the absence of a price message and the delivery of the smart strategy in what we hope is a humorous and entertaining way.

So with that if we could roll the film, we'll see three spots.

[Video Presentation] (37:12-38:44)

So hopefully you enjoy those. We had very good feedback from consumers, and I will also tell you the advertising shoots are a lot of fun. But if they're fun and they are interesting, it really doesn't matter unless they work. And as Jeff kind of commented, the thing we measure is what we call consideration. And consideration is a really key thing for me. We talked about the high awareness we have which is in the 90s, but being aware of a brand doesn't mean you're going to buy it. For example, you may be very, very aware of Wal-Mart, but I am guessing, you are not considering Wal-Mart for your next clothing purchase, maybe some of you, I don't know, but you may be. So that's an awareness and consideration thing. So in this category with $6 billion being spent, awareness is high. The key is, are you delivering any message that breaks through the $6 billion in a way that the consumer is paying attention to you.

And so, we measure this very systemically and have for a number of years. What you can see is that consideration throughout the general market and the confident planner against two other exclusive agent companies. Importantly, we've moved this number significantly this year. That's an achievement we're quite proud of and there is two things I want you to take away; one, it's been very hard to move this number over time, which is evidence to us that the smart strategy is striking a good chord with consumers. The second thing, I'd like you take away from this slide is, we're moving the confident planner group, but as we said, there is a halo there. So while we move the confident planner group, we're also moving the general market, indicating that this relentless focus actually has a halo effect as we move forward.

I wanted to shift focus now into omni-channel and kind of define that a little further and really that's arranging all the assets we talked about, around the customer in a way that the company goes to the customer versus making the customer figure out, how to use the channels. And historically, we were set-up by channels, with almost everything going through the agent. And while the agent is still a cornerstone for us in providing customized service, we are now in the process of rearranging those channels in a way that the customer can talk to us or meet with us in any specific channel and then be entered into the system, and also be assigned an agent, where we think our competitive advantage gets delivered over time.

So as you think about this coming together, customers get to choose how they interact with us. If they want to talk to the agent, they can. If they want to go on the digital site anytime they want, they can, if they want to make a call, they can and we're connecting those. So for example, you can buy now by phone. And that is core, the agent is the cornerstone of this, which is, if you want to advise in advance of anything, you call your agent. You want to extend your portfolio, you call your agent. A key to this is that the channels are actually integrated and the data beneath the channels are consistent. So we've just started this really as a two-year journey so far, but it's an endless journey again to make sure that the channels wrap around – go to the customer.

A core component of this is digital. And historically, Farmers invested in channels and it did not invest that much in digital. We took major steps and put major investment into our digital channels in 2013 and 2014. And the research with our customers told us really what consumers use the digital channels more for than anything, is not buying, but for service. They want to add a car, they want to investigate, they want to look at different things, they want to pay their bill. And you could see, if you look at this chart, I want to, almost all those are service. And when we designed and rebuild the website last year, it was service first, selling second, marketing last, because that's what consumers told us they wanted.

We also measure this, we try and measure as much as possible through a consumer lens and this is transactional Net Promoter Score on the bottom. We are highly, highly encouraged by the fact that in one year, we were able to move the consumer Net Promoter Score on our digital site over 40 points. That's a biggest jump I've ever had in my career anywhere, but that shows how omni-channel has power, because this is just the first step.

Where are we going with this? Well, we're encouraged by the results. We still have significant experience as we can improve on the web, but longer term and in this you'll make a big step forward is integrating the capabilities across the channels. And this year, our plan is to make a big move on master database. One of the keys to omni-channel working is to have a master database that usually is driven by digital and that creates an architecture which you can build off of across all channels, that's where we're going to next when we talk about omni-channel.

So I told you this wasn't designed for sales. One of the things that has happened though however is, it's producing a lot of sales. So as we wrap the omni-channel around the customer, what we are finding, and these are sales, this chart is a sales trend just for this year of policies that originate non-agent based. This is coming from almost a standing start in 2013, and you can see now we're writing over 11,000 policies a month in what we call omni-channel. We're not actually trying to specifically just sell with omni-channel, we're trying to serve as well as sell, but we're quite encouraged by the fact that we are generating this kind of sales off of omni-channel.

The conclusion to my piece, because I'm going to turn this back to Jeff in a second is that, focus really matters in this marketplace and we are very, very focused, and that investments based on customer insights, specific to that target market - customer insights can produce results which are highly positive to the brand.

So with that, I'm going to turn this over to Jeff who will bring us home and talk about the agent as the cornerstone of the omni-channel.

## Jeffrey Dailey {BIO 17070898 <GO>}

Thank you, Mike.

## Michael A. Linton {BIO 2053429 <GO>}

Thanks Jeff.

## Jeffrey Dailey {BIO 17070898 <GO>}

Thanks Mike. So let's actually talk a little bit about the agents. So before I do, I would actually just reiterate a point that Mike said, and the cornerstone of our strategy, if we're going to after value oriented customers, is we have to deliver value and that really is all about customer experience. And that leads me really directly to agents because as this chart will show on the top, if we have a customer who says that they're extremely satisfied with their agent, they have a net promoter score of 60%. That's actually a good number. If we had a net promoter score of 60%, our relentless journey maybe closing in on and over. Unfortunately we're in the 35% range. But you can see that, yes, you don't have - if you say anything other than you're extremely satisfied with your agent, your net promoter score is negative at 43%. So it's incredibly important that we end up having agents that are delivering great experiences to our customer.

So if you take a look at the bottom chart, that really talks about the number of agents that we have and where we've been and where we're going. And at the end of 2012, we had something a little over 14,000 agents in the United States. And if you go back to and you think about the rate we are taking to actually make sure that exchanges were financially healthy, and you think about us kind of rebooting our strategy, we're actually demanding more of our agents now. We're demanding hours, we're demanding signage and brand standards. So we've made the world harder. And as a result of that, we actually went and ended the year 2013 with slightly less than 13,000 agents.

So some of those agents that we lost, we wanted to lose. And there're of course some of the agents that did leave, that did not want to be a part of the new Farmers who wished would have stayed. But we really are down to what we believe as a stronger core agent at the end of 2013. And you can see we have slowly started building that backup towards the end of the third quarter. We are over 13,000 agents in the United States. And we've really, the Farmers has been in existence for 86 years. And just last year, we really have started managing our agency channel differently.

I'm going to you just a couple of examples of that.

The first one is a concept we call retail agent. So if you go back to the 86 years of Farmers, we have brought on a traditional agent, and a traditional agent had a job somewhere else, I usually use the example that they were a bus driver. And while they were actually studying their licensing exams to make sure that they are licensed and whatever state they are going to operate in, they were still a bus driver, and we call them reserve agent. Once they actually passed the exam, they became a career agent and we have some tremendous agents who have grown up from that perspective, but that also creates a huge failure rate with agents.

When you are taking somebody off the street in one job and they're actually doing this as going to another job, as opposed to thinking about running an independent business. So we have now coined the term retail agent and we are bringing on agents and they're different. They have $50,000 in investible assets. When they start, they are going to open an office that is fully brand compliant with Farmers, as opposed to perhaps working out of their house until they can afford it. And they're going to bring licensed staff on from day one which again was something that didn't happen with traditional agents.

If you look at this chart, you can see that in the first 18 months of their existence, we get about two times the production from those agents relative to the traditional agent over the same timeframe. In addition, we have better net promoter scores from this group, better retention of the business. And finally, if you think about just the agent retention over the three years that we have been doing this, we have the high 90 percentage of retention of those agents. And if I compare that to our traditional agents, we'd lose about a quarter of them in the first six months. So this has just been a win for Farmers by actually moving toward this retail agent platform.

The second change in terms of the way we've managed our agency for us is, one of the value propositions to being a farmer's agent, compared to being an agent at a different company is, our agents earn what's called the contract value. So when they retire or they decide to leave Farmers for whatever reason, the exchanges will actually pay them their contract out. It tends to be more or less one year's renewal commissions, but it can be a little bit more if they've been around for a long time. And what ends up happening is, if you leave Farmers as an agent, we then take your policyholders and we distribute those to other Farmers' agents, hopefully in the nearby area. And if you remember the slide Mike had up, we had an orphan policy problem. That's an orphan policy. So my agent is no longer with Farmers and I have been assigned to a different agent.

So one of things that we did, it was we've now created a marketplace for Farmers' agents. So if you are a retail agent instead of starting out completely scratch, you can actually come in and buy a Farmers agency. And that's been a real win-win. It's been a win for the company. It's been a win for agent and it's been a win for the customer. From the exchange perspective, that contract value payment that went into our commission line, we no longer pay it because that's being paid by somebody from the outside. Our agents who've chosen to sell their agencies, on average have earned 30% more than their contract value was worth. And finally, the customer is no longer distributed to a completely different agent. They're with the same agency but just under new ownership, and so the retention of those customers has been very positive as well. And both of these ideas came out of Eastern Expansion. And I'm going to talk in the next slide about Eastern Expansion, but one of the things that we've been able to Eastern Expansion for is really to be able to try out new ideas without putting the entire enterprise at risk, and these are two, we think, real winners that have come out of Eastern Expansion.

So let me talk a little bit about Eastern Expansion. And the map shows you the states that we have entered, and in the states that we will enter over time. And probably, you don't have to do very high level math that you can see that in the five states that we are in 2014. We're going to do over $200 million in premium in 2014. We're growing at over 100% a year in that business. We have added Connecticut. So as of today, Farmers is now in Connecticut which will be our sixth state. In the middle of next year, we will also be in Florida which will be our seventh state.

So it has gone from – we've talked about Eastern Expansion and some of you that have covered Farmers for 15 years or probably heard about this three, four, five times, the big difference here is we are moving the Farmers brand to the East, and more importantly we're moving the Farmers exclusive agents to the east, and this year and even next year it's really producing meaningful volumes for us. And it's been a great test bed for us to try new ideas like retail agent, like agent acquisition. So it's been very important for us.

So we've talked about a lot about the strategy. Let's talk a little bit about how it's paying off. And again, as I said the most important thing for us to do is really drive customer experience forward, and that 4.5 points on the net promoter score improvement that you see on that chart, that's roughly a 15% improvement year-over-year. And if you remember last year, I showed you the correlation between net promoter score and between customer retention, not surprisingly, if you are positive about the company, more likely you're going to stay. You're not so positive about the company, more likely you'll leave. And we've actually seen that retention that we predicted would happen, would happen.

So in our auto line, we are up 1.9 points of retention. And just to do the math for you, that's worth $140 million a year, every year of additional gross written premium. On the homeowner side, we've moved up 1.4 points, that's worth $70 million a year. And so we feel really good about improving the customer experience would drive the retention. It did drive the retention. And as Mike said, this is really a relentless journey. We're not close to done yet. We have a lot of headroom in terms of opportunity for us to grow, but we're really pleased with the progress that we've made up until this point.

Now, if you turn that to the financials, how is this actually working on the financials? I'll tell you. It's much easier to come to Zurich now and talk to my boss with a positive growth rate at Farmers and it has been for the last year or so. So if you feel really good about that at Farmers and we've actually been able to change the trajectory and actually grow, albeit modestly in the third quarter. If you just AAA the things that are really just impacted by the strategy, and by that I take away the 21st Century business which is really not impacted by this strategy at all. And as Mike said, it's essentially we have moved it to runoff.

And if you look at the Independent Agent operation business insurance, another one that is not impacted by this business, you can see that the actual turn in the business occurred earlier. It occurred in the second quarter and the growth is much more significant. So outside of 21st Century and our Independent Agent business operation, we actually grew in the quarter 2.6% and so we feel very good about that.

From a combined ratio perspective, as I mentioned, we had some work to do to make sure that the exchanges were healthy from a financial perspective. And you can see almost six points of improvement in the combined ratio on that top chart. We've been benefited a little bit by slightly better catastrophe seasons in 2014, but it's really been about driving the underlying loss ratio down. And so we feel very good about that.

At a 100, are we where we want to be? We're not. So I think I told you last year, we'd like to be between a 97 and 98 combined ratio. But if you remember our 100 relative to our peers is equal to about a 93. So we feel really good relative to where we're at, about the work we've done, but we recognize that we have more work to do on this. But the important part of both of these last two slides from my perspective, is they demonstrate that our strategy is working. We have ample headroom in terms to continue to grow and continue to get better, both in terms of our customer experience, our digital work that Mike talked about, as well as the fact that we have geographic expansion available to us as well.

So as I would wrap it up, I would leave you with, we believe we have a very clear strategy and that clear strategy means that we are really transforming the entire company whether that's agents, our digital infrastructure, our people and our culture around serving the needs of confident planners. If we're successful with that, not only we will write a lot of confident planners that halo effect will allow us to write a lot of value customers.

So I really appreciate your attention this morning, and look forward to an engaging dialog. Thank you very much.

## Q&A

### A - James Quin {BIO 18345789 <GO>}

So we now have half an hour for your questions. Ben, I think you're probably first signed.

### Q - Ben Cohen {BIO 1541726 <GO>}

I have (57:14) - I don't think it's - Is it on?

### A - James Quin {BIO 18345789 <GO>}

It is, yeah.

### Q - Ben Cohen {BIO 1541726 <GO>}

It is on. Sorry. Hi, sorry. Ben Cohen from Canaccord. I have two questions. Firstly in terms of the cost of claims inflation, if you like, particularly on the homeowner, so you said that catastrophe experience has been better this year. Looking forward into next year, what sort of price rises do you need to put through? And if price rises are slowing, does that have a negative impact on the top-line growth you were talking about?

My second question was on marketing spend. I wonder, if you could say something how your marketing spend ranks and how that rank has changed over the last couple of years against the other very big brands that are out there? And in the environment, the way you're segmenting it, do you need to sort of continue to grow that spend, and does that have any impact on margins? Thanks.

### A - Jeffrey Dailey {BIO 17070898 <GO>}

So, Thanks. Sure, thanks. So let me address the first question and then I'll let Mike address the second question. And in fact I'll just - I'll wrap both auto and homeowners in that. So what we're basically seeing on the auto line is relatively benign trend, low single-digit kind of numbers. And again, that really is severity outpacing inflation a bit. It'll be interesting though, gas prices in the United States have really plummeted and that could actually lead to an increase in frequency, although we haven't seen it yet.



On the homeowners line, it's been interesting. Homeowners has been high single-digit inflation trend line and that was - in addition to that - and that's been pretty consistent for the last four, five years. In addition to that, I think at the end of this loss of catastrophes, Farmers, like most companies felt that we're not getting enough. So we actually have been taking an excessive trend in homeowners for a while. We think we're to the point where we can take about trend and I would expect that that's going to be in the high-single digits for the, at least the near-term future.

One of the things the financial crisis did which I think is interesting is, you think about the new home stock that comes in every single year and really that's been way down. So on average, the home - the average home in the United States has gotten older over the last several years. And there is a distinct correlation between the age of home and loss experienced. So I think that's going to continue to pressure up inflation rate trend.

So with that, let me turn me turn it over to Mike for the marketing question.

## A - Michael A. Linton {BIO 2053429 <GO>}

So if I - I'd just kind of repeat the question to make sure I got right. As Mike tell me about your marketing spend and how it ranks versus competition. So we've spent less than our fair share in marketing, but I think it's enough. And I think when we look at this, so first point I would make out is the move away from 21st to run-off allows us to take some of that marketing money and put it in the Farmers, but then also invest in the capabilities that we're talking about earlier. So for me, my goal is to spend enough marketing money to keep the brand moving forward.

But primarily, I think this is a customer experience game and that the brand highlights the customer experience. So over time, I would love to grow the marketing money but right now I think the spending is just about right and our marketing has been actually very consistent within 5% to 10% year-over-year adjusting for inflation. And that's kind of I think - and that has been enough to move the brand. And I'd rather be putting the money into the customer experience and the digital space which is what we're doing.



## A - James Quin {BIO 18345789 <GO>}

Andrew?

## Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Thanks. It's Andy Ritchie from Autonomous. Two questions for Jeff. The problem in the past with Eastern expansion, I mean you got the growth but the profitability was socking, especially Florida if I remember. I think it was a problem on non-standard auto. What was the problem - what's the profitability now of the new business in the eastern states?

The second question, you almost write it off that you could never be a low cost provider. I appreciate part of that reflects the fee, but in the past actually, if you look at old Farmers presentations, you actually emphasized how ex the fee you were quite efficient. And there were a number of efficiency initiatives at both the FMS level and the exchanges level. Is there anything going on in terms of expenses, or is there any scope at both levels? I know you can't formally input into the exchanges that you can kind of guide them. And is the technology having any benefit in terms of cost?

### A - Jeffrey Dailey {BIO 17070898 <GO>}

Sure. And the first question on - so Eastern expansion was, you're talking about on Florida and non-standard business was really acquired business, that wasn't really Eastern Expansion. But I do think it is a fair comment in Eastern Expansion times for, not only that we not get growth because we really didn't get growth, we also didn't get profitability. If you think about what we're doing now in terms of building up agencies really from scratch, whether they're retailer, traditional, that's an expensive endeavor. And so what we're really looking at is - so to answer your question bluntly, we are not profitable in Eastern expansion yet, nor do we expect to be.

What we're really measuring is the loss ratio where it should be given the maturity of the business and then will grow into the expense structure. So our best estimate is that it'll take a state and will be closest with Pennsylvania and we're on - which was our first state on target. It will take five to six years to be actually running a profitable combined ratio in that state, just in terms of the actual start-up expenses. And again where the loss ratios are sort of higher than we'd expect on the greening curve, then we're taking right and we're going in and that will affect growth, but we're really measuring the expected loss ratio and building scale to drive the combined ratio.

On the second question on expense, so we could put up that same chart that we've shown in the past in Farmers. So if you actually take the management margin out of our expense ratio, we're roughly equal to State Farm or Allstate, or significantly better than nationwide or American family. But that isn't going to win the price from our viewpoint, the price shopper anyway because you need to be seven or eight points below that. And I think if you're going to have - forget a minute - a moment about the margin, if you're really going to build a business model that's going to go after the price consumers, you're probably not going to do it with captive agents, right, because you're just not going to be able to afford that. So I think structurally both from the attorney-in-fact, management margin and with captive agents that's never going to be our bet.

As Mike said, and he may have said this subtly is that, the first consideration for value-oriented shoppers is value, but the second one is price, right. So if I can get great value from Farmers or State Farm, the second thing I'm going to look at is what's the relative price difference, if I believe the value is the same. So we're working very hard on actually trying to drive down the expense ratio and the unallocated loss adjustment expense ratio of the exchanges.

If you go back to 2011, we've taken it down about three - if you take those two numbers together, about three points and our expectation is that we continue to drive that down. Any change that we make that makes FMS more efficient, actually just translates into a lower fee to the exchanges. So our goal is to continue to actually drive the expense ratio down but we will never be a low cost provider.

### A - James Quin {BIO 18345789 <GO>}

Vinit.

### Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you. Vinit from Goldman Sachs. Just on how you look at the segmentation for a moment, one of the reasons why you were optimistic in the quarter just gone by was the non-standard auto and the specialty lines. And just both of those lines strike me as slightly discordant with the value planner, confident planner market. Is that confident planner also covering those two lines which is quite a sizeable portion and also driving the growth? That's the first question.

Second question is, you mentioned the retail agent was a traditional agent. I'm sorry, I missed. Is there a number on how much is retail agent in terms of proportion of business or volumes or numbers of agents, and what you're focusing on to development? Thanks.

### A - Jeffrey Dailey {BIO 17070898 <GO>}

So let me answer the – and Mike might want to add something to this the first question. So the non-standard business, the Bristol West business that we acquired as well as a specialty business are both incredibly important for confident planners. For specialty, as Mike said, if you looked at that spend, 17% (01:06:10) of the households in the U.S. are confident planners, but they spend 28% of the insurance spend, a lot of that is because they have more things to ensure like motorcycles, like boats. And so our specialty play becomes very important. Second homes is another example or vacation homes is very important for us.

The non-standard one is, it tends you have a confident planner who wasn't a particularly good planner if they need the non-standard, but that happens, right (01:06:37) the non-standard business. And so it'll happen if a person has a DUI, they're not going to be in Farmers, but they could potentially be in Bristol West. But where – it's a bigger deal for us is when you get the brand new child on the policy. The child isn't particularly a confident planner yet, having Bristol West there to actually be an outlet for that becomes very, very important.

Still, I don't know if you want to...

## A - Michael A. Linton {BIO 2053429 <GO>}

Nothing to add.

## A - Jeffrey Dailey {BIO 17070898 <GO>}

Nothing to add. So on retail agents, we haven't actually disclosed how many we have. I mean this was something as I mentioned that we started in the east, and we've got – of our agents in the east, I would tell you, roughly a third of them are retail agents. We started this year to actually go back to what we call the Core 29 which is mostly west of the Mississippi River, and we've started adding. But it will be a very small percentage of our agents out of the 12,500 we saw (01:07:33) that exist west of Mississippi for a long time, because it's really – we're doing this with new agents and it could accelerate a bit, if we get a lot of acquisitions, but it will be a relatively small part.

## Q - James Quin {BIO 18345789 <GO>}

Thank you. Just – so the growth was 2.6%. I wonder if you can give us a figure for the policy comp, how big that's growing? My guess is you're still losing market share in terms of gross premiums, and I just wondered whether you can give us a feeling for when all these initiatives will mean that you start gaining. And then on the combined ratios, so the (01:08:19) excluding 21st Century and we're discussing this. So you fed me the question in a way. And the...

## A - Jeffrey Dailey {BIO 17070898 <GO>}

(01:08:28).

## Q - James Quin {BIO 18345789 <GO>}

And when could the figure including 21st Century, so run-off business could actually make your money. When could we see that and how big could the delta be, just an idea. I know you don't provide guidance but just sort of feel. Thank you.

## A - Jeffrey Dailey {BIO 17070898 <GO>}

So (01:08:48) all three of those. So first of all, is on policy comp, right? And we haven't disclosed this specific policy comp, but I'll tell you that, at the 26 (01:08:58) we're actually going growing policies. And there's clearly rate in there as well, but we're growing policies.

Second question was on...

## Q - James Quin {BIO 18345789 <GO>}

21st.

## A - Jeffrey Dailey {BIO 17070898 <GO>}

...21st. My expectation, and again you have all covered insurance for a long time. If you have a book of business that's in run-off, especially in auto business, especially a direct business that it is going to produce significant underwriting profits overtime. It's not the share. We had some adverse development in 21st Century specifically related to accident year 2013 that we believe we now have taken (01:09:33) correctly. We believe we had it taken (01:09:35) correctly at the end of 2013 also. But so my expectation is that 21st will be supporting the exchanges from an underwriting profitability perspective for a long time. How big that number could be, you know I don't want to actually speculate on that.

Dhruv.

## Q - Dhruv Gahlaut {BIO 16209870 <GO>}

Good morning. Dhruv Gahlaut from HSBC. Just two questions. Firstly in terms of the change in distribution as in there's a comparenow.com and you aggregator in U.S. LaunchPad (01:10:10) there are about 15 odd insurers on their panel. How do you see this developing and how do you see the risk for your model? And also, I think five, 10 years from today, as in how does the spilt change between the value and the price-sensitive customer and how does that whole aggregator play-in in that perspective?

In terms of the second question, you touched on the cross-sell opportunity about $2-odd billion. As in when can we see this start coming in terms of numbers, there's a slide 23, it's saying we started doing this but when do we see the bulk coming in and any particular initiatives which you guys are taking right now? Thanks.

## A - Jeffrey Dailey {BIO 17070898 <GO>}

So, let me address the first question, and I'll turn the second question over to my Mike. So on the first question, aggregators are nothing new in the U.S. We've had aggregators since probably in the early-1990s to mid-1990s InsWeb, comes to mind, and there is a number of them.

If you think about how we talk about the market and if you actually look at the data, aggregators have a very, very small portion of the business in the U.S. and I tend to think of them as non-standard independent insurance – electronic non-standard independent insurance agents. So that's really essentially what they've become. Our 21st Century brand actually deals with a number of them, including Answer Financial, which is now owned by Allstate. And what we end up seeing is we see lots of price shopping customers, and you don't really see the kind of business that we would want to write or what we would consider value oriented customers there.

I will go back to – my view on this is that if you think about my comment that marketing is a huge barrier to entry, you're going to have a really difficult time moving into the U.S., as an aggregator, unless you prepare to spend a lot of money, trying to derive this price message over value. Again, they've been around a long time. I know (01:11:53) very successful company here. They've asked us to be part of their panel. We declined. There aren't a lot of big insurers that are on that for obvious reasons, because we don't want to be engaged in that price game. You can't break down our rates unless we give them to you, given the complexities in the U.S. market place. So I don't view that in the near-term, in the next two, three four years as a particularly big deal. And I think they've got a tough role to hold, frankly, given the way the market is today in my view.

## A - Michael A. Linton {BIO 2053429 <GO>}

I agree with that. I do not see that changing in that five-year time horizon you put out. You asked about the – what I'll call cross-sell. And I think cross-sell comes to bear and I can speculate on how fast we can capture that $2 billion, I can't say, here's how we do it, which is...

**A - Jeffrey Dailey** {BIO 17070898 <GO>}

(01:12:43).

**A - Michael A. Linton** {BIO 2053429 <GO>}

Yeah. The faster we can get the better, but the omni-channel helps a lot. Our ability to reach out to you and few FFRs – sorry Farmers Friendly Reviews digitally or to schedule calls with you and everything, allows us to get ahead of the game which allows us to do more cross selling. The more products we launch, the better because then we have (01:13:02) to sell. And the better we coordinate the channels, to someone's earlier point about specialty, the more we have an opportunity to do this.

In the end this comes down to how good is your agent force and the connection with omni-channel. And that's really what we're working on because I think cross sell is a big deal. And I do want to emphasize one point that was brought up earlier is, when you look at the value customers, they have an incredible amount of choice. They're more likely to buy life. They are more likely to need – actually really need an umbrella and not have thought through it. They are more likely to have itemized coverage. So the ability to get an agent in there to help them think of this through is really a big deal as you tie omni-channel around that, you open a lot more doors.

**A - Jeffrey Dailey** {BIO 17070898 <GO>}

And I'll make one more comment too. Mike talked about the master data warehouse that we're building. We want – you saw the policies up there actually was mine, and we want to have the policy actually when you come, and this will be something that master data warehouse will allow us to do, as Mr. Dailey we recognize that you have a home, but you don't have an umbrella, you should probably have an umbrella click here for more information or let us connect you with your agent. So that really will start opening up the ability to drive targeted cross-sell, where we can actually use big data to predict who should have certain products or not, and that will be – we will start having that capability next year.

**Q - Dhruv Gahlaut** {BIO 16209870 <GO>}

I see.

**Q - Marcus P. Rivaldi** {BIO 5739374 <GO>}

Thank you. It's Marcus Rivaldi at Morgan Stanley. So within the omni-channel approach, are you seeing trends as you improve the online experience maybe the phone experience, trends away from agents to choose, say, the more the current day way of doing things always is still the agent, a really big part of the sales process and the renewal process for Farmers.

And the second, just on the net promoter score, there's a bit of volatility between the end of 2013 to 2014, and there's a big jump into 2014 prior to that big four, could you explain a little bit what was going on there please?

**A - Jeffrey Dailey** {BIO 17070898 <GO>}

So if we take the second one, I'll have Mike to handle the first one. So the net promoter score and we get over 6,000 completed surveys every single month and there is a lot of volatility in those numbers. So any given month we feel good about the direction, but there is a range around that value. So the November number that just sort of popped was probably, we happened to find a bunch of customers who liked this little bit more than we had in the past.

The other thing we found with net promoter score, it's really interesting is that there's seasonal variation in it as well. So if you remember the chart, you have kind of the decline in the summer and what's great about this? Net promoter score for me is really good for actually two things. Number one, as you think about we have limited choices in capital in terms of what we can do to invest in, where really net promoter score allows the customers to actually drive those capital and effort decisions.

But the second thing is also, so it allows us for the seasonal debt (01:16:00) it allows us actually to create hypotheses on why that's happening, and our hypothesis and we're in the midst of testing this now, is that our agents tend to go on vacation a lot in the summer. They're harder to get a hold of. Therefore, our people are a little bit less happy about the service and now we can actually test things like that, that we never before we don't even had insight into at all.



## Q - James Quin {BIO 18345789 <GO>}

[Question Inaudible] (01:16:24)

## A - Jeffrey Dailey {BIO 17070898 <GO>}

Yeah.

## Q - James Quin {BIO 18345789 <GO>}

So what's changed between – do you think between 2013, 2014 for all these projects?

## A - Jeffrey Dailey {BIO 17070898 <GO>}

That would be – all of those projects and more. And probably, if I had to take the two biggest ones on that, number one, the Farmers Friendly Review and this is, literally, if a customer reports that their agent wanted to sit down and review where their life was and where their insurance, then you have to do it. Just sit I'm willing to offer you the ability to sit down and talk about where you're at. We saw a 15-point higher net promoter score for customers who have been offered than those that hadn't. We had a big push as a company. And as Mike said, we used all of our channels to actually schedule appointments with our agents. I actually have one, where you think I should be fairly knowledgeable about insurance. At least I told Martin that all the time. And I ended up buying 40% more homeowners cover that I didn't actually realize I did need, so just on personal anecdotal basis.

And then the second one was Mike was nice, but our web service, our digital service and people as he said expect that, was really not very good. It was awful. And we have made it be sort of okay. We've kind of a long way to go but I would say those are the two biggest things that have really structurally changed those numbers. And that's actually what I feel good about. I feel good that we are structurally higher in 2014 than we were in 2013 and we're going to have to be structurally higher again in 2015. We need the next set of projects to actually move that up further.



## A - Michael A. Linton {BIO 2053429 <GO>}

And I think I'll go back to your question now about, are you seeing trends in omni-channel, is it moving away from the agent? The answer is no. What and why and how I like to think about omni-channel is an aged customer and then a company expenses perspective. And the more we put omni-channel in place, the more we are unloading, what I'll call, just pain in the butt things in the system.

So if you have a problem now and you can't do it on the web, you call your agent or you call the call center. That takes away selling time. That takes away Farmers Friendly Review time, that takes away cross-sell time. As we fix the omni-channel, we get a lot more customer self-service which the customers like a lot better. It frees the agents up to do what they really want to do, which is sort of customers, and it actually drags expenses out of the system. So the trends that we're seeing are all highly positive in this way and they're not in any way detracting from the agents. In fact, they're freeing up the agents to do what we think agents do best which is actually meet and connect with customers. And that's kind of where we're going with omni-channel, why digital fundamentally as core as service first, selling second, and marketing last.

## Q - James Quin {BIO 18345789 <GO>}

Just a follow-up to that. I mean again, it seems that with the way – you can interact on web, you get live help overall on the website or on your phone. To what extent, do you need to be having that face-to-face discussion whether people seeing the real value in that face-to-face sit down discussions?

## A - Michael A. Linton {BIO 2053429 <GO>}

So I'd go back and – I know we're flipping slides behind us. So I would get back to that slide that I'm extremely satisfied with my agent and the net promoter score of 60%. I think you're absolutely right, if I'm trying to change a vehicle and it's 10 o'clock at night and I've worked all day, I don't actually need the agent to do that. And if I can't sort it out on the website, I'm probably frustrated. But you can get live chat on the Farmers site that actually is going to help you that. If my son is going to start to drive and I'm going to think about what kind of car I want to buy and what the premium might it be, you're much better off talking to your agent on that. So it's really, it's the value-added services or the planning forward that the agent brings lot of value. The transactional help we want to get is much of that away from the agent and the company, and frankly outsource it to the customer as we can.

## A - Jeffrey Dailey {BIO 17070898 <GO>}

And I don't think we went into the – how the agent is incented here. If we write the policy in another channel, it gets assigned to an agent. The agent gets a very small commission. The incentives are all for the agent to build that customer relationship. If the customer doesn't want that relationship, okay, the agent doesn't really make any money. If the agent does start cross-selling and building relationship, the agent starts getting a lot more commission. So essentially, the agents like the fact that we actually are giving them a policy and the more of the confident planner is the better, because that's much more cross-sell opportunity than a pricing churn person. But the incentives are in place, for us and for the agent both to build that relationship

So with that we'll take couple more questions and then see if there's anything on the phone. Nick, I think you've had your hand up for a while.

## Q - Nick Holmes {BIO 21515144 <GO>}

Nick Holmes with Soc Gén. This might be a bit of a naïve question I don't know, but wanted to ask, if you're not going to be a low cost operator, is there any scope for you to go, really sort of up markets into financial planning, away from your core activity. Is that so? Is that a silly question?

## A - Jeffrey Dailey {BIO 17070898 <GO>}

No, it's not a silly question, we do that. So Farmers does a limited broker dealer where our agents sell mutual funds, variable annuities, and those kinds of products. Now, it's our best agents they're licensed in the U.S. to do that, and that really ends up cementing the property and casualty relationships or the life insurance relationships that we have. Now we won't be go so up market that you would think that you would get financial planning advice from a Farmers agent, but if you want to buy an American funds and rollover a 401(k), we do that at Farmers.

## Q - Stefan Schürmann

Yes Stefan Schürmann from Vontobel. I've two questions. First one is basically on distribution. Just can you remind me on your distribution mix on premiums written?

And second one on the surplus. I understand I think that's quite some surplus note out there so that the situation is adequate, but I mean not really comfortable. So if you really go back to growth going forward, I mean how much growth can you sustain with that base?

## A - Jeffrey Dailey {BIO 17070898 <GO>}

Okay. So the first question was on distribution.

## Q - Stefan Schürmann

Premium distribution.

## A - Jeffrey Dailey {BIO 17070898 <GO>}

Premium distribution. Rough order of magnitude and James can probably keep me honest here, but rough order of magnitude. About 70% of our premium is generated through exclusive agents and that would include us, very small now kind of the omni-channel sales that are getting associated or intermediated with an agent. The other 30% is roughly 15% independent agent, 15% drug distribution. And I think as we go forward in the future, the distribution mechanisms outside of independent agent, which we have another brand, we call Foremost that has relationships with 35,000 independent agents in the United States. That's greater catching, one-off kind of business and it's very profitable and they do a phenomenal job. But that will be a less and less important part of Farmers, as we go forward. It's really going to be this omni-channel Farmers brand as we go forward.

In terms of surplus, we did do a surplus notes offering. I believe, it closed in the third quarter. We raised $500 million. We retired $300 million of notes. So we ended up with sort of net addition of $200 million. We are comfortable with, where our surplus is today. In fact it's over the stated range and our expectation is that we will – the Board of Governors will lower the quota share as we go into 2015. And I guess, your last question was we feel – again, given the quota sharing mechanism, that we can really grow it whatever rate we need to grow, if we need to adjust that lever. We much preferred to do that on an exchange surplus basis, as opposed to have a lever, but that does provide us with that opportunity.

## Q - Stefan Schürmann

So I think sort of one more – one question. It's probably has (01:24:21). How much room is there for cross-fertilization between the U.S. and UK what works there that would work here and vice-versa?

## A - Jeffrey Dailey {BIO 17070898 <GO>}

That's probably not a great question for me because I'm not much of a UK. I know I'm in the UK, but I'm not much of a UK expert. I do think if you think that the fundamental difference to me in the marketplace is I understand it's everybody in the UK, you can correct me although and my colleague, Mike Kerner here who can – would know for sure is that there is essentially no rate regulation in the UK, and so you can actually change things on the fly.

For us we have 50 – actually 53 states or governmental entities that actually regulate rates. I have to be very specific about what I'm going to want to do, and I can't change them. Some things in California you can't change them forever, it seems like. And so you don't have that sort of freedom to act that you have in the UK in the U.S. I think that's a big difference. I think another big difference is there are a lot of proprietary big data tools, credit being probably the biggest one where we use credit scoring for both auto and home owners, insurance in every state by California where it's not permitted. And that is not – we don't just use your FICO score and say, predict how you're going to actually – what kind of risk it will be. We actually go through in painstaking detail and associate elements in your credit file that they have a propensity to loss and then we model that.

And that is proprietary to Farmers. In our case, it's proprietary to other companies and other cases. So it makes the aggregator model a lot more difficult to work without voluntary cooperation of other insurers. So I think to me, those are the two big differences that won't – I don't think you can translate one market to the other.

## A - James Quin {BIO 18345789 <GO>}

Thank you. So now we'll take a 15-minute break. So we'll be back in around about 10 past. Thank you.

## MANAGEMENT DISCUSSION SECTION

### Mike Foley {BIO 15880890 <GO>}

Okay. As people are taking their seats, I am Mike Foley, CEO for North America Commercial and Craig Fundum and I are excited to be here to be able to present the Zurich North America Commercial story to you today. We'll highlight some of our key components of our strategy going forward, and in the time we have we can't go deep on all the elements. I'd like you to have a sense of the pride we have and the progress we've made on our technical discipline and the strong foundation of technical discipline, as well as the excitement around the opportunity we see going forward.

In the last couple of years, 2012 and 2013, we've grown 3% to 4% on our top-line. 2014, 2% year-to-date through the nine months. At the same time, we've delivered very solid financial results. So we're very excited about how we're poised in the marketplace and how we're shifting from the period of consolidation and reentering in the book to one of continued technical discipline, but top-line growth as well.

Couple of key things I'd like you to take away from today. First is we've reshaped the business, delivering strong results, but there's still room to improve. Second, the U.S. commercial insurance space is undergoing far reaching change, which plays to our strengths. Third, investments in customer segmentation and predictive analytics position us at the forefront of the industry. And then, fourth, going the last mile will be critical and by that we mean, getting it to the frontline, to the transaction level to getting underwriters to interact with brokers and customers, and have different outcomes as a critical component, so execution will be key.

I want to briefly frame the North American landscape for Zurich North America. Zurich North America includes, North America Commercial which I lead, but also Global Corporate in North America. Remember Global Corporate North America is part of a global business unit called Global Corporate. Within North America, we go to market as One Zurich. So we have a shared distribution channel. We have many shared services. So the scale of that benefits both Global Corporate and NAC in the marketplace. That's roughly a $14 billion footprint across North America, think of it as a $1 billion in Canada, $13 billion in the U.S. roughly.

If we then move to North America Commercial and talk about the businesses that we're in, commercial markets is about $3 billion business. Craig will go into a little more detail about that, but think of this as core middle market standard lines, really what you would think of as the core commercial space. Companies of $5 million to $750 million in size is what North America Commercial would focus on where Global Corporate focus above $750 million in general. There is a couple of industries where we go up higher because we have a vertical, in a couple of places the Global Corporate comes down lower but think of that size dimension is basically NAC versus GCINA.

Specialty Products, this is directors and officers liability insurance, professional liability, excess casualty, lower frequency, higher severity businesses in general. Specialty products which require a very specialized, underwriting expertise, about a $2 billion business. Programs is a unit where we go to business typically in a one-to-one relationship with the program administrator. So we'll try to find a partner, they will typically do the underwriting at a transaction level within a defined appetite and execution that we frame for them. And we work together to build a profitable book and they're incented both on production but on profitability typically.

So it's a unique relationship that we have there, an example of this should be our veterinarian program. So we work with one program administrator, they target veterinary services across the U.S. We're a leading provider of that and it would be the standard P&C lines, but also the professional lines for veterinarian coverage. So that's an example of a program, just to a give a little context there. Within programs we also would have our group captives unit which is a about a $1 billion of group captives.

Our direct markets unit is the only place that we go to market with a direct sales force and this group sells directly to auto dealerships, so car dealers in the U.S. And when we sell them the standard P&C coverage to cover their physical plans, their inventory, their building as well as liability insurance, but then we also sell F&I coverage, which is a coverage that would pick up where the standard manufacturer warranty would end off. And they sell that to their customers. So when you buy a car and you go into the auto dealership in the U.S., you'll negotiate the price first, but then you'll talk about other add-ons. And one of those would be this additional warranty that you could purchase. It's a very profitable business for us and for the auto dealers and we work together to build a profitable book.

So a diverse set of businesses across North America Commercial, generally, in that $500 million to $750 million size. Another thing I want to highlight is we have the business units that I've been talking about within the shared services. The shared services are the standard things you would think of: claims, distribution, marketing, finance. But the interesting thing that's happened over the last five years here is that, if you went back five years to seven years, many of our people would be in the business units, so we would have had heavier business units with dedicated CFOs, dedicated Chief Underwriting Officers, marketing people working in the businesses.

We pulled all of those out into a shared service platform. So now 70% of the people in North America would be in the shared service platform. This lets us capture scale, lets us build better capabilities and then share those capabilities across the business units. It also lets the business units focus more specifically on the marketplace and delivering to the brokers and customers in the market. That's been a big shift for us and one that's allowed us to actually play more at our scale and (01:31:59) more to our weight. We think that's one of the things that would be important in this industry going forward. Scale will matter and larger competitors will have advantages.

I'd like to talk about how we think about our businesses across a nine-box grid that we use on a regular basis. Typically, twice a year, we have profitability reviews. And we look at it in two ways on a tactical line box and a strategic line box. So tactical line box is to the left of the slide and it has two dimensions. The vertical dimension is the one-year forward looking return on risk-based capital, so it's a return metric. The horizontal is the combined ratio with a better combined ratio, moving to the right and forward combined ratio to the left.

So what we want our businesses that are delivering higher returns and more attractive combined ratios on a one-year forward looking view. That's the green region and NAC we see as in that green section. We've taken off the cut-offs from the grid for obvious reasons. The red would be ones we want to move away from and avoid. The strategic nine-box does a similar thing, but it takes a 10-year historical return on risk-based capital. So we remind ourselves of where we have been and then we take a one-year forward looking return on risk-based capital. So we look to where we think we'll be going. And so by having that 10-year, one-year view on return and then a one-year, one-year view on return and combined ratio, we think we balance how we'd like to manage our book.

So North America Commercial overall is in the green. I can then break that down into commercial markets, programs, and direct markets, and specialty products. Again, all three are in the green on both the tactical and the strategic nine-box. We can break that further into sub-business units within each of those and you start to see a bit more diversity with some of them moving more into the red. And then, we get down to the level that we really manage at, which is 57 market baskets. And so this is within the sub-business units, the business units and the overall North America

Commercial business unit. 57 market baskets that we think are unique enough that we can make decisions about whether to grow or shrink and how to actually position them strategically in the marketplace at a market basket level. An example of that would be middle-market contractors versus large contractors. And so we might actually have a different perspective on the profitability of one of those and then decide how we're going to approach that moving forward.

I'm going to give you one example of this that we've talked a bit about with folks over time specialty auto. This was a book that we actually mentioned had some challenges with adverse development about a year-and-a-half ago, but I want to go back to 2011. At the time, this book was a average profitability book. It wasn't in the green. It wasn't in the red. I'm going to play forward two profitability reviews and we started to see some downward trending in the book and started to move into the red.

We started to take some aggressive actions on thinking about how to reposition it. We had some ideas on how to fix the book. We gave that sometime to mature. The book continued to deteriorate rather than moving back in the direction that we hoped it would move. So we then made a very strong decision to shrink the book aggressively and move to the profitable core of the book. As a result of that, we shrank that book to about $80 million, we'd started that journey at $300 million. So we gave it sometime to watch. We tried to implement some actions. When those actions didn't take hold, we became more aggressive and reshaped the book. That's an example of how we think about using this nine-box on a dynamic basis to actually manage market baskets and overall that adds up to the performance of the business.

If I bring it back then to the tactical line box and I'm going to show you a timeframe from 2010 to today. And what we found is and what you see is 36% of the book was in the green in 2010, now 70% of the book is in the green as of the current profitability review. So a significant shift in the movement towards the green driven by a regular use of this in our regular operation of the business. So this highlights one of the tools we use to manage our portfolio over time.

Martin mentioned in his intro that I would talk a bit about us going from red to green. I joined Zurich in 2006 as COO for North America Commercial and then became CEO for North America Commercial in 2008. I joined from McKinsey. I'd been at McKinsey for 10 years. The last four years I'd worked pretty much exclusively with Zurich, though. But one of the things at McKinsey that we'd get done was a study called The Journey, and it looked at the profitability of various companies and that labeled companies red that were significantly underperforming relative to the industry and green if they were significantly outperforming.

And at the time, I was not aware of any company that had moved successfully from red to green. It's a very difficult thing to change from systematically underperforming to systematically outperforming. So when I tell the story to all the people at North America as well, when I joined, at the time, I had a BlackBerry, which has almost become a unknown device, but I did have a BlackBerry. And I had to put a password into my BlackBerry. And the password was red-to-green or some permutation of that. And the reason for that was, I came to Zurich because I saw us poised to be first company in North America to be able to do that to go from red to green.

So that was my password to my BlackBerry. Since we're all addicts to that, it turns out that I'd probably type that in half a million times over the next 10 years. I've changed my password, though, this year. And the reason was in that first timeframe from – I'll go back one second – in that first timeframe from 2005 to 2007, North America Commercial was the blue dot. We were behind the industry. The triangle is the industry and then the gray dot is an average of the top three competitors. All of this for commercial books as best we can construct them from reported financials, okay, and in the U.S.

From 2008 to 2010, we moved to a position of outperforming the industry, but not yet in a point to declare success, because I hadn't been persistent. But we were outperforming the industry and still lag the top competitors. If you roll forward then 2011 through 2013, we've maintained our outperformance of the industry. So we're confident now that we've moved from red to green and that we now – our next challenge is to go from green to best, right. We've said we wanted to be the best global insurer in the world, we also want to be the best insurer in North America. And to be the best, we want to be profitable and growing. And so we'd look at those top competitors and see those as opportunity to close that gap. So we no longer are concerned about whether we're beating the industry, we're looking forward to closing the gap with the other top competitors.

So a couple of things about the industry I'd like to highlight. First scale matters more than ever. This is becoming a place where there will be winners and losers and scale will be one of the ways that that will be determined. With that scale, though, it's key to invest it correctly. So the largest careers are investing significantly in predictive analytics. The ones who get it right it will be a key differentiator for them in the marketplace. There will also be a continued barbelling of the broker channel. So the large brokers will continue to get larger. They continue to grow until acquire (01:93:20). There will be small niche brokers that will always be competitive and have a place in the marketplace. But we think you'll see larger brokers and niche brokers in the marketplace.

Industrialization of processes will differentiate competitors. And this is a place that, as an industry, we've made some progress, but it's really hard to declare that we've had success here, right. We, as an industry, are so very paper-intensive, very – our processes are not simplified and streamlined end-to-end. And it's an area that the best competitors will get better at and we're continuing to work at. We're doing things like moving work from underwriters that can be done by underwriting assistants or by rate tax (01:39:57).

So we're moving the work to the best appropriate place that frees up time for the underwriters to focus on the marketplace and higher value underwriting tasks. It also quite obviously moves work to people who might be better able to do it because sometimes the less challenging and exciting work isn't covered as well by someone who'd rather be out in the marketplace selling. So getting that industrialized process, capturing scale, getting the right work to the right people is a critical push for us. And we think it will be a differentiator for key competitors in the marketplace.

And then finally, the rate environment is challenging, but the industry has remained disciplined. So while rate has tailed off a bit and you can see that in our reported rate as well. And we'll also talk about the fact that rate is not in and of itself the single unifying metric. It's a bit of a blunt tool that is a good top line metric. But you really have to look at what's happening with tearing and the underlying activity of the book and your actual price to your technical price at a per-risk level and Craig Fundum will give some examples of how we're doing that to bring it to life within his business unit as part of North America Commercial.

Okay. So the U.S. marketplace is a $260 billion commercial marketplace, large, highly competitive industry. The top eight players account for about a third of the industry, the remaining 1,000 competitors account for two-thirds. So there is a story here around scale and people of a much lower scale and we think that will matter increasingly over time.

One example of that is if we look at our win rates, so one is if we provide a quote, what's our hit rate or our win rate on that quote when we go head-to-head against the other top eight competitors, we have a certain win rate. When we go head-to-head against the other competitors of lesser scale, our win rate is 50% higher today than it is against the top eight. So we win our fair share when we're up against competitors of roughly comparable size. We win 50% more of the time when we're up against smaller competitors today.

We think over time that will continue to be, if anything an increasing opportunity as we get more sophisticated on our predictive analytics and some of our other capabilities. So we think we're building capabilities that will make us the leader among the top eight. Whether or not we're the leader among the top eight, we know there's lots of headroom in an industry, but we have a 4% share to grow against all the other competitors. Top eight, but also the remaining thousand.

So how are we investing in North America? Couple of areas. On the customer, I'll go deeper on this in a minute, so I won't talk too much about it now, but we're doing some really interesting industry leading research on customer and customer behaviors. I would highlight here that we've also captured a whole account view. So we've re-architected our data, so that we can now look at it from the customer view. We grew up as did most of the industry as a product focused organization. So we would sell a product and we would track that. It was very hard for us to say what's the total relationship with a customer from the customer viewpoint. We've turned that around now so we can still track performance by product, but we can now look at whole account view and look at that customer view to see everything we do with them, which is a very important shift in mindset and then how you can manage the overall value of the book. So that's the customer.

On the broker, we're investing to understand the brokerage more deeply, understand what they value to sharpen our value proposition to brokers. We're also in the midst of a select broker strategy. If you went back five years ago, we would have had roughly 17,000 appointed locations in the U.S. for broker locations. Today that number is less than 4,000. And really if you move one step further, there is about a 1,000 locations that we do detailed planning with on an annual basis and then come back each quarter to check on our progress. And so really of those about 800 locations account for 90% of our sales through the broker channels.

So we have a very focused relationship now. We've decided to focus on the broker locations that we work well with and want to partner with us to build a better and more efficient dynamic. What that does is on the broker analytics, so when you hear about Aon GRIP or Marsh Market Connect or Willis WillPlace and the other ones that the major brokers are developing. Brokers have strong analytics and they're getting stronger. You have to offset that with equal insight and analytics from the other side.

So for the largest brokers and the largest carriers, there is an opportunity to work together to build more profitable books and to remain sort of at parity in that relationship. If you don't have the scale and you don't have the analytics, there is a real risk that, as brokers build more insight and capability, you could be adversely selected. We're confident that we're keeping up in that dynamic and that, in fact, by taking our side and theirs together, we're building more profitable and stronger relationships at a location level with our major trading partners. That's what we call our broker engagement model where we're going very deep in understanding what the lead opportunities flow are at each location and how we're doing there and using data to shift it to a data-driven discussion with brokers. So lots of interesting work on the broker side.

Predictive analytics, I'll also go deep answering and I skip that for now, and instead, talk briefly about ops and IT. So all of the major players have legacy systems in place, right. We have data and systems and the landscape that can be quite cumbersome. We are investing to simplify that. We're trying to create a simpler user interface for our underwriters and our claims professionals. They can get in through a single layer. They still can access the functionality and the data that are required to do their job, but we're trying to make that a simpler process for them. And at the same time, we're trying to get our data architecture to be one that we can better manipulate and access and use to drive predictive analytics. So we're reshaping our IT landscape, and at the same time, we're reshaping our process landscape, trying to focus on simplifying our end-to-end processes. A big push for us to actually drive for a simpler and cleaner operations in IT landscape.

I'd like to shift now and go bit deeper on the customer work. We've done some industry leading work, we believe, around customer segmentation. And so we did deep interviews, we looked for the dimensions, we found two dimensions that we think differentiate how customers think about insurance. And this is in the marketplace, it's not at Zurich for now, right. So in the marketplace, we think the two differentiating dimensions are the relative level of engagements. So how much does the customer want to talk about the insurance decision? How much they want to understand the risk? Do they want to read white papers and really understand what's driving the risk for their industry and for them individually? If they do, they're on the higher end of this dimension on the vertical side.

Some customers really don't want to do that. They think insurance is just something they need to have. They know they have risk, but they don't really want to get deep into it. So they need to buy insurance to cover off that risk, but they don't want to become personally very proficient at it. So they have a low level of engagement in the conversion about insurance.

On the other dimension, the relative risk profile, the higher the risk profile, the further to the right and the lower the further to the left on the horizontal dimension. And this is from the customer's view point. So how much does a customer believe that they have risk that they're trying to manage? So we found five segments in the marketplace that we think are interesting. The first one is strategic engagers in the upper right. This is a segment that believes they face high risk. They tend to be larger companies and they also want to engage in the insurance conversation and the risk management conversation, so they're at the upper end of both scales.

This segment is actually exactly the segment that we've been targeting in our global corporate customer space now for over a decade. We did it intuitively because we talked to the customers and understood their need and understood that they wanted to get engaged and have relationship leaders and the value added services that global corporate delivers, we now can label them and understand them better in what's driving them. So that's the strategic engagers.

The busy negotiators are an interesting segment. This is the price value – the price focused component in the marketplace much like the dark blue component of the Farmers' chart, right. So these are price conscious consumers. At the end of the day, they don't value any other things highly, whether it's a relationship, or a tool, or a whitepaper, price is the thing they over-index on significantly. It's about a third of the market. When we looked at this, we decided to focus on expertise seekers. So these are people who want to engage in the conversation about insurance, not quite as intensively as the strategic engagers and they have a moderately high level of perceived risk.

By the way, this is the North America Commercial target segment for the core commercial segment. We really will have large corporate customers to be strategic engagers and midmarket customers to be expertise seekers. So what do these customers value? First, expertise in our industry. They want to know they're working with someone, a broker and a carrier who understand their industry and understand the risks they face. Second, strong reputation and strong references. They want to know it's a credible company that they can do business with that they're making a good choice. Third is the claims touch points and a carrier who fairly settles claims. They want to know in that trust-based decision, insurances is the active, making a payment and buying a policy in the hopes that when you have a claim someone will be there to fulfill that expectation at the time of the claims.

They want to fair claim settlement process. And then they want fairness and transparency throughout the relationship, but particularly, during the renewal process. They want to engage in a conversation about what's changed, what's happening with their risk. And then finally, they do value both the carrier and the broker. They want a broker they have confidence in and a carrier they have confidence in. And they would value a tripod-type relationship where that happens.

So when we look at our book, we over-index on expertise seekers. They're 20% of the market, but they're 45% of our book. Without having focused on them exclusively, we already over-indexed there, because our value proposition resonates. And if you look also at the busy negotiators, I'm quite happy to see that whilst 31% of the market is 10% of the North America Commercial book. So we under-index on the price-sensitive part of the marketplace. This makes sense. We are a value added provider. We do deliver distinctive expertise. We wouldn't intentionally pursue the price-conscious portion in the market. Of course, if the price is appropriate, we're happy to sell to a price-conscious consumer still.

We also then stepped back in as part of this work looked at the moments of truth across the entire relationship and we identified 12 key moments of truth for a customer, points in the relationship, where you can reinforce and cement the value that the carrier delivers in the relationship. We've blurred out many of these because we don't, for now want, to disclose them and we think that we've spent some real effort and time to get that right. So we'd like to keep that confidential.

I left two that are pretty obvious ones, just to give you a sense of what is the moment of truth. So in claims, when you file a claim that's a moment of truth, right. The first time you actually pick up the phone or go to the website and try to file a claim, how that works out for you actually affects how you feel about the quality of that relationship. And then another one obviously is when you receive a claims payment and it get settled, does it actually - did it work out fairly and appropriately? So those are two moments of truth. The others, for now, I don't want to highlight in detail. But the key is we know what these moments of truth are and we're building out our value proposition to better deliver against all of them.

An example of that is in the claims first notice of loss. So we do transactional net promoter score and we do net promoter score just like Farmers does. Actually they did it about a year or two before us and we've been doing it for a little over a year now. So one of the things we found was when we did the transactional net promoter score for claims at the first notice of loss, we had some unique input from the detractors. They said things like the call took too long. So it was just too long of a process. And we went back and looked at that and you can go back to the individual comments from the individual people and we realized that what was happening was when we hired new people, they weren't as well trained and equipped to actually handle a process.

So it was actually a specific issue of when new hires came on, we needed to up our training and get them more focused on customer service and responsiveness in the call itself. So we addressed that. Another one was a comment that the website was difficult to navigate and that it was hard to file a claim. So we went back and revamped the website and republished an easier-to-navigate and easier-to-use website for filing a claim.

A third is that new customers wanted an easy-to-understand process. The first time you were a customer and the first time you filed a claim, it wasn't clear to them exactly how to do that. So we developed a claims kit that provides guidance on how to easily report claims and now, as a new customer, we give you a claims kit before you have a claim to help you understand how to move forward when or if a claim were to occur.

So relatively simple fixes to the process. But as a result of that, we've seen our transactional net promoter score go from 67, which was already high to 76, which is quite high on the first notice of loss. So we think these types of activities and responding to the feedback to the customer will make our value proposition stronger and cleaner over time.

So let's step back and look at our whole book for net promoter score. At the bottom, you can see that, in 2013, we had a net promoter score of 37, that's moved up to 40, so we've improved our net promoter score year-on-year. Also what's interesting is if you look at promoters versus detractors, we've seen several things that I think also Farmers experienced, but we can now confirm it in our book.

The first is not surprisingly, but very comforting to see, if you are a promoter, you have a higher retention rate than if you are a detractor. So in a 11 point higher retention rate for promoters, people who are willing to recommend Zurich. Also, if you are a promoter, you have a higher average premium. So it's 45% higher average premium with promoters and with detractors. So as we work to improve our net promoter score and our transactional net promoter score, this will drive higher retention and higher average premium per customer, which we think is actually a very exciting lever for us to pursue.

I want to shift now and talk about predictive analytics. So I'm sure, as you go to different Investor Days, many of the larger firms are talking about predictive analytics and the fact that they're doing them. And in fact, if you're an at scale (01:54:43) competitor, it's hard to imagine that you're not either actively doing or trying to figure out how to do predictive analytics. It will be required in this industry. We've been doing predictive analytics since 2008. In 2008 to 2010, we established a team of predictive modelers, we built our first six first generation models that actually started to show predictive lift curves and we had 37 external data sources that we use to augment our internal data sources.

So 2008 to 2010, our first horizon, we were doing that. The next horizon in 2011 to 2013, we kept the team in the U.S., but we also established a team in Bratislava, which is a cheaper location and it turns out math is a global language, right. So if you're trying to update models and do statistics, it doesn't all have to be done in the U.S., right. So we can actually build a global capability to access talent across the world and to optimize our model. We built another five first generation models and then we also started to build our second generation models. We started to improve the ones that we had already issued to get better insights and better lift. And then we also started to do 58 insight projects. So coming together, looking for insights on books or parts of books and predictive components of the books.

Finally, as you look at 2014 and forward, we're expanding the team further. We're hiring data scientists. We're investing quite a bit in our predictive analytics team. We're looking to build more first generation models as well as continuing to augment the previous models with second generation insights. And now, we're also building out a data lake, which is four to five times the current capacity of our internal data capability. So really trying to get to a much different scale of data and analytics and the ability to drive insights. So this is a progression. It's not a cold start. But we're excited about the trajectory that we're on in improving our analytics over time.

So one thing we're doing here is we're taking internal data, which is structured internal data, it's in databases and data marts and you can go find it and it's relatively accessible. We're augmenting that with unstructured internal data. Examples of this would be notes and a claims file, right. So if you – the claims adjusters have some structured data that we capture, but they put lots of things into free-form notes. We can now go through and look for free-form notes and look for repetitive references to issues or that drove that claim and we can feed that back into the underwriting to have more sophisticated insights into what drives claims and we have with just this structured data.

We're then going to structured external data. So this is weather data from NOAA, it's CAT models, it's credit history, it's ISO-bureau (01:57:31) information, all the things you can collect in structured format externally and then that's also moving to unstructured external data, which is things like class action histories, online forms, trade publications. Taking all that data marrying it up in the data lake and looking for ways to find insights across the structured/unstructured, internal/external is a huge shift for us in the industry and the level of insight that we can get.

And what's happening here is that in industry that over time had grown up with the brilliance of the individual underwriter, the person who could intuit a good risk from a bad risk and price a good risk and a bad risk is moving to a place where the scale and the level of insights is beyond anyone person's pattern recognition. There's just too much data, too much information.

So, to show this to our underwriters, we actually pulled them in, we took our best underwriters, and we said, tell us things that you look for when you're underwriting an account, and I've mixed together different lines of business here, whether it's auto, or property, or liability. And so is it the roof age on a property account or the year built? Is it the financial rating? Or the number of stories? Or is it the number of endorsements on an auto policy? These are all things that some of our best underwriters look to as one component of how they evaluate a risk. And so we took those and we pulled them all together, this is just a sample of those, and these were the risk insights workshops that we did.

We said, let's look at how predictive your insights are or are not. And the interesting finding is that two-thirds of the time those insights were predictive. So the things they were looking for did actually correlate with a higher loss expectation or a lower loss expectation they thought it was a good predictor. Even when it's predictive getting the exact quantum of how much it's predictive is a very challenging thing.

But, regardless, a third of the time, they were actually counter-predictive. The things they thought mattered didn't matter and, in fact, didn't matter in the opposite way many times. So what you have is an individual underwriter is right about two-thirds of the time, right. And so by doing this we can actually confirm to them the fact that they have to move away from their individual pattern recognition to the broader use of deeper insights driven by data and the analytics. There will always be a place for underwriter judgment. We will look for underwriters to make balanced calls and measured calls throughout the process and Craig will talk more about how we're doing that with 5/5/5. But while we want underwriters with judgment, we also need underwriters to realize their individual judgment is insufficient, it needs to be augmented by the data and the analytics that's available to the organization.

So let's take an example here of workers' compensation book with roughly 2,000 accounts. There's data available in the industry around, what state you do business in, what SIC code, or portion of industry you work in, what type of work your workers do? Are they office workers? Are they factory workers? And this is readily available information to everyone in the industry as well as your experience model, what have been your losses, right. So if you take a basic level of information that's available to everyone in the industry, and I took 10 of the 2,000 risks, you can spread them out from a low to a high loss expectation, right. By the way, everyone in the industry should be able to do something roughly (02:00:57).

Now, you can lay on top of that Zurich's proprietary insights, which are the additional things that come from all that additional effort on modeling and you can add a lift curve to this. So if you look at the one to the far right that shows it up 25%. So this was the risk that already was seen as a high expected loss in the industry. We would think it's 25% higher expected loss than the industry would have thought. If you look at the one sort of in the middle of the curve, this was a moderate to light risk for the – as the basic level of insight of the industry. We would see it as a 40% less risky than the basic insight. So what you see here is a real dispersion between what a proprietary model can deliver in terms of insight versus the basic model what the industry can deliver.

Now let me flow through all 2,000 accounts in there and then break it into 10 deciles. So basically, that same lift curve across those 2,000 accounts and then we can spread this out into a lift curve for the book. So what this shows is the first deciles so the first 10% of expected losses, we think that on average our model would show our insights that it's a 43% lower expected loss than the basic insight of the industry.

If you went to the other side, we think that there's 10% of the expected losses where we would see a 44% higher expected loss than the basic level of insight in the industry. So that's a huge dispersion, right? You start to get a real sense of how much of a difference it can make applying proprietary insights versus basic insights in the industry. And I know and expect that all of the top competitors are doing this. They're not all going to come up with the same lift curves, will have different data, will have different insights. The challenge will be for the other 1,000 companies that's smaller portion of the marketplace how well can they invest to deliver these insights, right?

So there is a scale event happening here. There will be winners and losers among the top eight. We think we're well positioned and doing well to do there. Clearly, though, the smaller scale competitors will be under even more pressure to find these insights and deliver these in the marketplace.

So we have all these insights, but really it comes down to the last mile, right. So framing this in the perspective of telecom and the Internet, you can have a T1 line running right outside the front of your house with lots of information and lots of data running past. If you have a slow speed hookup from that flow of information to your home, your Internet feels slow, even though just out of the street, you could have lots of capacity. The equivalent that we're trying to draw here is, we can have deep insights, other people can have deep insights. What really matters is how do you take those deep insights and move them to the frontline and have underwriters execute transactions using those insights on a daily basis with customers and brokers to achieve a better outcome.

So that's the last mile, then I'm going to ask Craig Fundum to come up and talk about it.



## Craig Fundum

Thank you, Mike. Good morning, everyone. I'm Craig Fundum. I've been at Zurich for 24 years, so I've had a number of roles in this organization and my current role is that of President of Commercial Markets and I'll talk a bit more about what does that really mean and how do we define that.

Mike just talked about – and that really fun slide there with all those numbers running across, about going a last mile. And what he described in the way I think about that is, focused and consistent execution at the desk level of our underwriters is absolutely critical. The majority of my comments today are really going to focus on the processes and the tools that we're using on a daily basis with our underwriters and underwriting managers to help them and prepare them for this new world order that we're talking about. We want them to learn and improve and really build a muscle memory so that we can, in fact, deliver not just profitable top line growth, but also profitable bottom line growth.

So first, let me talk a bit about Commercial Markets. Commercial Markets serves many industries across North America. We're a large BU. We write, as we said earlier, somewhere around $3.2 billion of premium. We have, as you can see on the left, 300 underwriters, more than 300 underwriters located out in our branch offices close to our customers, close to our brokers, spread throughout Canada and the United States. Those 300 underwriters are very, very customer-focused. And you can see on the right hand side, we execute upon six customer industry segments, construction, manufacturing, real estate, financial institutions, technology and healthcare. Mike talked earlier, just to remind you, our definition of middle market customer in the United States is, those customers that have revenues between $500 million and $750 million. So it's a really big part of the market in the United States.

Global Corporate then comes on top of us to provide products and services to those largest customers across North America. There is two exceptions to that. In construction, we write all sizes of contractors from $5 million on up through the corporate customer type and in healthcare we write the healthcare accounts primarily hospitals and we go all the way up through the corporate customer accounts size.

On the bottom there you see something called pace and that's an internal term we use. It's really designed. It's a process that we're working on very diligently now so that we could provide products and services to those customers that have revenues between $5 million and $25 million. So we're not talking about small businesses here. That's handled by our colleagues the – in Farmers. We're really talking about the lowest and of middle market. And we know that that requires a really diligent process, a quick process, the frictional cost there can really be prohibitive. So we're working very diligently on our internal processes to make that a quick and easy interface with our brokers.



The other thing, I would talk about is international, now, clearly in Global Corporate, we're focused on international firms. There are a lot of middle market firms, particularly in the states, but I think globally that have international exposures. And so we are very actively working on products and services for those middle market customers whether they're exporting products, they have sales people across parts of the globe, or they have physical plants located throughout the globe. The other I think really important thing there to note is that we use both Global Corporate and

Commercial Markets, we use the same network and the same systems to issue our policies across the globe.

So Mike talked about pattern recognition and the individual underwriters' pattern recognition and how that bias enters into the risk selection and pricing process. And, in fact, we learned and Mike enumerated on it, a third of the time, they're actually counter-predictive. So one of the things that we looked at and we said look, it's really, really important that we make sure, we have a consistent risk assessment and pricing process in our organization. So we set about to measure that. And we created this thing called 5/5/5. And it's pretty straightforward. What it is, is we take five underwriting files; we give those to five underwriters; and the expectation would be that those five underwriters would evaluate the risk and price that risk within a band of plus or minus 5% and we would then consider them to be calibrated and that would be a consistent risk assessment and pricing process.

So we went out, and not too surprisingly, we found that our underwriters quite frankly weren't calibrated. In fact, 62% were not calibrated. And we had a pretty wide dispersion of pricing. And really it goes back to this individual underwriter pattern recognition. I've been an underwriter for 30 years, and I understand risks better than anybody else out there and I know that when this risk characteristic is there, that's a bad thing. And so I'm going to debit that account or I'm going to really credit that account, and that really entered into their pricing activity.

So, what did we do? We stepped back, we did a lot of training with our underwriters, we created new underwriting guidelines, we clarified underwriting guidelines because there was lack of clarity in some instances, spent time with our underwriters. By the way, we've done this throughout 2014. And so we went from 62% of our underwriters not calibrated to now 91% of our underwriters being calibrated, meaning, their price falls within a band of plus or minus 5% of our technical price. So really dramatic improvement here and now back to this notion of consistent pricing across our organization.

I would also say that this 5/5/5 process now is a monthly thing that our underwriting managers spend time with the underwriters, making sure they're calibrated, and it's deep discussions about why they were or why they weren't calibrated on a particular pricing tool. And we have other lines of business that we're going to be calibrating on throughout 2015. But this is an ongoing management activity for us.

So now, let's take a look at another metric that we're driving in our organization. And what we're talking about here is, tiering. We've been tiering for several years. It's very clear to us this is a positive thing for us. We will continue to drive tiering results to improve our profitability. If you think about pricing and rate need, there is multiple ways that a company could do this. You can take a portfolio, calculate the necessary rate need, and let's make it up, let's say you needed to get five points of rate for that portfolio. One way to do that would be charge each customer an additional 5%. And we think that's a rudimentary tool, we think that's sort of a bad way to go about it, in fact, not fair to those customers that don't necessarily need that much rate. And actually, a winner's curse would occur, those customers that actually needed more rate would get a discount, because we would only charge them that five points.

So rather what we do is we tear our accounts. So let me describe it for you. You can see on the left-hand side, we calculate, we take all of our customers for a given quarter, we calculate the rate need for those customers, and the rate adequacy that those customers have relative to Tier-A, Tier-B, Tier-C, and Tier-D. We define Tier-A as strongly priced, Tier-B as adequately priced, Tier-C, underpriced, and Tier-D, severely underpriced.

We then set rate goals. And you can see on the left-hand side, we set a goal for Tier-A to get two points of rate. We, in fact, achieve two points of rate. You can see all the way across to Tier-D, we set a goal of 20 point of rate achievement, and we actually delivered 26 points of rate.

On the bottom-left, what you can see is, what we like to do is measure how much of our premium sits in the various tiers. And if you add up Tier-A and Tier-B, both before and after rate, it's about 80% of our business is adequate or strongly priced, which is a really good sign. A 3.4% or 2.7% after rate falls into Tier D. So it's not a huge amount, but clearly, something that our underwriters need to act upon going forward.

The other thing then we would do is set premium retention targets. So we expect to get two points of rate on this particular portfolio within commercial markets. We expect to renew 95% of those, and in fact, we did renew 95% of the premium and the customers that fell into Tier A. Conversely on Tier D, we knew that we are going to drive significant rate we expected to only retain 48%. We actually over-delivered and retained 61%.

And then on the bottom right, what you can see is, again, we think just pure rate is a rudimentary tool. You can see the percent to target change from rate in the middle there was 5.6 points on this portfolio. We also picked up another two points just through our tiering for a total of 7.6 points of rate change on this particular portfolio.

So now let me move a bit deeper. So we've gone from sort of all of our underwriters to how we tier a particular portfolio. Let me take you one level deeper and show you two tools that we're using every day with our underwriters and our underwriting managers. The first one is PATH and it really stands for the Pricing Activity Tracking Hub. This really allows our underwriting managers in real time to sit with their underwriters, go on – by the way, this is a real site, it's not vaporware. I know it's a bit hard to read, but we wanted to show you, this is a real screenshot of one of our underwriting teams' performance.

On the top part, you can see all different types of dropdown windows that an underwriting manager can pull down and slice and dice the detailed information in many ways. In the middle part, you see, in a chart the expiring premium, the renewed premium and rate change, the percent to target the amount of premium. And on the bottom you see it's illustrated in some charts.

So let's imagine for a second that you're an underwriting manager. Let's click forward. What you want to look at here is how is your underwriting team performing. And so what you see on the left is a list of all of the underwriters, we've changed the names to numbers, but what you see on the left is a list of all your underwriters and how they're performing in their pricing in their percent to target.

And as you through that, you see some are doing pretty well, they're above 100%, others maybe not so well. There's one right there in the middle. It's underwriter 570. That underwriter is writing their business at a 90% to target. So we would say, let's take a look at that and find out really what's going on with that underwriter. So we would click through. We would say let's talk about 570. An underwriter 570 is writing, the premium you see there on the left out of 90% to target, and that big red bar there, that's the severely underpriced business at 32%.

So we'd say, well, what really is happening on a line-up business basis so you would click through, get more detail, what's the line of business for you, and you see property as a big part of this underwriter's book, and we see a severely underpriced to the tune of 37% of their business. So an underwriting manager – you as the underwriting manager would sit down with the underwriter and talk through this and say, let's understand exactly what's going on with your book of business. The other thing that you could do as the underwriting manager that we do every day is find out more detail about this account.

So we click in, we get on the property the detail and up would come a list of customers and the property line of business and what the premium was and what the AP/TP and the percent to target was. And you can see here that these accounts are all written below 100% to target and 100% of AP/TP. So we can actually drill down even farther and I have to apologize, we drill down and the screenshots got so small we actually created a PowerPoint slide for you, but what you'd find is that while the property is at a 65% AP/TP, the overall account is priced at 104% target. So I would say to my underwriter, look, let's be diligent around understanding the property risks that we face here, looks like we've underpriced it a bit, the great news is this customer is well priced overall at 104% to target.

All right. So one last tool I want to show you and that's something we use with our underwriting managers and underwriters on a daily basis. And we talk about accountability and responsibility in our organization and this tool, the underwriting scorecard is one way that, again the underwriting manager is spending a lot of time with their underwriters talking through key metrics. We empower our underwriters, but we also hold them accountable. And this tool helps that underwriting managers spot trends around the various categories across the top that you see productivity, broker management, book value, technical excellence and process adherence.

And we've shaded out a couple of these because for various reasons we think some of these are proprietary, but it is really a red, yellow, green report, green being good, yellow being, okay, let's talk about what's going on, and red being you're less than 80% of your targeted goal. This underwriter happens to be performing pretty well - most of it green. But one of the things that our underwriting managers can do then is, go deeper on this.

So let's say we wanted to understand what was going on with our calendar year gross written premium, the underwriting manager could click on that site, and up would come a customer dashboard that would show all the accounts, the premiums, the lines of business, the percent of target, et cetera. So the point of all this is, we were talking earlier about a consistent execution of our underwriters and their pricing and their underwriting of account. We have tools in place for our underwriting managers to work very diligently with our underwriters, to make sure in fact we are delivering on those things.

And I guess in concluding my comments, I would say, execution at the front-line is critical. Setting clear expectations for our underwriters is absolutely necessary and critical, and we do that and that's what the goals were on that underwriting scorecard. We need to build and continue to use the robust tools we have today and build additional tools for underwriting managers, and literally drive better outcomes at the transactional level, but balancing that with the overall customer dynamics that we face in the marketplace.

So with that, I'll conclude and turn it back to Mike to wrap it up. Thank you.

## Mike Foley {BIO 15880890 <GO>}

Thanks, Craig. And mine is a quick conclusion, then we'll move to Q&A. But just to step back and remind you, when we framed at the beginning. So we've reshaped the business, we're delivering strong results, we're beating the industry, but we have room to improve. The U.S. commercial space is undergoing far reaching change and we think that it plays to our strengths. Investments in areas around customer segmentation, predictive analytics, as well as others position us at the forefront of the industry.

And then finally, as Craig was describing, we really feel quite passionately about the fact that the last mile would be the critical differentiator, it's execution, it's behavior change at the front-line, it's getting underwriters to understand the difference of what has to happen at the transaction with the customer, leveraging the deep insights from analytics, that will be a key differentiator. And that's a place in particular that we think we're very well-positioned. Having done the Zurich way of underwriting, our organization has a muscle memory around the ability to act as a team and to follow a coordinated playbook. So the Zurich way of underwriting, we think really has positioned us well to go that last mile and deliver at the execution level.

And with that, I think we'd open it up for Q&A.

## Q&A

### A - James Quin {BIO 18345789 <GO>}

Farooq, can go first.



### Q - Farooq Hanif {BIO 4780978 <GO>}

Yeah. Hi there, thanks very much. Farooq Hanif from Citi. I just wanted to talk about PATH a little bit and also predictive analytics. So I mean, you've had the PATH tool for a while now, and I think one of the questions when you first talked about it was around price elasticity. So to what extent do you now have more evidence of where rate is going up or going down that you are able to outperform because of your tools, (02:23:08) so the distribution between minus 5% and plus 5% has a positive skew. So can you talk a little bit about that?

### A - Craig Fundum

Okay. So the PATH tool has been out in the field now, the managers all have it and use it on a regular basis. What it lets you do is have a different conversation with the underwriters on a regular basis. The calibration is new. So when you say the plus 5% to minus 5% on calibration, that was this year that we really drove that consistent calibration in the field. But what's really important on the pricing dynamic is, we've invested to have a technical price to understand at an individual progressed level what the price is that we think we need to meet our target return. And by looking at our actual price relative to that technical price, we can tell on a progressed basis whether we're comfortable with the price we're getting for the risk that we're assuming, the expected losses plus the expenses and returns on capital. And so with that it changes the conversation from the relatively simple conversation of rate to one about the pricing of the individual components of the account and the pricing of the overall account. So rate still matters, but it's not the only part of the conversation.



### Q - Farooq Hanif {BIO 4780978 <GO>}

I was just wondering on that, I mean obviously it's a great tool and it gives me good insight. But do you have any evidence that you're doing better than others and getting more?

### A - James Quin {BIO 18345789 <GO>}

It's a hard thing to compare because I wouldn't apply on how well they understand their progressed exposures and whether they're getting the right price. But for instance, if I look at our actual price to technical price for this year versus last year, we think it's strengthened, while at the same time the rate reported this year was actually a bit lower than the rate reported last year. So we think the reshaping of the book at the per-risk level actually drives better outcomes than it would if we just talked about the top line rate.

### A - Craig Fundum

Yeah. And I think the immediacy of the tool, the PATH tool itself, the tool that the underwriting manager can use with that underwriter on a daily basis, we believe not sure we can compare across competitors, but we believe that just creates a more robust conversation, and understanding where an underwriter's book is, is really, really important. So we feel strong. It's a great tool for underwriting managers to use as we said on a daily basis.

### Q - Farooq Hanif {BIO 4780978 <GO>}

And so just one question on predictive analytics and your workers comp example, one big risk with all of that is that, you're looking at industry data, internal data, and then other kind of new sources of data, but what period are you looking at this over historically to get the rating part because a risk, I mean you look at other industries or other kind of actuarial errors where this has been done, the problem is that it's self-fulfilling and you end up not getting that advantage anymore as others do the same. So I was wondering, can you talk a bit about whether you see that's relevant or what period you're doing this analysis over historically?

### A - Craig Fundum

So I don't think I can get (02:26:11) into the period that we're doing over, but I think your question is, and it's a fair question comment that we're certainly aware of. It's a model, and models aren't perfect. So we don't want to become model wind. And that's where we still want underwriter judgment to apply judgment within the marketplace, but it also helps directionally to make sure that we're actually capturing the best insights we can. So I think a part of your question is current or historical data predictive of the future possibly, and we have to be aware of those dynamics, but not ignore the past as well.

### Q - James Quin {BIO 18345789 <GO>}

I just wondered, can you give us a feel for how much better your pricing margin is, as you said it is better, much better since last year.

### A - Craig Fundum

I don't think I can, actually, I'll keep my conscience with me, but we track our actual to technical price and it's stronger this year than last year, but I don't think we disclose that as a percentage.

### Q - James Quin {BIO 18345789 <GO>}

Okay. Well, I guess the second question will be the same, what's the ROE, or the return on risk based capital, your actual and how much better? And then the third one is that, you used to say red, green, what's the next color, in other words where, how?

### A - Craig Fundum

It was red to green, it's now green to best (02:27:42). So we actually want to be in that leading group in the North American industry.

### Q - James Quin {BIO 18345789 <GO>}

And when will you get there?

### A - Craig Fundum

As quickly as we can.

### Q - James Quin {BIO 18345789 <GO>}

Okay. That's not very helpful. And the last one, so Jeff, explained that when you do new business in the East, the first year is rubbish, and then you kind of clean up the portfolio. And I imagine it's a little bit the same, however, if you're placing tools on commercial. And so I'm just wondering, how much of the stuff, your good stuff you're getting from the tearing you then giving away in order to achieve the growth that you also beginning to target now, so this growth, how much is that costing?

### A - Craig Fundum

Yes. So I think it's a slightly different comparison. So I think Jeff is talking about when they expand to the East, that they actually have a scale issue, to build up to a scale before they can achieve profitability in the book.

### Q - James Quin {BIO 18345789 <GO>}

It wasn't scale, it was actually losses as I understand from last night's conversation, it's not just scale.

## A - Craig Fundum

I'll get there. But, I think and I won't speak for Jeff because he has a different business, but I think part of it was actually the scale of the business. I will also tell you that I think, in general, in the commercial space certainly, and I think you can personalize space people would say, there can be a new business penalty because the business you know is different than the business you're acquiring. We do track our percent to target or actual to technical price on new business compared to renewing business. It is several points lower as a percentage of AP/TP but it is above our target return.

## Q - James Quin {BIO 18345789 <GO>}

All right.

Vinit?

## Q - Vinit Malhotra {BIO 16184491 <GO>}

Thanks. Vinit from Goldman. Just, it's a two sub-questions for Mike and one maybe for Craig. So on the similar, the best-in-class, the top three gap. Now, you already missed it so much in the PATH to the pricing seems to be higher AP/TPs. So where is this gap? So what is missing, does the gap seems quite wide versus top threes. If you could just give a very quick overview of that. And secondly, on that slide, which you very helpfully showed the nine-grid and which have already gone massively from 36% to 70% or something. So that seems to be a story which has done a lot. What more could it do because it's already improved quite a lot. So that's two questions for you, Mike.

And Craig, I think the question is more, you did mention that you don't want model blindness, but in the span of 12 months you managed to clip all your underwriters into complying with this whole calibration thing. How – I mean, could you just talk a bit more about how well it go down with them? Is it really accepted or was it just a forced process? Thanks.

## A - Mike Foley {BIO 15880890 <GO>}

Yes. So I'm going to give a portion of the first one to Steve as well. And I might have actually (02:30:45) to Craig. So go ahead.

## Q - Vinit Malhotra {BIO 16184491 <GO>}

[Question Inaudible]

## A - Mike Foley {BIO 15880890 <GO>}

So it was around the gap to the competitors and how to close that, and there's no magic bullet. There's no single thing missing that I can say if we had this one thing, it will close that gap. In fact, I think it's a holistic improvement across those fronts that we've framed around customer, broker, analytics, and ops and IT. We think that actually being easier to do business with, having a simpler process, having a better IT and process architecture will make our underwriters and our service people better able to respond to broker requests and customer requests, which will help us. We do think that as an organization, we've been very focused on technical discipline, and this is the part I'm going to pass tune a second, and we've gotten very strong in technical discipline. In that journey, we regressed a bit too where we were focused on, the right answer not always winning the business.

And so one of the shifts that we're trying to push for our field underwriters is maintain the technical discipline, leverage the insights of the model, bound your calibrations and your judgments, but apply additional energy in the marketplace in pursuing opportunities at the right price. And so being more of a sales organization, being a bit more focused on pursuing the opportunity through to the final win versus being happy to take what we could win, but not necessarily pursuing it aggressively. So I think an increased emphasis and focus on the market, both broker and customer and freeing up time of our underwriters by simplifying their processes actually it happens spend more time out in the marketplace and that's the part of it past year.

### A - Steve M. Hatch {BIO 19439322 <GO>}

Yeah. I think part of simplification of processes is identification of what role within our organization should complete those tasks. So we have a initiative called team based work where, Mike mentioned it earlier in his comments, we're moving work that's better done at a different level away from the underwriters, creating time for them to be out in the marketplace. And I would say, we're going to spend a bunch of time in 2015 and 2016, training our underwriters to be much better market facing. I think we've done a fair job of underwriting at that desk level, what we got to get really good at is underwriting and working with our brokers and – knows to know sort of basis. But relying upon and trusting the models to produce that technical price, but still using that underwriting judgment, that calibrated underwriting judgment, I think that's part of the answer I gave you on 5/5/5, that calibrated underwriting judgment around risk characteristics.

So if I could step into that, you ask about the 5/5/5 and the calibration was it accepted by our underwriters, and I would say, in the beginning not really, sort of for decades for centuries the model has been, the individual (02:33:53) of an underwriter. You have to spend a lot of years and you see risks, and you see accounts, and you evaluate them and bias enters in. And so the first sort of reaction was, wait a minute, are you trying to create a bunch of robots here, are you trying to automate my process? And the answer is, no, we're not trying to do that, absolutely not trying to do that. I'll give you an example. In construction, we want to understand how valuable and effective a fall safety protection program is with the contractor, maybe they're building bridges. You can't really automate that. Rather what you can do is say, to our underwriters, and that's what we have done in our underwriting guidelines is, look, when you see a fall protection program that looks like this, is it words on a page, does that make it effective? Probably not. That's probably something you might not want to credit in your pricing process.

Conversely, absolutely active, risk engineer is onsite, the customer is very safety conscious, they execute upon it, they review upon it, weekly, monthly, whatever the frequency is. That's worthy of some pricing consideration. And so therein lies that underwriter judgment that we still believe is necessary, but it's not wide disparity of minus 30 points, plus 50 points, it's within a band of plus or minus 5 points. So really again, getting back to our underwriters calibrate, they initially walked out of it, and I think now would say it's great, and all by the way there was clarity, there was training. And now I'm a better underwriter in the marketplace.

### A - James Quin {BIO 18345789 <GO>}

Ralph?

### Q - Ralph Hebgen {BIO 6297020 <GO>}

Thank you. Ralph Hebgen from KBW. Just talking about this, the 5/5/5 program, and related to that the AP/TP ratio. So two questions on this. First of all, is it possible to give us an idea of, let's say, the percentage of overall accounts where the AP/TP ratio is still below one. So this sounds probably technical or basically I'm asking on how many of your accounts are you actually achieving your price but you still above the technical price? And I think if memory serves, you've given that sort of ratio in the past. And I believe it's sort of improved from 60% to 80% or something like this, but don't hold between these numbers. So it would be interesting to see where you are now.

And then obviously, the 5/5/5 calibration which I think you've introduced this year, what feed into this? So this final gap from, if the 80% is right, from 80% where you were to 100%, are you confident that the 5/5/5 calibration will actually help you to close that final gap further, and write new business consistently at above the technical price? And then, of course, finally this is then something which we'll be able to audit on a quarterly basis. How is your, if you just share some of your thoughts of how much these initiatives in the technical, the programs and tools which you have would help you to sustain reserve releases as you go further into the soft market?

## A - Mike Foley {BIO 15880890 <GO>}

I'm not sure which of those require the answers. So the first one on the percent of accounts below a 100%, I wouldn't want to name a number for that. But I can tell you, our portfolio is above 100%. So the portfolio in total is above our target return as measured on AP/TP basis. The 5/5/5, I don't think it's actually a question on the calibration, it's actually a question on how does that play into our competitive dynamic. We think it's an important part of how we're going to close that gap, but, again, I would think it's one of the four because what we're saying is, in the predictive analytics, we'll get better models, but we'll also get better execution by pulling in a more consistent execution at the front-line. So that's one of the things that will close that gap, but I wouldn't want to ascribe a number to that individually in closing together. And so on reserve releases, I don't think we talk about reserve releases at the NAC level. So I don't think that there'll be something we want to go deep on.

## Q - James Quin {BIO 18345789 <GO>}

[Question Inaudible] (02:38:28-02:38:39).

## A - Mike Foley {BIO 15880890 <GO>}

Highly confident, because we – well, but the reason is that, we will always trade profit for premium. So we're not going to try to grow at the expense of profit. So our underwriters clearly know that, and I think, keep me honest, Greg, one of the things we say quite often in any group we can get an opportunity is, please show me an underwriter who is underpricing risks because they want to meet the top line objective because it's a great example some that we don't want to be an underwriter at Zurich. So we will always look for appropriately priced business and make sure that the underwriters are doing that.

## A - Craig Fundum

Yeah. And I really think it gets back to, at the end of the day, the deep analytical insights and those things that we can gain from doing that data diary, putting that into the underwriting process so that we can understand something in a deeper way about our customer versus our competition, translates into a different technical price. We can be at or above that technical price. It might be very competitive in the marketplace. That's, I think ultimately the end-game, that we'll be able to deliver on.

## A - James Quin {BIO 18345789 <GO>}

I think couple of more questions. So Andrew?

## Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Thanks. It's Andrew Ritchie from Autonomous. A couple of quick questions. First of all, is there – it's not mix issue, as to when we compare NAC with your peers. I mean, I'm thinking, in the past, you've been a bit longer tail, workers' comp has been a little bit more weighty. And related to that own workers' comp and you talked in the past about doing a lot more deep dives on that and in particular, I think you've even mentioned in a presentation either last year or recently, could you just gives us – bring us up-to-date on your latest thoughts on that book, its profitability and what's improving there. And finally this is probably a stupid question but, when all the – when you provided the update on how much of your portfolio is in the green versus the red, and it says current, I'm assuming, that's accident year, so is it fair to say the calendar year hasn't yet reflected that because there's a lag, I mean or is it current referring to calendar year? Thanks.

## A - Mike Foley {BIO 15880890 <GO>}

So on the mix issue, I would say if you compare our book to the industry overall, there probably is a slightly longer tail to our book given excess casualty, work comps and the long tail lines we have to professional lines. So that might account for a point or two. Compared to the top three competitors, we're little closer in comparability, so it might be a point or so. But we've really started just around that off as let's take the challenge and not try to sort of argue it away with mix. But, if anything, we're probably a little longer tail, which would support a higher combined ratio to deliver the same returns. And so, we might be a little further ahead of the industry and a little closer to that other competitive set. It doesn't close the gap entirely. By the way, this is a two-by-two that other than (02:42:01) made this all look prettier. This is the two-by-two that I put up every quarter to my entire team to talk about how we are doing relative to the industry and how we're doing relative to our competitors. So we don't want to explain it away with mix, but I think mix does soften it a little bit more than we might have presented here.

On the work comp book itself, we've had some periods where we highlighted that the industry had seen shift and we had gone from increasing severity and decreasing frequency. There a period where we had those going in the same direction and we had to react with reserves to that. We've reacted to that and actually we would say at that moment that our work comp book is well priced and meeting our return expectations. The work comp book is a diverse book. It's got guaranteed cost as well as loss sensitive. It's got a lots of mix in there. But overall, for our work comp portfolio, we think that it's delivering our target returns right now.

And then, the green to red, you're right, it's actually, it's driven off of a forward-looking view. So it is a bit of accident year, calendar mix that is in there.

So there will be time afterwards for questions. I know there's a few more questions in the room. But I think with that, we'll hand over to George.

## A - George Quinn {BIO 15159240 <GO>}

Afternoon everybody. My name is George Quinn, and I am Zurich's Chief Financial Officer. Mike and I, I think, are the only things that stand between you and lunch, at least for the people in the room. So I'm going to take the next few minutes to run through – in fact, have a look through the course of this year, highlight some of the areas where we think we have the potential to further improve earnings and then try and bring altogether. At the very end, to try and illustrate, I mean, what we think we could achieve from an ROE prospect.

So with that, I'm going to start with the results in the first nine months of this year. I mean, overall, I kind of characterize the results as solid, but with room for improvement. As you can see from this slide, the BOP is up 7% in the first nine months stage and the BOPAT ROE of 11.8% is close to our target range of 12% to 14%. But just below the bottom end of the range.

At the same time though, we recognize we've actually had some help this year. So if you look at the numbers, if you normalize cat losses, if you exclude the one of pension gain that we had in Q1, we would have – we would see BOP as roughly flat this year compared to last year. And if I could adjust tax rate to expected levels, the BOPAT ROE would have been just above 11%, in other words somewhat short of the target range.

I think that this underplays the extent of the improvement that we perceive in each of the segments through the course of the year and while the current market trends (02:45:51) more headwinds than tailwinds in the course of next two years, we think, we know what we need to do to continue to improve profitability and to achieve a 2016 ROE target, and I'll come back to this later in the presentation.

And related to other targets which you can see here, Z-ECM ratio of a 100% to 120% and cash remittances in excess of $9 billion over the three-year period, I think, we're in very good shape.

Our aim is to move back into the target capital range, over the course of the next 18 months, preferably through deploying capital on to the business.

And what I wouldn't extrapolate the level of cash remittances that we've told you we expect for 2014 for the next two years, we're very pleased with the progress that we've made so far this year. And in fact, our capital strength and the cash remittances progress underpins the dividend, I think, clearly provides us with additional levers to improve the ROE, and again I'll come back to this at the end of the presentation.

I won't spend too much time explaining the nine months results, as you've already seen the information, but I'll try to explain at a high level where we see the business. And I'll start with General Insurance.

On a like-for-like basis, our accident year combined ratio has improved by over 2 percentage points compared to the first nine months of 2013 as a combination of 1.5 percentage point improvement in the underlying loss ratio as well as a more normal level of large industrial losses compared to what you saw in 2013.

Now, improvement in a current year profitability is particularly important and it's a trend that we expect to continue not through rate increases and excessive loss costs – we've talked already about the market conditions, but through further underwriting actions and through some portfolio improvement. PYD has declined to some extent. As expected, it was slightly below the indicated range of 1% to 2% positive PYD for the nine months, but this doesn't change the 1% to 2% that we expect to see in future. In terms of other components of the result, the investment income has largely stabilized and slightly lower hedge fund gains and higher non-technical expenses compared to 2013 results that was also boosted by a number of one-off positive impacts. It's pretty much in line with what we expected and also in line with what we'd indicated back at the time of the full year results back in February. So summarizing GI, good progress, not all of it yet fully visible and the results that are in here is to continue the momentum that you've seen so far this year in GI into 2015.

Global Life. In our Life business, we are growing new business value in a number of key retail markets for example in the U.S. We also continue to see good progress in bank distribution particularly through Zurich Santander and through the joint venture that we have with Sabadell.

In terms of operating profits, the last few years, as you can see in the chart, have shown a declining trends due to combination of a lower investment margin and the cost of start-up investments. But as you can see in the first nine months of 2014, Life BOP is more or less flat in comparison to the prior period. Although again as with GI, I think this underplays some of the progress that Global Life has been making towards improving profitability and we continue to target a significant improvement in the Global Life BOP contribution by the start of 2016 and we expect Global Life BOP to be in excess of $350 million.

In order to help you understand the moving parts of Life business more clearly and as I mentioned at the time of the half year results, we intend to further improve our Life Reporting and I'll touch on this now briefly on the next slide.

Our NDA was trying to align the reporting more closely with the strategic priorities that we have for the different parts of our Life business. And while we're still working on the details and the structure and exactly what we'll report, the aim here will be to segment the Life business into several components. So namely manage for value, which will include most of our European Life operations; bank distribution; and then our growth businesses both in the developed and the emerging markets. This I think would enable us to show you the key metrics that we think are particularly relevant to each of the different parts of the business in the different stages of development.

So for example, we primarily focused on cash extraction for manage for value operations, EV and IFRS for bank distribution and for a growth businesses, the main focus would be on MCEV related metrics, even of course cash consumption and IFRS are important too. We think this will be a big step forward and in fact, will enable both of us to track execution of strategic initiatives across the different parts of the portfolio.

Turning to the financial impact of the three cornerstones of our strategy. The investments that we're making naturally don't have – and it's the payback. In other words, in the near-term, these investments have a negative impact on our earnings. This is most evident in our 2014 results in the GI business, where a step up in investment was added around 50 basis points to the expense ratio and components in the 2013. This is very much as we expected and we do expect to see a continued relatively high level of investment in the next two years in both GI and GL, albeit with signs of positive payback in IFRS terms by 2016.

A further rate of investment relates to distribution agreements. This year, we've extended the joint venture with Sabadell and as you've probably seen, we've recently entered into an agreement with Via Varejo in Brazil regarding extended warranty insurance. Please note that the agreement that we are in with Via Varejo will adjust 2015 BOP by about $50 million as we incur some upfront costs. But overall, very pleased with the transaction and we expect to generate steady profits and be accretive to earnings and targets by 2016.

Overall, the aim in this three-year cycle is to accelerate development in key corporate commercial and select retail markets and leave us better positioned and on a faster growth trajectory, when we come to the end of the cycle. While the full benefits of these investments will likely to be seen beyond 2016, the costs are completely factored into the plans and the targets that you've seen from us already.

I'll move on now to manage for value. In General Insurance, our focus is on improving the profitability of what we describe as turnaround businesses. And as we highlight here, delivery on this objective would have a meaningful impact on our overall GI results.

And to quantify this, in 2013, our operations in Russia, Middle East, Latin America excluding Zurich Santander, and South Africa generated underwriting loss of $467 million, adding about 1.6 percentage points into the group combined ratio. In the first nine months this year, the underwriting loss was $221 million, about 1 percentage point of the group combined ratio.

We said that some of these operations are in markets where inflation is obviously a much higher than we see in the U.S. and in Europe. And therefore we expect to generate higher yields, non-invested assets than we do in developed markets. So running a combined ratio above a 100% is not on its own a sign of low return business. But this doesn't change the fact that we have significant room for further improvement in our performance in these markets.

In relation to Global Life, the half year, we talked already about the enforced management initiatives that are designed to increase BOP by up to $100 million by the start of 2016. And we've also talked about structural options designed to unlock some of the capital that's invested in these businesses. We expect to see tangible progress here in 2015 as we take the first steps to shift capital from manage for value to priority markets.

I'll turn now to a third strategic cornerstone, growing drilling operating earnings. As we explained one year ago in terms of business positioning, our main objectives for 2014 to 2016 are to step-up the pace of investment in priority markets and shift the pie chart that we showed you in December this time, last year. We showed one-third of our allocated capital generating an ROE of around 5%. But we want to do this while we grew operating earnings.

And this is probably the piece of the slide that gets the most attention, I mean, from you. And it's an essential part of the goal that we have of improving the overall ROE for the company. And in terms of the steps we've taken in 2014, there are some encouraging signs. I mentioned before the improvement in the GI accident year ex-cat combined ratio and in part the Life business for example and the contribution that we have from Zurich Santander.

And although FMS BOP, Farmers Management Services' BOP is broadly stable compared to the prior year, the outlook for future years, as I think you will agree following James presentation, is much stronger than it was 12 months ago. In addition, we've taken two key steps to help increase our earnings. We've largely completed a simplification program above the business unit level which we expect to generate $250 million in savings by the end of this year – end of next year. We've implemented actions to take more risk in the investment portfolios and the benefit of those steps will be largely felt in 2015 and 2016.

But as Martin mentioned earlier, as I've already mentioned at the Q3 conference call, we need to do more. We need to continue to drive down the accident year and loss ratios through further portfolio optimization. We need to push harder to achieve the improvement in life profitability and we need to continue to focus on efficiency across all parts of the group. To articulate, what this means in a more tangible level and how we look, how we kind of achieve the BOPAT ROE target, I'll take you through an (02:57:46) walk of how we believe we can get from our current starting point to where we intend to be in 2016.

I'll start with the nine months BOPAT ROE of 11.8%. And as I mentioned earlier, if you take cat losses and expect it to our planned levels, exclude the Q1 Swiss pension gain and normalize the tax rate, the BOPAT ROE would have been 11.2%. I mean there are obviously lots of different moving pieces, there are many other items that you can normalize too, but I mean, broadly, these are the ones cancel each other own and those (02:58:24) haven't made any adjustment for the level of PYD at our nine months results. So this is what we would view as the starting point. The levers that I outlined before around manage for value on improving operating earnings are expected to meaningfully add to our GI and Life profitability. And as you can see here, we quantify that as between 1.5 percentage points and 2 percentage points on the ROE by 2016. Everything else simply stays the same. This would point on ROE level of around 30% by that time.

But we need to reflect the fact that we would expect (02:59:06) to grow over the period and all things being equal, we would expect this would probably drag down in the ROE by about 1 percentage point and take this back to 12%. I mean you would appreciate that we're not now simply going to sit here and simply add to equity or capital over the next two years without taking advantage of the options that we have to deploy in it. As I said preferably within the business, but if we can't do within the business, we'll return it to investments, particularly given that we have a very strong starting position.

To the purpose of the walk, (02:59:42) you could see on this slide, we assume that the additional capital we deployed in the business and this is beyond what needed to support, organic needs that's taken care of elsewhere in our capital calculations. And then this capital will generate a minimum return of 10%.

Today, we estimate that that additional capital is of the order of $3 billion. This would get us back to an illustrative overall ROE in 2016 of around 13%. It's not a new target. It's now not in the earnings projection and I'd be very surprised if I stand – hopefully stand in front you in two years time and put up a walk that would be exactly like this one. But I think – I hope what it does show you is the opportunity that we see to improve profitability from its current levels and this includes everything that we know about the current environment, market, economic, everything.

So in summary, we believe we're making good progress. Our operating earnings are solid and our cash and capital flexibility is excellent. The external environment has it challenges but not only for us. I think we know what we need to do to deliver on the cornerstones that we set out last year and most importantly to deliver on the three financial targets that we set out last year. Thank you for listening. Martin and I look forward to your questions. Do you want me to move?

### A - Martin Senn {BIO 3241585 <GO>}

Just in case they don't know who you are.

### A - Unverified Participant

Just in case.

No, go on.

### A - Martin Senn {BIO 3241585 <GO>}

Before you start, James, moderating the session, I also want to take the opportunity to welcome Mike Kerner, the Head and CEO of our General Insurance business who is with us; and also Kristof Terryn, the CEO and Head of our Global Life business. It's very important that they are with us today as well.

And I would like to reinforce to give you at least the confidence, George, that you're going to stand at one point again with full weight on both your feet. It's not going to take three years. Obviously, I must admire you – ever since you joined the team that you have been handicapped on your crutches and I must admire you and to congratulate you on how you just endure that because you don't show any signs of distress or not being able to meet the expectations with not being able to work and with that I wish you obviously continuous speedy recovery. I would now handover to James.

### A - James Quin {BIO 18345789 <GO>}

So, who wants to go first?

Hi. I had just one question actually on slide 71 on the – on the walk. I guess there probably be others. Just to be clear in terms of this sort of – the right hand side where you talk about the growth in equity and then the investment – the 10% return, is that the additional equity that you're going to retain in the business that you would then look to invest as a 10% return or is there some other relevant that is giving that? I.e. if you were to say return capital to shareholders rather than reinvest that, would that be incremental to what you are showing here if that makes sense?

### A - George Quinn {BIO 15159240 <GO>}

Not entirely actually, but to the – I'm tempted to try and answer it anyway, but that would be the wrong thing to do. If I try to interpret the question, what you – what I think you're asking me is, so the equity growth is that simply the rollup of equity over the period or is there some other assumption behind that number.

### Q - James Quin {BIO 18345789 <GO>}

Yeah, and then is the 1% kind of earning that back is that then just the reinvestment of that equity growth?

### A - George Quinn {BIO 15159240 <GO>}

Yes. So I guess two things on this. So, I mean the 1% is not entirely pure equity rollup. I mean we start in – as you can see, we have a very strong position from all the metrics you've seen already, but of course even with the relatively high payout ratio we have we're not going to pay out all the capital we expect to generate over the course of the next 24 months.

On the investment of 10% return, I think the challenge of this type of thing is when you can judge for yourself how likely you believe that we can't (03:04:36) invest that 10% return, though what we try to do to set a level for an inorganic investment because that's what that really is. A level that's slightly higher than what we've been perceiving cost of equity to be. So that at least that we cannot - if we cannot invest the capital, if I give it back to investors I'll have roughly the same impact in the walk.

So I think hopefully all the roads lead to the same place, but just in different ways. Again (03:05:04) the priorities, priority would be to invest it for growth and earnings for the future if we can. But we've set a clear target and if we can do that in line with the priorities we would be repatriate it.

## A - Martin Senn {BIO 3241585 <GO>}

Maybe I just want to reinforce what the George has said. When you look at this walk that the target is unchanged, just want to make sure that everybody leaves this session with that understanding. The 12% to 14% target, that's unchanged. Those are for all the folks on the phone, I want to make sure that nobody sort of walks away believing that we're setting a new target of 13%, that's an illustration as George has described it. It is underlying and undermining our confidence that from the starting point here the 11.8% normalized to the 11.2% is for us achievable to get into that range by 2016.

## Q - Farooq Hanif {BIO 4780978 <GO>}

Hi there. Farooq Hanif from Citi. You may have talked about this last night and I wasn't there, but just in terms of - one of the things that's ignored and - or maybe not so obvious in the walk is the sharp drop in yields that we've had. So, I was just kind of wondering - I mean you talk about stabilization of investment income and it's a recurring question, can you remind us about why you're so comfortable about that especially if we get a wide European ECB action going forward?

And then secondly, just give you time to write that down. Just in terms of your Global Life business, when we talk about being above $350 million on just the growth in the Life business, to what extent do you see the interplay due to in-force management and actual growth? What is going to be the more important driver beyond 2016? Thank you.

## A - Martin Senn {BIO 3241585 <GO>}

Let me take the first question, then George takes the second. On our confidence on the impact of the continuously low yield environment, you're right it is significant on how it has changed again with new record low, so many currency payers. So, for us in General Insurance if rates already are now, (03:07:26) our expectation is clearly that it's not going to sort of drag further down investment income within General Insurance. I think it's going to sort of flattening out, stabilizing.

Also keep in mind that we have a long duration in the book, intentional long duration. So with that we do not expect significant headwind from lower investment income or potentially low investment income with current yield levels. Clearly, our expectation is that the yield is going to stay low for a significant amount of time at least in Europe. Now the other part or the other side of the equation is obviously Life business, there we have to continue to expect some negative impact and you see that on the investment margin and that's probably to lead into the second question.

## A - George Quinn {BIO 15159240 <GO>}

(03:08:18). First the - I think also I want to point out is that we haven't tried to guess the future economic track and make assumptions that the ECB does X or Y, so we haven't assumed that rates go up or go down. Maybe have views on what scenarios could be and we test them in stresses. We take a relatively neutral market view of what's going to happen on the things that we don't control.

On the GL side, if you go back to the Q2 presentation, we've given a walk there that sets out the different components of where we see the improvement coming from. I mean, if you look at it in-force is a very important part of it. Growth is also there in a fairly large way. I think growth you need to be a little bit careful with, because the - I think you often associate growth with something as highly speculative that hasn't been found yet, that point never is found because you guys are also a bit cynical.

A large part of that growth element on that walk is the leverage that we have, for example, on the Santander agreement. So as you know, we amortized the cost of the agreement straight line. The thing has been growing at a double-digit rate for - from about as long as we've had it. And of course, we're going to get an increasing contribution from that piece and that's in that growth element. So I think the views that we have, I mean we've got - Kristof and team have got a lot of hard work to do on the in-force management, but the growth is not quite what growth might be ordinarily perceived to be.

## A - Martin Senn {BIO 3241585 <GO>}

Just an additional thought Farooq on the investment impact. We have been telling you with nine months results announcement and today that we have completed the re-risking already in the first six months. What is - and that obviously, as we take more risk, we have to have a - we have to have a high return expectation. That one's part of the assumptions we're making here on this waterfall slide George has shown you. What has continued to happen is and that's pretty significant and important is that as rates go lower, the convexity of the book goes up.

So in other words, there's a - the lower the rates, the more the need to go long in duration. And what we would have to do and what opportunity we have is without taking more risk to go for more liquid assets into less liquid assets. And the less liquid assets naturally have a much longer duration. That's a process which is ongoing. That will frankly on go for years to come, because as these assets are (03:10:54) to exit, we take our time to make sure that we truly have a yield pick up without using more risk against that. And so far, we are on good track as well this initiative.

## Q - Nick Holmes {BIO 21515144 <GO>}

Nick Holmes with Soc Gén. I just wanted to ask a question on expense control, which is to ask why the $250 million of cost reduction target seems quite modest. If you think that your expense ratios don't look particularly low compared to payers, I know this is a horrendous area throughout with difficulties in comparability, but when I look back 10 years Zurich had the lowest expense ratios in the sector by a very long way and today it certainly doesn't. And so, $250 million, why is that so modest? Could you do more?

## A - Martin Senn {BIO 3241585 <GO>}

Let me start and then George might want to. As the objective of this exercise has been threefold, first, to simplify the organization in terms of decision making and the empowerment of the organization as we felt that the decision making was way to concentrated at the top of the organization i.e. the headquarters and some of the regional areas. So that was one objective was to deal with that.

The second was, as we face increased substantial regulatory constraints, we felt that this is an opportunity to combine that with sort of right-sizing the governance of the organization. That's still ongoing and which means that in principal we empower the markets facing units much more we give and much more autonomy than they have before. And the third aspect, that was of course to as well become more efficient altogether and to reduce costs. And the sum of that was leading then to expense reduction. If I now focus on the expenses of some, I think, 720 headcounts from initial sort of 800, and those headcounts are predominantly being reduced at the corporate center and in the regional functions.

And if you take our 55,000 people around the world and that the upper level, say, less than probably is now around 3,000 people, we have reduced 700, 750 of 3,000. So with that that's pretty significant related to the short period of time. We have not touched the rest of the organization, i.e. the market facing units, you might recall we had the respective expense programs two years back at the time, we defined Zurich cost base against 2010, that $500 million. We have significantly exceeded at the time that program.

Now, without now leading into any sort of expectation of a program ongoing now, it's absolutely clear that the industry as a whole is still not as effective, as efficient, as it should be, and Zurich is part of that. It's very clear. And that's why we're stressing as well and that's why you have also seen on the chart that we will continue to look on how we can become much more effective and cost is part of that drive to become much more effective.

## A - George Quinn {BIO 15159240 <GO>}

There's not much to add to that. Martin gave you the head count numbers and if you look at on a cost basis, it's the $250 million cut comes out of a part of (03:14:47) about $1.5 billion, so it's not such a small number when you look at the particular part of the group that was targeted.

And I guess the second thing would be on – if you look back the $500 million, I guess we get criticized from time to time that the $500 million is quite hard to see and especially if you look at the expense ratio. I think if you look at what we done on top line, we have – we've given up top line to protect profitability and that has hurt the expense ratio over the period, but as Martin said, we have firmly the belief that's more that we can do and that would be part of what we do in the future.

## Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

Atanasio Pantarrotas from Kepler Cheuvreux. I have two questions which are both follow-up questions actually. The first one is again on the slide number 71. So I wonder if your main goal is to try to reinvest in the business rather than to return back the money to the shareholder, so if your priority is to invest the money in potential acquisition.

The second question is on Global Life. Given the size of the results of the European Life business, I wonder if you can provide some color about what could be the impact on the very low interest rates given that a significant part of your European Life book is mainly in Germany and Switzerland that are even more than affected than other countries by the issue of the low interest rates. Thank you.

## A - Martin Senn {BIO 3241585 <GO>}

Want to take this?

## A - George Quinn {BIO 15159240 <GO>}

Yeah. So on the – so I guess the question is what's the priority around this $3 billion. I mean the ultimate priority for the entire group is to grow operating earnings and to pay our shareholders a higher dividend. That's the number one priority of all. So, what would enable us to do that by investing in the rate initiatives, so we can find things that can add to the return and improve the overall ROE of the group that will support the ability to pay higher dividends.

So if we can frame that that would be number one for us, but we have to find it at the right levels. If you can do that, we don't want to spend the money because that will depress the ROE over time. And of course we made the commitment we told you already in Q2 and Q3 that if we cannot find the investment, the alternative is capital repatriation, but if that's order, but with that hurdle.

On the second piece, the Global Life is also - what's the impact of interest rates. I guess the challenge for this is that it probably requires you to look at beyond 2016 into 2017, 2018. And I think some of the interest rate changes that we've seen, particularly in Germany in the way they impact some of the (03:17:34) requirement is not going to help the Life business. But I think if I look at it we still have the ability to offset it partially with what we do with policyholders and we have this secondary benefit, I mean we have a shrinking book, so the impact for us will actually decline as time goes on. So, I mean it's - I mean I think we prefer to be in the other direction, but I don't think it's a drama for us with the (03:18:00).



## A - James Quin {BIO 18345789 <GO>}

Thomas?

## Q - Thomas Seidl {BIO 17755912 <GO>}

Thanks. Thomas Seidl, Sanford Bernstein. First on capital, the 127%, George, how comfortable do you feel about this level given that spreads could rise and hence take out a good portion of apparently strong part of the year? And the other thing is on Life, have you already started seriously marketing some of the Life books and if so how do you assess is there enough interest to buy run-off portfolios outside the UK for example in Germany or in the U.S.?

## A - George Quinn {BIO 15159240 <GO>}

So I apologize in advance, I will not answer the second question for obvious reasons. I mean all I do as we stated during the presentation that - over the course of the planning period, so that - we made a three-year commitment, we showed you how the capital was allocated, and we're doing our absolute utmost to shift the capital allocation. That's not entirely in our control, but we'll do everything we can to change it.

On the first one on the spreads, I mean the - we're not so sensitive to interest rate rises from a Z-ECM perspective and if you give me a choice today, would you like interest rates to be a bit higher, I'd absolutely say yes. So, I don't worry about interest rate in the context of the capital. I have a much big much bigger impact on reported IFRS equity, you see it drop rapidly from start to see the interest rates rise even though it seems reasonably unlikely from this stage. We're more exposed to - sorry - interest rates as opposed to spreads, so interest rates were not so exposed. If you have spreads widening, it will have an impact on us for sure. But of course the reason we have a target range for capital of a 100% to 120%, already contemplates the risk of that taking place. So if the question is, would we run at 126% or more because of a fear about spread impact or even other asset side impacts on capitalization, the answer is no.



## Q - Thomas Seidl {BIO 17755912 <GO>}

Just wonder - because some of the companies report for a 100 bps rise in spread, a 20 percentage point fall in economic capital, and so that would essentially take out your capital buffer?

## A - James Quin {BIO 18345789 <GO>}

So I don't have the precise number in my head, but it's not 20% of our cap - that's going to be a massive number for a 100 bps rise, that wouldn't be the impact on us. So...

## A - George Quinn {BIO 15159240 <GO>}

Sorry - Thomas, we can discuss this afterwards, but the sensitivity we show is very conservative one, because it goes much beyond just corporate bonds and it covers almost all government bonds as well. So I think the way we show it is quite different to the way many other people show, but really going to pick it up.

## A - James Quin {BIO 18345789 <GO>}

Just to also to reinforce what George has been saying, and back to your question, Thomas, on the confidence, that's exactly why we have to trade, right, 200%, 220% and keep in mind (03:21:05) that we calibrate then against the AA rating. I still remember at the peak of the crisis, back 2008, when you remember probably when we were trading on our economic model at 95% with a lot of stress across all asset classes.

So with this – I hope we're not getting there, that sort of (03:21:22) away because we have fine-tuned it, we got much more sophisticating in (03:21:26) yes, it's still got a bit more stringent on it as well. And by the way, we also at the time we did stress test, you might remember that if you will take a haircut in all government bonds of 20% in our main markets in Europe that we will still be operating, not with a AA rating frankly, but you'd still be operating. So with that, the confidence on the portfolio and even now with the rates still where it is at the 127% after de-risking investment portfolio is very, very strong. And on the back of that, we also recognize that the S&P has changed our outlook from a stable to positive, recognizing an extraordinary strong balance sheet and an exceptional liquidity.

Michael?

I wanted to start with a nice question. So what would get you dancing well than just standing in 2016? So I'm really kind of hoping that you might say these levers which could pull or which would get us to the 14% range – end of the range and then more in terms of numbers, I think – I'm not sure if it's traditional, but in previous years, we've seen the splits of the cash flow at this stage of the year. I wondered maybe if you could some indications. In the previous meeting, you'd said that capital management, if it were to come, you would already be thinking what kind of format, maybe you could pronounce that magic word buyback a little bit. And then finally, what is the e-base you calculate the 11.8% or 11.2% on just the number? Thank you very much.

## A - George Quinn {BIO 15159240 <GO>}

Oh, boy. The – I mean, it's such a nice series of questions. I'm going to give disappointing answers to most of them. So, I can't imagine you'll ever see me dance, Michael. I mean, we'll see where we end up on ROE. But, I mean, I think, no matter where it is in the range, at the end of it, we want to achieve more in the following period. So, I mean the dancing thing, it can only be the drugs. It could be nothing else.

On cash, I mean, I don't have an update on cash flow for you. I mean, we're doing very, very well in cash. But you saw the figures that we published at the half year. Even though I don't smile a lot, I'm very happy with where we are in cash. The – I mean, it's – I mean, if you look at the challenges we have on the metrics, I mean one of them is dealing with excess capital, which requires good fungibility in the group, so we can actually tackle the issue. I mean and we're in a really good place on both of these things.

So, apologies, I don't have an update, but the – I mean, I don't have an update in the other direction either, I mean we are on a good place, I don't see that reversing anytime soon.

On the – what's the capital number, I don't have them in my head, so – do you have in your head?

## A - James Quin {BIO 18345789 <GO>}

I do.

Excellent. Thank you.

So, it's the average shareholders' equity over the course of this year, excluding unrealized gains which is about $30.6 billion.

George, just going back to that famous slide, I'm trying in my head, since I saw that slide to work out a number which I'm not very – so maybe just I need some clarification. So, equity growth of 1% is around $300 million, but on – even a back of the envelope calculation, just the retained earnings would have added couple of billion over two years. So, I'm just trying to understand that one bit first. And then obviously, this 1.5% or 2% is what $600 million or so and maybe Life is a $100 million and non-Life is $500 million and that is 1.5% of the attritional, and I know you can't comment. I'm just trying to understand these numbers. How much of that 1.5% is the – so in other words, in the turnaround slide, you did mention that those are high-inflation markets. Do you actually assume a zero when you did this or do you just assume that there is still some loss? And I'm sorry, the slide is visible, so we're trying to understand the numbers as well in dollars which is going to help a bit more. Thanks.

## A - George Quinn {BIO 15159240 <GO>}

So no objection from me. So, again going back to the comment I made in response, I think, it's to Farooq's question, we haven't made any assumptions about massive deviations in the economic conditions. So, we're assuming that that part stays relatively flat for us. On the equity growth, I mean the challenge of putting that piece together is that – I mean go back to what we said – we actually assume some growth has to be funded in the model, so there's a piece of that behind it, which is maybe why you're not seeing quite (03:26:31) expect to see, but we're absorbing some capital elsewhere and supporting some of the 1.5% to 2% that's going on.

I think if I break these two things down – I'm going to resist temptation too much because as we said, it's an illustration. I don't want to say a new target for the group, that's not the intention of this. This is really intended to show you, I mean, seeing from today, what do we believe we can achieve. Then, if you break it apart, the – you can see that we expect obviously a higher contribution from Mike's business than from Christoph's, given the relative scale of the two operations.

I mean, on GL, it happens already that we're looking for an improvement of – in BOP of up to $100 million or basically more than $350 million, so you can calculate the range for yourself, but it's more than $100 million per annum. And on the GI side, it's a combination of – you saw the turnaround piece. So turnaround is about 1% in the nine months, I mean you need to back off – this idea was partly in there (03:27:32), so maybe – and cat overall for the group is roughly in the right place for the nine months, so rather than 1%, I'd now get back to say 0.7%-ish type of range.

And then the remainder of it is some growth, I mean, and a lot of what Mike Foley has just described, I mean, tearing the portfolio, looking at the parts, I mean you asked the question about, I mean where are you, APTP, where is the line? Move the line. And I mean that's what drives us – for us and then (03:28:04) to efficiency. So get back some of the commentary we've had before, I mean that Christoph clearly has it in his targets for in-force management and that would be part of what Mike does on GI too.

## A - James Quin {BIO 18345789 <GO>}

Maybe just to add something, (03:28:19) I mean one of the things that comes out, there is no Farmers' piece here. So just to highlight the fact that I mean, it's not that we don't have confidence in what we expect from Farmers. I mean, we do and I hope you feel that from the presentations you've had most of the day. But at the same time, we're expecting, as Jeff highlighted earlier, to reduce the quota share. That will release capital over the course of the next two years. That's why you don't see Farmers (03:28:44) They don't produce an important contribution. They produce an extremely important contribution in the next two years.

Marcus?

## Q - Marcus P. Rivaldi {BIO 5739374 <GO>}

Hi. Marcus Rivaldi, Morgan Stanley. So, actually, it's a follow-up question on Farmers, in that walk again, on the assumption of how you're assuming the reduction in the quota-share of Life (03:29:05) through to earnings as well in the quota-share within your forecast? And then secondly, there has been a lot of stuff coming out from regulators recently, seems to be working up to this rest of the low-yield environment. We had a (03:29:17) study, also European stress test where you showed the (03:29:21) around the low-yield environment. Are you worried about what that means for cash and capital fungibility within the group to support your cash flow expectations and what that means also for some of the back-book restructuring that you're hoping to do as well?

## A - James Quin {BIO 18345789 <GO>}

Okay. Let me take the second question first. As it stands, we have no concern in terms of the impact of the actions you're describing to our plan to the current reduction within the plan. George has mentioned that we talk about cash that is very comfortable on where we stand, not updating on that number but for this year the projection is clearly, generally more than $3.5 billion, and as well as the medium term outlook from the point (03:30:11) is well within our overall plan of more than $9 billion to be generated by the end of 2016.

The regulatory pressures, which are ongoing and the respective action, obviously, we are following. We are looking into it. We are in all discussions, proactively participating. And if you just take equal important discussion, which was the question of systemic designation, which over - and the review of that as we are ongoing which potentially will lead to higher capital expectations for companies are not concerning as item for two reasons.

First, as we are already on the Swiss Solvency Test, which is a fairly higher metrics in the balance sheet or the solvency measurement, in principle, even more stringent than Solvency II to be introduced. We are well within that range. So, I will not expect even though, we would have a designation, which I do not expect, right, and the fact that we are even as a bigger company, not having been designed means that the arguments which we have always portrayed that an insurance company which focuses on traditional insurance activities only is not subject to systemic designation is as it stands proving out our point unless the FSB and the respective national regulators would change the methodology and the criteria. So, all this in summary is not changing in any material way our outlook on the targets we have for the impact on the capital as it stands.

## A - George Quinn {BIO 15159240 <GO>}

So, it's broadly on the Farmers space, the - maybe challenge with this part of market is a requirement to give you a view on the growth trajectory and give you a physical number - or a natural number on the quota-share reduction and I can't do either that today. I mean, obviously you can't see - yes, I mean broadly offset. Having said that, there are number of things that you don't see on here, which also help to bring things to flat. I think if I look at Farmers, I would say the priority for the exchange is to grow to the right level of price as you heard from Jeff and Mike already today. And at the same time, given the improving composition of exchanges, there's a firm intention to substantially reduce the quota- share.

I mean, you see the first step we take once the board of governors made a decision and we'll - you'll see that what - either from the Farmers or from us in February. But we intent to make a meaningful step towards reducing the core share, but at the same time we want Jeff to give us the capital bond. That will take a slightly longer, but I mean over the course of next two years, that's the trade. We will remove a relatively volatile profit stream and we'll recover the capital that we support in and that capital will be available for us to do other things.

## Q - Andy D. Broadfield {BIO 7273415 <GO>}

Hi. Andy Broadfield from Barclays. A few questions on GI actually and I don't know if I can ask Mike a question afterwards on NAC as well, if no, I can wait till afterwards. But the first question is, you've given us some areas where you see clear potential for improvement on slide 69. So I wonder if there's any areas where you feel you are over-running right now that would be naturally putting to - putting some sort of power on the other side, just to sort of think about that being offset.

Second question, if I look at slide 65, your target has been well documented your decline in reserve (03:33:59) to a low level. Given we've had improving market conditions, your - what gives you the confidence that the 2 percentage points - and I just take the numbers on the slide, the 2 percentage points improvement in combined ratio, in accident year combined ratio is not just being offset by lows, I think, levels to (03:34:19) reserve releases given that you add also the fact that you've had a tailwind with markets the last two or three years. I guess, we certainly would be able to say, they're offsetting each other, one of the same thing.

And then, the final question just NAC, talked a lot about scale, there is a 5% market share there, or thereabout. What does scale mean going forward? What you need to have? Do you need to grow that 4% to 5% to 6% to 7%, to 10% to 15%, what does that mean for the North America Commercial business?

## A - George Quinn {BIO 15159240 <GO>}

So we'll try and cover all three, Andy. So the - on the first one, and are we over earning in some areas, that's probably a negative way of describing competitive advantage. So I mean, do I expect in some part, (03:35:08) someone will try and take a piece away from us, because they see a very attractive piece of business, I mean, almost same, that's just normal, normal rough and tumble, wasn't it? I don't see a piece that's where we are incredibly exposed, where we had just immediate risk of losing it. I mean, in fact, you go back to make this presentation, I mean you saw the high retention levels that we achieve on the past, the portfolio that mean the matter - that mean the most to us. So I mean - the short answer to your question is, almost certainly yes, somewhere but we have to defend that and try and hang on to it. And I mean given the strength, the position the firm has, I'd expect this to maintain most of that. Can we kind of quantify the impact of it? I cannot.

On the second question on reserve releases and essentially are you reserving less in the current accident year and paying it back by having less reserve releases in future, I mean you know the answer before I even open my mouth. I mean we're certainly not trying to do that, we're trying to do everything we can in the system to prevent that from happening. I think the way you've seen on the reserve release is simply the - I mean the natural impact of a more competitive market combined with our information. So I mean I think we have a good system. I mean we look, I'd say, very closely at reserves in a very regular basis. And we don't see evidence that we are reserving lower in the current accident year to claim an improvement. I mean that would be a year or two before that would be back to pay us. We won't try to avoid that, but we possibly can. So that's the answer, no, we don't do that.

Mike, do you want to take? Can we have microphone for Mike Foley, please?

## A - Mike Foley {BIO 15880890 <GO>}

So I think the simple answer is that, we think are at scale. We think we are of sufficient scale. So we don't need to get bigger to have enough scale to invest in analytics and do the things we need to do. We think the challenges for the smaller competitors would be very difficult for them to achieve the appropriate level of scale. So we don't need to get bigger to win.

## A - George Quinn {BIO 15159240 <GO>}

Andrew, I think this is going to be the last question and I'll then - I'll let Martin.

## Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Hi. It's Andrew Ritchie from Autonomous. I've two very quick questions. I think you've still got $1.5 billion maybe $2 billion of capital or at least IFRS equity, maybe not capital tied up in non-core. Just update us on, is that sort of drifting out still or I mean there was an expectation that that would be a top potential ROE uplift drivers you take capital out of that. And second just a clarification. The $250 million cost save, just to be clear that that is an absolute numbers, I shouldn't assume that's offset by reinvestment and/or inflation.

## A - George Quinn {BIO 15159240 <GO>}

So on the first piece on the $1.5 billion to $2 billion, I mean you need to be careful with the capital measure that you use, may be you read it, let me explain it you. I don't really expect non-core to be a massive contributor to physical capital release over the course of next two years. I mean, you'll see a number of things from us that will reduce risk, that remains in our portfolio, even though it's not particularly high at the moment. But I don't expect that to be a big part of the overall change in the pie chart, it will deliver something. But, I mean I don't expect a material contribution.

And on the second piece, on the $250 million, it's an absolute target. So we set this absolute target for the above the BU, but at the same time – and you've seen it already, we've given – we've approved various growth plans in some of our businesses. We expect some offset, not in the same places, but for example is, Mike and Christoph in both GI and GL invest for some of the growth, and that's part of the reason for example why you see the 50 bps increase on the GI expense ratio.

## Q - Andrew J. Ritchie {BIO 18731996 <GO>}

But I should see the corporate center cost (03:39:17)

## A - George Quinn {BIO 15159240 <GO>}

Yeah, but you can't see that, Andrew, because the, I mean what really changes is the charge out (03:39:22) to the unit. So that falls, there is a benefit in the unit, but you don't see the indiscernible] (03:39:27) piece reduce because it's the charges that (03:39:29) passes over and reducing.

## Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Okay. And then non-core is running off of the business, so it should be releasing capital, shouldn't it?

## A - James Quin {BIO 18345789 <GO>}

(03:39:37) what's in non-core today. So we've got a combination of some of the old Dunbar Bank assets. We got a GI portfolio in the U.S., we got some small unusual GI portfolios and we've just moved part of the A&E portfolio into non-core. I mean, if you look all of these, my best case is that, I mean the Dunbar banking bit will run-off, I mean to the extent the market allows us to accelerate. It's going to be a really stake exposure, so we can accelerate that, we will do it, (03:40:13) beneficiaries of the market maybe, so our property exposure is mainly in secondary and tertiary markets, UK and Ireland. So we haven't seen quite same benefit that you would have done if the portfolio is (03:40:24) at least here in England. The GI part of the portfolio I think that's going to be pretty sticky for us. I mean I've had a close look at that since I've arrived. I'd love to try and find a way to accelerate it, but there are various – that's a reinsurance relationship because (03:40:40) and there are various warrantees and other obligations that we've created around it and we'll make it very, very difficult to do anything other than a lot of run-off. And it's not short tail either, so that's why I'm a bit more cautious on the capital contribution from non-core.

## A - Martin Senn {BIO 3241585 <GO>}

All right. So in closing, I hope that we have been able today to give you a useful and interesting way to better understand two of our key priority businesses in terms of their (03:41:14) operations are today, but also why we see good and meaningful opportunities in the coming years for us to leverage these operations and also that we feel that we are very pleased in order to do so. Now for Farmers, this is about continuing the transformation that has started in the 2013 and to - we thought this will continue to translate completely revamped customer of experience into back top-line growth.

And for NSE, it is about moving from a period of reshaping the business to a more outwards focus strategy, designed to position asset forefront and let me be very clear, an industry revolution. And we talked so much more about data, the significance of that that's really what is happening. Now, more broadly, we have made good progress on each of our three strategic cornerstones and we have a very clear view of our 2015 priorities. We are more than on track with obviously targets, namely our two - our three targets, namely the Z-ECM capital position and our cash remittances and we have given you an indication, a clear indication of the actions we are taking to deliver on our main target, which is to improve our ROE within our target range of 12% to 14%. And we will report back to you in February on our 2014 results. We will then also update our report cards and we will give you a comprehensive update on our strategic progress at our Investor Day in May 2015.

And with that, for those of you in the room, I want to thank you for attending. Everybody dialing in and which have participated with the phone, I also want to thank you for your interest that in Zurich. I want to take this opportunity to all wish you a very happy festive season, a Merry Christmas, a Happy New Year, last but not least, as well good luck in the markets for the end of the year and of course, as well for the next year. Thank you very much and all the best. Thank you.

---